

## Rating Action: Moody's upgrades City of Southlake, TX's Issuer Rating to Aaa; outlook stable

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### Southlake CEDC, TX upgraded to Aa2; outlook stable

New York, October 19, 2021 -- Moody's Investors Service has upgraded the City of Southlake, TX's Issuer Rating to Aaa from Aa1. The outlook is stable. Concurrently, Moody's has upgraded Southlake Community Enhancement and Development Corporation, TX's sales tax rating to Aa2 from Aa3. At the same time, a stable outlook was assigned to the corporation.

#### RATINGS RATIONALE

The upgrade to the Aaa Issuer Rating reflects the large and affluent tax base with access to abundant job opportunities in the vibrant Dallas/Fort Worth (DFW) metropolitan area, and a steady history of robust reserves supported by multiple years of strong operating performance. The Aaa rating incorporates the city's modest debt and pension burden that will remain affordable supported by a stable local economy, and prudent financial practices.

The upgrade to the Aa2 sales tax rating reflects the strength of the city's underlying credit, as well as the satisfactory debt service coverage provided by the city's pledge of 3/8th of 1% local sales and use tax. The Aa2 also reflects the continued strong revenue growth despite the ongoing pandemic, demonstrating the resiliency of the large and affluent revenue base. Continued economic growth across the base is expected to keep sales tax collections strong with healthy coverage for existing bonds. The rating additionally incorporates the overall adequate covenants although the lack of a debt service reserve requirement is a weakness that is somewhat mitigated by the maintenance of ample unrestricted liquidity that is equivalent to over three times the corporations' average debt service payment.

#### RATING OUTLOOK

The stable outlook for the issuer rating reflects the strength of the local economy anchored by the larger DFW metropolitan area which will allow the tax base to remain stable. In addition, prudent fiscal practices should result in the maintenance of healthy reserves.

The stable outlook for the sales tax bonds reflects our expectation that the strong underlying local economy will continue to support healthy and steady growth in pledged revenues, and favorable debt service coverage.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Not applicable (Issuer Rating)
- Material strengthening of annual debt service coverage on outstanding issued sales tax debt (Sales Tax)
- Strong growth in pledged revenues (Sales Tax)

#### FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Operating deficits or substantial draws leading to depletion of reserves (Issuer Rating)
- Significant debt issuance absent corresponding increase in the tax base (Issuer Rating)
- Tax base contraction (Issuer Rating)
- Additional leverage without corresponding increases in pledged revenues (Sales Tax)
- Narrowing of debt service coverage levels (Sales Tax)

#### LEGAL SECURITY

The sales tax bonds are payable from a 3/8th of 1% sales and use tax collected on all purchases within the city's boundaries, excluding food and medical. The city's issuer rating is equivalent to what would be its general obligation unlimited tax (GOULT) bond rating. General Obligations bonds are secured by a dedicated ad valorem tax levied by the district city on all taxable property without limitation as to rate or amount.

#### PROFILE

The city of Southlake is located in northeast Tarrant (Aaa stable) and Denton (Aaa stable) counties. The city is approximately 15 miles northwest of the City of Dallas (A1 stable) on State Highway 114 and approximately 10 miles northeast of the City of Fort Worth (Aa3 stable). The city's estimated population is 31,292.

Southlake Community Enhancement and Development Corporation, (CEDC) was created by the city after an election held in May 2015 to promote economic development and new and expanded business enterprises and funding a community entertainment and recreational center.

#### METHODOLOGY

The principal methodology used in the general obligation rating was US Local Government General Obligation Debt published in January 2021 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM\\_1260094](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1260094). The principal methodology used in the special tax rating was US Public Finance Special Tax Methodology published in January 2021 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM\\_1260087](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1260087). Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of these methodologies.

#### REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moody.com](http://www.moody.com).

#### Related Issuers

[Southlake \(City of\) TX](#)

[Southlake Community Enhancement and Development Corporation, TX](#)

#### Related Research

[Issuer Comment: City of Southlake, TX: Annual Comment on Southlake](#)

[Issuer Comment: City of Southlake, TX: Annual Comment on Southlake](#)

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[Rating Action: Moody's Assigns 1,464 Issuer Ratings](#)

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