MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades District of Columbia GO ratings to Aaa, assigns Aaa to Series 2018A & 2018B; outlook stable

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New York, July 12, 2018 -- Moody's Investors Service has upgraded the District of Columbia's $4.8 billion of outstanding general obligation bonds to Aaa from Aa1, and assigned Aaa ratings to its $172.9 million General Obligation Bonds, Series 2018A and $303.4 million General Obligation Refunding Bonds, Series 2018B. The bonds are expected to price July 18. The upgrade also applies to the long-term bank bond rating assigned the District's General Obligation Commercial Paper Bond Anticipation Notes, Series 2018A.

We have also upgraded to Aa2 from Aa3 the ratings on $226 of outstanding tax increment revenue bonds, and affirmed the Aa1 ratings on $3.8 billion of outstanding income tax secured revenue bonds. The outlook on all of the District's debt is stable.

RATINGS RATIONALE

The upgrade to the general obligation rating reflects continued strengthening of the District's economy, finances and overall credit profile, propelling it into the top rating category. The District's high-wage knowledge and services-based economy is expanding and is positioned for future growth: employers are attracted to its highly educated workforce and that in turn is drawing more workers. The District has exemplary fiscal governance, and its updated four-year financial plan is its strongest ever. The District already has among the lowest pension liabilities of any large city, and has pre-funded its other postretirement benefits (OPEB) liability, which affords it significant financial flexibility. It plans to eliminate its deferred capital maintenance backlog over the next ten years.

The dynamism of the District's economy has led to the largest population in 40 years and strong growth in the tax base. Financial governance is exemplary. Reserves are robust and while not as strong as some Aaa-rated peers, the District has more direct control of its diverse revenue base and of its expenditures than most local governments. Because it has the combined responsibilities of a city, school district county and state, the District's financing needs are broader than most local governments and its debt portfolio is more complex. Nonetheless, because its pension and OPEB burden are so low and it has a strong debt limit, when including overlapping local and state government bonded debt and pensions, its overall debt burden compares favorably to similarly-rated cities.

The upgrade to the tax increment ratings reflects the breadth and strength of the tax base that generates the pledged real property increment and sales tax increment revenues collected in the "Downtown TIF", effectively the entirety of the District's central business district and 37% of its total assessed value, strong debt service coverage and strong legal structure.

The affirmation of the income tax secured bond rating reflects the broad pledge of individual and business income taxes; the volatile nature of those revenues during near-term economic fluctuations; strong bondholder protections including a 3 times additional bonds test and a collection mechanism that provides ample time to cure any potential deficiency in debt service set-asides.

RATING OUTLOOK

The outlook is stable, reflecting the District's strong economic and demographic growth, strong financial position, its notably strong pension and other post-retirement benefits position, and low liquidity risk.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Erosion of the District's strong financial management practices, particularly leading to budget imbalance or draw-downs of fund balance below adequate levels

- Federal budget actions that have a material negative impact on the District's economy or finances, including significant reduction in the federal work force or entitlement cuts

LEGAL SECURITY

The general obligation bonds are full faith and credit obligations of the District but also secured by a statutory lien on a special real property tax unlimited as to rate or base and separate from the District's operating property tax levy. All property taxes are collected by a third party collection agent and the amount allocable to the special real property tax are deposited into an account held by a separate custodian. The custodian makes weekly transfers to an escrow agent in amounts sufficient to pay debt service on the bonds.

USE OF PROCEEDS

Proceeds of Series 2018A will be used to help finance the District's capital plan. Proceeds of Series 2018B will be used to refund outstanding general obligation bonds for savings.

PROFILE

The District of Columbia, the nation's capital, is small but wealthy. Its population would rank 48th among states but its per capita income is higher than all 50 states, and its GDP is greater than 17 states.

METHODOLOGY

The principal methodology used in the general obligation ratings was US Local Government General Obligation Debt published in December 2016. The principal methodology used in the special tax ratings was US Public Finance Special Tax Methodology published in July 2017. The principal methodology used in the tax increment ratings was Tax Increment Debt published in December 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

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