# Memorandum

CITY OF DALLAS

DATE November 3, 2023

TO Honorable Mayor and Members of the City Council

SUBJECT **Kroll Bond Rating Agency Affirms 'AA+' Rating and Positive Outlook on City of Dallas General Obligation Bonds - Information**

On October 25, 2023, Kroll Bond Rating Agency (KBRA) affirmed the 'AA+' credit rating and positive outlook on the City of Dallas General Obligation credit as part of a statutorily required annual review. KBRA's surveillance report states that the rating affirmation reflects "the City's sound financial profile, disciplined, forward-looking financial management practices, healthy reserves, and ample liquidity," while the positive outlook reflects the "continued favorable resource base and financial performance trends against the backdrop of a stable, post-pandemic operating environment."

In the report, KBRA notes key credit considerations for the rating, including a "strong financial profile reflecting fiscally conservative financial management practices, solid reserves, and healthy liquidity," "robust economic growth," and the "ability to achieve budgetary balance through operating expense reductions and without the use of reserves," as credit positives. The report also details KBRA's view of credit challenges to the City, including elevated pension costs and a "partial reliance on sales tax receipts for operations." KBRA further explains that "the City's sizable tax-base and strong financial position help to mitigate the burden posed by elevated pension liabilities," and "in the context of its otherwise conservative fiscal controls, KBRA does not view the City's plan for pension funding, which projects a long ramp-up to full funding, as reflective of credit weakness."

The City's General Obligation rating is currently one notch below the highest rating for KBRA. The affirmed rating and outlook is a reflection of the stability and strength of the City's credit profile to stakeholders and investors among current market challenges.

Attached is the published report for your review. Please let me know if you need additional information.

Jack Ireland
Chief Financial Officer

c:
T.C. Broadnax, City Manager
Tammy Palomino, City Attorney
Mark Swann, City Auditor
Bilierae Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizor Tolbert, Deputy City Manager
Jon Fortune, Deputy City Manager
Majed A. Al-Ghafry, Assistant City Manager
M. Elizabeth (Liz) Cedillo-Pereira, Assistant City Manager
Dr. Robert Perez, Assistant City Manager
Carl Simpson, Assistant City Manager
Genesis D. Gavino, Chief of Staff to the City Manager
Directors and Assistant Directors

# City of Dallas, TX

| Issuer: City of Dallas, TX | | |
|---|---|---|
| **Affirmed** | **Ratings** | **Outlook** |
| General Obligation Bonds | AA+ | Positive |
| Equipment Acquisition Notes | AA+ | Positive |
| Certificates of Obligation | AA+ | Positive |

### Methodology

- U.S. Local Government GO Methodology
- ESG Global Rating Methodology

### Analytical Contacts


Ted Damutz, Director
+1 (646) 731-1420
ted.damutz@kbra.com

Linda Vanderperre, Senior Director
+1 (646) 731-2482
linda.vanderperre@kbra.com

Douglas J. Kilcommons, Managing Director
+1 (646) 731-3341
douglas.kilcommons@kbra.com

Mallory Yu, Analyst
+1 (646) 731-1380
mallory.yu@kbra.com


**Rating Summary:**

The Positive Outlook reflects KBRA's expectations for continued favorable resource base and financial performance trends against the backdrop of a stable, post-pandemic operating environment. The disciplined management of the City's fixed cost obligations, as evidenced by material and sustainable increases in annual pension contributions, will be critical to upward rating movement.

The long-term rating continues to reflect the City of Dallas' ("the City's") sound financial profile, disciplined, forward-looking financial management practices, healthy reserves, and ample liquidity. As a regional hub for technology, healthcare, finance and tourism, Dallas is among the nation's top-ranked cities for economic growth, with robust employment expansion and declining poverty levels.

The City's GO obligations include the GO Bonds, Equipment Acquisition Notes, and Certificates of Obligation. The GO Bonds and Equipment Acquisition Notes are secured by a pledge of an annual ad valorem tax levied on all taxable property within the City. Certificates of Obligation are additionally secured by a limited pledge of surplus revenues generated by the City's Municipal Drainage Utility System in an amount not to exceed $1,000. KBRA does not make an analytical rating distinction between the G.O. Bonds/Equipment Acquisition Notes and the Certificates of Obligation.

The State Constitution and the City Charter limit the ad valorem tax rate to $2.50 per $100 of taxable assessed valuation (TAV) for all purposes, including payment of debt service. The State Attorney General will not approve debt if, based on then current taxable property values, more than $1.50 of the maximum $2.50 is required for aggregate general obligation debt service, inclusive of the bonds being proposed. In addition, the Texas Property Tax Reform and Transparency Act of 2019 (SB2) caps the City's ability to grow property tax revenue (without voter approval) at 3.5% per year. Revenue to pay voter approved debt is excluded from the SB2 cap, as is revenue growth from new construction. In KBRA's view, the combination of conservative forecasting and disciplined expenditure controls support the City's ability to maintain structurally balanced operations within the more constrained property tax revenue framework imposed by SB2. City Council has reduced the tax rate for the eighth consecutive fiscal year. The City's tax rate is $0.7357 per $100 of TAV for FY 2023-2024.

Dallas is the primary economic driver in the Dallas-Fort Worth-Arlington metropolitan statistical area (MSA), which is the fourth largest MSA in the nation behind New York, Los Angeles, and Chicago. The City is the 3rd largest city in the State of Texas (the "State") and 9th largest in the nation with a population of 1.3 million. The City's growing employment base has fueled both domestic and international migration. The City's tax base remains diverse with no dominant taxpayers. Full market value (FMV) per capita is approximately $160,236, which KBRA views as favorable.

The City's sizable tax-base and strong financial position help to mitigate the burden posed by elevated pension liabilities, in KBRA's view. Pension reforms enacted in 2017 have eliminated the prospect of the Police and Fire pension plan's insolvency, increased contributions, and reduced the net pension liability. While pension costs are expected to remain elevated, overall fixed costs are affordable, especially given the City's practice of rapid direct debt amortization. In the context of its otherwise conservative fiscal controls, KBRA does not view the City's plan for pension funding, which projects a long ramp-up to full funding, as reflective of credit weakness.

KBRA views the City's current and historical financial performance as very strong, reflecting a trend of healthy operating surpluses and strong reserve levels with minimal pandemic impacts. Detailed Financial Management Performance Criteria (FMPC) originally adopted by City Council in 1978, as periodically revised, provide a policy framework for fiscal decision making and are an important contributor to the City's strong governance profile. Pursuant to the FMPC, the City maintains an unassigned General Fund (GF) balance, which includes Emergency and Contingency Reserves, of at least 50 days and not more than 70 days of GF operating expenditures less debt service. Primary General Fund revenue sources are property taxes and sales taxes, accounting for 53% and 27% of FY 2022 revenues, respectively. The FY 2022 GF balance increased by a healthy 10.4%, to $442.3 million. The FY 2022 unassigned General Fund balance of $370.6 million, equated to 93 days of General Fund operating expenses less debt service. In addition, the City has maintained ample liquidity as evidenced by consistent growth in year-end Governmental Funds. The City ended FY 2022 with 145 days cash on hand (DCOH), which strengthened year over year (YoY).

Forecast (unaudited) FY 2023 General Fund revenues are 1.4% above the adopted budget, due primarily to stronger than anticipated property tax and sales tax receipts. The City forecasts FY 2023 General Fund expenditures largely in line with budgetary expectations. The City's proposed biennial FY 2024 and FY 2025 budget continues to project unassigned fund balance greater than 60 days. However, due to rapidly growing pension and overtime costs, the unassigned fund balance is projected to decline to 9 days in FY 2028 (budgetary basis). Nonetheless, the City states that it will not allow a budget imbalance to occur, and will maintain structural balance by corrective actions, including budget reductions and/or revenue increases.

## Key Credit Considerations

The rating was affirmed because of the following key credit considerations:

Credit Positives

- Strong financial profile reflecting fiscally conservative financial management practices, solid reserves, and healthy liquidity.
- Robust economic growth, evidenced by a diverse, growing tax and resource base, and unemployment rates which have trended below the state average.
- Ability to achieve budgetary balance through operating expense reductions and without the use of reserves.

Credit Challenges

- Partial reliance on sales tax receipts for operations exposes revenue base to economic fluctuation.
- Pension costs are expected to remain elevated.

## Rating Sensitivities

| | |
|---|---|
| ▪ Sustained, robust financial operating performance across the near-term supported by continued strong growth in the City's resource and assessment base.<br>▪ Ability to absorb increasing pension contributions while maintaining robust financial strength.<br>▪ Ability to adapt to the new property tax limitation without significant impact on operations would be viewed positively. | + |
| ▪ Deviation from the City's practice of conservative budgeting would increase credit risk. | - |

| Key Ratios | |
|---|---|
| Population CAGR Growth 2012 to 2022 | |
| City | 0.5% |
| State | 1.4% |
| United States | 0.6% |
| Top 10 Taxpayers as a % of Total Assessed Value | 4.3% |
| Assessed Property Value 10-Yr CAGR Through FY 2022 | 6.8% |
| Unassigned General Fund Balance as % of Expenditures at FYE 2022 | 25.1% |
| Direct and Overlapping Debt as a % of Full Market Value in FY 2022 | 3.2% |
| Direct Debt Amortized Within 10 Years | 72% |
| Fixed Costs as a % of Governmental Expenditures in FY 2022 | 20.2% |

| Rating Determinants (RD) | |
|---|---|
| 1. Management Structure and Policies | AAA |
| 2. Debt and Additional Continuing Obligations | AA |
| 3. Financial Performance and Liquidity Position | AAA |
| 4. Municipal Resource Base | AA+ |

## RD 1: Management Structure and Policies

The City's strong management practices include a comprehensive budget process, a two-year balanced budget requirement, active financial monitoring, defined reserve policies, and five-year revenue and expenditure projections for the General Fund and each of the enterprise funds. Detailed Financial Management Performance Criteria (FMPC) establish a targeted unassigned General Fund balance, including Emergency and Contingency Reserves, of not less than 50 days and not more than 70 days of General Fund expenditures, less debt service. The City's fiscal year begins October 1 and ends on September 30. The FY 2024 Emergency Reserve was budgeted at $50 million which is unchanged from the prior year. Use of the Emergency Reserve requires a super majority of City Council.

Jack Ireland assumed the position of Chief Financial Officer (CFO) in July 2022. Ireland's career in public service spans 36 years, of which 26 years have been with the City of Dallas. Prior to his role as CFO, Ireland served as the Director of Budget and Management Services for 12 years and the Director of Equipment and Building Services for five years.

## RD 2: Debt and Additional Continuing Obligations

While the City has successfully relied upon pay-go financing, rapid debt amortization and the careful management of other continuing obligations to maintain a moderate pace of growth in total long-term liabilities, the adequacy of pension funding remains an area of credit focus. The City's FY 2022 fixed cost burden inclusive of pension contributions ($241.2 million), OPEB benefit payments ($11.0 million) and annual debt service ($285.9 million), though somewhat improved from prior years, equated to 19.8% of governmental fund expenditures, which KBRA considers somewhat elevated, but remains affordable given the City's robust tax base and ample reserves.

**Figure 1**

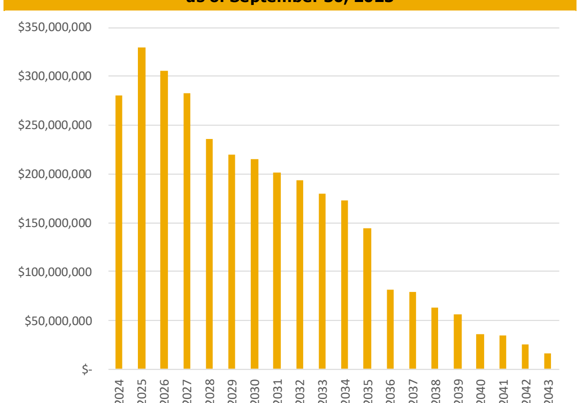
| Direct Debt Outstanding as of September 30, 2023<br>(dollars in thousands) | | |
|---|---|---|
| Direct Debt Type | | |
| General Obligation Bonds | $ | 2,971,765 |
| Equipment Acquisition Notes | | 114,378 |
| Certificates of Obligation | | 129,763 |
| **Total Direct Debt** | **$** | **3,216,053** |

*Source: City of Dallas*

Debt service remains manageable with overall debt equating to 3.1% of full market value and $4,781 per capita. Debt amortization is average with 72% paid down in 10 years and 100% in 20 years. Debt service as a percentage of governmental expenditures is affordable 10.8%.

**Figure 2**

**Annual Debt Service Requirements**
**General Obligation Bonds**
**as of September 30, 2023**




*Source: Dallas 2024 Proposed Budget. Does not include Commercial Paper Notes.*

### Local Government Pension Obligation

The City participates in three single employer defined benefit pension plans: the Employees' Retirement Fund (ERF), Dallas Police and Fire System Combined Plan (DPFS Combined Plan) and the Dallas Police and Fire System Supplemental Plan (DPFS Supplemental Plan). Pension reforms enacted in 2017 have eliminated the prospect of the Police and Fire pension plan's insolvency, increased contributions, and reduced the net pension liability. However, the funding progress of the three plans continued to weaken throughout FY 2021. In FY 2022, the fiduciary net position as a percentage of the total pension liability improved reaching 80.3% for ERF, 41.8% for the DPFS Combined Plan, and 45.7% for the small DPFS Supplemental Plan as of the December 31, 2021 measurement date. The combined NPL of $4.03 billion equates to 2.0% of FMV and $3,100 per capita. It thus represents a manageable burden on the tax base, but a relatively high per capita burden.

**Figure 3**

**Pension Funding Status and Annual Contributions**
FYE September 30 (dollars in millions)

| | As of December 31, 2021 Measurement Date[1] | | | | FY 2022 | | |
|---|---|---|---|---|---|---|---|
| *($ in MMs)* | Total Pension Liability | Fiduciary Net Position | Net Pension Liability (NPL) | Fiduciary Net Position as a % of Total Pension Liability | Actual Contribution | Actuarially Determined Contribution (ADC) | Actual Contribution as a % of ADC |
| Employees' Retirement Fund (ERF) | 5,094 | 4,093 | 1,001 | 80.3% | 68 | 107 | 63.9% |
| Dallas Police and Fire System Combined Plan (Combined Plan) | 5,164 | 2,158 | 3,006 | 41.8% | 170 | 229 | 74.3% |
| Dallas Police and Fire System Supplemental Plan (Supplemental Plan) | 41 | 19 | 22 | 45.7% | 3 | 3 | 100.0% |
| **Total** | **$10,299** | **$6,270** | **$4,029** | | **$241** | **$339** | **71.2%** |

*Source: City of Dallas ACFR*
[1] As presented in FY 2022 ACFR.

The $241 million pension contribution remains manageable at 8.6% of FY 2022 governmental fund expenditures

## RD 3: Financial Performance and Liquidity Position

The primary General Fund revenue sources are property taxes and sales taxes, which account for 53% and 27% of FY 2022 revenues, respectively. In addition to the General Fund, other sizable components of governmental operations are the Debt Service Fund, Internal Service Funds, and the Water Utilities Fund.

### FY 2022 Audited Financial Results

Financial operations reflect a trend of healthy operating surpluses and strong General Fund reserves with minimal impact from the pandemic. General Fund revenue growth of 6.9% YoY was basically in line with 7.2% expenditure increases, allowing the City to continue the realization of strong General Fund surpluses.

The City continues to maintain a trend of healthy growth in reserves (14.6% CAGR in ending General Fund balance from FY 2018 through FY 2022). Moreover, unassigned General Fund balance levels have consistently met or exceeded the City's policy. As of FYE 2022, unassigned General Fund balance grew to a robust $370.6 million, or 93 days of General Fund operating expenses less debt service, exceeding the FMPC's 50-day minimum in FY 2022.

**Figure 4**

| General Fund Summary Statement of Income and Balance Sheet<br>FYE September 30 (Audited GAAP Basis) (dollars in thousands) | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| ***Statement of Income*** | | | | | |
| **Revenues** | | | | | |
| Ad Valorem Tax | 611,133 | 677,607 | 728,339 | 775,518 | 804,207 |
| Sales Tax | 307,149 | 320,413 | 314,385 | 354,288 | 407,309 |
| Franchise Fees | 146,209 | 135,697 | 120,944 | 120,445 | 132,060 |
| Services to Others | 122,924 | 109,491 | 102,021 | 118,897 | 121,958 |
| Other | 58,063 | 67,600 | 61,586 | 57,800 | 60,374 |
| Total Revenues | 1,245,478 | 1,310,808 | 1,327,275 | 1,426,948 | 1,525,908 |
| **Expenditures** | | | | | |
| Public Safety | 736,879 | 774,182 | 792,917 | 849,288 | 910,006 |
| General Government | 144,161 | 167,958 | 150,372 | 173,809 | 184,653 |
| Culture and Recreation | 143,813 | 141,594 | 132,749 | 134,021 | 150,457 |
| Other | 210,790 | 196,919 | 209,401 | 221,193 | 232,063 |
| Total Expenditures | 1,235,643 | 1,280,653 | 1,285,439 | 1,378,311 | 1,477,179 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 9,835 | 30,155 | 41,836 | 48,637 | 48,729 |
| Other Financing Sources (Uses) | 11,255 | 10,745 | 5,641 | 7,230 | (6,916) |
| **Net Change in Fund Balance** | **21,090** | **40,900** | **47,477** | **55,867** | **41,813** |
| Beginning Fund Balance | 235,164 | 256,254 | 297,154 | 344,631 | 400,498 |
| **Ending Fund Balance** | **256,254** | **297,154** | **344,631** | **400,498** | **442,311** |
| ***Balance Sheet*** | | | | | |
| **Assets** | | | | | |
| Cash and Cash Equivalents | 216,346 | 277,654 | 328,272 | 385,525 | 384,022 |
| Receivables | 142,466 | 119,530 | 128,026 | 153,927 | 226,275 |
| Other | 16,384 | 30,643 | 32,930 | 31,309 | 37,967 |
| Total Assets | 375,196 | 427,827 | 489,228 | 570,761 | 648,264 |
| **Liabilities** | | | | | |
| Accrued Payroll | 23,633 | 28,339 | 8,569 | 11,916 | 16,270 |
| Accounts Payable | 32,985 | 35,684 | 35,215 | 53,387 | 29,513 |
| Other | 12,680 | 13,416 | 44,083 | 45,187 | 24,383 |
| Total Liabilities | 69,298 | 77,439 | 87,867 | 110,490 | 70,166 |
| Deferred Inflows of Resources (Unavailable Revenue) | 49,644 | 53,234 | 56,730 | 59,773 | 135,787 |
| **Fund Balance** | | | | | |
| Nonspendable | 11,227 | 13,385 | 15,385 | 16,006 | 18,723 |
| Restricted | 10,244 | 11,185 | 8,724 | 6,627 | 5,653 |
| Committed | 1,250 | 1,250 | 2,000 | 2,000 | 3,000 |
| Assigned | 20,727 | 37,109 | 41,071 | 51,565 | 44,347 |
| Unassigned | 212,806 | 234,225 | 277,451 | 324,300 | 370,588 |
| **Total Fund Balance** | **256,254** | **297,154** | **344,631** | **400,498** | **442,311** |
| Unassigned Fund Balance as a % of Expenditures | 17.2% | 18.3% | 21.6% | 23.5% | 25.1% |

*Source: City of Dallas ACFRs*

## Liquidity

The City maintains ample liquidity as evidenced by consistent growth in year-end fund balance. The FY 2022 governmental funds cash position was $1.06 billion, equating to a very strong 145 DCOH, with an additional $150.8 million of pooled cash and cash equivalents held in Internal Service Funds.

## FY 2023 and FY 2024 Budget Overview

City officials report that over the most recent 12 months, sales tax receipts have increased by 6.0 %. The FYE 2023 forecast has been revised to $425.4 million which is $8.2 million higher than the adopted budget for sales tax.

The adopted $1.8 billion FY 2024 General Fund budget, up 6.8% from the FY 2023 amended budget, contemplates a $114 million or 9.3% increase in property tax revenues while planning for an eighth consecutive annual decrease in the tax rate (reduced by 1.01 cent to $0.7357 per $100 AV). The budget also projects a 4.4% increase in sales tax revenues over the amended FY 2023 budget.

The FY 2024 and FY 2025 budgets anticipate maintenance of the unassigned General Fund balance at $323.2 million, or between 61 and 66 days cash. While the budget continues to project outyear structural imbalance starting in FY 2026 with a decline in the General Fund balance to $54.9 million (9 days) by FY 2028 primarily as a result of increasing personnel costs, the City states that it will not allow a budget imbalance to occur, and will maintain structural balance by corrective actions, including budget reductions and/or revenue increases.

The proposed FY 2024 and FY 2025 biennial budget continues to prioritize the advancement of economic development, environment and sustainability, housing and homelessness solutions, public safety, culture and quality of life, transportation, infrastructure, and workforce, education and equity initiatives.

# RD 4: Municipal Resource Base

Incorporated in 1856, Dallas is approximately 378 square miles in area and is the county seat of the County of Dallas. The City, which is spread across four counties (Dallas, Collin, Denton and Rockwall) is the primary economic driver in the Dallas-Fort Worth-Arlington metropolitan statistical area (MSA), which is the fourth largest MSA in the nation behind the New York, Los Angeles, and Chicago. The City is the 3rd largest city in the [State of Texas](State of Texas) and 9th largest in the nation with a population of 1.3 million. Population growth in Dallas (4.7% since 2012) has lagged the State and the nation. The City's growing employment base has fueled both domestic and international migration with foreign-born residents making up roughly a quarter of the City's population in 2022.

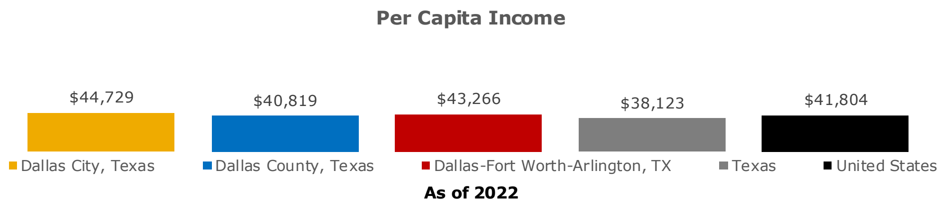
**Figure 5**

| | 2012 | 2022 | % Δ 2012 to 2022 | 10 Year CAGR (2022) |
|---|---|---|---|---|
| Dallas City, Texas | 1,241,108 | 1,299,553 | 4.7% | 0.46% |
| Dallas County, Texas | 2,453,843 | 2,600,840 | 6.0% | 0.58% |
| Dallas-Fort Worth-Arlington, TX | 6,647,496 | 7,943,685 | 19.5% | 1.80% |
| Texas | 26,059,203 | 30,029,572 | 15.2% | 1.43% |
| United States | 313,914,040 | 333,287,562 | 6.2% | 0.60% |

*Source: U.S Census, ACS 1-Year Estimates*

The City's per capita income has historically exceeded the State and nation's averages, representing 117.3% of the State and 107.0% of the nation. Since 2012, the MSA's per capita income increased by approximately 71.8%, significantly outpacing growth for the State and the nation.

**Figure 6**

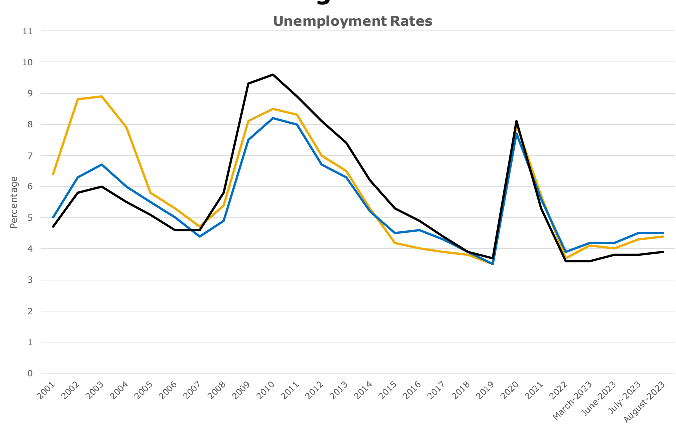



| | 2012 | 2022 | % Δ 2012 to 2022 | Comparison |
|---|---|---|---|---|
| **Dallas City, Texas** | $26,032 | $44,729 | 71.8% | - |
| **Dallas County, Texas** | $25,445 | $40,819 | 60.4% | 109.6% of County |
| **Dallas-Fort Worth-Arlington, TX** | $28,306 | $43,266 | 52.9% | 103.4% of MSA |
| **Texas** | $25,359 | $38,123 | 50.3% | 117.3% of State |
| **United States** | $27,319 | $41,804 | 53.0% | 107.0% of U.S. |

*Source: U.S. Census, ACS 1-Year Estimates*

While the City's unemployment rate has historically trended above the State, the unemployment rate in 2022 at 3.7% for the City was below the State and the nation at 3.9% and 3.6%, respectively. As of August 2023, the City's unemployment rate was 4.4%, which was slightly lower than that of the State at 4.5%, but higher than the nation at 3.9%.

**Figure 7**




| | Dallas City, Texas | Dallas County, Texas | Dallas-Fort Worth-Arlington, TX | Texas | United States |
|---|---|---|---|---|---|
| August-2023 | 4.4 | 4.3 | 4.2 | 4.5 | 3.9 |
| July-2023 | 4.3 | 4.3 | 4.1 | 4.5 | 3.8 |
| Great Recession Peak | 8.5 | 8.6 | 8.1 | 8.2 | 9.6 |
| Point Δ Since Great Recession Peak | -4.1 | -4.3 | -3.9 | -3.7 | -5.7 |

*Source: U.S Bureau of Labor Statistics*
*Not Seasonally adjusted*

## ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how issuers plan for and manage relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in public finance ratings can be found here. Over the medium-term, public finance issuers will need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

### Environmental Factors

Matters relating to climate risk are under the purview of the Chief of Equity and Inclusion, who supervises the City's Office of Environmental Quality and Sustainability (OEQS). OEQS completed development of a Comprehensive Environmental and Climate Action Plan (CECAP) which was unanimously adopted by City Council in May 2021. The CECAP identifies objectives, actions and targets in the areas of air quality, emissions reductions, transportation sustainability, water resources protection, ecosystems/green spaces, and food access. It also incorporates detailed ESG factors in procurement. The inaugural CECAP was presented to a committee of OEQS on October 4, 2021. The CECAP is updated annually, and a year-end report of sustainable procurement activities is presented to City Council. A task force has been convened to advise on implementation of the CECAP.

In keeping with the CECAP plan, the City made a total of $3 million of investments in additional air quality monitors throughout the City, testing of solar panels on City facilities, and a solar/energy storage initiative in FY 2022.

Other environmental and sustainability priorities include improving trash and recycling service delivery, implementation of a comprehensive food and urban agriculture plan, and the relaunch of a plan to provide 2,500 native trees to City residents to reduce heat island effect and stormwater runoff.

The City Council also adopted a Green Energy Policy in 2019 and already uses 100% renewable energy for all municipal operations. The City's Energy Program Manager is responsible for the implementation of an energy management system to monitor energy use and opportunities for energy reduction.

To ensure the adequacy of future water supply, the City is finalizing components of the 150-mile Integrated Pipeline Project, which will connect the City's water supply system to Lake Palestine, providing an additional 102 million gallons per day to the system, sufficient to meet projected demand through 2050. The City is also completing a regional water supply project with the Tarrant Regional Water District, which is expected to improve reliability of supply.

The Mill Creek/Peaks Branch/State-Thomas (MCPBST) drainage relief tunnel on the east side of the City will provide enhanced flood protection in East Dallas and Uptown Dallas, and improve stormwater management. Completion of the $320 million, five-mile tunnel is expected at the end of CY 2023.

### Social Factors

The City intends to invest in strategic initiatives that it believes are responsible, equitable, accountable and legitimate. The FY 2024 budget includes investments in streets and infrastructure, neighborhood cleanliness, air quality and arts programming, economic development (including infrastructure subsidies to incentivize developers to construct additional affordable housing, and to extend water, sewer and digital infrastructure into historically underserved areas of the city). Public safety investments, including mobile crisis response, enhanced lighting, blight and nuisance remediation, and the hiring of 250 additional police officers in each of FY 2022 and FY 2023 have also been prioritized. An additional 95 non-uniform employees have assumed public safety support functions formerly undertaken by uniformed officers.

The FY 2024 budget also includes investments to promote equity, including addressing the digital divide, developing a comprehensive racial equity plan and prioritizing language access, rental assistance and rapid rehousing to address homelessness.

The City provided over $100 million in rental assistance for pandemic victims using dedicated ARPA funding, and made a $25 million contribution to leverage public and private investment in a program to reduce and prevent homelessness, in partnership with the County and other local stakeholders. Additionally, the City implemented an increase in the minimum wage for full-time City employees from $14.00 to $15.50 per hour in FY 2022 and to $16.00 per hour in FY 2023, reinstatement of market-based pay increases for uniformed employees and merit pay for non-uniformed employees, as well as a new parental leave benefit. A tiered health benefits contribution plan designed to provide all employees with affordable health benefits is in place.

The City's Chief of Equity and Inclusion is appointed by the City Manager and is a member of the City's executive leadership team. City Council approved the City's first Racial Equity Resolution on March 24, 2021. The FY 2024 budget funds various policy initiatives in line with the Racial Equity Resolution, including a small business center. Additionally, the Budgeting for Equity initiative of the City's bond and construction management program prioritizes projects located in underserved communities.

### Governance Factors

The City is leading the coordination of municipalities in the Dallas-Fort Worth area and the Dallas Police Department in the development of a regional Cyber Fusion Center to unify security functions including threat intelligence and response, security automation and orchestration, and incident response.

In addition to data center operational control improvements, authentication enhancements, and other proactive steps to protect and secure its information, including moving from the .com domain to the .gov domain, the City is also working with the G20 Global Smart Cities Alliance to develop a G20 Policy for Technology and Cybersecurity, which will be brought to City Council for review and adoption.

The City self-funds employee health insurance, most tort liability exposures, and certain workers' compensation claims, and uses commercial insurance where required and to insure city property (subject to a $750 thousand deductible per loss occurrence), as well as for workers compensation losses in excess of $1.5 million per occurrence.

## Bankruptcy Assessment

KBRA's bankruptcy assessment for this credit remains unchanged from the report dated October 26, 2022.