

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA

OVERVIEW

City Council originally adopted the Financial Management Performance Criteria (FMPC) on March 15, 1978, to provide standards and guidelines for the City's financial managerial decision making and to provide for a periodic review of the criteria to maintain standards and guidelines consistent with current economic conditions. The FMPC contain 55 criteria in seven different categories, in addition to 13 criteria specific to Dallas Water Utilities.

Operating Program: Criteria 1-14

Pension Program: Criteria 15-16

Budgeting and Planning: Criteria 17-25

Capital and Debt Management: Criteria 26-41

Economic Development: Criteria 42-49

Accounting, Auditing, and Financial Planning: Criteria 50-52

Grants and Trusts: Criteria 53-55

Dallas Water Utilities: Criteria DWU 1-13

City Council approved the most recent revision to the FMPC in June 2021. The status of each criterion is updated annually and presented with the annual budget, at year-end, and for each debt issuance.

Revisions:

09/27/1978

07/08/1981

09/28/2011

10/08/2014

12/13/2017

06/09/2021

FINANCIAL MANAGEMENT

PERFORMANCE CRITERIA

OPERATING PROGRAM

1. Property Tax Revenue Limit. The year-to-year increase of actual revenue from the levy of the ad valorem tax will generally not exceed 3.5%; excluding taxable value gained through annexation or consolidation; excluding the value gained through new construction; excluding expenditure increases mandated by the voters or another governmental entity; and not excluding the valuation gained through revaluation or equalization programs.

Calculation:

Year-to-year change in revenue: \$41.6 million

Less

Change in Voter Mandated Debt: (\$21.1) million

New Construction: \$25.1 million

Adjusted Revenue: \$37.7 billion

Percentage Change: 3.2%

Status: In compliance.

2. Unassigned Fund Balance Minimum. The unassigned fund balance of the General Fund, which includes the Emergency and Contingency Reserves, shall be maintained within a range of not less than 50 days and not more than 70 days of the General Fund operating expenditures less debt service. Funds will be allocated from unassigned fund balance only after the City Manager has prepared an analysis and presented it to the City Council. If at any point the unassigned fund balance drops below the 50-day minimum, the City Manager will prepare a plan of how the unassigned fund balance will be brought into compliance, including over multiple years if necessary. If unassigned fund balance exceeds 70 days, the City Manager will recommend to the City Council to use the excess for one-time or non-recurring costs.

Calculation:

FY 2021-22 Emergency Reserve: \$50 million

FY 2021-22 Contingency Reserve: \$9.3 million

FY 2021-22 Residual: \$212.7 million

Total: \$272.1 million (64.7 days)

Status: In compliance.

FINANCIAL MANAGEMENT

PERFORMANCE CRITERIA

3. Contingency Reserve. The Contingency Reserve, a component of unassigned fund balance, shall be used to provide for unanticipated needs that arise during the year; for example, expenses associated with new service needs that have been identified after the budget process, new public safety or health needs, revenue shortfalls, service enhancements, or opportunities to achieve cost savings. Funds shall be allocated from the Contingency Reserve only after an analysis has been prepared by the City Manager and presented to the City Council outlining the initial and recurring costs associated with the adopted expenditure. Additionally, these funds would be used prior to use of the Emergency Reserve Funds. Funds shall be allocated each year in the budget process to establish and maintain the balance of the Contingency Reserve at a level ranging from 0.5 percent to 1.0 percent of General Fund operating expenditures less debt service. **Status:** In compliance. The FY 2021-22 Contingency Reserve level is \$9.3 million, or 0.61% of the FY 2021-22 General Fund budget.

4. Emergency Reserve. The Emergency Reserve, a component of unassigned fund balance, shall be used to provide for temporary financing of unanticipated or unforeseen extraordinary needs of an emergency nature; for example, costs related to a natural disaster or calamity, a 5 percent decline in property values, or an unexpected liability created by federal or state legislative action. Funds shall be allocated from the Emergency Reserve only after an analysis has been prepared by the City Manager and presented to City Council. The analysis shall provide enough evidence to establish that the remaining balance is adequate to offset potential downturns in revenue sources. The analysis shall address the natures of the adopted expenditure and the revenue requirement in subsequent budget years. Prior to allocating funds from the Emergency Reserve, the City Council shall find that an emergency or extraordinary need exists to justify the use of these funds. Management shall designate up to 5 percent of the General Fund operating expenditures less debt service but not less than \$50 million to the Emergency Reserve. Use of the Emergency Reserve shall require a supermajority of City Council. **Status:** In compliance. The FY 2021-22 Emergency Reserve is \$50 million.

5. Operating Reserve. The Risk Reserve shall be maintained at a level, which, together with purchased insurance policies, adequately protects the City's assets against loss. An analysis shall be conducted every three years or when the deductible level of the City's property insurance is modified (whichever is earlier), to determine the appropriate level of this reserve. **Status:** In compliance. The FY 2021-22 Risk Reserve is \$3.0 million.

6. Prohibition of Debt for Operating Expenditures. Debt will not be used to fund current operating expenditures. **Status:** In compliance.

FINANCIAL MANAGEMENT

PERFORMANCE CRITERIA

7. Enterprise Funds Full Cost Funding. Each enterprise fund of the City will maintain revenues which support the full (direct and indirect) cost of the fund. In addition, each Enterprise Fund should maintain at least 30 days of budgeted operations and maintenance expense in net working capital and avoid cash deficits. Enterprise Funds will maintain positive balances. **Status:** In compliance.

8. Liability/Claim Fund. A General Fund liability fund shall be budgeted annually to provide for outstanding and anticipated claims expense and resulting liabilities during the budget year. An individual judgment settlement cap is set at \$5,000,000. The Emergency Reserve will be accessed should the cap be exceeded. An independent actuarial analysis shall be conducted every two years to determine the appropriate level of this fund. Additionally, the liability fund will include an allocation for unanticipated affirmative litigation. **Status:** In compliance.

9. Landfill Closure/Post-Closure Reserve. Consider the establishment of a Landfill Closure/Post-Closure Reserve to provide for any future potential liabilities. Analysis will be performed periodically to determine appropriate timing and amount of funding needs. Funds could be allocated from an increase in user fees. **Status:** Establishment of reserve is not recommended at this time.

10. Facilities Replacement versus Maintenance Analysis. Operating expenditures will be programmed to include current costs of fully maintaining City facilities, including parks, streets, levees, vehicles, buildings, and equipment. A cost-benefit analysis will be performed on replacement cost versus projected required maintenance costs to determine the level at which City facilities should be maintained. The analysis will also determine the long-term cost of any potential deferred maintenance cost. Normal maintenance will be funded through the operating budget. **Status:** Not in compliance.

11. Annual Assessment of Equipment and Maintenance. An annual assessment and five-year projection for all equipment and maintenance needs should be performed, and a maintenance and replacement schedule developed based on the projection. **Status:** Not in compliance.

12. User Fees Review. An annual review of selected fees and charges will be conducted to determine the extent to which the full cost of associated services is being recovered by revenues. All fees and charges will be reviewed at least once every four years. Where feasible and desirable, the City shall set fees and charges to achieve full cost recovery. The City may subsidize the services funded by fees or charges based on other City objectives. **Status:** In compliance.

FINANCIAL MANAGEMENT

PERFORMANCE CRITERIA

13. Employee Benefits Fund Minimum Cash Reserve. The Employee Benefits Fund will maintain a cash reserve of at least the anticipated end-of-year claims incurred but not paid, and other current liabilities. This does not include incurred but not reported (IBNR) claims. The Employee Benefits Fund will maintain a positive cash balance. **Status:** In compliance.

14. Internal Service Funds and Enterprise Funds Cash Balances. Internal Service Funds and Enterprise Funds will maintain positive cash balances. **Status:** Not in compliance.

PENSION PROGRAM

15. Sufficient Funding for Retirement Systems. All retirement systems will be financed in a manner to systematically fund liabilities. The City will assure sufficient funds are provided to pay current service plus interest on unfunded liabilities plus amortization of the unfunded liabilities over a programmed period. No less than annual reviews will be provided to City Council by the pension funds. **Status:** In compliance.

16. Actuarial Analysis Required on Retirement Systems. Actuarial analysis will be performed annually on all retirement systems. Adjustments in benefits and contributions will be authorized only after meeting the test of actuarial soundness. All health plans should have actuarial reviews performed biannually to determine the required levels of funding necessary. These health plans shall be financed in a manner to ensure sufficient funds are available to fund current liabilities and provide some reserve levels for extraordinary claims. **Status:** In compliance.

BUDGETING AND FINANCIAL PLANNING

17. Balanced Budget. The City shall operate on a current funding basis. Expenditures shall be budgeted and controlled so as not to exceed current revenues plus the planned use of unassigned fund balance accumulated through prior year surplus. Nonrecurring or one-time revenues should, to the extent possible, only be used for one-time expenditures (expenditures not expected to reoccur and requiring future appropriations) to avoid future shortfalls. **Status:** In compliance.

18. Five-Year Revenue and Expenditure Projection. Management will project revenues and expenditures annually for at least five years beyond the current year for the General Fund and each Enterprise Fund of the City. **Status:** In compliance.

19. Financial Monitoring. Financial systems will be maintained to monitor expenditures, revenues, and performance of all municipal programs on an ongoing basis. **Status:** In compliance.

FINANCIAL MANAGEMENT

PERFORMANCE CRITERIA

20. Operating Impact of Capital Improvements. Prior to authorization of new or replacement facilities/buildings or renovation of previously decommissioned facilities/buildings, the City Manager will provide the total estimated capital cost and five-year forecast of ongoing operating and maintenance costs to City Council. Operating expenditures will be programmed to include the cost of implementing service of the capital improvements, and future revenues necessary for these expenditures will be estimated and provided for prior to undertaking the capital improvement. The City Council will authorize each new or reopened facility/building by super-majority vote. **Status:** In compliance.

21. Comparison of Financial Performance to FMPC. A report reflecting end of fiscal year status of performance against these criteria will be prepared within 60 days after official presentation of the Comprehensive Annual Financial Report to the City Council. A pro forma report reflecting Adopted Budget status will be submitted with the City Manager's Adopted Budget each year. **Status:** In compliance.

22. Two-Year Balanced Budget. Each year, the City Manager shall develop and present to the City Council a two-year balanced budget. The City Council will adopt a one-year budget and set the property tax rate in accordance with State law annually. Expenditures shall be budgeted and controlled so as not to exceed current revenues in each year or City Council approved used of fund balance. **Status:** In compliance.

23. Over-65 and Disabled Homestead Exemption. The City will compare the current disabled and over-65 exemption to the most recent annual Consumer Price Index for the Elderly (CPI-E), and the year-over-year change in the average residential market value (whichever is greater) annually and provide the analysis of each scenario to City Council for consideration prior to June 30 for possible modification of this property tax exemption. Changes to property tax exemptions must be provided to the appraisal districts no later than June 30. **Status:** In compliance. Exemption increased on June 9, 2021.

24. No-New-Revenue Tax Rate Scenario. The City Manager will develop an estimated No-New-Revenue Tax Rate budget scenario and, if different from the City Manager's recommended budget required by Chapter 11, Section 1 of the City Charter, will provide it to the City Council at the same time. The estimated No-New-Revenue Tax Rate budget scenario will include a prioritized list of services/expenses that could be funded and a prioritized list of services/expenses that could not be funded with the estimated no-new-revenue tax rate. **Status:** In compliance.

FINANCIAL MANAGEMENT

PERFORMANCE CRITERIA

25. Competitive Pay. The City shall attract, develop, motivate, reward, and retain a high-performing and diverse workforce. The City Manager shall provide analyses and recommendations for the City Council to consider each year in the budget development process to adjust employee pay. The recommendation for adjustments to uniformed employee pay will conform with the applicable meet and confer agreement. The recommendation for adjustments to non-uniformed/civilian employee pay will consider: (1) an annual survey of peer governmental entities; (2) an annual review of the Massachusetts Institute of Technology living wage; (3) a total compensation study every three years to assess market competitiveness; (4) parity with uniformed employee pay adjustments; and (5) budget capacity. **Status:** In compliance.

CAPITAL AND DEBT MANAGEMENT

26. Matching of Bonds and Useful Life of Project. Any capital projects financed through the issuance of bonds shall be financed for a period not to exceed the expected useful life of the project (for example, bonds issued for street resurfacing shall be financed for a period not to exceed 10 years). **Status:** In compliance.

27. General Obligation (GO) Debt to Market Value of Taxable Property Limit. The net (non-self-supporting) General Obligation (GO) debt (principal) of Dallas will not exceed 4% of the true market valuation of the taxable property of Dallas. **Status:** In compliance. 1.4%.

28. Direct and Overlapping Debt to Market Value of Taxable Property Limit. Total direct plus overlapping debt shall be managed to not exceed 8% of market valuation of taxable property of Dallas. All debt, which causes total direct plus overlapping debt to exceed 6% of market valuation, shall be carefully planned and coordinated with all overlapping jurisdictions. **Status:** In compliance. 4.0%.

29. Average GO Bond Maturities. Average (weighted) GO bond maturities (exclusive of Pension Obligation bonds) shall be kept at or below 10 years. **Status:** In compliance. 7.2 years.

30. GO Debt Service to Governmental Fund Expenditure Limit. Annual GO debt service (contribution), including certificates of obligation (CO) debt for risk management funding, shall not exceed 20% of the total governmental fund expenditures (composed of general fund, special funds, debt service funds, and capital project funds). **Status:** In compliance. 14.6%.

31. Per Capita GO Debt to Personal Income Limit. Per capita GO debt, including COs, equipment acquisition notes and GO bonds, will be managed to not exceed 10% of the

FINANCIAL MANAGEMENT

PERFORMANCE CRITERIA

latest authoritative computation of Dallas' per capita annual personal income as determined by the U.S. Department of Commerce Bureau of Economic Analysis. **Status:** In compliance. 4.8%.

32. Debt Financing for Betterment of Capital Improvements. Debt may be used to finance betterments intended to extend service life of original permanent capital improvements under the following conditions:

- the original improvement is at or near the end of its expected service life;
- the betterment extends the life of the original improvement by at least one-third of the original service life;
- the life of the financing is less than the life of the betterment; and
- the betterment is financed through either COs or GOs.

Status: In compliance.

33. Interest Earnings from GO Bond Proceeds. Interest earnings from GO bonds shall be used solely to fund capital expenditures, debt service, or used to fund a reserve for capital contingencies. **Status:** In compliance.

34. Certificate of Obligation Uses. COs should be used only to fund tax-supported projects previously approved by the voters; or for risk management funding as authorized by the City Council; or non-tax revenue-supported projects approved by City Council. **Status:** In compliance.

35. Certificate of Obligation (CO) Limit as Percentage of GO Debt. CO debt, including that for risk management funding supported by an ad valorem tax pledge, should not exceed 15% of total authorized and issued GO debt. All COs issued in lieu of revenue bonds should not exceed 10% of outstanding GO debt. **Status:** In compliance. 6.9%.

36. COs for Enterprise Projects. COs for an enterprise system will be limited to only those projects that can demonstrate the capability to support the certificate debt either through its own revenues or another pledged source other than ad valorem taxes. **Status:** In compliance.

37. CO Authorization Limit. CO authorization will remain in effect for no more than five years from the date of approval by the City Council. **Status:** In compliance.

38. CO Authorization Limit for Risk Management Funding. COs authorized for risk management funding shall be issued for a term not to exceed 20 years. **Status:** In compliance.

FINANCIAL MANAGEMENT

PERFORMANCE CRITERIA

39. Advance and Current Refunding Criteria. Advance refunding and forward delivery refunding transactions should be considered when the net present value savings as a percentage of the par amount of refunded bonds is at least 4%. Current refunding transactions should be considered when the net present value savings as a percentage of the par amount of refunded bonds is at least 3%. **Status:** In compliance.

40. Enterprise Fund Debt Reserve Requirements. Each Enterprise Fund (where applicable) will maintain fully funded debt service reserves. A surety bond (or other type of credit facility such as a letter of credit) may be used in lieu of funding the reserve if the former is economically advantageous. **Status:** In compliance.

41. GO Debt Service Fund Minimum Reserve. The City shall maintain a reserve in the General Obligation Debt Service Fund equal to 5% of the following year's annual principal and interest debt service expense. The Debt Service Fund tax rate and/or future debt will be structured to maintain this debt service reserve. **Status:** In compliance.

ECONOMIC DEVELOPMENT

42. Tax Increment Financing Zones Revenue Coverage. Tax Increment Financing zones should be established where revenues will recover 1.25 times the public cost of debt to provide an adequate safety margin. **Status:** In compliance.

43. Tax Increment Financing Zone Residential Limit. A Tax Increment Financing Reinvestment Zone may not be created if more than 10% of the property in the adopted zone, excluding property dedicated for public use, is used for residential purposes. "Residential purposes" includes property occupied by a house, which is less than five living units. **Status:** In compliance.

44. Reinvestment Zones to Total Tax Base Limit. Pursuant to the provisions of the Texas Tax Code, the City creates reinvestment zones both for tax increment financing ("TIF RZ") and for tax abatement ("TA RZ"). TA RZs are created to grant tax abatements on real or business personal property or both located in the TA RZ. For the FMPC, TIF RZs and TA RZs shall be referred to as Reinvestment Zones ("RZ").

No RZ can be created if the total property tax base of certain TIF RZs plus the total real property and business personal property tax base (if there is business personal property tax being abated) of TA RZs exceeds 15% of the total tax base (all real and business personal property) of the City. Reinvestment zones that are no longer collecting tax increment or

FINANCIAL MANAGEMENT

PERFORMANCE CRITERIA

abating taxes (i.e. now contributing 100% to the City of Dallas property tax revenues) will be excluded from the calculation. **Status:** In compliance.

45. Public Improvement District (PID) and TIF Service Impact Analysis. All Public Improvement District (PID) and TIF proposals, even “pay-as-you-go” projects, will be evaluated for service impact. A five-year fiscal note must accompany any request to establish a PID or TIF including repayment terms of any inter-fund borrowing. **Status:** In compliance.

46. PID and TIF Debt Issuance Criteria. All adopted PID or TIF debt issuances supported by a district's revenues are subject to the following criteria:

- Coverage Tests—The project should provide for revenues, net of overlapping taxes, of 1.25 times maximum annual debt service requirement. The issuance of TIF bonds may be considered prior to achieving coverage ratio of 1.25 if:
 - a developer or property owner provides a credit enhancement, such as a letter of credit or bond insurance from an AAA-rated financial institution, for the entire amount of the debt issue;
 - if there is insufficient TIF increment revenues to retire TIF bonds, which event consequently requires that the credit enhancement mechanism be called upon to service the TIF bonded indebtedness, contingent liability to reimburse a credit enhancer would be the sole liability of the developer or its affiliates;
 - if there are changes in the rating of the financial institution providing credit enhancement, then that institution shall be replaced with an AAA-rated financial institution within 90 days; and
 - If no replacement of an AAA-rated institution is provided, no further TIF bonds in advance of the 1.25 coverage ratio will be provided for any additional TIF projects undertaken by the developer or its affiliates.
- Additional Bonds Test—The project should include an additional bonds test parallel to the coverage test.
- Reserve Fund—The project should include a debt service reserve fund equal to the maximum annual debt service requirements.
- Limitations on Amount of PID/TIF Bonds—The total amount of PID/TIF indebtedness will be included and managed as part of the City's overlapping debt.
- The total amount of PID/TIF debt outstanding should generally not exceed 20% of the City's outstanding GO indebtedness.
- PID/TIF bonds should be limited to projects consistent with the City's previously adopted Financial Management Performance Criteria for debt issuance.
- PID bonds should be limited to those projects that can demonstrate the ability to support the debt either through its own revenues or another pledge source other than ad valorem taxes.

FINANCIAL MANAGEMENT

PERFORMANCE CRITERIA

- PID/TIF bond authorizations should remain in effect for no more than five years from the date of City Council approval.

Status: In compliance.

47. PID and TIF Debt Issuances Maturity Limit. All adopted PID or TIF debt issuances must mature on or before the termination date of the respective PID or TIF district and, further, all bonds must also conform to the district's Financial Plan by maturing on or before the plan's projected date by which all district expenses would be paid. **Status:** In compliance.

48. PID and TIF Unrated, High Yield Bond Limit. The City will not propose the issuance of any unrated, high yield PID/TIF bond that could be labeled a "high-risk bond," except for small (less than \$5 million) private placements coordinated with the City's Financial Advisor. All projects must be carefully evaluated for creditworthiness and meet the criteria above, whether a credit rating is obtained. **Status:** In compliance.

49. PID and TIF Bond Use. The City should use PID/TIF bonds only when other options have been considered. **Status:** In compliance.

ACCOUNTING, AUDITING, AND FINANCIAL REPORTING

50. Conformance with Generally Accepted Accounting Principles (GAAP). The City will establish and maintain a high degree of accounting practices that conform to Generally Accepted Accounting Principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB). The GASB is the independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments. **Status:** In compliance.

51. Annual Independent Audit and Financial Report. Management will contract with an independent public accounting firm for an annual audit, with the subsequent issuance of an official Annual Comprehensive Financial Report (ACFR) in conformity with GAAP and applicable State statutes. **Status:** In compliance.

52. Full Disclosure in Financial Statements and Bond Representations. Full disclosure will be provided in the annual financial statements and bond representations. **Status:** In compliance.

FINANCIAL MANAGEMENT

PERFORMANCE CRITERIA

GRANTS AND TRUSTS

53. Grants and Gifts Compliance. All grants will be managed to comply with the laws, regulations and guidance of the grantor; and all gifts and donations will be managed and expended according to the wishes and instructions of the donor. **Status:** In compliance.

54. Pre-Acceptance Fiscal Review. Prior to acceptance of proposed gifts and donations and governmental grants, a fiscal review will be conducted. The review should consider matching requirements, impacts on both revenues and expenditures for the next five years, whether the objectives of the gifts, donation or grants meet the strategic goals of the City, and any potential impact of loss of funds. **Status:** In compliance.

55. Full Cost Recovery from Grants. For each federal and state grant received by the City, staff will consider the feasibility and appropriateness of minimizing the use of local funds for indirect and/or administrative costs that are attributable to the grant and eligible or allowable expenses based on the grant agreement. Indirect and/or administrative costs will be recovered from the grant as defined by the grant agreement or as defined on the Indirect Cost Rate Proposal Plan calculated based upon the costs established in the Cost Allocation Plan (prepared annually). **Status:** Effective for grants applied after 10/1/21.

FINANCIAL MANAGEMENT

PERFORMANCE CRITERIA

DALLAS WATER UTILITIES (DWU)

DWU-1. Matching of Current Revenues and Expenses. Current revenues will be sufficient to support current expenses including debt service and other obligations of the system. **Status:** In compliance.

DWU-2. Use of Long-Term Debt. Long-term debt will be used only for capital expansion, replacement and improvement of plant, not for current expenses. **Status:** In compliance.

DWU-3. Short-Term Debt Authorization. Short-term debt, including tax-exempt commercial paper, will be used as authorized for interim financing of projects which result in capital improvements. The authorization of tax-exempt commercial paper will be limited to 20% of the 10-year capital improvement program in effect at the time of the commercial paper authorization. No commercial paper program will be authorized for more than ten years. Outstanding tax-exempt commercial paper will never exceed the amount authorized by City Council. **Status:** In compliance.

DWU-4. Contingency Reserve Sufficiency. Contingency reserves will be appropriated at a level sufficient to provide for unanticipated, nonrecurring expenditures. **Status:** In compliance.

DWU-5. Debt Financing Maturity Limit. Debt financing for capital projects will not exceed the useful life of the asset, and in no case shall the term exceed 30 years. **Status:** In compliance.

DWU-6. Unreserved Cash Balance Minimum. An unreserved cash balance will be maintained such that it provides a minimum quick ratio of 1.50 and at least 30 days of budgeted expenditures for operations and maintenance in net working capital. **Status:** In compliance.

DWU-7. Debt Service Coverage Requirements. Net revenues available for debt service should be at least 1.5 times the maximum annual principal and interest requirements of relevant outstanding revenue bonds at the end of the fiscal year, and at least 1.3 times maximum-year requirements at all times, measured during a fiscal year using the previous year net revenues available for debt service. **Status:** In compliance.

DWU-8. Use of Excess Current Revenues. Current revenues which are more than operating expenses and debt service will be used for capital expenditures and other water and wastewater purposes. **Status:** In compliance.

FINANCIAL MANAGEMENT

PERFORMANCE CRITERIA

DWU-9. Funding from Current Rates Relationship to Depreciation Expense. Funds available from current rates in each fiscal year for system rehabilitation, replacement, and expansion will be appropriated equal to or more than financial statement depreciation expense reasonably estimated in the same year. **Status:** In compliance.

DWU-10. Capital Financing Methods and Equity to Debt Ratio. Capital financing will be provided through a combination of revenue bonds, current revenues, contributed capital, and short-term debt. An equity to debt ratio of at least 20% should be maintained on all capital projects. **Status:** In compliance.

DWU-11. Cost of Services Studies. Retail cost of service studies will be performed at least every two years and reviewed annually. Rate adjustments will be recommended when required, but, normally, no more frequently than annually. **Status:** In compliance.

DWU-12. Wholesale Water and Wastewater Rates. Wholesale treated water rates for customer cities and other governmental entities will be determined based on the inter-city agreement currently in effect. Wholesale wastewater and untreated water rates will be determined based on contractual agreements with wholesale customers. Rates shall be adjusted annually if cost of service studies indicates a need therefore. **Status:** In compliance.

DWU-13. Use of Funds Generated by DWU. Funds generated by DWU will be used solely for the development, operation, and maintenance of the water and wastewater utility system. **Status:** In compliance.