

# Memorandum



CITY OF DALLAS

DATE July 6, 2022

TO Honorable Mayor and Members of the City Council

SUBJECT **Dallas Animal Services' Response to Resident Emails**

Honorable Mayor and City Councilmembers –

Dallas Animal Services' (DAS) is aware of resident messages distributed to your offices regarding the safety and care of our shelter animals. This specific set of allegations was initially received by the Animal Advisory Commission Chair on June 15, 2022; at that time, DAS management investigated the claims and worked with the Chair to respond directly to the resident. All claims were found to be false.

DAS is grateful for City Council's ongoing support, and we encourage all community members, stakeholders, and constituents to send their concerns to us, as continuous improvement remains a priority.

Our mission remains exceptional animal care and to save as many lives as we are able. Like many other shelters in Texas, we are battling Distemper cases and ongoing dog capacity challenges. We are anticipating an intake of 18,000+ pets this year and routinely see 60+ dogs arriving within a single day.

- DAS takes the care of and quality of life of our animals extremely seriously and follows industry best practices. Dogs are fed once a day in accordance with their weight and nutritional needs as outlined by our veterinarians. Our staff performs a deep cleaning each morning and then spot cleans rooms throughout the day, refilling water as they go. As part of this process, dogs are isolated to one side of their kennels using a transfer door in order to allow staff to clean the vacant side; then the door is lifted, dogs are moved to the clean side, and the other side is cleaned.
- Like many residents and businesses, DAS has faced air conditioning challenges this summer. We have worked closely with Building Services and have had technicians onsite consistently servicing the units. Our facilities staff monitors temperatures in each room twice a day and animal housing areas are always prioritized when repairs are necessary. The average temperature in the facility has been 72.8 degrees.
- Distemper cases significantly limit our large dog capacity because general housing rooms have had to turn into quarantine spaces, and the need for increased spacing between newly arriving dogs to reduce cross-contamination limits room occupancy. Unfortunately, when we reach capacity in our general population or sick isolation rooms, we must make difficult euthanasia decisions to ensure we keep the wider population healthy and can continue serving Dallas residents by taking in dogs.
- Understandably, many animal lovers in the community are frustrated by space euthanasia; so are we. DAS management is working to develop a new set of large dog capacity meters for our daily report card that show capacity in each of three areas: lost and found/intake holding, adoptions, and upper respiratory illness isolation rooms. We believe that these meters will better illustrate the space available within our building and help residents to better understand why space euthanasia occurs at times.
- We are striving to work with concerned residents toward collective solutions. If mishandling and improper care occurs, we want to get to the bottom of it as we agree it is unacceptable.

DATE July 6, 2022  
SUBJECT **Dallas Animal Services' Response to Resident Emails**

Additionally, all municipal shelters in the state are required to undergo routine inspections by the Department of State Health Services. DAS' most recent inspection was on February 18, 2022 and we passed with 100% compliance. I have attached the inspection report and resulting certificate for your review.

If you, or any of your staff, would like a tour of Dallas Animal Services to better understand our challenges and get behind the scenes insight into our operations, I would be happy to oblige. Please email my Executive Assistant, Jillian Appelbaum, and she will get a visit scheduled.

Dallas Animal Services continues to be a leader among municipal shelters nationwide for its lifesaving and innovation, and we remain committed to compassion, public safety, and no shortcuts. Again, we are grateful for your support and that of our outstanding community who continues to show up for the pets of Dallas!

Sincerely,



MeLissa Webber  
Director  
Dallas Animal Services

c:

T.C. Broadnax, City Manager  
Chris Caso, City Attorney  
Mark Swann, City Auditor  
Biliera Johnson, City Secretary  
Preston Robinson, Administrative Judge  
Kimberly Bizer Tolbert, Deputy City Manager  
Jon Fortune, Deputy City Manager

Majed A. Al-Ghafry, Assistant City Manager  
M. Elizabeth (Liz) Cedillo-Pereira, Assistant City Manager  
Robert Perez, Assistant City Manager  
Carl P. Simpson, Assistant City Manager  
M. Elizabeth Reich, Chief Financial Officer  
Genesis D. Gavino, Chief of Staff/Office of Resilience  
Directors and Assistant Directors

# DEPARTMENT OF STATE HEALTH SERVICES

Date 2-18-2022 No. 03-168

THIS IS TO CERTIFY THAT \_\_\_\_\_

DALLAS ANIMAL SERVICES

\_\_\_\_\_  
Name

having complied with the provisions of Chapter 826, Health and Safety Code, and having been approved by Zoonosis Control, is hereby licensed

to operate as a Animal Quarantine Facility

located at 1818 WESTMORELAND RD DALLAS DALLAS  
Street City County

Unless revoked for due cause, this license will expire 2-18-2023

  
Regional Zoonosis Control Veterinarian

Shall Be Publicly Displayed on the Premises  
Non-Transferable

# Memorandum



CITY OF DALLAS

DATE July 8, 2022

TO Honorable Mayor and Members of the City Council

SUBJECT **Development Services Updates**

This memorandum is to provide you with an update on Development Services activities and progress.

## **CUSTOMER INITIATIVES:**

The Development Services Department (DEV) will host two virtual demonstrations of the ProjectDox 9.2 update to provide the public with an introduction to the new software. Both sessions will occur online, via zoom, and provide a step-by-step walk-through utilizing the software from the applicant's point of view. The first session will take place on [Tuesday, July 12, 2022, at 9:00 AM](#), and the second will occur on [Wednesday, July 13, 2022, at 3:00 PM](#).

DEV is launching a new outreach initiative called "Pop Up Permit Saturday." The goal is to provide walk-in permitting services on one Saturday of the month to homeowners and other members of the public requiring basic services such as consultations, fence permits, and swimming pool permits. The Permit Service Center will have a condensed staff available to serve customers. The first event is scheduled for Saturday, July 23, 2022, from 8:00 AM until 2:00 PM at the Oak Cliff Municipal Center located at 320 E. Jefferson Dallas, TX 75203.

## **TECHNOLOGY:**

ProjectDox 9.2 staff training began on June 27, 2022 and is scheduled to conclude on July 29, 2022. A total of 145 staff members are engaged in this effort. ProjectDox 9.2 is scheduled to "go live" on August 8, 2022. The current version will be taken offline on August 4, 2022, in order to migrate to the new, cloud-based platform. Following the rollout of the new version, community training will begin on August 13, 2022, at the Development Services Training Center located at 400 S. Zang Blvd., Dallas, TX 75208.

## **HIRING AND RECRUITMENT:**

Hiring efforts have resulted in improved recruiting and onboarding. Position vacancies are down to three (3) from the 41 critical open positions identified in February 2022. An additional 39 approved positions were added to the 2022 Fiscal Year to address immediate needs in customer service, inspections, zoning, and residential plan review.

DATE July 8, 2022  
SUBJECT **Development Services Updates**

DEV is partnering with Human Resources and Civil Service to host a departmental hiring event on July 28, 2022, at the J. Erik Johnson Central Library. Interviews will be held onsite and Civil Service staff will be available to qualify applicants and begin the onboarding process once verbal offers have been made.


The comprehensive compensation study conducted by the Matrix Consulting Group has been initiated and is estimated to be complete within four weeks.

### **NEW SINGLE-FAMILY RESIDENCES, REMODELS/ADDITIONS PERMITTING**

The Residential Plan Review Team has created 201 Single-Family Dwelling (SFD) permits, issued 144 new SFD permits, created 35 Single-Family Addition permits, and issued 39 Single-Family Addition permits month-to-date with an average approval time of 37 days. The approval times are currently estimated at 5 weeks. Staff continues to work overtime during evenings and weekends to expedite and clear the current residential backlog.

Fire Station 49 and Fire Station 51 are in the process of having final inspections completed, and Development Services is ready to issue Certificates of Occupancy once the contractor schedules final inspections. DEV contracted additional services from a third-party vendor, Bureau Veritas, to provide plan review and inspections for the Dallas Independent School District projects.

Should you have any questions, please contact Andrew Espinoza, Director/Chief Building Official, at (214) 542-1227 or [andres.espinoza@dallas.gov](mailto:andres.espinoza@dallas.gov).

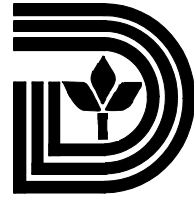


Majed A. Al-Ghafry, P.E.  
Assistant City Manager

c: T.C. Broadnax, City Manager  
Chris Caso, City Attorney  
Mark Swann, City Auditor  
Biliera Johnson, City Secretary  
Preston Robinson, Administrative Judge  
Kimberly Bizzor Tolbert, Deputy City Manager  
Jon Fortune, Deputy City Manager

M. Elizabeth (Liz) Cedillo-Pereira, Assistant City Manager  
Robert Perez, Assistant City Manager  
Carl Simpson, Assistant City Manager  
M. Elizabeth Reich, Chief Financial Officer  
Genesis D. Gavino, Chief of Staff to the City Manager  
Directors and Assistant Directors

# Memorandum



CITY OF DALLAS

DATE July 8, 2022

TO Honorable Mayor and Members of the City Council

SUBJECT **Emerald Ash Borer Virtual Community Meetings**

As part of the ongoing City efforts to increase public awareness and outreach to our community on the Emerald Ash Borer (EAB), staff is hosting two virtual community meetings.

These meetings will provide an overview of how to identify an ash tree, who to call if you have an ash tree, and what to expect when a certified arborist arrives to assess an ash tree. Staff will present material and be available to answer questions. The virtual community meetings will be hosted on the WebEx platform from 6:00 – 7:00 p.m. on Thursday, July 14 and Thursday, July 28. Attached are fliers that can be shared on your social media platforms and distributed to your constituents.

The public may visit the City Forestry website at [City of Dallas Forestry](#) to learn more about the EAB and find additional resources for their property.

Please contact me at 214-671-9735 with questions.

A handwritten signature in black ink, appearing to read 'Carl P. Simpson'.

Carl P. Simpson  
Assistant City Manager

c: T.C. Broadnax, City Manager  
Kimberly Bizzor Tolbert, Deputy City Manager  
Chris Caso, City Attorney  
Mark Swann, City Auditor  
Billieae Johnson, City Secretary  
Preston Robinson, Administrative Judge  
Jon Fortune, Deputy City Manager

Majed A. Al-Ghafry, Assistant City Manager  
M. Elizabeth (Liz) Cedillo-Pereira, Assistant City Manager  
Robert Perez, Assistant City Manager  
Jack Ireland, Chief Financial Officer  
Genesis D. Gavino, Chief of Staff to the City Manager  
Directors and Assistant Directors

# WHAT IS THE EMERALD ASH BORER (EAB)?

The City of Dallas invites residents to  
attend a Emerald Ash Borer (EAB)  
Virtual Community Meeting.

Thursday, July 14, 2022, 6 p.m.  
Join on WebEx at <https://bit.ly/3y3PZYT>

Audio Conference: 1-408-418-9388  
Access code: 2482 047 3776

Thursday, July 28, 2022, 6 p.m.  
Join on WebEx <https://bit.ly/3QFbfN1>

Audio Conference: 1-408-418-9388  
Access code: 2484 118 8650

Participate in a virtual meeting to learn more about:

- What is EAB?
- What is an ash tree?
- What are City plans?
- What does the Quarantine mean?

For more information and videos on EAB or ash trees visit us at:  
[dallascityhall.com/projects/forestry/Pages/home.aspx](http://dallascityhall.com/projects/forestry/Pages/home.aspx)

For inquiries or questions, call 214-670-3111 or email:  
[CODForestry@dallascityhall.com](mailto:CODForestry@dallascityhall.com)



Forestry

# ¿QUÉ ES EL BARRENADOR ESMERALDA DEL FRESNO (BEF)?

**La Ciudad de Dallas invita a los residentes a asistir a una  
Reunión Comunitaria Virtual sobre el Barrenador Esmeralda  
del Fresno (BEF)**

**Jueves, 14 de julio de 2022, 6 p.m.**  
Únase a través de WebEx en <https://bit.ly/3y3PZYT>

**Conferencia de audio: 1-408-418-9388**  
**Código de acceso: 2482 047 3776**

**Jueves, 28 de julio de 2022, 6 p.m.**  
Únase a través de WebEx <https://bit.ly/3QFbN1>

**Conferencia de audio: 1-408-418-9388**  
**Código de acceso: 2484 118 8650**

**Participe en una reunión virtual para aprender más sobre:**

- ¿Qué es el BEF?
- ¿Qué es el árbol de fresno?
- ¿Qué planes tiene la Ciudad?
- ¿Qué significa la cuarentena?

Para obtener más información y videos sobre el BEF o los árboles de fresnos, visítenos en  
[dallascityhall.com/projects/forestry/Pages/home.aspx](http://dallascityhall.com/projects/forestry/Pages/home.aspx)

Para preguntas, llame al 214-670-3111 o envíe un correo electrónico:  
[CODForestry@dallascityhall.com](mailto:CODForestry@dallascityhall.com)



**Forestry**



# Memorandum



CITY OF DALLAS

DATE July 8, 2022

TO Honorable Mayor and Members of the City Council

SUBJECT **Texas Travel Industry Recovery Grant Program**

This memo is to alert you to a new source of funding to support Texas' travel and tourism-related businesses impacted by COVID-19. The State of Texas Office of the Governor is now accepting applications for the Texas Travel Industry Recovery Grant program. The program is funded by \$180 million in American Rescue Plan Act (ARPA) funds, and provides a maximum \$20,000.00 one-time grant to qualified, COVID-19 impacted businesses in the following industries: arts, entertainment, and recreation, food services and drinking places, traveler accommodation, RV parks and recreational camps, traveler arrangement and reservation services, convention and tradeshow organizers, breweries, wineries, and distilleries.

Applications will be accepted in phases by industry group as defined by its numerical North American Industry Classification System (NAICS) code, as described below:

## **Application Timelines:**

- Category 1 – July 6 to July 31, 2022: Breweries (312120), Wineries (312130), Distilleries (312140), Travel Arrangement and Reservation Services (5615), Convention and Tradeshow Organizations (561920), and RV Parks and Recreation Camps (7212)
- Category 2 – August 1 to August 21, 2022: Arts, Entertainment, and Recreation (71)
- Category 3 – August 22 to September 11, 2022: Traveler Accommodation (7211)
- Category 4 – September 12 to October 2, 2022: Food Service and Drinking Places (722)
- Category 5 – If funds remain after the first four phases a fifth phase will revisit any unfunded applications to award the remaining funds.

For more information about the state's program, including webinars about the application process, please visit <https://gov.texas.gov/business/page/texas-travel-industry-recovery-grant-program>. We appreciate your help in promoting information about this new funding source to Dallas industry partners impacted by COVID-19.

DATE July 8, 2022  
SUBJECT **Texas Travel Industry Recovery Grant Program**

Should you have any questions, please contact Robin Bentley, Director, Office of Economic Development at (214) 671-9942 or [robin.bentley@dallas.gov](mailto:robin.bentley@dallas.gov).



**Majed A. Al-Ghafry, P.E.**  
Assistant City Manager

c: T.C. Broadnax, City Manager  
Chris Caso, City Attorney  
Mark Swann, City Auditor  
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# Memorandum



CITY OF DALLAS

DATE July 7, 2022

TO Honorable Mayor and Members of the City Council

SUBJECT **Fitch Ratings Downgrades Dallas Water Utilities Following Annual Review –  
RATING ACTION**

Today, following an annual review, Fitch Ratings (Fitch) lowered its long-term rating to 'AA' (stable outlook) from 'AA+' (negative outlook) on the outstanding water and sewer system revenue bonds issued for Dallas Water Utilities (DWU or the "System"). Fitch has assessed the DWU rating as a standalone credit profile irrespective of its relationship with and the credit quality of the City of Dallas general obligation credit (current rating 'AA'/stable outlook). The 'AA' designation is two notches below the highest Fitch rating and remains a high-grade, low-risk, investment-grade rating.

According to the Fitch report, the downgrade reflects the System's elevated leverage of net adjusted debt to adjusted funds available for debt service (FADS), "which has steadily increased during the past three years," with fiscal year 2021 "impacted by increased costs related to the write off of bad debt, increased chemical and power costs related to Texas' winter storm Uri, increased pension costs and additional infrequent and one-time expenses." Additionally, Fitch's formulation of the leverage calculation is determined by the Fitch Analytical Stress Test (FAST), which assumes capital costs 10% above expected levels; "an increase in IPL costs of about \$250 million beyond what has previously been anticipated," "driven by environmental studies and increased construction pricing;" and "additional assumptions surrounding revenue and expense growth in the fiscal 2022 to account for potential higher inflation." Fitch notes that leverage rose in 2019, "pressured by a rate decreases coupled with reduced demand from wet weather resulted in a sharp decline in revenues," adding that "revenues saw a rebound in fiscal 2021 but were outpaced by expense growth."

Fitch states that the rating also considers, "DWU's very strong business risk profile that is characterized by very strong revenue defensibility, supported by its fundamental role as the regional water provider to a broad service area with favorable demographic trends. DWU's very low operating risk features high economies of scale and a capital planning and management assessment that is expected to remain favorable." Fitch also asserts that, "rate increases have been regular and measured, yet rates remain low relative to other large utilities both within and outside of the state."

While maintaining service to residents and operations during the COVID-19 pandemic and various serious weather events, the City has made no fundamental changes to the Dallas Waterworks and Sewer System during the period of review. DWU provides retail water and sewer service to over 1.3 million city residents, wholesale treated water to 23 municipalities, and wholesale sewer service to 11 customer cities in and around Dallas County.

DATE July 7, 2022  
SUBJECT Fitch Ratings Downgrades Dallas Water Utilities Following Annual Review – RATING ACTION

Please find attached the press release provided by Fitch today. If you have any questions or need further information, please do not hesitate to contact me.



Jack Ireland  
Chief Financial Officer

[Attachment]

c: T.C. Broadnax, City Manager  
Chris Caso, City Attorney  
Mark Swann, City Auditor  
Billieae Johnson, City Secretary  
Preston Robinson, Administrative Judge  
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## RATING ACTION COMMENTARY

# Fitch Downgrades Dallas, TX Water and Sewer Revs to 'AA'; Outlook Stable

Thu 07 Jul, 2022 - 4:50 PM ET

Fitch Ratings - Austin - 07 Jul 2022: Fitch Ratings has downgraded the following water and sewer system revenue bonds issued by the City of Dallas (the city), TX to 'AA' from 'AA+':

--Approximately \$2 billion of outstanding system revenues bonds.

Fitch has assessed the city's water and sewer system (the system or DWU) standalone credit profile (SCP) at 'aa'. The SCP represents the credit profile of the system on a stand-alone basis irrespective of its relationship with and the credit quality of the city of Dallas, TX (Issuer Default Rating AA/Stable).

The Rating Outlook is Stable.

## ANALYTICAL CONCLUSION

The downgrade to 'AA' reflects the system's elevated leverage, which has steadily increased during the past three years. Moreover, Fitch's prior expectation of declining leverage has not materialized, with fiscal 2021 leverage increasing to 9.8x, up from 9.6x the year prior. DWU's leverage, expressed as net adjusted debt to adjusted funds available for debt service (FADS), in fiscal 2021 was impacted by increased cost related to the write off of bad

debt, increased chemical and power costs related to Texas' winter storm Uri, increased pension costs and additional infrequent and one-time expenses.

Fitch's forward scenario, which was informed by management provided forecasts, points to an initial decline in leverage in 2022, supported by continued rate adjustments and an expectation that operating costs will decline. However, thereafter leverage migrates toward 9.0x a level that is inconsistent with the 'AA+' rating and leaves limited headroom to absorb any additional inflationary stress that is present in the current economic environment.

Additionally, costs related to the Integrated Pipeline project (IPL) have increased by about \$250 million driven by environmental studies and increased construction pricing, which will result in additional debt issuance by DWU to complete the project by 2027. DWU is in the midst of a large-scale capital project to build out the IPL in cooperation the Tarrant Regional Water District (TRWD) to access the city's next major water supply. Fitch had expected additional debt issuance through 2026 of about \$335 million, but that has now increased to \$585 million. DWU's remaining capital costs associated with the IPL will be funded through two additional debt issues, slated for fiscal 2023 (\$255 million) and fiscal 2025 (\$250 million). An additional \$80 million of spending is expected after 2026, but will likely be paid from cash balances.

The rating also considers DWU's very strong business risk profile that is characterized by very strong revenue defensibility, and supported by its fundamental role as the regional water provider to a broad service area with favorable demographic trends. DWU's very low operating risk features high economies of scale and a capital planning and management assessment that is expected to remain favorable.

## **CREDIT PROFILE**

The system serves an expansive territory, providing retail water and sewer service to over 1.3 million city residents. The system also provides wholesale treated water to 23 municipalities and wholesale sewer service to 11 customer cities in and around Dallas County (the county). Dallas County, which approximates the service area for both retail and treated wholesale water customers, has a population of over 2.6 million and five-year average annual customer growth is just under 1%.

DWU water is supplied through contractual agreements with surface reservoir operating entities that include Sabine River Authority (SRA), Upper Neches River Municipal Water Authority and the U.S. Army Corps of Engineers. Water is supplied to DWU from six surface

water impoundments in the Trinity River and Sabine River Basins, including Lake Ray Hubbard owned by the City of Dallas. Lake Palestine, located in the Neches River Basin, is being connected to the DWU System through a contract with TRWD. Water supply from these seven reservoirs is expected to provide dependable yield through at least 2055 once Lake Palestine is connected to the system around 2030. Water is treated at three water treatments plants and wastewater flows are treated at two wastewater treatment plants, with ample treatment capacity of over 900 million gallons daily (mgd) to meet the system's 380 mgd average daily demand. A small portion of the system's wastewater treatment is provided by the City of Garland, TX and the Trinity River Authority.

Fitch considers the system to be a related entity to the city for rating purposes given the city's oversight of the system, including the authority to establish rates and operations. The credit quality of the city does not currently constrain the bond rating. However, as a result of being a related entity, the issue ratings could become constrained by a decline in the general credit quality of the city.

## **KEY RATING DRIVERS**

### **Revenue Defensibility 'aa'**

Very Strong Rate Flexibility; Expansive Service Area

The system's revenue defensibility is supported by DWU's extensive service area that includes the city and much of the neighboring suburban communities on a wholesale basis. The city anchors the large and diverse Dallas-Fort Worth regional economy. Rate increases have been regular and measured, yet rates remain low relative to other large utilities both within and outside of the state. The assessment is further supported by the monopolistic nature of DWU's revenues and its legal independent authority to raise rates.

### **Operating Risks 'aa'**

Very Low Operating Cost Burden

DWU's operating risk assessment reflects its very low operating cost burden and favorable life cycle ratio. DWU continues to invest in system maintenance to address aged facilities while also investing in additional water resources in partnership with TRWD.

### **Financial Profile 'aa'**

## Pressured Leverage Position

The system's leverage ratio has continued to weaken due to growing debt. Based on planned debt issuances over the next few years, which include obligations associated with the final phase of the IPL. The liquidity cushion and coverage of full obligations (COFO) are sound and considered neutral to the assessment.

## Asymmetric Additive Risk Considerations

No asymmetric additive risk considerations affected this rating determination.

## RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Sustained trend of leverage that approximates 7.0x through Fitch's base and stress case.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Sustained trend of leverage above 10x following issuance of all IPL related debt.

--Change in capital planning that results in elevated life cycle investment needs and an increase in life cycle ratio.

## Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## SECURITY

Bonds are secured by a first lien on the net revenues of the combined water and sewer system after payment of operating and maintenance expenses (including debt service on



TRWD debt issued for DWU's portion of the IPL).

## Revenue Defensibility

Revenue defensibility is very strong, assessed at 'aa' with all of DWU's revenues derived from services or business lines exhibiting monopolistic characteristics in a service area with favorable demographic trends. DWU revenues are comprised of retail customers (about 85%) and wholesale customers (about 15%). The city is among the three largest cities in Texas and among the 10 largest in the U.S. The city is a center for technology, trade, finance and healthcare; it also ranks among the top visitor and leisure destinations in the state. The system has independent legal ability to increase service rates without external approval.

Fiscal 2021 water and sewer rates for residential retail customers produce a monthly bill of \$64.37 (assuming Fitch's standard usage of 7,500 gallons per month for water and 6,000 gallons per month for sewer). Rate increases have been regular and measured yet remain low relative to other large utilities both within and outside of the state. Continued moderate planned adjustments should preserve a favorable degree of flexibility going forward.

Legal resolution involving rate disputes with SRA resulted in DWU providing rate relief to retail and wholesale customers in the form of a 6% rate reduction in fiscal 2019. Retail customers saw a 1% rate increase in fiscal 2021 after rates remained flat for fiscal 2020, with wholesale customers seeing about a 2% increase. City Council has a very long history of adopting recommended rate adjustments. DWU management is planning for continued retail rate increases of 1.5% - 4% over the next few years. Wholesale treated and untreated water rates for fiscal 2022 will see large increases of about 9% and 16%, respectively, with wastewater rates growing by a more modest 2%. Increases in wholesale water rates take into consideration additional costs associated with accessing new water sources.

## Operating Risks

The system's operating risk profile is assessed at 'aa', which takes into consideration a very low operating cost burden with moderate life cycle investment needs. Favorably, capital spending has exceeded depreciation annually over the last five years and is expected to remain strong as DWU has a robust capital plan to address long range water supply and continuing system maintenance.

The system's operating cost burden is a very favorable \$2,606 per million gallons (mg) of water produced for fiscal 2021, well below Fitch's \$6,500 per mg threshold for the 'aa' assessment. The city's conservation measures over the past two decades have resulted in

reduced water demand. This decline in turn has postponed the need for additional water supplies and generally lowered capital and operating costs over the long term.

Consumption has leveled off and the city feels they have reached their base line consumption of about 135 billion to 139 billion gallons annually. From year to year, demand is still very weather dependent and rate revenues fluctuate based on weather-driven water use.

Most near-term capital needs are geared towards renewal and replacement of existing infrastructure and maintaining regulatory compliance, with a significant portion of costs devoted to replacing aging water and wastewater mains. Total capital costs for fiscal years 2022-2026 total about \$1.7 billion on par with the prior year's plan excluding costs related to the IPL, with annual spending between \$323 million and \$345 million.

DWU is partnering with TRWD for the completion of the IPL to access DWU contractual water rights in Lake Palestine. The project allows DWU to share the costs of water transmission from the lake and TRWD is issuing all the bonds for the project, including DWU's share. TRWD expected to issue \$255 million of contract revenues bonds for DWU's next installment for the IPL in fiscal 2023 through the Texas Water Development Board's State Water Implementation Funds of Texas with the remaining additional debt related to the IPL expected in fiscal 2025 (\$250 million) and about \$80 million to likely be paid from cash resources in fiscal 2027.

## Financial Profile

DWU's financial profile continued to weaken in fiscal 2021 as the system's expenses outpaced revenues. In fiscal 2021, debt grew by 10%, while FADS only saw a 7% increase, pushing leverage higher. DWU's increasing leverage trend has not reversed as had been expected. Instead leverage had trended higher for the past three years, after registering a more favorable 8.0x in fiscal 2017 and 7.7x in fiscal 2018.

Leverage rose above 9.0x in fiscal 2019, pressured by a rate decreases coupled with reduced demand from wet weather resulted in a sharp decline in revenues. Ratios have remained elevated for the rating, growing incrementally yoy due to higher purchased water costs, additional debt, increased write off of bad debt expense and higher power and chemical costs during Winter storm Uri in February of 2021. Revenues saw a rebound in fiscal 2021, but were outpaced by expense growth.

The liquidity profile is neutral to the rating with COFO at 1.0x and a liquidity cushion of 226 days at the close of fiscal 2021. DWU's liquidity cushion has remained strong at about 200

days or more since fiscal 2017. COFO dipped to 0.84x in fiscal 2017 due to one-time large pension expenses related to adopted pension reforms but has remained over 1x since. Fitch-calculated total debt service coverage was 1.1x in fiscal 2021.

### Fitch Analytical Stress Test (FAST)

The FAST considers the potential trend of key ratios in a base case and a stress case, with the stress case designed to impose capital costs 10% above expected levels and evaluate potential variability in projected key ratios. Fitch used management's provided forecast, CIP and expected debt issuance (including IPL related debt) in formulating the FAST base case scenario. Fitch made additional reasonable assumptions surrounding revenue and expense growth in the fiscal 2022 to account for potential higher inflation and also in the final three years to reflect revenues that matched expenses. Fitch's assumptions also included a CIP execution rate of 80% and an increase in IPL costs of about \$250 million beyond what has previously been anticipated.

Based on these reasonable assumptions, leverage is expected to decline in 2022, but range between 8.4x to 8.9x in Fitch's bases case and 8.5x to 9.3x in the stress case. In both cases, ratios remain in line with the 'AA' rating.

### Sources of Information

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

### REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

### PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The rating is linked to the rating of the Tarrant Regional Water District, TX (City of Dallas water contract revenue bonds).

### ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the

entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

## RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅	PRIOR ⇅
Dallas (TX) [Water, Sewer]		
Dallas (TX) /Water & Sewer Revenues/1 LT	LT AA Rating Outlook Stable	AA+ Rating Outlook Negative
	Downgrade	

[VIEW ADDITIONAL RATING DETAILS](#)

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## PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

## APPLICABLE CRITERIA

[U.S. Water and Sewer Rating Criteria \(pub. 18 Mar 2021\) \(including rating assumption sensitivity\)](#)

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 01 Sep 2021\) \(including rating assumption sensitivity\)](#)

## ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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## ENDORSEMENT STATUS

Dallas (TX)

EU Endorsed, UK Endorsed

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US Public Finance

Infrastructure and Project Finance

North America

United States





# Memorandum



CITY OF DALLAS

DATE July 8, 2022

TO Honorable Mayor and Members of the City Council

SUBJECT **Sales Tax Receipts**

The May 2022 sales tax receipts from the State Comptroller's Office are \$33.3 million and represents a 15.0 percent increase in total collections compared to the same reporting period last year. Over the most recent 12 months, sales tax receipts have increased by 20.4 percent.

- May 2021 actual \$28,918,168
- May 2022 original budget \$27,239,676
- May 2022 amended budget \$27,239,676
- May 2022 actual \$33,254,120

For FY 2021-22, we originally budgeted \$344.3 million for sales tax revenue anticipating a slower recovery. The budget was increased to \$364.3 million in the mid-year budget ordinance approved by the City Council on May 11. Our current year-end forecast is \$375.5 million.

Although the current trend is positive, consultation with Dearmon Analytics predicts the U.S. economy will slow in 2023 and return to a historical normal growth rate. We will work with our economist to update the forecast for the biennial budget, and closely monitor the effects of inflation, global unrest, and consumer confidence for potential negative impacts.

We will provide additional information as it becomes available. Please contact me with any questions.

A handwritten signature in blue ink that reads "Jack Ireland".

Jack Ireland  
Chief Financial Officer

[Attachment]

c: T. C. Broadnax, City Manager  
Chris Caso, City Attorney  
Mark Swann, City Auditor  
Billierae Johnson, City Secretary  
Preston Robinson, Administrative Judge  
Kimberly Bizer Tolbert, Deputy City Manager  
Jon Fortune, Deputy City Manager

Majed A. Al-Ghafry, Assistant City Manager  
M. Elizabeth (Liz) Cedillo-Pereira, Assistant City Manager  
Robert Perez, Assistant City Manager  
Carl Simpson, Assistant City Manager  
Genesis D. Gavino, Chief of Staff to the City Manager  
Directors and Assistant Directors

# Sales Tax

as of May 2022

Month	Actual FY21	Budget FY22	Amended Budget FY22	Actual FY22	Variance FY22 Actual vs FY21 Actuals (\$)	Variance FY22 Actual vs FY21 Actuals (%)	Variance FY22 Actual vs FY22 Amended Budget (\$)	Variance FY22 Actual vs FY22 Amended Budget (%)
October	\$ 25,607,902	\$ 27,322,304	\$ 30,717,609	\$ 30,717,609	\$ 5,109,707	20.0%	\$ -	0.0%
November	\$ 25,010,956	\$ 25,621,546	\$ 30,461,440	\$ 30,461,440	\$ 5,450,484	21.8%	\$ -	0.0%
December	\$ 35,927,004	\$ 35,846,753	\$ 39,784,802	\$ 39,784,802	\$ 3,857,798	10.7%	\$ -	0.0%
January	\$ 24,532,918	\$ 25,773,030	\$ 28,760,595	\$ 28,760,595	\$ 4,227,677	17.2%	\$ -	0.0%
February	\$ 22,686,079	\$ 24,953,637	\$ 27,238,115	\$ 27,238,115	\$ 4,552,036	20.1%	\$ -	0.0%
March	\$ 33,669,367	\$ 33,512,514	\$ 36,078,221	\$ 39,832,144	\$ 6,162,777	18.3%	\$ 3,753,923	10.4%
April	\$ 29,131,009	\$ 27,115,734	\$ 27,115,734	\$ 34,139,323	\$ 5,008,314	17.2%	\$ 7,023,589	25.9%
May	\$ 28,918,168	\$ 27,239,676	\$ 27,239,676	\$ 33,254,120	\$ 4,335,952	15.0%	\$ 6,014,444	22.1%
June	\$ 34,254,068	\$ 32,397,037	\$ 32,397,037					
July	\$ 30,967,271	\$ 27,039,992	\$ 27,039,992					
August	\$ 28,404,805	\$ 26,151,742	\$ 26,151,742					
September	\$ 35,178,095	\$ 31,309,102	\$ 31,309,102					
<b>Total</b>	<b>\$ 354,287,642</b>	<b>\$ 344,283,066</b>	<b>\$ 364,294,064</b>	<b>\$ 264,188,148</b>	<b>\$ 38,704,745</b>	<b>17.2%</b>	<b>\$ 16,791,956</b>	<b>6.8%</b>

