

# Memorandum



CITY OF DALLAS

DATE July 10, 2018

TO Honorable Mayor and Council Members

SUBJECT **Moody's Investors Service Recognizes 'Credit Positive' Council Action of Back-Pay Lawsuits' Settlement - INFORMATION**

Today, Moody's Investors Service (Moody's) released a brief Issuer Comment article regarding the credit positive impact of the Council action authorizing settlement of the remaining two pay referendum lawsuits. According to Moody's, the "settlement, which covers the final two of six original suits, is credit positive because it resolves a long-standing legal uncertainty that could have significantly jeopardized Dallas' financial stability." Moody's also states that, "Dallas continues to exhibit strong economic growth leading to stable debt burden despite additional debt."

This article is not a concrete rating change from Moody's, but reflects positively on Dallas as we prepare for upcoming bond sales to satisfy the judgments.

Please let me know if you need additional information.

A handwritten signature in blue ink that reads "M. Elizabeth Reich".

M. Elizabeth Reich  
Chief Financial Officer

Attachment

C: T.C. Broadnax, City Manager  
Larry Casto, City Attorney  
Craig D. Kinton, City Auditor  
Billierae Johnson, City Secretary (Interim)  
Daniel F. Solis, Administrative Judge  
Kimberly Bizzor Tolbert, Chief of Staff to the City Manager  
Majed A. Al-Ghafry, Assistant City Manager

Jon Fortune, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Jo M. (Jody) Puckett, Assistant City Manager (Interim)  
Nadia Chandler Hardy, Chief of Community Services  
Raquel Favela, Chief of Economic Development & Neighborhood Services  
Theresa O'Donnell, Chief of Resilience  
Directors and Assistant Directors

## ISSUER COMMENT

10 July 2018

 Rate this Research

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## Dallas (City of) TX

Dallas settles remaining public safety back-pay lawsuits, a credit positive

On June 27, the [Dallas](#) (A1 stable) City Council authorized a settlement, for an amount not to exceed \$173.3 million, of the remaining two lawsuits related to a decades-long legal battle over police back pay. The settlement, which covers the final two of six original suits, is credit positive because it resolves a long-standing legal uncertainty that could have significantly jeopardized Dallas' financial stability. While the precise amount of the liability to the city, if the city had lost in trial, was unknown, most recent estimates placed the liability at around \$4 billion, an amount that far exceeds the available liquidity of the city and was more than double the city's already outstanding debt.

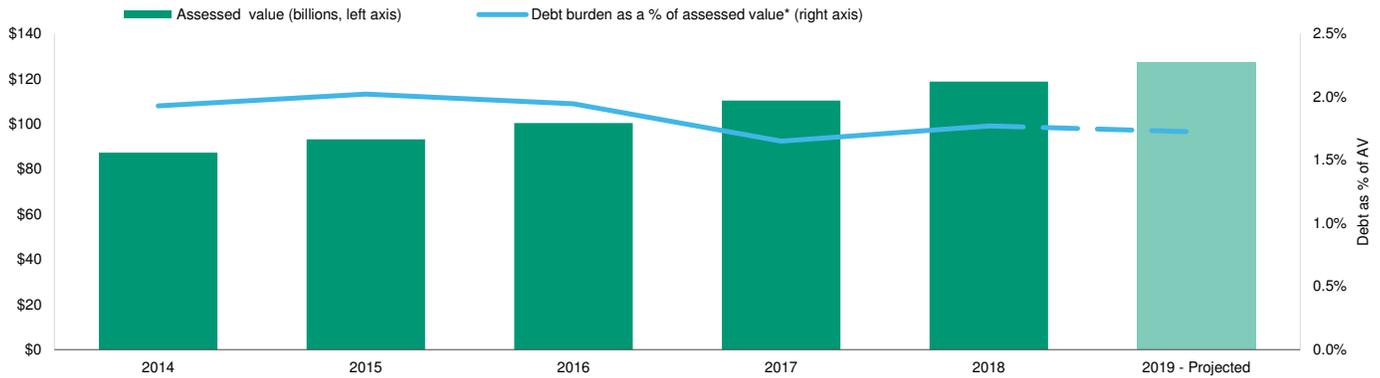
This most recent settlement follows council approval on November 14, 2017 to settle the four outstanding [Collin County](#) (Aaa stable) cases for an amount not to exceed \$61.7 million. The total \$235 million in settlement money is likely to be paid from general obligation refunding bonds.

Dallas' six police back-pay lawsuits, two tried in Rockwall County and four in Collin County, originally date back to a 1979 referendum that adjusted pay differentials between grades in sworn ranks of the police department. The plaintiffs argued that the pay differentials were to be permanent, rather than a one-time adjustment, as the city argued.

The total judgment of approximately \$235 million is manageable for the city, considering Dallas' expansive and rapidly growing tax base. The city's taxable value reached \$118.7 billion in fiscal 2018; general obligation bonds that the city plans to issue to satisfy the judgments represent a very small 0.2% of the 2018 value, which shrinks further when considering strong growth expected in fiscal 2019 from new construction and property appreciation (see Exhibit 1). While these bonds come on the heels of a very large \$1.05 billion bond package approved by voters in 2017 for various improvements across the city, the phased approach the city has historically taken with bond issuance will keep the debt burden stable.

Exhibit 1

**Dallas continues to exhibit strong economic growth leading to stable debt burden despite additional debt**



\* Includes accreted interest and capital leases; utility debt with GO backing not included; does not include component unit debt. Fiscal 2018 is estimated based on the 2017 audit and the Series 2017 GOLT OS; fiscal 2019 is a projection assuming no additional new money bonds, \$235 million in general obligation refunding bonds and amortization of existing debt. Assumed growth of 7.22% to project fiscal 2019 assessed value per preliminary budget estimates.

Sources: Moody's Investors Service, City of Dallas audited financial statements, City of Dallas Series 2017 GO offering document

The Rockwall County district court will still need to enter a judgment to finalize the settlement and allow it to proceed as agreed by all parties. However, the council vote is a critical step in codifying the settlement agreement, which was verbally agreed to in late spring. The settlement of the four Collin County cases for \$61.7 million was incorporated into a judgment by the court on June 8, 2018, and the city has approved the sale of bonds for later this summer.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

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