

Memorandum



CITY OF DALLAS

DATE May 29, 2020

TO Honorable Mayor and Members of the City Council

SUBJECT **VisitDallas Renewal Contract - Responses to May 20, 2020 Briefing Questions**

On Wednesday, May 20, 2020, Convention and Events Services (CES) staff and VisitDallas leadership briefed Dallas City Council regarding the recommended terms and related hotel occupancy tax (HOT) ordinance amendments that form the basis for a proposed VisitDallas five-year contract renewal. CES staff provided an overview that outlined recommended contract terms, proposed governance changes and a restructured HOT ordinance that would go into effect from October 1, 2020 through September 30, 2025. CES staff also provided an update on the current and forecasted impact of COVID-19 to CES revenues, and effects on the local tourism industry.

In response to City Council input at the briefing meeting, staff will address the following items in the draft contract term sheet and the HOT ordinance revisions being prepared for the City Council agenda meeting on June 10, 2020:

- Review the full contract and incorporate potential revisions in the third contract year;
- Strengthen the terms regarding Dallas-focused advertising;
- Include terms for governance and board appointments by the City;
- Specify that any retainage will be maintained by the City and not VisitDallas;
- State that the City Council will annually allocate HOT funding for eligible arts and culture and historic preservation through the budget process; and
- Update the City's termination rights clause

Additionally, the information below and in the attached **Appendix** is provided in response to City Councilmembers' requests for information. Staff will update the City Council by memorandum on those items pending VisitDallas Board discussion.

1. Increase the Proposed Membership Rate for Non-Dallas Hotels and Partners

Craig Davis, CEO and President of VisitDallas, will discuss refining the membership program and propose a new rate structure for non-Dallas businesses at the June 15, 2020 VisitDallas executive board meeting. Mr. Davis plans to coordinate a decision with the executive board during the meeting, have the larger board vote on the item on June 18th, and implement changes by August 1st.

2. Provide the current breakdown of Regional Membership and Revenue

	Membership Total	Dues Revenue
Dallas Hotels	141	\$518,086
Non-Dallas Hotels	42	\$153,348
Totals	183	\$671,434
Dallas Percent	77%	

3. Re-evaluate Non-Dallas advertisements on the VisitDallas Website

During the June 15th executive board meeting, Craig Davis will also propose excluding non-Dallas advertisement on the website, except for cases involving sporting event promotion. As with Item 1, decisions on changes to website advertising will be made by the larger board on June 18th, with an implementation schedule through August 1st.

4. Provide listings of the VisitDallas Board, Leadership Council, and Cultural Committee Members

A complete list of VisitDallas' Board of Directors, Leadership Council and their Cultural committees are listed in **Exhibit-A**.

5. Provide the CES HOT Revenue and Distribution

Below please find the forecasted HOT revenue for FY21 through FY25. Fiscal Year 2021 distribution in this table aligns with the existing ordinance and the VisitDallas Amended and Restated contract approved on November 13, 2019. Subsequent years align with the proposed VisitDallas pro-forma provided during the May 20th briefing. As noted in the briefing, distribution for other allowable uses will be approved by City Council during annual budget discussions.

Fiscal Year	Forecast	Kay Bailey Hutchison Convention Center Dallas		VisitDallas		Other Allowable Uses	
		Allocation	Amount	Allocation	Amount	Allocation	Amount
2021	\$ 51,708,362	67.40%	\$ 34,851,436	29.10%	\$ 15,047,133	3.50%	\$ 1,809,793
2022	\$ 58,875,981	67.40%	\$ 39,682,411	27.60%	\$ 16,249,771	5.00%	\$ 2,943,799
2023	\$ 65,273,606	67.40%	\$ 43,994,411	25.10%	\$ 16,383,675	7.50%	\$ 4,895,520
2024	\$ 71,697,091	67.40%	\$ 48,323,840	22.60%	\$ 16,203,543	10.00%	\$ 7,169,709
2025	\$ 76,946,651	67.40%	\$ 51,862,043	20.10%	\$ 15,466,277	12.50%	\$ 9,618,331
5-Year Totals	\$ 324,501,691	-	\$ 218,714,140	-	\$ 79,350,399	-	\$ 26,437,153

6. Provide a list of allowable uses of HOT

The table below outlines the current allowable uses for HOT in alignment with Texas State tax code Title 2, Subtitle D, Chapter 351, Subchapter B: Use and Allocation of Revenue.

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There is a two-part test for every expenditure of local hotel occupancy tax:

- A. Every expenditure must directly enhance and promote tourism and the convention and hotel industry
- B. Every expenditure of the hotel occupancy tax must clearly fit into one of the statutorily provided categories for expenditure of local occupancy tax revenues:
 - a) Funding the establishment, improvement, or maintenance of a convention center or visitor information center
 - b) Paying the administrative costs for facilitating registration
 - c) Paying for advertising, solicitations, and promotions that attract tourists and convention delegates to the city or its vicinity
 - d) Expenditure that promote the arts (capped at 15% HOT or 1% tax received on cost of room, whichever is greater)
 - e) Funding historical restoration or preservation programs (capped at 15%)
 - f) Funding certain expenses, including promotional expenses, directly related to a sporting event (only within counties with a population of under one million)
 - g) Funding the enhancement or upgrading of existing sports facilities or sports fields for certain municipalities (only in certain cities)
 - h) Funding transportation system for tourists
 - i) Signage directing tourists to sites and attractions that are visited frequently by hotel guests in the municipality

If you have additional questions, or require further information, please me contact me or Rosa Fleming, Director of CES.



Joey Zapata
Assistant City Manager

- c:
- | | |
|--|--|
| T.C Broadnax, City Manager | Nadia Chandler Hardy, Assistant City Manager |
| Chris Caso, City Attorney | Dr. Eric A. Johnson, Chief of Economic Development and Neighborhood Services |
| Mark Swann, City Auditor | M. Elizabeth Reich, Chief Financial Officer |
| Biliera Johnson, City Secretary | Laila Aleqresh, Chief Innovation Officer |
| Preston Robinson, Administrative Judge | M. Elizabeth (Liz) Cedillo-Pereira, Chief of Equity and Inclusion |
| Kimberly Bizer Tolbert, Chief of Staff to the City Manager | Directors and Assistant Directors |
| Majed A. Al-Ghafry, Assistant City Manager | |
| Jon Fortune, Assistant City Manager | |



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- (D/I)** Diversity & Inclusion
- (SI)** Special Interest
- (B)** Business
- *** Executive Committee Members

January 2020



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February 2020

APPENDIX - A: VisitDallas Renewal Contract - Responses to May 20, 2020 Briefing Questions

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APPENDIX - A: VisitDallas Renewal Contract - Responses to May 20, 2020 Briefing Questions

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APPENDIX - A: VisitDallas Renewal Contract - Responses to May 20, 2020 Briefing Questions

VisitDallas Cultural Tourism Committee Members 2020 Roster

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*Denotes VisitDallas Board Member

** Denotes VisitDallas Leadership Council Member

Memorandum



DATE May 29, 2020

CITY OF DALLAS

TO Honorable Mayor and Members of the City Council

SUBJECT **Update on the Status of the Subrecipient Awards for Emergency Rental Program**

This is an update on the status of the awards to the subrecipients in response to the Emergency Request for Applications (RFA) for Administration of Short-term Rental Assistance Program (BJ20-00013555) CARES Act Funds. The process for submission of an application was managed through Procurement Bonfire in an expedited manner. A Review Committee, consisting of staff from Housing, Office of Budget Finance and Compliance, and Office of Welcoming Communities and Immigrant Affairs, reviewed and scored the proposals.

Following is the timeline for processing the applications and next steps:

Dates	Actions
May 4 th and May 11 th	Two advertisements were posted
May 4 th	RFA (attached) was posted
May 18 th	RFA closed
May 18 th – 22 nd	Scores provided by Review Committee
May 27 th	Final awards
May 28 th	Notices to the applicants
June 1 st - 5 th	Draft agreements
June 2 nd	Subrecipient Training

Five (5) nonprofit organizations applied and requested the corresponding amounts. Applicants were awarded in the order of scored results and available funds.

Agency	Score	Amount Requested	Amount Awarded
Jubilee Park & CC	85.75	\$77,000	\$77,000
Human Rights Initiative	85.50	\$56,500	\$56,500
United Way Collaboration	81.50	\$1,000,000	\$866,500
Voice of Hope	74.50	\$50,000	\$0.00
Brother Bill's	62.50	\$50,000	\$0.00

Should you have any questions, please contact me at (214) 671-5257.

Dr. Eric Anthony Johnson
Chief of Economic Development & Neighborhood Services

- c: T.C. Broadnax, City Manager
- Chris Caso, City Attorney (Interim)
- Mark Swann, City Auditor
- Biliera Johnson, City Secretary
- Preston Robinson, 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
- Nadia Chandler Hardy, Assistant City Manager
- M. Elizabeth Reich, Chief Financial Officer
- Laila Alequresh, Chief Innovation Officer
- M. Elizabeth (Liz) Cedillo-Pereira, Chief of Equity and Inclusion
- Directors and Assistant Directors

Memorandum



CITY OF DALLAS

DATE May 29, 2020

TO Honorable Mayor and Members of the City Council

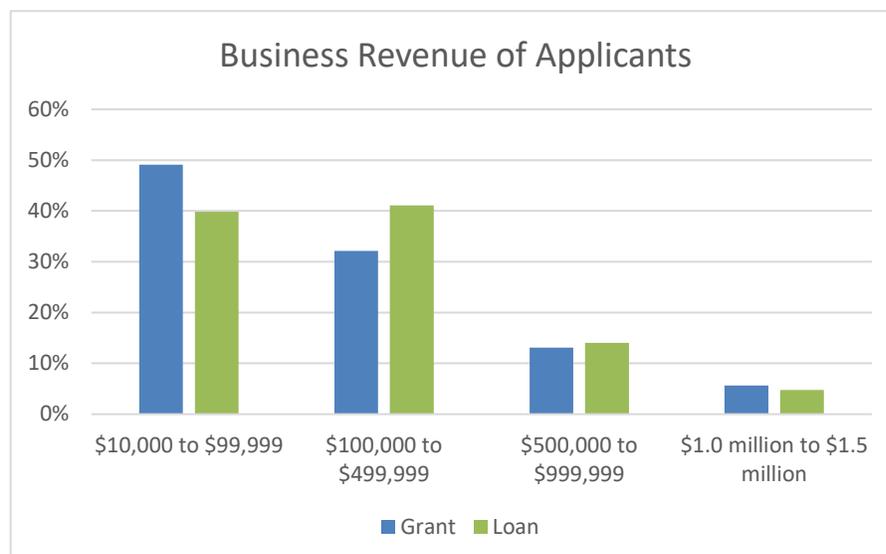
SUBJECT **Small Business Continuity Fund (SBCF) Update**

We wanted to provide you with an update on the current status of the Small Business Continuity Fund (SBCF). Since the previous update, city staff reviewed the 1267 complete grant applications and the 511 complete loan applications to verify Dallas business addresses and duplicates. After that review, staff determined that 398 applications qualified for the loan lottery, and 1054 qualified for the grant lottery. A ranked order was selected by lottery for the loan and grant program. Two lotteries were conducted for the grant program, with the first selection identifying 125 businesses located in targeted areas; businesses not selected in that lottery were then put into the City-wide lottery selection for the grant program. Businesses were contacted on May 22 with the results of those lotteries.

50 businesses in the loan program and 250 businesses in the grant program were notified that they would receive funding provided they could provide the necessary documentation to the third-party administrator. That information will be submitted via third part online portal in June. An additional 40 loan applicants and 100 grant applicants were notified that they may be able to receive funding if funding is available. Loan applicants and grant applicants with a lottery number below 90 and 350 respectively were notified that we did not anticipate funding being available for their business.

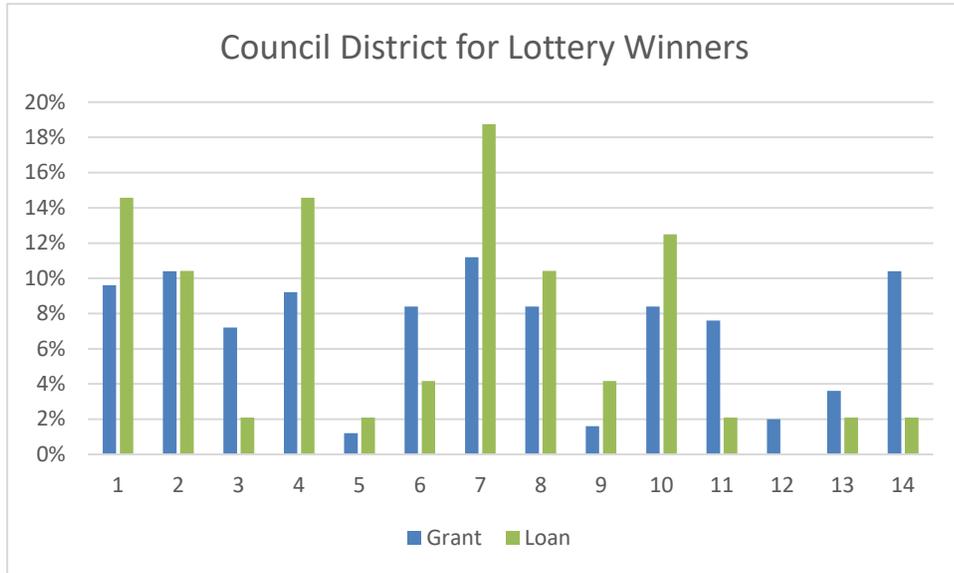
Of the eligible applications, a total of \$21.7M in funding was requested.

By business revenue, approximately 80% of applicants had revenue under \$500,000.

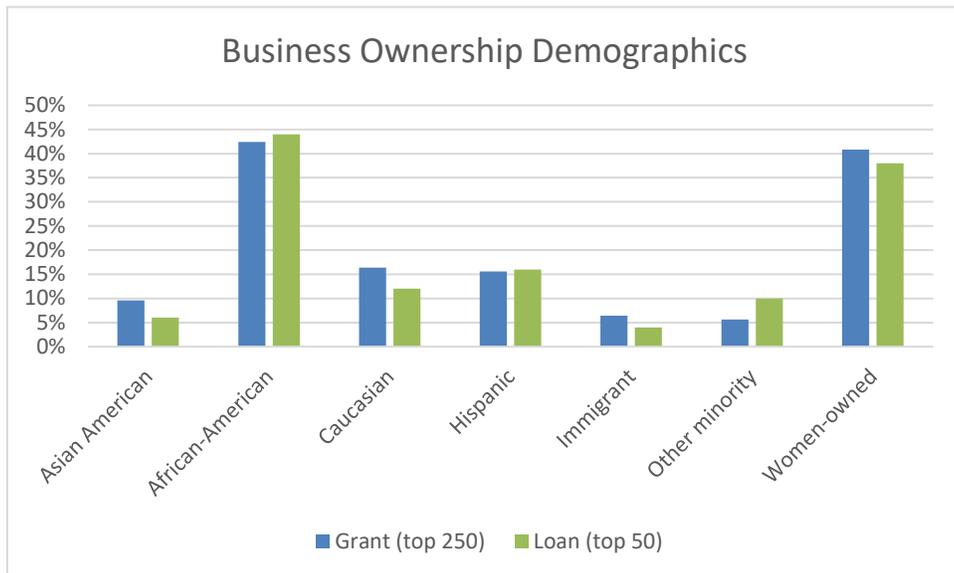


DATE May 29, 2020
 SUBJECT **Small Business Continuity Fund (SBCF) Update**

Council district information for the lottery winners for the loan and grant applicants follows.



Demographics of the lottery winners for the loan and grant applicants is below. Applicants could select more than one category.



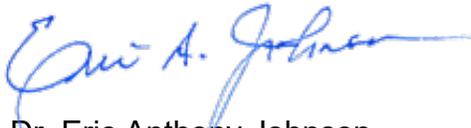
For the grant program, 45% of the overall applicants had businesses located in a targeted low-to-moderate income area. Because of the dedicated funding for targeted areas, 70% of the selected grant applications come from a targeted area.

DATE May 29, 2020

SUBJECT **Small Business Continuity Fund (SBCF) Update**

City staff is working with the third-party administrator and the first funds are still expected to be disbursed by June 15, 2020.

Should you have any questions, please contact me.



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Majed A. Al-Ghafry, Assistant City Manager
Jon Fortune, Assistant City Manager

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M. Elizabeth (Liz) Cedillo-Pereira, Chief of Equity and Inclusion
Directors and Assistant Directors

Memorandum



CITY OF DALLAS

DATE May 29, 2020

TO Honorable Mayor and Members of the City Council

SUBJECT **Amendments to Chapter 51A and Chapter 45 of the Dallas City Code for Temporary Inclement Weather Shelters**

Purpose:

Staff will provide an update to the Temporary Inclement Weather Shelter Program (TIWS) and related Municipal Code amendments. This item was briefed to the Housing and Homelessness Solutions Council Committee on January 14, 2020. The Committee recommended the item be forwarded to City Council for consideration and possible action pending the additional outreach to faith-based communities and service providers. This memo provides a summary of the feedback received from the additional community outreach and is currently scheduled for the City Council voting agenda on June 24, 2020.

Background:

According to the National Coalition for the Homeless, inclement weather accounts for the deaths of approximately 700 people experiencing homeless or persons who are at-risk of homelessness every year across the United States. Every day, street outreach workers in cities across the nation go out into communities to encourage people on the street to take shelter, but many people refuse, for a variety of personal and social reasons. The same remains true in Dallas.

On January 23, 2020, the Point in Time Count showed the number of unsheltered people in Dallas increased by 122 people from 1,452 to 1,619. That night, the temperature was in the 50s. The average overnight low temperature in January is in the mid-30s. Establishing predictable inclement weather shelters decreases the chances that a Dallas resident will die while experiencing homelessness. It also increases the chances of connecting a person experiencing homelessness with the services and shelter they need. These are the primary arguments that catalyzed staff's efforts to develop the Office of Homeless Solutions Strategy, which was approved by the City Council in August of 2018 and formalize temporary inclement weather shelters through the establishment of Chapters 45 and amendment of 51A of the Dallas City Code. These two Code revisions are intended to operate concurrently.

Why People Choose Street Sleeping Over Shelter:

The reasons people choose to sleep on the street rather than going into shelters are as varied as the people themselves. For some, it is that they have had a bad experience in a shelter or have heard about the bad experiences of others. Many who experience homelessness are not alone but have pet companions that may not be allowed. As a loyal pet owner, these individuals will not leave their pet, and refuse to surrender to a shelter. They are afraid that shelters are dangerous places and may risk having their personal belongings stolen. Unfortunately, none of these beliefs must be true to convince someone to stay out of shelter.

For some people, a mental health condition magnifies the fear of going into shelter. It's a fear of the unknown, crowds, or the lack of ability to control their surroundings. Substance use disorders, criminal history, an unwillingness or inability to follow rules, and many other reasons contribute to the list of reasons that people choose to sleep outside. On the street, they may know where to

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find a blanket or a hot meal, but they don't necessarily know what they will find in shelter. Their space on a grassy area by the highway or under an overpass feels safer than a shelter, even when it is freezing outside. The street has become their home.

Establishing temporary inclement weather shelters provides immediate, potentially life-saving comfort to people who are resistant to staying inside, but it can also have a potentially much larger impact. Convincing an unsheltered person to come in from the cold, for even one night, can start them down a path to permanent housing. An unsheltered person can be shown that moving inside can be safe and that fears can be unfounded. Connections can begin to form that lead that unsheltered person to additional services and case management that are designed to lead to permanent housing. Inclement weather shelters are a critical piece of the overall strategy for ending chronic homelessness in Dallas.

City of Dallas Operations of Inclement Weather Shelters:

In 2019 and early 2020, while Chapters 45 and 51A were in development, it became clear that a gap in services needed to be filled. The Office of Homeless Solutions (OHS) was tasked with operating inclement weather shelters on three occasions, which include November 11 – 16, 2019, December 10, 2019, and February 4 – 5, 2020. The first two shelters were staged at the Kay Bailey Hutchison Convention Center and the third was staged at the J. Erik Jonsson Central Library.

These efforts were supported by the Office of Emergency Management, Convention and Event Services, Dallas Police, Dallas Fire and Rescue, Animal Services, Parkland Health System, Dallas Right Care, volunteers from City staff, homeless service providers, and the faith-based community.

Over the eight-night period, 1,300 people were served, with 605 of those were unduplicated shelter guests. As is generally the case with the City's unsheltered population, the overwhelming majority of people served were adult men of color. 98% of them has a last known address in Dallas and 22% of them were in shelter for the first time.

Issue:

OHS learned several important lessons while operating these temporary shelters. First, and most importantly, coordination with other service providers is critical. Temporary Inclement Weather Shelters (TIWS) are designed to function as overflow facilities. It is imperative that IWS operators communicate with traditional overnight shelters to ensure temporary shelter options are provided in areas where there is the most need and the ability to link guests to longer term shelters and services.

OHS also learned that there are organizations that are willing to donate services, food, other supplies, and volunteers but that coordination must be established well in advance of the need and deployable with little notice.

It became clear that a successful TIWS must be truly low barrier. Intake must be simple and fast. Many of the people who will come into an Inclement Weather Shelter may have been banned from a traditional overnight shelter. Creating barriers to entry will increase the chances that an unsheltered person will decide to take a chance on sleeping on the street.

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The final lesson was that Temporary Inclement Weather Shelters are a significant unmet need in Dallas. Passage of Chapters 45 and 51A will allow external organizations to legally and effectively operate these shelters and fill the need in a way that does not deplete City resources.

Components of Chapter 51A Proposal:

Chapter 51A is amended to include specific accessory uses of facilities to operate as Temporary Inclement Weather Shelters. The revised Chapter 51A allows for the operation of a site as a Temporary Inclement Weather Shelter provided that the site operates under the policy established in the Chapter 45. Chapter 51A is clear that the provisions and definition of a Temporary Inclement Weather Shelter is not allowed in single family, duplex, townhouse, or disabled group dwelling units.

Components of Chapter 45 Proposal:

Chapter 45 is designed to work in conjunction with proposed changes to Chapter 51A. It establishes an inclement weather shelter program which will be administered by the Office of Homeless Solutions.

Chapter 45 contains the process and procedure for which interested parties may participate, operate, and be permitted. Definition of inclement weather, periods of operation, temperature and other weather conditions, required coordinated intake and assessment, and any potential spacing requirements from other temporary inclement weather shelters and overnight general-purpose shelters.

Inclement Weather Definitions:

- **Cold weather advisory (CWA)** - means an advisory issued when the minimum nighttime temperature is forecast by the National Oceanic and Atmospheric Administration's National Weather Service to be 32 degrees Fahrenheit or below at any point from 4PM CST to 8AM CST (next day). A cold weather advisory is issued for any amount of freezing rain, ice or when two to four inches of snow (alone or in combination with sleet and freezing rain).
- **Heat weather advisory (HWA)** - means an advisory issued when the minimum nighttime temperature is forecast by the National Oceanic and Atmospheric Administration's National Weather Service to be 90 degrees Fahrenheit or higher at any point from 4PM CST to 8AM CST (next day).

Permit Process: (new information included related to COVID 19 and infection control policies)

- Provisions are cumulative of all city ordinances, building, electrical, food establishment, fire safety, and all other permits and licenses required by ordinance or other law.
- Applicant must submit permit to shelter coordinator at least 45 days prior to operation along with following:
 - Valid Certificate of Occupancy
 - Project Plan (including site and floor plan for shelter operations)
 - Operation Plan in compliance with Section 45-7
 - Community notification and outreach- operator's outreach and notification strategies to nearby residents, businesses, shelter participants,

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- governmental agencies, stakeholders, and service providers. (email, social media post, signs, etc.).
- Supportive services (if applicable) – supportive services, programs, and case management services offered to shelter participants.
- Emergency management and fire evaluation- procedures for medical and other emergency events, including illness, injury, fire, flood, and other natural disasters. Procedures must include staff training log with first aid, CPR, and any additional medical training.
- **NEW:** Infection control policies - policies and plans that comply with the guidelines of the Centers for Disease Control. (COVID-19, TB, etc.).
- Privacy measures for vulnerable subpopulations- Privacy measures for shelter participants who are deemed a vulnerable sub-population or require supportive equipment, such as a wheelchair, lift equipment, or service animals.
- Passed building and safety inspection required prior to issuance of final permit
- DFR and DPD notified of approved permit at least 10 days prior to operation and provided with approved site and floor plans (OHS will notify).
- Permits are valid for a twelve-month period and expires on September 1 each year.

Permit Revocation:

Under the proposed program, the Office of Homeless Solutions may deny or revoke for the following:

- Falsified information or incomplete application
- Operator fails to maintain public order in or around shelter location
- DFR or DPD declares structure or property a threat to public's health, safety, and welfare
- History of noncompliance or previous revocations
- Noncompliance regarding city ordinance, state, or federal law
- Noncompliance with Chapter 46 "Unlawful Discriminatory Practices" relating to sexual orientation and gender identity and expression
- Any violation of city ordinance, state, or federal law by shelter guests while on shelter premises

Community Input:

Community input is critical to the success of all OHS efforts. OHS staff presented the plan to the Citizen Homeless Commission at several monthly meetings. Staff also held public meetings with homeless services partners and providers, members of the Continuum of Care, and the general public. The final meeting was held on March 6th and largely included members of the faith-based community.

Each of these meetings resulted in valuable improvements to the creation of Chapter 45. Some examples of those improvements include:

- The initial draft of Chapter 45 did not specify that the qualifying temperature applied to the nighttime forecast. Given that most days between the beginning of June and mid-September will reach 90 degrees, it was important to clarify that the *nighttime* temperature

DATE May 29, 2020

SUBJECT **Amendments to Chapter 51A and Chapter 45 of the Dallas City Code to Allow for Temporary Inclement Weather Shelters**

must be forecast to reach at least 90 days and that daytime temperatures are not applicable.

- The temperature threshold for a heat advisory was lowered from 100 degrees to 90 degrees.
- Language was added that gives the OHS Coordinator the discretion to prioritize applications and permits based on unmet need in geographic locations. As was pointed out in the lessons learned section, effective management of this program will involve ensuring the Inclement Weather Shelters are staged in areas of Dallas where they are most needed. Adding this provision means OHS can prioritize approval of applications in areas where there is truly unmet need.
- Language was added requiring volunteer to guest ratios and training methods for volunteers to be based on best practices.
- The initial draft of Chapter 45 did not require operators to consider privacy and security of guests when setting spacing requirements and there was no consideration for provision of additional spacing for guests who were experiencing trauma. The CHC Subcommittee suggested adding this language to the proposal.

Previous Committee Actions and Next Steps:

On January 14, 2020, the Housing and Homelessness Solutions Committee recommended this item be forwarded to full City Council for consideration and possible action following the conclusion of the additional community outreach requested by service providers. Both Chapters 45 and 51A will be referred to the full City Council for consideration on the June 24th City Council voting agenda.

Should you have any questions or concerns or would like an individual briefing on these items prior to the voting agenda, please contact or Kevin Oden, Interim Director of Office of Homeless Solutions.



Nadia Chandler Hardy
Assistant City Manager

- c:
- | | |
|---|--|
| T.C. Broadnax, City Manager | Joey Zapata, Assistant City Manager |
| Chris Caso, City Attorney | Dr. Eric A. Johnson, Chief of Economic Development and Neighborhood Services |
| Mark Swann, City Auditor | M. Elizabeth Reich, Chief Financial Officer |
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| Kimberly Bizzor Tolbert, Chief of Staff to the City Manager | Directors and Assistant Directors |
| Majed A. Al-Ghafry, Assistant City Manager | |
| Jon Fortune, Assistant City Manager | |

Memorandum



CITY OF DALLAS

DATE May 29, 2020

Honorable Members of the Government Performance & Financial Management
TO Committee: Jennifer S. Gates (Chair), Cara Mendelsohn (Vice Chair),
Carolyn King Arnold, Adam Bazaldua, Lee Kleinman, Omar Narvaez, Casey Thomas, II

SUBJECT **Responses to Questions from the May 26, 2020 FY 2019-20 Mid-Year
Appropriation Adjustments Briefing**

Responses to questions asked during the briefing on FY 2019-20 Mid-Year Appropriation Adjustments are below.

1. Provide list of tenants and annual revenue for Hensley Field.

Response: Hensley Field has both long-term and short-term tenants that contribute to the revenue that is appropriated in the ordinance.

Long Term Tenants

Tenant	Space Leased	Annual Revenue
U.S. Air Force	22 Acres	\$1,800
State of Texas	40 Acres	\$480
Jack Cooper Transport	99.51 Acres	\$1,791,180

Month-to Month Tenants

Tenant	Space Leased	Monthly Revenue
Red Guard	4 Acres	\$6,680
Oncor	5 Acres (with building)	\$26,522

2. Have the City employee fitness centers been closed and have employee fees been suspended during the pandemic?

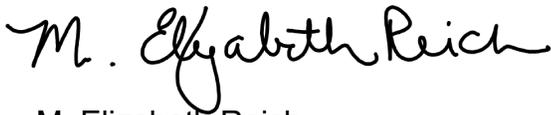
Response: In compliance with both the State and County's Stay at Home Orders, all City fitness facilities were closed by March 20. All employee fitness center fees were suspended as of March 17.

DATE May 29, 2020
SUBJECT Responses to Questions from the May 26, 2020 FY 2019-20 Mid-Year Appropriation
Adjustments Briefing

3. Provide Councilmember Arnold with an update on the Mockingbird TIF.

Response: The Director of the Office of Economic Development was asked to contact Councilmember Arnold to provide an update.

The FY 2019-20 Mid-Year Appropriation Ordinance is scheduled for City Council consideration on June 10. Please let me know if you have any additional questions.



M. Elizabeth Reich
Chief Financial Officer

c: Honorable Mayor and Members of the City Council
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Memorandum



CITY OF DALLAS

DATE May 29, 2020

TO Honorable Mayor and Council Members

SUBJECT **Fitch Ratings Affirmed 'AA+' Rating, Revises Outlook to Negative for City of Dallas Waterworks and Sewer System Revenue Refunding Bonds, Series 2020C and 2020D**

Yesterday, Fitch Ratings (Fitch) assigned their 'AA+' credit rating and revised the outlook to negative from stable on the upcoming City of Dallas Waterworks and Sewer System Revenue Refunding Bonds, Series 2020C and Taxable Series 2020D, that are scheduled to be sold June 9, 2020. The Fitch 'AA+' rating and negative outlook also applies to the Waterworks and Sewer System's ("System") \$2.2 billion outstanding revenue bonds. According to the report, "the 'AA+' issue rating reflect the system's strong revenue defensibility, which is supported by its fundamental role as the regional water provider to a broad service area with favorable demographic trends." Fitch's scenario analysis reflects the negative outlook "driven by weaker fiscal 2019 results along with planned debt issuances over the next few years," adding that "the system experienced revenue decline in fiscal 2019 due to a rate decrease coupled with declines in water demand from wet weather."

The key rating drivers Fitch detailed in the report include the System's revenue defensibility, operating risks, and financial profile. According to Fitch, the System's "revenue defensibility is very strong" and "continued moderate planned adjustments should preserve a favorable degree of flexibility going forward." In terms of operating risks, Fitch's assessment of the System "reflects its very low operating cost burden and favorable life cycle ratio," adding that "favorably, capital spending has exceeded depreciation annually over the last five years and is expected to continue as the utility has a robust capital plan to address long range water supply and continuing system maintenance." Regarding the financial profile of the System, Fitch notes that the "system's leverage ratio has started to weaken," although, "the liquidity cushion and coverage of full obligations (COFO) are sound and considered neutral to the assessment."

While the City faces several unforeseen challenges, the Dallas Water Utilities System continues to provide service excellence to customers following the City's Financial Management Performance Criteria with long-range planning, prudent management, and sound leadership.

Please let me know if you need additional information.

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

M. Elizabeth Reich
Chief Financial Officer

[Attachment]

c: T.C. Broadnax, City Manager
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Mark Swann, City Auditor
Biliera Johnson, City Secretary
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RATING ACTION COMMENTARY

Fitch Rates Dallas, TX's Water & Sewer Revs 'AA+'; Outlook to Negative

Thu 28 May, 2020 - 4:24 PM ET

Fitch Ratings - Austin - 28 May 2020: Fitch Ratings has assigned a 'AA+' rating to the following bonds issued by the city of Dallas, TX (the city):

--Approximately \$228.4 million waterworks and sewer system revenue refunding bonds, series 2020C and

--Approximately \$364.6 million waterworks and sewer system revenue refunding bonds, taxable series 2020D.

Bond proceeds will be used to refund certain outstanding bonds of the city and refund commercial paper notes of the city's water and sewer system (DWU or the system). The bonds are expected to sell July 7, 2020 via negotiated sale.

In addition, Fitch has affirmed the 'AA+' rating on the system's \$2 billion in outstanding parity debt.

Fitch has assessed the system's Standalone Credit Profile (SCP) to be 'aa+'.

The Rating Outlook is revised to Negative from Stable.

ANALYTICAL CONCLUSION

The system 'aa+' SCP and 'AA+' issue rating reflect the system's strong revenue defensibility, which is supported by its fundamental role as the regional water provider to a broad service area with favorable demographic trends. DWU's very low operating risks feature high economies of scale and a capital planning and management assessment that is expected to remain favorable. The Negative Outlook is driven by weaker fiscal 2019 results along with planned debt issuances over the next few years that could outpace revenue growth and lead to sustained higher leverage than experienced in recent years. The utility's net leverage, as expressed in adjusted debt to adjusted funds available for debt service (FADS), rose in fiscal 2019 to 9.3x from 7.7x the year prior. The system experienced revenue decline in fiscal 2019 due to a rate decrease coupled with declines in water demand from wet weather. Expectations for 2020 are for some improvement in net leverage despite additional forecasted revenue contractions from fiscal 2019 levels due to lower demand related to the

coronavirus. Negative rating action would be expected to occur if net leverage failed to point towards stabilization around or below 8x.

Coronavirus Considerations

DWU management is forecasting revenue declines in fiscal 2020 related to the current outbreak of coronavirus government containment measures taken by the city of Dallas and the impact to many of its retail commercial accounts. Management expects to control expenses and reduce cash transfers for capital construction to offset the revenue declines in 2020. To date, system wide consumption demand, which includes wholesale customers, is tracking on budget. The city has received over \$230 million in Coronavirus Relief Fund (CARES Act) funds to assist with coronavirus related expenses. DWU management is currently gathering data related to funds spent to date that could qualify for CARES Act support.

The recent outbreak of coronavirus and related government containment measures worldwide creates an uncertain global environment for the Water and Sewer sector. While the utility's performance data through most recently available data has not indicated impairment, material changes in revenue and cost profile are occurring across the sector and likely to worsen in the coming weeks and months as economic activity suffers and government restrictions are maintained or expanded. Fitch's ratings are forward-looking in nature, and Fitch will monitor developments in the sector as a result of the virus outbreak as it relates to severity and duration, and incorporate revised expectations for future performance and assessment of key risks.

CREDIT PROFILE

The system serves an expansive territory, providing retail water and sewer service to over 1.2 million city residents. The system also provides wholesale treated water to 23 municipalities and wholesale sewer service to 11 customer cities in Dallas County (the county) and the contiguous counties with a population of over 2.6 million. 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 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 United States. Water is supplied to DWU from six surface water impoundments in the Elm Fort of the Trinity River and Lake Palestine, which is being connected to the DWU system through a contract with the Tarrant Regional Water District (TRWD). Water supply from these seven reservoirs is expected to provide dependable yield through at least 2050 once Lake Palestine is connected to the system around 2027. Water is treated at three water treatments plants and wastewater flows are treated at two wastewater treatment plants. A small portion of the system's wastewater treatment is provided by the City of Garland, TX and the Trinity River Authority.

KEY RATING DRIVERS

Revenue Defensibility 'aa'

Strong Rate Flexibility; Expansive Service Area

The system's revenue defensibility is supported by DWU's extensive 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 remain low relative to other large utilities both within and outside of the state. The 'aa' 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 'aa' operating risks 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 its TRWD.

Financial Profile 'aa'

Weakening Leverage Position

The system's leverage ratio has started to weaken due to declines in FADS which were pressured by wet weather and recent rate declines. Based on planned debt issuances over the next few years, which include obligations associated with the final phase of the Integrated Pipeline project (the IPL), net leverage may remain elevated for the current rating level. 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/rating stabilization:

--Expectations of net leverage returning to under 8x on a sustained basis.

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

-- Continuing trend of net leverage above 8x.

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

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Public Finance 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 (O&M) 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 of Dallas, (general obligation Issuer Default Rating AA/Stable Outlook) is among the three largest cities in Texas and among the ten largest in the US. 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.

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. Recent 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 customer 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 and DWU management is planning for continued rate increase of 2% to 5% for retail customers and approximately 3% for wholesale customers over the next five years.

OPERATING RISKS

The utility's operating risks are assessed at 'aa' which take 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 continue as the utility has a robust capital plan to address long range water supply and continuing system maintenance. 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 2020-2024

total \$1.6 billion excluding costs related to the IPL, with annual spending between \$300 million and \$350 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. The next portion of DWU's debt for the IPL is expected in fiscal 2021 for about \$300 million with completion expected around 2027.

FINANCIAL PROFILE

The financial profile is assessed at 'aa'. Fitch's calculated net leverage ratio was 9.3x at the end of fiscal 2019, which is at the higher end of the assessment range. The liquidity profile is neutral to the rating with coverage of full obligations (COFO) at 1.06x and liquidity cushion of 221 days at the close of fiscal 2019. DWU's liquidity cushion remains 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 then.

Net leverage has trended downward in recent years from 9.8x in fiscal 2015 to 7.7x in fiscal 2018, which was supported by an uptick in water demand during more normal hydrological conditions. However, rate decreases in fiscal 2019, coupled with reduced demand from wet weather resulted in sharp decline in revenues, pushing leverage up past 9x for the year. Reduced water demand 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 136 billion gallons annually. From year to year, demand is still very weather dependent and rate revenues fluctuate based on weather-driven water use.

Fitch Analytical Stress Tool (FAST)

The FAST considers the potential trend of key ratios in a base case and a stress case, with the stress case imposing capital costs 10% above base case levels. Under the FAST base case, net leverage is expected to decline in fiscal 2020 from fiscal 2019 levels but then jump to 9.3x in fiscal 2021 and then remain in the 9x range through fiscal 2024. Under the stress case net leverage is slightly higher and peaks at 9.6x in fiscal 2021. Fitch used the city's forecast in formulating the FAST base case scenario, which includes revenue and expense reductions in fiscal 2020 related to the coronavirus government imposed shutdowns, modest annual rate adjustments and more normalized usage resuming in fiscal 2021, as well as planned capital spending and debt financing (including a near-term increase in capex of around \$300 million related to the IPL). Fitch notes that while other sensitized downside scenarios were evaluated to layer in additional stresses related to coronavirus impacts, these did not form the basis of the rating.

ASYMMETRIC ADDITIVE RISK CONSIDERATIONS

No asymmetric additive risk considerations affected this rating determination.

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.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

[VIEW ADDITIONAL RATING DETAILS](#)

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Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 27 Mar 2020\) \(including rating assumption sensitivity\)](#)

[U.S. Water and Sewer Rating Criteria \(pub. 03 Apr 2020\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

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

[Solicitation Status](#)

ENDORSEMENT STATUS

Dallas (TX)

EU Endorsed

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[US Public Finance](#) [Infrastructure and Project Finance](#) [North America](#) [United States](#)



Memorandum



CITY OF DALLAS

DATE May 29, 2020

TO Honorable Mayor and Council Members

SUBJECT **S&P Global Ratings Affirmed 'AAA' Rating and Stable Outlook for City of Dallas Waterworks and Sewer System Revenue Refunding Bonds, Series 2020C and 2020D**

Following recent General Obligation ratings, Standard and Poor's Global Ratings (S&P) affirmed their 'AAA' credit rating and stable outlook on the upcoming City of Dallas Waterworks and Sewer System Revenue Refunding Bonds, Series 2020C and Taxable Series 2020D, that are scheduled to be sold June 9, 2020. The S&P 'AAA' rating and stable outlook also applies to the Waterworks and Sewer System's ("System") \$2.2 billion outstanding revenue bonds. There were several key rating factors for S&P in the report, including the System's "role as a regional provider not only for the more than 300,000 retail accounts in Dallas but on a wholesale basis for almost every suburb in Dallas County;" "long-term planning, locking in a 25-year water supply with planning ongoing for a 50-year supply;" "affordable rates, with a willingness to proactively and regularly adjust them;" "strong all-in coverage;" "very strong liquidity;" and "financial management practices that we consider strong, which indicate best practices across the utility and the city are well embedded, and financial and operational goals are highly aligned."

S&P also considered the potential risk profile of the System, including financials, customer base, and infrastructure, but notes that, "overall, city management has well-delineated financial management performance criteria for all its major operating funds, in our view, including for DWU, to which it holds itself strictly accountable and ensures overall financial integrity." In addition, the report continues that "the current governance and management structure has also allowed critical decision-making to be done with an eye toward financial integrity and maintaining operations at a high level."

In anticipation of the upcoming bond sale, the affirmed rating and detailed report are indicative of a robust and well-managed water and wastewater system with a stable outlook for the future, capable of maintaining continued services to all customers, even in challenging times.

Please let me know if you need additional information.

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

M. Elizabeth Reich
Chief Financial Officer

[Attachment]

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, Chief of Staff to the City Manager
Majed A. Al-Ghafry, Assistant City Manager
Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
Nadia Chandler Hardy, Assistant City Manager
Dr. Eric A. Johnson, Chief of Economic Development and Neighborhood Services
Laila Aleqresh, Chief Innovation Officer
M. Elizabeth (Liz) Cedillo-Pereira, Chief of Equity and Inclusion
Directors and Assistant Directors

RatingsDirect®

Summary:

Dallas; Water/Sewer

Primary Credit Analyst:

Theodore A Chapman, Farmers Branch (1) 214-871-1401; theodore.chapman@spglobal.com

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Omid Rahmani, Farmers Branch + 1 (214) 765 5880; omid.rahmani@spglobal.com

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Rating Action

Stable Outlook

Credit Opinion

Summary:

Dallas; Water/Sewer

Credit Profile

US\$228.4 mil waterwks and swr sys rev rfdg bnds ser 2020C due 10/01/2040		
<i>Long Term Rating</i>	AAA/Stable	New
US\$220.09 mil waterwks and swr sys rev rfdg bnds ser 2020D due 10/01/2035		
<i>Long Term Rating</i>	AAA/Stable	New
Dallas WS		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating to the city of Dallas' \$228.4 million series 2020C waterworks and sewer system revenue refunding bonds and \$220.09 million taxable series 2020D waterworks and sewer system revenue refunding bonds. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the city's \$2.2 billion of debt outstanding. The outlook is stable.

S&P Global Ratings also affirmed its 'AAA' rating on Tarrant Regional Water District (TRWD), Texas' contract revenue bonds, issued on behalf of the city of Dallas for the city's share of the joint integrated pipeline project; the city's system--doing business as Dallas Water Utilities (DWU)--currently supports about \$507.9 million in contract revenue bonds outstanding.

The city intends to use the series 2020C bond proceeds to convert \$260 million in commercial paper to long-term debt, as well as currently refund callable maturities of the system's series 2009B and 2010 revenue bonds. In addition, the city intends to use the proceeds of the series 2020D bonds to refund certain maturities of the system's series 2009C, 2011, 2012, and 2013 revenue bonds. All refunding transactions will be for savings purposes, with no adjustments to any final maturities. The bonds are secured by a first-lien pledge on the net revenues of the DWU system.

Credit overview

The rating reflects our view of the city's:

- Role as a regional provider not only for the more than 300,000 retail accounts in Dallas but on a wholesale basis for almost every suburb in Dallas County, and partial wholesale service for parts of cities in five surrounding counties;
- Long-term planning, locking in a 25-year water supply with planning ongoing for a 50-year supply;
- Affordable rates, with a willingness to proactively and regularly adjust them;
- Strong all-in coverage, boosted by the wholesale relationships that provide cash flow certainty to overall operating revenues even if weather patterns affect retail sales;
- Very strong liquidity; and

- Financial management practices that we consider strong, which indicate best practices across the utility and the city are well embedded, and financial and operational goals are highly aligned.

The DWU system supplies retail water and wastewater service to Dallas, which has a population of about 1.3 million, as well as treated and raw water services to almost all the cities in Dallas County on a wholesale basis, and to the Dallas-Fort Worth International Airport. Because the customer base is sufficiently large and diverse, in our view, DWU has no dependence on any of its principal retail customers for its operating revenues. Although we rate DWU's debt above that of the U.S., DWU has a predominantly locally derived revenue base. Local service charges, derived through an autonomous rate-setting process, represent virtually all of the entity's revenues. This, coupled with operating expense flexibility, precludes exposure to federal revenues.

In addition, DWU has virtually no responsibility for or exposure to the city's most underfunded fiduciary obligations for its uniformed civil service. These pension and postemployment benefit liabilities have been among the factors most pressuring our general obligation rating on the city. Although the city did not pay 100% of its actuarially defined contribution in the most recent fiscal year, the plan in which DWU participates--the Employees Retirement System--is adequately funded at 83%. We also understand that despite recessionary pressures on the general fund tax revenues and recently announced general government employee furloughs through at least July 2020, the city has no intention of filling the budget gap with the use of surplus net revenues or available cash reserves of DWU.

Environmental, social, and governance factors

In addition to enhancing the long-term water supply with the joint project with TRWD, Dallas has proactively engaged in preserving its existing supplies by way of aggressive water conservation measures--most recently revised in 2019--including public education and a number of supporting ordinances and practices aimed primarily at curbing outdoor watering. Based on consumption use patterns in 2001 across all customer classes, DWU management estimates that the water conservation measures have extended the life of existing reservoirs by two-three years, as well as reducing per capita per day consumption by 30% even as the population has increased by 10%. Because of the complexity--and massive capital investments--required for bringing a new reservoir into commercial operations, we view this as especially favorable environmental stewardship relative to that of peers.

The city also is sensitive to affordability concerns, even as city council has a long history of as-necessary rate adjustments, even during the last recession. DWU does not have a formal bill pay customer assistance program, but does have payment plans and other ancillary services such as in-home leak detection and free repairs of certain fixtures to qualified customers to help them reduce water use and, therefore, lower their monthly bill.

It is our view that the good overall governance, in which immediate- and long-term operational needs are aligned with intended financial resources, also lend to credit stability. The city has for years used its financial management performance criteria (FMPC) to establish required financial metrics for all of its major operating funds, including DWU. The FMPC speaks to desired debt service coverage (DSC), minimum required reserves, and other guidelines that we typically associate with a financial management assessment we would characterize as strong.

Stable Outlook

Downside scenario

Should there be sustained deterioration in the credit fundamentals, primarily measured by total financial capacity, we could revise the outlook to negative or lower the rating. If, as S&P Global Economics projects, the recovery does not begin until late in the third quarter of 2020, we believe that credit conditions for all governments and their related utilities will face headwinds even into 2021. We believe this increases the possibility that unfavorable variances to budget could extend beyond fiscal 2020. For more information, see "COVID-19's Potential Effects In U.S. Public Finance Vary By Sector" (published March 5, 2020, on RatingsDirect), "All U.S. Public Finance Sector Outlooks Are Now Negative" (published April 1, 2020), and "An Already Historic U.S. Downturn Now Looks Even Worse" (published April 16, 2020). The stable outlook is also predicated on the city's representation that any near-term weakness in DSC is attributable to the purposeful drawdown of designated cash reserves, and that beyond that revenues will generally be supportive of financial performance more in line with historical levels.

Credit Opinion

Enterprise risk profile

The city is the economic engine in its namesake Dallas-Fort-Worth-Arlington metropolitan statistical area (MSA), with business and professional services, health care, and finance among a deep employment base that remains one of the most vibrant in the state. Dallas' exposure to the cyclicity of the commodity and energy sector is limited, although the city and the MSA are home to the corporate headquarters of some the largest firms in the U.S., including AT&T Inc., ExxonMobil, and Southwest Airlines. Given the sheer size of the customer base, the city is not dependent on any of its retail customers for operating revenues. In a typical fiscal year, wholesale sales for water and wastewater services account for about 15%-20% of total operating revenues. The recessionary pressures across the globe have not spared the Dallas MSA; the estimated unemployment rate for April 2020 was 13%. The city continues to comply with a March 2020 state public utility commission directive to suspend disconnections and shut-offs for customers unable to pay their bill. The city does expect and has budgeted for a downturn in revenues for the remainder of fiscal 2020, primarily from small commercial customers, but has not reported any interruptions or under-collections from any wholesale customer, and through mid-May year-over-year consumption patterns versus 2019 were unchanged.

DWU's raw water sources are favorably situated for the summer months; the entire reservoir system remains, in aggregate, 100% full as of May 26, 2020. In 2012, city leaders implemented permanent, year-round mandatory maximum twice-weekly outdoor water conservation measures beyond the seasonal outdoor watering time-of-day measures that have been in place for years. City management also frequently updates its drought-management plan, along with its long-range water supply plan, as part of the regularly revised regional water supply planning process in which it participates. In addition to the joint venture with TRWD, the city also has other regional partnerships for conservation, supply, and environmental stewardship.

Management reviews utility rates annually, both for retail and wholesale customers. The most recent retail rate increase went into effect on Oct. 1, 2017. The 1.6% increase brought the average utility bill to about \$67. In our

opinion, when considering service area income and poverty rate levels, utility rates remain affordable and provide for additional rate-raising flexibility. The recommendations from and implementation of a 2018 rate study were largely revenue neutral, save mainly for the creation of an additional tier for very high-use residential customers. Rates will be further adjusted after a designated reserve related to a legal settlement has been fully utilized; Dallas challenged a 2015 rate increase in purchased raw water from the Sabine River Authority's (SRA) Lake Fork reservoir in east Texas. While the dispute was ongoing, Dallas still made the full payment, but the portion reflecting the rate increase was put in escrow until the dispute was resolved. In fiscal 2018 when the dispute was finally resolved, the escrow had a balance of about \$68.7 million, which has been serving as a rate-stabilization fund, smoothing the effect of SRA's rate increase until the city extinguishes the balance in 2022. Management projects the net effect thereafter will increase operating expenses by approximately \$8 million per year, against typical annual operating revenues of more than \$600 million.

Reflecting our operational management assessment (OMA), we view DWU to be a '1' on a scale of 1 to 6, with '1' being the strongest. This indicates, in our view, that operational and organizational goals are highly aligned, even if some challenges exist. The primary challenge will be continuing the focus on renewal and replacement of aging underground infrastructure, as well as constructing the new assets necessary for the city to begin receiving water from the integrated pipeline project. The OMA of strong also includes the city's efforts toward maintaining its distribution and collection systems; ongoing meter replacements have helped to keep nonrevenue water low. The city has also extended a sanitary sewer overflow initiative with the state environmental body. Both wastewater treatment plants have recently renewed their respective discharge permits, and the city is fully compliant with all prevailing environmental requirements. The current governance and management structure has also allowed critical decision-making to be done with an eye toward financial integrity and maintaining operations at a high level.

Financial risk profile

Fiscal 2019 all-in DSC slipped to--by our calculation--1.2x from a historical trend of 1.6x-1.8x, reflecting the purposeful decision to draw on the SRA escrow. All-in DSC is S&P Global Ratings' adjusted DSC metric that takes into account all long-term financial obligations, regardless of lien or accounting treatment, and hypothetically treats recurring fixed costs as if they were debt service. Traditionally calculated DSC for fiscal 2019 was more than 1.7x maximum annual debt service (MADS) for senior-lien debt. Total DSC is consistently above management policy's set rates to achieve budgeted revenue bond DSC of at least 1.5x MADS, and well above the 1.25x average annual debt service rate covenant. We have reviewed the management team's financial forecast, which has been updated to reflect expected recessionary-related impacts to operating revenues. We view it as a reasonable assumption that recurring revenues should bounce back to historical norms once the planned use of the SRA escrow has been completed. The wholesale water purchase contracts--generally in place through the 2030s or longer--contain take-or-pay minimum amounts, paid monthly as an operating expense by each respective city, which lends further consistency to cash flow. Overall, city management has well-delineated financial management performance criteria for all its major operating funds, in our view, including for DWU, to which it holds itself strictly accountable and ensures overall financial integrity.

The 10-year capital improvement plan (CIP) through fiscal 2030 is \$3.63 billion; the FMPC and other internal practices outline a goal of limiting debt financing to 50% of the CIP. None of the identified capital commitments is associated with an unfunded regulatory mandate such as the federal Clean Water Act violations. The city has, in fact, an extraordinarily low ratio of both overflows and line breaks per mile, indicating, in our view, a strong level of

discretionary maintenance.

Reflecting our financial management assessment (FMA), we view the city to be a '1' on a scale of 1 to 6, with '1' being the strongest. An FMA of strong indicates policies are embedded and likely sustainable. Management produces and shares interim financial results throughout the year and updates its multiyear financial projections and CIP throughout the fiscal year. There are formal policies regarding liquidity and investments, and the city produces independently audited financial statements annually. The city has no direct-purchase debt or other less traditional financing obligations. We also view as supportive of consistent operational and financial performance management's long history of regular rate adjustments, which we are assuming are likely to continue after the designated reserves are exhausted. Officials review rates annually and adjust them as necessary--including during and immediately after the previous recession.

In our opinion, a credit weakness is Dallas' large pension and other postemployment benefits (OPEB) obligation. Despite significant structural changes to the pension plans, we anticipate the city's pension obligations will remain a source of pressure for Dallas, as funding has yet to meet minimum funding progress or 100% of our static funding calculation.

Dallas provides pension benefits to its employees through three separate retirement plans, although DWU only participates in the first one, with an allocable liability of \$438 million as of fiscal 2019 below:

- Employees Retirement System, 83% funded for fiscal 2018 and the city contributed \$60.5 million, or 65.8%, of its ADC;
- Dallas Police and Fire Pension System, 47% funded for fiscal 2018, which we consider weak, and the city contributed \$151.8 million, or 96% of the statutorily required contribution amount; and
- Supplemental Police and Fire Pension Plan of the City of Dallas, 53% funded and the city contributed 100% of its ADC in 2018, \$2.2 million, which we consider relatively low.

The relatively recent changes to the city's pension plans have stabilized them for the medium term, but we expect it will be several years until funding progress improves to a position we deem adequate. Uncertainty exists in the near term around plan investment return assumptions and the ability for market returns to match assumptions.

Aside from its pension benefits, Dallas provides certain OPEB for retired employees. As of Sept. 30, 2018, the plan was not funded. The city discontinued offering subsidized retiree health care for employees hired after Jan. 1, 2010. At Sept. 30, 2018, the city's OPEB liability was \$511.1 million, down from \$518.8 million the previous year. OPEB costs equaled 0.8% of the city's expenditures. Given the closed nature of the plan, we expect the city's OPEB liability will slowly decline on an annual basis.

Ratings Detail (As Of May 28, 2020)		
Dallas WS		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Dallas WS (AGM)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed

Ratings Detail (As Of May 28, 2020) (cont.)

Tarrant Regl Wtr Dist, Texas

Dallas, Texas

Tarrant Regl Wtr Dist (Dallas) wtr

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Tarrant Regl Wtr Dist (Dallas) wtr

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Many issues are enhanced by bond insurance.

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Memorandum



CITY OF DALLAS

DATE May 29, 2020

TO Honorable Mayor and Members of the City Council

SUBJECT **New Procurement Opportunities**

The Office of Procurement Services (OPS) would like to inform the City Council of the following contract opportunities that have been advertised in the last week in the *Dallas Morning News*. These opportunities are also on Bonfire, the City's electronic bid portal: <https://dallascityhall.bonfirehub.com/login>. (Free registration is required to view the opportunity in full.)

In addition, we have updated citywide opportunities for the current quarter on the OPS website: <https://dallascityhall.com/departments/procurement/Pages/Home.aspx>

Solicitation No.	Solicitation Name
1. CIZ1918	Bachman, East Side, and Elm Fork Water Treatment Plants Ozone System Improvements Project (Dallas Water Utilities)*
2. CIZ1919	Dallas Water Utilities Stormwater Operations Center At 2245 Irving Blvd. (Dallas Water Utilities)*
3. CIZ1920	48-Inch Irving and DFWIA WL Relocation (Dallas Water Utilities)*
4. CIZ1921	Western Dams Inspection and Design Services White Rock Dam Maintenance Project (Dallas Water Utilities)*
5. BD20-00013717	Communicable Disease, Drug, and Alcohol Testing
6. BI20-00013707	Sand Trap, Grease Trap, Interceptor and Septic Tank Cleaning Service
7. BJ20-00012953	Integrated Pest Management Services
8. BKZ20-00013099	External Audit Services
9. BQ20-00012931	On-site Interpreters and Translators

DATE May 29, 2020
SUBJECT **New Procurement Opportunities**

10.BY20-00013674	Sports Court Maintenance and Repair Services
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**Solicitations that begin with a "C" are for construction projects and the issuing department handles those procurements directly. OPS only advertises and unseals submissions for the construction procurements.*

Once an opportunity/solicitation is advertised, it is considered an open procurement until the City Council awards the contract. Please be advised that Section 12A-15.8(g) of the Code of Ethics prohibits communication between councilmembers and bidders or proposers on open procurements.

Should you have any questions, please contact Chhunny Chhean, Director of Procurement Services.



M. Elizabeth Reich
Chief Financial Officer

- c:
- | | |
|--|--|
| T.C. Broadnax, City Manager | Majed A. Al-Ghafry, Assistant City Manager |
| Chris Caso, City Attorney | Joey Zapata, Assistant City Manager |
| Mark Swann, City Auditor | Nadia Chandler Hardy, Assistant City Manager |
| Billierae Johnson, City Secretary | Dr. Eric A. Johnson, Chief of Economic Development and Neighborhood Services |
| Preston Robinson, Administrative Judge | Laila Alequresh, Chief Innovation Officer |
| Kimberly Bizer Tolbert, Chief of Staff to the City Manager | M. Elizabeth (Liz) Cedillo-Pereira, Chief of Equity and Inclusion |
| Jon Fortune, Assistant City Manager | Directors and Assistant Directors |