Memorandum

CITY OF DALLAS

DATE January 11, 2018

TO Honorable Members of the Government Performance & Financial Management Committee: Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson, Lee M. Kleinman, Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT **Financial Management Performance Criteria**

On Tuesday, January 16, 2018, the Office of Budget will brief the Government Performance & Financial Management Committee on the Financial Management Performance Criteria. I have attached the briefing for your review.

Please let me know if you need additional information.

M. Elizabeth Reich

M. Elizabeth Reich
Chief Financial Officer

Attachment

Honorable Mayor and Members of City Council
T.C. Broadnax, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Bilierae Johnson, City Secretary (Interim)
Daniel F. Solis, Administrative Judge
Kimberly Bizor Tolbert, Chief of Staff to the 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

Financial Management Performance Criteria

January 16, 2018

Elizabeth Reich
Chief Financial Officer

Jack Ireland, Director
Office of Budget

Janette Weedon, Assistant Director
Office of Budget

Purpose

- Continue discussion regarding revisions to Financial Management Performance Criteria (FMPC)
  - Review debt related criteria
  - Consider 3 additional criteria recommended by CM Kleinman
- Review next steps

Background

- Committee considered revisions to FMPC on Sept 5, Oct 17, and Nov 6
- City Council approved 17 changes, additions, or deletions on Dec 13
- Staff agreed to bring additional changes/additions to committee throughout FY 2017-18

City Charter – Debt Limit

Requirement	Status or Compliance
City Charter: The maximum bonded indebtedness of the city outstanding at any one time, and payable from taxation, shall not exceed 10 percent of the total assessed valuation of property shown by the last assessment roll of the city. (Chapter XXI Sec. 3)	Assessed value (net of exemptions) = \$153.4 billion Projected GO debt outstanding on 9/30/18 = \$1.8 billion GO debt as a percent of assessed property value = 1.19%

Note: City Charter is consistent with Texas Government Code, Chapter 1331, Municipal Bonds, Subchapter B, Section 1331.051 that limits total bonded debt to 10 percent of appraised value.

Existing FMPC – Debt Limit

Requirement	Status or Compliance
FMCP #17: Net (non self-supporting) General Obligation (G.O.) debt of Dallas will not exceed 4% of true market valuation of taxable property of Dallas	Market value (includes exemptions) = $155.8 billion Projected GO debt outstanding on 9/30/18 = $1.8 billion GO debt as a percent of market value = 1.17%
FMPC #18: Total direct plus overlapping debt shall be managed so as to not exceed 8% of market valuation of taxable property of Dallas.	Market value (includes exemptions) = $155.8 billion Total direct and overlapping debt = $5.0 billion Direct/overlapping debt as a percent of market value = 3.24%

Existing FMPC – Debt Limit

Requirement	Status or Compliance
FMPC #21: Annual General Obligation debt service shall not exceed 20% of total governmental fund expenditures.	Governmental fund expenditures (general, debt, special, and capital funds) = $1.8 billion FY 2017-18 annual debt service expense = $252.5 million Debt service expense as a percent of governmental fund expense = 13.87%
FMPC #22: Per capita GO Debt will be managed to not exceed 10% of the latest authoritative computation of Dallas' per capita annual personal income.	Per capita income = $31,332 Per capita GO debt = $1,339 Per capita GO debt as a percent of per capita income = 4.27%

Note: See appendix for debt related FMPC criteria.

Existing FMPC – Debt Limit

- Below table forecasts compliance with "debt limit" criteria over next five years
  - Tax base value growth is assumed
  - 2017 bond issuance schedule and annual debt payments are included
  - Only assumes issuance of debt that has been approved
- Information for future years is based on several assumptions/forecasts; and the percentages will change once actual data is available

Criteria	Summary	FY18	FY19	FY20	FY21	FY22
City Charter	10% of Assessed Value	1.19%	1.16%	1.18%	1.14%	1.15%
FMPC #17	4% of Market Value	1.17%	1.14%	1.16%	1.13%	1.13%
FMPC #18	8% of Overlapping Debt	3.24%	3.16%	3.06%	2.97%	2.87%
FMPC #21	20% of GF Expenditures	13.87%	14.80%	15.07%	15.93%	16.72%
FMPC #22	10% of Per Capita Income	4.27%	4.29%	4.27%	4.15%	4.13%

New Criteria – CM Kleinman

- 3 of 7 suggested criteria will be discussed today, with 2 remaining considered at future meeting

1. Public Safety spending cap – discussed and withdrawn at Committee on Nov 6
2. Effective tax rate criteria – approved by City Council on Dec 13
3. Debt Service Coverage Ratio: the percentage of property tax dedicated to debt service shall not exceed 20% – discuss at Committee on Jan 16
4. General obligation debt ceiling at 3 times the property tax revenue. With this policy, even authorized debt could not be sold if it exceeds the criteria. May need to adjust the multiplier – discuss at Committee on Jan 16
5. All capital projects of $100m or more will include an auditor's attestation of the procurement process when presented to council for contract approval – discuss at Committee on Jan 16
6. Early termination of unused TIF capacity once a TIF grows faster than the City at large – discuss at later date
7. No rent subsidies in TIFs or require proactive addition to a specific TIF – discuss at later date

New Criteria – Debt Service Coverage Ratio

- ***Proposed by CM Kleinman:*** Debt Service Coverage Ratio – the percentage of property tax dedicated to debt service shall not exceed 20%
- Percent of property tax rate committed to debt service currently exceeds proposed 20%

Property Tax Rate	Amount per $100 Valuation	Percent of Total
Debt Service	22.24¢	28.5%
General Fund	55.80¢	71.5%
Total Tax Rate	78.04¢	100%

- Reducing debt service tax rate to 15.61¢ (20% of total) would result in approximately $78.5m shortfall in being able to pay our debt this year

New Criteria – Debt Service Coverage Ratio

- Debt service portion of tax rate decreased from 34.2% in FY 2009-10 to 28.4% in FY 2016-17
- During early discussions about 2017 bond program, staff presented multiple scenarios including a smaller bond program and gradual reduction of tax rate required for debt service
  - Feb 2016 – reduce tax rate allocated to debt service over 5 years to 19.22¢ (25% of total tax rate) – $680m capacity
- While implementing $1.05 billion bond program, outstanding debt (principal only) will increase from $1.63 billion (9/30/17) to $2.1 billion (9/30/22)
  - Current tax rate is sufficient and required to cover debt service based on tax base growth assumptions
- ***Recommendation:*** Reconsider criteria prior to developing a future bond program

New Criteria – GO Debt Ceiling

- ***Proposed by CM Kleinman:*** General obligation debt ceiling at 3 times the property tax revenue. With this policy, even authorized debt could not be sold if it exceeds the criteria. May need to adjust the multiplier
- City is currently in compliance with proposed criteria
  - Current year property tax revenue for General Fund and Debt Service is about $901.5 million (multiplied by 3 = $2.7 billion)
  - Outstanding debt is $1.63 billion (9/30/17) and will increase to $2.1 billion (9/30/22)

New Criteria – GO Debt Ceiling

- Charter and FMPC already include criteria to address debt limits
- Existing criteria is comparable to other cities
- ***Recommendation:*** Maintain existing debt limit criteria

New Criteria – Auditor Attestation

- ***Proposed by CM Kleinman:*** All capital projects of $100 million or more will include an auditor's attestation of the procurement process when presented to council for contract approval
  - Proposed to apply to construction projects only not other City contracts
- Not many capital projects meet $100 million and over threshold
  - During FY 2016-17, there were no capital projects of $100 million or more
  - In FY 2015-16, Mill Creek project was considered for nearly $210 million
  - In FY 2007-08, East Side Water Treatment Plant was awarded for about $95 million

New Criteria – Auditor Attestation

Range	FY17	FY16	FY15	FY14	FY13
$100m - $80m	0	0	0	0	0
$79m - $50m	1	0	0	1	0
$49m - $20m	1	2	1	1	0
<$19m	30	38	13	24	50
Total	32	40	14	26	50

- City Auditor will add attestations to annual audit plan if requested to do so by Council
- ***Recommendation:*** Add attestations to City Auditor's annual audit plan or Administrative Directive 4-5

Next Steps

- Receive feedback from Government Performance and Financial Management Committee
- Provide on-going briefings to committee on additional revisions to FMPC throughout FY 2017-18

Financial Management Performance Criteria

January 16, 2018

Elizabeth Reich
Chief Financial Officer

Jack Ireland, Director
Office of Budget

Janette Weedon, Assistant Director
Office of Budget

Appendix

Debt Related Criteria

Existing Criteria – Capital and Debt

Requirement	Status or Compliance
FMPC #16: Any capital projects financed through the issuance of bonds shall be financed for a period not to exceed the expected useful life of the project. (Bonds issued for street resurfacing shall be financed for a period not to exceed 10 years.)	In Compliance
FMPC #17: Net (non self-supporting) General Obligation (G.O.) debt of Dallas will not exceed 4% of true market valuation of taxable property of Dallas.	Market value (includes exemptions) = $155.8 billion Projected GO debt outstanding on 9/30/18 = $1.8 billion GO debt as a percent of market value = 1.17%

Existing Criteria – Capital and Debt

Requirement	Status or Compliance
FMPC #18: Total direct plus overlapping debt shall be managed so as to not exceed 8% of market valuation of taxable property of Dallas.	Market value (includes exemptions) = $155.8 billion Total direct and overlapping debt = $5.0 billion Direct/overlapping debt as a percent of market value = 3.24%
FMPC #19: Interest expense incurred prior to actual operation will be capitalized only for facilities of enterprise activities.	In Compliance
FMPC #20: Average (weighted) General Obligation bond maturities (exclusive of Pension Obligation Bonds) shall be kept at or below 10 years.	In Compliance

Existing Criteria – Capital and Debt

Requirement	Status or Compliance
FMPC #21: Annual General Obligation debt service shall not exceed 20% of total governmental fund expenditures.	Governmental fund expenditures (general, debt, special, and capital funds) = $1.8 billion FY 2017-18 annual debt service expense = $252.5 million Debt service expense as a percent of governmental fund expense = 13.87%
FMPC #22: Per capita GO Debt will be managed to not exceed 10% of the latest authoritative computation of Dallas' per capita annual personal income.	Per capita income = $31,332 Per capita GO debt = $1,339 Per capita GO debt as a percent of per capita income = 4.27%

Existing Criteria – Capital and Debt

Requirement	Status or Compliance
FMPC #23: Debt may be used to finance betterments intended to extend service life of original permanent capital improvements under certain conditions.	In Compliance
FMPC #24: Interest earnings from G.O. Bonds shall be used solely to fund capital expenditures, debt service, or used to fund a reserve for capital contingencies.	In Compliance
FMPC #25: Certificates of Obligation should be used only to fund tax-supported projects previously approved by the voters; or for risk management funding as authorized by the City Council; or non-tax revenue-supported projects approved by City Council.	In Compliance

Existing Criteria – Capital and Debt

Requirement	Status or Compliance
FMPC #26: Certificates of Obligation (C.O.) Debt including that for risk management funding supported by an ad valorem tax pledge should not exceed 15% of total authorized and issued General Obligation (G.O.) Debt. ● All C.O.'s issued in lieu of revenue bonds should not exceed 10% of outstanding G.O. debt.	Projected GO debt outstanding on 9/30/18 = \$1.8 billion Projected CO debt outstanding on 9/30/18 = \$10.1 million CO debt as a percent of total debt = 0.6%
FMPC #27: Certificates of Obligation will be limited to projects consistent with Financial Management Performance Criteria for debt issuance.	Deleted 12/13/17

Existing Criteria – Capital and Debt

Requirement	Status or Compliance
FMPC #28: Certificates of Obligation for an enterprise system will be limited to only those projects, which can demonstrate the capability to support the certificate debt either through its own revenues, or another pledged source other than ad valorem taxes.	In Compliance
FMPC #29: Certificates of Obligation authorization will remain in effect for no more than five years from the date of approval by the City Council.	In Compliance
FMPC #30: Certificates of Obligation authorized for risk management funding shall be issued for a term not to exceed 20 years.	In Compliance

Existing Criteria – Capital and Debt

Requirement	Status or Compliance
FMPC #31-38: Applicable to Tax Increment Financing Zones.	N/A
FMPC #39: Advanced refunding and forward delivery refunding transactions should be considered when the net present value savings as a percentage of the par amount of refunded bonds is at least 4%.	In Compliance
FMPC #40: Each Enterprise Fund (where applicable) will maintain fully funded debt service reserves. A surety bond (or other type of credit facility such as a letter of credit) may be used in lieu of funding the reserve if the former is economically advantageous.	In Compliance