Memorandum

CITY OF DALLAS

DATE September 30, 2020

TO Honorable Mayor and Members of the City Council

SUBJECT **Kroll Bond Rating Agency Assigns 'AA+' Rating with Stable Outlook in Debut Rating of City of Dallas Debt Obligations – RATING ACTION**

I am pleased to announce the debut rating of 'AA+' from Kroll Bond Rating Agency (Kroll) in review of upcoming City of Dallas bonds. Today, Kroll assigned its 'AA+' credit rating and Stable Outlook to the anticipated General Obligation Refunding and Improvement Bonds, Series 2020A, General Obligation Refunding Bonds, Taxable Series 2020B, and Equipment Acquisition Contractual Obligation Notes, Series 2020B.

Kroll is an emerging rating agency, established in 2010, that offers market participants with in-depth research and comprehensive credit ratings for more informed decision-making and competition in credit transactions. Headquartered in New York, Kroll is actively rating several regional agencies, including the State of Texas, Dallas/Fort Worth International Airport, the cities of Austin and Fort Worth, and Dallas Area Rapid Transit (DART). The Kroll report is extensive and offers a detailed overview of the City's budget, operations, and Economic, Social, and Governance (ESG) considerations.

According to the report, Kroll states that, "the City's sound financial profile reflects disciplined, forward-looking financial management practices, healthy reserves, and ample liquidity." Kroll also lists the City's, "solid economic base, growing tax base, robust employment expansion and declining poverty levels," as credit positives. Additionally, the "Stable Outlook reflects the City's considerable budgetary flexibility and long-term favorable outlook for economic and revenue growth," noting the City, "has proven its ability to achieve budgetary balance through operating expense reductions and without the use of reserves." Kroll also notes potential credit challenges to the City considering expected elevated pension costs, revenue base fluctuations based on partial reliance on sales tax, and "property tax levy limitation, in conjunction with pandemic-related decline in sales tax revenues," that "may adversely impact expenditure flexibility."

The addition of Kroll is advantageous to the City's rating portfolio and gives the City a competitive edge when issuing debt. I look forward to continuing to work with Kroll to highlight the positive efforts of the City as we continue to provide services to citizens and stakeholders. Attached is the full Kroll report for your review.

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Please let me know if you need additional information.

Sheri Kowalski

for M. Elizabeth Reich
Chief Financial Officer

Attachment

c: T.C. Broadnax, City Manager
Chris Caso, City Attorney
Mark Swann, City Auditor
Bilierae Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizor Tolbert, Chief of Staff
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 & Neighborhood Services
Laila Alequresh, Chief Innovation Officer
M. Elizabeth (Liz) Cedillo-Pereira, Chief of Equity and Inclusion
Directors and Assistant Directors

City of Dallas, Texas

Issuer: City of Dallas, Texas		
Assigned	**Rating**	**Outlook**
General Obligation Refunding and Improvement Bonds, Series 2020	AA+	Stable
General Obligation Refunding Bonds, Taxable Series 2020	AA+	Stable
Equipment Acquisition Contractual Obligations, Series 2020	AA+	Stable

Methodology:

U.S. Local Government GO Methodology

Analytical Contacts:

Linda Vanderperre, Senior Director
(646) 731-2482
lvanderperre@kbra.com

Peter Scherer, Associate
(646) 731-2325
pscherer@kbra.com

Jozelle Cox, Analyst
(646) 731-1227
jcox@kbra.com

Rating Summary: KBRA assigns a AA+ rating with a Stable Outlook to the City's General Obligation Refunding and Improvement Bonds, Series 2020, General Obligation Refunding Bonds, Taxable Series 2020, and Equipment Acquisition Contractual Obligations, Series 2020 (collectively, the Obligations). The Obligations are secured by a pledge of an annual ad valorem tax levied on all taxable property within the City. Proceeds of the three series will refund outstanding debt and commercial paper, and finance capital improvements and the purchase of equipment.

The City's sound financial profile reflects disciplined, forward-looking financial management practices, healthy reserves, and ample liquidity. As a regional hub for technology, healthcare, finance and tourism, Dallas is among the nation's top-ranked cities for economic growth, with robust employment expansion and declining poverty levels.

The State Constitution and the City charter limit the ad valorem tax rate to $2.50 per $100 of taxable assessed valuation for all purposes, including payment of debt service. The State Attorney General will not approve debt if, based on then current taxable property values, more than $1.50 of the maximum $2.50 is required for aggregate general obligation debt service, inclusive of the bonds being proposed.

In addition to the constitutionally imposed absolute ad valorem tax rate limit, the Texas Property Tax Reform and Transparency Act of 2019 (SB2) caps the City's ability to grow property tax revenue at 3.5% without voter approval. The effective date of the legislation is January 1, 2020; thus FY 2021 will be the first year impacted by the 3.5% cap. Revenue to pay voter approved debt is excluded from the cap, as is revenue growth from new construction. In KBRA's opinion, the City's ability to operate within a more constrained property tax revenue framework should be tenable, although the combination of pandemic related revenue declines and the property tax cap could pressure financial flexibility in the near-term. Any impact of the economic recession on property values will be felt in FY 2022, since FY 2021 property assessments were performed prior to the pandemic's outbreak.

The pandemic has resulted sharp declines in most revenue sources, with the exception of property taxes. FYE 2020 General Fund revenues are forecast to be $38.7 million below the amended budget, due primarily to an anticipated $16.3 million decline in City Sales Tax receipts.

Measures taken to control costs in response to the pandemic include a furlough of approximately 500 non-essential employees, a hiring freeze on non-essential workers, curtailment of non-essential spending, deferral of capital projects and the evaluation of cash transfers. As a result of these and other expenditure control efforts, as well as the reimbursement to the General Fund of approximately $36 million from a portion of the $234 million in CARES Act funding received by the City, FYE 2020 (September 30) General Fund expenditures are projected to be $69.3 million under budget. The City has requested an extension of the CARES spending deadline. The City set aside $24.5 million in a fiscal stability fund which it plans to access over the next two years.

The City's sizable tax-base and strong financial position help to mitigate the burden posed by its pension liabilities, in KBRA's view. Recent pension reforms have eliminated the prospect of the Police and Fire pension plan's insolvency, increased contributions, altered benefits, and reduced the City's reported Net Pension Liability. Pension costs are expected to remain elevated, but overall fixed costs are affordable, especially given the City's practice of rapid direct debt amortization. In the context of its otherwise conservative fiscal controls, strong reserves, and substantial tax base, KBRA does not view the City's plan for pension funding, which projects a long ramp-up to full funding, as reflective of credit weakness.

The Stable Outlook reflects the City's considerable budgetary flexibility and long-term favorable outlook for economic and revenue growth. While the forecast decline in City Sales Tax revenue combined with the impact of the property tax cap may contribute to expenditure pressures in the near-term, the City has proven its ability to achieve budgetary balance through operating expense reductions and without the use of reserves. Fixed costs are expected to remain moderately elevated but affordable, given recent pension reforms.

Key Credit Considerations

KBRA continues to monitor the direct and indirect impacts of the COVID-19 virus. Click **here** to access KBRA's ongoing research on the topic.

The rating was assigned because of the following key credit considerations:

Credit Positives
- Strong financial profile, reflecting fiscally conservative financial management practices, strong reserves, and healthy liquidity.
- Solid economic base, growing tax base, robust employment expansion and declining poverty levels.

Credit Challenges
- Property tax levy limitation, in conjunction with pandemic-related decline in sales tax revenues, may adversely impact expenditure flexibility.
- Partial reliance on sales tax for operations exposes revenue base to economic fluctuation.
- Pension costs are expected to remain elevated.

Rating Sensitivities

• Ability to adapt to the new property tax limitation without significant impact on operations would be viewed positively.	+
• Deviation from the City's practice of conservative budgeting would increase credit risk.	-

ESG Considerations

When relevant to credit, ESG factors are incorporated into the credit analysis in the same manner as all other credit-relevant factors. Among the ESG factors that have impact on this rating analysis are:

- Discussions in RD 1 reflect Governance Factors. KBRA has examined the following areas for this credit: the statutory framework that the City operates within, reserve policies, and budgetary oversight and monitoring.
- Discussions in RD 1 and RD 4 reflect Social Factors. KBRA has examined the following areas for this credit: cybersecurity risks, climate risks, risk management, trends in population, education, income, poverty levels, employment, unemployment, and the potential impact of the COVID-19 crisis.

More information on ESG Considerations for the Public Finance sector can be found **here**.

Key Ratios	
Population Growth 2010 to 2019	
City	11.7%
State	14.8%
United States	6.1%
Top 10 Taxpayers as a % of Total Assessed Value	4.15%
Assessed Value 10-Yr CAGR Through FY 2020	4.8%
Unassigned General Fund Balance as % of Expenditures at FYE 2019	18.3%
Direct and Overlapping Debt as a % of Full Market Value in FY 2020	2.9%
Direct Debt Amortized Within 10 Years	71%
Fixed Costs as a % of Governmental Expenditures in FY 2019	25.5%

Rating Determinants (RD)	
1. Management Structure and Policies	AAA
2. Debt and Additional Continuing Obligations	AA
3. Financial Performance and Liquidity Position	AAA
4. Municipal Resource Base	AA+

RD 1: Management Structure and Policies

KBRA views the City's fiscal management structure as very strong. Detailed Financial Management Performance Criteria (FMPC) provide a policy framework for fiscal decision making and are an important contributor to the strong governance profile. A comprehensive budget process, two-year balanced budget requirement, active financial monitoring, defined reserve policies, and five-year revenue and expenditure projections are some of the hallmarks of the City's strong management practices. The City's municipal services include public safety, highways and streets, solid waste, public health, public works, recreation, municipal airports, and water and wastewater systems.

City Organization, Management Experience and Track Record

The City operates under a Council/Manager form of government, with the Mayor elected for a four-year term and fourteen Council members elected for two-year terms. The Mayor and Council appoint the City Manager, as well as the City Attorney, City Secretary, City Treasurer, City Auditor and the municipal court judges. The City benefits from the broad depth and experience of its leadership team. The City Manager, T.C. Broadnax, is the chief administrative officer, and oversees City operations with an executive team of assistant city managers, each responsible for various departments. Mr. Broadnax was appointed in early 2017, having previously been the city manager in Tacoma, WA. The City's Chief Financial officer, Elizabeth Reich, was appointed in September 2016. The City has approximately 12,500 full-time employees. The legal entity of the City includes the Dallas Water Utilities, Municipal Airports (Dallas Love Field and Dallas Executive Airport), the Convention Center, Municipal Radio and several other enterprise and internal service funds.

State Statutory Framework

Property Taxes

Property taxes are levied on net assessed value, which includes locally assessed real property improvements, and personal property, less exemptions. The State Constitution and the City charter limit the ad valorem tax rate to $2.50 per $100 of taxable assessed valuation for all purposes, including payment of debt service. The State Attorney General will not approve debt if, based on then current taxable property values, more than $1.50 of the maximum $2.50 is required for aggregate general obligation debt service, inclusive of the bonds being proposed.

In addition, the Texas Property Tax Reform and Transparency Act of 2019 (SB2) caps the City's ability to grow property tax revenue at 3.5% (instead of the previous cap of 8%) without voter approval. Revenue to pay voter approved debt is excluded from the cap, as is revenue growth from new construction. The effective date of the legislation is January 1, 2020; thus FY 2021 will be the first year impacted by the 3.5% cap. Dallas County bills and collects taxes for the City pursuant to a contract. In KBRA's opinion, notwithstanding the impact of COVID-19 on the City's economically sensitive revenues, the City's ability to operate within a more constrained property tax revenue framework should be tenable given its disciplined budgeting practices, sound reserves, and our expectation for continued revenue growth as the impacts of the pandemic abate.

All property is required by the Property Tax Code to be reappraised at least once every three years. The appraisal of City property is the responsibility of the central appraisal districts of Dallas, Collin, Denton, Rockwall, and Kaufman counties (collectively, the "Appraisal District") for City property located within such counties. State law limits the appraised value to the lesser of i) the market value of the property or ii) 110% of the appraised value for the preceding tax year plus the market value of all new improvements (the 10% Homestead Cap). Additionally, the City grants an exemption of 20% of the market value of residence homesteads, as well as an additional exemption for persons 65 years of age or older or disabled (Local Option Homestead Exemptions).In FY 2019, all partial and total exemptions reduced City revenue by approximately $280 million.

Approximately $149.5 million of property value was exempted for historic sites and structures in FY 2019. Additionally, the City has 19 active tax increment zones. Ad valorem taxes generated from approximately $10.8 million of property value are dedicated to the tax increment zones and thus not pledged to general obligation debt.

Taxes are due October 1 and become delinquent after January 31 of the following year[1]. Delinquencies incur a penalty of 6% of the amount of the tax for the first calendar month of delinquency, plus 1% for each additional month thereafter. If not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of 12% and an additional penalty of up to 20% if imposed by the City. The City is responsible for the collection of its taxes.

City Sales Tax

The State sales tax rate totals 8.25%, with 6.25% being the State's share and 2% representing the local share. Pursuant to the Municipal Sales and Use Tax Act, Texas Tax Code, Ch. 321, the City levies a 1% Local Sales and Use Tax within the City (the "City Sales Tax"), with proceeds credited to the General Fund and not pledged to the payment of the Obligations. An additional 1% of the sales tax is dedicated to **Dallas Area Rapid Transit** (DART) (AAA/Stable), a regional transportation authority.

Debt Limits

The City has ample debt capacity. The City Charter limits bonded debt payable from ad valorem taxes to 10% of assessed property value; additionally, the City's FMPC limits net GO debt to 4% of market value. The City's total bonded ad valorem debt, inclusive of the Obligations, is 3.9% of full market value.

Financial Management Policies and Procedures

The City's strong fiscal management and control practices are supported by the FMPC, a comprehensive financial framework adopted by the City Council in 1978. Pursuant to the FMPC, the City will maintain an unassigned General Fund balance, which includes the Emergency and Contingency Reserves, at a level not less than 40 days of General Fund expenditures, less debt service. The FY 2021 Emergency Reserve is budgeted at $35 million, which is unchanged since at least FY 2019 and is sized, in part, to withstand a 5% decline in property values. Use of the Emergency Reserve requires a super majority of City Council. The FMPC also requires projections of revenues and expenditures for five years beyond the current year, for the General Fund and each of the enterprise funds.

Notably, the City's budget provides a detailed description of the financial management performance criteria and the status of compliance. Financial status is reported to the City Council's Government Performance and Financial Management (GPFM) committee each month in the Budget Accountability Report (BAR), which provides a financial forecast for the General Fund and other funds. The BAR forecasts and explains variances in major revenues and expenditures and includes bonding authorizations and the status of spending by proposition. Additionally, the BAR includes a Budget Initiative Tracker section, detailing budgetary initiatives and their status. KBRA views as positive policies that allow the flexibility for mid-year, or more frequent, budget adjustments.

Budget Process

The City's fiscal year begins October 1 and ends on September 30. State law requires that the City adopt a balanced budget. The City Manager initiated the presentation of biennial budgets in FY 2017-2018. The annual budget process begins in the Spring of the preceding year, and includes the Council establishing goals for the executive staff. In compliance with the City Charter, the City Manager must submit to the City Council a recommended balanced budget for the General Fund, debt service fund, and proprietary funds, on or before August 15th of each year. A budget is required to be adopted by the City Council and a tax rate established by September 30. The City Manager may reallocate funds within a department. Dallas 365, a budgetary document organized according to the City's strategic priorities, provides transparency and accountability regarding specific programs and services.

Labor Relations

Police and fire employees receive salary increases in accordance with an agreement reached under meet and confer negotiations, not collective bargaining. Pursuant to state statute, police and fire sworn employees meet with management under the State's Meet and Confer Law to discuss wages, benefits and other working conditions. Police and fire officers may not engage in strikes.

The City recently settled two large lawsuits concerning pay. In FY 2018, $62 million of GO bond proceeds and bond premium were utilized for the settlement of a lawsuit for pay of uniformed police officers. In addition, in January 2019 the courts gave final approval to a $173 million settlement announced in 2018, related to police and fire pay that date as far back as the 1980s. The City again used GO bond proceeds to settle legal claims. The FY 2021 Budget assumes a total sworn police force of 3,095 by the end of FY 2021. The City plans to maintain the starting pay of a police officer/firefighter at $61,367 and has budgeted $4.6 million in FY 2021 for police and fire step/grade increases.

[1] Taxpayers 65 years old or older are permitted by State law to pay taxes without penalty and interest in four installments, with the first due on January 31 and the final on July 31.

Environmental, Social and Governance (ESG) Risks
The City has taken proactive steps to protect and secure its information technology and infrastructure, including controls of digital information operations, authentication enhancements and additional measures.

Matters relating to climate risk are under the purview of the Assistant City Manager and Chief Resiliency Officer. The City's Office of Environmental Quality and Sustainability initiated a Comprehensive Environmental and Climate Action Plan adopted in May 2020. The City Council adopted a Green Energy Policy in 2019.

The City self-funds employee health insurance, most tort liability exposures, and certain workers' compensation claims (including those which occurred prior to 1999 and individual claims below $1.5 million). The City uses commercial insurance where required and to insure city property (subject to a $750 thousand deductible per loss occurrence), as well as for workers compensation losses in excess of $1.5 million per occurrence.

RD 2: Debt and Additional Continuing Obligations

KBRA views the City's debt and continuing obligations as moderate. The City's significant use of pay-go financing, practice of rapid debt repayment and management of other continuing obligations have moderated growth in long-term liabilities, though adequacy of pension funding remains an area of focus.

Overall Direct and Overlapping Debt

Direct debt consists entirely of limited tax general obligation bonds and notes, of which an estimated $2.06 billion will be outstanding upon issuance of the currently offered bonds.

The City's direct debt burden includes $163.5 million in general obligation commercial paper notes which were issued under a $350 million commercial paper program approved by the City in October 2017. The program authorization requires maintenance of credit agreements sufficient to pay all amounts payable under the program. This requirement is currently met with a revolving line of credit with JPMorgan Chase Bank, National Association which will mature November 27, 2020, unless extended. The City is presently reviewing options for extension and substitution of the credit agreement.

Figure 1

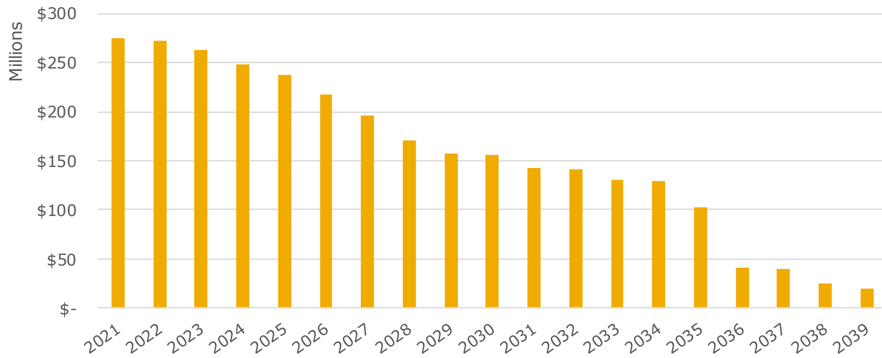
Direct Debt Outstanding (dollars in thousands)	
Direct Debt Type	9/30/2020
GO Bonds	$ 1,737,095
GO Pension Bonds	155,660
Equipment Acquisition Note	29,665
Combined Tax and Revenue Certificates of Obligation	21,200
GO Commerical Paper Notes	163,500
Total Direct Debt	**2,107,120**

Source: City of Dallas

All long-term debt is fixed rate and the City has no exposure to interest rate derivatives. Debt service requirements are descending more than 71% of principal set to amortize over the next decade and maximum annual debt service (MADS) of $275 million achieved in FY 2021.

FIGURE 2

Pro Forma Debt Service
FYE September 30



Source: Official Statement dated 7/2/2020, POS and Preliminary Cashflow Estimates

The City's overall direct and indirect debt burden, which incorporates borrowings of overlapping local government jurisdictions, is moderate at $4,040 per capita or 2.9% of the full market value of taxable property. Debt service comprised an elevated but manageable 14.4% of governmental expenditures in FY 2019.

Figure 3

Debt Ratios	
KBRA Metric	Ratio
Overall Direct and Indirect Debt	
Per Capita	$4,040
as a % of Full Market Value	2.9%
Debt Amortization	
Within 10 Years	71%
Within 20 Years	100%
Debt Service as a % of Governmental Expenditures	14.4%

Source: POS and FY 2021 Proposed Budget

Pursuant to the City Charter, the maximum bonded indebtedness of the City outstanding at any one time and payable from taxation is limited to 10% of assessed valuation. However, the FMPC limits the net GO debt to 4% of true market valuation of taxable property. Estimated outstanding indebtedness (inclusive of both principal and interest) as of September 30, 2020 equaled approximately 2.2% of assessed value and 1.5% of the market value of taxable property. The FMPC debt management criteria set forth various debt metrics to ensure that the amount and term of GO and Contractual Obligation debt is in keeping with financial resources. The City expects to be incompliance with these metrics in FY 2020 and FY 2021.

Capital Improvement Plan

The City maintains a comprehensive multi-year capital planning process. Each year a revised CIP is compiled with one budget year plus two additional planned out-years. Also contained in the plan is budgeted spending for routine operation, repair, and maintenance costs that must be incorporated into the operating budget.

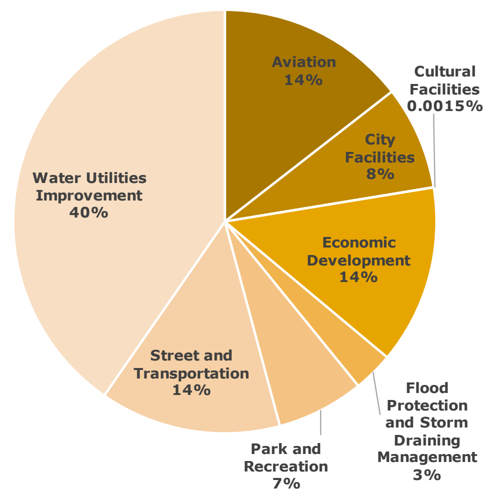
The City's proposed FY 2021 capital plan totals $869 million including $394 million for general purpose capital improvements and $475 million for enterprise funds capital improvements (Figure 4).

CIP Funding Sources

In 2017, voters approved a $1.05 billion general obligation bond referendum for capital projects (the 2017 Bond Program). The authorization will be utilized through FY 2023 to satisfy general purpose bond funding needs for the CIP. The City has issued $291.5 million of this GO authorization to date and expects to issue an additional $178.0 million during each of FY 2021 and FY 2022. The City intends to continue its practice of initially funding projects with commercial paper, and subsequently refunding the CP with GO bonds. Approximately $163.5 million of commercial paper issued pursuant to the authorization is expected to be paid at maturity from proceeds of a portion of the Obligations.

Figure 4

Capital Improvement Program Proposed FY 2021



Source: FY 2021 Proposed Budget

Reflective of the City's financial flexibility , in FY 2019, the City transferred $46.7 million from the General Fund to the Capital Projects Fund, of which $43.9 million funded Capital Improvement Plan projects on a pay-go basis, and $2.8 million was used for pay-go funding of city-wide capital projects.

Local Government Pension Obligation

The City participates in three single employer defined benefit pension plans. The Employees' Retirement Fund (ERF), Dallas Police and Fire System Combined Plan (Combined Plan) and the Dallas Police and Fire System Combined Plan Supplemental Plan (Supplemental Plan). The funding progress of the ERF and Combined Plan, as measured by the ratio of fiduciary net position to total pension liability, is weak at 59.2% and 45.4%, respectively. However, unfunded liabilities and annual contribution requirements remain manageable and are lower than those of some other large cities. City contributions and funding progress as presented in the FY 2019 CAFR are summarized in Figure 5.

Figure 5

Pension Funding Status and Annual Contributions
FYE September 30 (dollars in millions)

	As of December 31, 2018 Measurement Date[1]				FY 2019		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability (NPL)	Fiduciary Net Position as a % of Total Pension Liability	Actual Contribution	Actuarially Determined Contribution (ADC)	Actual Contribution as a % of ADC
Employees' Retirement Fund (ERF)	$ 5,548	$ 3,282	$ 2,266	59.2%	$ 62	$ 86	72.7%
Dallas Police and Fire System Combined Plan (Combined Plan)	4,502	2,042	2,460	45.4%	152	157	96.5%
Dallas Police and Fire System Supplemental Plan (Supplemental Plan)	32	18	14	57.5%	2	2	100.0%
Total	**10,081**	**5,343**	**4,739**		**216**	**245**	**88.2%**

Source: CAFR

[1]As presented in FY 2019 CAFR.

<u>Employees' Retirement Fund (ERF)</u>

The Employees' Retirement Fund (ERF) covers civilian employees. The ERF had 16,498 members and beneficiaries as of December 31, 2019. ERF Plan provisions are established pursuant to City Code, and amendments may only be made by ordinance approved by the Board, adopted by the City Council, and approved by a majority of the voters voting at a general or special election. Voters approved a new benefit tier for municipal employees hired after December 31, 2016. The new tier increased the normal retirement age, thus lowering the fund's normal cost and future liabilities. ERF consists of Tier A (hired before January 1, 2017) and Tier B members. A COLA is provided to both tiers based on the CPI, not to exceed 5% for Tier A and 3% for Tier B members. In 2005 the City issued pension obligation bonds (POBs) for the ERF, and subsequently issued Series 2010 POB refunding bonds. An estimated $156 million of such obligations are outstanding as of September 30, 2020.

Contributions to the ERF below the ADC reflect provisions of City Code that (i) limit the combined employee and employer annual contribution to 36% of covered payroll, (ii) limit the maximum increase or decrease from one year to the next to 10%, and (iii) allow for adjustment of the contribution rate only if the actuarial valuation develops a rate which differs from the prior rate by more than 300 basis points. The total FY 2019 contribution (City contribution at 22.68% of covered payroll and employee contribution at 13.32%) was equivalent to the maximum allowed 36% of covered payroll, resulting in a contribution below the ADC. Of the 22.68% of payroll contributed by the City, 14.39% was paid to the plan and 8.29% was used to pay debt service on outstanding pension obligation bonds. Because contributions fall short of the ADC, the above actuarial valuation is based on a blended 5.98% discount rate based on the expected 7.75% rate of return on assets and the municipal bond rate of 3.71%.

Dallas Police and Fire System Combined Plan (Combined Plan)
The Dallas Police and Fire Pension System (DPFPS), a contributory defined benefit plan covering 10,161 members and beneficiaries as of December 31, 2019, experienced a funding crisis in 2015 and was expected to become insolvent in less than 10 years when the State Legislature intervened in 2017[2]. On May 31, 2017, House Bill 3158 was enacted, affecting the Police and Fire System Combined and Supplemental Plans. Amendments to State statutory provisions effective September 1, 2017 per HB 3158 created a path to 100% funding of DPFPS over 38 years by reducing benefits and increasing the annual contribution. It also restructured the Deferred Retirement Option Plan (DROP), imposed various governance changes, and modified the investment program. KBRA notes that the Combined Plan NPL decreased by $3.9 billion at December 31, 2017 as a result of higher contributions and changed benefits that were part of HB 3158. Due to these changes the plan was no longer on a path to insolvency, and thus a higher discount rate (7.25% versus the previous blended rate of 4.12%), was used to calculate the total pension liability. This dramatic change in NPL in one year presents a cautionary note about over weighting of a single ratio in credit analysis without important context.

HB 3158 requires the City to make a minimum annual contribution equal to 34.5% of computation pay or a hard-wired amount set forth in the bill based on certain hiring assumptions, with a floor for seven years, plus $13 million per year until the end of 2024. Beginning in 2025, the floor disappears, and the City is expected to contribute only computational pay, the amount of which may vary from actual payroll in 2025 and beyond. Employee contributions rates per the law increased from 4% for those participating in DROP (8.5% for those not participating in drop) to 13.5% of computation pay. COLAs were eliminated and can only be restored once the plan achieves a funded level of 70%, and deferred retirement option plan (DROP) benefits were also reduced. Under the reforms, the Mayor appoints 6 of the 11 pension board trustees, and the new Chairman of the Board is a retired executive from an asset management company.

Given the large number of current members who have accrued benefits at the higher pre-HB 3158 levels, the actuary expects that actuarial funding progress will not begin to increase for 12 years, even if all assumptions are met. The plan's actuary estimates, as of the January 1, 2019 actuarial report, that based on the funding policy adopted by the State in HB 3158 and the City's payroll projections, the Combined Plan will reach full funding in 2057, six years earlier than had been estimated in the prior year's actuarial report. Because implemented reforms place the plan on track for full funding, the above actuarial valuation is based on a 7.25% discount rate, which is the same as the assumed rate of return on assets. The pension board is monitoring the City's payroll projections and is required to adopt further reforms, including additional funding from the City, if funding guidelines are not met in 2024.

Total Pension Costs
In FY 2019, the City contributed $216 million toward pension, which was equivalent 88.2% of the actuarially determined contribution (ADC). The total net pension liability (NPL) across the three plans is low at 2.8% of the market value of property or $3,527 per capita. Actual contributions increased from 8.2% of governmental expenditures in FY 2010 to 10.2% in FY 2019.

Other Post-Employment Benefits (OPEB)
The City provides post-retirement healthcare benefits to approximately 9,700 participants and overall OPEB costs are moderate. Employees hired after January 1, 2010 are not eligible for City subsidized retirement healthcare benefits, thus the long-term cost trajectory is contained. For pre-Medicare retirees who qualify to participate in the plan, the retiree contributes 50% of premiums. Spouses of retirees pay 100% of premiums. The net OPEB liability reported in the City's FY 2019 CAFR was $565 million. Because OPEB liabilities are not prefunded, all future liabilities are discounted at the 20-year tax-exempt municipal bond rate of 2.75%.

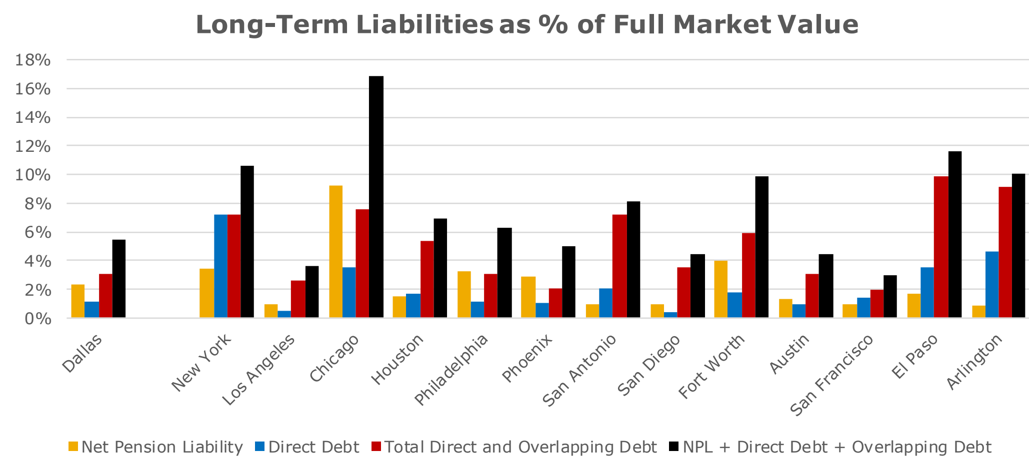
[2] Combined Plan provisions per State statute may only be amended by the state legislature.

In FY 2019, the City's benefit payments for retiree healthcare totaled $19.5 million, which represents a low 0.9% of governmental fund expenditures.

Fixed Costs

The City's fixed cost burden in FY 2019 inclusive of contributions for pension contributions ($216 million), OPEB ($19.5 million), and annual debt service ($306 million) was $542 million, which was equivalent to an elevated 25.5% of governmental expenditures. As shown below, despite the City's high fixed costs, long-term liabilities are comparable to many large cities across Texas and the U.S.

Figure 6



Source: FY 2019 CAFRs

Considering the City's favorable income and wealth levels as well as its rapidly declining debt service profile, pension obligations, while elevated, are manageable in KBRA's view.

RD 3: Financial Performance and Liquidity Position

The City's financial operations reflect a trend of healthy operating surpluses and strong General Fund reserves with only modest sensitivity to recessionary impacts. The primary General Fund revenue sources are property taxes and sales taxes, accounting for 57% and 22% of FY 2020 revenues, respectively. In addition to the General Fund, other sizable components of governmental operations are the debt service fund, internal service fund and the water utilities fund.

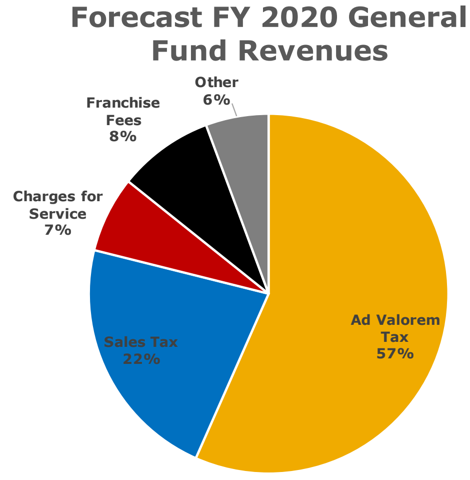
Recent State legislation caps property tax base revenue growth (absent voter approval) beginning in FY 2021 and is likely to constrain future expenditure growth.

The General Fund is the City's primary operating fund and the focus of KBRA's financial performance analysis. The City budgets on a cash basis of Generally Accepted Accounting Principles (GAAP) and the budget document is a complete financial plan for all City funds. The City Manager may transfer budgeted amounts within a department, while revisions altering total appropriations require City Council approval.

General Fund Revenues

The two-primary General Fund revenue sources are property taxes and sales taxes. Other General Fund revenues include fines and forfeitures, operating transfers in, intergovernmental transfers, licenses and permits, interest and miscellaneous revenue.

Figure 7



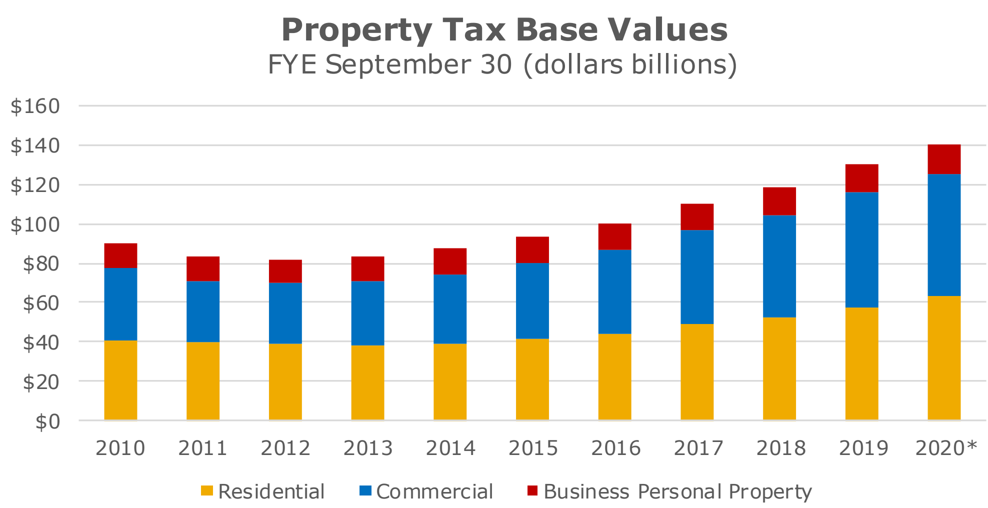
Source: City of Dallas

<u>Property Tax</u>

Property tax values have demonstrated vibrant growth with modest recessionary impacts. Taxable assessed values for FY 2020 were up 7.8% from the prior fiscal year.

From FY 2008 to FY 2020 the average annual growth in the City's property tax base values was 4.4%. The tax base experienced three years of decline (FY 2010- FY 2012) during the last recession with a peak to trough decline of 9.4%, followed by nine consecutive years of strong growth, up 71% from its 2012 post-recession trough. While future year assumptions reflect a conservative growth rate of 3.5%, certified rolls show FY 2021 property tax growth of over 5% although new construction value declined year-over-year by 6.4%. Reduced building permit counts and values suggest a potential slowdown in new construction commercial values.

Figure 8



Source: POS and CAFRs
*Unaudited

The Texas Property Tax Reform and Transparency Act of 2019 (SB2) caps the City's ability to grow property tax revenue at 3.5% (instead of the previous cap of 8%) without seeking voter approval. Revenue to pay voter approved debt is excluded from the cap, as is revenue growth from new construction. Exceeding the 3.5% cap requires voter approval in the November uniform election date. The effective date of the legislation is January 1, 2020 (impacting FY 2021). In FY 2020 the levy increase for existing properties was 3.7%. Had SB2 been in effect for FY 2020, approximately $2.8 million in expenditure reductions would have been required to balance the budget.

Property values in the City's 19 active Tax Increment Financing Zones (TIRZ) have increased dramatically in recent years. As of FY 2019, over 46,500 new residential units were completed, under construction or planned in the various TIRZ.

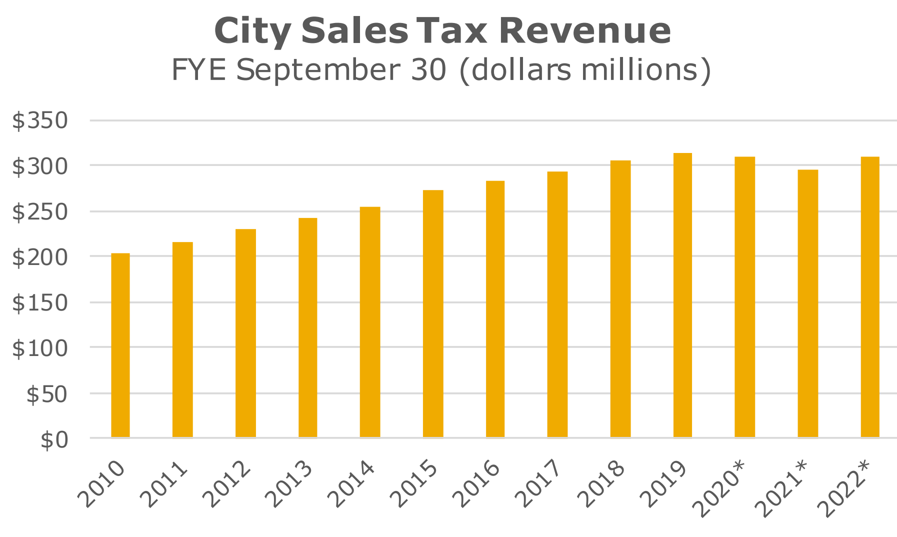
City Sales Tax

The City Sales Tax is collected by the State and remitted monthly. City Sales Tax revenues comprise 22% of FY 2020 budgeted General Fund revenues. The City Sales Tax does not apply to motor vehicle sales or motor fuel sales, which somewhat moderates the inherent volatility of the revenue stream, in KBRA's view.

From FY 1985 to FY 2020, the average annual growth in City Sales Tax revenue was a strong 3.6%. During the last recession, collections dipped in FY 2009 and in FY 2010, with the peak to trough decline a moderate 11%. In each year since FY 2010, actual sales collections have outperformed budget.

City Sales Tax receipts for FY 2020 showed continued strong growth prior to business closures associated with the outbreak of the pandemic in March. Forecast FY 2020 sales tax revenues of $309.3 million are 1.3% below FY 2019 actuals as a result of the pandemic, and 5% below budget. Sales tax revenue is projected to decline a further 4.2% in FY 2021 to $296 million before recovering to forecast FY 2020 levels by FY 2022. Actual collections for June and July of 2020 are above revised forecast levels.

Figure 9



Source: City of Dallas
*Projected

FY 2019 Audited Financial Results

Unassigned General Fund balance levels have consistently met or exceeded the City's required minimum fund balance policy. As of FYE 2019 the City recorded a $40.9 million increase in the General Fund balance, bringing it to $297.2 million and continuing a trend of exceptional growth in reserves (CAGR of 10.4% from 2015 through 2019).

The unassigned portion of the General Fund balance grew to $234.3 million, or 18.3% of General Fund expenditures which KBRA views as strong (Figure 10). FY 2019 General Fund revenue growth was 5.2%, relative to 3.6% expenditure growth, thus increasing the operating surplus from the prior year.

The City budgets conservatively and the FY 2019 results reflect favorable variances to budget on both revenues and expenditures. Actual budgetary basis revenues and transfers-in were higher by $8.9 million (0.7% of budget), primarily due to favorable performance in City Sales Tax, franchise revenues and investment income. Actual budgetary expenditures and transfers out were less than budget by $23.9 million (1.7% of budget), reflecting overall cost savings.

FIGURE 10

General Fund Summary Statement of Income and Balance Sheet FYE September 30 (Audited GAAP Basis) (dollars in thousands)	2015	2016	2017	2018	2019
Statement of Income					
Revenues					
Ad Valorem Tax	499,734	534,289	578,032	611,133	677,607
Sales Tax	275,250	285,669	295,361	307,149	320,413
Franchise Fees	132,719	135,098	138,998	146,209	135,697
Services to Others	194,734	109,736	126,498	122,924	109,491
Other	47,780	56,347	53,972	58,063	67,600
Total Revenues	1,150,217	1,121,139	1,192,861	1,245,478	1,310,808
Expenditures					
Public Safety	672,971	688,943	712,990	736,879	774,182
General Government	186,082	101,376	121,279	144,161	167,958
Culture and Recreation	121,442	128,089	136,984	143,813	141,594
Other	158,272	204,302	188,791	210,790	196,919
Total Expenditures	1,138,767	1,122,710	1,160,044	1,235,643	1,280,653
Excess (Deficiency) of Revenues Over (Under) Expenditures	11,450	(1,571)	32,817	9,835	30,155
Other Financing Sources (Uses)	7,978	6,432	11,316	11,255	10,745
Net Change in Fund Balance	**19,428**	**4,861**	**44,133**	**21,090**	**40,900**
Beginning Fund Balance	180,674	200,102	191,031	235,164	256,254
Restatement	-	(13,932)	-	-	-
Beginning Fund Balance After Restatement	180,674	186,170	191,031	235,164	256,254
Ending Fund Balance	**200,102**	**191,031**	**235,164**	**256,254**	**297,154**
Balance Sheet					
Assets					
Cash and Cash Equivalents	185,354	177,790	203,452	216,346	277,654
Receivables	116,978	113,905	142,490	142,466	119,530
Other	14,658	14,731	15,514	16,384	30,643
Total Assets	316,990	306,426	361,456	375,196	427,827
Liabilities					
Accrued Payroll	28,783	20,250	21,273	23,633	28,339
Accounts Payable	37,955	31,811	35,339	32,985	35,684
Other	19,251	22,112	20,648	12,680	13,416
Total Liabilities	85,989	74,173	77,260	69,298	77,439
Deferred Inflows of Resources		41,222	49,032	49,644	53,234
Fund Balance					
Nonspendable	9,894	10,659	11,143	11,227	13,385
Restricted	8,485	9,593	12,061	10,244	11,185
Committed	10,570	1,250	1,250	1,250	1,250
Assigned	29,603	15,836	38,963	20,727	37,109
Unassigned	141,550	153,693	171,747	212,806	234,225
Total Fund Balance	**200,102**	**191,031**	**235,164**	**256,254**	**297,154**
Unassigned Fund Balance as a % of Expenditures	12.4%	13.7%	14.8%	17.2%	18.3%

Source: CAFRs

FY 2020 Operations

The $1.44 billion FY 2020 General Fund budget reflected a General Fund spending increase of 4.4% over the prior year budget. The FY 2020 General Fund budget was amended for mid-year appropriation adjustments to $1.429 billion on June 10, 2020.

General Fund revenues were trending below the FY 2020 amended budget as of the July 31, 2020 Financial Forecast Report by $38.7 million, driven mainly by sales tax revenues which were forecast to be $16.3 million under budget and charges for service revenues which were also forecast to be $16.3 million under budget.

As a result of cost containment measures including a hiring freeze and the extended furlough of nearly 390 municipal employees (primarily impacting the parks, libraries and cultural departments), FY 2020 General Fund expenditures were trending $69.3 million below the amended budget as of the July 31 report. Expenditures were offset primarily by $36 million of CARES Act reimbursements used to pay for COVID-19 related expenses incurred within the General Fund.

The City projects an ending FY 2020 unassigned General Fund balance of $266.4 million, approximately 21% above the FY 2020 amended budget ending fund balance level, and 13.7% above the FY 2019 unassigned ending balance of $234.2 million. The City does not expect to use reserves in FY 2020 or for the next two fiscal years of the biennial budget.

FY 2021 Budget Overview

The City Council adopted the FY 2021 balanced budget on September 23, 2020. The FY 2021 General Fund budget is $1.437 billion, flat to the original FY 2020 budget and up 5% from the amended FY 2020 budget. It forecasts an increase in property tax revenue of $55.5 million or 5.10% versus FY 2020. Approximately 49.8% of this increment is attributable to new property additions to the tax roll in FY 2020. The tax rate for FY 2021 is $0.07763 cents per $100 assessed valuation, a reduction of 3/1,000th of a cent from the FY 2020 tax rate.

The FY 2021 budget addressed a projected revenue gap of $62 million attributable largely to the pandemic-related decline in City Sales Tax revenue. The FY 2021 and FY 2022 budgets anticipate maintenance of the unassigned General Fund balance, which includes the Emergency and Contingency Reserves and residual reserves, at $236 million, or 60 DCOH. However, outyear gaps are projected after FY 2022.

Reflecting legislative and community priorities in an environment of significantly reduced revenues, the proposed FY 2021 budget makes investments in basic needs, streets, sidewalks and water in underserved neighborhoods, programs for youth, seniors and distressed populations, and policing alternatives including mental health counseling, health services and community-based violence interruption programs. The budget also includes an increase in the minimum wage for employees of the City, affecting approximately 450 full-time and 325 part-time employees. The level of police funding has been a flash point in recent months, with activists and others advocating a reallocation from the police budget to fund other City services. The FY 2021 budget increases police department funding by approximately $15.3 million but includes a $7 million or 26.4% reduction in police overtime pay.

Liquidity Position

KBRA views the City's liquidity position as strong as evidenced by robust year end balances. The FY 2019 governmental funds cash position was $517 million, with an additional $113 million held in the Internal Service Funds. The governmental funds cash represents 89 days cash on hand at the close of FY 2019, which KBRA considers strong. The City's solid liquidity position precludes the need for cash flow borrowing. The City reports 60 DCOH in reserves as of FYE 2020, including $35 million in Emergency Reserves and $12 million in Contingency Reserves.

Capital Improvement Program

The City maintains a formal five-year capital improvement plan (CIP) which is updated annually. The FY 2020-2024 CIP totals $3.7 billion. The FY 2021 proposed Capital Improvement Program totals $869 million, up from $842 million in the amended FY 2020 budget. Approximately 40% of the proposed FY 2021 CIP is related to water utilities capital improvements. The remaining 60% will fund general purpose capital improvements.

RD 4: Municipal Resource Base

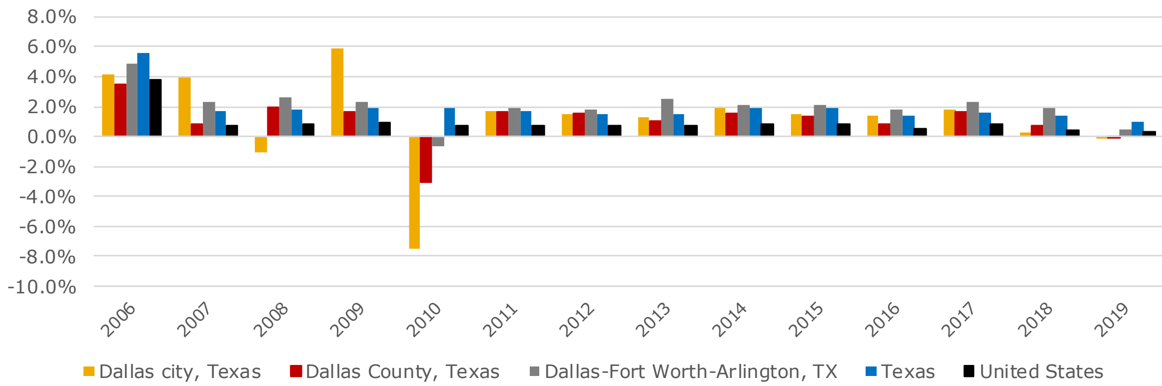
Incorporated in 1856, Dallas is approximately 378 square miles in area and is the county seat of the County of Dallas. The City, which is spread across four counties (Dallas, Collin, Denton and Rockwall) is the primary economic driver in the Dallas-Fort Worth-Arlington metropolitan statistical area (MSA), which is the fourth largest MSA in the nation behind the New York, Los Angeles, and Chicago.

Population

The City is the 3rd largest city in the **State of Texas** (AAA/Stable) and 9th largest in the nation with a population of 1.3 million. Population growth in Dallas (11.7% since 2010) has significantly outpaced the nation but modestly lags the State. The City's growing employment base has fueled both domestic and international migration with foreign-born residents making up 24.6% of the city's population in 2018 and 32% of the employed labor force.

Figure 11

% Change in Population



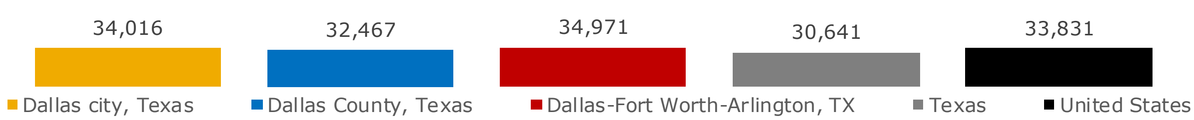
	2010	2019	Δ 2010 to 2019
Dallas city, Texas	1,202,797	1,343,565	11.7%
Dallas County, Texas	2,377,351	2,635,516	10.9%
Dallas-Fort Worth-Arlington, TX	6,402,922	7,573,136	18.3%
Texas	25,257,114	28,995,881	14.8%
United States	309,349,689	328,239,523	6.1%

Source: U.S Census

Employment gains have kept pace with brisk population growth. Per capita income of $34,016 is above the statewide average (112.5% of the State) reflecting the City's ability to attract higher wage jobs.

Figure 12

Per Capita Income



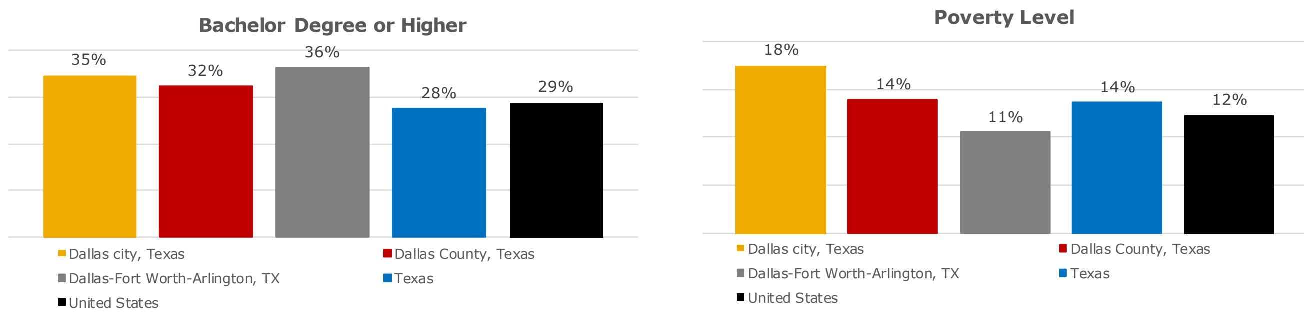
As of 2018

	2010	**2019**	**% Δ 2010 to 2019**	**Comparison**
Dallas city, Texas	$24,557	$34,016	47.8%	-
Dallas County, Texas	$24,722	$32,467	37.2%	107.0% of County
Dallas-Fort Worth-Arlington, TX	$27,016	$34,971	34.3%	100.0% of MSA
Texas	$23,863	$30,641	35.2%	112.5% of State
United States	$26,059	$33,831	36.9%	101.7% of U.S.

Source: U.S. Census

With 48 colleges and universities in the Dallas MSA, educational attainment in the City surpasses the nation and state. Poverty rates are elevated relative to the state but are materially declining at 6.1% since 2010, which is a notable positive trend relative to other large cities.

Figure 13

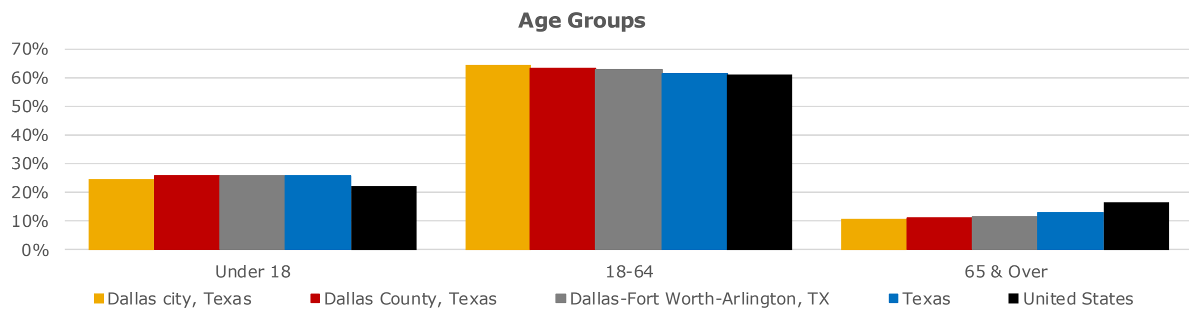


As of 2019 | As of 2019

	Point Δ 2010 to 2019	Point Δ 2010 to 2019
Dallas city, Texas	5.8	-6.1
Dallas County, Texas	4.2	-5.3
Dallas-Fort Worth-Arlington, TX	5.2	-4.1
Texas	1.6	-4.3
United States	0.7	-3.0

Source: U.S Census
Bachelor degree or higher defined as "% of population over 25 with Bachelor's degree or higher".
Poverty level defined as "portion of population living below the poverty line".

Figure 14



As of 2019

	Under 18	18-64	65 & Over	Age Dependency Ratio
Dallas city, Texas	25%	65%	11%	54.7%
Dallas County, Texas	26%	63%	11%	58.4%
Dallas-Fort Worth-Arlington, TX	26%	63%	12%	59.3%
Texas	26%	62%	13%	62.3%
United States	22%	61%	16%	63.1%

Source: U.S Census

Tax Base and Demographic Data

The City's taxable value has exhibited strong growth over the years, increasing by 49% from 2010 to $130.1 billion in 2019 (Figure 8). The compound average annual rate of growth in taxable value was 4.8%. Commercial and residential properties represent approximately 43% and 45% of the tax base, respectively, with business personal property constituting the remaining 12%. The City's tax base per capita is very strong at $106,676.

The top 10 taxpayers represent 4.15% of the FY 2020 taxable assessed value, which KBRA views as diverse (Figure 15). Tax base concentration has declined from FY 2010, when the top ten taxpayers represented 5.28% of taxable assessed value. Since 2014 current property tax collections have been high, averaging over 98%. In FY 2019, the current property tax collection rate was 98.3%.

FIGURE 15

City of Dallas's 10 Largest Taxpayers			
Company	**Business**	**FY 2019-2020 Taxable AV**	**% of Taxable AV**
Oncor Electric Delivery co.	Electric Utility	$ 967,947	0.74%
Northpark Land Partners	Shopping Mall	$ 733,711	0.56%
Southwest Airlines Co.	Airline	$ 655,325	0.50%
Texas Instruments, Inc.	Electronics Mfg.	$ 644,930	0.50%
AT&T Corporation	Telephone Utility	$ 550,967	0.42%
FM Village Fixed Rate LLC	Developer	$ 514,687	0.40%
Atmos Energy	Gas Utility	$ 365,958	0.28%
Walmart Stores, Inc.	Retailer	$ 349,763	0.27%
Teachers Insurance	Insurance	$ 314,407	0.24%
Post Apartment Homes LP	Developer	$ 307,160	0.24%
Total		**$5,404,855**	**4.15%**

Source: City of Dallas 2019 CAFR

The City's wealth levels are comparable to or better than many of the largest cities in the State (Figure 16). The City does, however, have an elevated poverty level that is consistent with other large urban centers.

FIGURE 16

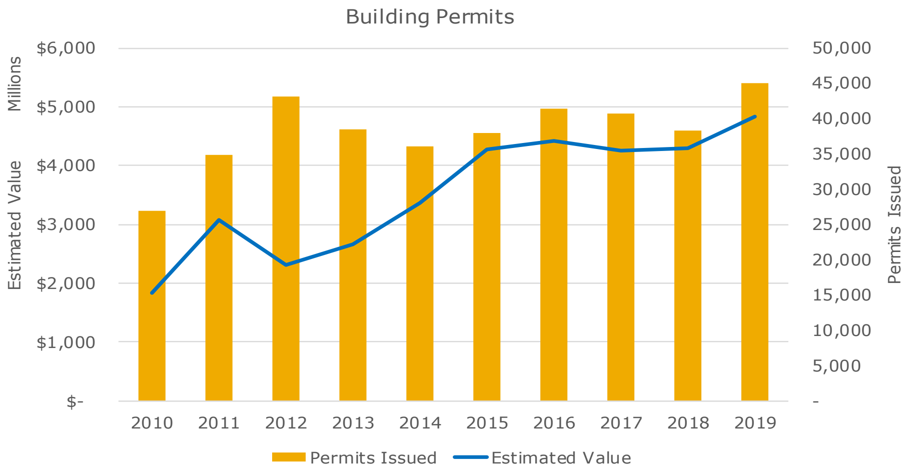
Top 10 Largest Cities in Texas						
City	**Population**	**Per Capita Income**	**Poverty Rate**	**Unemployment**		
				2018	**2019**	**Jul-20**
Arlington	398,860	29,207	12.0%	3.5%	3.4%	8.2%
Austin	979,263	46,217	12.2%	2.8%	2.5%	6.8%
Corpus Christi	326,590	26,979	17.2%	4.6%	4.1%	9.9%
Dallas	1,343,565	36,288	17.5%	3.8%	3.4%	8.3%
El Paso	681,729	22,583	18.6%	4.1%	3.7%	8.3%
Fort Worth	913,656	30,115	11.9%	3.6%	3.4%	8.2%
Houston	2,316,797	33,377	19.7%	4.3%	3.7%	9.7%
Laredo	264,069	20,543	19.5%	3.7%	3.7%	9.1%
Plano	285,849	48,957	7.5%	3.3%	3.1%	6.5%
San Antonio	1,547,250	26,826	16.8%	3.3%	3.1%	8.2%

Source: U.S Census | Bureau of Labor Statistics

Economic Development Activities

The City has seen substantial commercial and residential development over the years as its population has grown. Since 2010, the number of building permits issued in the City has grown by a compounded annual growth rate of 5.8%, while the estimated value of new construction has increased by 11.3% to over $4.0 billion. The City reports that over the last five years, its Public/Private Partnership Program has received City Council approval for over 70 economic development projects that are expected to create or retain 21,000 jobs and leverage more than $2.3 billion in new private investment.

Figure 17



Source: City of Dallas Building Inspection Division

Tourism and Leisure

The City's resource base is further supported by tourism. Dallas is the State's top visitor and leisure destination. Approximately 50 million people visit annually, contributing approximately $9.1 billion in direct spending, and generating an economic impact of over $14.6 billion. Dallas is ranked as one of the top convention cities in the nation according to the Dallas Convention and Visitors Bureau, and the MSA is home to four major professional sports teams which attract thousands of visitors each year.

The City is served by **Dallas/Fort Worth International Airport** ("DFW") (AA/Negative), which ranked 4th among commercial service airports in enplanements in 2019, before the COVID-19 pandemic, behind Hartsfield-Jackson Atlanta International, Los Angeles International, and **Chicago O'Hare International** (A+/Negative). In addition to DFW, Dallas Love Field and Dallas Executive Airport provide service to the City. The City is also a hub for rail service with lines to Chicago, Los Angeles, and San Antonio.

Employment

Since the Great Recession and prior to the incidence of the COVID-19 pandemic in the U.S., employment in Dallas exhibited continuous growth (Figure 18) driven by the City's widely diversified business environment. The City is the headquarters of 10 Fortune 500 companies, including AT&T, Southwest Airlines, Texas Instruments, and Energy Transfer.

Figure 18

Total Employment (Not Seasonally Adjusted) (In Thousands)

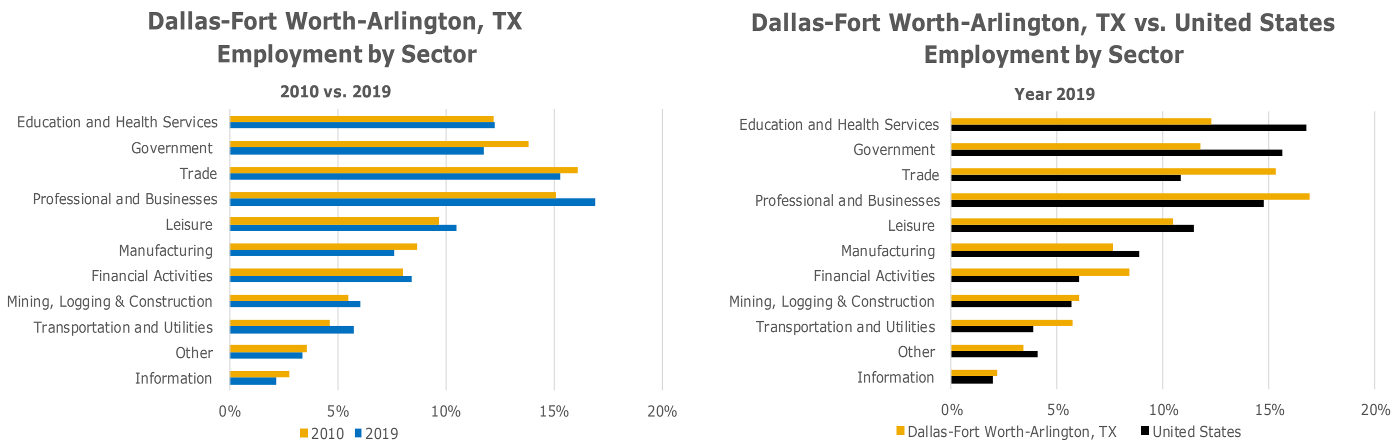
	Dallas city, Texas	% Δ	Dallas County, Texas	% Δ	Dallas-Fort Worth-Arlington, TX	% Δ	Texas	% Δ	United States	% Δ
2000	592		1,142		2,772		9,929		136,891	
2001	588	-0.6%	1,130	-1.1%	2,783	0.4%	10,011	0.8%	136,933	0.0%
2002	572	-2.7%	1,094	-3.2%	2,758	-0.9%	10,066	0.5%	136,485	-0.3%
2003	563	-1.5%	1,073	-1.9%	2,759	0.0%	10,185	1.2%	137,736	0.9%
2004	566	0.4%	1,073	0.0%	2,807	1.7%	10,338	1.5%	139,252	1.1%
2005	549	-2.9%	1,078	0.5%	2,867	2.1%	10,523	1.8%	141,730	1.8%
2006	562	2.3%	1,088	0.9%	2,937	2.4%	10,774	2.4%	144,427	1.9%
2007	559	-0.6%	1,085	-0.2%	2,975	1.3%	10,941	1.5%	146,047	1.1%
2008	555	-0.6%	1,080	-0.5%	2,993	0.6%	11,104	1.5%	145,362	-0.5%
2009	**539**	-3.0%	**1,049**	-2.9%	**2,939**	-1.8%	**11,009**	-0.9%	139,877	-3.8%
2010	549	1.9%	1,091	4.0%	3,034	3.3%	11,245	2.1%	**139,064**	-0.6%
2011	560	2.0%	1,114	2.0%	3,119	2.8%	11,535	2.6%	139,869	0.6%
2012	572	2.0%	1,136	2.0%	3,195	2.4%	11,819	2.5%	142,469	1.9%
2013	582	1.7%	1,154	1.5%	3,262	2.1%	12,053	2.0%	143,929	1.0%
2014	599	3.0%	1,185	2.7%	3,361	3.0%	12,374	2.7%	146,305	1.7%
2015	612	2.2%	1,209	2.1%	3,438	2.3%	12,506	1.1%	148,834	1.7%
2016	634	3.6%	1,246	3.1%	3,557	3.5%	12,720	1.7%	151,436	1.7%
2017	650	2.4%	1,275	2.3%	3,666	3.1%	12,990	2.1%	153,337	1.3%
2018	652	0.4%	1,286	0.9%	3,752	2.3%	13,285	2.3%	155,761	1.6%
2019	668	2.4%	1,318	2.4%	3,842	2.4%	13,552	2.0%	157,538	1.1%
Δ 2010 to 2019		**21.7%**		**20.7%**		**26.6%**		**20.5%**		**13.3%**
Δ Since Trough		**24.0%**		**25.6%**		**30.7%**		**23.1%**		**13.3%**
July- 2020	637	-4.7%	1,256	-4.7%	3,650	-5.0%	12,706	-6.2%	144,492	-8.3%

Source: U.S Bureau of Labor Statistics

Bold = trough during the Great Recession (2008-2012)

The City's MSA has a large and diverse employment base with trade representing the largest sector in the MSA at 15.3% despite declines since 2010 (Figure 19). The MSA's non-farm employment reached approximately 3.8 million in 2019, which is an increase of 29.1% since 2010. This strong growth in employment was driven by accelerated growth in various sectors such as education and health services, professional and financial services, leisure, transportation and utilities.

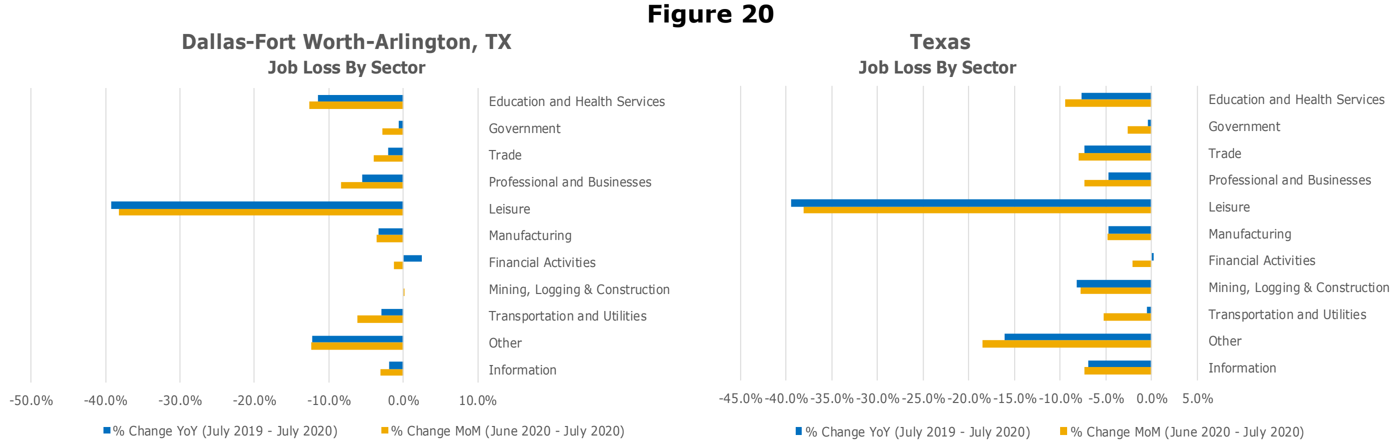
Figure 19



Source: U.S. Bureau of Economic Analysis

The COVID-19 pandemic has impacted all sectors of the regional economy. According to the Bureau of Labor Statistics, employment losses in the MSA were mostly concentrated in the leisure sector (including tourism, hospitality, restaurant and entertainment), accounting for 38.2% of the 343,000 job losses that occurred in the MSA between June 2020 and July 2020 (Figure 20). Relative to other areas of the economy, the leisure sector is expected to continue to exhibit a far greater than average contraction and a potentially slower recovery throughout FY 2021, as unemployment, safety concerns and possible recession conspire to reduce tourism globally.

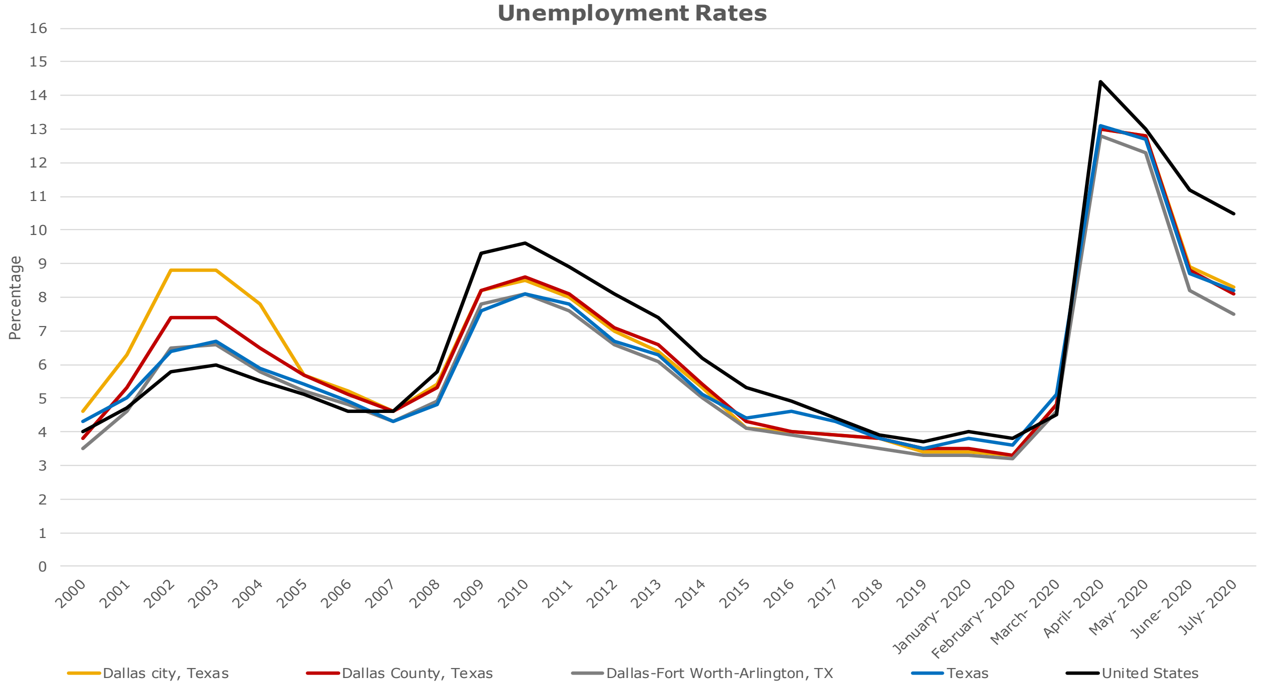
Figure 20



Source: U.S. Bureau of Economic Analysis

Prior to the COVID-19 pandemic, the unemployment rate for the City declined year over year since 2010 and trended below the State since 2015. In 2019, unemployment was 3.4% for the City and 3.5% for the State. After the State became subject to stay-at-home orders on March 23, 2020, the State's unemployment rate increased drastically from 4.8% in March to 13% in April, surpassing its Great Recession peak (Figure 21). As of July 2020, the unemployment rate has declined to 8.3%, which is higher than the State's at 8.2%. As of September 21, 2020, the State loosened restrictions, allowing restaurants, retail stores, gyms, libraries and museums to increase capacity to 75%.

Figure 21



	Dallas city, Texas	Dallas County, Texas	Dallas-Fort Worth-Arlington, TX	Texas	United States
July 2020	8.3	8.1	7.5	8.2	10.5
June 2020	8.9	8.8	8.2	8.7	11.2
Great Recession Peak	8.8	8.6	8.1	8.1	9.6
Point Δ Since Great Recession Peak	-0.5	-0.5	-0.6	0.1	0.9

Source: U.S Bureau of Labor Statistics

Bankruptcy Assessment

KBRA has consulted outside counsel on bankruptcy matters and the following represents our understanding of the material bankruptcy issues relevant to the City. To be a debtor under the municipal bankruptcy provisions of the U.S. Bankruptcy Code (Chapter 9), a local governmental entity must, among other things, qualify under the definition of "municipality" in the Bankruptcy Code, and must also be specifically authorized to file a bankruptcy petition by the State in which it is located. The City is a political subdivision and municipal corporation of the State of Texas organized and existing under state law, and thus is a "municipality" as defined under the Bankruptcy Code. As to authorization, Texas state law specifically authorizes any municipality in the state that has the power to incur indebtedness through the action of the municipality's governing body to file a Chapter 9 petition. Thus, the City has the authority under Texas state law to incur indebtedness and, hence, it is specifically authorized under Texas state law to file a Chapter 9 petition, subject of course to the further threshold requirements in Federal law (the Bankruptcy Code) for commencement of a Chapter 9 case.

The principal of and interest on the Obligations are payable from a direct and continuing ad valorem tax levied by the City, within the limits prescribed by law, upon all taxable property in the City.

Chapter 9 provides for post-petition recognition of (i) a security interest represented by a pledge of specific special tax revenues or municipal enterprise revenues (each "special revenues") and also (ii) a statutory lien on revenues pledged for municipal obligations. In contrast, the pledge of general ad valorem property taxes for a general purposes obligation of a municipality, such as the pledge of City ad valorem property taxes to pay the Obligations, is not recognized as a security interest or lien that survives the filing of a petition under Chapter 9. Accordingly, because (a) the funds pledged to pay the Obligations are not from a separate, dedicated source of revenues that meets the definition of "special revenues" under Chapter 9, and (b) there is no statutory lien imposed on the pledged ad valorem tax revenues levied to pay the Obligations, if the City were to file a petition commencing a Chapter 9 proceeding holders of the Obligations would likely be treated as unsecured creditors of the City.