Memorandum

CITY OF DALLAS

DATE June 17, 2016

TO Honorable Members of the Budget, Finance & Audit Committee: Jennifer S. Gates (Chair), Philip T. Kingston (Vice Chair), Erik Wilson, Rickey D. Callahan, Scott Griggs, Lee M. Kleinman

SUBJECT 2017 Bond Program Development Possible Revision to Financial Management Performance Criteria

On Monday, June 20, 2016, the Budget, Finance & Audit Committee will be briefed on the "2017 Bond Program Development Possible Revision to Financial Management Performance Criteria". The briefing is attached for your review.

Please let me know if you need additional information.

Jeanne Chipperfield

Jeanne Chipperfield
Chief Financial Officer

Attachment

cc: Honorable Mayor and Members of the City Council
AC Gonzalez, City Manager
Christopher D. Bowers, Interim City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Ryan S. Evans, First Assistant City Manager
Eric D. Campbell, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Mark McDaniel, Assistant City Manager
Joey Zapata, Assistant City Manager
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager – Mayor & Council

2017 Bond Program Development Possible Revision to Financial Management Performance Criteria

Budget, Finance, & Audit Committee
June 20, 2016

Briefing Outline

- Overview of Financial Management Performance Criteria
- Review potential revisions related to capital projects and debt service
- Review impact of revisions to bond program/pay-as-you-go
- No recommendation is included since briefing is informational only; <u>no action is required</u>

Overview of FMPC

- Financial Management Performance Criteria (FMPC) are a set of standards which guide City's financial decisions
- Originally adopted in 1978
- Criteria are grouped into categories:
  - Operating programs
  - Capital & debt management
  - Accounting, audit, & financial planning
  - Cash management
  - Grants & trusts
- Dallas Water Utilities has its own set of criteria that govern its system

FMPC Review/Revisions

- FMPC monitored for compliance at multiple intervals during each fiscal year including:
  - During budget process
  - At fiscal year-end
  - Prior to each debt issuance
- FMPC has been amended periodically by Council:
  - Most recent revision approved October 2014
    - Increased minimum unassigned fund balance of General Fund from 5% (18.3 days) to 8.2% (30 days)
  - Revisions were also made in 2011, 2008, 2007 and 2005

Capital & Debt FMPC

- Criteria related to capital and debt pertain to City's general obligation program including:
  - Prescribes debt limits
  - Outlines usage of certificates of obligation
  - Governs use of tax increment financing (TIF) and public improvement districts (PID)
  - Sets policy prohibiting use of debt to finance current operating expenses
- Dallas Water Utilities has its own set of capital and debt criteria

FMPC Criteria #17

- Criteria #17 governs amount of general obligation (GO) debt City can have outstanding
  - Cannot exceed 4% of market value of taxable property
  - Currently at 1.5% of market value of taxable property
- Consider changing criteria from market value to taxable value
  - Texas Government Code uses taxable value as debt limit as do Dallas' peer cities
- Additional consideration of lowering 4% threshold in FMPC #17 to lesser amount
  - And/or establish additional criteria to phase down percent of total tax rate used for debt service

FMPC Criteria #17

Comparative City Analysis – General Obligation Debt Limits	
City	**Policy/Statute**
Dallas	Not to exceed 4% of market value of taxable property; City Charter also imposes limit of 10% of assessed valuation
Austin	Not to exceed 2% of assessed valuation
Fort Worth	Does not impose a debt limit; utilizes a tax rate cap of $1.90/$100 valuation
Houston	Not to exceed 10% of assessed valuation
San Antonio	Not to exceed 10% of assessed valuation
State of Texas	Government Code limits debt to 10% of assessed valuation; State Constitution also imposes a tax rate cap of $2.50/$100 valuation for debt service

If FMPC Revised for Debt Reduction

- FY16 outstanding debt is 1.7% of taxable value
- Any plan to reduce GO debt level would be affected by size of 2017 Bond Program
- Figures below assume zero bond issuance after 2017 Bond Program

Estimated General Obligation Debt as a % of Taxable Value			
Scenario	**FY 2020**	**FY 2025**	**FY 2030**
$1 Billion	1.60%	1.25%	0.65%
$800 Million	1.60%	1.10%	0.55%
$600 Million	1.60%	1.00%	0.50%
$500 Million	1.55%	0.90%	0.45%
$800 Million (10-Year Bonds)	1.65%	1.00%	0.35%

If FMPC Revised for Debt Reduction

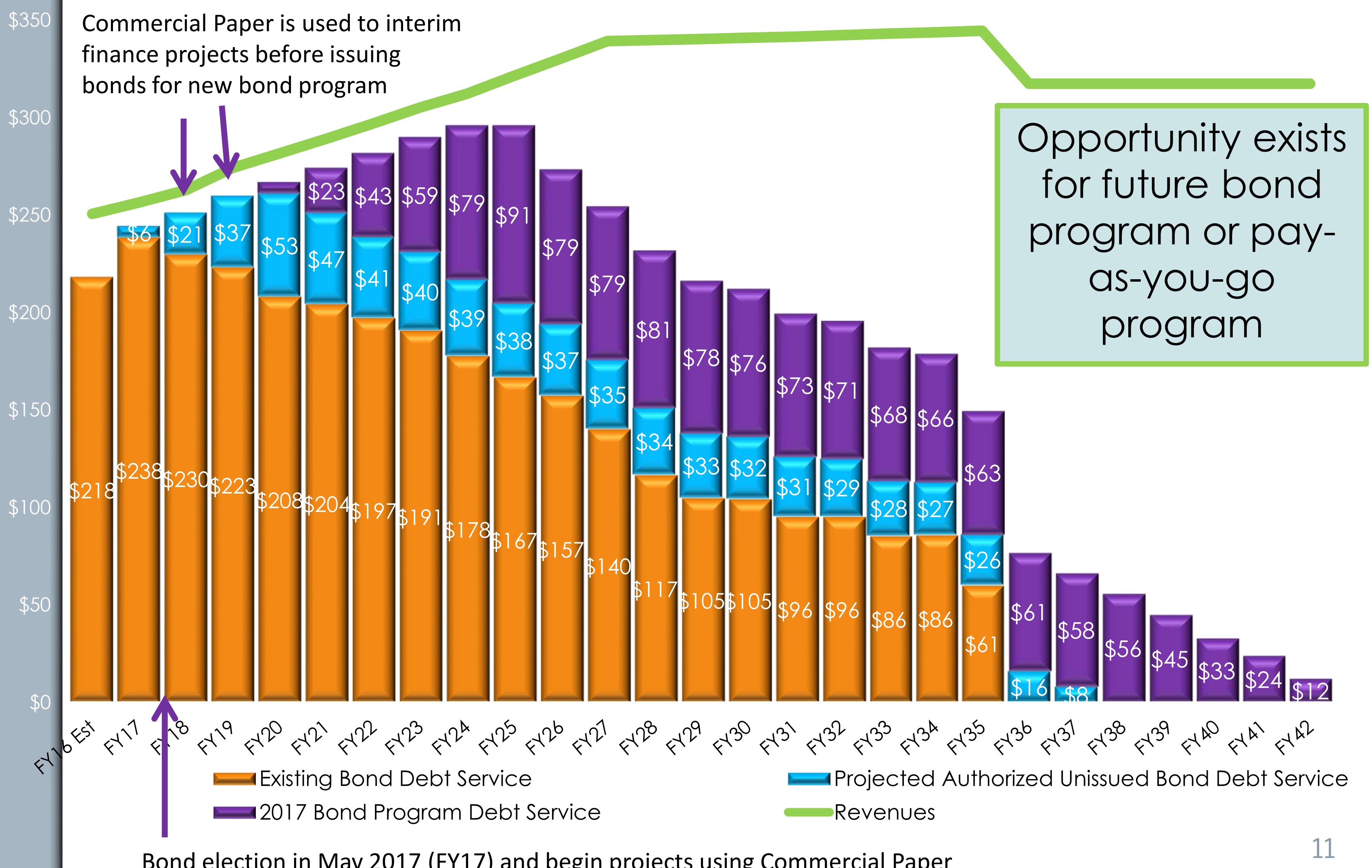
- FY16 debt service tax rate is currently 29.2% of total tax rate
- Any plan to reduce GO debt level would be affected by size of 2017 Bond Program
- Figures below assume zero bond issuance after 2017 Bond Program

Estimated Debt Service Tax Rate as a % of Total Tax Rate			
Scenario	**FY 2020**	**FY 2025**	**FY 2030**
$1 Billion	29.2%	28.4%	26.3%
$800 Million	28.4%	26.7%	25.1%
$600 Million	27.9%	25.0%	23.8%
$500 Million	27.9%	23.8%	23.2%
$800 Million (10-Year Bonds)	29.2%	29.2%	27.6%

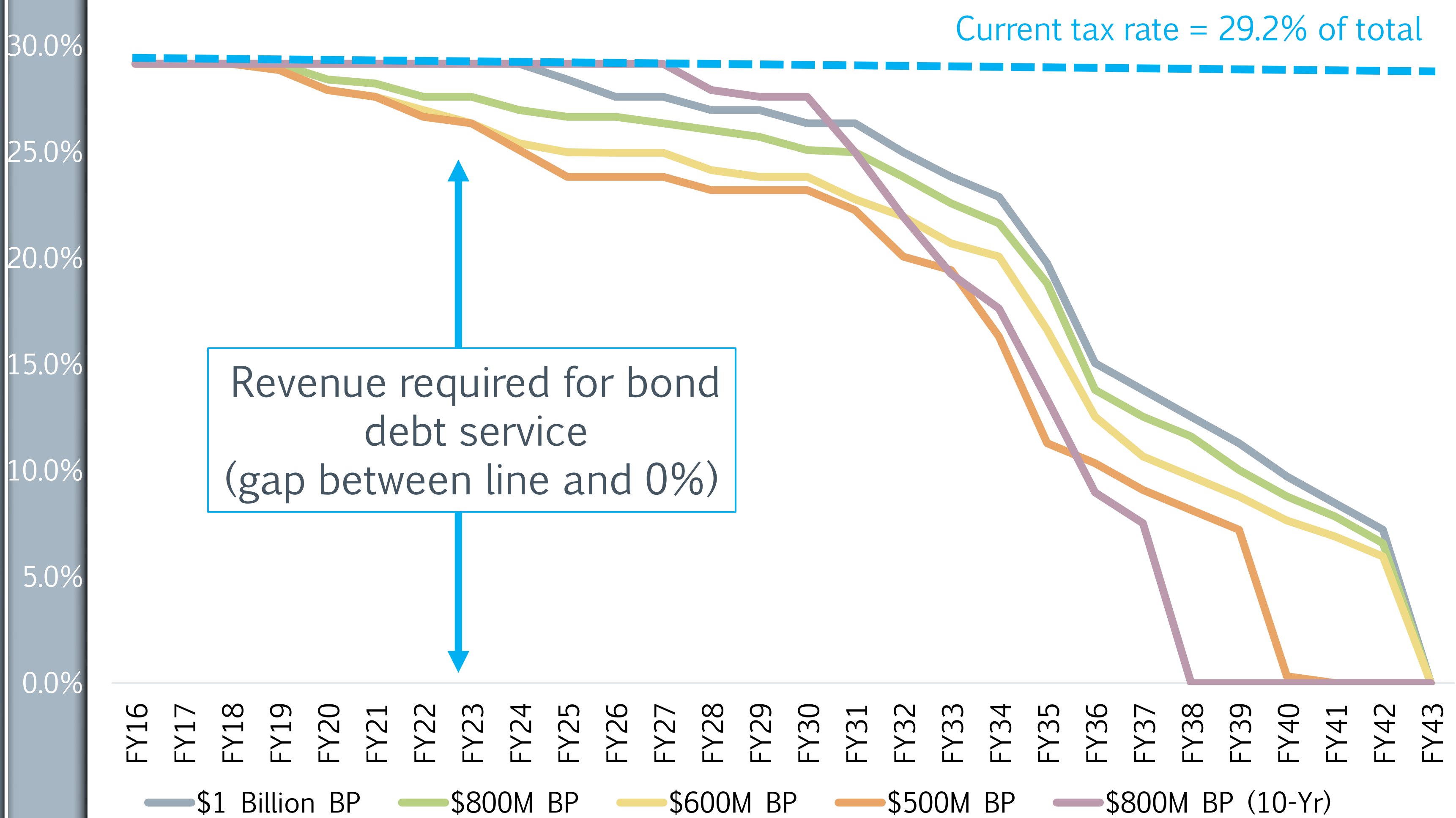
Notes on Estimated Values

- Future figures presented in this briefing are estimates based on available information and they <u>will change</u>
- Projections will fluctuate based on:
  - Changes in property tax revenue once tax roll is certified (7/25/16) and tax rate is proposed for FY17
  - Ability to shift tax rate from debt service to general fund for purposes of pay-as-you-go is <u>subject to rollback rate limitation</u>
  - Any changes made by State Legislature to property tax code
- Estimated values also assume City will not have another bond program after 2017

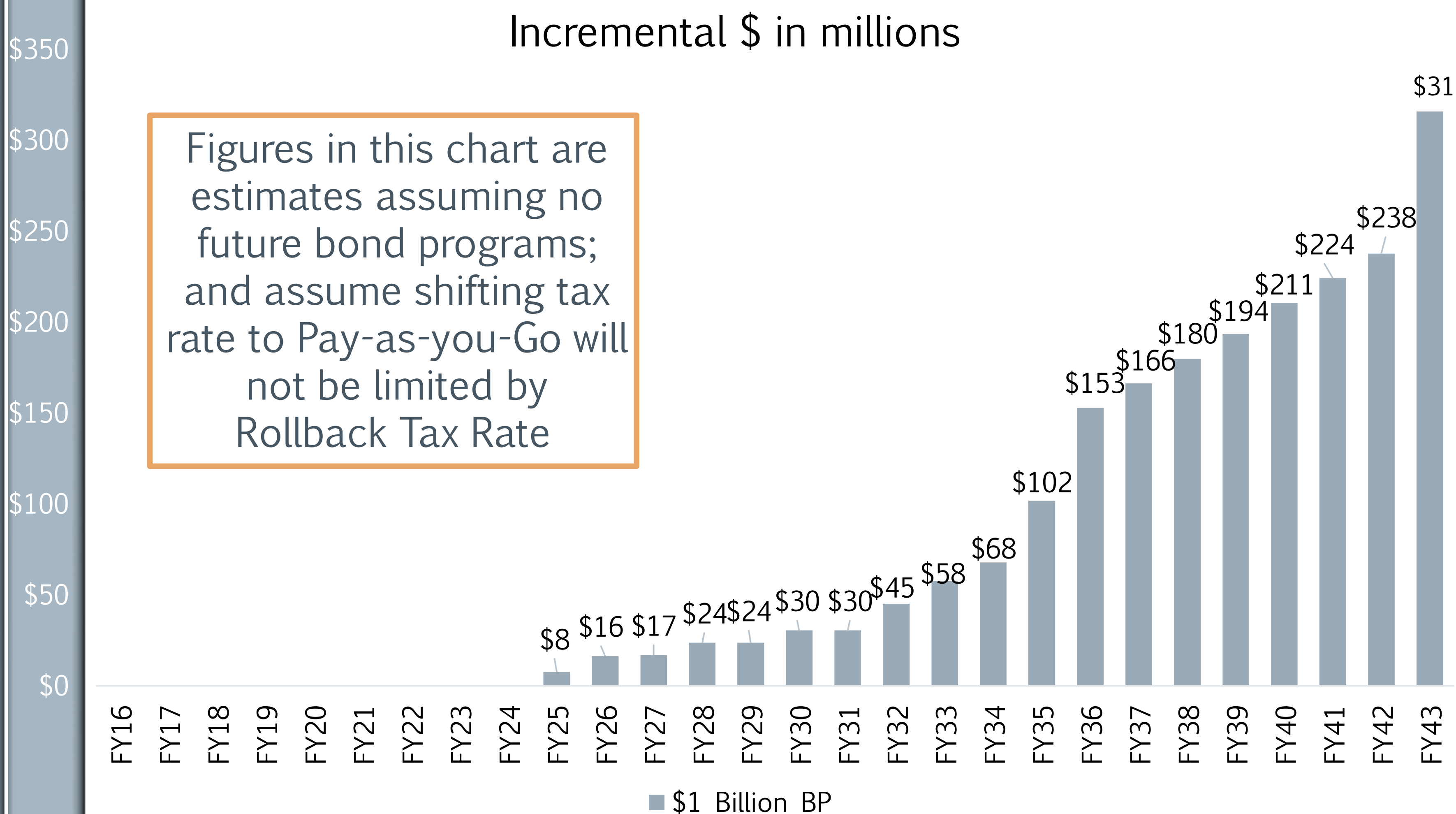
Projected Future Debt Service
($ in millions)



Debt Service as % of Tax Rate
(Projected reduction for possible shift for pay-as-you-go)



Projected Pay-as-you-Go Revenue Resulting from Tax Rate Shift to GF



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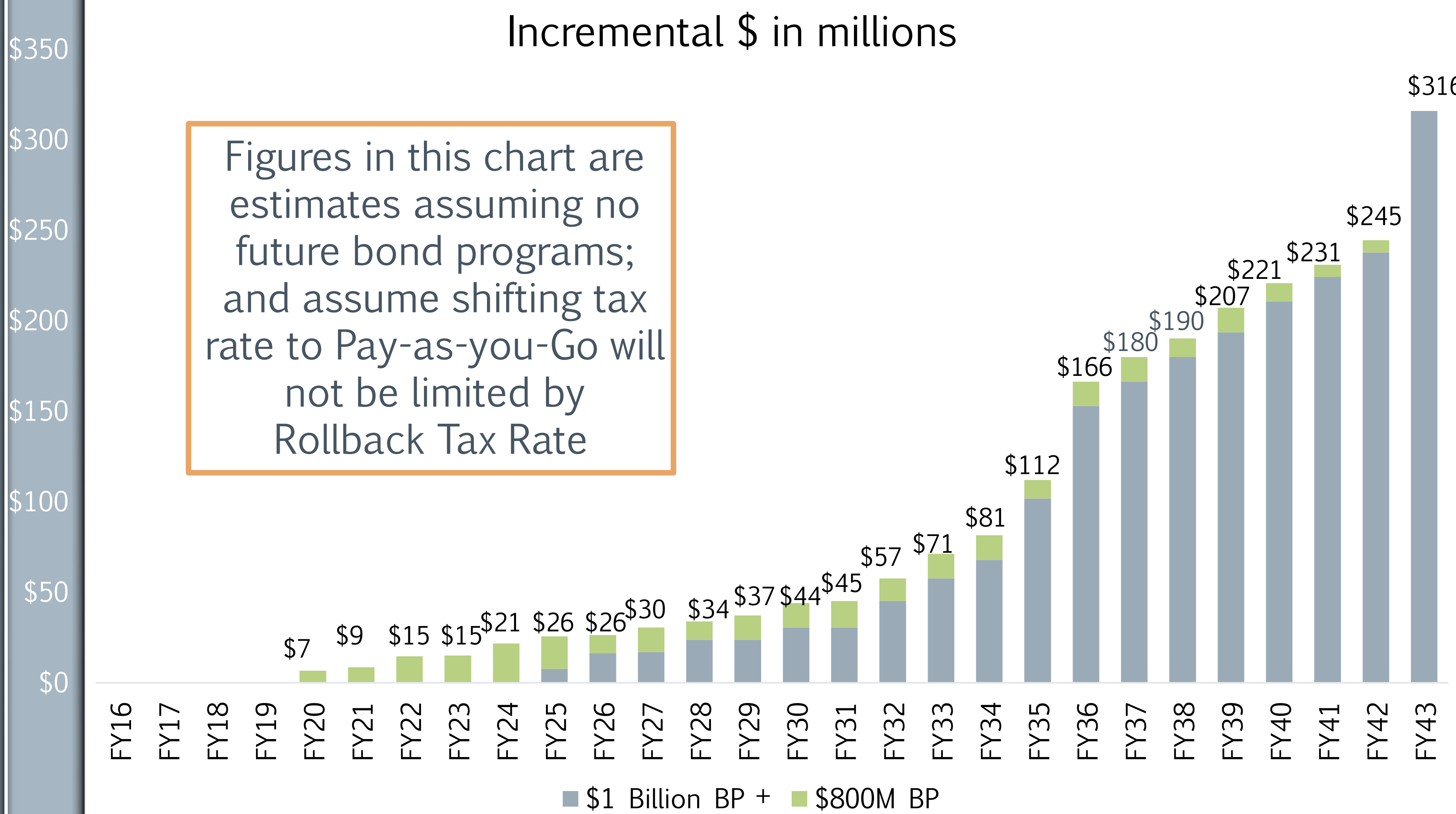

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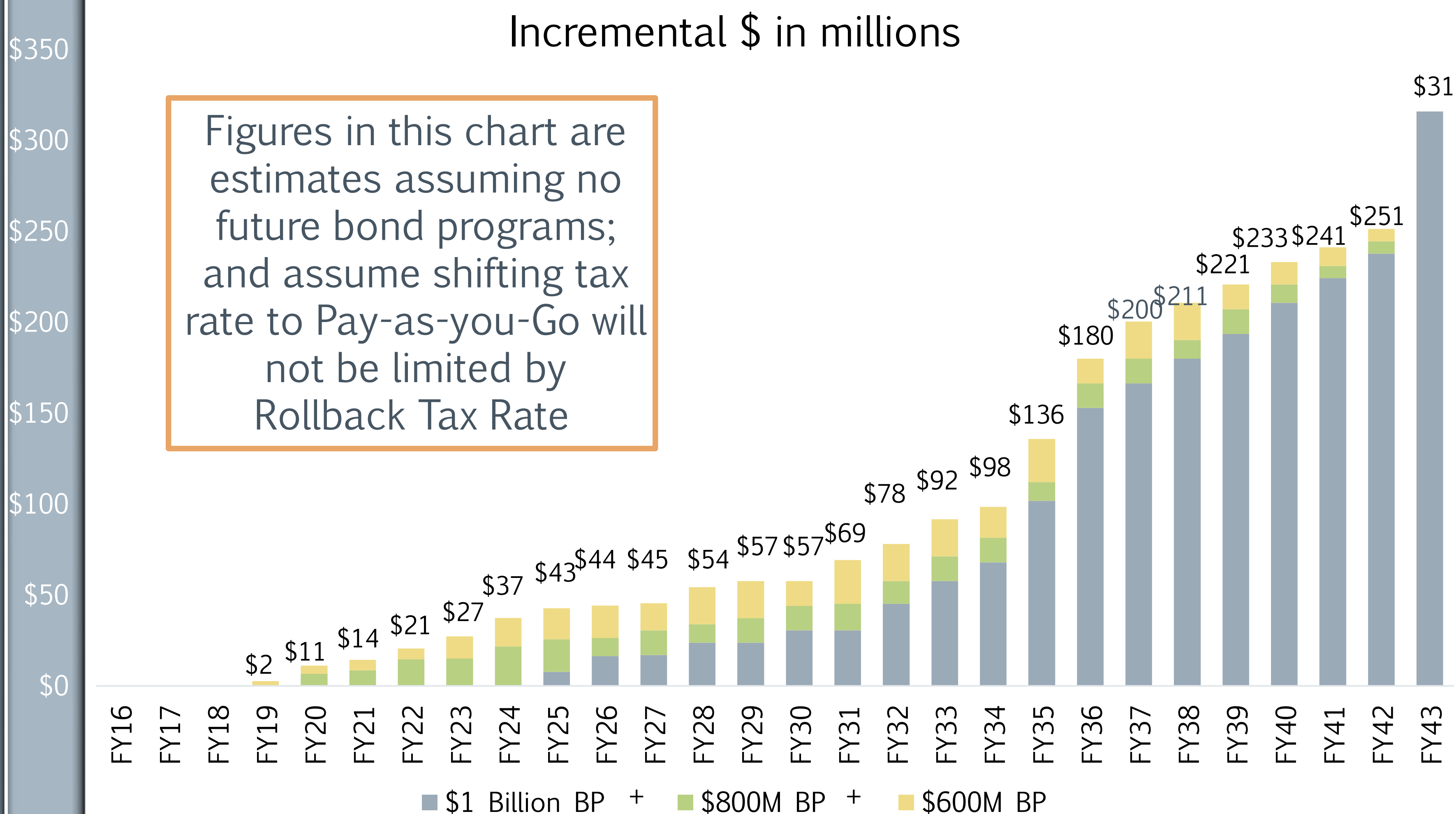

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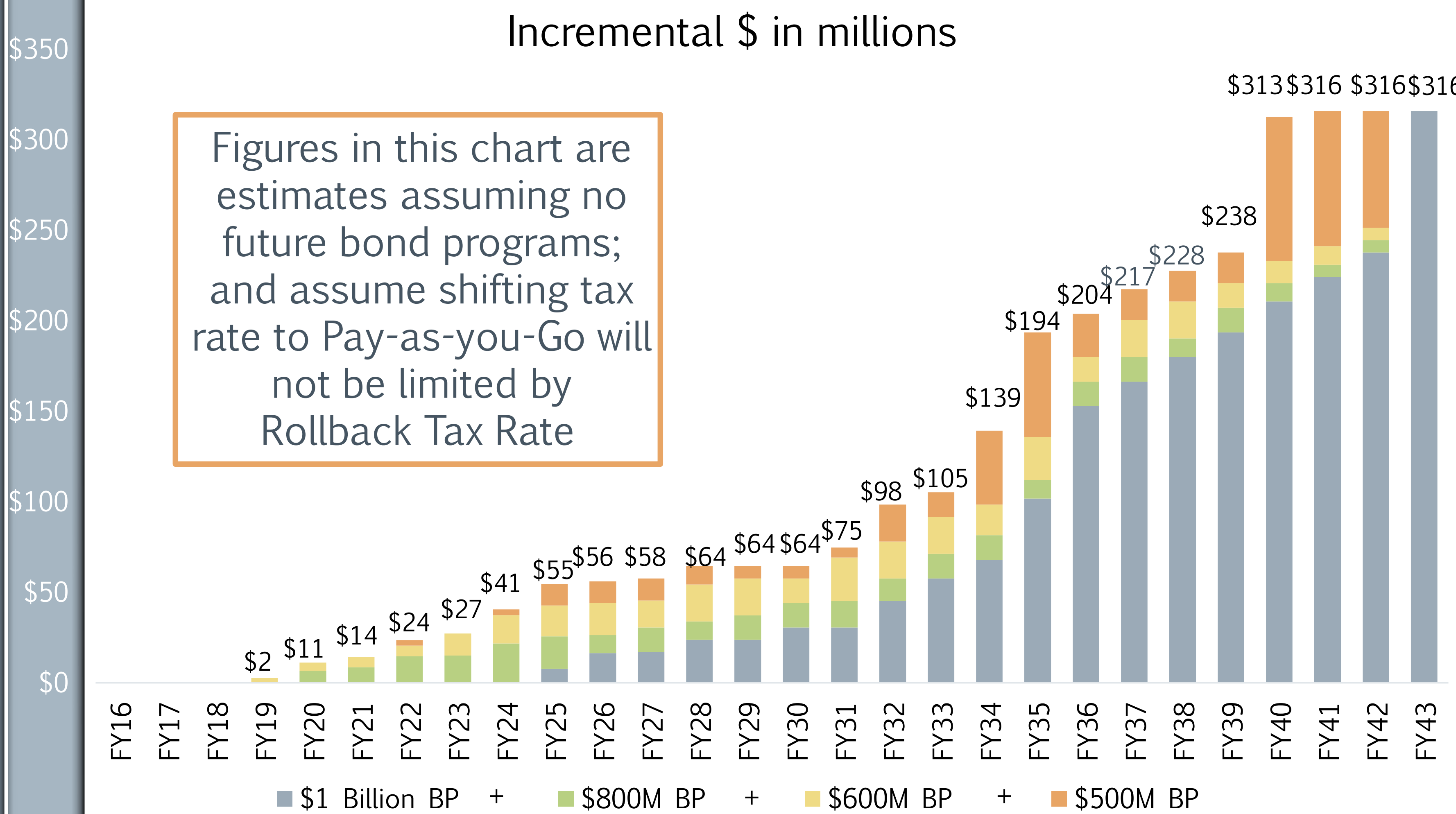

Pros/Cons of Pay-as-you-Go Program

- Pros of pay-as-you-go program
  - Reduces City's long-term debt
  - Reduces expense by eliminating future interest cost
  - Eliminates potential for interest rate exposure
  - Does not require rating agencies
- Cons of pay-as-you-go program
  - Shifting tax rate from debt service to pay-as-you-go is subject to rollback tax rate limitations
  - Four prepared scenarios show ~$100m cash in a given year is not available until FY32 or later
    - City typically awards $100m to $150m annually on capital projects
  - Condition of City infrastructure will worsen during period between 2017 bond program and time that sufficient cash is accumulated in pay-as-you-go program
    - Street degradation averages between 4.2%-4.8% annually; 10-year wind up period could have devastating effect on street conditions
  - Funds for pay-as-you-go could be redirected for other purposes by future City Councils

Revisions to FMPC #17

- Criteria #17 could be revised to reflect a debt limit based on taxable values rather than market value
- Criteria #17 could be revised and change threshold limit from 4% of market value of property to a lesser amount such as 2% of taxable value
  - Or phase reduction to a lesser amount over time
- Additional criteria could be added to establish policy to reduce percent of tax rate allocated to debt service from current 29.2%

Questions & Comments