

General Obligation Bond Program Development

City Council Retreat
February 2, 2016

Purpose of Briefing

- Seek Council policy direction regarding the next General Obligation (GO) bond program:
 - When should the election be held?
 - Should City move more to pay-as-you-go financing?



Briefing Overview

- Provide general overview of bond program
- Discuss bond program development process
- Discuss schedule alternatives
- Review financing considerations



General Overview of Bond Program

General Obligation
Bond Program Development

City's infrastructure funded through two major methods

	General Purpose Infrastructure	Enterprise Program Infrastructure
Financing tools	<ul style="list-style-type: none"> - Cash - General obligation bonds(GO) - Certificates of obligation (CO) 	<ul style="list-style-type: none"> - Cash - Revenue bonds
Builds	<ul style="list-style-type: none"> -Streets, alleys, bridges -Parks -Flood protection and storm drainage facilities -City buildings 	<ul style="list-style-type: none"> -Water/sewer pipelines and treatment plants -Aviation facilities -Convention facilities
Bond Repayment Source	<ul style="list-style-type: none"> -Ad valorem taxes 	<ul style="list-style-type: none"> -Rate payers -User fees

What are GO Bonds?

- GO bonds are primary mechanism for financing long-term infrastructure improvements
- Spread cost of asset over average useful life of asset (typically 20+ years)
- Carry pledge of property tax revenue for repayment and must be approved by voters
- Must be used for capital improvements that benefit the public

Typical Uses of GO Bonds

- GO bonds are used for permanent public improvements including:
 - Streets and transportation
 - Flood protection and storm drainage
 - Park and recreation facilities
 - Libraries
 - Arts and cultural facilities
 - Police and fire stations
 - City service and maintenance facilities
 - Infrastructure related to housing or economic development projects

Non-Eligible Uses of Bonds

- Not everything is eligible for GO bond financing:
 - Day-to-day operating and maintenance (O&M) expenses
 - Such as salaries/benefits, electricity, supplies, services, etc.
 - Motor vehicles/equipment (due to their shorter useful life)
 - Computers, cameras, and other short-term technology that does not last for the duration of the bond life



Bond Program Development Process

General Obligation
Bond Program Development

Key Components for Developing Bond Program

1. Guiding Principles

2. Needs Inventory

3. Public Input

4. Schedule

5. Policy Considerations

6. Financial Considerations

Strategic Objective for Program

- Bond program should have an overarching objective to achieve
- Past examples include:
 - 2012 Bond Program: A Strategic Investment in the Economic Health and Future of Dallas
 - 2006 Bond Program: A Strategic Investment Protecting Our City, Creating Our Future
- Council will set objective for next bond program at a future briefing

Guiding Principles

Determine Guiding Principles Early in Planning Process

- Council will also set guiding principles for next bond program at a future briefing
- Past examples include:
 - Promote public safety (including streets/drainage)
 - Promote economic development
 - Leverage additional funding from other agencies and private sector
 - Minimize new O&M expenses

Guiding Principles

How the City's capital needs are prioritized

- City has a capital Needs Inventory which is derived from:
 - Public input
 - Council requests
 - 311 complaints
 - Comprehensive plans & studies
- Projects are scored and ranked using technical criteria which was last reviewed by Council in 2000

Needs
Inventory

"Needs" vs "Wants"

- Needs Inventory has both needs & wants
- Both are in the eye of the beholder – examples:
 - Wider sidewalks and tree-lined streets
 - Replacement fire station
- Staff will:
 - Focus on projects that meet Council's strategic goals
 - Categorize projects according to:
 - New construction
 - Replacements
 - Improvement/betterment of existing facilities

Needs
Inventory

Assessing Needs & Wants

- Entire Needs Inventory will be completely updated and cost estimates brought to current dollars
- Any new projects identified during public input phase are analyzed and included as appropriate
- All projects categorized in Needs Inventory will be prioritized based on technical criteria

Needs
Inventory

Upcoming Agenda Items related to Bond Program Development

- Facility needs to be refined through asset management initiatives coming to council this spring:
 - Major facility condition assessment
 - Computerized Maintenance Management System (work order system)
 - This effort supports both DWU and City buildings
- Consulting services contracts may also be needed to support project prioritization and selection
 - Such as traffic counts, ADA, and pedestrian safety
- Council committees will be briefed prior to agenda items

Needs
Inventory

Public Input & Involvement

- Public input has traditionally occurred in two rounds
 - Process has been used since 1995 Bond Program
- Input obtained via:
 - Town hall meetings (including electronic)
 - Presentations to HOAs/groups
 - Web-based feedback (Twitter, Facebook, Instagram, etc.)

Public Input

Public Input & Involvement

- First round of public input covers:
 - Whether to conduct a bond program
 - Overall size of bond program
 - Priorities between propositions (street conditions, park needs, drainage, etc.)
 - Citywide project priorities
 - Individual, specific projects/problems that need to be investigated for inclusion in bond program
- Second round of public input to be conducted to receive feedback on recommended program prior to Council calling the bond election

Public Input

Possible Bond Election Schedules

Schedule

Event	May 2017 Election	Nov 2017 Election
Council briefings on policies and technical criteria	Feb-June 2016	Feb-June 2016
Update needs inventory	Feb-Oct 2016	Feb-Dec 2016
Hold initial public input meetings	Oct 2016	Jan 2017
Brief Council committees on program needs	Oct-Nov 2016	Jan-Apr 2017
Brief Council on updated needs inventory	Dec 7, 2016	Apr 5, 2017
Brief Council on financial capacity	Dec 7, 2016	Apr 5, 2017
Council election	N/A	May 13, 2017
Present City Manager's recommended bond program	Jan 4, 2017	May 17, 2017
Conduct second round of public input meetings	Jan 2017	May 17-Jun 9, 2017
Council finalizes the recommendations	Feb 1, 2017	Aug 2, 2017
Council calls the election	Feb 13-Mar 3, 2017	Aug 9-29, 2017
Election date	May 13, 2017	Nov 7, 2017

Election Timetable Variables

- May 2017 is already scheduled for Mayor & City Council elections
 - FY17 budget will include expenses for County to conduct election/runoff
- Holding bond election in November or when there is not a Mayor/Council election will result in additional cost
 - Cost associated with special election is approximately \$1.0m

Schedule

Policy considerations related to bond program development

- Council may wish to revisit other policies related to infrastructure in developing next bond program
- Examples:
 - Review technical criteria
 - Cost sharing with citizens on sidewalks
 - Alley petition process
 - ADA compliance
 - Incorporating Neighborhood Plus into technical criteria; prioritizing projects that address quality of life improvements in those areas

Policy
Consideration



Financial
Considerations

Financial Considerations and Funding Options

General Obligation
Bond Program Development

Financial Capacity Analysis

- General Obligation (GO) bonds are primary method the City has used to finance capital improvements
 - Voter approval is required
 - Allows for the improvement to be paid for over the useful life of the improvement
- Pay-as-you-go is an alternative method, and is used within the City on a limited basis
 - Cash is not currently available to fund significant amounts of capital improvements each year
 - Including a pay-as-you-go component can be a consideration in developing upcoming bond program

Financial Capacity Analysis

- Determining financial capacity for upcoming bond program should consider:
 1. Current outstanding debt
 2. Voter authorized but unissued debt
 3. Tax base value and future growth
 4. Tax rate allocated to debt service fund
 5. Policy direction for future debt
- Current analysis does not consider impact of other potential debt such as pension obligation bonds for Police & Fire Pension Fund

(1) Outstanding Debt

- Current outstanding debt is \$1.7B (principal) as of December 2015
 - Financial advisors monitor debt for refunding opportunities to reduce debt cost
 - Debt service cost for FY16 is \$120.5m principal + \$98.3m interest = \$218.8m total (includes GOs, COs, and pension obligation bonds)
 - Based on most recent GO bonds sold (November 2015), interest cost is \$0.29 per \$1 borrowed over the life of the GO bonds

(2) Voter Approved Debt

- Continue to utilize \$350m commercial paper (CP) program to provide “just-in-time” interim financing of projects, and retire CP with long-term GO bonds already approved by voters
 - GO debt is structured with the first year being interest only and years 2 through 19 being level principal plus interest
- Issue remaining \$437m of voter approved bonds from 2006 and 2012 bond programs
 - November 2016 - \$175m
 - November 2017 - \$150m
 - November 2018 - \$112m

(3) Property Tax Base Values

- Future capacity is impacted by revenue within the City's debt service fund
- Property tax base values have grown for 4 consecutive years after 3 years of declining growth during the recession
- Growth projections are designed to reflect long-term trends rather than current growth rates
- Current growth projections:
 - FY17: 5.00% (same as General Fund forecast)
 - FY18 – FY27: 2.84% (30-year average)
 - Beyond FY27: no growth assumed
- Growth projections will be revised after the FY17 certified values are provided by the 4 appraisal districts on 7/25/16

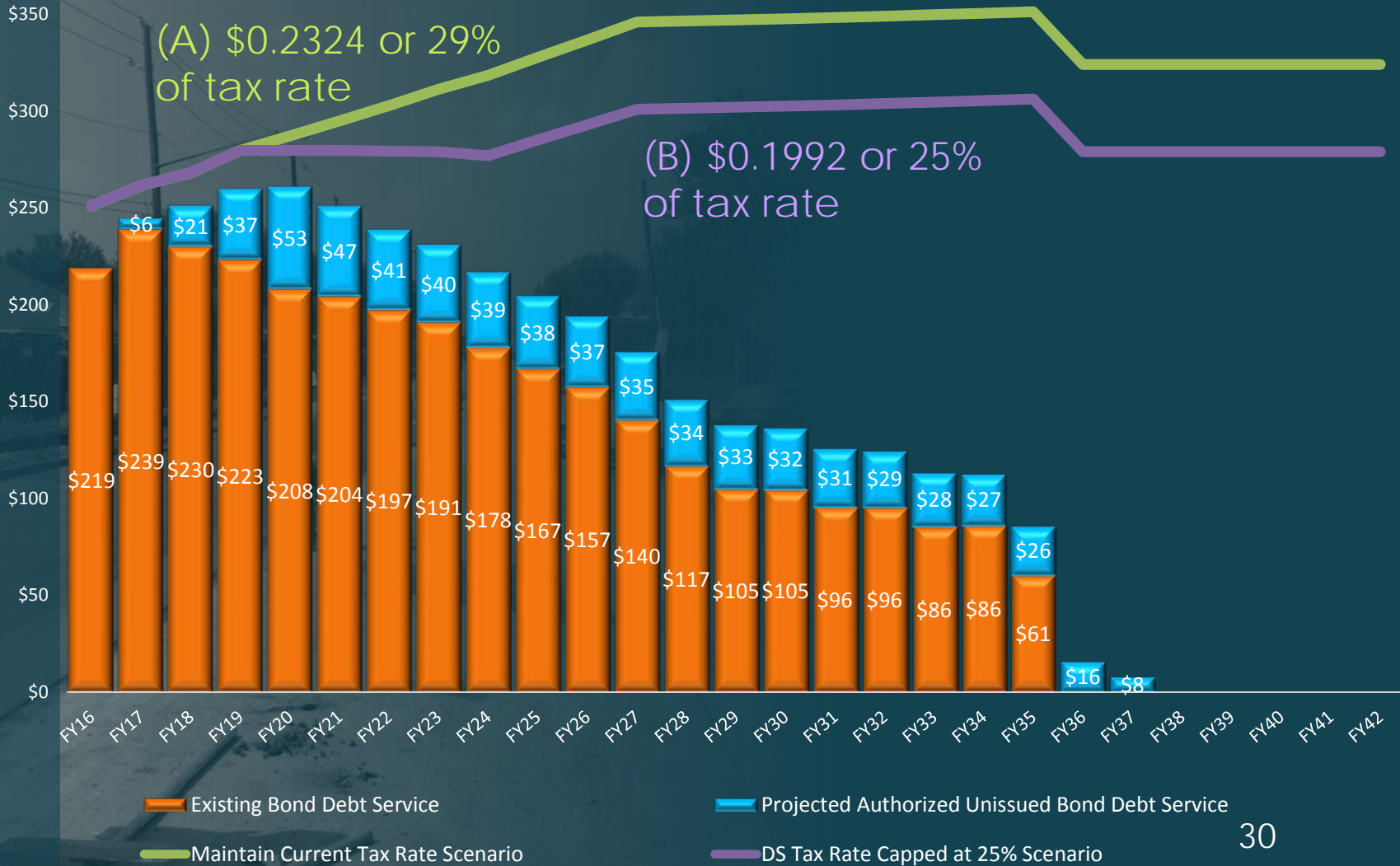
(4) Property Tax Rate

- Current property tax rate is \$0.7970 with \$0.5646 (71%) allocated to the General Fund and \$0.2324 (29%) allocated to debt service
 - Debt service allocation has decreased for 5 consecutive years from 34% to current 29%
- Potential exists to reallocate part of the debt service tax rate to a pay-as-you-go program
 - Reallocation over time may be necessary to ensure that the roll-back tax rate is not exceeded in any year

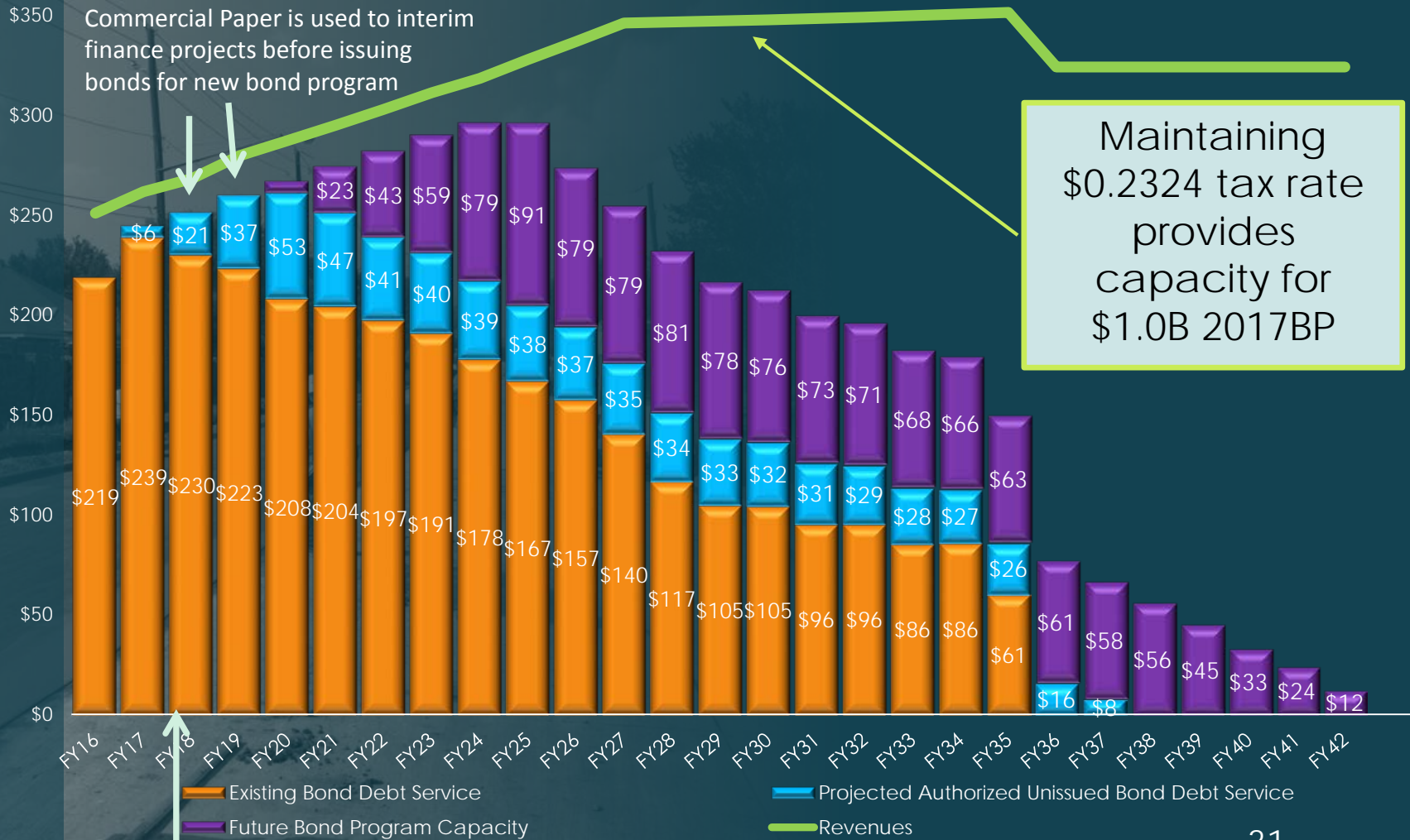
(5) Policy Direction for Potential Scenarios

- Potential scenarios for 2017 bond program are based on revenue assumptions:
 - A. Maintain current \$0.2324 (29%) tax rate, and use maximum capacity
 - B. Reduce the tax rate allocated to debt service over 5 years to \$0.1992 (25% of total tax rate)

Potential Financial Scenarios (\$ in millions)



Scenario A: Maintain 29% or \$0.2324 Tax Rate (\$ in millions)



Potential future bond election in May/Nov 2017 (FY18) and begin projects using Commercial Paper

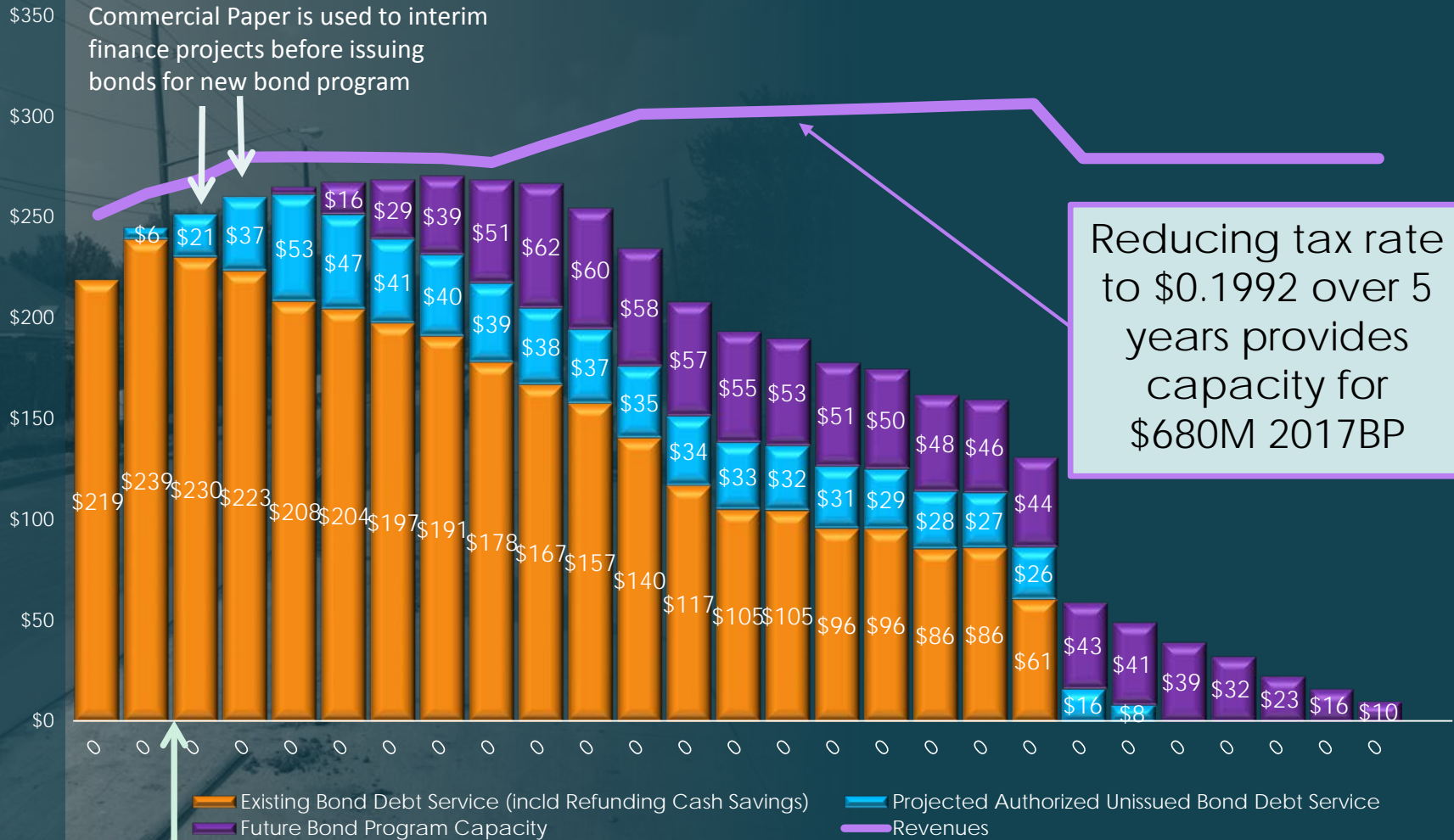
Scenario A Summary

Forecast will change

- Maintain current \$0.2324 (29%) tax rate, and use maximum capacity
 - Capacity for \$1.0B 2017 BP to be issued over 6 years

Note: Financial capacity will be updated and provided to Council as more information is available. Forecast will change.

Scenario B: Reduce to 25% or \$0.1992 Tax Rate (\$ in millions)



Potential future bond election in May/Nov 2017 (FY18) and begin projects using Commercial Paper

Scenario B Summary

Forecast will change

- Reduce the tax rate allocated to debt service over 5 years to \$0.1992 (25%)
 - Capacity for \$680m 2017 BP to be issued over 6 years
 - Shift tax rate and establish pay-as-you-go program- \$120m over same time frame of the 2017 bond program
 - Combined \$680m bonds and \$120m pay-as-you-go would provide \$800m of improvements and reduce percent of tax rate allocated to debt service to 25%

Note: Financial capacity will be updated and provided to Council as more information is available. Forecast will change.

Alternative Scenarios (A2/B2)

- Alternatively, the bond election could be delayed from 2017 to 2018
- To have net zero street degradation, additional funding would be required in the interim in addition to increasing O&M funding in each year:
 - Additional 55 lane miles and \$15m would be required in FY17
 - Additional 112 lane miles and \$31m would be required in FY18
- Certificates of obligation (10-year debt) could provide the funding

Note: These figures are based on current data. On-going data analysis will result in adjustments.

Preliminary Financial Capacity

(Forecast will change)

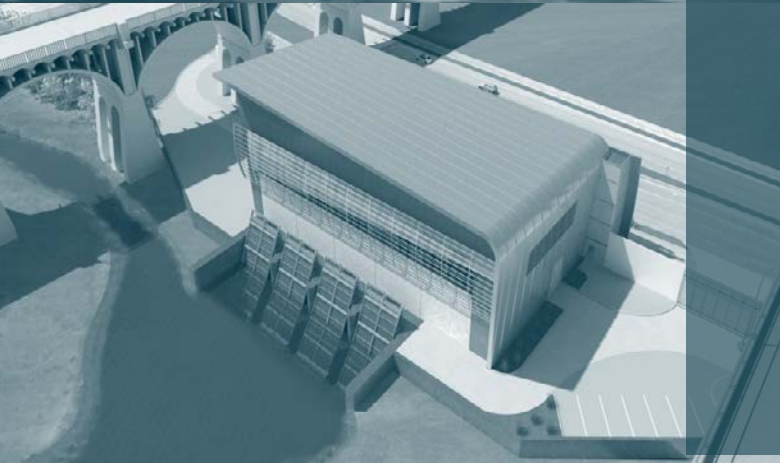
	Scenario A	Scenario A2	Scenario B	Scenario B2
Tax rate for Debt Service	Maintain \$0.2324 (29%)	Maintain \$0.2324 (29%)	Lower to \$0.1992 (25%)	Lower to \$0.1992 (25%)
Election	May or Nov 2017	2018	May or Nov 2017	2018
GO Bonds	\$1.0B	\$945M	\$680M	\$525M
Number of years of bond sales	6	5	6	5
Tax rate shift to General Fund	None	None	\$0.0332	\$0.0332
Pay as you go	\$0	\$0	\$120M	\$120M
Certificates of Obligation	\$0	\$46M	\$0	\$46M
Total of Funds for Projects	\$1.0B	\$991M	\$800M	\$691M

Note: These figures are based on current data. On-going data analysis will result in adjustments



Questions for discussion

- When should the election be held?
- Should City transition to pay-as-you-go financing?
- Other comments



Appendix A – History of Bond Programs

History of City Bond Programs

Year	Date of Election	Number of Propositions	Program Size	Tax Rate Increase Projected?	Number of Bond Issues
2012	Nov 2012	3	\$642.0m	No	3 (to-date)
2006	Nov 2006	12	\$1,353.5m	Yes (advertised but not implemented)	8 (to-date)
2005	Nov 2005	1	\$23.8m	No	1
2003	May 2003	17	\$579.0m	Yes (for some propositions)	4
1998	May 1998	11	\$543.5m	No	10*
1995	May 1995	8	\$174.7m	N/A	3
1989	May 1989	2	\$60.7m	N/A	2
1985	May 1985	11	\$428.1m	N/A	6

*Number of bond issuances timed to support Trinity River Corridor Project

Previous Bond Programs- Size & Propositions

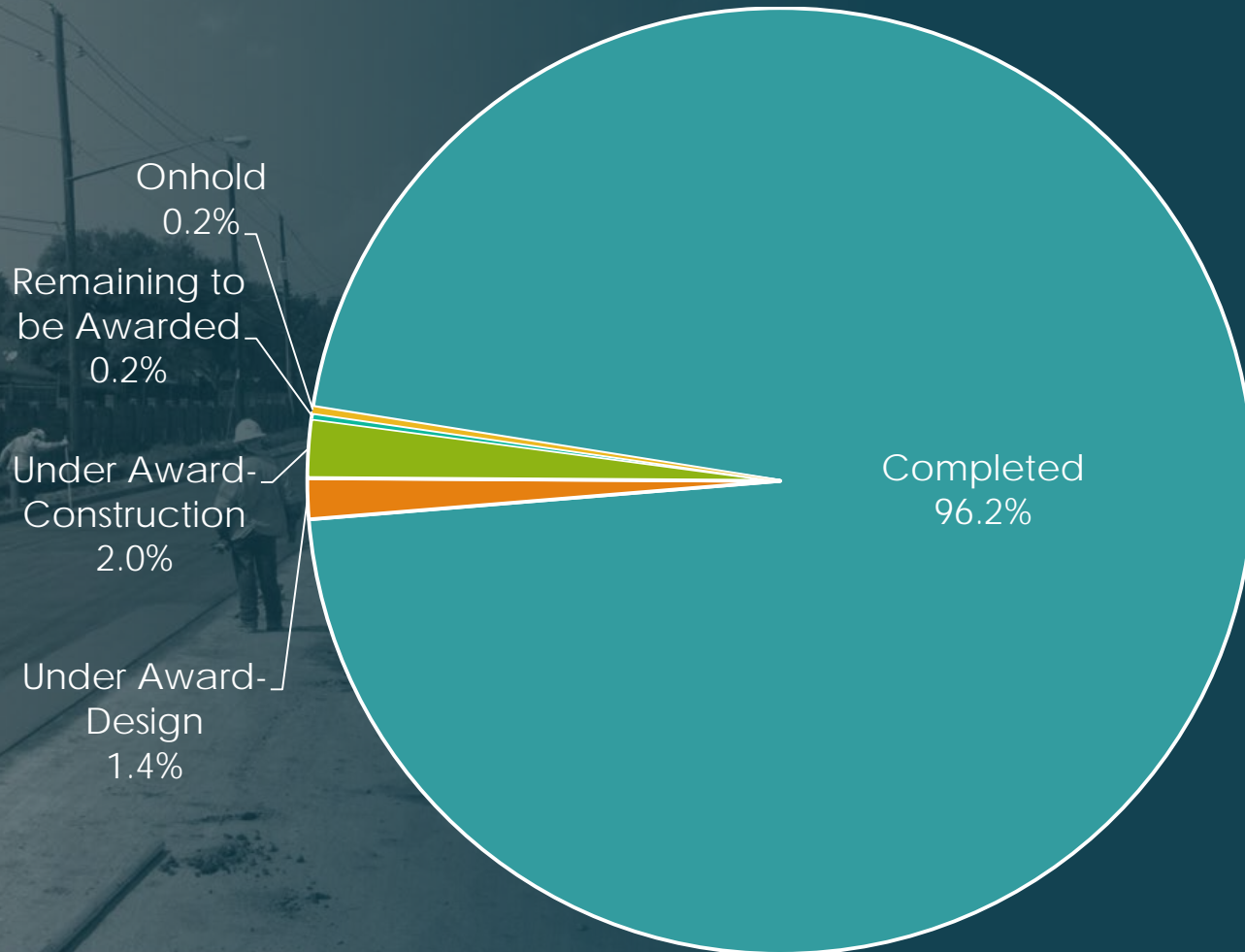
		Propositions Addressed						
Year	Program Size	Streets Alleys Sidewalks	Flood Protection	City Facilities, New Renovation & Major Repair	Park Facilities	Libraries & Cultural Facilities	Public Safety Facilities	Economic Develop
2012	\$642.0m	✓	✓					✓
2006	\$1,353.5m	✓	✓	✓	✓	✓	✓	✓
2005	\$23.8m Homeless Assist. Center							
2003	\$579.0m	✓	✓	✓	✓	✓	✓	✓
1998	\$543.5m	✓	✓	✓	✓	✓	✓	✓
1995	\$174.7m	✓		✓	✓		✓	
1989	\$60.7m	✓	✓					
1985	\$428.1m	✓	✓	✓	✓	✓	✓	

Historical Allocations by Propositions (% of '98, '03, '06, and '12 Programs)

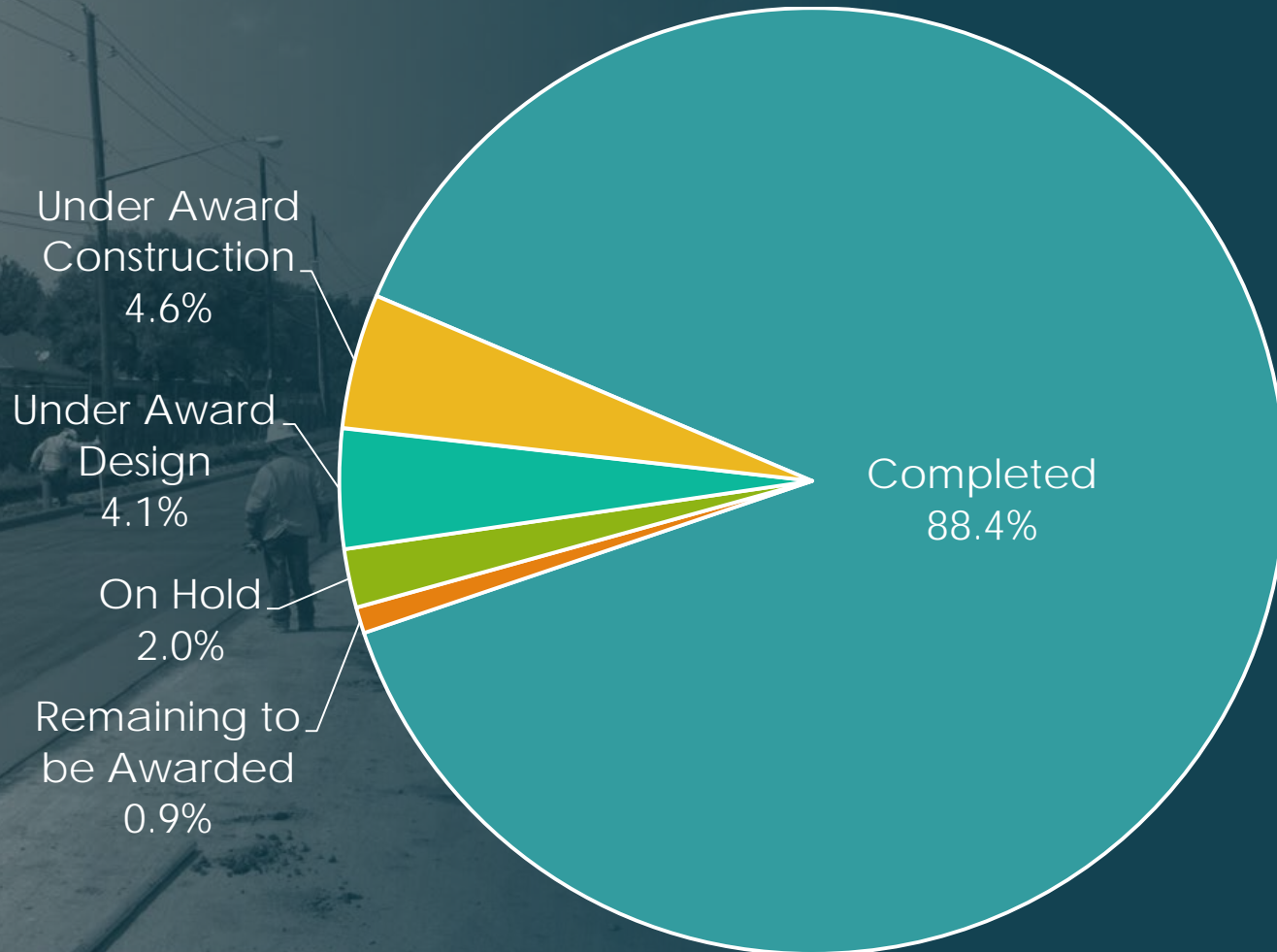


Chart reflects projects as grouped by their bond proposition on the ballot. Chart has not been modified to reflect projects that can serve multiple areas

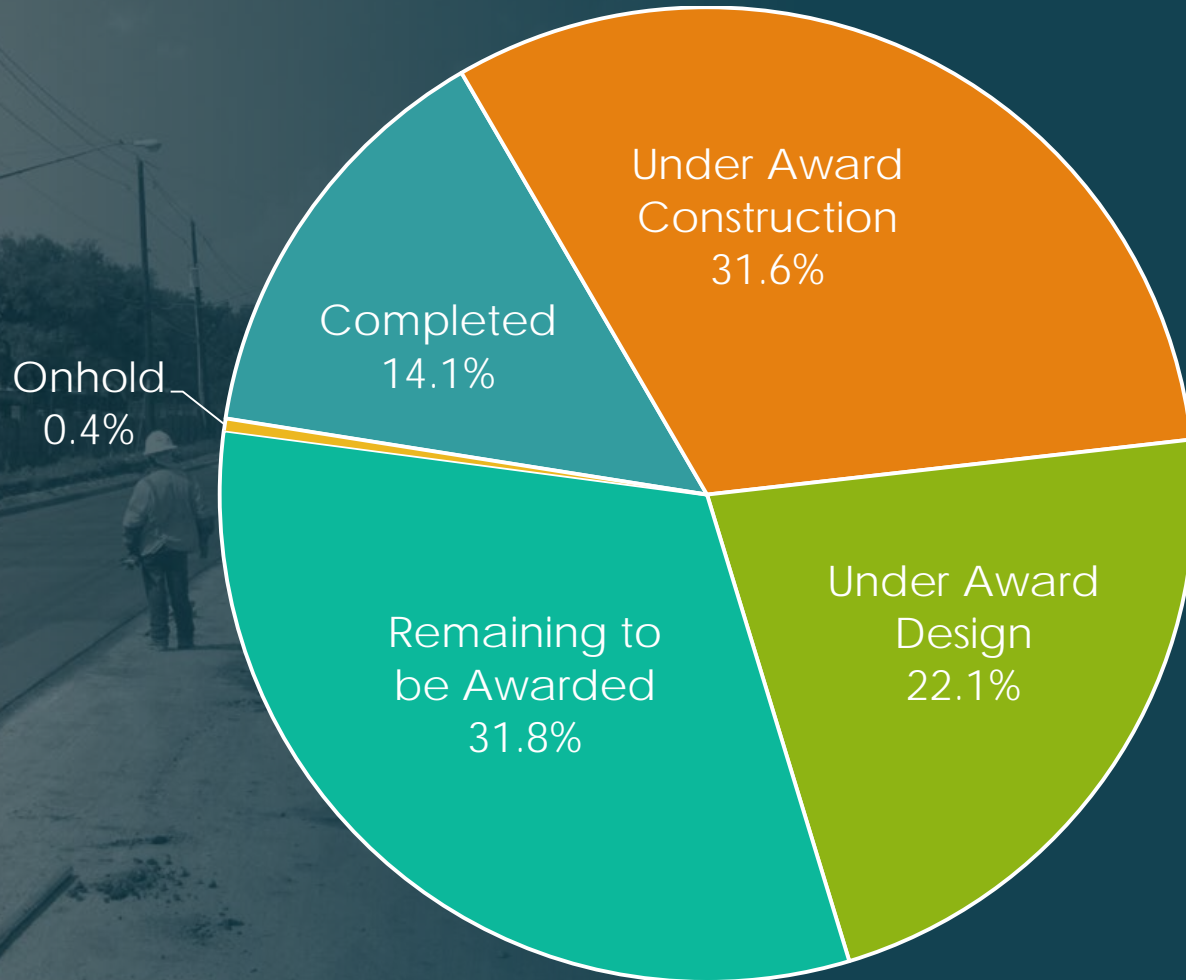
2003 Bond Program Status



2006 Bond Program Status



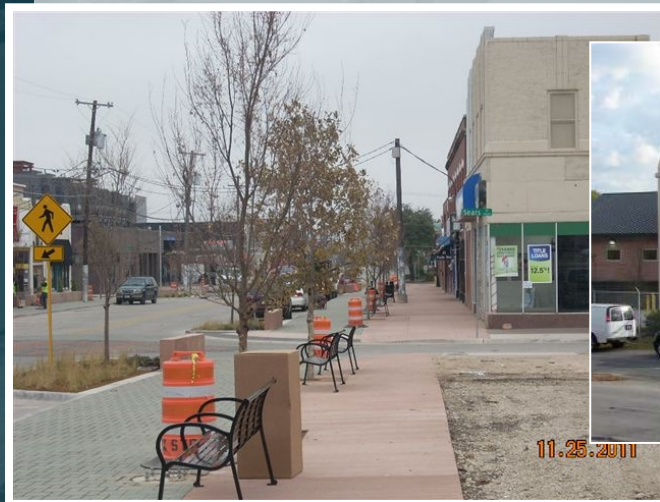
2012 Bond Program Status



Examples of Recent Bond Program Projects

- Of the 11,700 street lane miles:
 - Reconstructed 507 street lane miles
 - Resurfaced 953 street lane miles
- Implemented 3 funded pump stations
- Constructed or renovated 164 playgrounds out of a total of 215 playgrounds.

Greenville Ave. Complete Street



Pavaho Pump Station



Belo Garden



Examples of Recent Bond Program Projects

- Built 5 new libraries (Arcadia, Grauwyler, Timberglen, Prairie Creek, and White Rock)
- Constructed 11 fire stations out of a total of 58 fire stations.
- Renovated Courts portion of Old City Hall
- Repaired/improved over 100 city facilities

Fire Station 50



Streets Dept. HQ



White Rock Branch Library





Appendix B – State Tax Law Implication

Tax Law Implications of Pay-as-you-Go

- Transitioning to Pay-as-you-go (PayGo) financing has State tax law implications
- PayGo requires shifting property tax rate from Debt Service to General Fund
- Growth in General Fund property tax revenue is capped at 8%/year
- Ability to shift tax rate will depend each year on growth in certified tax roll so as not to exceed Rollback Rate
- More growth in tax base reduces ability to shift rate/fund PayGo

Tax Law Implications of Pay-as-you-Go

- Rollback rate calculation:
 - Plus - Revenue from reappraised property values (property taxed both in current and prior years)
 - Plus - Revenue from shifting tax rate between General Fund and Debt Service
 - Minus - Revenue derived from new construction
 - Minus - Revenue City pays into TIF Districts
- Revenue from above as compared to prior year property tax revenue cannot exceed 8% growth