

Memorandum



CITY OF DALLAS

DATE October 30, 2017

Honorable Members of the Government Performance & Financial Management
to 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 Update: Two Suggested Criteria
from Council Member Kleinman**

On Monday, November 6, 2017, the Office of Budget will brief the Government Performance & Financial Management Committee on the Financial Management Performance Criteria Update: Two Suggested Criteria from Council Member Kleinman. I have attached the briefing for your review.

Please let me know if you need additional information.

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

M. Elizabeth Reich
Chief Financial Officer

Attachment

c: Honorable Mayor and Members of the City Council
T.C. Broadnax, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Billerae Johnson, City Secretary (Interim)
Daniel F. Solis, Administrative Judge
Kimberly Bizer Tolbert, Chief of Staff to the City Manager
Majed A. Al-Ghafry, Assistant City Manager

Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
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

Two Suggested Criteria from Council Member Kleinman
November 6, 2017

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)
 - Consider 2 of 7 additional criteria recommended by CM Kleinman (consider other criteria at a future committee meeting)
- Review next steps

Background

- Committee considered revisions on Sept 5 and Oct 17 (see appendix for revisions discussed)
 - Change/add language – 10
 - Delete criteria – 3
 - Add new criteria – 4
- Committee supported the revisions recommended except requested further discussion on FMPC #33
- Committee requested briefing on CM Kleinman's suggestions by Jan 2018

New Criteria – CM Kleinman

- 2 of 7 suggested criteria will be discussed today, with others considered at future meeting
 1. Public Safety Strategic Priority expenses should not exceed General Fund property tax revenues
 2. Budget development policy that states the City Manager will develop and present an effective tax rate budget and a clearly delineated set of budget enhancements for consideration by the Council, or the first budget briefing must be based on the effective tax rate
 3. Debt Service Coverage Ratio: The percentage of property tax dedicated to debt service shall not exceed 20%
 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.
 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.
 6. Early termination of unused TIF capacity once a TIF grows faster than the City at large
 7. No rent subsidies in TIFs or require proactive addition to a specific TIF

New Criteria – Public Safety

- Public Safety Strategic Priority expenses should not exceed General Fund property tax revenues

	FY 2016-17 Budget	FY 2017-18 Budget
Total GF Property Tax Revenue	\$610.2m	\$644.6m
Total GF Budget	\$1,239.5m	\$1,276.4m
Public Safety Strategic Area	\$754.7m	\$756.2m
Percent of GF Property Tax	123.7%	117.3%
Percent of Total GF	60.9%	59.3%
Police & Fire departments	\$731.6m	\$732.5m
Percent of GF Property Tax	119.8%	113.6%
Percent of Total GF	59.0%	57.4%



New Criteria – Public Safety

- Public Safety Strategic Priority budget exceeds 100% of General Fund property tax revenue in FY 2017-18
- \$111.6m reduction in Public Safety would be required to comply with this criteria
- State mandated increase in Pension, and Council approved Meet and Confer agreement complicate setting a cap on Public Safety spending
- Recommendation: Staff does not support this criteria

New Criteria – Effective Tax Rate

- Budget development policy that states the City Manager will develop and present an effective tax rate budget and a clearly delineated set of budget enhancements for consideration by the Council, or the first budget briefing must be based on the effective tax rate

	FY 2017-18 Proposed Rate	FY 2017-18 Adopted Rate	FY 2017-18 Effective Rate
Tax Rate (per \$100 value)	78.25¢	78.04¢	74.96¢
Revenue	\$904m	\$901.6m	\$866m
Revenue variance to proposed rate	N/A	(\$2.4m)	(\$38m)



New Criteria – Effective Tax Rate

- City Charter requires, “the City Manager shall submit to the council a budget estimate of the revenue of the city and the expense of conducting the affairs thereof for the ensuing fiscal year”
- An effective tax rate criteria may restrict the City Manager from being able to recommend a budget necessary to conduct the affairs of the city based upon his/her professional judgement and the needs of the community
- A requirement to significantly reduce expenses will create unnecessary confusion and complaints from citizens
- Recommendation: Staff does not support this criteria

Next Steps

- Receive feedback from Government Performance and Financial Management Committee
- Seek City Council approval of revisions to FMPC on Dec 13
- Provide on-going briefings to committee on additional revisions to FMPC throughout FY 2017-18



Financial Management Performance Criteria

Two Suggested Criteria from Council Member Kleinman
November 6, 2017

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Office of Budget

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Office of Budget



Appendix

FMPC Revisions Discussed on Sept 5 and Oct 16



Review / Revisions FMPC #6

Operating Program

- Each enterprise fund of the City will maintain revenues which support the full (direct and indirect) cost of the fund. In addition, each Enterprise Fund and Internal Service Fund should maintain at least 30 days of budgeted operations and maintenance expense in net working capital, and avoid cash deficits.
- Status – In compliance
- Recommendation – eliminate Internal Service Funds from this criteria
- “...In addition, each Enterprise Fund ~~and Internal Service Fund~~ should maintain at least 30 days of budgeted operating and maintenance expense in net working capital, and avoid cash deficits. **Enterprise Funds will maintain positive cash balances.**”

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Review / Revisions FMPC #7

Operating Program

- The Emergency Reserve, a component of unassigned fund balance, shall be used to provide for temporary financing of unanticipated or unforeseen extraordinary needs of an emergency nature; for example, costs related to a natural disaster or calamity, a 5% decline in property values, or an unexpected liability created by Federal or State legislative action.
- Status – In compliance
- Recommendation – add language to specify the amount of this reserve
- “Management shall designate up to 20% of the General Fund’s projected unassigned fund balance but not less than \$25 million to the Emergency Reserve.”
- “Use of Emergency Reserve shall require a super-majority of City Council.”

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Review / Revisions FMPC #9

Operating Program

- The unassigned fund balance of the General Fund, which includes the Emergency and Contingency Reserves, shall be maintained at a level not less than 30 days of the General Fund operating expenditures less debt service. (The Risk Reserve is not included in this calculation.)
- Status – In Compliance
- Recommendation – increase reserve minimum to 40 days and add language
- “The unassigned fund balance...shall be maintained at a level not less than 40 days of the General Fund operating expenditures less debt service. (The Risk Reserve is not included in this calculation.) Funds shall be allocated from unassigned fund balance only after the City Manager has prepared an analysis and presented it to the City Council.”

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Review / Revisions FMPC #11

Operating Program

- A General Fund liability fund shall be budgeted annually to provide for outstanding and anticipated claims expense and resulting liabilities during the budget year. An individual judgement settlement cap is set at \$5,000,000. The Emergency Reserve will be accessed should the cap be exceeded. An independent actuarial analysis shall be conducted every two years to determine the appropriate level of this fund.
- Status – In Compliance
- Recommendation – add language to allow use of Liability Fund for affirmative litigation.
- “...Additionally, the liability fund will include an allocation for unanticipated affirmative litigation.”

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Review / Revisions FMPC #15

Operating Program

- An annual review of selected fees and charges will be conducted to determine the extent to which the full cost of associated services is being recovered by revenues. All fees and charges will be reviewed at least once every four years.
- Status – In compliance
- Recommendation – add language
- “...Where feasible and desirable, the City shall set fees and charges to achieve full cost recovery. The City may subsidize the services funded by fees or charges based on other City objectives (examples include: to remain competitive, demand, use of services, etc.).”

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Review / Revisions FMPC #22

Capital and Debt Management

- Per Capita General Obligation Debt including Certificates of Obligation, Equipment Acquisition Notes, and General Obligation Bonds will be managed to not exceed 10% of the latest authoritative computation of Dallas' per capita annual personal income.
- Status – In compliance
- Recommendation – add language for source of information
- “...authoritative computation of Dallas' per capita annual personal income **as determined by the US Department of Commerce Bureau of Economic Analysis.**”

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Review / Revisions FMPC #25 & #27

Capital and Debt Management

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| <ul style="list-style-type: none">• 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. | <ul style="list-style-type: none">• Status – In compliance• Recommendation – no change – see criteria #27 |
| <ul style="list-style-type: none">• Certificates of Obligation will be limited to projects consistent with Financial Management Performance Criteria for debt issuance. | <ul style="list-style-type: none">• Status – In compliance• Recommendation – delete this criteria; redundant to criteria #25 |

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Review / Revisions FMPC #33

Capital and Debt Management

- Pursuant to the provisions of the Texas Tax Code, the City creates reinvestment zones both for tax increment financing (TIF RZ) and for the tax abatement (TA RZ). TA RZs are created for the purpose of granting tax abatement on real or business personal property or both located in the TA RZ. For the FMPC, TIF RZs and TA RZs shall be referred to as Reinvestment Zones (RZ)
- No RZ can be created if the total property tax base of certain TIF RZs plus the total real property and business personal property tax base (if there is business personal property tax being abated) of TA RZs exceeds 10% of the total tax base (all real and business personal property) of the City. Reinvestment zones that are no longer collecting tax increment or abating taxes (i.e. now contributing 100% to the City of Dallas property tax revenues) will be excluded from the calculation.
- Status – In compliance
- Recommendation – increase cap from 10% to 15%
- “No RZ can be created if the total property tax base of certain TIF RZs plus the total real property and business personal property tax base (if there is business personal property tax being abated) of TA RZs exceeds **15%** of the total tax base (all real and business personal property) of the City....”

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Review / Revisions FMPC #41

Accounting, Auditing, and Financial Planning

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| <ul style="list-style-type: none">• The City will establish and maintain a high degree of accounting practices; accounting practices will conform to generally accepted accounting principles as set forth by the authoritative standard setting body for units of local government. | <ul style="list-style-type: none">• Status – In compliance• Recommendation – replace language• “The City will establish and maintain a high degree of accounting practices that will conform to generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB). The GASB is the independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments.” |
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Review / Revisions FMPC #42

Accounting, Auditing, and Financial Planning

- An annual audit will be performed by an independent public accounting firm, with the subsequent issue of an official Comprehensive Annual Financial Report (CAFR) within 120 days of the City's fiscal year end.
- Status – Not in compliance
- Recommendation – replace language
- “Management will contract with an independent public accounting firm for an annual audit, with the subsequent issue of an official Comprehensive Annual Financial Report (CAFR) in conformity with GAAP and applicable State statutes.”

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Review / Revisions FMPC #44

Budget

- Revenues and expenditures will be projected annually for at least three years beyond the current budget projections.
- Status – In compliance
- Recommendation – extend period from three to five years and add Enterprise Funds to the criteria
- Management will project revenues and expenditures annually for at least five years beyond the current year for the General Fund and each Enterprise Fund of the City.”

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Review / Revisions FMPC #48

Cash Management

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| <ul style="list-style-type: none">• Investments will be made in conformance with the City's investment policy, with the primary objectives of preservation of capital, maintenance of sufficient liquidity, and maximization of return on the portfolio. | <ul style="list-style-type: none">• Status – In compliance• Recommendation – delete this criteria; guidance is provided in investment policy• As required by State law, the City invests all funds under its control according to a City Council approved Investment Policy, which must be reviewed and reapproved annually by City Council |
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Review / Revisions FMPC #49

Cash Management

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| <ul style="list-style-type: none">• The accounting system and cash forecasting system will provide regular information concerning cash position and investment. | <ul style="list-style-type: none">• Status – In compliance• Recommendation – delete this criteria; objectives are included in procedures |
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Review / Revisions FMPC–New

Budget

- Biennial budget – no current criteria
- Status – new
- Recommendation – add criteria
- Each year, the City Manager shall develop and present to the City Council a two-year balanced budget. City Council will adopt a one-year budget and set the property tax rate in accordance with State law annually. Expenditures shall be budgeted and controlled so as not to exceed current revenues in each year or City Council approved use of fund balance.

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Review / Revisions FMPC–New

Operating Program

- Employee Benefits Fund reserve balance – no current criteria
- Status – new
- Recommendation – add criteria
- The Employee Benefits Fund will maintain a cash reserve of at least the anticipated end-of-year claims incurred but not paid, and other current liabilities. This does not include incurred but not reported claims (IBNR). The Employee Benefits Fund will maintain a positive cash balance.
- Effective beginning in FY 2018-19

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Review / Revisions FMPC–New

Operating Program

- 65/over or disabled exemption – no current criteria
- Status – new
- Recommendation – add criteria
- The City will compare the current 65 and over or disabled exemption to the most recent annual Consumer Price Index (CPI) every two years, and provide the analysis to the City Council for consideration prior to June 30 for possible modification of this property tax exemption. Changes to property tax exemptions must be provided to the appraisal districts no later than June 30.

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Review / Revisions FMPC–New

Capital and Debt Management

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| <ul style="list-style-type: none">• GO Debt Service reserve – no current criteria | <ul style="list-style-type: none">• Status – new• Recommendation – add criteria• The City shall maintain a reserve in the General Obligation Debt Service Fund equal to 5% of the following year's annual principal and interest debt service expense. The debt service fund tax rate and/or future debt will be structured to maintain this debt service reserve. |
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