

Memorandum



CITY OF DALLAS

DATE January 20, 2006

TO Members of the Finance, Audit & Accountability Committee: Chair Mitchell Rasansky, Chair, Vice-Chair Gary Griffith, Bill Blaydes, Mayor Pro Tem Donald Hill, Linda Koop, Ron Natinsky, Ed Oakley, and Steve Salazar

SUBJECT Briefing on Sale of Downtown Connection TIF District Bonds

At your Finance, Audit and Accountability Committee meeting on January 23, 2006, you will be briefed on the preparation for sale of Downtown Connection TIF District Bonds for the renovation of the Mercantile block. Attached for your review is a copy of that briefing.

If you have any questions, please contact me at 214-670-1626.

A handwritten signature in cursive script that reads "Jim Wood".

Jim Wood, Assistant Director
Office of Economic Development

cc: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Shirley Acy, City Secretary
Tom Perkins, City Attorney
Paul Garner, Interim City Auditor
Judge Jay Robinson, Judiciary
Charles W. Daniels, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Ryan S. Evans, Assistant City Manager
Ramon F. Miguez, Assistant City Manager
Tomas Gonzalez, Assistant City Manager
David K. Cook, Chief Financial Officer
Chandra Marshall-Henson, Assistant to the City Manager

TIF Bond Issuance

Downtown Connection TIF District



City of Dallas

Office of Economic Development
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Purpose of Briefing

- The purpose of this briefing is to:
 - Explain financing plans for the Mercantile redevelopment project.
 - Solicit a committee recommendation to the City Council to authorize the preparation of the bond sale.

Background

- In June 2005, City Council took several actions to address the challenges to achieving critical mass in downtown Dallas:
 - Created the Downtown Connection TIF District (TIF District) to provide funding primarily for catalyst projects such as the Mercantile block.

Background (cont.)

- In June 2005 (cont.)
 - Approved a term sheet on the Mercantile block and directed the City Manager to finalize negotiations on the deal.
 - Created the Downtown Dallas Development Authority (DDDA)

Background (cont.)

- The City staff, financial advisors, and bond counsel developed a viable financial approach to reimburse Forest City for eligible TIF expenditures.
- This structure allows the Downtown Dallas Development Authority (DDDA) to issue bonds, subject to Council approval, to finance costs of plan improvements.

Background (cont.)

- In August 2005 the City Council authorized a development agreement with Forest City for the renovations of the Mercantile block, the Continental Building and the Atmos Complex.
- As part of that agreement, the City agreed to provide funds to pay project costs for renovations of the Mercantile block, with the first cash available not later than April 1, 2006.

Background (cont.)

- Dallas County has agreed to participate in the TIF District at 55% of their increment for up to 20 years or when their increment has totaled \$18.5M.
- The County's participation is contingent on \$3M being made available for affordable housing from the proceeds of the bond sale.
- All conditions for County participation are included in Appendix A.



Bond Financing

- To proceed with the issuance of bonds, the City, the TIF District Board and the DDDA shall enter into an agreement with the following terms:
 - TIF revenues will be transferred from the Tax Increment Fund to the DDDA.
 - The DDDA agrees to use the funds received to secure bonds and agrees to assume the duties and responsibilities delegated to it by the City, subject to the conditions set forth in the agreement.

Bond Financing (cont.)

- The DDDA will issue bonds, subject to approval and authorization by City Council to fund Mercantile block project costs.
- The DDDA will assign available revenues to the trustee to hold for the benefit of bond owners.
- The trustee would effect payment of debt service on the bonds to the extent “Available Revenues” are sufficient to make debt service payments



Bond Financing (cont.)

- Those “Available Revenues” would include:
 - The tax increments transferred to the DDDA under the terms of the agreement;
 - The grant moneys that may be received from the City if the City annually appropriates to the DDDA grant money under the terms of the agreement in furtherance of fulfilling the project and financing plan of the TIF District; and
 - Other moneys, primarily investment earnings.

Bond Financing (cont.)

- The City would not be legally obligated to pay debt service on the bonds; it would be legally obligated to cause the transfer of tax increments deposited to the Tax Increment Fund to the DDDA and has also agreed to appropriate general funds for any debt service shortfall in TIF revenues on an annual basis.
- Failure to allocate general funds for this purpose, if necessary, would negatively affect the City's bond rating.

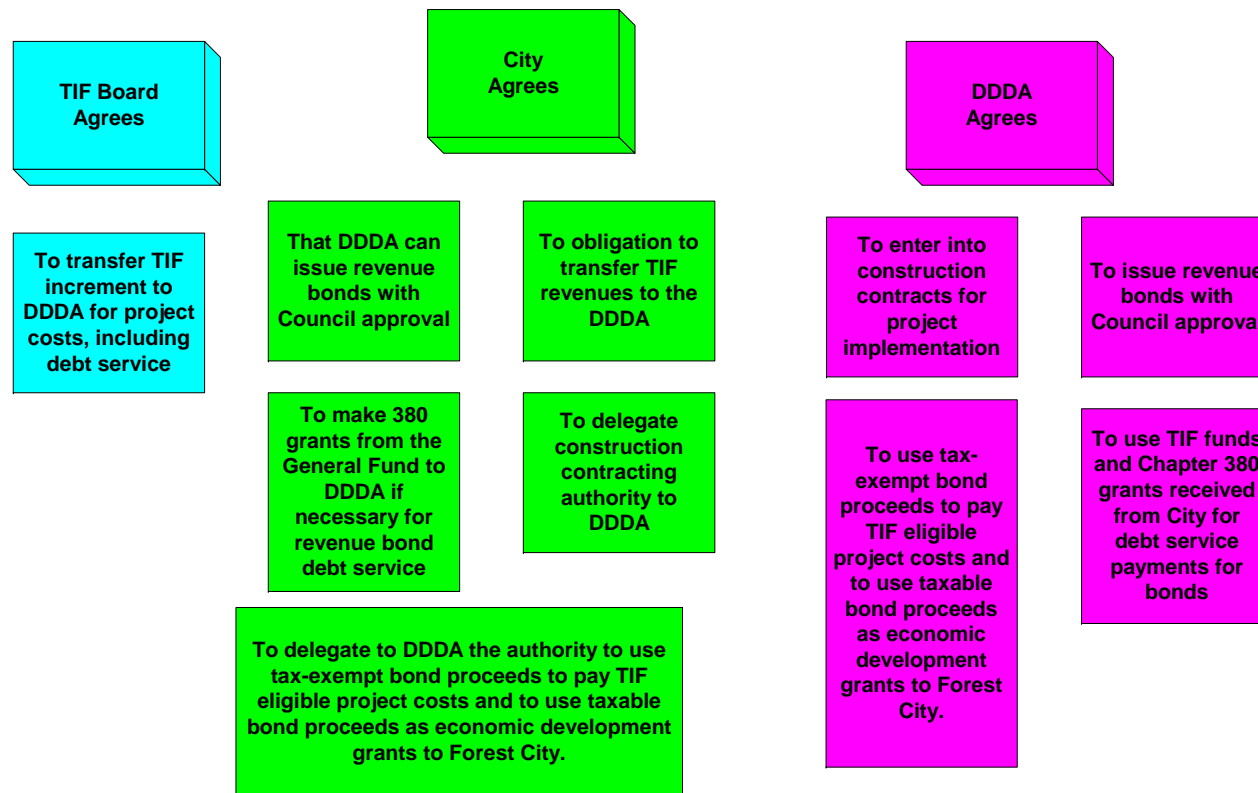


Bond Financing (cont.)

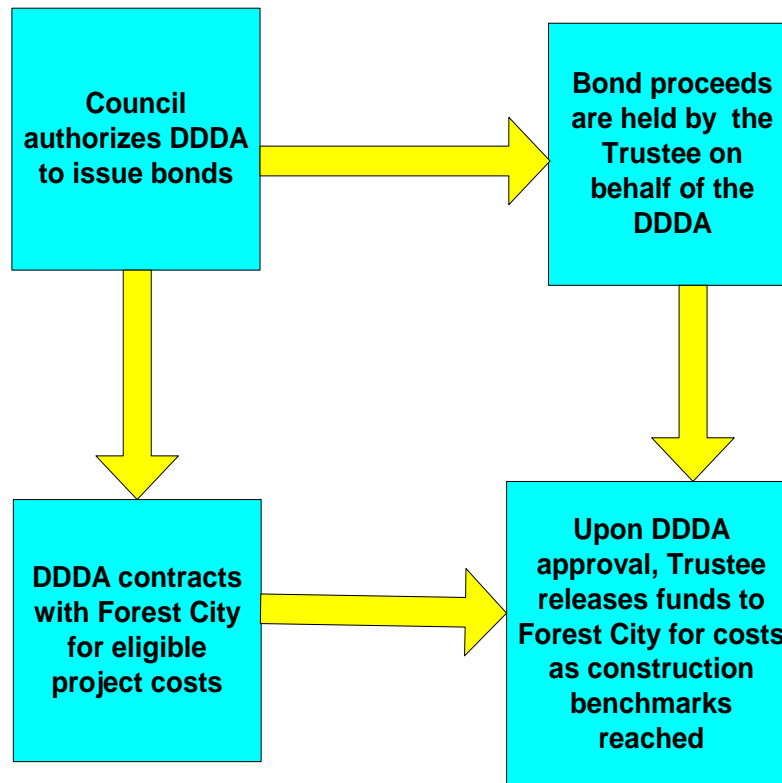
- This approach has been approved by the attorney general's office and used by numerous communities to finance TIF projects (specifically Houston, Fort Worth and Corpus Christi).



Tri-Party Agreement



Project Cost Payments



Proposed Bond Structure

- Issuer - Downtown Dallas Development Authority (DDDA)
- Credit Pledge
 - TIF Revenues
 - City of Dallas General Fund Annual Appropriation

Proposed Bond Structure (cont.)

- Amortization - 30 Years
- Anticipated Rating
 - The bond ratings from Standard & Poor's and Moody's Investors Services are expected to be in the AA category (one or two notches below the General Obligation bond rating of the City).

Proposed Bond Structure (cont.)

- Bond Type - Fixed Rate
 - Deferred Interest Bonds: Bond payments of P&I will be deferred for the initial two years of issuance to mitigate the risk that general fund obligations will need to be appropriated (As was the case in 2005 POB issue)
 - Current Interest Bonds (Usually Sold by City)

Proposed Bond Structure (cont.)

- Key Assumptions
 - City of Dallas portion of TIF incremental tax revenues is 90% of property tax rate (\$0.7417) for 30 years
 - County portion of TIF incremental tax revenues is 55% of property tax rate (\$0.2139) for 20 years

Proposed Bond Structure (cont.)

- Key assumptions (cont.)
 - Projected net annual TIF incremental tax revenues available for debt services payments in 2010 are \$5.8 million based on projects that are under construction or announced, producing debt service coverage of 1.50x+
 - One tax exempt and one taxable bond issuance in 2006 and 2007 (2 issuances) totaling \$65.3 million to coincide with Mercantile Project draw schedule.

Proposed Bond Structure (cont.)

- Projected interest rates will be provided at the briefing, if available.

Proposed Bond Structure (cont.)

- Projections reflect minimum annual debt service coverage of 1.50X in addition to 1 year funded debt service reserve account held by the Bond Trustee.
- Principal and interest payments are deferred in the first two years of bond issuance to compensate for the lack of incremental tax revenue in the early years.



Proposed Bond Structure (cont.)

- Surplus TIF revenues after debt service requirements are projected to total \$170 million over a 30-year period, but no additional availability is anticipated during the first 10 years.
- Future allocation policy will require the TIF Board and Council approval to ensure adequate protection of ongoing general fund obligations.



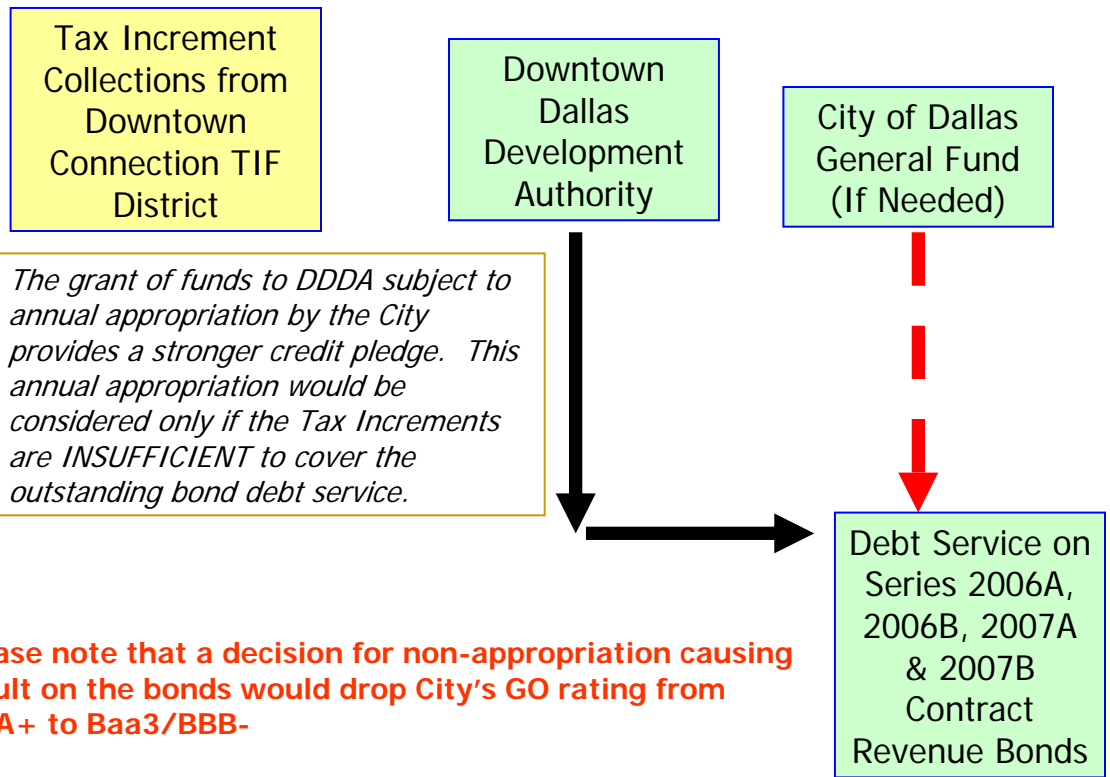
Bond Sale Schedule

Type of Bond	March 2006	March 2007
Tax exempt (Series A)	\$ 16,513,173	\$ 8,808,370
Taxable (Series B)	\$ 32,211,412	\$ 7,827,315
Total	\$ 48,724,585	\$ 16,635,685

The amount of each sale may be adjusted prior to final Council approval.

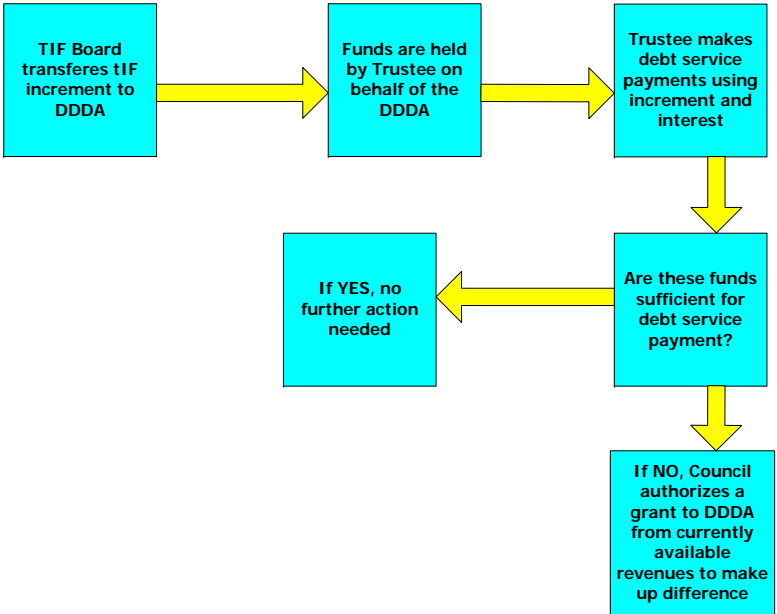
Appendix B details estimated expenses for the issuance of the bonds.

Flow of Funds



**** Please note that a decision for non-appropriation causing a default on the bonds would drop City's GO rating from Aa1/AA+ to Baa3/BBB-**

Debt Service Payments



Recommendation

- Staff recommends that the Committee recommend to the full City Council that the City Manager be authorized to prepare bond sale for Council consideration and approval on or about March 8, 2006.



Next Steps

- Council authorization to prepare bond sale – Feb. 8
- Ratings meetings with S&P and Moody's – Feb. 24
- Distribute Official Statement for bond sale – Feb. 28
- Council approval of bond sale – Mar. 8
- DDDA authorization to sell bonds and sign purchase agreement, after Council approval – Mar. 8
- Delivery of proceeds from sale - Mar. 28



Appendix A – Conditions to County Participation



City of Dallas

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COURT ORDER

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ORDER NO. 2005 1979

DATE: OCTOBER 11, 2005

STATE OF TEXAS \$
COUNTY OF DALLAS \$

BE IT REMEMBERED, at a regular meeting of the Commissioners Court of Dallas County, Texas, held on the 11th day of October, 2005, on motion made by Kenneth A. Mayfield, Commissioner of District No. 4, and seconded by John Wiley Price, Commissioner of District No. 3, the following Order was adopted:


WHEREAS, on October 4, 2005, the Dallas County Commissioners Court was briefed on a request to participate in the City of Dallas Downtown Connection tax increment finance (TIF) district; and

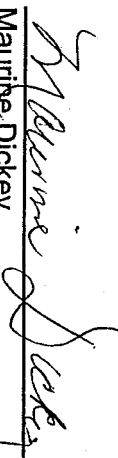
WHEREAS, the County's economic future will largely be dependent upon downtown's ability to continue to contain more assessed valuation than many of the County's individual cities and to serve as one of the largest employment centers in the North Central Texas region; and


WHEREAS, it is anticipated that participation in the Downtown Connection TIF district will help protect the economic asset that downtown represents.

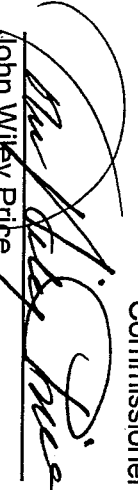
IT IS THEREFORE ORDERED, ADJUDGED AND DECREED that Dallas County shall participate in the City of Dallas Downtown Connection TIF district, beginning on January 1, 2006, subject to the attached terms and conditions, by providing 55% of any generated increment for improvements eligible under the County's TIF policy, until either December 31, 2025, the County's total net present value contribution reaches \$18.5 million, or the City of Dallas terminates the district, whichever occurs first, and that the County Judge is authorized to sign the related TIF district participation agreement.

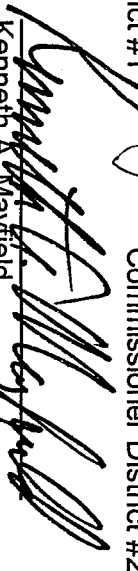
DONE IN OPEN COURT this the 11th day of October, 2005.

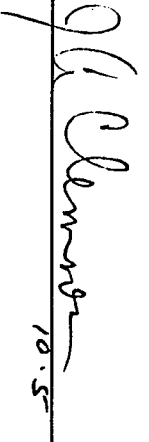

Margaret Kellher
County Judge


Maurine Dickey
Commissioner District #1


Mike Cantrell
Commissioner District #2


John Wiley Price
Commissioner District #3


Kenneth A. Mayfield
Commissioner District #4

Recommended by:  10.5

TERMS AND CONDITIONS FOR DALLAS COUNTY PARTICIPATION IN DOWNTOWN CONNECTION TIF DISTRICT

- TIF district will finance approximately \$189.8 million of activities/public improvements.
- City of Dallas will provide 90% of its increment for thirty years.
- Primary emphasis of TIF district will be to have downtown contain 10,000 housing units within twenty years.
- In the event that TIF bonds or another form of up-front financing is not provided for the Mercantile project within eighteen months of the adoption of the TIF district's final project/finance plan, then the County shall have the right to reassess the degree to which it will continue to participate in this district.
- County's affordable housing requirement will be satisfied by having TIF district provide at least \$3 million of funding for affordable housing; this funding shall be included in any TIF bonds or other forms of up-front financing that will be provided for the Mercantile project. In addition, all other TIF-assisted projects not associated with the City of Dallas/Forest City agreement for the Mercantile project will meet the City's affordable housing policy.
- County increment for the decking of Woodall Rodgers will only be provided when:
 - (1) funds for the Mercantile project (approximately \$60 million), affordable housing (\$3 million), the Main Street Garden, Pacific Plaza, and Griffin Street Garden park projects (\$4 million), and the extension of the trolley from Ross to Bryan (\$3 million) have been provided/reserved; (2) if all of the funding for the decking project has been obtained by December 31, 2015; and (3) when an engineering/sound study which satisfactorily concludes that such decking is feasible and reasonable has been conducted, and the County concurs with this study's findings and conclusions.
- Excluding the funding for the decking of Woodall Rodgers and its related improvements, a total of no more than \$2.5 million of TIF district assistance will be allocated for projects within the Uptown portion of the TIF district.

Appendix B – Estimate of Total Bond Issuance Costs and M/WBE Participation



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**Downtown Dallas Development Authority
Contract Tax Increment Revenue Bonds**

Estimate of Total Bond Issuance Costs and M/WBE Participation

Co-Bond Counsel

McCall, Parkhurst & Horton L.L.P. (Vendor #193173)	\$ 100,000	33.9%
Delgado, Acosta, Braden, and Jones - HMMB29271N1106 (Vendor #504755)	\$ 35,000	11.8%

Co-Financial Advisors

First Southwest Company (Vendor #193056)	\$ 30,840	10.4%
Estrada Hinojosa - HMMB291173Y1106 (Vendor #259910)	\$ 20,560	7.0%

Debt Analysis/Structuring Fees

First Southwest Company (Vendor #193056)	\$ 22,400	7.6%
Estrada Hinojosa - HMMB291173Y1106 (Vendor #259910)	\$ 5,600	1.9%

Out-of-Pocket Expenses

First Southwest Company (Vendor #193056)	\$ 10,000	3.4%
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Official Statement Typing

First Southwest Company (Vendor #193056)	\$ 1,500	0.5%
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Official Statement Printing

Munoz Printing Co. - HMMB27269N0506 (Vendor #129044)	\$ 8,000	2.7%
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Rating Agencies

Moody's Investors Service (Vendor #951236)	\$ 13,000	4.4%
Standard & Poor's (Vendor #954974)	\$ 21,000	7.1%

Auditor

KPMG L.L.P. (Vendor #092122)	\$ 5,000	1.7%
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Trustee Counsel

US Bank, National Association (Vendor #355655)	\$ 3,500	1.2%
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Filing Fee

Attorney General (Vendor #344989)	\$ 19,000	6.4%
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Total Issuance Costs	<u>\$ 295,400</u>	<u>100%</u>
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Total M/WBE Participation as % of Total Issuance Costs: 23.4%