

# Memorandum



CITY OF DALLAS

DATE March 2, 2012

TO Honorable Members of the Budget, Finance, & Audit Committee: Jerry R. Allen (Chair), Tennell Atkins (Vice Chair), Monica R. Alonzo, Scott Griggs, Ann Margolin

SUBJECT Financial Trends Overview

On Monday, March 5, 2012, at the Budget, Finance, and Audit Committee meeting, you will be provided with a briefing on Financial Trends Overview. The briefing will be provided by Mr. Ben Kohnle, Audit Partner with Grant Thornton LLP. The briefing material is attached for your review.

Please contact me if you need additional information.

A handwritten signature in blue ink that reads "Jeanne Chipperfield".

Jeanne Chipperfield  
Chief Financial Officer

Attachment

C: Honorable Mayor and Members of the City Council  
Mary K. Suhm, City Manager  
Rosa A. Rios, Acting City Secretary  
Thomas P. Perkins, Jr., City Attorney  
Craig D. Kinton, City Auditor  
C. Victor Lander, Administrative Judge  
A.C. Gonzalez, First Assistant City Manager  
Ryan S. Evans, Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Forest E. Turner, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Edward Scott, City Controller  
Stephanie Pegues-Cooper, Assistant to the City Manager

# Financial Trends Overview

City of Dallas, Texas

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**March 5, 2012**

**Presenters:**

**City of Dallas:**

**Jeanne Chipperfield, CFO**

**Edward Scott, Controller**

**Grant Thornton:**

**Ben Kohnle – Engagement Partner**

**Dan Barron – Quality Partner**

# Agenda

- Background
- Review City of Dallas Financial Trends (2007-2010)
- Evaluate Trends in Comparison to Other Four Largest Cities in Texas
- Discuss Key Observations
- Questions & Answers

# Financial Highlights - Summary

<u>Government-Wide:</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Governmental:</b>				
– Change in net assets (deficit)	\$ 398	\$ (2)	\$ 14	\$ (9)
– Total net assets	1,936	1,538	1,540	1,526
– Ending unrestricted net assets (deficit)	(266)	(207)	(178)	(113)
– Capital assets, net	3,119	2,653	2,488	2,256
<b>Business-type:</b>				
– Change in net assets	69	70	111	122
– Total net assets	2,913	2,844	2,774	2,664
– Ending unrestricted net assets	195	186	222	206
– Capital assets, net	4,658	4,508	4,339	4,129
<u>Governmental:</u>				
Tax Rate (per \$100 valuation)				
Total	\$ 0.7479	\$0.7479	\$0.7479	\$0.7292
General Fund	0.4918	0.5230	0.5196	0.5448
Debt Service	0.2561	0.2249	0.2283	0.1844
Taxable Assessed Valuation (in billions)	\$ 87.3	\$ 90.5	\$ 84.5	\$ 76.1
Total General Obligation Bonds	\$ 1,510	\$ 1,512	\$ 1,404	\$ 1,206
Debt Service expenditures as a percentage of non-capital expenditures	19.97%	17.34%	16.31%	14.53%
<b>General Fund Balance:</b>				
Total	\$ 92.0	\$ 104.0	\$ 118.3	\$ 133.7
Unreserved	64.7	78.3	91.5	86.6
General Fund Expenditures	\$ 999.8	\$1,015.5	\$1,033.0	\$ 970.8
Unreserved General Fund balance as a percentage of expenditures	6.47%	7.71%	8.86%	8.92%
Excess (deficiency) of revenues over (under) expenditures	\$ (35.7)	\$ (17.3)	\$ (33.1)	\$ 21.6
Transfers in (out) of General Fund, net	\$ 18.8	\$ (2.7)	\$ (5.6)	\$ (29.3)

# Financial Highlights - Summary

<u>Business-Type:</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Income (loss) before transfers and contributions:				
– Dallas Water Utilities	\$ 44.4	\$ 58.3	\$ 74.6	\$ 82.3
– Convention Center	(3.3)	(8.1)	2.5	6.3
– Airport Revenue	17.1	7.5	8.1	1.5
Total Capital Assets, net				
-- Dallas Water Utilities	\$ 3,660	\$ 3,513	\$3,331	\$3,120
-- Convention Center	539	555	573	580
-- Airport Revenue	457	437	432	427
Ending net assets:				
– Dallas Water Utilities	\$ 2,107	\$ 2,064	\$ 1,996	\$1,903
– Convention Center	295	303	314	311
– Airport Revenue	508	471	452	435
Revenue Bond Coverage:				
– Dallas Water Utilities (minimum requirement 1.25)	1.40	1.43	1.52	1.40
– Convention Center	1.8	1.7	1.4	1.3
– Airport Revenue	13.2	10.5	8.6	6.4
Internal Service Fund Balance (deficit):				
– Risk Funds fund deficit	\$ (84.0)	\$ (94.7)	\$ (78.9)	\$ (66.1)
– Risk Funds claims total liability	86.3	93.8	93.9	90.6
– Risk Funds fund deficit as a % of total general fund balance	91.3%	91.1%	66.4%	49.4%
Net Other Post Employment Benefit "OPEB" obligation	\$ 96.3	\$ 73.2	\$ 36.8	N.A.
Landfill closure and post-closure liability	\$ 32.8	\$ 31.7	\$ 30.5	\$ 29.9

# Financial Highlights – Government-Wide

## Definitions:

- "Change in net assets (deficit)": essentially "net income (loss)"
- "Total net assets (deficit)": the excess (deficit) of assets vs. liabilities
- "Unrestricted net assets": "remaining" net assets after deducting "net investment in capital assets" and "restricted" components
- "Capital Assets, net": long-term capital assets, net of accumulated depreciation

## Financial Trends:

Government-Wide:	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Governmental:				
Change in net assets (deficit)	\$ 398	\$ (2)	\$ 14	\$ (9)
Total net assets	1,936	1,538	1,540	1,526
Ending unrestricted net assets (deficit) (1)	(266)	(207)	(178)	(113)
Capital assets, net (3)	3,119	2,653	2,488	2,256
Business-type:				
Change in net assets	\$ 69	\$ 70	\$ 111	\$ 122
Total net assets	2,913	2,844	2,774	2,664
Ending unrestricted net assets (2)	195	186	222	206
Capital assets, net (3)	4,658	4,508	4,339	4,129

## Key Observations:

- (1) The "Governmental" unrestricted net deficit increased annually from 2007-2010
- (2) The "Business-type" unrestricted net assets have remained relatively consistent from 2007-2010
- (3) "Capital Assets, net balances (both "Governmental" and "Business-type") have increased annually from 2007-2010

# Financial Highlights – Governmental Tax Rate, Assessed Value and Debt

## Definitions:

- The "Tax Rate" is the City's tax rate in total (per \$100 of valuation) with components for general fund or debt service shown separately
- "Taxable Assessed Valuation" is the total value of the City's tax base upon which the tax rate is levied
- Total "General Obligation Debt" is debt backed by the full faith and credit of the City

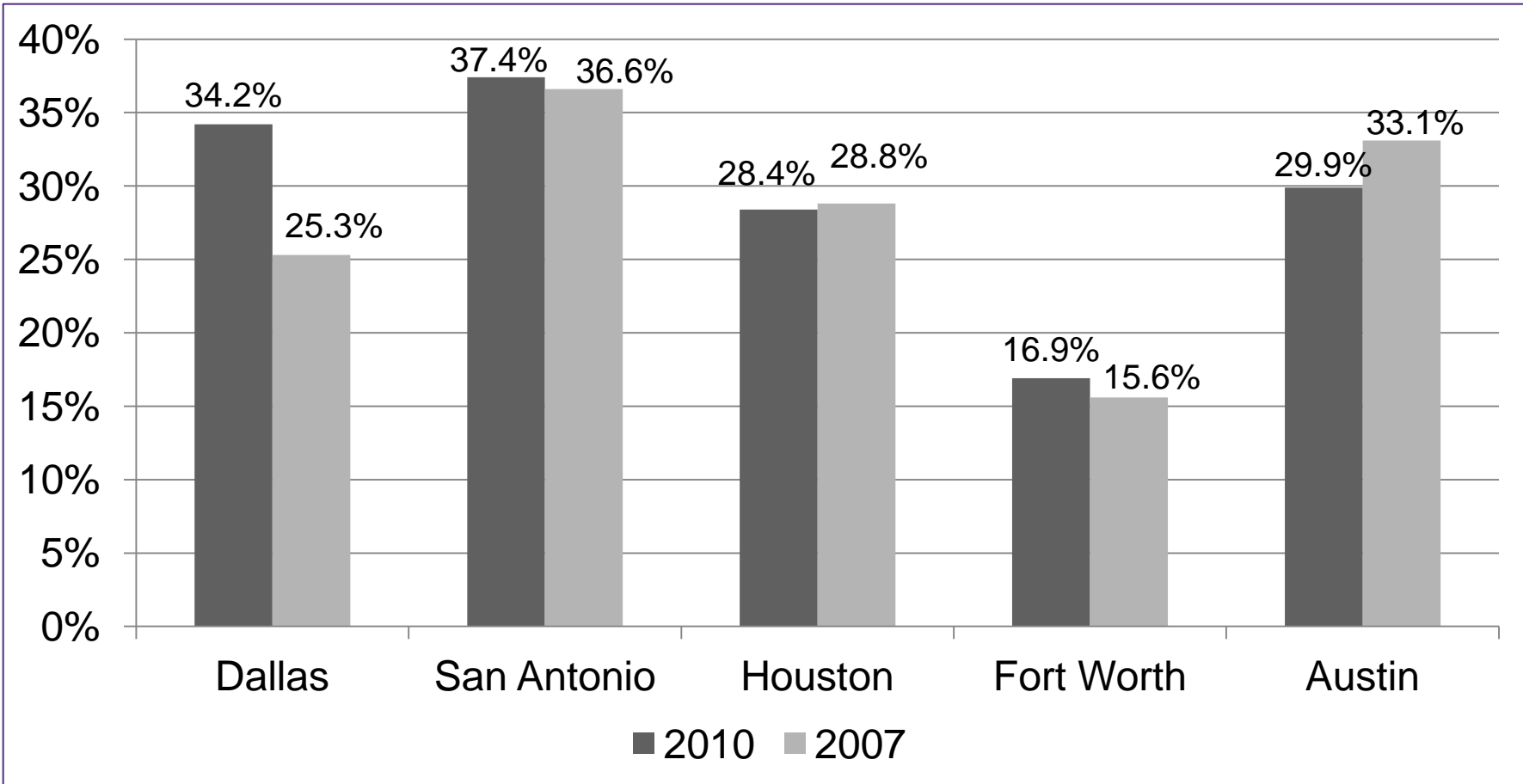
## Financial Trends:

<u>Governmental:</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Tax Rate (per \$100 valuation)				
Total (1)	\$ 0.7479	\$0.7479	\$0.7479	\$0.7292
General Fund (2)	0.4918	0.5230	0.5196	0.5448
Debt Service (2)	0.2561	0.2249	0.2283	0.1844
Taxable Assessed Valuation (in billions) (3)	\$ 87.3	\$ 90.5	\$ 84.5	\$ 76.1
Total General Obligation Debt (4)	\$ 1,510	\$ 1,512	\$ 1,404	\$1,206
Debt Service expenditures as a percentage of non-capital expenditures (5)	19.97%	17.34%	16.31%	14.53%

## Key Observations:

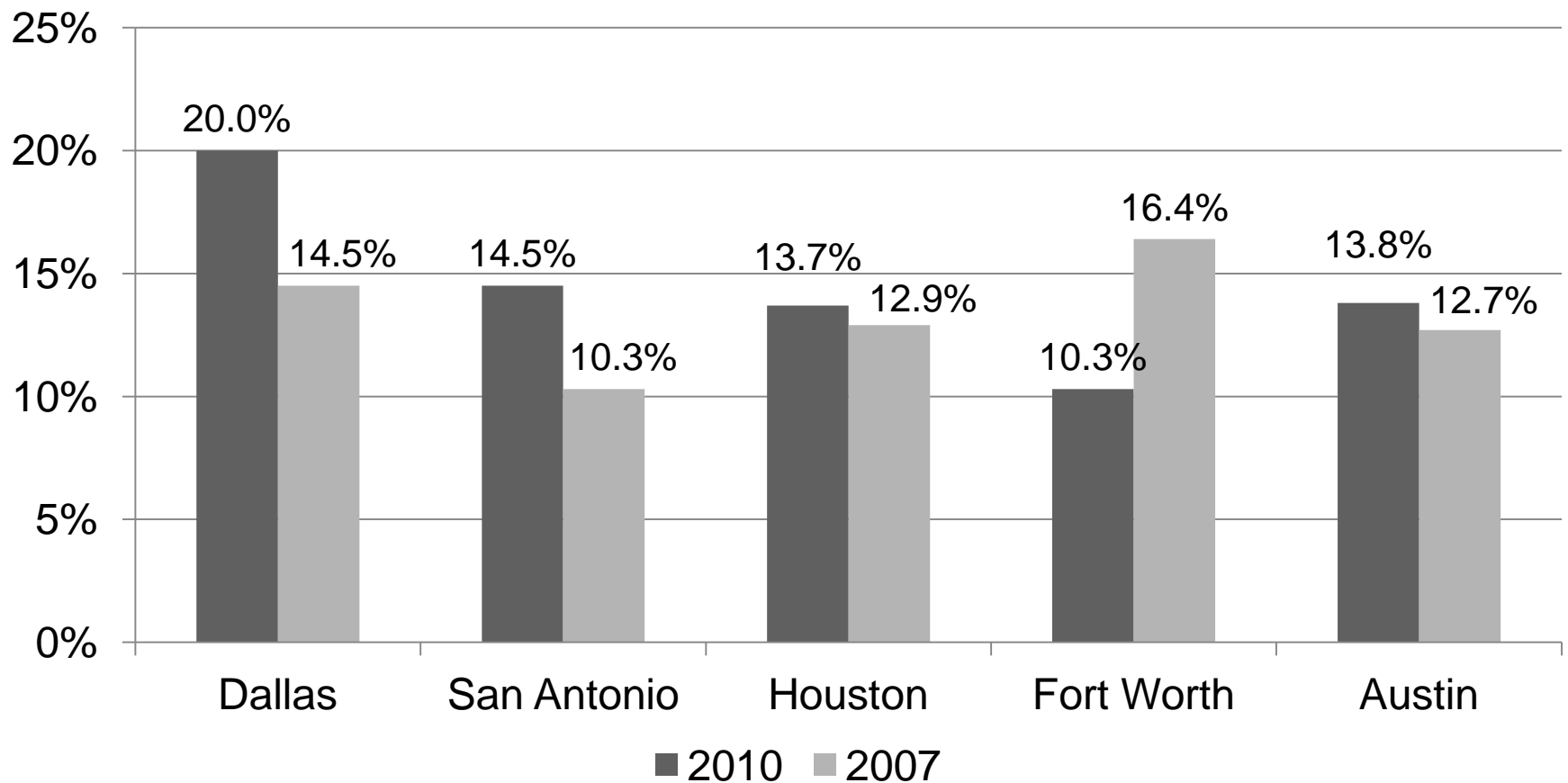
- (1) After increasing from 2007-2008, the total tax rate remained unchanged from 2008-2010
- (2) The tax rate component for debt service/(general fund) has increased/(decreased) since 2007 (except for 2009)
- (3) The taxable assessed valuation increased from 2007-2009, before declining 3.5% (2010), 4.5% (2011) and 1.7% (2012)
- (4) Total General Obligation debt has increased annually from 2007-2009.
- (5) Debt service expenditures as a percentage of non-capital expenditures have increased annually from 2007-2010

# Debt Service Component of Tax Rate as a % of Total Rate





# Debt Service Expenditures as a % of Non-Capital Expenditures



# Financial Highlights – General Fund

## Definitions:

- The General fund essentially accounts for all activities that are not required to be accounted for elsewhere
- Transfers in (out) of general fund, net reflects all transfers from (to) other funds of the City, net

## Financial Trends:

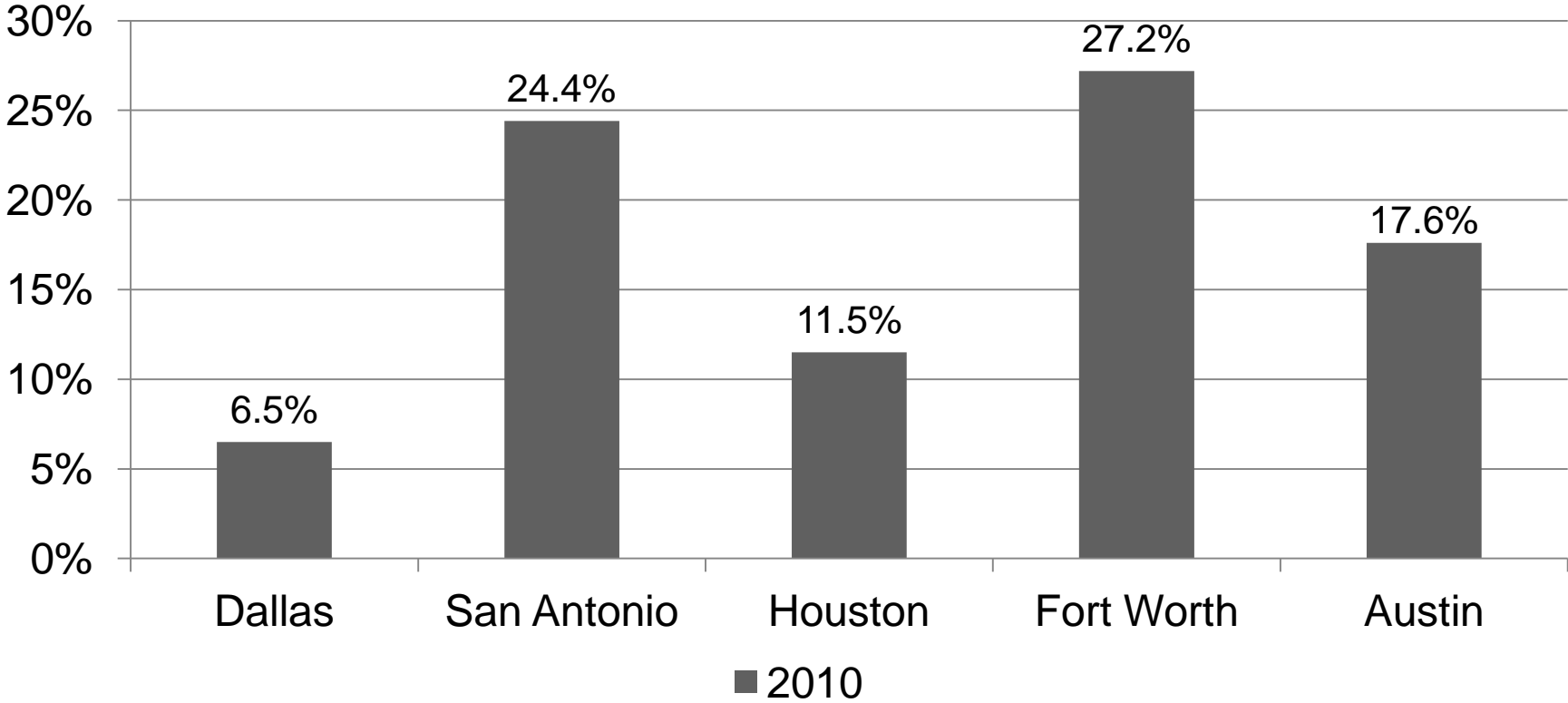
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
General Fund Balance: (1)				
Total	\$ 92.0	\$ 104.0	\$ 118.3	\$ 133.7
Unreserved	64.7	78.3	91.5	86.6
General Fund Expenditures (2)	\$ 999.8	\$1,015.5	\$1,033.0	\$ 970.8
Unreserved General Fund balance as a percentage of expenditures (1)	6.47%	7.71%	8.86%	8.92%
Excess (deficiency) of revenues over (under) expenditures (3)	\$ (35.7)	\$ (17.3)	\$ (33.1)	\$ 21.6
Transfers in (out) of General Fund, net (4)	\$ 18.8	\$ (2.7)	\$ (5.6)	\$ (29.3)

## Key Observations:

- (1) The General Fund Balance (both "total" and "unreserved" components) and the "unreserved general fund balance as a percentage of expenditures have decreased annually from 2007-2010, except for the unreserved component which increased slightly in 2008
- (2) General Fund expenditures have remained relatively consistent from 2007-2010
- (3) The excess became a deficiency in 2008 which continued through 2010
- (4) The transfers (out), net of the General Fund declined annually from 2007-2009, and became a net "transfer-in" in 2010. (There was no payment in lieu of tax transferred from DWU to the general fund in 2008, \$6.0 million (2009) and \$13.3 million (2010).

# General Fund Unreserved General Fund Balance as a % of General Fund Expenditures (2010)

**2010**



# Financial Highlights – Business-Type "Enterprise" Activities

## Definitions:

- Income (loss) before transfers and contributions is essentially "operating income (loss)"
- Revenue bond coverage is "net revenues, as defined" divided by total debt service expenditures

## Financial Trends:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Income (loss) before transfers and contributions:				
Dallas Water Utilities	\$ 44.4	\$ 58.3	\$ 74.6	\$ 82.3
Convention Center	(3.3)	(8.1)	2.5	6.3
Airport Revenue	17.1	7.5	8.1	1.5
Total Capital Assets, net: (1)				
Dallas Water Utilities	\$ 3,660	\$ 3,513	\$ 3,331	\$ 3,120
Convention Center	539	555	573	580
Airport Revenue	457	437	432	427
Revenue Bond Coverage:				
Dallas Water Utilities (2)	1.40	1.43	1.52	1.40
Convention Center (3)	1.8	1.7	1.4	1.3
Airport Revenue (3)	13.2	10.5	8.6	6.4

## Key Observations:

- (1) Total Capital Assets, net increased annually between 2007-2010
- (2) Revenue Bond Coverage for Dallas Water Utilities remained relatively consistent from 2007-2010
- (3) Revenue Bond Coverage for Convention Center and Airport Revenue increased annually from 2007-2010

# Financial Highlights – Risk Funds, OPEB (Other Postemployment Benefits) Pension and Landfill Obligations

## Definitions:

- The Risk funds account for the City's self-insured health, worker's compensation and general liability programs
- The net OPEB obligation is the actuarially-determined liability for benefits to be provided to retired employees
- The landfill closure and post-closure liability is estimated based upon percentage utilized

## Financial Trends:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Internal Service Fund Balance (deficit): (1)				
Risk Funds Fund deficit	\$ (84.0)	\$ (94.7)	\$ (78.9)	\$ (66.1)
Risk Funds claims total liability	86.3	93.8	93.9	90.6
Risk Funds Fund deficit as a % of total general fund balance (2)	91.3%	91.1%	66.4%	49.4%
Net Other Post Employment Benefit (OPEB) obligation (3)	\$ 96.3	\$ 73.2	\$ 36.8	N.A.
Landfill closure and post-closure liability (4)	\$ 32.8	\$ 31.7	\$ 30.5	\$ 29.9
Unfunded Pension Benefit Obligation (5)	New accounting rules in progress			

## Key Observations:

- (1) The City's self-insured risk activities are essentially being funded on a "pay-as-you-go" basis
- (2) The Risk Funds fund deficit as a % of total general fund balance increased annually 2007-2010
- (3) The net OPEB obligation has increased annually 2008-2010, after accounting rules changed to require governments to reflect the liability beginning in 2008
- (4) The City's unfunded landfill closure and post-closure liability increased annually from 2007-2010
- (5) New accounting rules are expected to be finalized in 2012 which will require the City to accrue a liability on its financial statements for its unfunded pension benefit obligation

# Questions & Answers

