

Memorandum



Date September 22, 2006

To Members of the Finance, Audit & Accountability Committee
Chair, Mitchell Rasansky; Vice-Chair, Gary Griffin; Bill Blaydes;
May Pro Tem Donald Hill; Linda Koop; Ed Oakley; and Steve Salazar

Subject FY 2004-05 Year End Report (Unaudited)

The purpose of the Year End Report is to communicate the final status of year-end total expenditures compared to appropriations, total revenues compared to budget, significant expenditure and revenue variances (compared to budget) for all operating funds, and various appropriation adjustments between departments within the General Fund. In addition, the report provides a status of compliance with the Financial Management Performance Criteria (FMPC).

The Year End Report is normally presented earlier in the year. This year's report was delayed along with the delay in completing the City's Comprehensive Annual Financial Report (CAFR). As you know, several months ago, City staff discovered that depreciation on the city's American Airlines Center has been understated in previous CAFRs. That discovery has caused staff and the external auditor to perform a thorough review of reports and statements. That has delayed "closing" FY 2004-05.

The General Fund ended FY 2004-05 with a surplus (revenues greater than expenditures) of \$3,204,938. This surplus is a result of revenues below budget by \$5,290,259 offset by expenditures below budget by \$16,095,197 and repayment of \$7.6M to Hensley Field Fund. The \$3,204,938 becomes part of the General Fund balance.

This report includes appropriation adjustments as follows:

- Ten (10) General Fund department appropriation increases totaling \$2,182,148 offset by decreases in General Fund departments that were under budget.
- One (1) Non-General Fund department appropriation increase. Sufficient revenues or fund balance have been generated by the respective department to offset these expenditures.

An action item is scheduled for the City Council's September 27, 2006 Agenda that would authorize year-end adjustments to FY 2004-05 appropriations for the funds mentioned above. The FY 2004-05 Year End Report is attached for your review.

David Cook
Chief Financial Officer

Attachment

c: Honorable Mayor and Members of the City Council
Charles W. Daniels, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Deborah Watkins, City Secretary
Craig Kinton, City Auditor

Mary K. Suhm, City Manager
Ryan S. Evans, Assistant City Manager
Ramón F. Miguez, P.E., Assistant City Manager
Thomas P. Perkins, Jr., City Attorney
María Alicia García, Director – OFS

**GENERAL FUND
COMPARISON OF YEAR END 2004-05
REVENUES AND EXPENDITURES
(000s)**

<u>ITEM</u>	BUDGET PRIOR		OVER/ UNDER BUDGET	COUNCIL ADJUSTED BUDGET	OVER/ UNDER BUDGET
	TO FINAL COUNCIL ADJUSTMENTS	ACTUAL			
REVENUES	869,538	864,248	(5,290)	869,538	(5,290)
EXPENDITURES	<u>874,338</u>	<u>858,243</u>	<u>(16,095)</u>	<u>874,338</u>	<u>(16,095)</u>
SUB TOTAL	(4,800)	6,005	10,805	(4,800)	10,805
USE OF ONE-TIME RESOURCES	<u>4,800</u>	<u>4,800</u>	<u>0</u>	<u>4,800</u>	<u>0</u>
SUB TOTAL	0	10,805	10,805	0	10,805
LESS: REPAYMENT TO HENSLEY FIELD FUND	0	<u>(7,600)</u>			<u>(7,600)</u>
NET EXCESS/(DEFICIENCY) OF REVENUES OVER EXPENDITURES AND TRANSFERS TO RESERVES					
	<u>0</u>	<u>3,205</u>			<u>3,205</u>

End of Year Report FY 2004-05

General Fund

REVENUES:

- Total General Fund revenues were \$5,290,259 below budget.

Significant Revenues Above Budget:

- Atmos Energy revenues were \$2,985,028 above budget due to higher than projected natural gas prices. Mild winter weather was more than offset by higher gas prices.
- Miscellaneous revenues were \$4,791,298 above budget primarily due to litigation settlement from TXU, auction revenues and damages to City property.

Significant Revenues Below Budget:

- Other Franchise revenues were \$2,067,450 below budget due to lower than budgeted fiber optic network franchise revenues. Lower revenues are attributed to a decline in the number of telephone access lines due to customers switching to wireless phones and improvements in technology.
- Municipal Court revenues were \$2,198,815 below budget primarily due to delays in implementing new program initiatives and collection enhancements and collections for civil adjudication court.
- Parking Services revenues were \$1,192,601 below budget primarily due to the implementation of the new contract with Affiliated Computer Services which began on June 30, 2005. Revenues decreased in the short term and are anticipated to increase significantly over the life of the contract with no additional cost impact to the City.

End of Year Report FY 2004-05

General Fund

EXPENDITURES:

- Total General Fund expenditures were \$16,095,197 below budget.

Departments Above Budget:

Departments above budget primarily due to increased costs of electricity and/or fuel:

- Fire - \$629,082
- Office of Cultural Affairs - \$721,889
- Sanitation - \$412,444

Other departments above budget:

- Civil Service was \$20,566 above budget primarily due to higher than budgeted expenses for postage and advertising.
- Dallas County Tax Collection was \$8,907 above budget due to a higher than estimated number of accounts.
- Human Resources was \$82,527 above budget primarily due to higher than budgeted expenses for professional services.
- Independent Audit was \$13,500 above budget due to expenses related to performance of the external audit.
- Library was \$18,028 above budget primarily due to expenses for security services.
- Office of Financial Services was \$166,460 above budget primarily due to higher than budgeted payments to Water for revenue collection services.
- Mayor and Council was \$96,823 above budget primarily due to retirement related salary expenses.

End of Year Report FY 2004-05

General Fund

EXPENDITURES (continued):

Significant Departments Below Budget:

- City Auditor's Office was \$323,191 below budget primarily due to vacancies.
- City Manager's Office was \$277,472 below budget primarily due to vacancies.
- Non-Departmental was \$1,298,449 below budget primarily due to lower than anticipated expenditures for contract wrecker services and payments to TIFs, Compucom payment, and HUD.
- Office of Emergency Management was \$170,832 below budget due to expenses for first quarter of fiscal year reflected in the Fire department.
- Office of Environmental Quality was \$86,899 below budget primarily due to vacancies.

End of Year Report FY 2004-05

Enterprise Funds

- Development Services revenues were \$3,382,645 above budget primarily due to strong building permit activity as a result of low interest rates that spurred continued residential growth and various commercial construction projects. Expenses were \$32,615 below budget primarily due to hiring lag.
- Water revenues were \$41,054,528 below budget primarily due to lower than anticipated pumpage. Expenditures were \$43,493,329 below budget primarily due to reductions in transfers to capital construction.

Internal Service Funds

- Equipment Services revenues were \$2,296,199 above budget primarily due to increased cost of fuel passed on to customer departments. Expenditures were \$3,306,313 above budget primarily due to higher than anticipated costs of fuel and non-target fleet repairs performed by outside vendors.

**GENERAL FUND
YEAR END 2004-05 REVENUES
(000s)**

	Budget Prior to Final Council Adjustments	ACTUAL	OVER/ (UNDER) BUDGET	COUNCIL ADJUSTED BUDGET	OVER/ (UNDER) BUDGET
<u>TAXES</u>					
Ad Valorem Tax	366,863	368,184	1,321	366,863	1,321
Sales Tax	202,265	198,441	(3,824)	202,265	(3,824)
<u>FRANCHISE REVENUES</u>					
TXU Electric	50,317	47,064	(3,253)	50,317	(3,253)
AT&T	22,283	22,583	300	22,283	300
Atmos Energy	9,347	12,332	2,985	9,347	2,985
Comcast Cable	4,968	5,117	149	4,968	149
Other	12,942	10,875	(2,067)	12,942	(2,067)
TOTAL TAXES & FRANCHISE REVENUES	668,985	664,596	(4,389)	668,985	(4,389)
<u>LICENSES AND PERMITS</u>	6,951	6,471	(481)	6,951	(481)
<u>INTEREST EARNED</u>	2,955	3,009	53	2,955	53
<u>INTERGOVERNMENTAL</u>	4,565	4,876	311	4,565	311
<u>FINES AND FORFEITURES</u>					
Municipal Court	21,776	19,577	(2,199)	21,776	(2,199)
Vehicle Towing & Storage	5,567	5,320	(247)	5,567	(247)
Parking Fines	4,846	4,971	125	4,846	125
Public Library	699	710	11	699	11
TOTAL FINES	32,888	30,579	(2,310)	32,888	(2,310)
<u>CHARGES FOR SERVICE</u>					
Sanitation Service	49,255	49,421	166	49,255	166
Park	7,661	7,515	(146)	7,661	(146)
Private Disposal Fees	16,888	16,176	(712)	16,888	(712)
Emergency Ambulance	10,100	9,888	(212)	10,100	(212)
Security Alarm	3,973	3,896	(78)	3,973	(78)
Street Lighting	1,372	1,328	(44)	1,372	(44)
Vital Statistics	1,475	1,360	(115)	1,475	(115)
Parking Services	3,481	2,288	(1,193)	3,481	(1,193)
Other	10,835	11,582	747	10,835	747
TOTAL CHARGES	105,041	103,456	(1,585)	105,041	(1,585)

**GENERAL FUND
YEAR END 2004-05 REVENUES
(000s)**

	Budget Prior to Final Council Adjustments	ACTUAL	OVER/ (UNDER) BUDGET	COUNCIL ADJUSTED BUDGET	OVER/ (UNDER) BUDGET
<u>INTERFUND REVENUE</u>	40,968	39,286	(1,682)	40,968	(1,682)
<u>MISCELLANEOUS</u>	7,184	11,975	4,791	7,184	4,791
<u>TOTAL REVENUES</u>	869,538	<u>\$864,248</u>	<u>(5,290)</u>	<u>869,538</u>	<u>(5,290)</u>

GENERAL FUND
YEAR END 2004-05 EXPENDITURES
(000s)

<u>DEPARTMENT</u>	Budget Prior to Final Council Adjustments		OVER/ (UNDER)	COUNCIL ADJUSTED BUDGET	OVER/ (UNDER)
	ACTUAL	BUDGET	BUDGET	BUDGET	BUDGET
<u>GENERAL FUND</u>					
Mayor and Council	2,618	2,715	97	2,727	(12)
Building Services	31,440	30,171	(1,269)	31,440	(1,269)
Business Development & Procurement Services	2,226	1,956	(271)	2,226	(271)
City Attorney's Office	10,671	10,278	(393)	10,671	(393)
City Auditor's Office	2,324	2,001	(323)	2,324	(323)
City Manager's Office	2,164	1,887	(277)	2,164	(277)
City Secretary	1,327	1,235	(91)	1,327	(91)
Civil Service	1,685	1,705	21	1,705	0
Code Compliance	21,097	20,414	(684)	21,097	(684)
Court and Detention Services	11,642	11,592	(49)	11,642	(49)
Development Services	3,534	3,331	(203)	3,534	(203)
Elections	1,446	1,329	(117)	1,446	(117)
Environmental and Health Services	13,691	13,560	(132)	13,691	(132)
Fire	176,532	177,161	629	177,161	0
Housing	1,403	1,403	(0)	1,403	0
Human Resources	3,832	3,914	83	3,914	0
Independent Audit	423	437	14	437	0
Judiciary	2,343	2,141	(202)	2,343	(202)
Library	23,837	23,855	18	23,855	0
Non-Departmental	11,944	10,646	(1,298)	10,809	(163)
Office of Cultural Affairs	13,154	13,876	722	13,876	0
Office of Economic Development	2,103	1,989	(113)	2,103	(113)
Office of Emergency Management	556	385	(171)	556	(171)
Office of Environmental Quality	643	557	(87)	643	(87)
Office of Financial Services	11,333	11,499	166	11,499	0
Park and Recreation	59,507	58,727	(780)	59,507	(780)
Police	319,006	309,506	(9,500)	319,006	(9,500)
Public Works and Transportation	18,800	18,516	(284)	18,800	(284)
Sanitation Services	55,306	55,719	412	55,719	0
Street Lighting	15,463	15,284	(180)	15,463	(180)
Street Services	32,005	30,555	(1,449)	31,195	(640)

**GENERAL FUND
YEAR END 2004-05 EXPENDITURES
(000s)**

<u>DEPARTMENT</u>	Budget Prior to Final Council Adjustments	ACTUAL	OVER/ (UNDER) BUDGET	COUNCIL ADJUSTED BUDGET	OVER/ (UNDER) BUDGET
<u>OTHER</u>					
Dallas Central Appraisal District	2,269	2,269	0	2,269	0
Jail Contract - Lew Sterrett	6,353	6,353	0	6,353	0
Dallas County Tax Collection	437	446	9	446	0
<u>RESERVES AND TRANSFERS</u>					
Liability Reserve/Claim Fund	8,815	8,815	0	8,815	0
Salary & Benefit Reserve	391	0	(391)	153	(153)
Transfer to Capital Construction	2,017	2,017	0	2,017	0
<u>TOTAL GENERAL FUND</u>	<u>874,338</u>	<u>858,243</u>	<u>(16,095)</u>	<u>874,338</u>	<u>(16,095)</u>

PROPRIETARY FUNDS
YEAR END 2004-05 REVENUES/EXPENDITURES
(000s)

<u>DEPARTMENT</u>	Budget Prior to Final Council Adjustments	ACTUAL	OVER/ (UNDER) BUDGET	COUNCIL ADJUSTED BUDGET	OVER/ (UNDER) BUDGET
<u>AVIATION</u>					
REVENUES	29,128	29,974	846	29,128	846
EXPENDITURES	32,806	32,123	(683)	32,806	(683)
NET EXCESS OF REVENUES OVER EXPENSES/TRANSFER	(3,678)	(2,149)	1,529	(3,678)	1,529
<u>CONVENTION CENTER</u>					
REVENUES	62,634	57,935	(4,699)	62,634	(4,699)
EXPENDITURES	62,624	61,596	(1,028)	62,624	(1,028)
NET EXCESS OF REVENUES OVER EXPENSES/TRANSFER	10	(3,660)	(3,671)	10	(3,671)
<u>DEVELOPMENT SERVICES</u>					
REVENUES	18,140	21,523	3,383	18,140	3,383
EXPENDITURES	19,001	18,969	(33)	19,001	(33)
NET EXCESS OF REVENUES OVER EXPENSES/TRANSFER	(861)	2,554	3,415	(861)	3,415

PROPRIETARY FUNDS
YEAR END 2004-05 REVENUES/EXPENDITURES
(000s)

<u>DEPARTMENT</u>	Budget Prior to Final Council Adjustments	ACTUAL	OVER/ (UNDER) BUDGET	COUNCIL ADJUSTED BUDGET	OVER/ (UNDER) BUDGET
<u>MUNICIPAL RADIO</u>					
REVENUES	3,140	3,346	206	3,140	206
EXPENDITURES	<u>3,064</u>	<u>3,002</u>	<u>(62)</u>	<u>3,064</u>	<u>(62)</u>
NET EXCESS OF REVENUES OVER EXPENSES/TRANSFER	<u>76</u>	<u>344</u>	<u>269</u>	<u>76</u>	<u>269</u>
<u>WATER</u>					
REVENUES	415,970	374,915	(41,055)	415,970	(41,055)
EXPENDITURES	<u>415,970</u>	<u>372,476</u>	<u>(43,493)</u>	<u>415,970</u>	<u>(43,493)</u>
NET EXCESS OF REVENUES OVER EXPENSES/TRANSFER	<u>0</u>	<u>2,439</u>	<u>2,439</u>	<u>0</u>	<u>2,439</u>
<u>COMMUNICATION & INFORMATION SVCS</u>					
REVENUES	33,137	33,654	517	33,137	517
EXPENDITURES	<u>33,409</u>	<u>32,762</u>	<u>(647)</u>	<u>33,409</u>	<u>(647)</u>
NET EXCESS OF REVENUES OVER EXPENSES/TRANSFER	<u>(272)</u>	<u>892</u>	<u>1,164</u>	<u>(272)</u>	<u>1,164</u>

PROPRIETARY FUNDS
YEAR END 2004-05 REVENUES/EXPENDITURES
(000s)

<u>DEPARTMENT</u>	Budget Prior to Final Council <u>Adjustments</u>	<u>ACTUAL</u>	OVER/ (UNDER) <u>BUDGET</u>	COUNCIL ADJUSTED <u>BUDGET</u>	OVER/ (UNDER) <u>BUDGET</u>
<u>EQUIPMENT SERVICES</u>					
REVENUES	32,232	34,528	2,296	32,232	2,296
EXPENDITURES	<u>32,330</u>	<u>35,636</u>	<u>3,306</u>	<u>35,636</u>	<u>0</u>
NET EXCESS OF REVENUES OVER EXPENSES/TRANSFER	<u>(98)</u>	<u>(1,108)</u>	<u>(1,010)</u>	<u>(3,404)</u>	<u>2,296</u>
<u>OFFICE SERVICES</u>					
REVENUES	4,275	4,241	(34)	4,275	(34)
EXPENDITURES	<u>4,100</u>	<u>3,920</u>	<u>(180)</u>	<u>4,100</u>	<u>(180)</u>
NET EXCESS OF REVENUES OVER EXPENSES/TRANSFER	<u>175</u>	<u>321</u>	<u>146</u>	<u>175</u>	<u>146</u>

OTHER FUNDS
YEAR END 2004-05 REVENUES/EXPENDITURES
(000s)

DEPARTMENT	Budget Prior to Final Council Adjustments	ACTUAL	OVER/ (UNDER) BUDGET	COUNCIL ADJUSTED BUDGET	OVER/ (UNDER) BUDGET
<u>EMPLOYEE BENEFITS</u>					
EXPENDITURES	1,633	3,013	1,380	1,633	1,380
<u>RISK MANAGEMENT</u>					
EXPENDITURES	1,805	1,687	(117)	1,805	(117)
<u>911 SYSTEM OPERATIONS</u>					
REVENUES	12,458	13,257	799	12,458	799
EXPENDITURES	12,532	12,343	(189)	12,532	(189)
NET EXCESS OF REVENUES OVER EXPENSES/TRANSFER	(74)	914	988	(74)	988
<u>STORMWATER DRAINAGE</u>					
REVENUES	28,433	28,025	(409)	28,433	(409)
EXPENDITURES	28,433	26,049	(2,384)	28,433	(2,384)
NET EXCESS OF REVENUES OVER EXPENSES/TRANSFER	0	1,975	1,975	0	1,975

DEBT SERVICE FUND
YEAR END 2004-05 REVENUES/EXPENDITURES
(000s)

<u>DEBT SERVICE</u>	<u>Budget Prior to Final Council Adjustments</u>	<u>ACTUAL</u>	<u>OVER/ (UNDER) BUDGET</u>	<u>COUNCIL ADJUSTED BUDGET</u>	<u>OVER/ (UNDER) BUDGET</u>
REVENUES	144,457	145,018	561	144,457	561
EXPENSES	<u>149,285</u>	<u>146,653</u>	<u>(2,632)</u>	<u>149,285</u>	<u>(2,632)</u>
NET EXCESS OF REVENUES OVER EXPENSES	<u>(4,828)</u>	<u>(1,635)</u>	<u>3,193</u>	<u>(4,828)</u>	<u>3,193</u>

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA

Year Ending September 30, 2005

Operating Program Status

1. The City shall operate on a current funding basis. Expenditures shall be budgeted and controlled so as not to exceed current revenues plus the planned use of undesignated fund balance accumulated through prior year surplus. Nonrecurring or one-time revenues should, to the extent possible, only be used for one-time expenditures (expenditures not expected to reoccur and requiring future appropriations) to avoid future shortfalls.

2. The year-to-year increase of actual revenue from the levy of the ad valorem tax will generally not to exceed 8%:
 - Excluding taxable value gained by through annexation or consolidation;
 - Excluding the value gained through new construction;
 - Excluding expenditure increases mandated by the voters or another governmental entity; and
 - Not excluding the valuation gained through revaluation or equalization programs.

3. Debt will not be used to fund current operating expenditures.

4. All retirement systems will be financed in a manner to systematically fund liabilities. The City will assure sufficient funds are provided to pay current service plus interest on unfunded liabilities plus amortization of the unfunded liabilities over a programmed period. No less than annual reviews will be provided to Council by the pension funds.

Status

In Compliance

Current revenues are sufficient to support current expenditures in all operating funds in FY 2004-05.

In Compliance

The % change in base revenue (from FY 2003-04 to FY 2004-05) is 0.15%.

Adjusted revenues cannot exceed "base" revenues more than 8%.

Base revenues = FY 2003-04 actual revenues from current tax roll (in 000's)	\$448,923
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2004-05 Ad-Valorem Tax Revenue	\$471,206
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Less: Voter Mandated-Debt Service	\$ 13,896
Growth from Annexation	\$ 0
Growth from New Construction	<u>\$ 7,723</u>

Adjusted revenue:	\$449,587
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% Change from base revenues:	0.15%
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In Compliance

No debt is programmed in the Operating Budget to fund current expenses.

In Compliance. In May 2004, the City Council supported recommendations of the Employees' Retirement Fund Study Committee that would include issuance of Pension Obligation Bonds and FY 2005-06 increases in City and employee contributions.

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA

Year Ending September 30, 2005

Operating Program Status (Continued)

Status

5. Actuarial analysis will be performed annually on all retirement systems. Adjustments in benefits and contributions will be authorized only after meeting the test of actuarial soundness. All health plans should have actuarial reviews performed bi-annually to determine the required levels of funding necessary. These health plans shall be financed in a manner to ensure sufficient funds are available to fund current liabilities and provide some reserve levels for extraordinary claims.

In Compliance

6. Each enterprise fund of the City will maintain revenues which support the full (direct and indirect) cost of the utility. 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.

Not In Compliance

Some funds did not have sufficient fund balance to meet the 30 day guideline. With the exception of Convention and Event Services, all other funds are projected to be in compliance in FY 2006-07.

7. The Emergency Reserve 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. Funds shall be allocated from the Emergency Reserve only after an analysis has been prepared by the City Manager and presented to City Council. The analysis shall provide sufficient evidence to establish that the remaining balance is adequate to offset potential downturns in revenue sources. The analysis shall address the nature of the proposed expenditure and the revenue requirement in subsequent budget years. Prior to allocating funds from the Emergency Reserve, the City Council shall find that an emergency or extraordinary need exists to justify the use of these funds. Funds shall be allocated each year in the budget process to replace any use of the Emergency Reserve funds during the preceding fiscal year to maintain the balance of the Emergency Reserve levels.

In Compliance

The emergency reserve was not used in FY 2004-05.

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA

Year Ending September 30, 2005

Operating Program Status (Continued)

8. The Contingency Reserve shall be used to provide for unanticipated needs that arise during the year: for example, expenses associated with new service needs that have been identified after the budget process, new public safety or health needs, revenue shortfalls, service enhancements, or opportunities to achieve cost savings. Funds shall be allocated from the Contingency Reserve only after an analysis has been prepared by the City Manager and presented to the City Council outlining the initial and recurring costs associated with the proposed expenditure. Additionally, these funds would be used prior to use of the Emergency Reserve funds. Funds shall be allocated each year in the budget process to replace any use of the Contingency Reserve funds during the preceding fiscal year and to maintain the balance of the Contingency Reserve at a level ranging from ½% to 1% of budgeted departmental expenditures.

9. The combined levels of the Emergency Reserve and the Contingency Reserve shall be maintained at a level which, when added to the end-of-year unreserved, undesignated fund balances of the General Fund is not less than 5% of the General Fund operating expenditures less debt service.

Status

In Compliance

The Contingency Reserve was funded at \$4,500,000. This was 0.51% of the FY 2004-05 budget. The Contingency Reserve ending balance was \$3,108,046 on 9/30/05.

In Compliance

Emergency Reserve 9/30/05 (actual)	\$18.8M
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Contingency Reserve 9/30/05 (actual)	\$ 3.1M
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Fund Balance 9/30/05 (actual)	<u>\$40.6M</u>
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Combined	\$62.5M
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\$62.5M is 7.28% of \$858,242,658

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA

Year Ending September 30, 2005

Operating Program Status (Continued)

10. A Risk Reserve shall be maintained at a level, which, together with purchased insurance policies, adequately protects the City's assets against loss. An analysis shall be conducted every three years or when the deductible level of the City's property insurance is modified (whichever is earlier), to determine the appropriate level of this reserve.

11. 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 judgment 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.

12. Consider the establishment of a Landfill Closure / Post-Closure Reserve to provide for any future potential liabilities. Analysis will be performed periodically to determine appropriate timing and amount of funding needs. Funds could be allocated from an increase in user fees.

13. Operating expenditures will be programmed to include current costs of fully maintaining City facilities, including parks, streets, levees, vehicles, buildings, and equipment. A cost benefit analysis will be performed on replacement cost versus projected required maintenance costs to determine the level at which City facilities should be maintained. The analysis will also determine the long-term cost of any potential deferred maintenance cost. Normal maintenance will be funded through the operating budget.

Status

In Compliance

The Risk Reserve was funded at \$1,250,000. The ending balance was \$1,250,000 on 9/30/05.

In Compliance

The Liability Reserve was funded at \$11,657,477. The ending balance was \$5,431,440 on 9/30/05.

Establishment of reserve not recommended at this time.

Not In Compliance

The FY 2004-05 expenditures included \$2.0M for major building maintenance. It was estimated that \$5.0M was necessary to maintain buildings. All other aspects were in compliance.

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA

Year Ending September 30, 2005

Operating Program Status (Continued)

Status

14. An annual assessment and five year projection for all equipment and maintenance needs should be performed, and a maintenance and replacement schedule developed based on the projection.

In Compliance

15. 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.

In Compliance

A comprehensive fees and charges study was completed in FY 01-02.

Capital and Debt Management

16. Any capital projects financed through the issuance of bonds shall be financed for a period not to exceed the expected useful life of the project. (Bonds issued for street resurfacing shall be financed for a period not to exceed 10 years.)

In Compliance

17. The net (non self-supporting) General Obligation (G.O.) Debt of Dallas will not exceed 4% of the true market valuation of the taxable property of Dallas.

In Compliance
1.5%

18. Total direct plus overlapping debt shall be managed so as to not exceed 8% of market valuation of taxable property of Dallas. All debt, which causes total direct plus overlapping debt to exceed 6% of market valuation, shall be carefully planned and coordinated with all overlapping jurisdictions.

In Compliance
3.7%

19. Interest expenses and other capital related expenses incurred prior to actual operation will be capitalized only for facilities of enterprise activities.

In Compliance

20. Average (weighted) General Obligation bond maturities (exclusive of Pension Obligation Bonds) shall be kept at or below 10 years.

In Compliance
6.9 Years

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA

Year Ending September 30, 2005

Capital and Debt Management (Continued)

Status

- | | |
|--|------------------------|
| 21. Annual General Obligation debt service (contribution) including certificates of obligation debt for risk management funding shall not exceed 20% of the total governmental fund expenditures (comprised of general fund, special funds, debt service funds and capital project funds). | In Compliance
10.8% |
| 22. 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. | In Compliance
3.0% |
| 23. Debt may be used to finance betterments intended to extend service life of original permanent capital improvements under the following conditions: <ul style="list-style-type: none">• the original improvement is at or near the end of its expected service life;• the betterment extends the life of the original improvement by at least one third of the original service life;• the life of the financing is less than the life of the betterment;• the betterment is financed through either C.O.'s or G.O.'s. | In Compliance |
| 24. Interest earnings from G.O. Bonds shall be used solely to fund capital expenditures, debt service, or used to fund a reserve for capital contingencies. | In Compliance |
| 25. 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. | In Compliance |

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA

Year Ending September 30, 2005

Capital and Debt Management (Continued)

Status

- | | |
|--|-----------------------|
| 26. Certificates of Obligation (C.O.) Debt including that for risk management funding supported by an ad valorem tax pledge should not exceed 15% of total authorized and issued General Obligation (G.O.) Debt. | In Compliance
3.4% |
| <ul style="list-style-type: none">• All C.O.'s issued in lieu of revenue bonds should not exceed 10% of outstanding G.O. Debt. | 0% |
| 27. Certificates of Obligation will be limited to projects consistent with Financial Management Performance Criteria for debt issuance. | In Compliance |
| 28. Certificates of Obligation for an enterprise system will be limited to only those projects, which can demonstrate the capability to support the certificate debt either through its own revenues, or another pledged source other than ad valorem taxes. | In Compliance |
| 29. Certificates of Obligation authorization will remain in effect for no more than five years from the date of approval by the City Council. | In Compliance |
| 30. Certificates of Obligation authorized for risk management funding shall be issued for a term not to exceed 20 years. | In Compliance |
| 31. Tax Increment Financing zones should be established where revenues will recover 1.25 times the public cost of debt in order to provide an adequate safety margin. | In Compliance |
| 32. No more than 10% of the property (i.e. parcels) in a Tax Increment Financing zone, excluding property dedicated for public use, may be used for residential purposes. "Residential purposes" includes property occupied by a house, which has less than five living units. | In Compliance |
| 33. No more than 5% of the City's tax base will be in Tax Increment Financing zones. | In Compliance |

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA

Year Ending September 30, 2005

Capital and Debt Management (Continued)

Status

34. All PID and TIF proposals, even "pay-as-you-go" projects, will be valued for service impact. A five-year fiscal note must accompany any request to establish a PID or TIF including repayment terms of any inter-fund borrowing.

In Compliance

35. All adopted PID or TIF debt issuances supported by a district's revenues, are subject to the following criteria:

In Compliance

- Coverage Tests - The project should provide for revenues, net of overlapping taxes, of 1.25 times maximum annual debt service requirement. The issuance of TIF bonds may be considered prior to achieving coverage ratio of 1.25 if:

< a developer or property owner provides a credit enhancement such as a letter of credit or bond insurance from an AAA-rated financial institution for the entire amount of the debt issue; and

< in the event that there is insufficient TIF increment revenues to retire TIF bonds, which event consequently requires that the credit enhancement mechanism be called upon to service the TIF bonded indebtedness, contingent liability to reimburse a credit-enhancer would be the sole liability of the developer or its affiliates; and

< in the event that there are changes in the rating of the financial institution providing credit enhancement, then that institution shall be replaced with an AAA-rated financial institution within 90 days; and

< in the event that no replacement of an AAA-rated institution is provided, no further TIF bonds in advance of the 1.25 coverage ratio will be provided for any additional TIF projects undertaken by the developer or its affiliates.

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA

Year Ending September 30, 2005

Capital and Debt Management (Continued)

Status

- Additional Bonds Test - the project should include an additional bonds test parallel to the coverage test.
- Reserve Fund - the project should include a debt service reserve fund equal to the maximum annual debt service requirements.
- Limitations on amount of PID/TIF Bonds- The total amount of PID/TIF indebtedness will be included and managed as part of the City's overlapping debt, and
- The total amount of PID/TIF debt outstanding should generally not exceed 20% of the City's outstanding general obligation indebtedness.
- PID/TIF bonds should be limited to projects consistent with the City's previously adopted Financial Management Performance Criteria for debt issuance.
- PID bonds should be limited to those projects, which can demonstrate the ability to support the debt either through its own revenues or another pledge source other than ad valorem taxes.
- PID/TIF bond authorizations should remain in effect for no more than five years from the date of City Council approval.

36. All adopted PID or TIF debt issuances must mature on or before the termination date of the respective PID or TIF district and, further, all bonds must also conform to the district's Financial Plan by maturing on or before the plan's projected date by which all district expenses would be paid, including repayment of bonds.

In Compliance

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA

Year Ending September 30, 2005

Capital and Debt Management (Continued)

Status

- | | |
|--|---------------|
| 37. The City will not propose the issuance of any unrated, high yield PID/TIF bond which could be labeled a "high risk bond" except for small (less than \$5 million) private placements coordinated with the City's Financial Advisor. | In Compliance |
| <ul style="list-style-type: none">• All projects must be carefully evaluated for credit-worthiness and meet the criteria above whether or not a credit rating is obtained. | |
| 38. The City should use PID/TIF bonds only when other options have been considered. | In Compliance |
| 39. Advance refundings and forward delivery refunding transactions should be considered when the net present value savings as a percentage of the par amount of refunded bonds is at least 4%. | In Compliance |
| <p>Current refunding transactions should be considered when the net present value savings as a percentage of the par amount of refunded bonds is at least 3%.</p> | |
| 40. Each Enterprise Fund (where applicable) will maintain fully funded debt service reserves. A surety bond (or other type of credit facility such as a letter of credit) may be used in lieu of funding the reserve if the former is economically advantageous. | In Compliance |

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA

Year Ending September 30, 2005

Accounting, Auditing, and Financial Planning

41. 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.

42. 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.

43. Full disclosure will be provided in the annual financial statements and bond representations.

Budget

44. Revenues and expenditures will be projected annually for at least three years beyond the current budget projections.

45. Financial systems will be maintained to monitor expenditures, revenues and performance of all municipal programs on an ongoing basis.

46. Operating expenditures will be programmed to include the cost of implementing service of the capital improvements, and future revenues necessary for these expenditures will be estimated and provided for prior to undertaking the capital improvement.

Status

In Compliance

The basis of budgeting for all funds essentially follows the basis of accounting (modified accrual). The major differences between the budgeting and accounting basis are: 1) encumbrances are recorded as expenditures (budget basis) rather than as a reservation of fund balance (accounting basis); 2) compensated absences (accrued but unused leave) are not reflected in the budget; 3) depreciation expense is not included in the budget basis.

Report will be issued October 2006

In Compliance

In Compliance

In Compliance

In Compliance

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA

Year Ending September 30, 2005

Budget (Continued)

Status

47. A report reflecting end of fiscal year status of performance against these criteria will be prepared within 60 days after official presentation of the Comprehensive Annual Financial Report to the City Council. A pro forma report reflecting Proposed budget status will be submitted with the City Manager's Proposed Budget each year.

In Compliance

Cash Management

48. 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.

In Compliance

49. The accounting system and cash forecasting system will provide regular information concerning cash position and investment.

In Compliance

50. Internal Service Funds and Enterprise Funds will maintain positive cash balances.

In Compliance

Grants and Trusts

51. All grants will be managed to comply with the laws, regulations and guidance of the grantor; and all gifts and donations will be managed and expended according to the wishes and instructions of the donor.

In Compliance

52. Prior to acceptance of proposed gifts and donations and governmental grants a fiscal review will be conducted. The review should consider matching requirements, impacts on both revenues and expenditures for the next five years, whether the objectives of the gifts, donation or grants meet the strategic goals of the City, and any potential impact of loss of funds.

In Compliance

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA

Year Ending September 30, 2005

Dallas Water Utilities

Status

- | | |
|---|---------------|
| 1. Current revenues will be sufficient to support current expenses including debt service and other obligations of the system. | In Compliance |
| 2. Long-term debt will be used only for capital expansion, replacement and improvement of plant, not for current expenses. | In Compliance |
| 3. Short-term debt, including tax-exempt commercial paper, will be used as authorized for interim financing of projects which result in capital improvements. The authorization of tax-exempt commercial paper will be limited to 10% of the 10-year capital improvement program in effect at the time of the commercial paper authorization. No commercial paper program will be authorized for more than ten years. Outstanding tax-exempt commercial paper will never exceed the amount authorized by Council. | In Compliance |
| 4. Contingency reserves will be appropriated at a level sufficient to provide for unanticipated, nonrecurring expenditures. | In Compliance |
| 5. Debt financing for capital projects will not exceed the useful life of the asset, and in no case shall the term exceed 30 years for water supply projects, or 20 years for other types of projects. | In Compliance |
| 6. An unreserved cash balance will be maintained such that it provides a minimum quick ratio of 1.50 and at least 30 days of budgeted expenditures for operations and maintenance in net working capital. | In Compliance |

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA

Year Ending September 30, 2005

Dallas Water Utilities, continued

Status

- | | |
|--|---|
| 7. Net revenues available for debt service should be at least 1.5 times the maximum annual principal and interest requirements of relevant outstanding revenue bonds at the end of the fiscal year, and at least 1.3 times maximum-year requirements at all times, measured during a fiscal year using the previous year net revenues available for debt service. | Not In Compliance
FY 04-05 = 1.38 times maximum annual principal and interest
FY 05-06 = 1.54 times maximum annual principal and interest
FY 06-07 (budget) = 1.50 times maximum annual principal and interest |
| 8. Current revenues which are more than operating expenses and debt service will be used for capital expenditures and other water and wastewater purposes. | In Compliance |
| 9. Funds available from current rates in each fiscal year for system rehabilitation, replacement, and expansion will be appropriated equal to or more than financial statement depreciation expense reasonably estimated in the same year. | In Compliance |
| 10. Capital financing will be provided through a combination of revenue bonds, current revenues, contributed capital, and short-term debt. An equity to debt ratio of at least 20% should be maintained on all capital projects. | Not In Compliance
As of 9/30/05, FY 2004-05 equity contribution was 8% of the total capital program. |
| 11. Retail cost of service studies will be performed at least every two years and reviewed annually. Rate adjustments will be recommended when required, but, normally, no more frequently than annually. | In Compliance |
| 12. Wholesale treated water rates for customer cities and other governmental entities will be determined on the basis of the inter-city agreement of 1979. Wholesale wastewater and untreated water rates will be determined on the basis of contractual agreements with wholesale customers. Rates shall be adjusted annually if cost of service studies indicate a need therefore. | In Compliance |

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA

Year Ending September 30, 2005

Dallas Water Utilities, continued

Status

13. Funds generated by Dallas Water Utilities will be used solely for the development, operation, and maintenance of the water and wastewater utility system.

In Compliance