

Memorandum



CITY OF DALLAS

DATE January 13, 2010

TO The Honorable Mayor and Members of the City Council

SUBJECT Bond Sale Update
January 20, 2010 Council Meeting

Attached is the Bond Sale Update briefing that will be presented to you on January 20, 2010.

Please contact me if you need additional information.

A handwritten signature in black ink, appearing to read 'Jill Jordan'.

Jill A. Jordan, P.E.
Assistant City Manager

Attachment

c: The Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Thomas P. Perkins, Jr., City Attorney
Deborah Watkins, City Secretary
Craig Kinton, City Auditor
Judge C. Victor Lander, Administrative Judge
Ryan S. Evans, First Assistant City Manager
A.C. Gonzalez, Assistant City Manager
Forest E. Turner, Assistant City Manager
David Cook, Chief Financial Officer
Jeanne Chipperfield, Director, Financial Services
Edward Scott, Director, Controller's Office
Helena Stevens-Thompson, Assistant to the City Manager – Council Office
Rick Galceran, P.E., Director, Public Works and Transportation

Bond Sale Update

January 20, 2010



Purpose

Review, evaluate, and recommend updates to the Council's Adopted FY2009-10 Capital Budget by :

- 1. Confirming projects ready for implementation; and**
- 2. Recommending a funding mechanism including commercial paper**

In November 2006, voters emphatically endorsed a bold plan of strategic investments to "protect our City and create our future"

2006 Capital Bond Program by Proposition

Proposition	Investment
1- Street and Transportation	\$390,420,000
2 – Flood Protection & Storm Drainage	\$334,315,000
3 – Parks & Recreation	\$343,230,000
4 – Library Facilities	\$46,200,000
5 – Cultural Facilities	\$60,855,000
6 - City Facilities	\$34,750,000
7 – Land Bank	\$1,500,000
8 – Economic Development	\$41,495,000
9 – Farmers Market	\$6,635,000
10 – Cadillac Heights Land Acquisition	\$22,550,000
11 – Courts Facilities	\$7,945,000
12 – Public Safety Facilities	\$63,625,000
Total	\$1,353,520,000

Planned 2006 Bond Issuance Schedule

(revisions per the FY2009 and FY2010 Council adopted budgets in bold)

Proposition	May 07	Nov 07	Nov 08	Nov 09 Mar 10	Nov 10 Mar 11	Total
1- Street and Transportation	36,776,000	78,093,000	53,018,000	106,100,000	116,433,000	\$390,420,000
2 – Flood & Storm	43,892,000	80,527,000	12,000,000	53,232,000	144,664,000	\$334,315,000
3 – Parks & Recreation	32,474,000	91,436,000	67,087,000	73,645,000	78,588,000	\$343,230,000
4 – Libraries	3,314,000	11,342,000	16,828,000	7,029,000	7,687,000	\$46,200,000
5 – Cultural Facilities	10,437,000	10,566,000	33,171,000	6,358,000	323,000	\$60,855,000
6 - City Facilities	825,000	5,673,000	5,804,000	8,996,000	13,452,000	\$34,750,000
7 – Land Bank	0	0	0	1,500,000	0	\$1,500,000
8 – Economic Development	1,639,000	8,577,000	5,045,000	10,237,000	15,997,000	\$41,495,000
9 – Farmers Market	0	2,996,000	0	3,639,000	0	\$6,635,000
10 – Cadillac Heights Acquisition	0	1,509,000	5,607,000	9,822,000	5,612,000	\$22,550,000
11 – Courts	0	0	1,192,000	6,753,000	0	\$7,945,000
12 – Public Safety	5,993,000	13,826,000	14,918,000	27,224,000	1,664,000	\$63,625,000
Total	\$135,350,000	\$304,545,000	\$214,670,000	\$314,535,000	\$384,420,000	\$1,353,520,000

Current adopted budget also includes issuance of \$40.2M in 1998 Trinity Bonds in March 2010 for a total planned March 2010 issuance of \$354.7M (\$40.2M for Trinity + \$314.5M for the 2006 Bond Program)

Why Did the Current Budget Include Plans for a Substantial Bond Issuance?

□ To maintain momentum

- Enhancing public safety
- Improving flood protection
- Encouraging development
- Continuing Streets 2010 Program

To maintain commitments

- Voters
- Customers of City facilities/services
- Local design professionals and contractors
- Funding partners

Proceed with a Bond Issuance in March 2010? Absolutely!

- ❑ Realizes significant savings on construction costs
- ❑ Encourages local economy
- ❑ Supports Business Inclusion and Development goals
- ❑ Does not delay projects that are ready to go
- ❑ Maintains investment in improving street conditions
- ❑ Positions City to take advantage of recovery

Proceed with a Bond Issuance in March 2010? Absolutely!

- ❑ Helps maintain bond rating
- ❑ Slows growth of \$8.7 billion backlog of Needs Inventory
- ❑ Retains experienced staff
- ❑ Experienced considerably smaller tax increase than was communicated to voters
- ❑ Supports tax-base through encouraging economic development

Construction Prices Lower Than Expected

- Example: City Performance Hall
 - Estimate \$24.8 million
 - Low bid price \$21 million
 - 15.3% below estimate

- Example: Routh Street (Thoroughfare) from Woodall Rodgers Service Road to Flora
 - Engineer's estimate \$1.52 million
 - Low bid price \$1.15 million
 - 24% below estimate

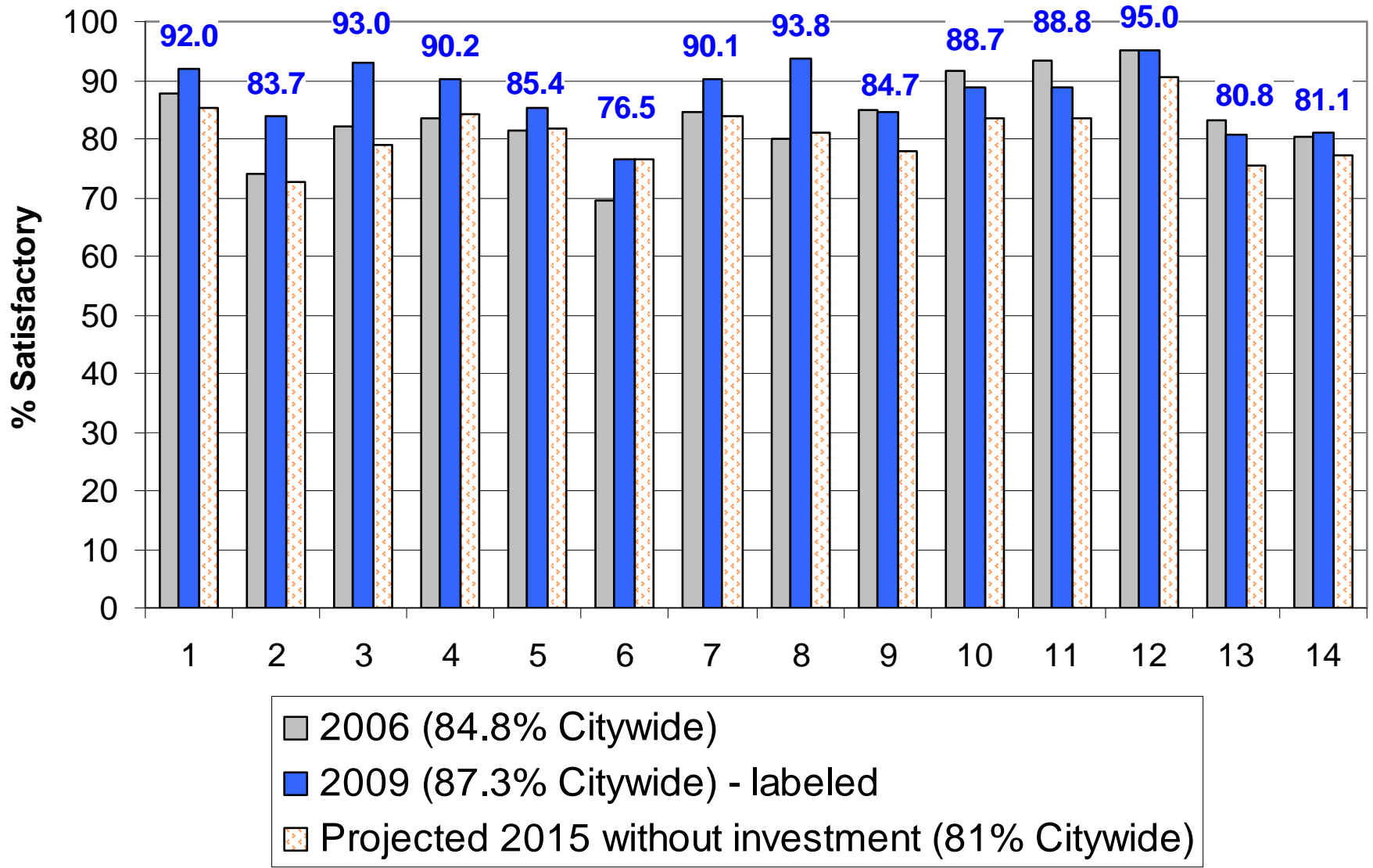
Encourages Local Economy

- \$1 billion in nonresidential construction spending
 - Represents about \$2.7 billion to the state's Gross Domestic Product (GDP)
 - Adds about \$840 million to personal earnings and
 - Creates or sustains 24,000 jobs
 - 8,200 direct construction jobs located within TX
 - 3,800 indirect jobs (construction materials and services)
 - 12,000 induced (workers and owners spending incomes)
- Between October 2008 and October 2009
 - Non-residential construction spending declined **11%**
 - Construction employment in Texas declined **16%**
 - 87% of Texas' 41,000 construction firms in 2006 were small businesses employing fewer than 20 workers

Continued implementation of the Capital Program supports the City's Business Inclusion and Development goals

Maintains Investment in Improving Street Conditions

- ❑ Council adopted revised street condition goals in 2006 such that by the end of the 2006 Bond Program:
 - The citywide rating will improve from **85%** to **87%**
 - Each district rating will be **at least 80%** (ratings ranged from 69% to 95% in 2006)
 - Each district above 80% in 2006 will maintain its 2006 rating or better
- ❑ As a result of the past three years' investment
 - **87.3%** citywide
 - Only one district remains below 80% (improved from 69% to 76.5% so far)
 - Five districts have slipped from between 0.1% and 4.4% (street maintenance was reduced in the past two budgets)
- ❑ Capital projects scheduled over the next year will:
 - Increase the citywide rating to **87.6%**
 - Improve **ALL** districts to at least 80%
 - If general fund reductions in street maintenance continue, some districts' ratings will decline



Tax Rate Impact Has Been Less Than Planned

Fiscal Year	Projected Tax Rate With 2006 Bond Program and O&M	Adopted Tax Rate
FY06-07	N/A	72.92¢
FY07-08	77.47¢	75.09¢
FY08-09	80.59¢	74.79¢
FY09-10	83.06¢	74.79¢
FY10-11	84.75¢	N/A
FY11-12	85.98¢	N/A

Projected through FY09-10: **10.14¢**

Actual through FY09-10: **1.87¢**

- ❑ Voter approved plan anticipated tax rate increase of 13.06¢ between FY06-07 and FY11-12 (2006 Bond Program and corresponding O&M)
- ❑ Increase to date: 1.87¢ (compared to the projected 10.14¢)

Short-term Challenges (FY2010-11)

- ❑ Property tax values
- ❑ Public safety costs
- ❑ Debt service costs
- ❑ Sales tax revenues

Short-term Challenges (FY2010-11)

With a keen awareness of these challenges associated with the FY2010-11 budget, staff analyzed a number of ways to address capital program implementation

Approaches to Implement Capital Program

Adopted FY09-10 budget includes issuance of \$354.7 million in bonds

To efficiently use the City's resources, three scenarios have been considered:

- Proceed with all projects that are ready to go
- Delay enough projects to keep debt service costs at approximately the FY09-10 level
- Delay even more projects in order to achieve a savings in debt service

Scenario 1:

Proceed with all Projects Ready to Go

Projects ready to go Mar 2010 – Feb 2011 **\$566.8M**

Currently available funding

-Projects previously funded and ready to go - \$209.2M

-Funds available from issued but currently
delayed* projects - \$60.6M

Total Bonds to be issued March 2010 **\$297.0M**

Total Projects to be Implemented **\$566.8M**

Total ready projects to be delayed **\$0**

*Some funded projects are currently experiencing delays for a number of reasons including Right-of-way issues (utility conflicts, condemnation, etc), partner funding and schedules, and regulatory reviews and other issues

Scenario 2:

Delay \$152.9M in Projects to Keep Debt Service Cost Neutral

Bonds to be issued that keep debt neutral	\$144.1M
Currently available funding	
-Projects previously funded and ready to go	\$209.2M
-Funds available from issued but currently delayed projects	\$60.6M
Total Projects to be Implemented*	\$413.9M
Projects ready to go Mar 2010 – Feb 2011	\$566.8M
Total Projects to be Implemented*	\$413.9M
Total Projects to be delayed	\$152.9M

*Prioritize projects based on project readiness, contractual obligation (regulatory, grants, interagency), associated O&M costs

Scenario 3:

Delay \$297M in ready projects to achieve savings in debt service

Bonds to be issued	\$0
Currently available funding	
-Projects previously funded and ready to go	\$209.2M
-Funds available from issued but currently delayed projects	\$60.6M
Total Projects to be Implemented	\$269.8M
Projects ready to go Mar 2010 – Feb 2011	\$566.8M

Total ready projects to be delayed \$297M

Likely delay 2006 Bond Program by at least 2 years (\$698M remaining to be issued) and

- Further delay the next capital program
- Lose experienced, key staff impacting ability to deliver future capital programs
- Potentially lose funding partners

Summary of Bond Sale Amounts for Each Proposition

Proposition	Per current adopted budget	Scenario 1 Based on Project Schedules	Scenario 2 Debt Service Neutral	Scenario 3 Issue No Bonds
1- Street and Transportation	106.1M	98.2M	0	0
2 – Flood & Storm	53.2M	83.7M	66.7M	0
3 – Parks & Recreation	73.6M	61.6M	38.8M	0
4 – Libraries	7M	2.9M	2.9M	0
5 – Cultural Facilities	6.4M	1.4M	0	0
6 - City Facilities	9M	10.2M	.4M	0
7 – Land Bank	1.5M	0	0	0
8 – Economic Development	10.2M	14M	10.2M	0
9 – Farmers Market	3.6M	0	0	0
10 – Cadillac Heights Acquisition	9.8M	4M	2M	0
11 – Courts	6.8M	6.8M	6.8M	0
12 – Public Safety	27.2M	5.3M	0	0
1998 Trinity	41.2M	16.4M	16.4M	0
Total	\$354.7M	\$297M	\$144.1M	\$0

Recommendation for FY09-10 Capital Program

Recommend Scenario 1 which anticipates providing funding for all projects ready to go

Alternative Funding Mechanism

- Reduce the FY2010-11 cost of borrowing
 - Sell commercial paper when needed to make capital improvement program payments instead of issuing bonds ahead of contract awards

- Issue commercial paper at the time of contract payment to better match the timing of borrowing and interest expense

What is Commercial Paper?

- ❑ Allows “Just-in-time-borrowing” – issue CP as a payment is about to be made on a project as opposed to issuing the full contract amount in bonds prior to contract award
- ❑ Is defined as short-term (up to 270 days) promissory notes
- ❑ Serves as interim financing mechanism
- ❑ Is reissued at maturity until retired with permanent financing (GO bonds)

Background on Commercial Paper

- ❑ Dallas Water Utilities' CP program has been in place for 22 years
- ❑ Experience with DWU program can be applied to implement a new GO program
- ❑ Sale of CP allows for funds to be borrowed as needed for payments
- ❑ Use of CP should have no effect on City's GO bond ratings
- ❑ Commercial paper is also used for capital project financing by DART, DFW Airport and many cities such as Houston, Austin, Fort Worth, and Arlington

CP Example

- ❑ October 1st: CP program becomes effective
- ❑ October 6th: Council awards \$2.5M construction project using CP authorization (instead of having issued \$2.5M in bonds)
- ❑ December 1st: Contractor's first payment (\$46k) is due, City issues CP for \$46k to make payment
- ❑ Process repeats until project is completed
- ❑ November 2011: City issues bonds in an amount to refund maturing CP

City has paid lower CP interest rate (plus a fee) for the incremental use of the \$2.5M (less than the cost of using traditional bond funding alone)

Why Commercial Paper Now?

- ❑ Allows City to stay committed to bond program and ready to go projects
- ❑ Reduces debt service cost increase in FY2010-11
- ❑ Times the issuance of debt to better coincide with payments and reduces average annual cost of borrowing

CP Considerations

- ❑ Loss of interest earnings on bond proceeds reduces flexibility to provide additional funding to supplement project costs for 2006 Bond Program
- ❑ Long-term interest rates fluctuate and can change our costs
- ❑ Some of the risks with CP can be mitigated with a bank credit agreement that “backs up” commercial paper program

Recommendation

Due to the importance of investing in our infrastructure and the need to minimize expenditure increases in FY2010-11, the following is recommended:

- Revise March bond issuance to \$128.9M for contract awards through September 30, 2010
- Develop and implement a GO commercial paper program for October 2010 – September 2011

Impact of Various Scenarios

	Scenarios				
	Adopted FY09-10 Budget	1	2	3	Recommendation (18 months)
Bonds to be issued	\$354.7M	\$297M	\$144.1M	\$0	\$128.9M (bonds) + \$350M (CP)
Projects to be implemented	\$624.5M	\$566.8M	\$413.9M	\$269.8M	\$748.7M
Time Frame	March '10 – Feb '11	March '10 – Feb '11	March '10 – Feb '11	March '10 – Feb '11	March 10 – Sep 11
Debt service cost impact for FY10-11	\$16.9M	\$13.5M	(\$2.8M)	(\$18.2M)	\$6.8M
Estimated new FY10-11 O&M impact	\$0	\$0	\$0	\$0	\$0
Estimated future annual O&M impact	\$2.3M	\$2.4M	\$1.8M	\$1.2M	\$2.4M
Jobs created/sustained	12,960	13,608	9,912	6,475*	17,969

* Also eliminates funding for 15 – 25 City project manager and trades positions

Rationale

- ❑ Takes advantage of low construction prices
 - If we save a conservative 5% on the \$748.7M in projects, that equates to over \$37M, or more than five times the debt service impact in FY2010-11
- ❑ Maintains commitment to our customers
- ❑ Maintains credibility with voters
- ❑ Provides significant local economic stimulant
- ❑ Shows leadership and rational confidence in the economy
- ❑ Retains experienced staff
- ❑ Maintains momentum to address capital backlog
- ❑ Maintains momentum on addressing previously deferred major maintenance

Summary

- Proceed with all projects ready to go
- Revise March bond issuance to \$128.9M for contract awards through September 30, 2010
- Develop and implement a GO commercial paper program for contract awards October 2010 through September 2011

Next Steps

- ❑ January 27th: Council considers resolutions authorizing plans to proceed with bond, certificates of obligation (CO's) and equipment note issuances
- ❑ March 3rd: Council action to approve ordinances to sell bonds, CO's and equipment notes
- ❑ February – September: Staff procures CP program implementation services
- ❑ September: Council action to implement program
- ❑ October 1, 2010: Program effective for contract awards

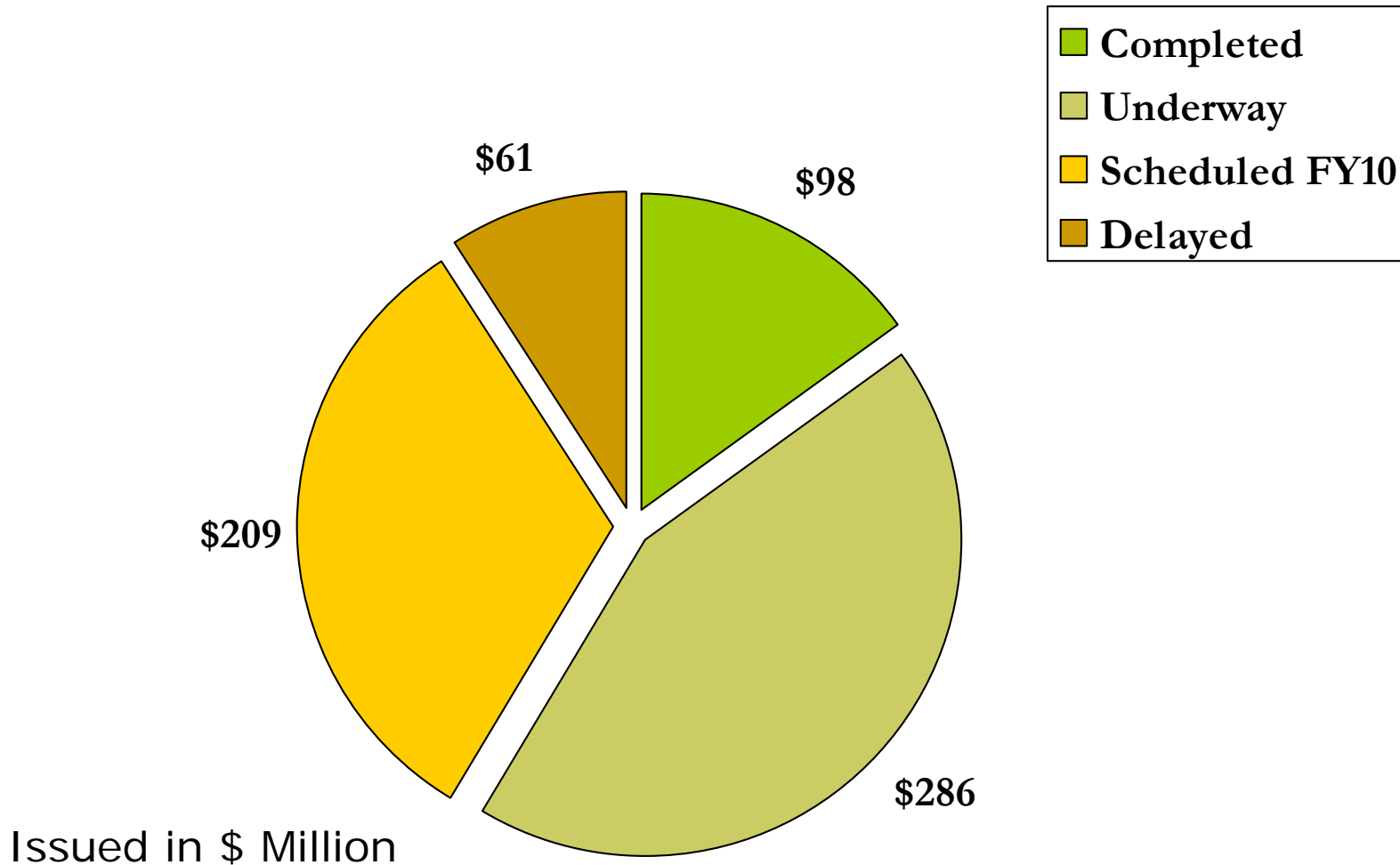
Appendices

- Appendix A:
2006 Bond Program Status

- Appendix B:
Projects Funded by recommendation for
March 2010 - September 2011 awards by
Proposition

Appendix A: 2006 Bond Program Status

2 ½ years into implementation, \$654M in 2006 Bonds have been issued . . .



Appendix B

Projects Funded By recommendation
for March 2010 - September 2011
awards by Proposition