Memorandum

CITY OF DALLAS

DATE April 13, 2012

TO Honorable Mayor and Members of the City Council

SUBJECT Debt Issuance Options

On Wednesday, April 18, 2012, you will be briefed on Debt Issuance Options. The briefing material is attached for your review.

Please let me know if you require additional information.

Jeanne Chipperfield

Jeanne Chipperfield
Chief Financial Officer

c: Mary K. Suhm, City Manager
Rosa A. Rios, 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
Stephanie Pegues-Cooper, Assistant to the City Manager

DEBT ISSUANCE OPTIONS

Presented to the

Dallas City Council

April 18, 2012

Overview

The proposed 2012 Bond Program assumes no increase in the tax rate nor any increase in fees

Based on these assumptions, the initial recommended bond program was in the range of $450-$550 million

Recent analysis of interest rates, refunding opportunities, debt structure and projected tax base value allows for an increase in the recommended bond program to $600 million

This bond program will help to relieve some of the demands on the General Fund budget by:

- Funding those projects which will increase the tax base
- Addressing infrastructure needs that are negatively affecting maintenance costs
- Excluding projects that add operating and maintenance costs

Additionally, the outstanding GO debt throughout the bond program will remain in line with current levels

Briefing Contents

- 2012 Bond Program Size Update
- Options for Financing
- Debt Structure, Existing Debt and Bond Program Sizing
- Financial Management Performance Criteria (FMPC)
- Rating Agency Considerations
- Current Outstanding Debt Summary
- Storm Drainage Revenue Bonds
- Conclusion and Next Steps
- Appendices

Potential 2012 Bond Program - Revisions ($ million)

Potential 2012 Bond Program	Impact
Initial Proposed Size (Range $450 - $550)	$500
Potential Refunding/Restructure, Revised Interest Rates Assumption	$125
Cotton Bowl CO's	($40)
Change in Tax Base Projection	$15
Revised Total	$600

Options for Financing

- General Obligation Bonds
- Certificates of Obligation
- Revenue Bonds

General Obligation Bonds

- Election approved by voters is required before bonds may issued
- Property taxes are used for repayment of the bonds
- "Full faith and credit" of the City backs the bonds, no reserves are established
- Property tax rate set annually for both debt service and operations and maintenance

Certificates of Obligation

- General obligation debt instrument requiring public notice but no election
- Property taxes are used for repayment of the certificates
- “Full faith and credit” of the City backs the certificates, no reserves are established
- Term limited to 10 years by City Charter

Revenue Bonds

- Revenue bonds do not require an election prior to issuance – no “full faith and credit” pledge
- Bonds are repaid from the pledged revenues which are specified in the ordinance authorizing issuance of the bonds
  - Bondholders have a lien on the revenues
  - For example, Dallas Water Utilities bond holders have a first lien on the revenues available after the payment of O&M expenses
- Revenue bonds often require reserves, revenue coverage of at least 1.25 – 1. 5 times annual debt service expense, and an additional bonds test prior to the issuance of more bonds
- May sell at higher interest rates than comparably rated general obligation bonds

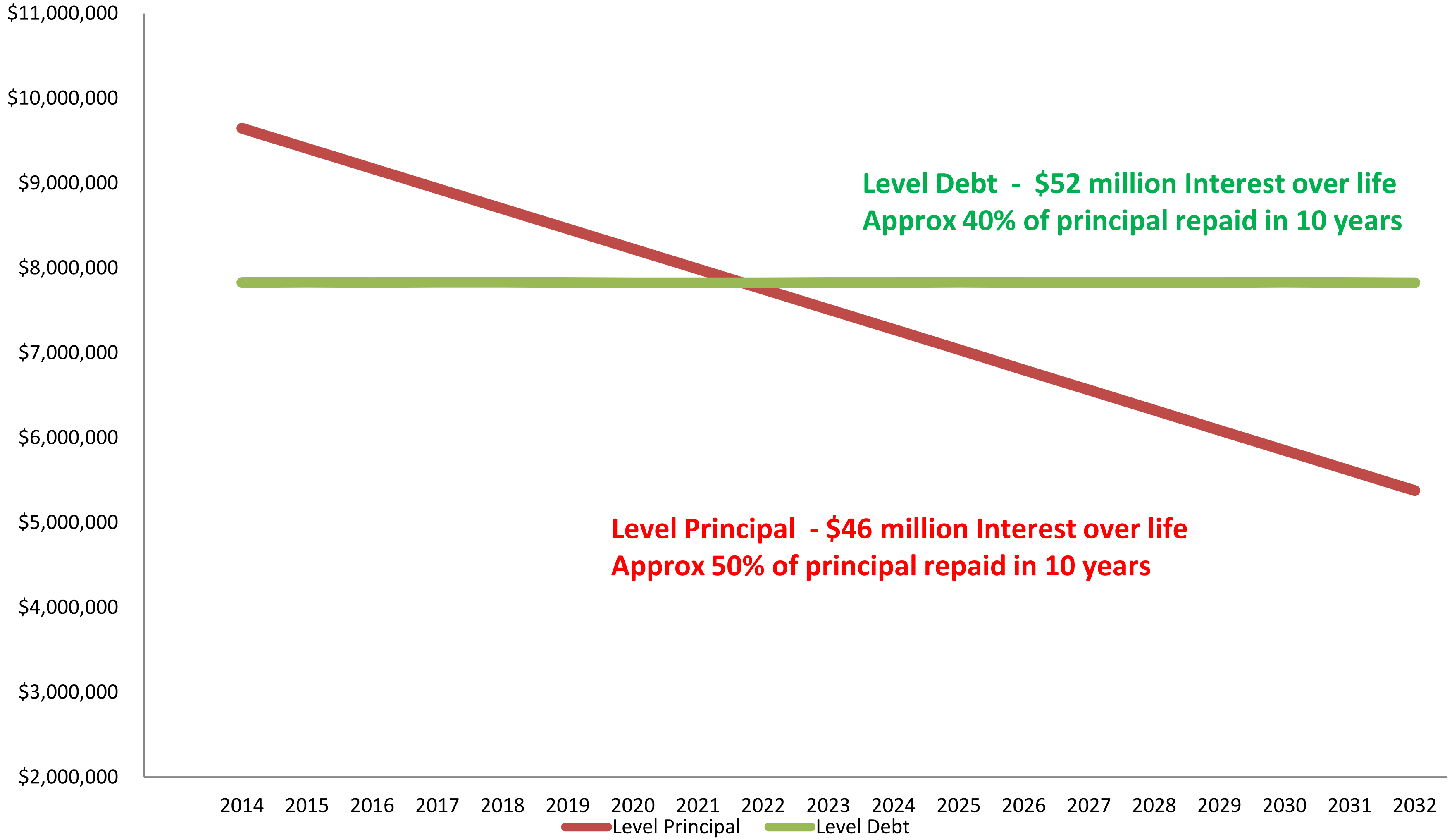
Debt Structure – Level Principal

- *Level principal* – equal annual principal payments, debt service payment decreases over time
- Total lower interest payment over the life of the debt when compared to level debt service structures
- Approximately 50% of principal repaid in 10 years of a 20 year term bond issue
- Continued use of this structure over time results in steeper annual debt service <u>expense reductions</u> compared to the use of level debt service

Debt Structure – Level Debt Service

- *Level debt service* – equal annual payments, principal portion of the payment increases over the life of the bonds (like a home mortgage)
- Greater interest paid than a level principal structure
- Approximately 40% of the principal repaid in 10 years for a 20 year term bond issue
- Minimizes coverage impact for revenue bond issuers

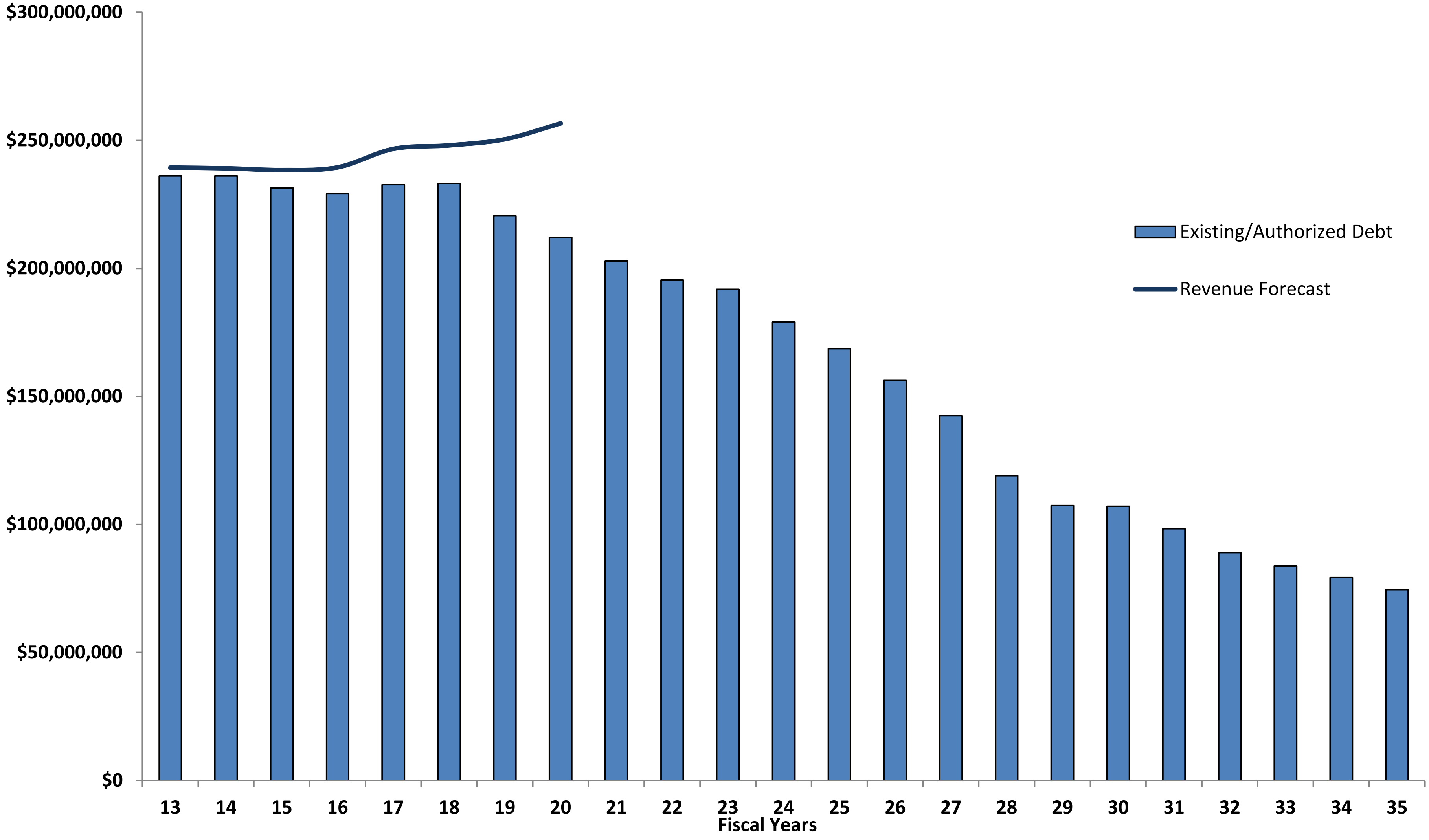
Level Debt versus Level Principal
$100 million Issuance Example



Existing General Obligation Debt

- Generally issue 20 year GO bonds with level principal
- Continued use of a level principal structure created the declining annual debt service structure shown on the next slide
- Capacity to issue new bonds occurs each year as payments decline from the prior year in addition to growth in tax base

Existing/Authorized Debt



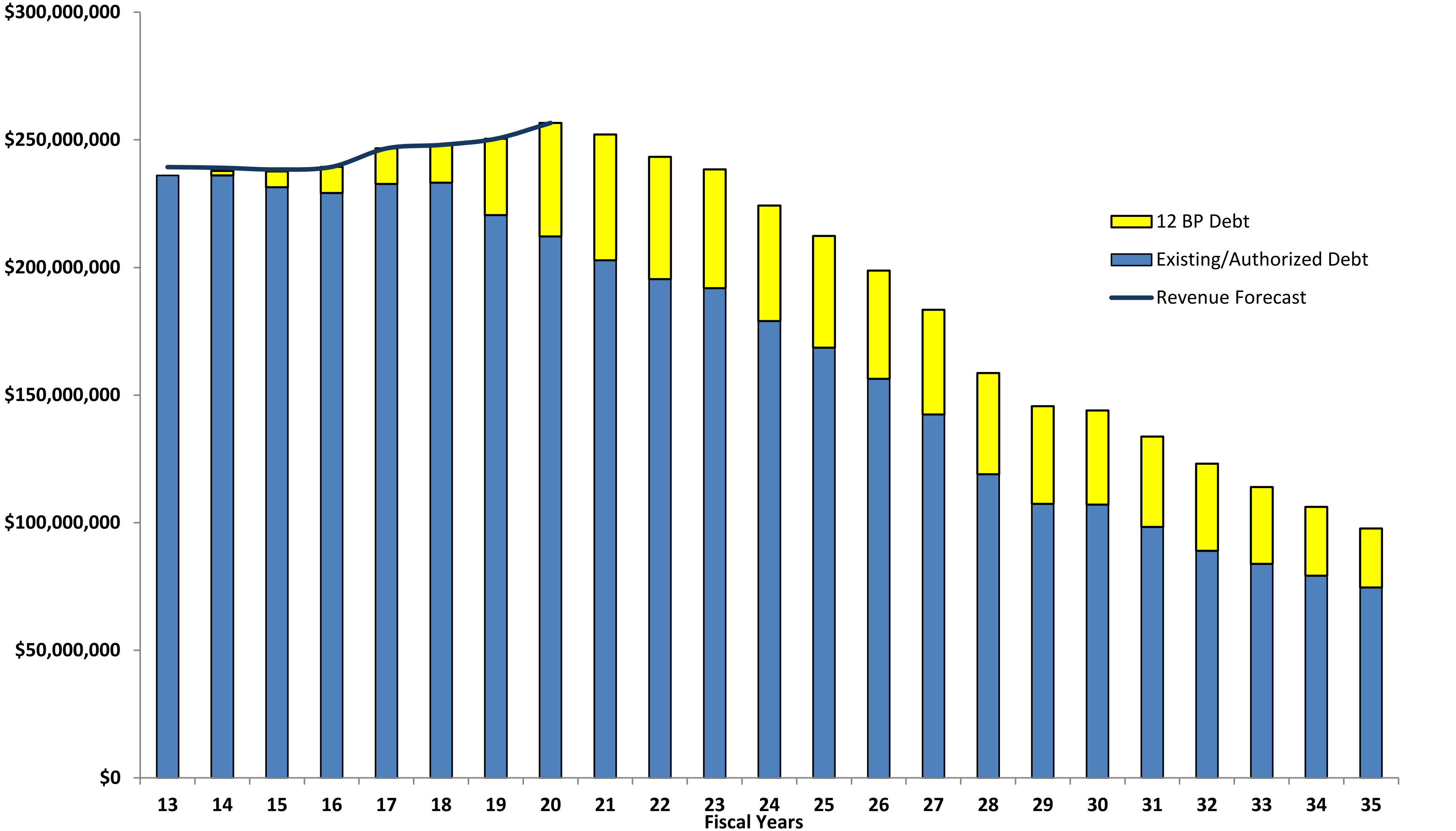
Determining Bond Program Size

- Planning for next bond program includes review of financial capacity to determine amount of debt that City can afford to issue

- This is determined by forecasting revenues first
  - Projected property tax base value
  - Ad valorem tax rate

- After assuming the payment of the existing/previously authorized debt, assumptions regarding new debt can be made
  - The difference between the revenue line and the existing/authorized debt expense (blue bars) is the amount of 2012 Bond Program debt that can be afforded within the revenue assumptions – no increase in tax rate or fees to support the new debt
- Revised assumptions include adjusting projected tax base growth and interest rates; a refunding of a portion of the existing debt in October 2012; and adjusting the principal structure
- Results in additional capacity but continues to maintain rapid principal repayment and manageable overall debt levels

Determining Bond Program Size



Financial Management Performance Criteria (FMPC)

- Initially adopted by the City Council in 1978 to set standards and to guide decision making
- City of Dallas was a leader among cities in initially establishing the FMPC
- Includes 52 criteria in 5 categories
  - Operating Programs
  - Capital and Debt Management
  - Accounting, Auditing and Financial Planning
  - Cash Management
  - Grants and Trusts
- FMPC are updated/evaluated for compliance during budget preparation and approval process, at year end, and for each debt issuance
- Council periodically reviews and updates the criteria
- Last update was approved by City Council in September, 2011

Financial Management Performance Criteria (cont'd)

- 25 Criteria in the FMPC relate to Capital and Debt Management and address issues such as:
  - Length of bond term
  - GO debt as a percent of market value of taxable property valuation and per capita GO debt as a percent of per capita annual income
  - Weighted average life of GO bonds
  - Debt service expense as a percent of annual general fund, special revenue fund and debt service fund expenses
  - Minimum savings thresholds for debt refundings
  - Issuance of certificates of obligation, PID and TIF bonds
- Current FMPC attached in Appendix C

Rating Agency Considerations

- Currently hold Aa1/AA+ GO ratings from Moody's and Standard & Poor's, respectively
- One notch below highest ratings of Aaa/AAA
- Rating agency comments from October 2010:
  - Substantial and diverse tax base with potential for on-going development (Moody's)
  - Strong, conservative financial management practices (S&P)
  - Continued capital investment in infrastructure for rehabilitation and economic development (S&P)
  - Narrow fund balance compared to other highly rated cities (Moody's)
  - **Elevated yet manageable debt profile due to rapid repayment of principal (Moody's)**
- Comparison to other similarly rated cities included in Appendix A

Outstanding Debts as of 3/31/12

	Balance ($ million)	Rating (S&P/Moody's)	Revenue Pledge	Comments
General Obligation	$1,659	AA+ / Aa1	Ad valorem taxes	
Dallas Water Utilities	$1,806	AAA / Aa1	Net revenues from utility	
Convention Center	$322	A / A1	Hotel Occupancy Tax, Convention Center Revenues, Alcoholic Beverage Tax for O&M	General Fund covenant to pay O&M costs if revenues are insufficient to maintain the Convention Center
Contingent Credits:				
Convention Center Hotel	$480	A+ / A2	Net revenues of hotel, hotel tax and sales tax generated at the hotel (City and State portions)	Council consideration of a Chapter 380 Economic Development grant for debt service if reserves are exhausted
Downtown Dallas Development Authority TIF Revenue	$77	A+ / Aa3	Tax Increment	Council consideration of a Chapter 380 Economic Development grant for debt service if reserves are exhausted
Total	**$ 4,344**			

Storm Water Drainage Revenue Bond Requirements

- Willingness to increase rates to make debt service payments and maintain coverage
- Coverage of revenues over debt service expenses by 1.25-1. 5 times
  - Gross pledge – debt service is paid before any operating expenses and requires no reserves (1.5 times revenues)
  - Net pledge – debt service is paid after operating expenses and requires reserve fund (1.25 times revenues)
- Additional bonds test to demonstrate that revenues exceed projected debt service requirements for both the outstanding debt and the new bond issue by a stated amount
  - Assures bondholders that the issuer is financially sound

Effect of Additional Debt Service on Storm Water Rates

Projected Storm Water Rates

	Current Rate (FY2012)	FY2014 Projected Rate*	FY2015 Projected Rate*	Total Increase
Residential Property Area Rates				
Up to 6,000 s.f.	$ 3.65	$ 3.92	$5.23	43%
6,001 - 8,000 s.f.	$ 5.77	$6.20	$8.27	43%
8,001 - 17,000 s.f.	$ 7.77	$8.35	$11.13	43%
17,001 - 215,000 s.f.	$13.87	$14.91	$19.87	43%
More than 215,0000 s.f.	$43.87	$47.17	$62.86	43%
Vacant and commercial Property (per 100 s.f.)	$0.1589	$0.1708	$ 0.2277	43%

*Rate adjustments assume no changes in other operating and maintenance costs
A similar rate adjustment would be required if Storm Water funds were used to repay General Obligation debt

Storm Water Drainage Revenue Bonds Assumptions

- Scheduled Contract Awards
  - $91 million – Able Pump Station - September 2013
  - $217 million (unfunded portion) – Middle Creek/Peaks Branch/State-Thomas Tunnel Project – June 2014
- Scheduled Bond Issuances
  - $91 million – August 2013
  - $217 million – May 2014
- Debt service payments begin February 2014 with additional debt service expense of $3.7 million increasing to $21.3 million in FY2015
- **Rate adjustments required - 7.5% for FY2014 and 33% for FY2015**
- 1.5x coverage requirement

Conclusion

- Assuming current debt levels and operating fund needs, the total recommended 2012 Bond Program is $600 million
  - Assumes no tax rate or fee increases

- If the economy continues to improve, it is likely that another bond election could be held sooner than the normal 4-6 year schedule

Next Steps

- Currently meeting with Councilmembers to identify district needs
- June 6 - Manager's Recommended Bond Program Briefing
- June 13 - Public Hearing
- June 20 – City Council Workshop to finalize 2012 Bond Program
- June/July – Bond Program Town Hall meetings
- August 15 – Call bond election
- November 6 – Bond Election
- March 2013 – Begin project awards

APPENDIX A

Peer City Credit Comparison
General Obligation Debt

"Peer" City Credit Comparison – G.O. Debt

City of Dallas vs. Other Aa1 & Aaa Credits

City*	Senior Rating	State	General Fund Balance ($000)	Total General Fund Revenues (S000)	General Fund Balance as % of Revenues	Unreserved General Fund Balance as % of Revenues	Direct Net Debt as % of Full Value	Debt Burden (Overall Net Debt as % of Full Value)	Payout of Debt, 10 Years
Austin	Aaa	TX	108,710	628,119	17.3	16.6	1.2	3.8	69.0
Boston	Aaa	MA	707,193	2,295,308	30.8	29.2	1.2	3.2	71.8
Dallas	Aa1	TX	91,972	997,750	9.2	6.5	2.1	5.1	65.5
Fort Worth	Aa1	TX	162,893	558,500	29.2	25.0	1.5	6.3	69.9
Indianapolis	Aaa	IN	166,631	654,535	25.5	20.4	4.2	5.5	91.4
Oklahoma City	Aaa	OK	63,700	329,914	19.3	17.8	1.7	2.4	73.4
Phoenix	Aa1	AZ	255,581	985,852	25.9	23.5	1.4	2.2	48.7
San Antonio	Aaa	TX	229,636	894,074	25.7	22.3	2.5	8.7	59.1
San Jose	Aaa	CA	170,887	671,944	25.4	21.4	1.1	3.4	29.2
Tempe	Aa1	AZ	43,814	147,420	29.7	29.1	1.7	2.9	64.2
Virginia Beach	Aaa	VA	178,980	1,048,424	17.1	16.1	2.0	N/A	67.5
Medians	**Aaa**		**168,759**	**663,240**	**25.6**	**21.8**	**1.6**	**3.4**	**67.5**

* All city data as of respective 2010 Fiscal Year End.

APPENDIX B

Storm Water Fees

Q & A

Methodology for Charging the Storm Water Drainage Fee

- Fee structure for residential is a tiered billing approach based on a typical lot size with an assumed rate of imperviousness for each tier
- Fee structure for commercial is based on assumed percent of imperviousness
- Both commercial and residential properties pay the same rate per square foot of imperviousness
- Over the next several months, staff will be initiating the procurement process for a fee study
  - This fee study is anticipated to take approximately one year
  - Will analyze the methodology for setting the fee based on actual impervious area

Can impact fees be used to pay for storm water drainage infrastructure?

- Requires study to develop appropriate methodology
- Requires approval of ordinance
- Typically
  - Applies to new development, not re-development
  - Charged one time and dedicated to specific projects within that watershed that are impacted by the development
  - Cannot retro-actively charge projects
  - Could hinder development in undeveloped areas
  - Could delay capital improvements until funds have been collected to cover cost of project

APPENDIX C

Financial Management Performance Criteria
FY2011-12 Adopted Budget

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA
FY 2011-12 Adopted Budget Status

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 unassigned 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.	In Compliance
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.	In Compliance The percentage change in base revenue (from FY 2010-11 to FY 2011-12) is -2.0%. Adjusted revenues cannot exceed “base” revenues more than 8%. Base revenues = FY 2010-11 budgeted revenues from current tax roll (in 000's) $ 640,832 2011-12 Ad-Valorem Tax Revenue $ 629,965 Less: Voter Mandated-Debt Service ($ 3,832) Growth from Annexation $ 0 Growth from New Construction $ 5,623 Adjusted revenue recommendation: $ 628,174 % Change from base revenues: -2.0%
3. Debt will not be used to fund current operating expenditures.	In Compliance No debt is programmed in the Operating Budget to fund current expenses.

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA
FY 2011-12 Adopted Budget Status

Operating Program (Continued)	**Status**
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.	In Compliance
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 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.	Not In Compliance Convention & Event Services does not have sufficient fund balance to meet the guideline.

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA
FY 2011-12 Adopted Budget Status

Operating Program (Continued)	**Status**
7. 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. 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 adopted 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

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA
FY 2011-12 Adopted Budget Status

Operating Program (Continued)

8. The Contingency Reserve, a component of unassigned fund balance, 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 adopted 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.

Status

In Compliance

The adopted Contingency Reserve level is $5,100,000 or 0.5% of the General Fund budget. It will be funded from FY 2010-11 Contingency Reserve ending balance of $3,436,886 and FY 2011-12 General Fund contribution of $1,663,114.

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA
FY 2011-12 Adopted Budget Status

Operating Program (Continued)	**Status**
9. The unassigned fund balance of the General Fund, which includes the Emergency and Contingency Reserves, shall be maintained at a level not less than 5% of the General Fund operating expenditures less debt service. (The Risk Reserve is not included in this calculation.)	In Compliance Emergency Reserve 9/30/11 (projected ending balance) $ 17.6M Contingency Reserve 9/30/11 (projected ending balance) $ 3.4M FY2011-12 appropriations $ 1.7M Fund Balance 9/30/11 (projected) $ 42.5M Combined $ 65.1M $65.1M is 6.4% of the adopted General Fund budget
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.	In Compliance The adopted Risk Reserve level is $1,250,000. It will be funded from the FY 2010-11 Risk Reserve ending balance of $1,250,000.

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA

FY 2011-12 Adopted Budget Status

Operating Program (Continued)	Status
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.	In Compliance The adopted Liability/Claims Fund will be funded at $8,568,433. It will be funded from the Liability/Claims Fund FY2010-11 ending balance of $1,249,240, and FY2011-12 General Fund contribution of $5,288,198, General Fund departmental contributions of $735,465 and other funds contributions of $1,295,530.
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.	Establishment of reserve is not recommended at this time.
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.	Not In Compliance
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, current replacement fleet and IT equipment schedules are prepared.

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA
FY 2011-12 Adopted Budget Status

Operating Program (Continued)	**Status**
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 fees and charges study will be completed for approximately 25% of all fees in FY 2011-12.
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 1.8%
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 4.5%
19. Interest expense 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 6.6 Years

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA
FY 2011-12 Adopted Budget Status

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 14.0% (Annual Debt Service Contribution, $233.9m / Adopted Outstanding Debt at 9/30/12 , $1.67b)
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% Total Debt 2.4%-GO Bond Debt
23. Debt may be used to finance betterments intended to extend service life of original permanent capital improvements under the following conditions: • 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

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA
FY 2011-12 Adopted Budget Status

Capital and Debt Management (Continued)	**Status**
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
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. • All C.O.'s issued in lieu of revenue bonds should not exceed 10% of outstanding G.O. Debt.	In Compliance 0.6%
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

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA
FY 2011-12 Adopted Budget Status

Capital and Debt Management (Continued)	Status
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. A Tax Increment Financing Reinvestment Zone may not be created if more than 10 percent of the property in the adopted zone, excluding property dedicated for public use, is used for residential purposes. "Residential purposes" includes property occupied by a house, which is less than five living units.	In Compliance
33. 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.	In Compliance

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA
FY 2011-12 Adopted Budget Status

Capital and Debt Management (Continued)	**Status**
34. All PID and TIF proposals, even "pay-as-you-go" projects, will be evaluated 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

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA
FY 2011-12 Adopted Budget Status

Capital and Debt Management (Continued)	**Status**

  - 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.

- 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.

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA
FY 2011-12 Adopted Budget Status

Capital and Debt Management (Continued)	**Status**
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, repayment of bonds.	In Compliance
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. • All projects must be carefully evaluated for credit-worthiness and meet the criteria above whether or not a credit rating is obtained.	In Compliance
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%. 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%.	In Compliance

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA
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Capital and Debt Management (Continued)	**Status**
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
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.	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; 4) change in fair value of investments is not recognized as income (expenditure) in the budget basis.
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.	Not In Compliance FY 2009-10 CAFR was issued June 10, 2011.
43. Full disclosure will be provided in the annual financial statements and bond representations.	In Compliance

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Budget	**Status**
44. Revenues and expenditures will be projected annually for at least three years beyond the current budget projections.	In Compliance
45. Financial systems will be maintained to monitor expenditures, revenues and performance of all municipal programs on an ongoing basis.	In Compliance
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.	In Compliance
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 Adopted Budget status will be submitted with the City Manager's Adopted 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

FINANCIAL MANAGEMENT PERFORMANCE CRITERIA
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Cash Management (Continued)	Status
50. Internal Service Funds and Enterprise Funds will maintain positive cash balances.	Not in Compliance, Convention and Event Services will not maintain a positive cash balance due to timing of receivables.
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