

Memorandum



DATE April 11, 2008

TO Members of the Finance, Audit & Accountability Committee
Chair Mitchell Rasansky, Vice Chair Jerry Allen, Mayor Pro Tem Dr. Elba Garcia,
Vonciel Jones Hill, Angela Hunt, Ron Natinsky and David Neumann

SUBJECT AAA Bond Rating – Fund Balance Standard

The Committee's April 14th agenda includes the attached Subject briefing.

Please contact me if you need additional information.

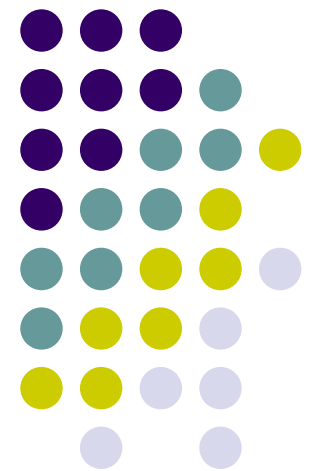
A handwritten signature in cursive that reads 'D. Cook'.

David Cook
Chief Financial Officer

Cc: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Tom Perkins, Jr., City Attorney
Deborah Watkins, City Secretary
Craig Kinton, City Auditor
Ryan S. Evans, First Assistant City Manager
David O. Brown, Interim Assistant City Manager
Ramon Miquez, P.E., Assistant City Manager
Jill A Jordan, P.E., Assistant City Manager
A.C. Gonzalez, Assistant City Manager

AAA Bond Rating – Fund Balance Standard

Finance, Audit & Accountability
April 14, 2008





Purpose

- Respond to City Council inquiry regarding the amount of fund balance that may be necessary to obtain a General Obligation Bond rating of “AAA”



Dallas Bond Rating

- General Obligation (GO) Bonds are currently rated
 - Aa1 by Moody's
 - AA+ by Standard & Poor's
- These ratings are one notch below each rating agency's highest rating of AAA



Why not AAA?

- Both rating agencies have consistently indicated that Dallas' fund balance level falls short of what they expect for a AAA-rated city
- The Dallas 9/30/2006 fund balance was \$133.4 million
 - 14.1% of FY 2006-07 revenues
- Analysis of AAA-rated cities indicates a median fund balance of 20.1%



What Cities are Rated AAA?

- No city over 1 million population has AAA ratings from both Moody's and S&P
 - Phoenix recently obtained AAA rating from S&P and has a Aa1 rating from Moody's
 - The Phoenix fund balance exceeds 40% of annual revenues
- Cities that are AAA rated by both agencies include: Seattle, Indianapolis and Columbus, OH



How Much More?

- An additional \$52.8 million of fund balance would have been necessary to achieve 20.1% of revenues at 9/30/2006
- In order to increase fund balance by \$52.8 million, the City must have revenues exceed expenses by \$52.8 million

Impact



- \$52.8 million represents 6.44¢ on the property tax rate (currently 74.79¢)
- Financial Advisors estimate that GO bonds rated AAA would have an interest rate 2 basis points (0.02%) lower than GO bonds rated Aa1/AA+

Impact



- A reduction of 2 basis points on a GO bond issue of \$304 million (issued in November 2007) would result in annual payments lower by \$30,062.50

Questions

