

Memorandum



CITY OF DALLAS

DATE July 26, 2019

TO Honorable Mayor and Members of the City Council

SUBJECT **Follow-Up to Budget Overview Briefing on June 18, 2019**

Thank you for your questions regarding the FY 2019-20 and FY 2020-21 Budget Overview briefing on Tuesday, June 18. We have provided responses to the remaining questions below.

1. Where is growth in property tax values occurring because of new construction?

Please refer to the attached maps of new construction permits for FY 2017-18 and FY 2018-19.

2. What was included in the current budget (FY 2018-19) in response to the 2018 Community Survey?

Maintenance of infrastructure, police services, and neighborhood code enforcement were residents' top three priorities, based on the importance of and satisfaction with these services. The City made the investments below in response to these findings.

Mobility Solutions, Infrastructure, & Sustainability	FY 2018-19 Budget
Improving the condition of city streets with additional dollars for pay-as-you-go or cash funding	\$2,000,000
Leveraging \$10 million of federal Highway Safety Improvement Program funds to improve safety at high-crash locations	\$1,860,000
Creating a cross-departmental pilot program to improve alley access for residents and utilities with \$500,000 from the General Fund and \$1.3 million from other funds	\$500,000
Public Safety	FY 2018-19 Budget
Meet and Confer agreement with police officers and firefighters to increase pay	\$25,697,000
Increasing starting pay for police officers and firefighters to \$60,000 effective January 1	\$7,294,000
Increasing uniform base pay by 3% for those above \$60,000	\$7,910,000
Contributing to the Dallas Police and Fire Pension System in compliance with HB 3158	\$6,106,000

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Providing one-time funding for helicopter unit relocation and ongoing funding for equipment and maintenance	\$516,000
Payroll and scheduling module for DPD and DFR	\$1,000,000
Increasing hosted software seats in 911 backup call center	\$632,000
Quality of Life	FY 2018-19 Budget
Adding seven Neighborhood Code Representatives to improve outreach efforts and address community issues	\$650,000

3. What revenue sources do other cities use to pay for public safety?

Like Dallas, most cities rely on property and sales tax to pay for public safety. One way that cities in Texas pay for public safety is through the creation of Special Purpose Districts (SPDs), which are voter-approved and funded with a portion of sales taxes. For public safety, SPDs can fund (1) Emergency Services Districts that support EMS, ambulances, fire prevention, and other emergency services or (2) Crime Control and Prevention Districts that finance the cost of certain programs, from neighborhood watch programs to drug and chemical disposal centers to family violence centers. Houston is the only major city in Texas with Emergency Services Districts, and Fort Worth is the only major city in Texas with a Crime Control and Prevention District.

Dallas is already at the maximum allowed by state law for local option sales tax—8.25 percent. Of that, 6.25 percent is allocated to the state, one percent to the City of Dallas, and one percent to Dallas Area Rapid Transit (DART). Therefore, we cannot increase our sales tax to provide additional funding for public safety through these districts.

4. Can public safety bonds be used to finance public safety operational costs?

Bonds are not an appropriate way to fund operational costs. After researching public safety bonds, the only references staff could find relate to public safety facilities such as police or fire stations. Per Texas Government Code Chapter 1331, the City may issue general obligation (G.O.) bonds payable from property taxes to (1) construct or purchase permanent improvements inside the city limits, including public buildings, waterworks, or sewers and (2) construct or improve streets and bridges. This means the City could issue bonds to pay for public safety facilities, but not for operational costs. Additionally, voters must approve all G.O. bonds before the City may issue them.

5. How does the City pursue ride-share revenues?

According to Texas HB 100, Dallas Love Field is within its right to pursue ride-share revenues by imposing regulations on ride-share operators or transportation network companies (TNCs), including a reasonable fee to or from the airport. In this case, we

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charge a trip fee of \$2.50 to ride-share operators/TNCs. Additionally, some local transportation-for-hire entities such as taxis, limos, and shuttles must obtain a municipal license, vehicle permit, and/or operating authority to become a subcontractor of a ride-share operator/TNC. These licenses and permits are another source of revenue the City can pursue.

6. What is the process and cost for the City to withdraw from Dallas Area Rapid Transit (DART) based on current conditions and conditions after DART issues additional debt for the Cotton Belt Corridor?

Under the Texas Transportation Code, the City Council may call, or voters may petition for an election to withdraw from DART every sixth calendar year (2020). If voters approve, all DART services to and within Dallas will stop the day after canvassing of election returns (effective date), although DART may still travel through the city to provide services to other member cities. Dallas must also continue contributing its sales tax revenues until its share of DART's outstanding debt as of the effective date is paid.

Per DART, the total outstanding obligation of the cities within the DART service area is \$7.6 billion as of September 30, 2018. The City's portion of that obligation is \$4.1 billion, an amount we estimate would take about 13 years to repay. Please refer to the attached Moody's Issuer Comment for additional information regarding our sales tax contribution to DART.

Please contact Director of Budget Jack Ireland if you have additional questions.

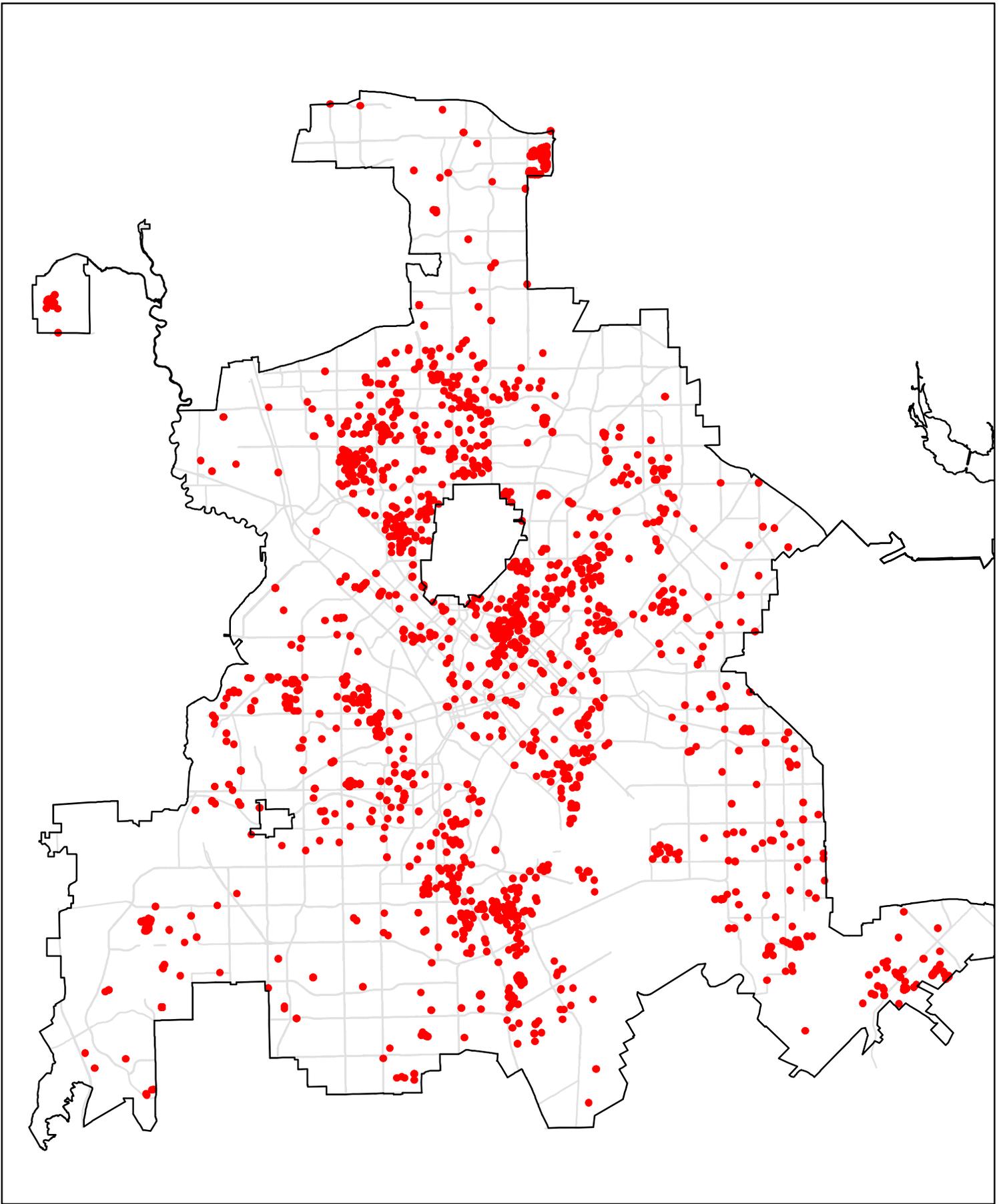


M. Elizabeth Reich
Chief Financial Officer

[Attachments]

c: T.C. Broadnax, City Manager
Chris Caso, City Attorney (Interim)
Mark Swann, City Auditor
Billerae Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizer Tolbert, Chief of Staff to the City Manager
Majed A. Al-Ghafry, Assistant City Manager

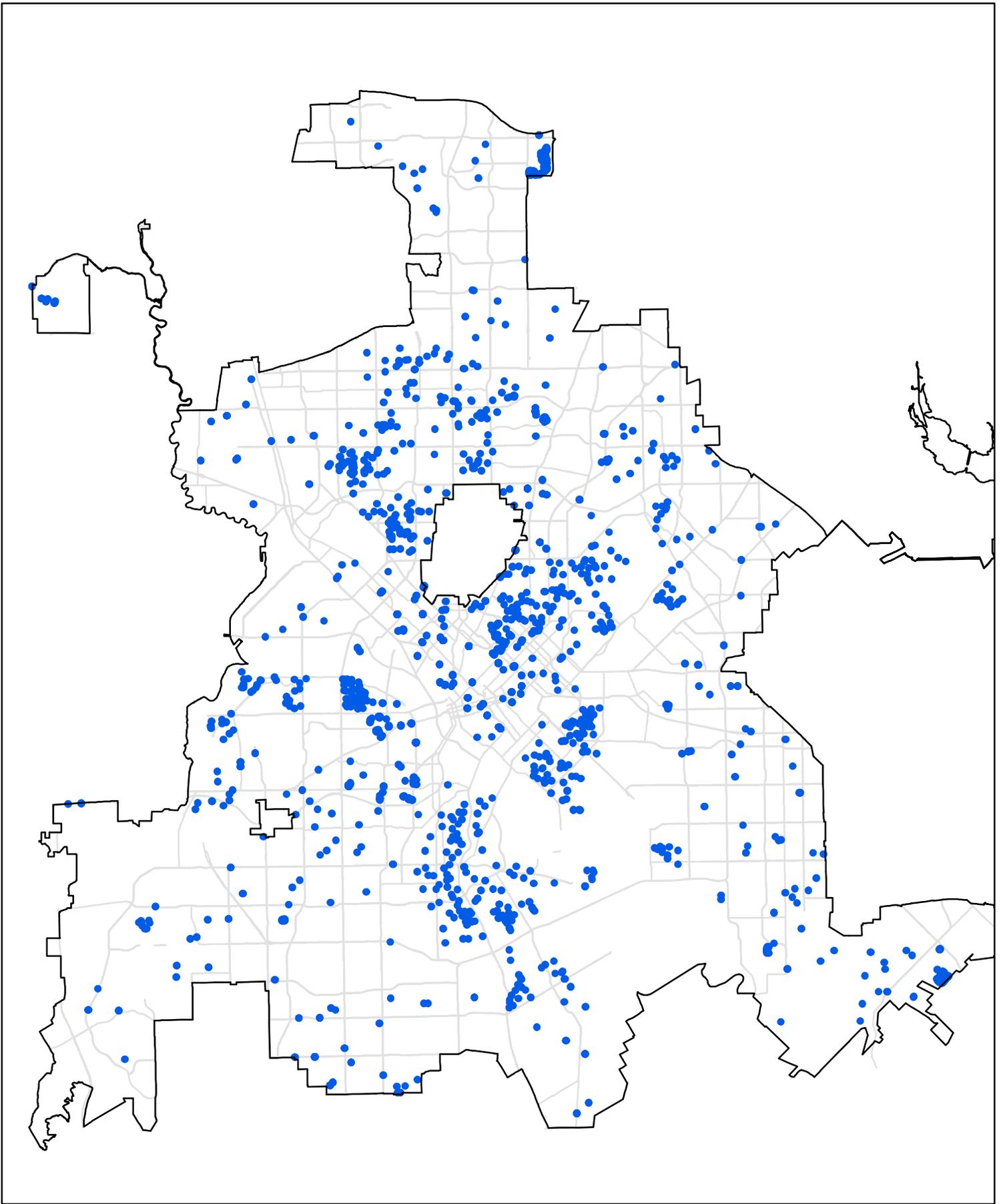
Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
Nadia Chandler Hardy, Assistant City Manager and Chief Resilience Officer
Michael Mendoza, Chief of Economic Development and Neighborhood Services
Laila Alequresh, Chief Innovation Officer
M. Elizabeth (Liz) Cedillo-Pereira, Chief of Equity and Inclusion
Directors and Assistant Directors



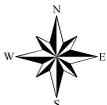
New Construction Permits
Fiscal Year 2017-18



0 0.75 1.5 3 Miles



New Construction Permits
Fiscal Year 2018-19 (YTD)



0 0.75 1.5 3 Miles

ISSUER COMMENT

3 May 2017

Rate this Research



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Dallas Area Rapid Transit, TX

DART Sales Tax Off Limits Until Debt Service is Paid

On April 13 the Police and Fire Pension System Board for employees of the [City of Dallas, TX](#) (A1 negative) approved a largely symbolic resolution to seek increased funding for its ailing pension fund. As a new revenue source, the board noted the option to divert a portion of the 1% sales taxes levied by [Dallas Area Rapid Transit](#) (DART; Aa2 stable). DART's sales taxes are not Dallas' to divert and cannot be used for Dallas' pensions under current state law.

- » **Legal protections for DART bondholders are strong.** DART is a separate unit of government, distinct from the City of Dallas. The potential diversion of sales tax revenue to Dallas' pension would violate current state law, DART's pledge of the sales tax to its bondholders and its covenant not to reduce the tax.
- » **A court in another state ruled against a similar attempt to reduce or divert transit revenues already pledged to bondholders.** Voters in the [State of Washington](#) (Aa1 stable) attempted to eliminate a vehicle tax pledged to bonds issued by the [Central Puget Sound Regional Transit Authority](#) (Aaa stable). The Washington Supreme Court struck down the elimination as a violation of contract law.
- » **DART may not be completely insulated from Dallas' credit stress.** While bondholders benefit from strong legal protections, political and economic pressures cannot be ignored when evaluating credit quality. For example, a change in state law to redirect a portion of the sales tax after debt service is paid would weaken transit operations and DART's finances.

DART's Sales Tax Revenues Are Not Dallas' to Divert

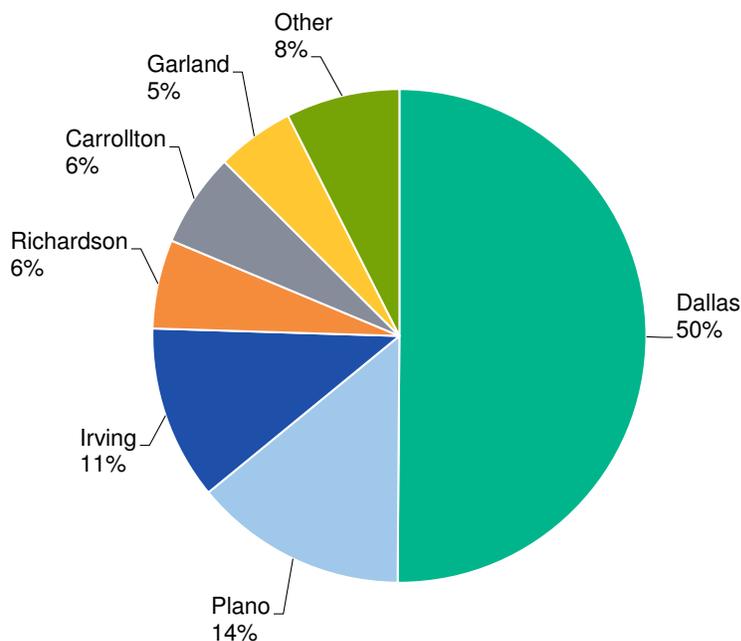
The 1% gross sales tax revenues are pledged to pay debt service on DART's \$3.3 billion of outstanding bonds. After bondholders are paid, the remainder is used to finance transit operations. State law restricts the usage of DART's pledged revenue: after debt service, the excess can only be used to fund operations, maintenance and reserves. Further, DART has covenanted in the Master Bond Resolution to protect the tax from reduction. Voters in the service area jurisdictions may choose to withdraw from DART, but there are significant disincentives from doing so: state law requires sales taxes to continue to be collected in the withdrawing entity, paying off a pro rata share of DART's outstanding debt and ending transit service in the jurisdiction.¹ Based on the statutorily-set calculation of liabilities, DART estimates sales taxes would need to be collected within Dallas for at least 13 years to pay off its financial obligation, if voters decided to leave the system.

DART was created in 1983 pursuant to state law, by a vote of residents of the service area jurisdictions. As a separate political entity and corporate body, the authority is governed by its own board, comprised of 15 members nominated by the 13 cities and towns in DART's

service area. In another election in 1984, voters authorized a 1% sales tax to fund transit operations. Again in 2000, voters pledged that 1% sales tax on a gross basis to pay bonds issued to expand the system. Sales tax revenues are collected by the [State of Texas](#) (Aaa stable) and remitted by the state comptroller to the bond trustee to pay debt service; the remainder flows to DART for operations. Sales tax revenues were \$545.9 million in fiscal 2016 and according to DART, collections in Dallas were half the total (see Exhibit 1).

Exhibit 1

Sales Taxes Collected in Dallas Represent Half of DART's Fiscal 2016 Collections



*Allocations based on DART estimates
Source: DART Fiscal 2016 CAFR

Voters Prevented From Eliminating Pledged Revenues for Other Transit System

According to public reports, the Dallas City Council has discussed asking voters to divert a portion of DART's sales tax collected in Dallas to the city. It is unlikely that, even if voters approved a diversion of DART's pledge revenue, this act would be permitted by the courts. In 2002 voters in the State of Washington approved an initiative to repeal motor vehicle excise taxes. The Central Puget Sound Regional Transit Authority had pledged this revenue stream to repay bondholders in 1999. The Washington Supreme Court ruled that the repeal of the tax impaired the constitutionally protected contractual relationship between bondholders and the transit organization. A Texas court would likely reach a similar conclusion regarding a reduction or diversion of revenues pledged to bondholders.

Political and Economic Considerations Cannot Be Ignored

While bondholders benefit from strong legal protections, broader political and economic pressures cannot be ignored when evaluating credit quality. Although we believe it is unlikely that DART will be dragged into Dallas' pension quagmire, the state government does possess strong power to change its tax laws and spending priorities if deemed necessary. State law could be changed, for example, to redirect a portion of DART's sales tax after payment of debt service. While possibly not a violation of DART's bond pledge, this would still be a credit negative action, with the potential to strain transit operations and DART's finances.

Moody's Related Research

[Proposed Federal Budget Would Compound Mass Transit Capital Funding Shortfall](#) (May 2017)

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Endnotes

¹ Withdrawal from DART has occurred twice since its inception: in 1988 the City of [Coppell](#) (Aaa) and Town of [Flower Mound](#) (Aa1) left the system.

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