Memorandum

CITY OF DALLAS

DATE September 8, 2017

TO Honorable Mayor and Members of the City Council

SUBJECT **FY 2017-18 Budget: Amendments**

As follow-up to City Council's discussion of proposed amendments and approval of the FY 2017-18 appropriation ordinance on "first reading," I am providing a summary of amendments incorporated into the FY 2017-18 budget.

August 30 amendments

1. Transfer panhandling initiative from the Office of Homeless Solutions to the Office of Community Care.
2. Transfer vital statistics from Dallas Water Utilities (paid by Non-Departmental) to the Office of Community Care.
3. Allocate $75,000 to the Youth Commission by reducing Mayor/Council office accounts by $5,000 each.
4. Allocate $300,000 for a teen pregnancy awareness campaigned through a reduction to be recommended by the City Manager. I recommend eliminating one of two new psychologist positions for the Police Department ($150,000), eliminating one of two new positions for the Office of Business Diversity ($100,000), and reducing funds for the City's match for the state/federal highway safety program which included two new positions ($50,000 from $2,127,377 to $2,077,377).
5. Reduce the property tax rate by 0.13¢ per $100 valuation which is offset by a reduction in Fair Park funding by $1,501,792.

September 6 amendments

6. Allocate $50,000 to restore funds reduced in #4 above for the City's match for the state/federal highway safety program, allocate $500,000 for road humps and other traffic calming initiatives (citywide), and reduce the property tax rate by an additional 0.08¢ per $100 valuation. These will be offset by an additional reduction of $1,474,179 from Fair Park for a total reduction of $2,975,971 from Fair Park.

Date September 8, 2017

Subject FY 2017-18 Budget: Amendments

As a result of City Council amendments, the property tax rate will be reduced by 0.21¢ from 78.25¢ to 78.04¢ per $100 valuation. This will reduce General Fund revenue by $2,425,971. The tax rate decrease will save a residential homestead property owner $1.68 per year for each $100,000 of value. The average residential homestead property has a value of $254,000, therefore, the average savings will be $4.27 per year.

The remaining schedule for passage of the FY 2017-18 budget includes:

- Tuesday, September 12 – optional council amendment workshop - **cancelled**
- Wednesday, September 13 – second public hearing on tax rate
- Wednesday, September 20 – approve FY 2017-18 budget on "second reading," adopt tax rate, and consider other budget related agenda items.

If you have any questions or need assistance, please contact me, Elizabeth Reich, or Jack Ireland.

T.C. Broadnax
City Manager

c: Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Bilierae Johnson, City Secretary (Interim)
Daniel F. Solis, Administrative Judge
Kimberly Bizor Tolbert, Chief of Staff to the City Manager
Majed A. Al-Ghafry, Assistant City Manager
Jo M. (Jody) Puckett, Assistant City Manager (Interim)
Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
M. Elizabeth Reich, Chief Financial Officer
Nadia Chandler Hardy, Chief of Community Services
Raquel Favela, Chief of Economic Development & Neighborhood Services
Theresa O'Donnell, Chief of Resilience
Directors and Assistant Directors

Memorandum

CITY OF DALLAS

DATE September 8, 2017

TO Honorable Mayor and Council Members

SUBJECT **Fitch Ratings Revised Outlook (from Negative to Stable) for City of Dallas Outstanding General Obligation Debt – INFORMATION**

I am pleased to report that today, Fitch Ratings affirmed the City's AA credit rating for General Obligation debt, and revised the outlook upward – from negative to stable. This is a very positive action that contributes to investor confidence.

Fitch states the improvement in outlook is "based on reforms recently adopted for both the city's civilian pension plan and the police and fire pension plan. Voter-approved changes to the Dallas Employees Retirement Fund (ERF) and legislative changes to the Dallas Police and Fire Pension System (DPFP) are projected to stabilize the city's obligation to both plans and better ensure long-term plan viability. The city's 'AA' rating continues to reflect positive operating performance enabled by strong economic and revenue growth prospects, conservative budgeting, solid reserve levels, and long-term liabilities that Fitch expects to remain a moderate burden on resources given the recent pension reforms."

Fitch's action is recognition of the importance of House Bill 3158, the result of months of negotiation between the City, State Legislature, and Pension to fully fund the Dallas Police and Fire Pension System in an estimated 39 years – in 2056. The Governor signed the legislation on May 31, 2017, taking a pension system that would have been insolvent in less than 10 years, and stabilizing it to protect the retirements of Dallas' first responders.

Fitch last took action on October 6, 2016, when it downgraded the City from AA+ to AA, and assigned the negative outlook. Since then, we have provided Fitch with additional information, specifically detailed updates on our efforts to save the Dallas Police and Fire Pension. Fitch published the following additional items prior to the ratings action today:

- January 9, 2017 Statement – "Meaningful Pension Reform Critical to Dallas Credit Quality." Fitch indicated it would be watching the State legislative session to track the progress of the DPFP pension reform legislation.
- March 15, 2017 Statement – "Dallas Pension Bill Holds Reform Potential." Fitch indicated it believed the Flynn bill could put the police and fire pension on a path toward improved sustainability, and reiterated that it would be watching the State legislative session to track the progress of the bill.
- June 1, 2017 Media Release – "Fitch to Review Dallas, TX's Ratings Pending Pension Reform Analysis."

- July 6, 2017 Commentary Memo – "Dallas Budget Impact of DPFP Reforms Key to Fitch Analysis." Fitch announced it had reviewed Deloitte's actuarial analysis of HB 3158, and would conduct a full review of the City's rating following the release of the Fiscal Year 2017-18 Proposed Budget.

The City of Dallas is economically strong, fiscally stable, and a good investment. I look forward to continuing to work with all ratings agencies on future ratings actions, and am confident that we have a positive story to share.

M. Elizabeth Reich

M. Elizabeth Reich
Chief Financial Officer

ATTACHMENT

c: T.C. Broadnax, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
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FitchRatings

Fitch Affirms City of Dallas GOs at 'AA'; Outlook Stable

Fitch Ratings-Austin-08 September 2017: Fitch Ratings has affirmed the following City of Dallas, Texas ratings:

--Issuer Default Rating (IDR) at 'AA';
--$1.63 billion of outstanding limited tax debt at 'AA'.

The Rating Outlook has been revised to Stable from Negative.

SECURITY

General obligation bonds (GOs) are payable from the city's ad valorem tax levy, limited to $2.50 per $100 of taxable assessed valuation (TAV). Certificates of obligation (COs) are additionally payable from surplus revenues of the city's drainage utility system, not to exceed $1,000.

ANALYTICAL CONCLUSION

The Outlook Revision to Stable from Negative is based on reforms recently adopted for both the city's civilian pension plan and the police and fire pension plan. Voter-approved changes to the Dallas Employees Retirement Fund (ERF) and legislative changes to the Dallas Police and Fire Pension System (DPFP) are projected to stabilize the city's obligation to both plans and better ensure long-term plan viability. The city's 'AA' rating continues to reflect positive operating performance enabled by strong economic and revenue growth prospects, conservative budgeting, solid reserve levels, and long-term liabilities that Fitch expects to remain a moderate burden on resources given the recent pension reforms.

Economic Resource Base
Dallas is the anchor of the large and diverse Dallas-Fort Worth regional economy. The city is a center for technology, trade, finance and healthcare; it also ranks among the top visitor and leisure destinations in the state.

KEY RATING DRIVERS

Revenue Framework: 'aaa'
Positive growth prospects are based on expectations for continued gains in taxable value and sales tax revenues due to ongoing economic expansion. The assessment also reflects the city's ample independent revenue raising capacity.

Expenditure Framework: 'a'
The city's pace of spending is expected to be generally in line with revenue growth given its mature residential base. The assessment considers the city's expenditure flexibility that derives from workforce cost controls and conservative budgeting practices. However, increasing pension contributions-primarily to the DPFP-will put additional upward pressure on what are already elevated carrying costs. The city's debt amortization rate is rapid.

Long-Term Liability Burden: 'aa'
Long-term liabilities are comprised of unfunded pension obligations (65% of the total) and debt (35%). The long-term liability burden currently represents a moderate 19% of personal income. The assessment assumes that recently approved pension reforms to both the civilian and uniform plans, in conjunction with continued economic growth, will keep the long-term liability burden within the current range.

Operating Performance: 'aaa'
The city of Dallas' gap-closing capabilities and healthy reserves position it to maintain financial resilience through a typical economic downturn, although increasing pension outlays will challenge the city's budget management practices.

RATING SENSITIVITIES

Maintenance of Operating Flexibility: Materially larger pension contributions beginning in fiscal 2018, combined with gradual increases in public safety personnel costs, will challenge management's operating and budget flexibility for the near to medium term. Any prolonged weakening of economic activity that cools recent solid gains in taxable values and sales tax receipts would exacerbate this pressure. Management's inability to incorporate these additional expenses and maintain the current level of overall budgetary flexibility would place downward pressure on the rating.

CREDIT PROFILE

Dallas is located in north central Texas and with a population of 1.3 million ranks among the top 10 U.S. cities by population. The city serves as corporate headquarters for AT&T, Southwest Airlines, Texas Instruments, 7-Eleven, Inc., HollyFrontier Corp., Pizza Hut, Inc. and other large corporations. Large employers in the education, government and health services sectors lend stability to the city's employment base.

The city's role as a wholesale and retail trade center is enabled by a strong transportation network of airports, rail and interstate highways. Dallas Area Rapid Transit (DART) provides major employers easy access to a highly skilled work force to support growing technology, finance, business and medical service sectors. Driven by professional service, construction, mining and trade sector growth, the city's employment base continues its post-recession expansion. Top taxpayers represent utility, air transportation, developers, real estate, manufacturing and retail industries, and the tax base has no significant concentration.

Revenue Framework
General fund operations are supported by a diverse mix of revenues led by ad valorem tax revenues (48% of the fiscal 2016 total), sales tax revenues (26%), and franchise fees (12%). General fund revenue growth has exceeded inflation but has been somewhat below GDP growth over the last decade.

Medium-term revenue growth prospects appear likely to continue the recent trend of solid gains based on the overall strength of the local and regional economies, including expansion in the trade/transportation, professional business/services and leisure/hospitality sectors. New development continues as indicated by ongoing growth in the city's residential and commercial building permit activity, including $4.6 billion in permits (compared to a tax base of $110 billion) issued in fiscal 2016.

The city's fiscal 2017 total tax rate of $0.797 per $100 of TAV provides ample legal revenue-raising capacity below the constitutional and city charter caps of $2.50. If a proposed tax rate results in an 8% year-over-year levy increase (based on the prior year's values), the rate increase may be subject to election if petitioned by voters.

Expenditure Framework
As is typical with U.S. cities, public safety is Dallas' largest operating spending category (61% of fiscal 2016 general fund outlays), followed by culture and recreation (11%), streets and code enforcement (11%) and general government (9%). General fund spending growth has generally kept pace with revenue gains in recent years; both revenue and spending in fiscal 2016 were down marginally from the prior year due to the shifting of sanitation services from the general fund to an enterprise fund.

Fitch expects the pace of spending growth to generally track what is projected to be a positive trajectory in revenues, as future service demands from a relatively mature residential base should align with increasing operating receipts over the near to medium term.

The 'a' assessment is informed by the city's elevated carrying costs that exceeded 30% of fiscal 2016 governmental spending. Actuarially required pension contributions comprised 56% of carrying costs, while debt service comprised 42%; retiree health insurance outlays made up the remainder. Fitch expects actual carrying costs to remain high in fiscal 2018, the result primarily of increasing pension contributions to the police and fire plan mandated by reforms approved by the Texas legislature and signed into law earlier this year. Fitch's supplemental pension metric, which estimates the annual pension cost based on a level dollar payment for 20 years with a 5% interest rate, indicates that carrying costs are vulnerable to future increases (although the magnitude will be revised when the DPFP reforms become effective on Sept. 1, 2017). For more information, see Fitch's "Revised Pension Risk Measurements (Enhancing Pension Analysis in U.S. Public Finance Tax-Supported Rating Criteria)" dated May 31, 2017.

If approved by voters, debt associated with sizable capital needs will keep carrying costs elevated for some time. The current carrying costs do reflect a rapid 75% amortization rate over the next 10 years, which will lessen somewhat the burden associated with any new debt. The city's ability to control headcount and salary costs is strong, providing a measure of operational flexibility.

Long-Term Liability Burden
Dallas' long-term liability burden is moderate at 19% of personal income, with an increasing portion (currently 65%) attributable to unfunded pension liabilities. The city council earlier this year authorized a $1 billion GO bond authorization election for November, which would target primarily street projects and a range of other capital needs. If approved, this additional debt likely will not materially change the liability burden calculation given the current rapid rate of debt repayment and expected additional growth in personal income over the life of a new bond authorization program.

Dallas participates in three single employer defined benefit pension plans. The ERF covers non-uniformed employees. The DPFP (combined plan) and Supplemental Police and Fire Pension Plan of the city of Dallas (supplemental plan) cover police and firefighters.

Under GASB Statement 68, the ERF plan at Dec. 31, 2016 reported a NPL of nearly $940 million, with fiduciary assets covering 78% of total pension liabilities at the plan's 7.75% investment return assumption (the 8% actuarial rate of return during the period through 2044 in which the plan was projected to have a fiduciary net position, and a 3.78% rate thereafter).

The Dallas ERF Board approved changes to the benefit plan on May 10, 2016, which were subsequently approved by the city council in August and by nearly 70% of voters in November. The changes apply to employees hired on or after Jan. 1, 2017 and include an increase in the normal retirement age from 60 to 65, an increase in service retirement from 30 to 40 years, elimination of the health benefit supplement, and a reduction in the benefit multiplier benefit from 2.75% to 2.5%. The city estimates these changes will reduce normal costs by 36% and boost to the long-term viability of the plan.

Under GASB Statement 68, the DPFP plan reported a net pension liability (NPL) for the combined and supplemental plans of $6.3 billion and $23 million, respectively as of Dec. 31, 2016. Fiduciary assets of the combined plan covered a low 26% of liabilities based on a blended discount rate of 4.12% (the 7.25% actuarial rate of return during the period through 2028 that the plan was projected to have a fiduciary net position, and a 3.78% municipal bond rate thereafter). Fiduciary assets covered 44% of the liabilities of the supplemental plan using a blended rate of 7.19%.

The city's DPFP plan includes deferred retirement option plan (DROP) provisions. A DROP program provides participants with the option of a lump sum benefit payment upon employment termination in addition to a monthly retirement benefit upon employment termination. The DPFP DROP represented an area of particular concern due to its inherently high costs and uncharacteristically liberal participation provisions. The DROP provisions contributed to the overall plan's increased liability, liquidity challenges and investment losses due to required investment portfolio rebalancing that was triggered by a large number of account balance withdrawal requests. DROP assets comprised a large percentage of total DPFP plan assets in recent years (56% of total plan assets at Dec. 31, 2015 and 49% at Dec. 31, 2016). The ability of retirees to withdraw these funds on demand exposed the plan to significant unexpected withdrawals that posed liquidity challenges in the near term and created the potential for a steep increase in the unfunded liability of the plan that threatened longer term sustainability.

In response to this deteriorating situation, the Texas Legislature in its 2017 regular session approved legislation (HB 3158) that made a number of noteworthy changes to the DPFP plan. The modifications include increases in retirement ages for the various tiers of employees, a reduction in the benefit multiplier for most employees and elimination of the current COLA benefit. The legislation also made changes to the troubled DROP, including a 10-year limitation on participation, elimination of interest on DROP accounts after Sept. 1, 2017, and modifications to DROP account distribution options. The legislation also calls for increased plan contributions from both the city and employees.

The city recently received an actuarial analysis of the DPFP plan performed by Deloitte Consulting LLP. The analysis incorporates the changes included in HB 3158 and also relies upon certain actuarial assumptions and methods employed to make projections regarding plan liability, contributions and amortization period. The analysis also relies on plan participant and asset information provided by DPFP and projected salary and hiring information from the city. Deloitte's analysis shows a nearly 25% reduction in the plan liability and an improved ratio of assets to liabilities to 50%, up from the plan's 38% level before reforms. This calculation also uses the plan's 7.25% investment return assumption. These reforms should stabilize the city's obligations to the plan and reduce the risks presented by the DROP feature of the retirement plan, and should enhance the plan's long-term viability.

Operating Performance
Fitch expects Dallas to demonstrate strong financial resilience during economic downturns, as demonstrated by a history of strong gap-closing capacity enabled by solid expenditure management and sizable reserves. The city completed fiscal 2016 with a net surplus after transfers of $4.9 million and unrestricted general fund reserves of $170.8 million (15% of spending). Projected fiscal 2017 results include another modest operating surplus, aided by revenues and expenditures both outperforming budget.

The proposed fiscal 2018 budget is operationally balanced despite materially larger DPFP pension contributions. According to city staff, fiscal 2018 plan contributions from the city are projected to be roughly $152 million, which is approximately $41 million more than if the reforms had not been approved. The projected contribution includes a $13 million supplemental contribution that is scheduled to occur annually until 2024. This additional expense is offset to a large extent by reduced public safety personnel costs. The fiscal 2018 budget includes funding for 3,094 police officers, down from 3,613 budgeted positions in fiscal 2017. Management plans to address this attrition, which was due primarily to rank and file departures during the pension crisis, through enhanced recruitment efforts.

The city has demonstrated positive budget management practices historically, including programmed expenditure reductions that have enabled the city to maintain a strong financial cushion. However, the increasing annual pension contributions that are mandated by the reforms to both the ERF and DPFP plans will challenge the city's budget management practices for the foreseeable future. Any slowdown in TAV and economically sensitive revenue trends, combined with expected increases in public safety personnel costs, will add to this challenge.

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In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

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Additional information is available on www.fitchratings.com

Applicable Criteria
U.S. Public Finance Tax-Supported Rating Criteria (pub. 31 May 2017) (https://www.fitchratings.com/site/re/898466)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/site/dodd-frank-disclosure/1028915)
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Solicitation Status

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligatory being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

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Memorandum

CITY OF DALLAS

DATE September 8, 2017

TO Honorable Mayor and Members of the City Council

SUBJECT Sales Tax Receipts

The July 2017 sales tax receipts from the State Comptroller's Office are $23,147,421 which represents a 5.6 percent increase in total collections compared to the same reporting period last year. July's sales tax revenue is 2.4 percent more than the current month's budget.

- July 2016 actual $21,920,611
- July 2017 budget $22,607,650
- July 2017 actual $23,147,421
    - 5.6 percent more than the July 2016 actual
    - 2.4 percent more than the July 2017 budget

Sales tax receipts for the first ten months of FY 2016-17 are better than budget by $2,120,814 or 0.9 percent. Over the most recent 12 months, sales tax receipts have increased by 4.3 percent. We will continue to monitor our sales tax forecast closely and keep you informed.

M. Elizabeth Reich

M. Elizabeth Reich
Chief Financial Officer

c: T.C. Broadnax, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
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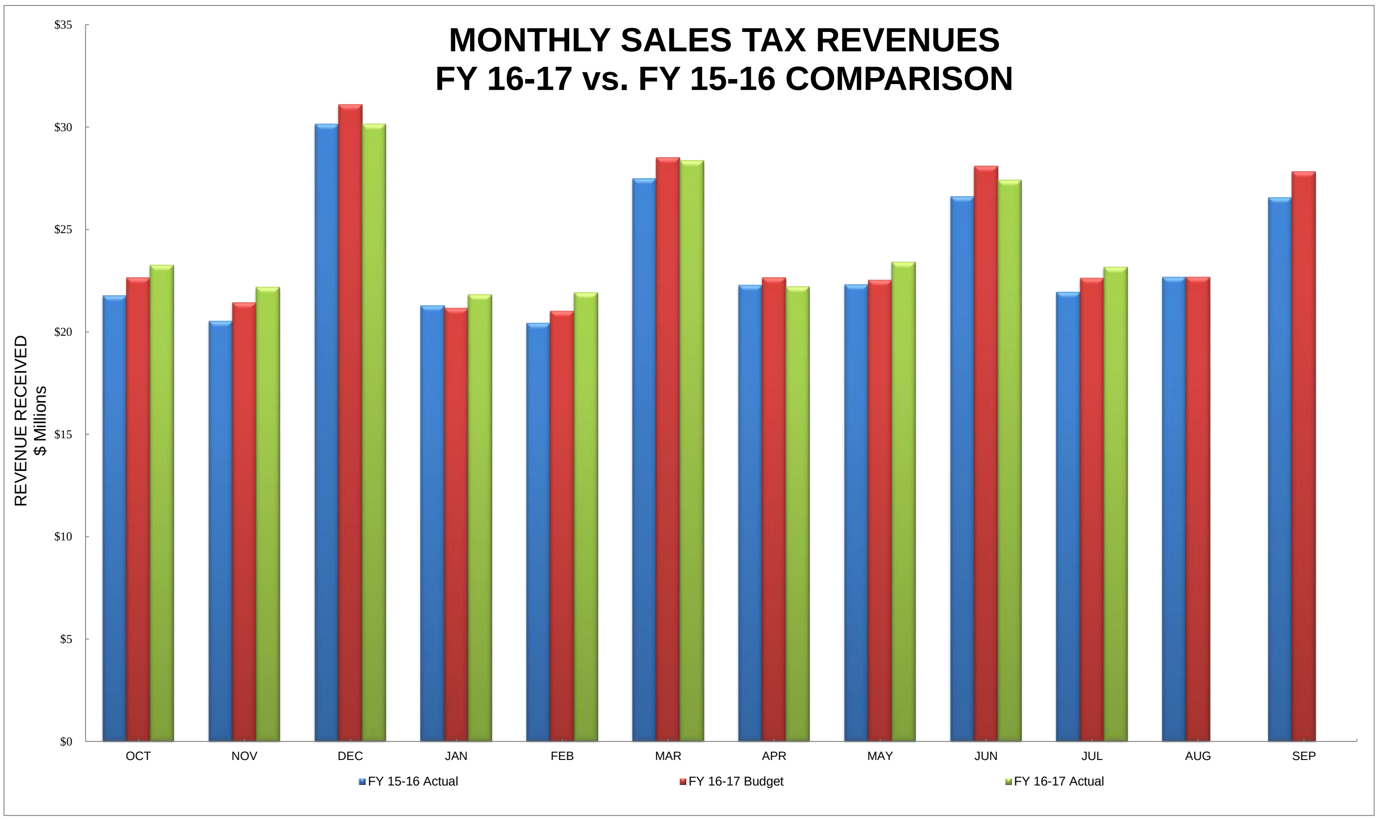
SALES TAX

as of July 2017

	ACTUAL FY 2015-16	BUDGET FY 2016-17	ACTUAL FY 2016-17	YTD VARIANCE FY 16-17 ACT. VS. FY 15-16 ACT. *DOLLARS*	*PERCENT*	YTD VARIANCE FY 16-17 ACTUAL VS. BUDGET *DOLLARS*	*PERCENT*
OCT	$21,768,868	$22,643,318	$23,256,127	$1,487,259	*6.8%*	$612,809	*2.7%*
NOV	20,523,724	21,429,628	$22,167,177	$1,643,453	*8.0%*	$737,549	*3.4%*
DEC	30,137,311	31,084,441	$30,146,384	$9,073	*0.03%*	($938,057)	*-3.0%*
JAN	21,258,240	21,150,897	$21,809,865	$551,625	*2.59%*	$658,968	*3.1%*
FEB	20,418,444	21,012,953	$21,898,775	$1,480,331	*7.25%*	$885,822	*4.2%*
MAR	27,481,662	28,497,411	$28,359,166	$877,504	*3.19%*	($138,245)	*-0.5%*
APR	22,264,607	22,648,188	$22,205,794	($58,813)	*-0.26%*	($442,394)	*-2.0%*
MAY	22,311,362	22,520,061	$23,406,768	$1,095,406	*4.91%*	$886,707	*3.9%*
JUN	26,609,193	28,089,202	$27,407,086	$797,893	*3.00%*	($682,116)	*-2.4%*
JUL	21,920,611	22,607,650	$23,147,421	$1,226,810	*5.60%*	$539,771	*2.4%*
AUG	22,670,093	22,676,831					
SEP	26,553,757	27,827,924					
TOTAL	**$283,917,872**	**$292,188,504**	**$243,804,563**	**$9,110,541**	***3.9%***	**$2,120,814**	***0.9%***



Memorandum

CITY OF DALLAS

DATE September 7, 2017

TO Honorable Mayor and Members of the City Council

SUBJECT **Citizen's Code Academy**

The Department of Code Compliance is pleased to announce the first Citizen's Code Academy. The Academy will cover a broad range of topics such as premise violations, zoning and substandard structure violations, nuisance abatement, using 3-1-1 and our community partnerships. This training will give our citizens a better understanding of how Code Compliance works to create clean and safe neighborhoods by responding to service requests, proactive enforcement, and partnering with our local communities.

We would be honored if each Council Member and the Mayor would nominate two (2) citizens to be a part of this initial offering of the Academy. Classes in this session will be held Tuesday evenings from 6pm to 8pm at 3112 Canton St. Suite 100 on October 3rd, 10th, and 17th.

Please send your two nominees' names and contact information to Mandy Shreve at mandy.shreve@dallascityhall.com by Friday, September 22nd. Future sessions will be held approximately once every three months and will be offered through neighborhood associations, the City of Dallas Code Compliance website, and other venues.

Please contact me if you have any questions.

Raquel Favela
Chief of Economic Development and Neighborhood Services

c: T.C. Broadnax, City Manager
Larry Casto, City Attorney
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