

# DEBT AND DEBT SERVICE

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## DEBT AND DEBT SERVICE

Fund #205  
Fund #304

The County accounts for its bonded debt through the Interest and Debt Fund. This fund is used to pay the principal, interest, and fiscal agent fees for all tax-secured County bonds. The primary source of revenue for this fund is ad valorem taxes although surplus funds from automobile license fees have historically been used to reduce the tax rate for debt service.

### TYPES OF BONDED DEBT AND DEBT LIMITS

The County's outstanding bonds are of three (3) general types, each subject to different legal restrictions. The three types of bonds are as follows:

**Limited Tax Bonds** - These bonds and Certificates of Obligation (C.O.s) are used for permanent improvements other than roads and are repaid by a tax levied against all property in the County. The tax is limited to 80¢ per \$100 of assessed valuation.

**Unlimited Tax Bonds** - These bonds are issued to finance transportation projects and are secured by a property tax which can be set at an unlimited rate. However, the amount of unlimited tax-secured debt outstanding may not exceed 25% of the assessed valuation of real property within the County.

**Revenue Bonds** - Seldom used by Dallas County, these bonds are secured only by the revenues produced by a specific project, e.g., a parking garage.

**Debt Limit** - As a practical matter, neither the County's debt service tax nor its total debt is anywhere near the constitutional limits described in the preceding paragraphs. The policy of the Commissioners Court limiting total debt service to payments to 25% of total operational expenditures is the primary factor that constrains the County's debt load. As mentioned in the transmittal letter, the county's financial plan calls for a multi-year trend toward cash - rather than debt - financing of major projects.

## DEBT POLICY

In addition to statutory provisions effecting local government debt issuance, Dallas County adheres to debt management policies and principles designed to preserve its financial integrity, and to ensure the aggressive maintenance of superior bond ratings from both Moody's Investors Service (Aaa) and Standard & Poor's Corporation (AAA).

The most significant components of the county's debt management principles are listed below. A full statement of the County's debt management policy can be found in the "Trends and Summaries" section of this budget document.

- ! Average weighted general obligation bond maturities is maintained at ten and one-half (10 ½) years;
- ! Each bond issue is structured so that an equal principal amount is retired each year over the life of the issue to produce a total debt schedule with a yearly declining balance;
- ! Debt service for all funds in any year may not exceed 25% (twenty-five percent) of the total annual operating budgets;
- ! Total bonded debt may not exceed 1% (one percent) of the net valuation of taxable property in Dallas County based on 100% (one hundred percent) of the net appraised valuation;
- ! The tax rate for debt service is maintained at a rate that provides a beginning balance in the Interest & Debt Fund equal to 50% of the subsequent year's debt service;
- ! Certificates of Obligation (C.O.s) are issued with a term not to exceed ten years;
- ! Total C.O. debt issued in each fiscal year shall be limited to the greater of (i) 5% of total debt projected to be outstanding at the end of the current fiscal year, or (ii) the amount of C.O. debt scheduled to be retired during the current fiscal year, plus, debt for which a funding source other than the debt service tax is available.

Dallas County, in seeking to maximize cost savings to taxpayers, has from time to time issued refunding bonds designed to reduce the amount of interest paid on previously - issued debt by selling new bonds, at a reduced interest rate, and using the proceeds of such a sale to pay off existing high rate debt. Additionally, Dallas County utilizes interest earned on issued bond debt, as well as reserve fund balances as a means in keeping the tax rate for debt service as low as possible.

## **BOND RATINGS**

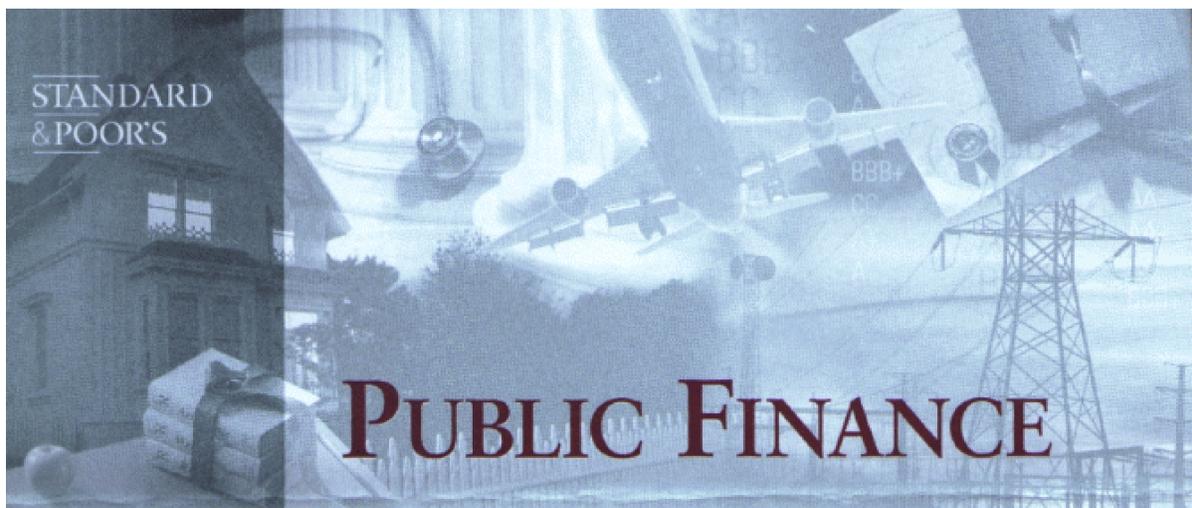
Moody's Investors Service ("Moody's") and Standard and Poor's Corporation ("S&P") have assigned their municipal bond ratings of "Aaa" and "AAA", respectively to the Unlimited Tax Road Bonds Series 2000 (\$35 million) sold during the fourth quarter of FY2000. Standard and Poor's description of the County's most recent issue is presented on the next page.

## **TOTAL OUTSTANDING DEBT**

Table IV-1 summarizes the total indebtedness of Dallas County as of October 1, 2001. Table IV-2 provides additional detail on the purposes of past certificate of obligation issues.

The pattern of debt maturity is shown in Table IV-3, reflecting the County's practice of issuing its long term debt as 20 year serial bonds with equal principal repayment each year.

**STANDARD AND POOR'S  
RATING OF RECENT COUNTY DEBT**



**Dallas County, Texas**

**CREDIT PROFILE**

October 25, 2000

**Analysts:**

*James Breeding, Dallas*  
214-871-1407

*Alexander Fraser, Dallas*  
214-871-1406

**NEW RATING**

\$3.84 mil unltid-tax rd rfdg bnds ser 2000A due Aug 15, 2004	AAA
\$21.58 mil ltd-tax rfdg bnds ser 2000B due Aug 15, 2008	AAA
Sale date: Nov 2, 2000	
Competitive sale	

**AFFIRMED**

\$265.91 mil ltd-tax rfdg bnds	AAA
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**OUTLOOK: STABLE**

**RATIONALE**

The rating on Dallas County, Texas' unlimited-tax road refunding bonds, based on the full faith and credit pledge of Dallas County, continues to reflect the county's:

- Diverse and expanding economic base,
- Above-average wealth and income levels,
- Strong financial position and management with a competitive tax rate, and
- Manageable debt levels with limited debt-financed capital needs.

The county's population of roughly 2.2 million includes Dallas ('AAA' GO rating), Irving ('AAA'), and a number of other Dallas suburbs. The county spans about 900 miles in north central Texas and is adjacent to Tarrant County, which is also an 'AAA' rated county. As the Dallas-Fort Worth metropolitan area has outperformed the considerable statewide expansion over the past several years, the county continues to diversify its employment base and add new residential areas. The taxable assessed valuation (AV) for fiscal 2001 grew by 7.5% over the 2000 AV to just more than \$115 billion. This marks an increase of more than 50% since fiscal 1995. The base is not concentrated, with just 6.2% of total AV accounted for by the 10 leading taxpayers, although it includes considerable investment by electronics and telecommunications firms such as Texas Instruments Inc., General Telephone Corp., Electronic Data Systems Corp., and IBM Corp. Overall, the continued diversification of the economy is expected to maintain the resilience demonstrated during prior national economic shifts. Per capita effective buying income is 118% of the nation's average while retail sales are 124% of the nation's average; the county unemployment rate remains low at just 3.6%.

**Standard & Poor's**



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Table IV-1

DALLAS COUNTY  
OUTSTANDING BONDED INDEBTEDNESS

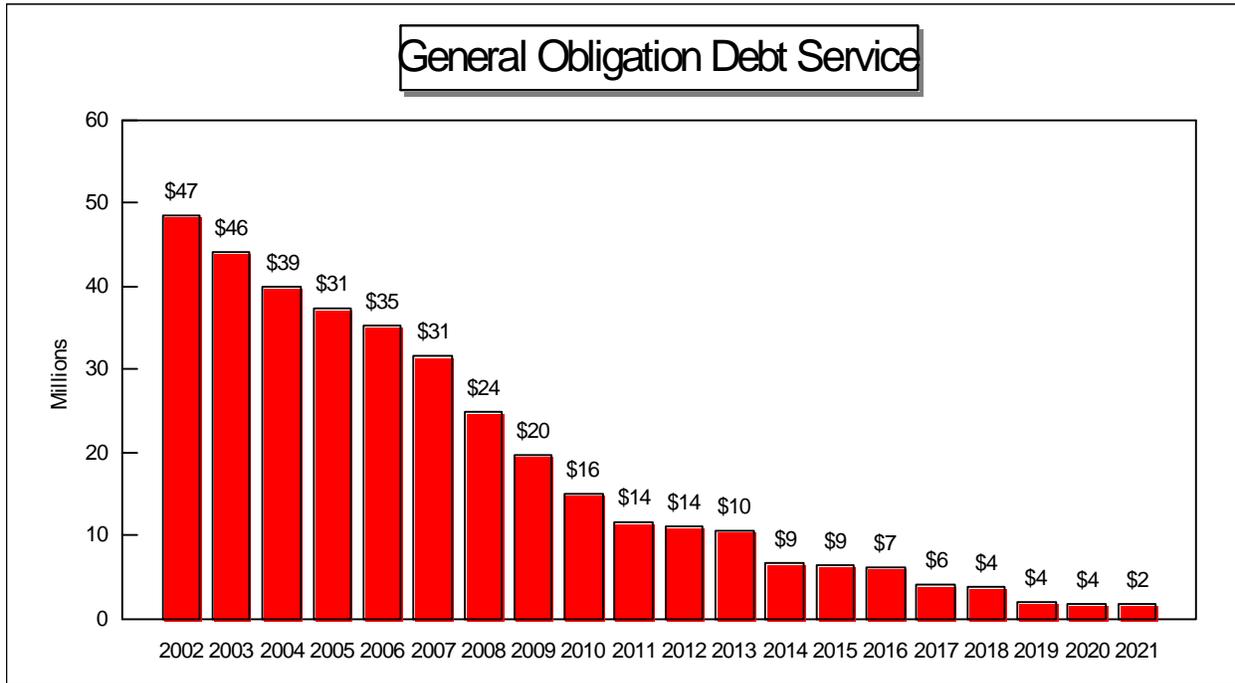
Issue Description	Amount Outstanding
<u>Unlimited Tax Bonds</u>	
Series 1985A	\$1,445,000
Series 1991A	2,585,000
Series 1993A	37,455,995
Series 1995	8,207,100
Series 1996	24,771,250
Series 1997	18,929,154
Series 2000	50,287,125
Series 2000A	4,297,520
Series 2001A	113,859,493
<b>Total Unlimited Tax Bonds</b>	<b>\$261,837,637</b>
<u>Limited Tax Bonds</u>	
Series 1993B	\$36,944,410
Series 1997A	24,038,530
Series 2000B	20,324,495
Series 2001B	12,350,366
<b>Total Limited Tax Bonds</b>	<b>\$93,657,801</b>
<u>Certificates of Obligation</u>	
Series 1995B-C.O.	\$1,316,700
Series 1996-C.O.	1,264,970
Series 1996A-C.O.	1,689,715
Series 1997B-C.O.	5,661,000
Series 1998-C.O.	7,413,109
<b>Total Certificates of Obligation</b>	<b>\$17,345,494</b>
	<b>Sub-Total \$372,840,932</b>
<u>Revenue Bonds</u>	
Series 1968	\$411,625
<b>Total Revenue Bonds</b>	<b>\$411,625</b>
	<b>TOTAL BONDED DEBT</b>
	<b>\$373,252,557</b>

**Table IV-2**

**DALLAS COUNTY USES OF  
CERTIFICATE OF OBLIGATION FINANCING**

<u>Series</u>	<u>Purpose in Years</u>	<u>Amount issued</u>	<u>Amount Outstanding 10/01/00</u>	<u>Final Maturity</u>	<u>Term</u>
1995-B	Vehicles, HVAC Upgrade Permanent Improvements Elevator Upgrades, Gun Range	8,800,000	91,464	08/15/02	7
1996	Civil Courts Package Permanent Improvements Telecommunications Upgrade	4,170,000	84,014	08/15/03	7
1996-A	Elections Computer Enhancements Physical Improvements Telecommunications Upgrade	3,600,000	328,718	08/15/04	7
1997-B	Finance Package - Phase I JP Courts Improvements, Elections System, Institute Security System, Elevator Upgrade, Old Red Visitor Center, Decker Jail Fence, Reactivation of Old Detention Center, Personnel Department Improvements	8,000,000	73,071	08/15/06	8
1998	Energy Improvement Program, Computer Upgrades, Elections System, Elevator Upgrade, Physical Improvements	8,700,000	4,187,331	08/15/07	8
TOTAL OUTSTANDING			<u>\$4,764,598</u>		

**Table IV-3  
DALLAS COUNTY  
GENERAL OBLIGATION DEBT SERVICE**



Fiscal Year	Principal	Interest	Total	Cumulative % of Principal Amortized
2002	31,371,029	16,004,287	47,375,315	11.52%
2003	33,950,000	11,715,472	45,665,472	24.00%
2004	29,430,000	9,824,179	39,254,179	34.82%
2005	21,850,938	9,601,098	31,452,037	42.85%
2006	24,030,082	11,074,930	35,105,013	51.68%
2007	21,097,551	10,292,639	31,390,190	59.43%
2008	16,563,479	7,639,477	24,202,956	65.52%
2009	15,295,000	4,868,675	20,163,675	71.14%
2010	11,645,000	4,072,225	15,717,225	75.42%
2011	10,725,000	3,470,963	14,195,963	79.36%
2012	10,685,000	2,947,856	13,632,856	83.29%
2013	7,215,000	2,366,725	9,581,725	85.94%
2014	7,220,000	1,985,481	9,205,481	88.59%
2015	7,225,000	1,603,969	8,828,969	91.25%
2016	5,425,000	1,220,875	6,645,875	93.24%
2017	5,425,000	940,875	6,365,875	95.23%
2018	3,675,000	660,875	4,335,875	96.58%
2019	3,675,000	472,750	4,147,750	97.94%
2020	3,675,000	284,625	3,959,625	99.29%
2021	1,930,000	96,500	2,026,500	100.00%
<b>Total</b>	<b>\$272,108,080</b>	<b>\$101,144,476</b>	<b>\$373,252,556</b>	

## **DEBT SERVICE PROJECTION MODEL**

Because Dallas County has for many years utilized excess revenue from the vehicle license fee to offset the property tax rate for debt service, the establishment of the annual debt service tax rate requires a projection of the operations of the four Road and Bridge districts. The Debt Service Model is used to estimate the availability of excess funds prior to the setting of the tax rate.

The projection requires assumptions about the future of the license fee revenue, the growth in the tax base, and future bond issuance scheduling, including borrowing rate assumptions. Less significant projection assumptions involve smaller revenue sources (e.g. transfers from other funds) and use of the license fee for equipment replacement.

Table IV-4 is an example of the debt service model used to establish debt service tax rate. The notes to Table IV-4 provide additional detail for each section of the model.

Beginning with the FY2000-2004 Capital Improvement Plan, the Commissioners Court has established its intention to manage its large construction and computer infrastructure projects within the constraints of the cash flow provided by a tax rate diverted from debt service to the new Major Capital Development Fund. A full explanation of this plan is contained in the transmittal letter to this document. The Major Capital Development Fund projects are discussed in detail following the Capital Improvement Plan tab in this document.

## **PARKING GARAGE REVENUE FUND**

Fund 304 is a small fund that accounts for the revenue and debt service of Dallas County's only revenue bond. Table IV-5 provides a summary of this fund.

**Notes to Table IV-4**

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DALLAS COUNTY FY2002 BUDGET

## Part I of Debt Service Model

**Fiscal Year** - The Dallas County fiscal year begins October 1 of the calendar year prior to that listed in this column. Example: FY98 begins October 1, 1997.

**Beginning Balance** - This amount represents contingency funds, specifically designed to be at a constant level at the beginning of the coming fiscal year.

**License Fee** - Amount received from optional \$10 license fee collected on each vehicle registered in the County. Revenue estimate from this fee provided by the County Auditor's Office.

**Other Fees** - This amount represents the combination of the Highway License Fee (#561) and the Gross Axle Weight Fee (#565). Revenue estimate from this fee provided by the County Auditor's Office.

**Interest** - The amount of interest income earned on the combined total of the beginning balance, license fee revenue, and the revenue earned from other fees, after all transfers and payments have been made.

**Transfer to the General Fund** - This amount represents monies paid to general fund departments from the Road and Bridge Fund for services provided to (or in relation to) Road and Bridge operations throughout the fiscal year. General Fund departments which receive these transfers include the Sheriff's Department and the Public Works Department, as well as the payment of fees through the general fund in support of the Nuisance Abatement Officer.

**Budget Allocation** - The amounts listed in this column represent the annual budget allocation for operation of all four Road and Bridge Districts.

**Bridge/Equipment Expenses** - This amount represents the funds budgeted for use in the purchase of heavy equipment (now paid for out of unencumbered cash balances returned to the individual Road and Bridge Districts and the end of the fiscal year), and support of the "off-system bridge" program, administered by the Bridge Repair Specialist.

**Current Surplus** - This amount represents the difference between the total fees and interest in Part I, less all transfers, expenses, and allocations.

Note: There is an adjustment made to the current surplus column in order to obtain a \$750,000 ending balance in the current year, and the assumption that half of that amount may be spent to offset any moderate contingency which might arise in the course of a fiscal year.

**Available for Major Capital Development Fund** - This amount represents the difference between the current surplus in Part I, less 10% of Budget allocation set aside for the ending balance. This amount is then transferred to the Major Capital Development Fund.

## **Part II of Debt Service Model**

**Fiscal Year** - The Dallas County fiscal year begins October 1 of the calendar year prior to that listed in this column. Example: FY00 begins October 1, 1999.

**Interest on Bonds** - The revenue earned from deposits and investments of funds from bonds sold and before the proceeds are spent on authorized bond projects.

**Transfers** - This amount represents debt service payments on C.O. debt issued by the County on behalf of the 6th Floor Exhibit and/or the General Fund that are to be reimbursed by the Historical Commission and/or the General Fund.

**Non-Tax Funds Total** - Represents the total of bond fund interest and other transfers.

### Part III of Debt Service Model

**Reserve Beginning Balance** - represents the sum of the beginning fund balance in the Debt Service Fund (205) and the beginning fund balances from Road & Bridge Fund 105-5 and 105-8.

**Interest on Reserve Balance** - this amount represents the amount of interest income earned on deposits and investments on the Reserve Beginning Balance.

**Non-Tax Sources** - represents all funds not derived from taxation, which after expenses, can be used to pay debt service. This number is also the Non-Tax Funds number from Part II.

**Property Tax Base** - this amount represents the Total Taxable Value of all property in Dallas County as certified by the Dallas Central Appraisal District and adjusted by the Tax Assessor Collector.

**Debt Service Tax Rate** - the tax rate, set annually by the Commissioners Court, dedicated to payment on bonded indebtedness of the County.

**Debt Service Tax Levy** - the amount of revenue which will be received (assuming 100% collection rate) when the Debt Service Tax Rate is applied to the Property Tax Base number which, after adjustments, is the Total Taxable Value of all property in Dallas County.

**New Construction Revenue** - the amount of revenue which will be received (assuming a 100% collection rate) when the Debt Service Tax Rate is applied to the amount of New Construction per \$100 of value (not included in Property Tax Base number).

**Tax Collect 99%** - this number represents the amount of revenue (including New Construction) that would be received if only 99% of all taxes due in a given year were collected.

**Total Sources** - this represents the total of the Tax Collect 99% column, the Reserve Beginning Balance, the interest earned on the Reserve Balance, and all Non-Tax Sources from Part II.

**Existing Debt Service** - the amount due to be paid in the current year on debt issued in previous years.

**New Debt Service** - this number represents the amount which will have to be paid on new debt which has been, or is projected to be issued in a given fiscal year.

**Reserve Increase (Decrease)** - this number represents the amount by which the Reserve Beginning Balance will have to be either increased or decreased after Total Debt Service is subtracted from Total Sources in a given fiscal year.

**Ending Balance** - the amount remaining in the Reserve Beginning Balance after any increases or decreases are made in the Reserve Increase (Decrease) column.

**Beginning Balance plus Tax as a % of Debt Service** - the total of the Reserve Beginning Balance and the Tax Collect 99% number divided by the Total Debt Service due in a given fiscal year.

**Beginning Balance as a % of Debt Service** - the percentage obtained by dividing the Reserve Beginning Balance by the Total Debt Service. This percentage, by County policy, must be at least 50% in a given fiscal year.

Table IV-5

**PARKING GARAGE REVENUE FUND  
Fund 304**

**Fund Summary  
(\$1,000)**

	<u>FY20001 Actual</u>	<u>FY2002 Budget</u>	<u>Difference</u>
Beginning Balance	385	320	65
Revenues			
Parking Fees	686	650	0
Interest	30	32	(1)
Contribution from Active Fund	<u>205</u>	<u>205</u>	<u>0</u>
Total Revenue	921	887	(1)
Total Sources	1,306	1,230	64
Expenditures and Transfers			
Debt Service	205	205	0
Transfer to General Fund	275	450	175
Professional Services & Tax	138	177	39
Transfer to Active Fund	<u>205</u>	<u>205</u>	<u>0</u>
Total Expenditures and Transfers	823	1,037	214
Ending Balance	\$320	\$221	(150)

**Table IV-6**  
**INTEREST AND DEBT FUND**  
**Fund 205**

**Fund Summary**  
**(\$1,000)**

	<u>FY2001</u> <u>Actual</u>	<u>FY2002</u> <u>Budget</u>	<u>Difference</u>
Beginning Balance	\$16,605	\$16,931	326
Revenues			
Property Tax	37,572	37,468	(104)
Interest	4,897	4,672	(225)
Other	<u>8</u>	<u>8</u>	<u>0</u>
Total Revenue	42,477	42,148	(299)
Transfers from Road Reserve, Historical Exhibit	6,729	4,720	(209)
Total Sources	65,811	63,799	(2012)
Expenditures and Transfers			
Principal, Interest			
Fiscal Agent Fees	<u>48,880</u>	<u>47,267</u>	<u>(1,613)</u>
Total Expenditures	48,880	47,267	(1,613)
Ending Balance	16,931	16,532	(399)