

# Mayor and Council Communication

DATE: 03/09/21

M&C FILE NUMBER: M&C 21-0179

LOG NAME: 25HOT2%\_PFZ\_DEBT\_AMENDMENT2021

**SUBJECT**

(ALL) Declare \$1,579,095.75 in Fund Balance in the Culture and Tourism Debt Service Fund as Surplus and Make Related Findings, and Adopt Appropriation Ordinances Amending the Fiscal Year 2021 Adopted Budgets for the Culture and Tourism Operating and Debt Service Funds

**RECOMMENDATION:**

It is recommended that the City Council:

1. Find that (1) only \$1,050,703.25 of the balance in the Culture and Tourism Debt Service Fund is needed to meet the obligations associated with the 2013B Certificates of Obligation in the current fiscal year; (2) an additional balance of approximately \$1,579,095.75 and attributable to Dallas Fort Worth Revenue Share exists and constitutes a surplus that may be used toward other debt-related needs, including paying toward outstanding general obligation debt, the proceeds of which refunded other Culture and Tourism-related debt; and (3) use of the surplus will not impair the City's ability to meet its obligations to the holders of the 2013B COs in the current fiscal year or any future year;
2. Adopt the attached ordinance adjusting FY2021 appropriations in the Culture and Tourism Debt Service Fund by increasing use of fund balance by \$1,844,628.00 and decreasing transfers in from the Culture and Tourism 2% Hotel Occupancy Tax Fund by the same amount;
3. Adopt the attached ordinance adjusting FY2021 appropriations in the Culture and Tourism 2% Hotel Occupancy Tax Fund by reducing transfers out to the Culture and Tourism Debt Service Fund by \$1,844,628.00, increasing transfers out to the Venue Debt Service Fund by \$1,617,139.00, and reducing total appropriations in the Fund by \$227,489.00, resulting in an amended budget of \$5,116,605.00;
4. Adopt the attached ordinance adjusting appropriations in the Venue Debt Service Fund by increasing transfers in from the Culture and Tourism 2% Hotel Occupancy Tax Fund by \$1,617,139.00 and decreasing transfers in from the Culture and Tourism Project Finance Zone Fund by the same amount; and
5. Adopt the attached ordinance adjusting the FY2021 budget in the Culture and Tourism Project Finance Zone Fund by eliminating all anticipated intergovernmental revenues and decreasing appropriations by \$2,450,612.00, to reflect stagnation in incremental hotel-related tax growth as a result of the COVID-19 pandemic, and increasing anticipated use of fund balance by \$833,473.00, for an amended budget of \$2,022,807.00.

**DISCUSSION:**

The purpose of this Mayor and Council Communication (M&C) is to further adjust FY2021 budgets associated with the Public Events Department (PED) and reduce anticipated revenues and reallocate expenditures to reflect ongoing impacts of the COVID-19 pandemic and the spring 2020 near collapse of the tourism industry and protracted recovery process.

On December 1, the City Council approved amendments to the FY2021 operating budgets for the Culture and Tourism Project Finance Zone (PFZ) Fund and Culture and Tourism 2% Hotel Occupancy Tax (HOT 2%) Fund (M&C 20-0888) and declared \$6,315,096.00 in unpledged FY2020 year-end fund balance in the Culture and Tourism Debt Service Fund as surplus, reallocating the bulk of those funds to offset negative financial impacts of COVID-19 and leaving \$467,706.00 in unprogrammed declared surplus available for future use (M&C 20-0886).

The intent of this M&C is to take actions to authorize use of available funds in the Culture and Tourism Debt Service Fund (C&TDSF) to offset additional projected revenue losses based on recent re-estimates following prior Council action.

The evolution of the budgets for these funds from their original presentation and adoption, through the December 1 changes, to the modifications proposed today is shown in the following chart.

FUND	FY21 ADOPTED (Ordinance 24446-09-2020)	FY 21 AMENDED FM03 (M&C 20-0888)	FY21 AMENDED FM06 (this M&C)	VARIANCE Second Amendment	Use of Fund Balance/ Other Sources
HOT 2%	\$5,870,007.00	\$5,344,094.00	\$5,116,605.00	(\$227,489.00)	\$0.00
PFZ	\$5,689,334.00	\$3,639,946.00	\$2,022,807.00	(\$1,617,139.00)	\$2,022,807.00

**Culture and Tourism Debt Service Fund**

M&C 20-0886 noted that as of FY20 year end, the Culture and Tourism Debt Service Fund (C&TDSF) had a balance of \$8,944,895.00, including

interest attributable to the period ending September 30, 2020. That M&C (1) set aside the portion of that balance (29.4%, or \$2,629,799.00) that was attributable to DFW revenue share, which supports the pledge for Series 2013B certificates of obligation (2013B COs), and (2) declared the remainder (\$6,315,096.00) unpledged surplus, most of which was programmed for use to offset lost hotel- and tourism-related revenues.

The prior M&C also indicated that the FY2021 obligations for the 2013B COs totaled only \$1,050,703.25 (\$840,447.00 in debt service plus \$210,256.25 in required reserve). Approval of the first recommendation declares the rest of the balance attributable to DFW rental share revenues (\$1,579,095.75) as surplus that may be used for other debt-related purposes.

Approval of the second recommendation and adoption of the associated ordinance, will appropriate \$1,844,628.00 of fund balance, which consists of \$840,447.00 of DFW revenue share for debt service payment on the 2013B COs plus \$1,004,181.00 of the declared surplus to pay debt service on a portion of general obligation bond debt that refunded (refinanced) prior C&T debt. Taking these actions will allow the remaining budgeted FY21 transfers in from the HOT 2% Fund to be reduced by \$1,844,628.00.

The C&TDSF will continue to meet its reserve requirements following the proposed use of fund balance.

**Culture and Tourism 2% HOT Fund**

With the \$1.84M reduction of the budgeted transfer from the HOT 2% to the C&TDSF, the funds needed to make the remaining transfers to the Venue Debt Service Fund for FY2021 (\$1.61M) can be made out of this fund.

By using the HOT 2%, the remaining \$1.61M in transfers that had originally been budgeted out of the PFZ can be eliminated. It is recommended that the budget in HOT 2% be reduced by the difference between the two transfers (\$227K) to reflect that tax receipts are now projected to be lower than was anticipated when the December 1, 2020 budget amendment was approved (M&C 20-0888).

**Culture and Tourism Project Finance Zone Fund**

Through the middle of FY2020 Project Finance Zone (PFZ) payments from the State were based on anticipated incremental growth in tax collections in the zone. The onset of the pandemic cratered those revenues, which meant that the Comptroller's payments for the first six months of FY2020 exceeded the total actual increment for the year, resulting in a negative balance in the PFZ account at the Comptroller's. Staff is working to negotiate payment options for rectifying the deficit when incremental growth returns.

The PFZ is not anticipated to achieve any revenue in FY21 due to the FY20 deficit. The ordinance for this Fund decreases the amended budget estimate of \$2.45M, eliminating foreseeable collections in tax revenues from this source for the fiscal year and eliminating the remaining \$1.61M in transfers that the fund had been budgeted to make.

Because \$1.61M in transfers to the VDSF were already made through March 2021 in compliance with the budget as most recently amended, the attached ordinance also appropriates \$833K in PFZ operating fund balance to balance that expenditure, resulting in a revised total PFZ budget of \$2,022,807.00.

The previously made transfers from the PFZ, the added transfers from the HOT 2%, and the previously approved use of \$1.18M in available Dickies Reserve funds will ensure the \$3.63M debt obligation for the arena bonds is met for FY21.

Staff in the Public Events Department will continue to closely monitor budgetary projections and receipts at both the state and local level and will bring forward additional corrective action if needed.

A Form 1295 is not required because: This M&C does not request approval of a contract with a business entity.

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**FISCAL INFORMATION / CERTIFICATION:**

The Director of Finance certifies that upon approval of the above recommendations and adoption of the attached appropriation ordinances, funds will be available in the Culture & Tourism 2% Hotel Fund, Culture & Tour Proj Fin Zone Fund, Culture & Tourism Debt Service Fund and the Venue Debt Service Fund. Prior to an expenditure being incurred, the Public Events and Financial Management Services Departments have the responsibility of verifying the availability of funds.

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Expedited