

Mayor and Council Communication

DATE: 12/01/20

M&C FILE NUMBER: M&C 20-0886

LOG NAME: 25FY2020C&TDEBTADJUSTMENT

SUBJECT

(ALL) Declare \$6,315,096.00 in Unpledged Fiscal Year 2020 Year End Fund Balance in the Culture and Tourism Debt Service Fund as Surplus, Reallocate Use of the Money to Other Funds and Purposes to Offset Negative Financial Impacts of COVID-19, and Adopt Fiscal Year 2020 and 2021 Appropriation Ordinances Associated with the Public Events Department Debt Service

RECOMMENDATION:

It is Recommended that the City Council:

1. Declare \$6,315,096.00 in year-end fund balance in the Culture and Tourism Debt Service Fund that is not pledged to any currently outstanding debt to be surplus;
2. Authorize the reallocation of the surplus to offset negative financial impacts of COVID-19 and (a) improve the position of the Culture and Tourism Project Finance Zone Fund at the close of Fiscal Year 2020, (b) improve the position of the Venue Operating Fund at the close of Fiscal Year 2020, and (c) provide funding for debt-service transfers for culture and tourism related debt for a portion of Fiscal Year 2021;
3. Adopt the attached appropriation ordinance increasing fiscal year 2020 appropriations in the Culture and Tourism Debt Service Fund by \$3,877,121.00, and reducing fund balance by the same amount, for the purpose of transferring unpledged, surplus funds to the Culture and Tourism Project Finance Zone and Venue Operating Funds;
4. Adopt the attached ordinance adjusting fiscal year 2021 appropriations in the Culture and Tourism Debt Service Fund as a result of the COVID-19 pandemic: increase use of fund balance by \$1,922,221.00 from unpledged, surplus funds; decrease budgeted transfers in from the Dallas Fort Worth Revenue Share Fund by \$2,219,021.00; and decrease total appropriations by \$296,800.00 to reflect elimination of a budgeted contribution to fund balance;
5. Adopt the attached ordinance adjusting fiscal year 2021 appropriations in the Venue Debt Service Fund to reflect that a transfer in of \$2,219,021.00 is coming from the Dallas Fort Worth Revenue Share Fund instead of the Venue Operating Fund as a result of the COVID-19 pandemic; and
6. Adopt the attached ordinance adjusting fiscal year 2021 appropriations in the Venue Debt Service Fund as a result of the impact of COVID-19 pandemic: increase use of fund balance by \$1,970,269.00 from available fund balance in excess of the covenanted minimum balance; decrease budgeted transfers in from the Culture and Tourism Project Finance Zone Fund by \$2,049,388.00; and decrease total appropriations by \$79,119.00 to reflect elimination of a budgeted contribution to fund balance.

DISCUSSION:

The purpose of this Mayor and Council Communication (M&C) is to offset negative economic impacts of COVID-19 on Public Events Department funds by taking actions to reallocate available unpledged money from the Culture and Tourism Debt Service Fund (C&TDSF) and use it to rebalance other department-related funds and to provide a portion of current-year debt service transfers.

Outstanding Debt Associated with the Public Events Department

Certificates of Obligation (COs) were issued in 2001, 2010, and 2013 for capital improvement projects in the Public Events Department at both the Fort Worth Convention Center (FWCC) and Will Rogers Memorial Center (WRMC). (Note - Although bonds were issued in 2017 for improvements undertaken at WRMC in connection with the venue project and construction of Dickies Arena, that debt is administered through the wholly separate Venue Debt Service Fund and not associated with the C&TDSF.)

In connection with each of these series of debt, a special fund was created and pledged within the C&TDSF, with property taxes and other identified revenues pledged to the COs' repayment. The 2001A COs were subject to a pledge of certain hotel occupancy taxes as well as money derived from revenue-sharing agreements with the cities in which Dallas Fort Worth (D/FW) Airport is located. The 2010 and 2013 COs were subject to a pledge of the D/FW Airport shared revenue along with general City property tax.

The 2001A COs were later refunded (refinanced) as part of 2003 and 2004 general purpose refunding bonds and are no longer outstanding. (The 2003 and 2004 refunding bonds were themselves later refunded by refunding and improvement bond series issued in 2013 and 2015 respectively.) The remaining outstanding balance of the 2010 COs were refunded earlier this year as part of a general purpose refunding and improvement bond issuance and are no longer outstanding.

Although the City has continued to use hotel occupancy tax and D/FW shared revenue to contribute toward repaying that portion of the successor debt that is attributable to the Public Events Department projects, those revenues are not pledged and therefore are not legally obligated security for the general purpose bonds.

Therefore, as it presently stands, the only outstanding debt that is secured by and payable out of the C&TDSF is the 2013B COs, for which only D/FW Airport shared revenue was identified as an additional security beyond the general property tax pledge made in support of the debt.

Reallocation of Unsecured Surplus in the C&TDSF

As the City Council is well aware, the economic impact of COVID-19 has been particularly acute in the travel and hospitality sectors. Shutdowns and a precipitous downturn in revenues, most notably between the months of March and July, caused the venue taxes that support the arena bonds to underperform projections. In addition, the incremental hotel-related revenues that fund the Project Financing Zone (PFZ) came in below the annual estimates that served as the basis of the monthly payments the Comptroller had been making since the beginning of the fiscal year. As a result the PFZ is in a deficit position that will not be corrected until future revenues offset overpayments from early in the year, after which payments to the City will resume.

The underperformance of these revenues resulted in reserves and fund balances being exhausted in the Culture and Tourism PFZ and Venue Operating Funds. However, in scrutinizing all of the various public events-related funds, staff noted that the C&TDSF contains a substantial amount in excess of what is needed for fiscal year 2021 debt service payments and the reserve called for under City policy. As noted above, the 2013B COs are the only debt legally pledged within their subfund in the C&TDSF, and D/FW Airport shared revenues are the only pledged funds within the debt service fund.

Effective as of the close of fiscal year 2020, the C&TDSF has a balance of \$8,944,895.00, which includes interest attributable to the period ending September 30, 2020. Based on review of the historic records of contributions into the fund, staff attributes 29.4%, or \$2,629,799.00, of that balance to D/FW Airport shared revenue. That amount represents more than enough money to pay the FY2021 debt service on the 2013B COs, which totals \$840,447.00, and to meet the reserve required under City policy (equal to three months of the maximum annual debt service), which is \$210,256.25.

Based on these figures and the fact that only D/FW Airport shared revenue and the 2013B subfund are subject to a legal pledge as security, staff is recommending that the City Council (i) find that the remaining money in the C&TDSF, totaling \$6,315,096.00, represents unpledged surplus that is available for any legally authorized purpose and (ii) take action to move a total of \$3,877,121.00 to the Culture and Tourism PFZ Fund (\$3,361,160) and the Venue Operating Fund (\$515,991.00) effective as of the end of FY2020, where the money will be used in a manner that is consistent with the legal restrictions applicable to the various revenue sources. Approval of this M&C and adoption of recommendations 1 through 3 would serve to make such finding and effect that reallocation.

Fiscal Year 2021 Debt Service Budget Amendments

The adopted FY21 budget for the funds related to the Public Events Department included money for transfers to debt service from the Project Finance Zone Fund and Venue Operating Fund, with the transfers for October and November having already occurred.

The ongoing pandemic continues to present major challenges to the convention and hospitality industry and the holding of larger events, which are the drivers of revenues for the PFZ and Venue Operating Funds. Staff recommends adjusting the approach to funding the remaining debt service transfers for FY21 in order to provide relief to those two funds.

First, staff recommends that \$1,970,269.00 of the remaining unpledged, declared surplus in the C&TDSF be appropriated for use for debt service payments and that a contribution to fund balance originally budgeted at \$296,800.00 be eliminated. Those two actions will facilitate elimination of a planned transfer in to the C&TDSF of \$2,219,021.00 from the DFW Revenue Share Fund so that those dollars can instead be directed to the Venue Debt Service Fund. (The DFW revenues are also one of the sources pledged to the arena bonds.) That action will in turn allow the reduction of a planned transfer out from the Venue Operating Fund to the Venue Debt Service Fund.

Secondly, staff recommends that a surplus in the fund balance of the Venue Debt Service Fund be appropriated for use. Although the City has covenanted to maintain a certain minimum fund balance in the Venue Debt Service Fund, staff's analysis indicates there is \$1,970,269.00 more in the fund than is required. Appropriating that surplus fund balance for use toward FY21 debt service payments will allow the transfers out from the Culture and Tourism Project Finance Zone Fund to be reduced by a corresponding amount.

NOTE: If this M&C is approved and the attached ordinances are adopted, an additional \$467,706.00 from the declared unpledged surplus in the C&TDSF will remain available for future appropriation and use. A separate M&C is being presented for City Council consideration on today's agenda to make the FY21 operating fund budget adjustments corresponding to the debt service adjustments proposed here.

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

FISCAL INFORMATION / CERTIFICATION:

The Director of Finance certifies that funds are currently available in the Culture & Tourism Debt Service Fund and the Venue Debt Service Fund and upon approval of the above recommendations and adoption of the attached appropriation ordinances, funds will be available in the Culture & Tour Proj Fin Zone, Venue Operating, DFW Rev Sharing, and the Venue Debt Service Funds. Prior to an expenditure being incurred, the Public Events Department has the responsibility of verifying the availability of funds.

Submitted for City Manager's Office by: Jay Chapa 5804

Originating Business Unit Head: Michael Crum 2501

Additional Information Contact: Denis McElroy 2758
Andrea Wright 2502

