

Memorandum



CITY OF DALLAS
(Report No. A08-024)

Date: September 19, 2008

To: Honorable Mayor and Members of the City Council

Subject: Final Report – Review of the Fiscal Year 2008-2009 Revenue Estimates Included in the Proposed Operating Budget for the City of Dallas

The City of Dallas has effective processes to ensure reliable revenue estimates are included in the proposed operating budget. Further, the revenue estimate methodologies and material assumptions used in developing the estimates are reasonable, adequately supported, and calculated accurately. Information related to the revenue estimates that we reviewed are included as Attachments I through VIII.

The Fiscal Year (FY) 2008-2009 proposed operating budget revenue is \$2.25 billion. We reviewed 83 percent or \$1.66 billion of \$2 billion in General Fund, Enterprise Fund, and Debt Service revenue estimates. Our review did not include revenues in the remaining \$0.25 billion which are mainly derived from department reimbursements and City / employee / retiree contributions.

Council Resolution 904027 directs the City Auditor to review and verify the reasonableness of the revenue estimates included in the City Manager's proposed budget. The City Auditor's Office reviewed and analyzed the FY 2008-2009 budget documentation provided by City departments. We performed our work in accordance with generally accepted government auditing standards for an attestation review.

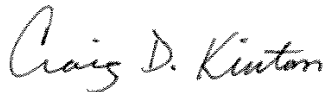
The following are revenue sources and revenue estimates selected for our review.

Revenue Source	Revenue Estimate
General Fund	
Ad Valorem Taxes	\$ 467,275,130
Sales Tax	234,709,051
Franchise Fees – Electric, Telephone, Gas, and Cable	90,686,000
Sanitation Services Fees	61,666,885
Enterprise Fund	
Dallas Water Utilities	511,158,717
Hotel Occupancy Tax	38,933,345
Storm Water Fees	35,109,516
Aviation Concessions	25,957,729
Debt Services	
Ad Valorem Taxes	200,490,225
Revenue Estimates Reviewed	<u><u>\$ 1,665,986,598</u></u>

We would like to acknowledge City management's cooperation and timely response in providing information needed to complete this review.

If you have any questions or need additional information, please contact me at 214-670-3222 or Gary Lewis, Assistant City Auditor, at 214-670-5347.

Sincerely,



Craig D. Kinton
City Auditor

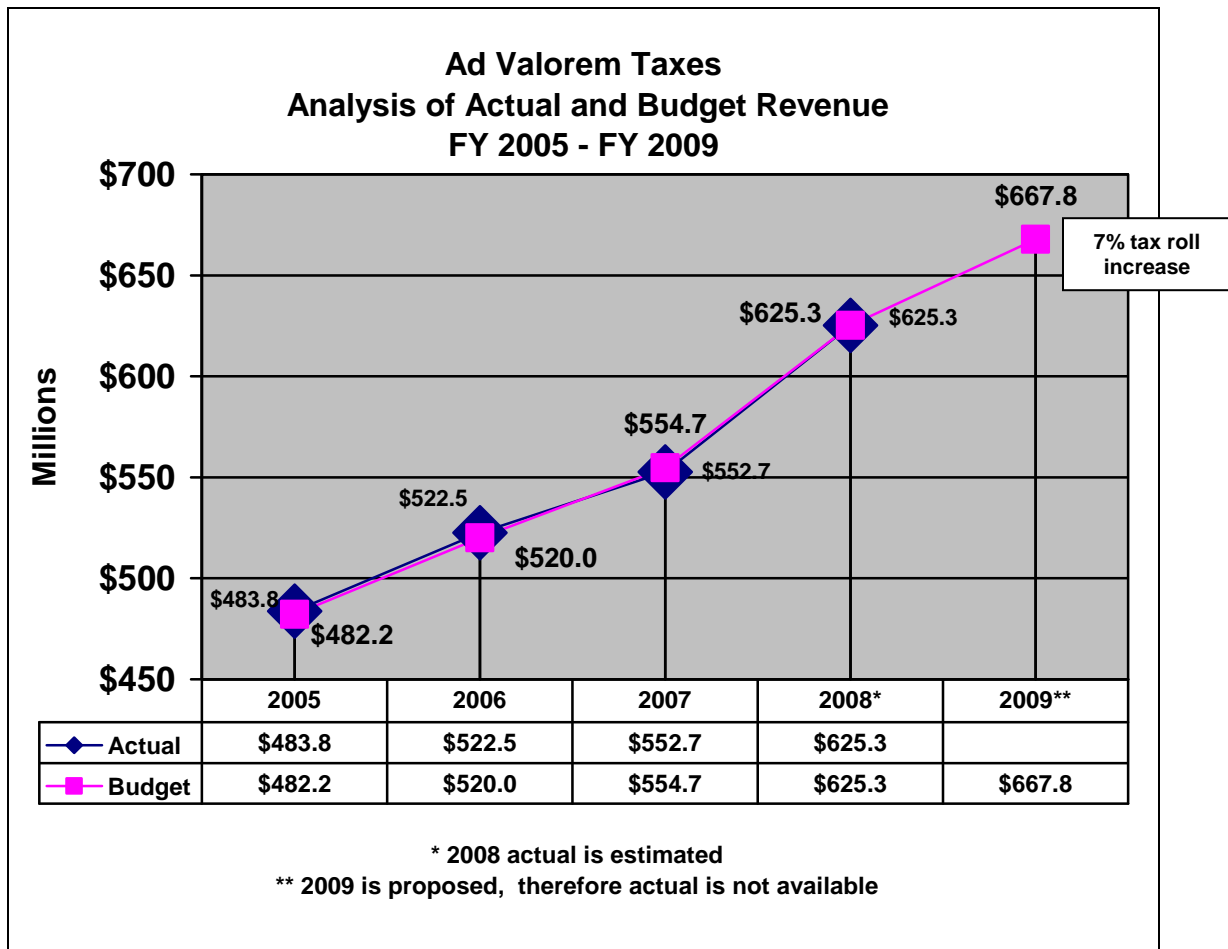
Attachments

C: Mary K. Suhm, City Manager
Dave K. Cook, Chief Financial Officer
Jeanne Chipperfield, Director of Budget Services

Ad Valorem Taxes

Ad Valorem (Property) taxes are the largest source of revenue for the General Fund and Debt Service Fund. Assessed values are established by the Central Appraisal Districts in the four counties in which the City of Dallas is located and certified by the Appraisal Review Board.

The assessed taxable value for the tax roll as of January 1, 2008 (upon which the FY 2008-2009 levy is based) is \$90,477,932,550, or 7 percent greater than the 2007 tax roll. The tax rate for FY 2009 will remain at 74.79 cents per \$100.

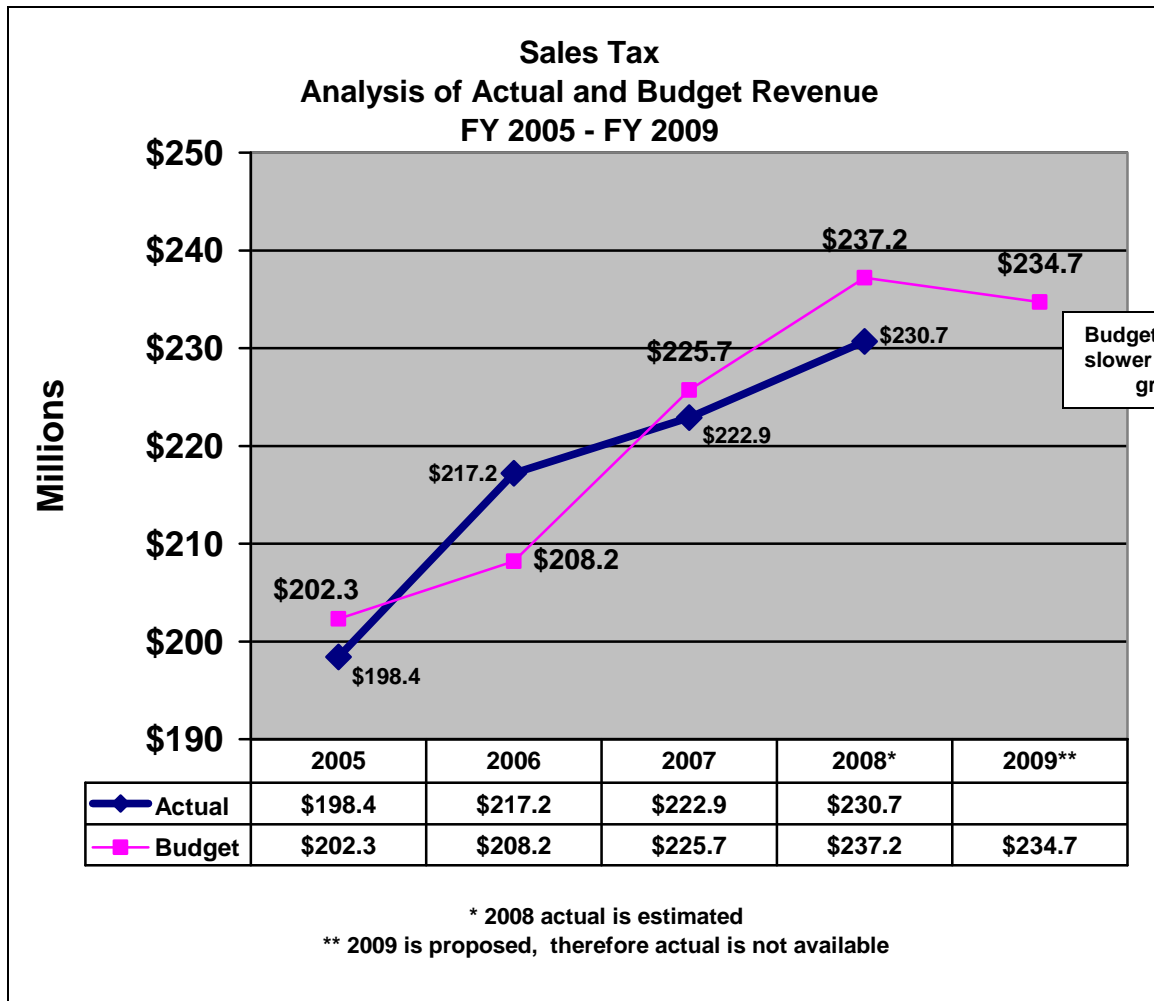


Attachment II

Sales Tax

Sales tax is the second largest source of revenue for the General Fund. The sales tax rate in the City of Dallas is 8.25 percent of taxable goods or services sold within the City limits. The tax is collected at the point of sale and forwarded to the State Comptroller's Office on a monthly or quarterly basis. Of the 8.25 percent collected, the state retains 6.25 percent and distributes 1 percent to the City of Dallas and 1 percent to the Dallas Area Rapid Transit transportation authority.

The proposed FY 2008-09 sales tax revenue estimate reflects a 1.05 percent decrease over the FY 2007-08 budgeted revenue or a 1.75 percent increase over FY 2007-08 estimated revenue.

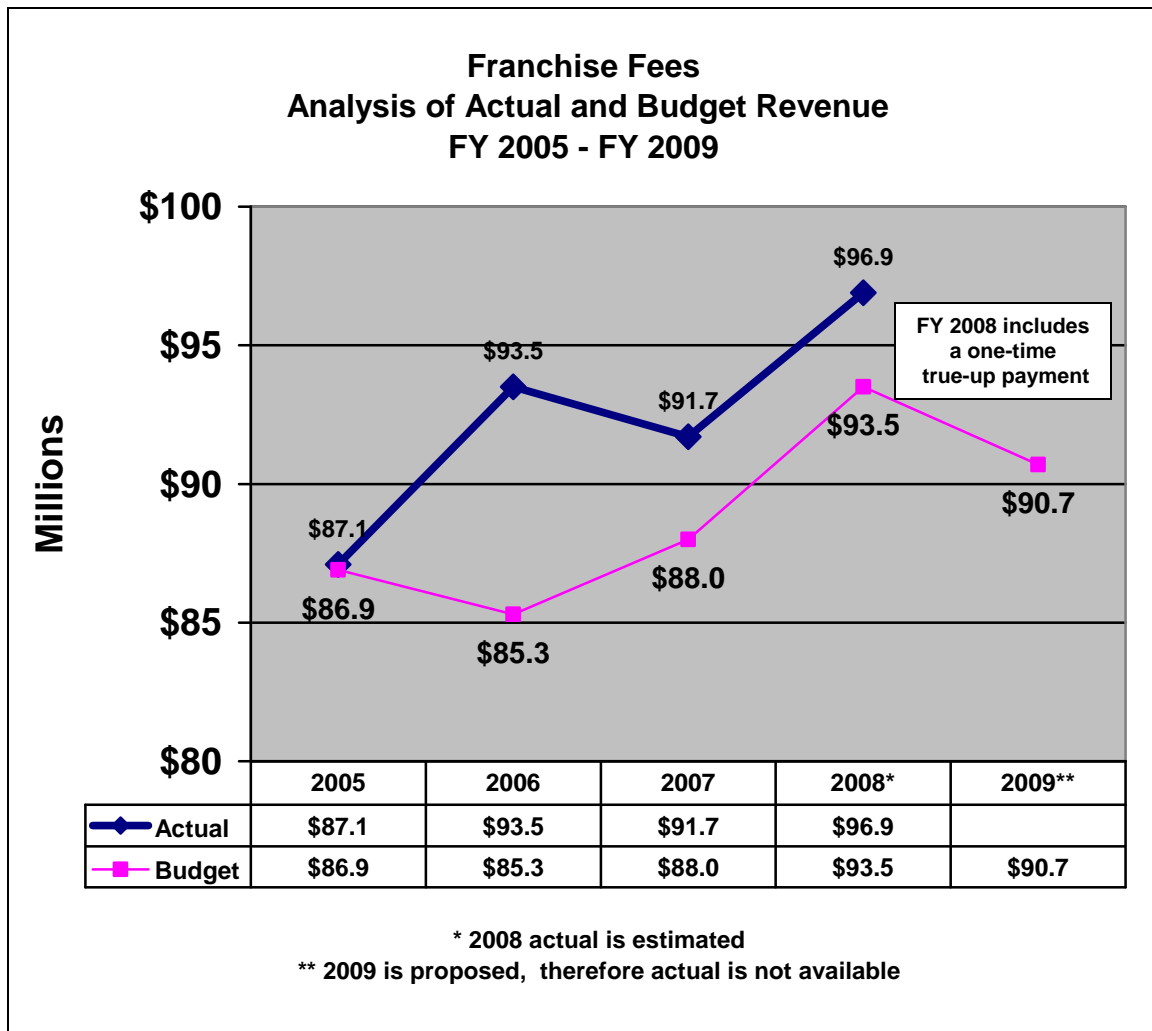


Attachment III

Franchise Fees – Electric, Telephone, Gas, and Cable

Franchise holders pay the City for use of City streets and public right-of-ways for the purpose of providing local electric (ONCOR), gas (ATMOS), cable television service (Time Warner) and operating a telecommunications system (AT&T).

The proposed FY 2008-2009 franchise fees revenue estimate decreased mainly because in FY 2007-2008 there was an additional payment due to a true-up clause in the electric franchise. No such payment is expected in FY 2008-2009.

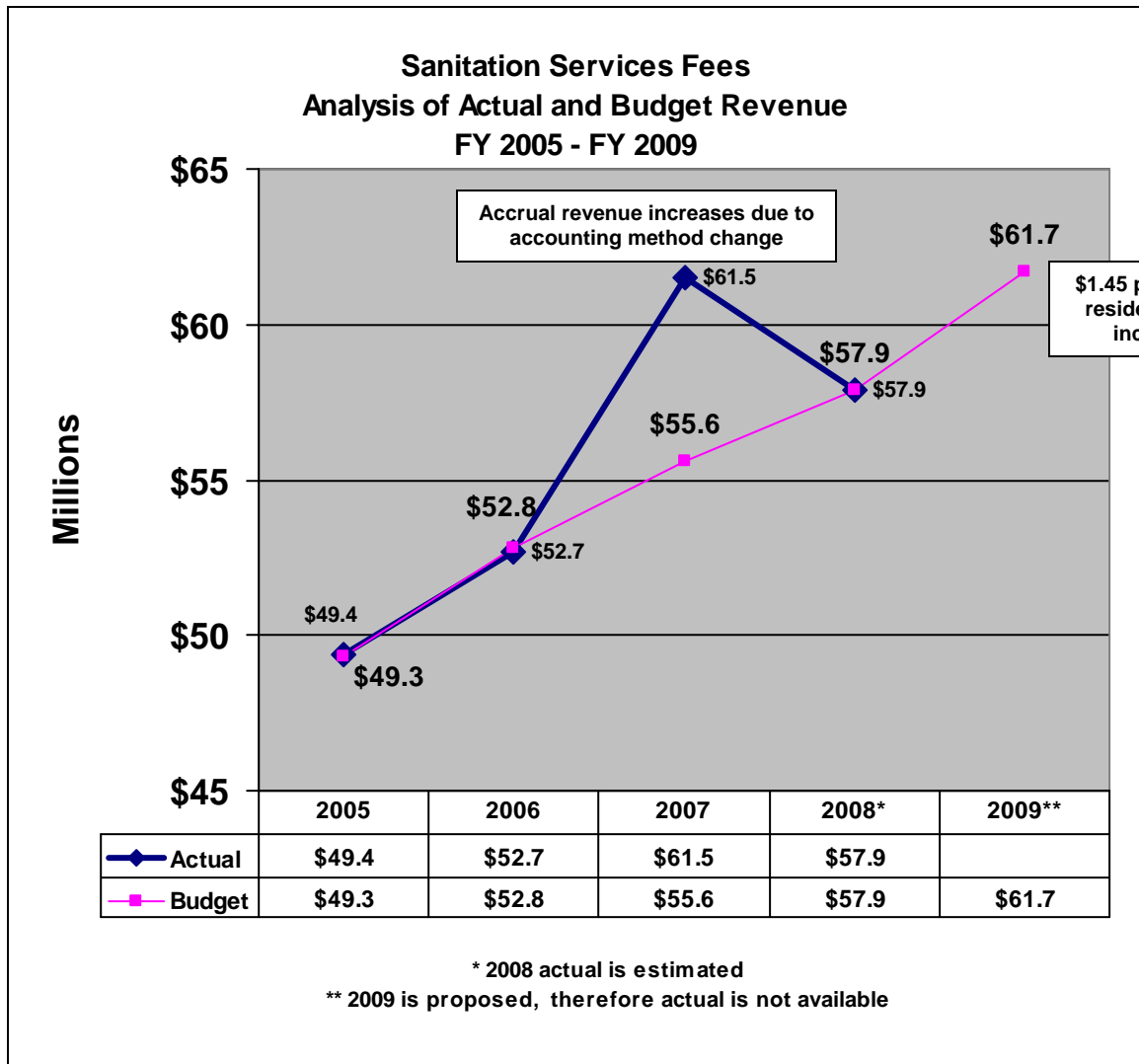


Attachment IV

Sanitation Services Fees

Sanitation Services revenue is collected to match the cost of providing garbage collection, brush and bulky collection, and recyclables collection services for residential customers and a few small commercial customers. This revenue is based on fees, which are collected through the monthly water bills issued by Dallas Water Utilities (DWU).

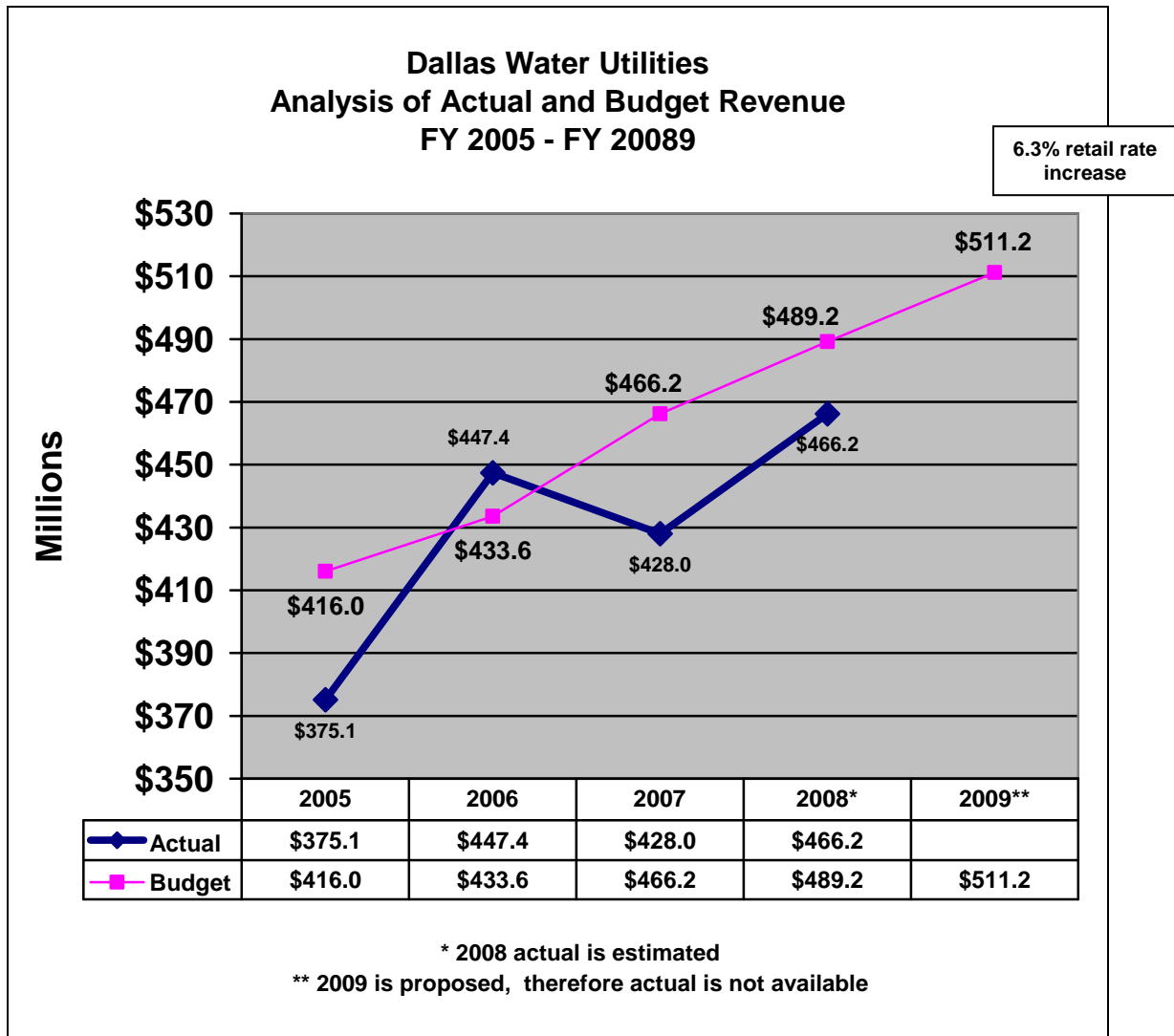
The proposed FY 2008-2009 revenue estimate includes a sanitation residential fee increase of \$1.45 per month.



Dallas Water Utilities (DWU)

Revenues are obtained through the sale of water and wastewater services in these five customer classes: residential, general service, municipal, wholesale, and optional general service. The wholesale customer class is comprised of 22 communities outside the City of Dallas which receives water service, and 11 communities which receive wastewater service. Rates are determined by a cost of service study that assigns costs to each customer class based on the department's cost to provide these services.

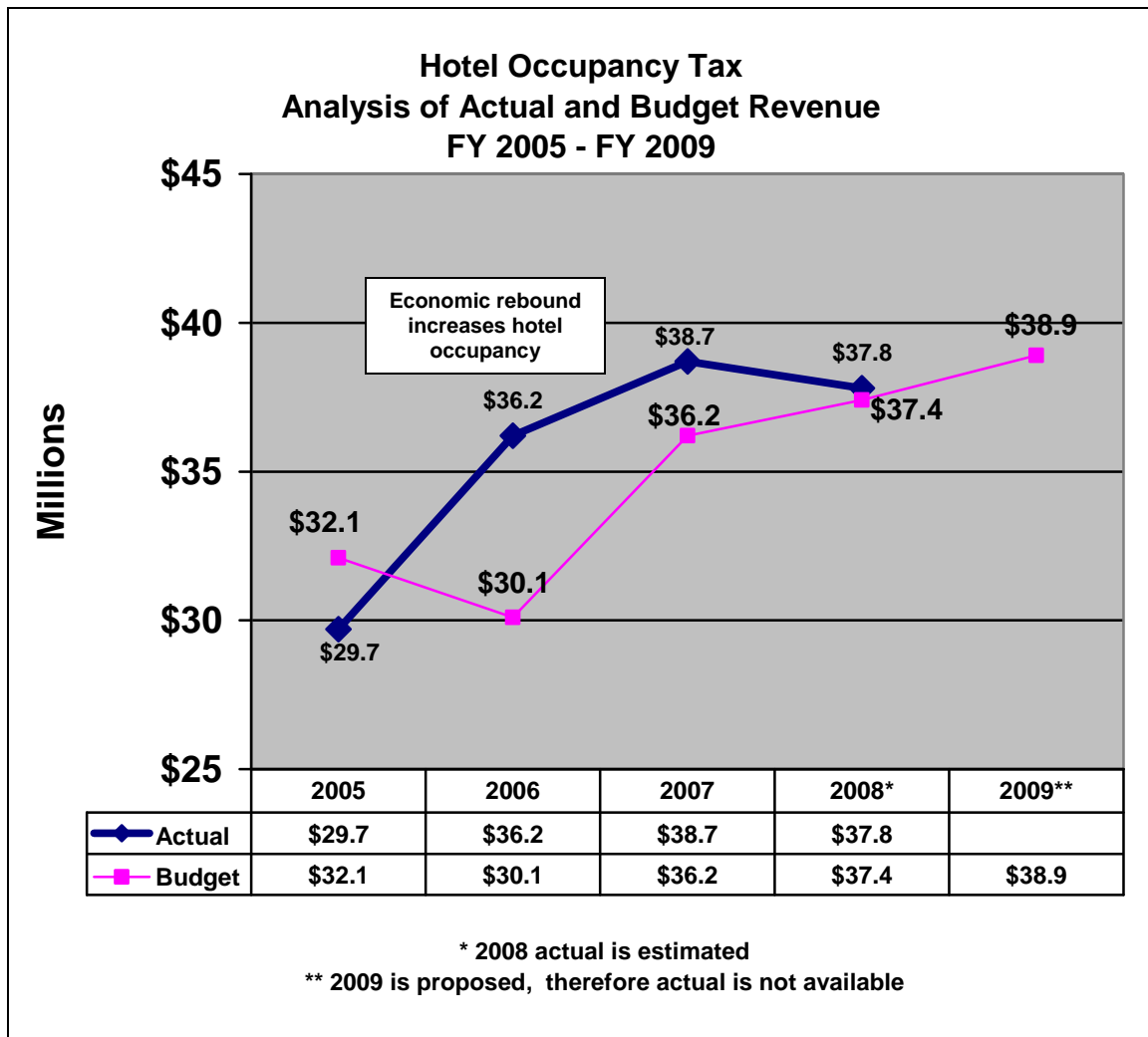
The proposed FY 2008-2009 DWU revenue estimate includes a 6.3 percent increase in the Water / Wastewater overall retail rate.



Hotel Occupancy Tax

The Hotel Occupancy Tax rate in the City of Dallas is 15 percent of the room rate charged within the City limits. The tax is collected by the hotel at the point of sale and forwarded to the State (6 percent) and to the City (9 percent) on a monthly basis (7 percent to the Dallas Convention Center and 2 percent to the Sports Arena Project).

The proposed FY 2008-2009 hotel occupancy tax revenue estimate reflects a 3 percent increase over FY 2007-2008 estimated revenue.

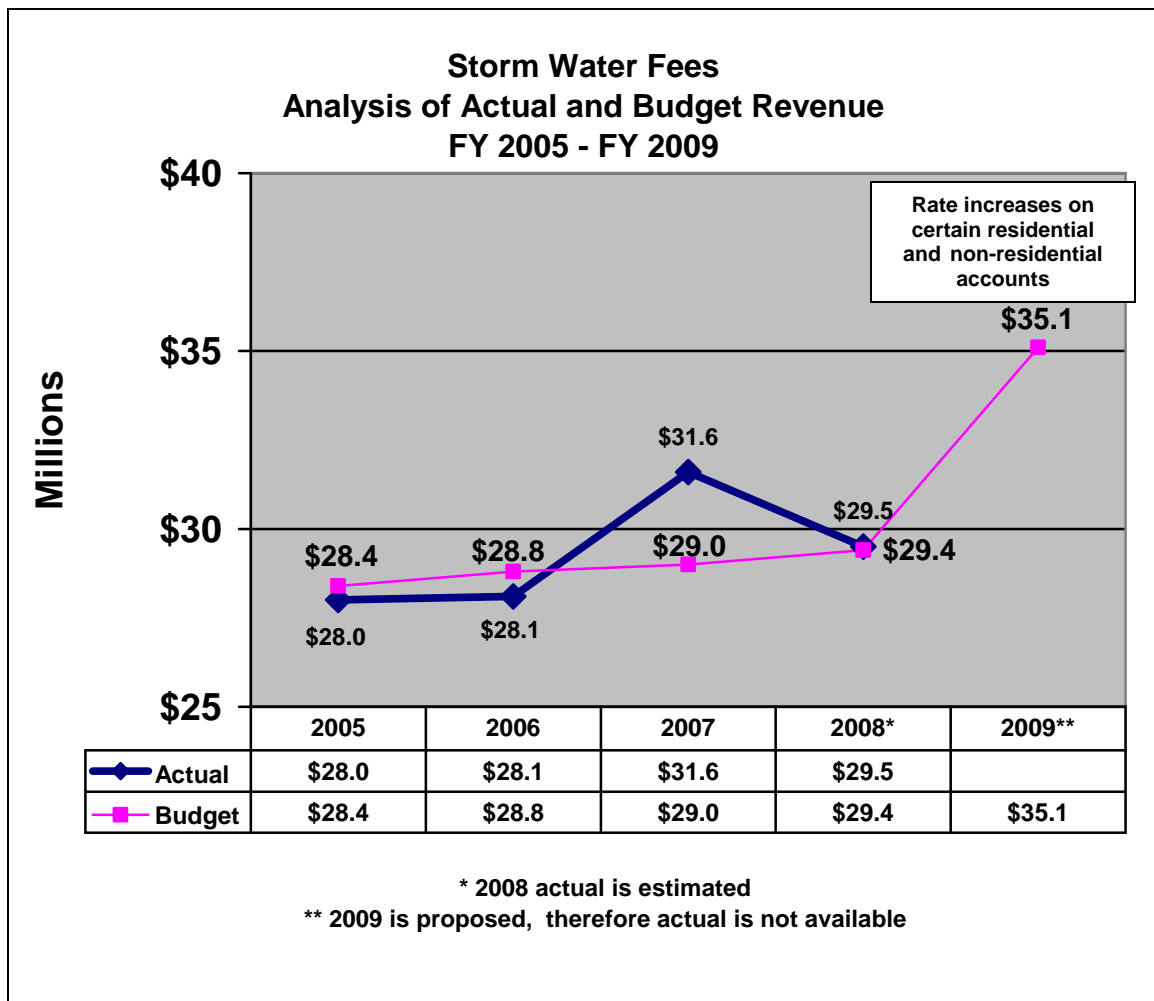


Attachment VII

Storm Water Fees

The Storm Water Drainage Utility Revenue is collected to support the cost of operating and maintaining the City’s storm sewer system; creek, river and levee maintenance; monthly sweeping of the City’s major thoroughfares; water quality activities required by storm water permit, e.g., sampling, testing, monitoring, public education, code enforcement, and hazardous spill cleanup and disposal; lake de-silting; and engineering, design and inspection of storm sewer infrastructure. Utility fees are billed and collected through the monthly water bill.

The proposed FY 2008-2009 revenue estimate and rates are based on a recent rate and structure study conducted by a consulting company.



Attachment VIII

Aviation Concessions

Airport businesses with concessions contracts are obligated to pay the City of Dallas a percentage of their monthly gross revenues or a guaranteed minimum payment. Concessions agreements include parking, food and beverage services, retail stores, advertising, car rental agencies, shoe shine services, and bag cart rental.

The proposed FY 2008-2009 revenue estimate includes a 4 percent increase based on the annual passenger growth rate adjusted by concerns regarding fuel costs and the future of the aviation industry.

