

Memorandum



CITY OF DALLAS
(Report No. A09-017)

DATE: September 18, 2009

TO: Honorable Mayor and Members of the City Council

SUBJECT: Review of the Revenue Estimates Included in the Fiscal Year 2009-2010
Proposed Operating Budget for the City of Dallas¹

The revenue estimates included in the Fiscal Year (FY) 2009-2010 Proposed Operating Budget appear reasonable. We reviewed \$1.65 billion of the \$2.20 billion in proposed revenue estimates for the General Fund, Enterprise Fund, and Debt Service Fund, or 75 percent of the revenue estimates included in the FY 2009-2010 Proposed Operating Budget (See Table I in Attachment I). Our review did not include the remaining \$0.55 billion in revenue estimates which are mainly derived from department reimbursements and City, employee, and retiree contributions. Analyses of actual and budgeted five-year trend information and additional detailed information by revenue source are shown in Charts I through VIII in Attachment II.

The FY 2008-2009 Adopted Budget for major revenue sources of \$1.76 billion were overestimated by approximately \$77.5 million, or 4.40 percent from Estimated Actual Revenues (See Table II in Attachment I). According to City management, the overestimation was primarily due to unanticipated economic conditions. Therefore, to reflect the current economic forecast, the FY 2009-2010 Proposed Budget estimates for most of these major revenue sources have been set at or below the prior year estimated actual revenue collections. The FY 2009-2010 Proposed Budget reflects rate increases for Water Utilities and Storm Water Drainage (See Table III in Attachment I).

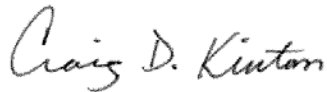
¹ The audit objective was to review and verify the reasonableness of the revenue estimates included in the FY 2009-10 Proposed Budget. Council Resolution 904027 directs the City Auditor to review and verify the reasonableness of the revenue estimates included in the City Manager's proposed budget. This performance audit was conducted under the authority of the City Charter, Chapter IX, Section 3 and in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusion based on our audit objective. We interviewed department personnel, reviewed revenue estimate methodologies and material assumptions for reasonableness, verified mathematical accuracy, traced amounts to the appropriate FY budget documents, and performed various analysis.

City management is responsible for developing the revenue estimate methodologies, documenting material assumptions, and preparing reasonable and conservative revenue estimates for inclusion in the FY 2009-2010 Proposed Operating Budget. However, neither City management nor the City Auditor's Office guarantees the achievement of the FY 2009-2010 revenue estimates.

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

If you have any questions or need additional information, please contact me at 214-670-3222 or Carol Smith, Assistant City Auditor, at 214-670-4517.

Sincerely,



Craig D. Kinton
City Auditor

Attachments

- C: Mary K. Suhm, City Manager
- Dave K. Cook, Chief Financial Officer
- Jeanne Chipperfield, Director – Budget Management Services
- Ricardo Galceran, P.E., Director – Public Works and Transportation
- Mary Nix, P.E., Director – Department of Sanitation Services
- Frank Poe, Director – Convention and Event Services
- Jo M. (Jody) Puckett, P.E., Director – Dallas Water Utilities
- Daniel T. Weber, A.A.E., Director – Department of Aviation

Attachment I

**Revenue Sources and Estimates included in the
 Proposed Fiscal Year 2009-2010 Budgets
 Reviewed by the Dallas City Auditor's Office**

Table I

Chart	Revenue Sources	FY 2009-2010 Proposed
General Fund		
I	Ad Valorem Taxes	\$ 420,798,973
II	Sales Tax	206,573,949
III	Franchise Fees – Electric, Telephone, Gas, and Cable*	84,700,000
IV	Sanitation Service Fees*	89,011,513
Enterprise Funds		
V	Water and Wastewater	530,365,482
VI	Hotel Occupancy Tax	34,201,100
VII	Storm Water Fees	44,674,000
VIII	Aviation Concessions*	23,157,682
Debt Service		
	Ad Valorem Taxes	218,270,049
Total Revenue Estimates Reviewed		1,651,752,748
Revenue Estimates Not Reviewed		550,819,808
Total FY 2009-2010 Proposed Review		\$ 2,202,572,556

* Amounts provided by management (amounts are not individually presented on the FY 2009-2010 Proposed Budget)

Source: Revenue Estimates included in the FY 2009-2010 Proposed Budget (Unaudited)

**Fiscal Year 2008-2009 Adopted Budget Revenues Compared
 To Estimated Actual Revenues for Major Revenue Sources**

Table II

Revenue Source	Fiscal Year 2008-2009			
	Adopted Budget	Estimated Actual Revenues*	\$ Variance	% Variance
General Fund				
Ad Valorem Taxes	\$ 467,275,130	\$ 460,710,282	\$ (6,564,848)	(1.40)
Sales Tax	236,134,862	209,592,076	(26,542,786)	(11.24)
Sanitation Service Fees**	96,879,226	89,833,360	(7,045,866)	(7.27)
Franchise Fees	103,530,000	104,700,453	1,170,453	1.13
Enterprise Fund				
Water Utilities	511,158,717	486,465,946	(24,692,771)	(4.83)
Convention and Event Services	67,329,961	57,312,820	(10,017,141)	(14.88)
Aviation	44,149,767	42,926,593	(1,223,174)	(2.77)
Storm Water Drainage Management	35,109,516	34,970,325	(139,191)	(0.00)
Debt Service Fund				
Ad Valorem Taxes	200,490,225	198,052,975	(2,437,250)	(1.22)
Totals	\$ 1,762,057,404	\$ 1,684,564,830	\$ (77,492,574)	(4.40)

* FY 2009 estimate of actual revenues is based on information provided by management.

** Amounts provided by management (amounts are not individually presented on the FY 2009-2010 Proposed Budget)

Source: FY 2008-2009 Adopted Budget and the FY 2009-2010 Proposed Budget (Unaudited)

**Comparison of Selected Actual Fiscal Year 2008-2009 Revenues
 To Fiscal Year 2009-2010 Revenue Estimates
 (For Estimated Actual Revenues and FY 2009-2010 Proposed columns below)**

Table III

Revenue Sources	Fiscal Year 2008-2009 Estimated Actual Revenues*	Fiscal Year 2009-2010 Proposed Revenues	\$ Variance	% Variance
General Fund				
Ad Valorem Taxes	\$ 460,710,282	420,798,973	(39,911,309)	(8.66)
Sales Tax	209,592,076	206,573,949	(3,018,127)	(1.44)
Sanitation Service Fees**	89,833,360	89,011,513	(821,847)	(0.01)
Franchise Fees	104,700,453	95,855,406	(8,845,047)	(8.45)
Enterprise Fund				
Water Utilities	486,465,946	530,365,482	43,899,536	9.02
Convention and Event Services	57,312,820	60,076,058	2,763,238	4.82
Aviation	42,926,593	42,488,533	(438,060)	(1.02)
Storm Water Drainage Management	34,970,325	44,674,000	9,703,675	27.75
Debt Service Fund				
Ad Valorem Taxes	198,052,975	218,270,049	20,217,074	10.21
Totals	\$ 1,684,564,830	\$ 1,708,113,963	\$ 23,549,133	1.40

* FY 2009 estimate of actual revenues is based on information provided by management.

** Amounts provided by management (amounts are not individually presented on the FY 2009-2010 Proposed Budget)

Source: FY 2008-2009 Adopted Budget and the FY 2009-2010 Proposed Budget (Unaudited)

Attachment II

The charts shown in Attachment II are based upon the City Auditor's Office review of selected revenue sources and estimates included in the FY 2009-2010 Proposed Budget.

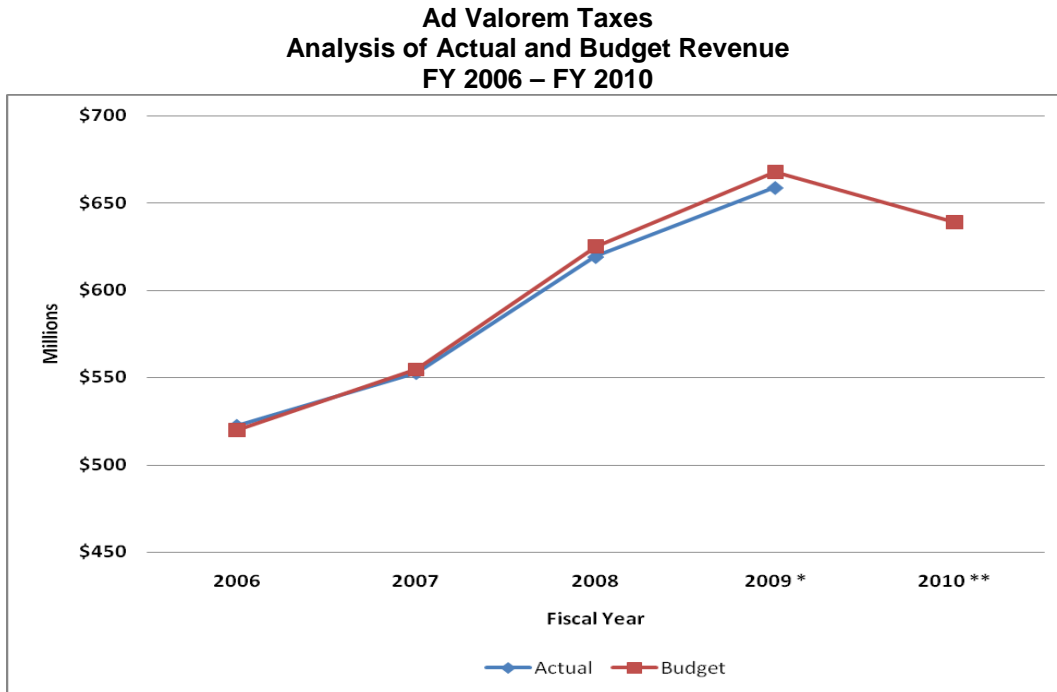
Ad Valorem Taxes

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 (Dallas, Collin, Denton, and Rockwall) in which the City of Dallas is located and certified by the individual Appraisal Review Boards.

The assessed taxable value for the tax roll as of January 1, 2009 (upon which the FY 2009-2010 levy is based) was \$87,264,095,461 or 3.55 percent less than the 2008 tax roll of \$90,477,932,550. The tax rate for FY 2009-2010 remains at 74.79 cents per \$100.

The FY 2008-2009 Ad Valorem Tax Adopted Budget of \$667,765,354 is approximately \$9,002,097, or 1.35 percent, more than the \$658,763,257 City management estimates collecting. The FY 2009-10 Proposed Budget for Ad Valorem Tax of \$639,069,022 is a decrease of approximately \$19.7 million, or 3.0 percent, from the FY 2008-2009 estimated actual collections. According to City management, this decrease is attributable to economic conditions.

Chart I



* FY 2009 estimate of actual revenues is based on information provided by management

** FY 2010 is proposed, therefore actual is not available

Source: City of Dallas Adopted Operating Budgets and FY 2009-2010 Proposed Operating Budget (Unaudited)

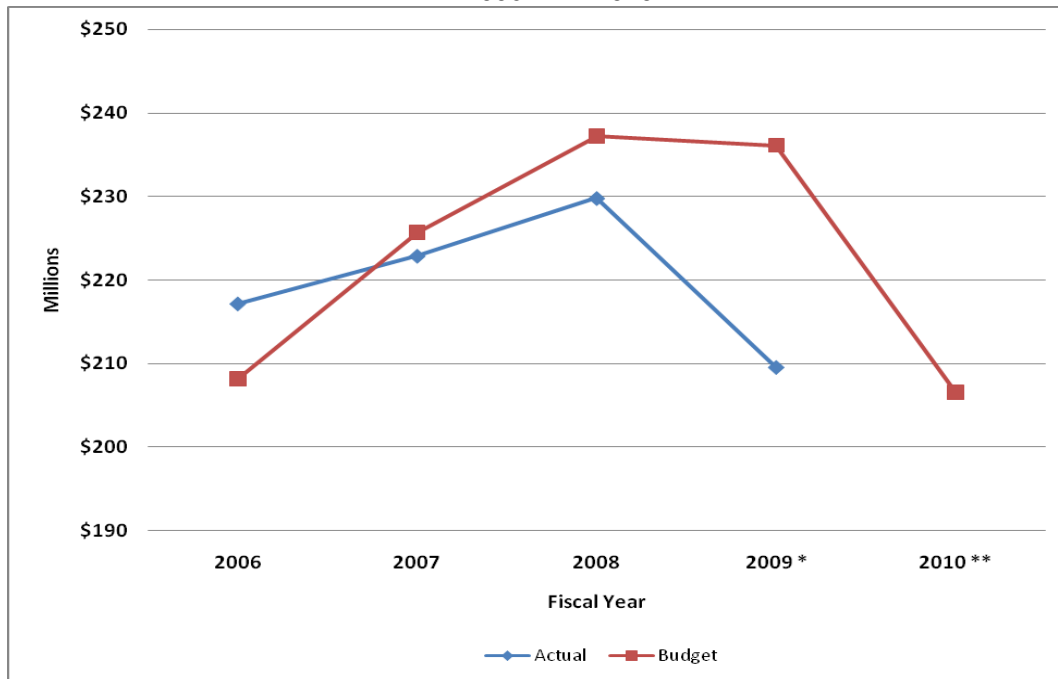
Sales Tax

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 one percent to the City of Dallas and one percent to the Dallas Area Rapid Transit transportation authority.

The 2008-2009 Sales Tax Adopted Budget of \$236,134,862 was approximately \$26.5 million, or 11.24 percent, more than the \$209,592,076 City management estimates collecting. The 2009-2010 Proposed Budget for Sales Tax is estimated at \$206,573,949, which is a decrease of approximately \$3.0 million, or 1.44 percent, from the 2008-2009 estimated actual collections. According to City management, this decrease is due to the current economic conditions.

Chart II

**Sales Tax
Analysis of Actual and Budget Revenue
FY 2006 – FY 2010**



* FY 2009 estimate of actual revenues is based on information provided by management

** FY 2010 is proposed, therefore actual is not available

Source: City of Dallas Adopted Operating Budgets and FY 2009-2010 Proposed Operating Budget (Unaudited)

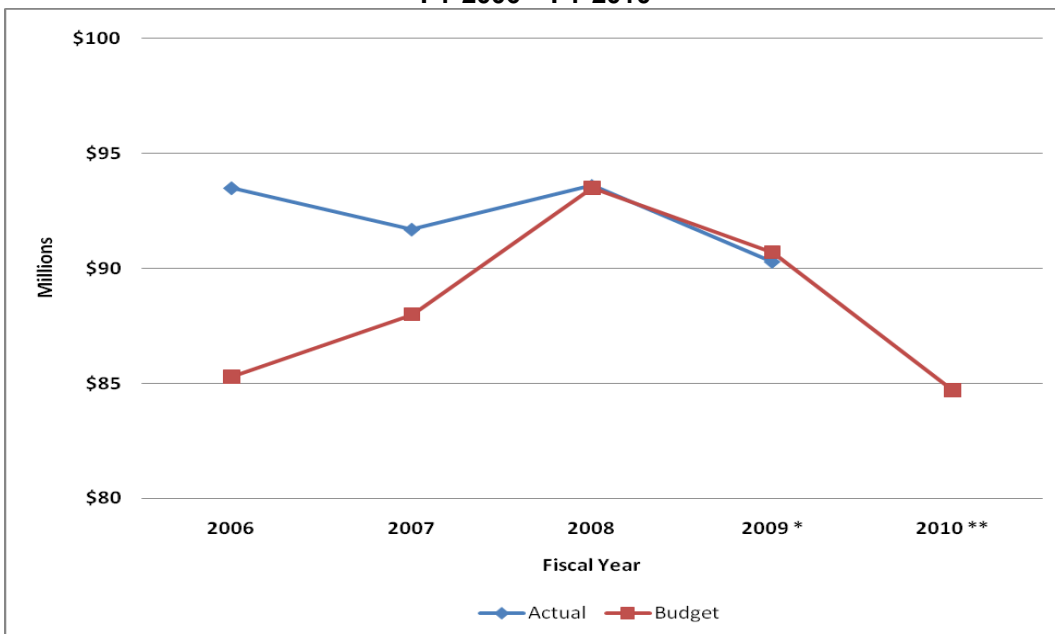
Franchise Fees – Electric, Telephone, Gas, and Cable

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 2008-2009 Electric, Telephone, Gas and Cable Franchise Fees Adopted Budget of \$90,686,000 was approximately \$361,000, or .40 percent, more than the \$90,325,363 City management estimates collecting. The FY 2009-2010 Proposed Budget for the same Franchise Fees of \$84,700,000 is a decrease of approximately \$5.6 million, or 6.23 percent, from the FY 2008-2009 estimated actual collections. According to City management, this decrease is primarily attributable to the 45 percent decline in the price of natural gas in the past eight months.

Chart III

Franchise Fees
Analysis of Actual and Budget Revenue
FY 2006 – FY 2010



* FY 2009 estimate of actual revenues is based on information provided by management

** FY 2010 is proposed, therefore actual is not available

Source: City of Dallas Adopted Operating Budgets and 2009-2010 Proposed Operating Budget (Unaudited)

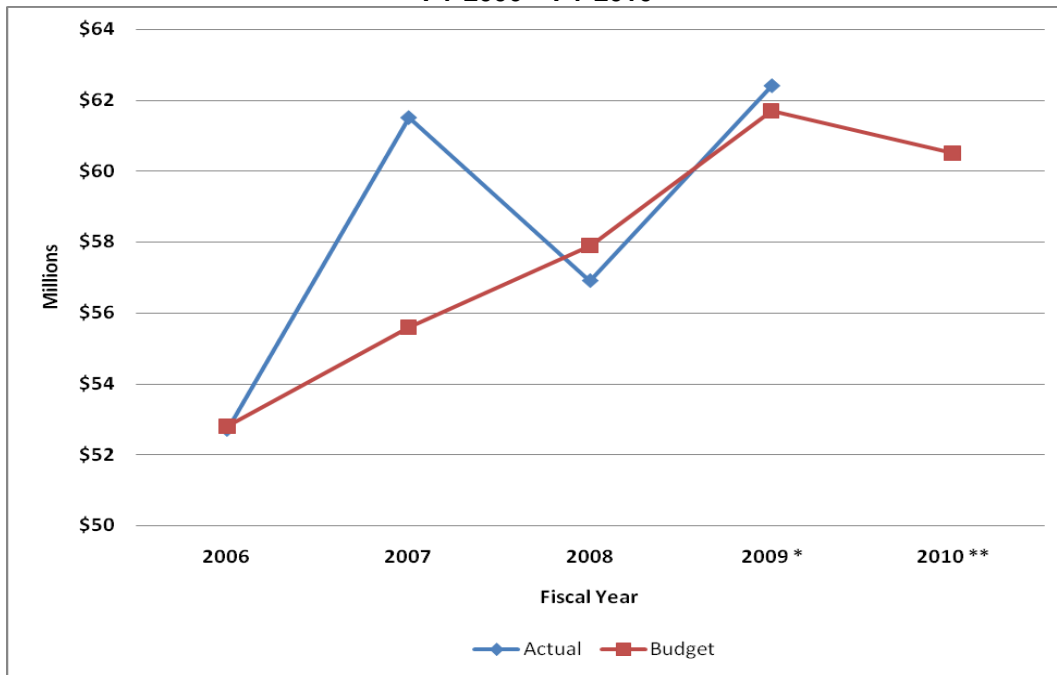
Sanitation Services Fees

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 2008-2009 Adopted Budget of \$61,666,885 was approximately \$794,000, or 1.30 percent, less than the \$62,460,478 City management estimates collecting. The FY 2009-2010 Proposed Budget of \$60,545,263 is a decrease of approximately \$1.9 million, or 3.10 percent, from the FY 2008-2009 estimated actual collections. The FY 2009-2010 Proposed Budget is a 1.8 percent decrease from the prior year estimate and includes a sanitation residential fee decrease of \$0.64 per month.

Chart IV

**Sanitation Service Fees
Analysis of Actual and Budget Revenue
FY 2006 – FY 2010**



* FY 2009 estimate of actual revenues is based on information provided by management

** FY 2010 is proposed, therefore actual is not available

Source: City of Dallas Adopted Operating Budgets and FY 2009-2010 Proposed Operating Budget (Unaudited). \$89 million was reviewed; however, the information in the chart represents \$60.5 million from the two main revenue sources: Sanitation Collection and City Facilities Contract.

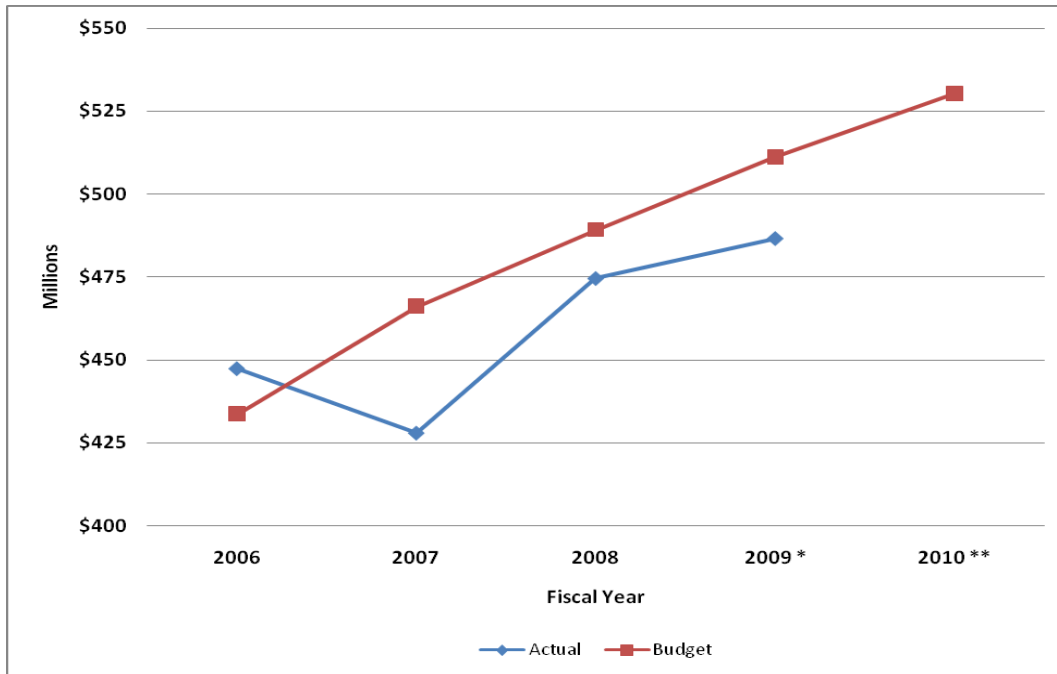
Dallas Water Utilities (DWU)

Revenues are obtained through the sale of water and wastewater services in 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 from each class 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 FY 2008-2009 Adopted Budget \$511,158,717 was approximately \$24.7 million, or 4.8 percent, more than the \$486,465,946 City management estimates collecting. The FY 2009-2010 Proposed Budget of \$530,365,482 is an increase of approximately \$43.9 million, or 9.0 percent, from the FY 2008-2009 estimated actual collections. According to City management, this increase is due to a proposed average retail rate increase of 4.2 percent for residential water.

Chart V

Dallas Water Utilities
Analysis of Actual and Budget Revenue
FY 2006 – FY 2010



* FY 2009 estimate of actual revenues is based on information provided by management

** FY 2010 is proposed, therefore actual is not available

Source: City of Dallas Adopted Operating Budgets and FY 2009-2010 Proposed Operating Budget (Unaudited)

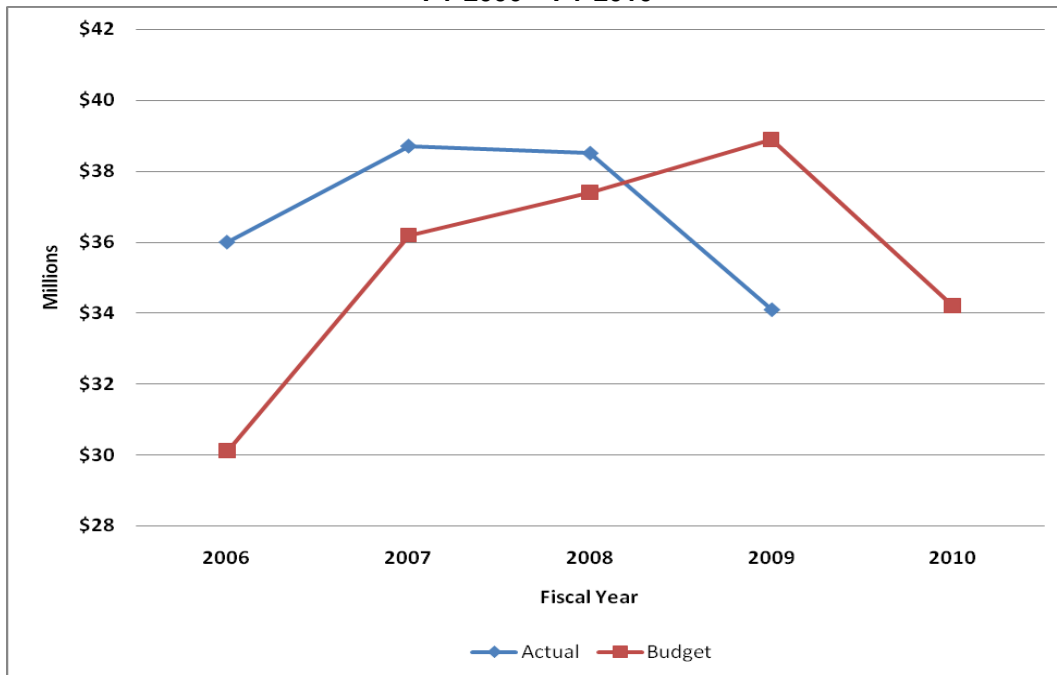
Hotel Occupancy Tax

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 (six percent) and to the City (nine percent) on a monthly basis. Of the nine percent to the City, seven percent is allocated to the Dallas Convention and Visitors Bureau (DCVB) and to support the Dallas Convention Center (DCC) operations and improvements. Two percent is allocated to the Sports Arena Project.

The FY 2008-2009 Adopted Budget of \$38,933,345 was approximately \$4.9 million, or 12.5 percent, more than the \$34,071,510 City management estimates collecting. The FY 2009-2010 Proposed Budget of \$34,201,100 is an increase of approximately \$130,000, or .40 percent, from the FY 2008-09 estimated actual collections. According to City management, this decrease is due in part to the economic slowdown.

Chart VI

**Hotel Occupancy Tax
Analysis of Actual and Budget Revenue
FY 2006 – FY 2010**



* FY 2009 estimate of actual revenues is based on information provided by management

** FY 2010 is proposed, therefore actual is not available

Source: City of Dallas Adopted Operating Budgets and FY 2009-2010 Proposed Operating Budget (Unaudited)

Storm Water Fees

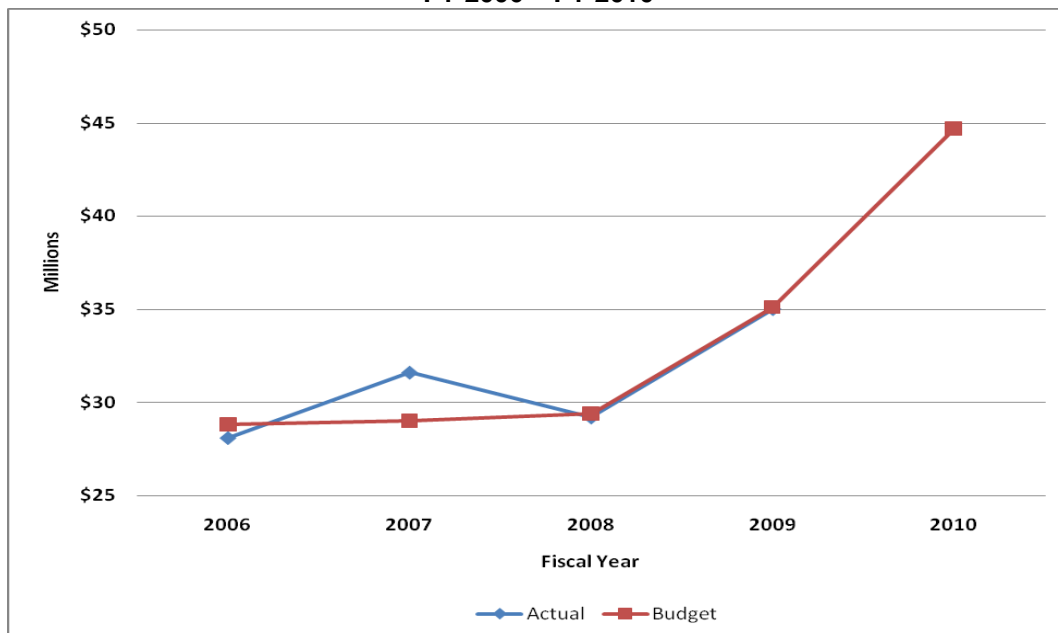
The Storm Water Drainage Utility Revenue is collected to support the cost of operating and maintaining the City's storm sewer system; creek, river and levee maintenance; monthly sweeping of the City's major thoroughfares; water quality activities required by storm water permit, e.g., sampling, testing, 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 bills.

The FY 2009-2010 Proposed Budget is based on proposed rates derived from analysis, clean up, and review of property data and attempts to equitably distribute the costs across all residential rate tiers.

The FY 2008-2009 Adopted Budget of \$35,109,516 was approximately \$139,000, or .40 percent, more than the \$34,970,325 City management estimates collecting. The FY 2009-2010 Proposed Budget of \$44,674,000 is an increase of approximately \$9.7 million, or 27.75 percent, from the FY 2008-2009 estimated actual collections. According to City management, this increase is due to storm water monthly rate increases and structural changes for residential, commercial, and vacant properties which are based on size, a calculated drainage area, and general use of each property within the City.

Chart VII

**Storm Water Fees
Analysis of Actual and Budget Revenue
FY 2006 – FY 2010**



* FY 2009 estimate of actual revenues is based on information provided by management

** FY 2010 is proposed, therefore actual is not available

Source: City of Dallas Adopted Operating Budgets and FY 2009-2010 Proposed Operating Budget (Unaudited)

“Dallas, The City That Works: Diverse, Vibrant, and Progressive.”

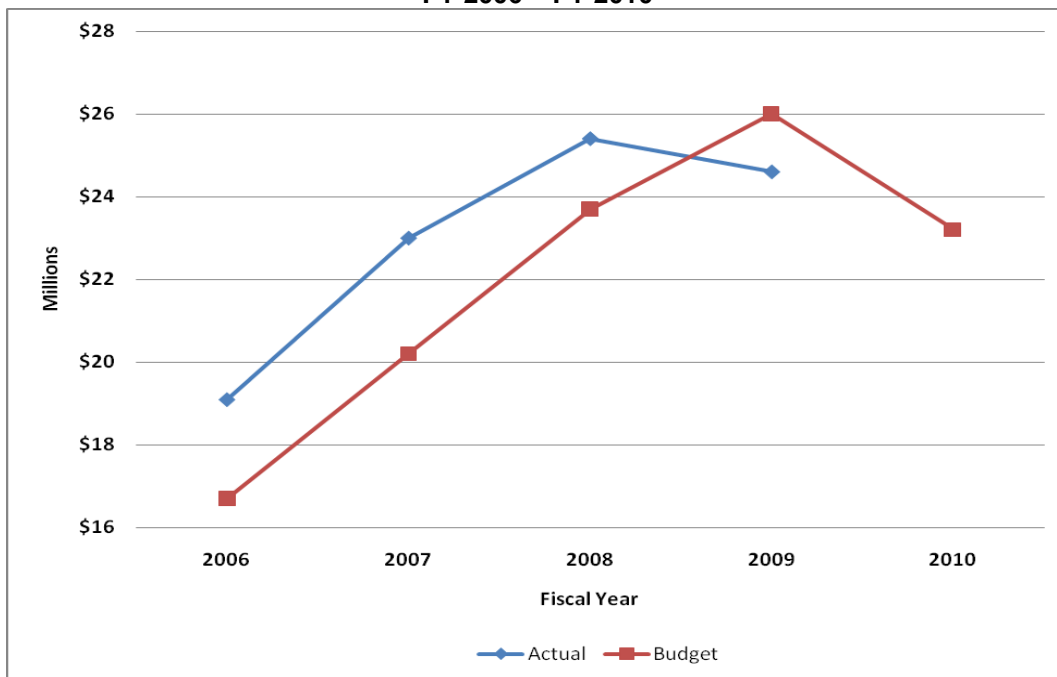
Aviation Concessions

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 FY 2008-2009 Adopted Budget of \$25,957,729 was approximately \$1.3 million, or 5.10 percent, less than the \$24,632,672 City management estimates collecting. The FY 2009-2010 Proposed Budget of \$23,157,682 is a decrease of approximately \$1.5 million, or 6.0 percent, from the FY 2008-2009 estimated actual collections. According to City management, this decrease is based on the total passenger decline at Love Field airport and general economic conditions.

Chart VIII

Aviation Concessions
Analysis of Actual and Budget Revenue
FY 2006 – FY 2010



* FY 2009 estimate of actual revenues is based on information provided by management

** FY 2010 is proposed, therefore actual is not available

Source: City of Dallas Adopted Operating Budgets and 2009-2010 Proposed Operating Budget (Unaudited)