

# Memorandum



CITY OF DALLAS

DATE June 16, 2017

TO Honorable Mayor and Members of the City Council

SUBJECT **FY 2017-18 Budget Update**

On Wednesday, June 21, 2017, the Office of Financial Services will brief City Council on FY 2017-18 Budget Update. The briefing materials are attached for your review.

Please let me know if you have any questions or need additional information.

A handwritten signature in blue ink that reads "M. Elizabeth Reich".

M. Elizabeth Reich  
Chief Financial Officer

## Attachment

c: T.C. Broadnax, City Manager  
Larry Casto, City Attorney  
Craig D. Kinton, City Auditor  
Rosa A. Rios, City Secretary  
Daniel F. Solis, Administrative Judge  
Kimberly Bizer Tolbert, Chief of Staff to the City Manager  
Majed A. Al-Ghafry, Assistant City Manager

Raquel Favela, Chief of Economic Development & Neighborhood Services  
Jo M. (Jody) Puckett, P.E., Assistant City Manager (Interim)  
Jon Fortune, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Nadia Chandler Hardy, Chief of Community Services  
Theresa O'Donnell, Chief of Resilience  
Directors and Assistant Directors

# **FY 2017-18 Budget Update**

**City Council Briefing  
June 21, 2017**

**Elizabeth Reich,  
Chief Financial Officer  
City of Dallas**

**Jack Ireland, Director  
Office of Financial Services  
City of Dallas**



# Presentation Overview

- Review State Law changes affecting future City budgets
  - HB 3158 – Police and Fire Pension contributions
  - Property Tax revenue
- Discuss over-65/disabled exemption
- Provide General Fund update
- Consider fee increases needed in FY18
  - Water Utilities
  - Sanitation Services
  - Storm Drainage Management
- Preview Dallas 365
- Discuss City Council hosted budget town hall meetings
- Outline next steps

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# State Legislation: Police and Fire Pension Contributions

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# Police and Fire Pension

- State approved changes that will ensure:
  - Oversight through improved governance
  - Financial sustainability
- Contribution changes become effective in Sept 2017
- Previous contributions:
  - City – 27.5% of all pay
  - Employees – 8.5% of computation pay
- Future contributions:
  - City – 34.5% of computation pay
  - Employees – 13.5% of computation pay



# Police and Fire Pension

- Legislation also includes a “floor” for City’s annual contribution over next 7 years
- \$41m additional funding required in FY18 compared to cost if legislative change had not passed

Calendar Year	Required City Contribution
2018	151,944,000
2019	157,846,000
2020	161,829,278
2021	165,932,000
2022	170,118,000
2023	164,112,000
2024	169,624,000



# State Legislation: Property Tax Revenue

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# Legislation Affecting Property Tax Revenue

- 85<sup>th</sup> State Legislature completed regular session without passing “property tax reform”
- Special Session is scheduled to begin July 18 and may include bills related to “rollback elections for property tax increases” and “caps on state and local spending”
- Impact of this is unknown at this time but will likely limit City’s property tax revenue in future years

# Legislation Affecting Property Tax Revenue

- Senate Bill would have lowered amount cities can increase property taxes year over year without a vote
  - Change rollback rate calculation from an allowed increase of 8% to 5% (require an election)
  - 5% rollback rate would have generated \$14.9m less revenue compared to FY17 adopted
- House Bill excluded changes to rollback calculation and focused only on public notice and transparency measures

# Legislation Affecting Property Tax Revenue

- Staff will continue to monitor State Legislative action and keep City Council informed
- New legislation will not affect FY18 budget development but will possibly limit FY19 revenue growth

# Property Tax Exemptions

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# Property Tax Exemptions

- Current exemption of \$64,000 was approved by City Council on Sept 17, 1986
- On May 15, the Budget, Finance, and Audit Committee recommended that Council consider increasing existing over-65/disabled exemption to \$90,000
  - Appraisal districts must be notified no later than June 30, 2017 in order to be effective this year
  - Change would decrease City revenue by about \$13.8m for FY18

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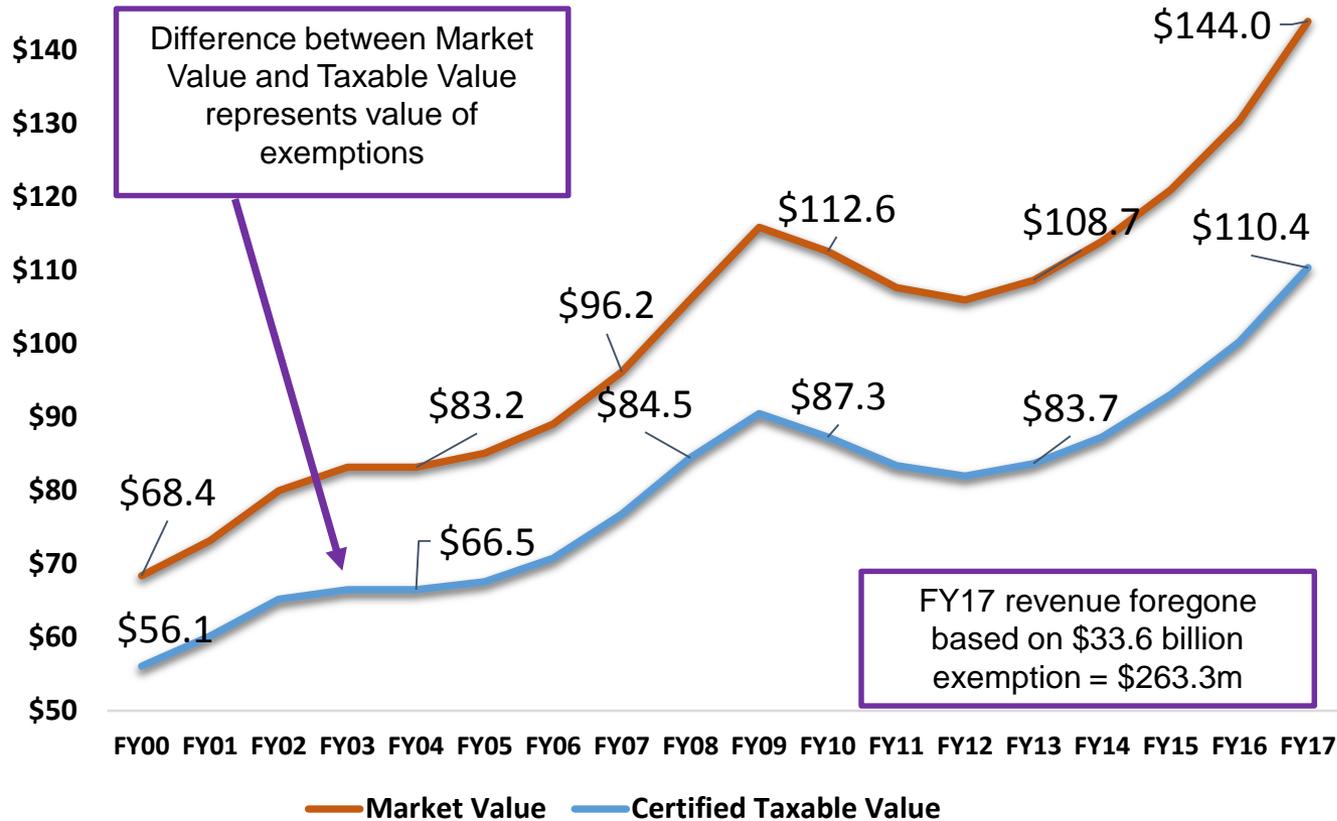
# Property Tax Exemptions

- Most recent certified taxable value in Dallas is \$110.4 billion which excludes exempt value
- Exemptions lower value and liability for homeowner but also lower revenue to support city services
  - \$33.6 billion of value has been exempt from property taxes including over-65, disabled, homestead, totally exempt, etc.
  - \$263.3m property tax revenue is foregone due to exemptions



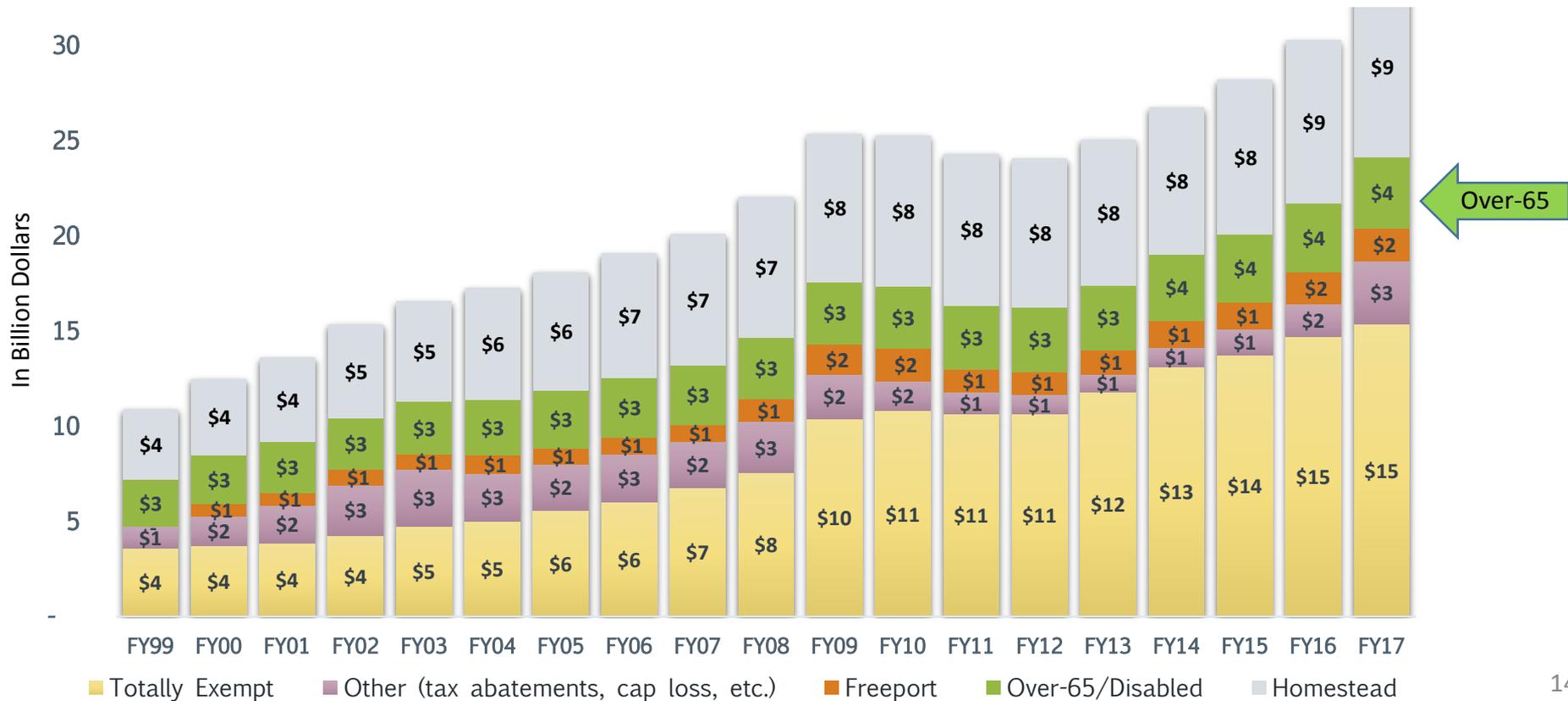
# Market Value vs Taxable Value

(\$ in billions)



# Property Tax Exemptions

## Historical Value of Exemptions (\$ in billions)



# Property Tax Exemption

- Comparison analysis
  - 92 cities surveyed in Dallas, Collin, Denton, and Rockwall counties
  - Average over-65 exemption = \$36,178
  - Dallas over-65 exemption = \$64,000
  - 9 cities with amounts greater than \$64,000
  - 5 of the 9 cities do not offer a homestead exemption

# Property Tax Exemption

City	General Homestead	Disabled	65 or Older
University Park	20%	\$338,000	\$338,000
Flower Mound	0%	\$100,000	\$100,000
Coppell	5%	\$75,000	\$75,000
Southlake	16%	\$75,000	\$75,000
Richardson	0%	\$70,000	\$70,000
Frisco	0%	\$70,000	\$70,000
Farmers Branch	20%	\$60,000	\$65,000
Mesquite	0%	\$15,000	\$65,000
Sunnyvale	0%	\$65,000	\$65,000
Dallas	20%	\$64,000	\$64,000
Lewisville	0%	\$20,000	\$60,000
Addison	20%	\$60,000	\$50,000
Allen	0%	\$25,000	\$50,000
Plano	20%	\$40,000	\$40,000



# Property Tax Exemption

City	General Homestead	Disabled	65 or Older
Houston	20%	\$160,000	\$160,000
Austin	8%	\$82,500	\$82,500
San Antonio	0%	\$12,500	\$65,000
Dallas	20%	\$64,000	\$64,000
Fort Worth	20%	\$40,000	\$40,000



# Property Tax Exemptions

Over-65 or Disabled				
Revenue Foregone				
Exemption Amount	General Fund	Debt	Total	
Current Exemption →	\$64,000	(\$20.6m)	(\$8.0m)	(\$28.6m)
	\$69,000	(\$1.9m)	(\$0.75m)	(\$2.7m)
	\$74,000	(\$3.8m)	(\$1.5m)	(\$5.3m)
	\$79,000	(\$5.7m)	(\$2.3m)	(\$8.0m)
	\$84,000	(\$7.6m)	(\$3.0m)	(\$10.6m)
BF&A Proposed Exemption →	\$89,000	(\$9.5m)	(\$3.8m)	(\$13.3m)
	\$90,000	(\$9.9m)	(\$3.9m)	(\$13.8m)

# Property Tax Exemptions

Change in tax bill for average value for residential homestead property (\$240,000)

Disabled or 65 or Older	Adopted Tax Rate	Homestead Exemption	Change in Tax Burden
\$64,000	\$0.7825	20%	\$0
\$69,000	\$0.7825	20%	(\$40)
\$74,000	\$0.7825	20%	(\$79)
\$79,000	\$0.7825	20%	(\$118)
\$84,000	\$0.7825	20%	(\$157)
\$89,000	\$0.7825	20%	(\$196)
\$90,000	\$0.7825	20%	(\$203)



# General Fund Update

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# Preliminary Revenue Adjustments

- Continued growth in property tax values is expected
  - 6.9% growth for FY18 currently projected; certified values will be received on July 25; and revenues are forecast to increase by \$41.4m
  - 7.9% growth for FY19 currently projected, but State legislation may limit amount of year-over-year revenue growth
- Continued growth in sales tax revenues is expected
  - 4.0% growth for FY18 currently projected; with revenue increase of \$11.8m
  - 3.4% growth for FY19 currently projected

# Preliminary Revenue Adjustments

- Other revenue adjustments for FY18 result in net decrease of \$11.5m; including:
  - Elimination of non-recurring revenues such as Atmos payment and surplus AAC rental revenues
  - Reduced court revenues from declining traffic citations
  - Reduced fire watch and MCHP fees
  - Adjustments to Medicaid supplemental payment program through State
- Net of General Fund revenue adjustments:
  - Increase \$41.7m for FY18

# Expense Drivers & Potential FY18 Cost Increase

- Police and Fire Meet and Confer agreement approved by Council includes \$89m pay adjustments over three years
- Police and Fire Pension Fund - \$41m additional funding required in FY18 compared to cost if legislative change had not passed
- Employee/retiree health benefits with 5% cost increase - \$4.4m
- Civilian merit program with 3% average - \$6.4m
- Tax Increment Financing cost increase as property values increase - \$5.5m
- Master Lease debt cost for equipment and technology - \$1.7m

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# General Fund Update

- Budget development process will continue over next 2 months and biennial budget will be presented to City Council on August 8
- Analysis will continue and City Management will make decisions required to balance budget



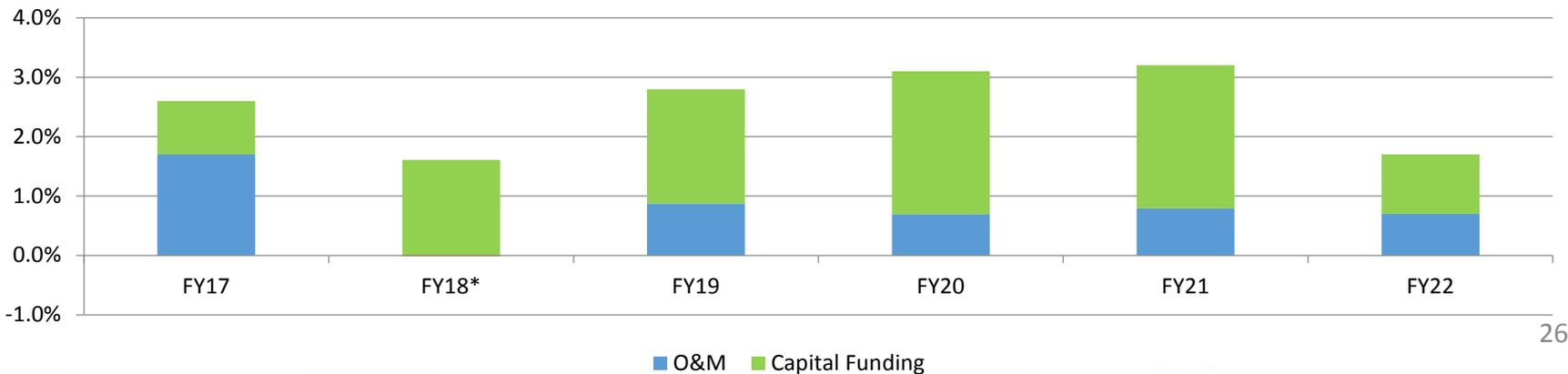
# Enterprise Fund Fee Changes

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# Dallas Water Utilities

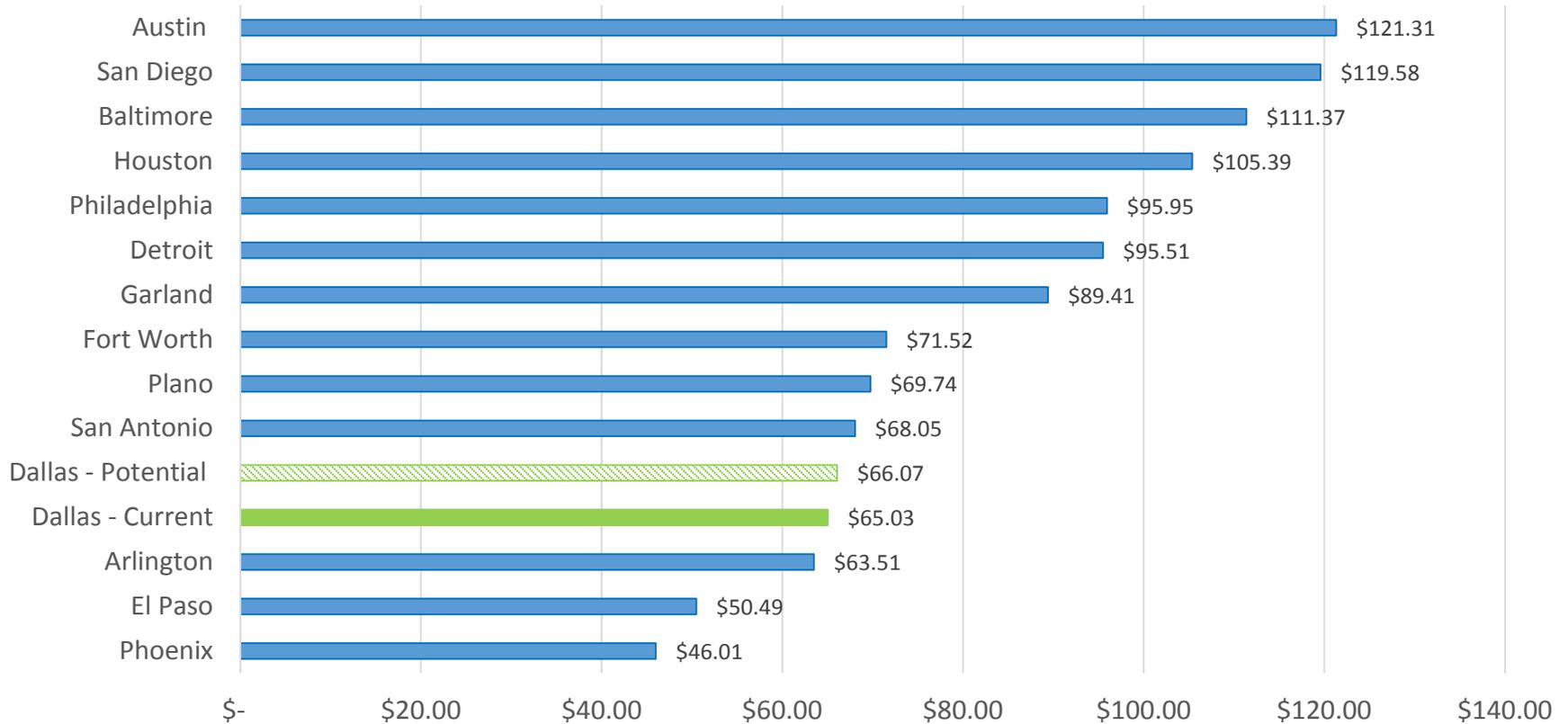
- Dallas Water Utilities anticipates need for retail rate increases in future years primarily to meet capital needs to fund rehabilitation and replacement of water and wastewater systems
- Retail revenue need for FY18 projected to increase 1.6%
  - Typical residential monthly bill will increase from \$65.03 to \$66.07
  - Over 87% of residential customers will have an increase of \$1.36 or less per month



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\* For FY18, O&M expenses are not anticipated to increase while Capital Funding expenses are.

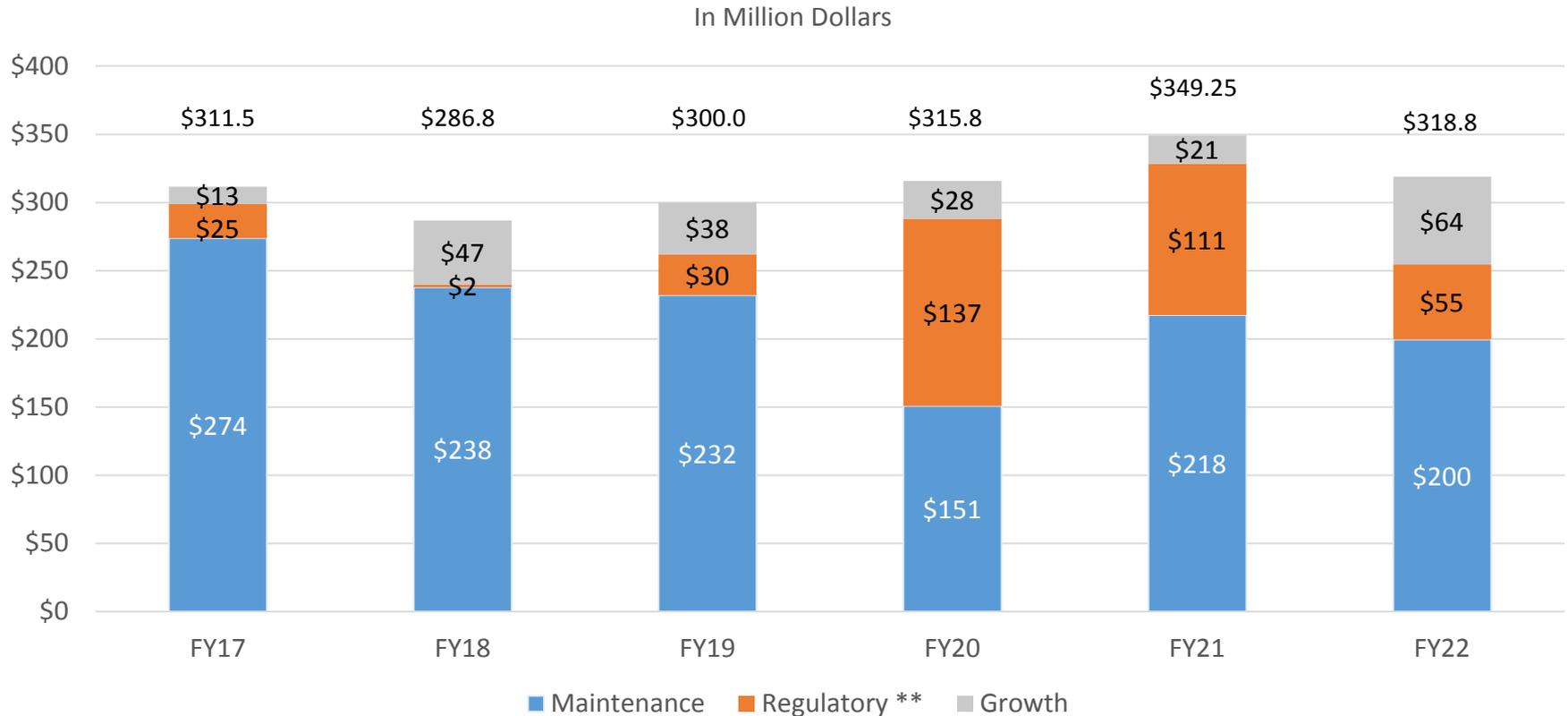
# Index Cities Comparison of Average Monthly Water & Sewer Residential Bills



Based on annual average of 8,300 gallons of water per month on 5/8" meter and 5,500 gallons used for winter months average where applicable. As of May 2017.

# Water Utilities

## Future Outlook – Capital Improvement Program



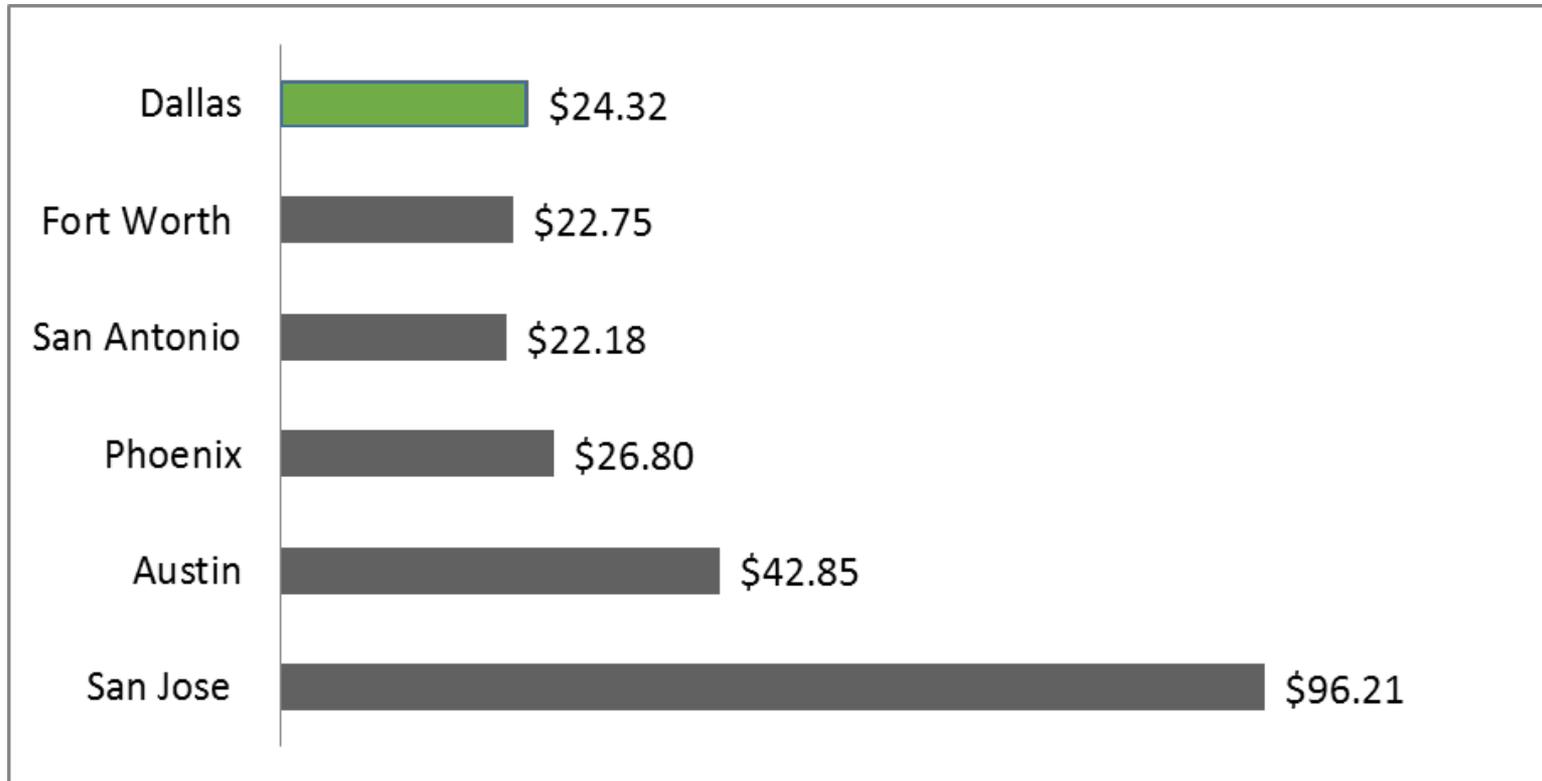
\*\* To meet US EPA and TCEQ requirements for DWU facilities and infrastructure.

# Sanitation Services

- Sanitation Services anticipates residential fee increases in future years primarily related to street rental cost, labor cost, and equipment cost
- Residential fee increase for FY18 may require an increase of 3.8% (less than \$1 per month; monthly fee increase from \$24.32 to \$25.24)



# Sanitation Services: Residential Fee Comparison (96 gallon cart service – FY17 rates)



# Storm Drainage Management

- Storm Drainage Management may require fee adjustments in future years primarily to fund major maintenance and capital projects
- Fee increase to generate additional \$5m in FY18 may be needed
- Approach for future years:
  - Address major maintenance and deferred maintenance through nominal fee increases annually to be paid for with cash
  - Address major system-wide projects periodically with combination of cash and debt issuance
  - FY19 through FY21 – proposed fee increases of approximately \$2.5m annually to cover capital and operational increases

# SDM Proposed Fee Change - \$5m Revenue

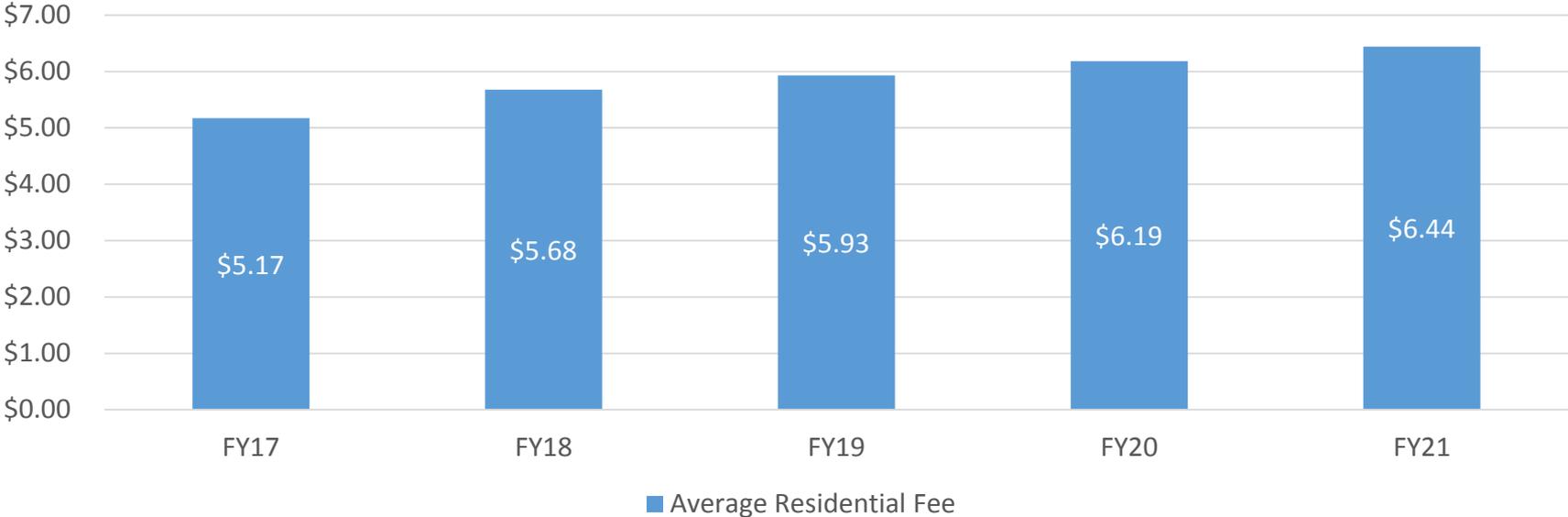
Impervious Area	Current Monthly Rate	Potential Monthly Rate	Potential Increase
Up to 2,000 sq. ft.	\$ 3.25	\$3.57	\$0.32
2,000 – 3,500 sq. ft.	\$ 5.17	\$5.68	\$0.51
3,500-5,500 sq. ft.	\$ 7.75	\$8.51	\$0.76
More than 5,500 sq. ft.	\$12.67	\$13.91	\$1.24

- The rates for non-residential (vacant and commercial) property are based on increasing the existing rate from \$1.75 to \$1.92 per 1,000 sq. ft. of impervious area, and increasing the minimum monthly charge from \$5.00 to \$5.49 per account.*

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# SDM Proposed Fee Outlook

2,000 To 3,500 Square Feet of Impervious Area



# Performance Metrics: Dallas 365

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# Dallas 365

- Dallas 365 will align 35 measures important to citizens to 6 strategic areas
  1. Public Safety
  2. Mobility Solutions, Infrastructure, and Sustainability
  3. Economic and Neighborhood Vitality
  4. Human and Social Needs
  5. Quality of Life
  6. Government Performance and Financial Management



Public Safety	Mobility Solutions, Infrastructure, & Sustainability	Economic & Neighborhood Vitality	Human & Social Needs	Quality of Life	Government Performance & Financial Management
Average response time 1 <sup>st</sup> paramedic	Number of potholes repaired	Number of rental properties inspected	% homeless clients in housing 7 months or longer	Library visits in person, online, & for programs	% invoices paid within 30 days
% 1 <sup>st</sup> company responding to structure fire within 5 minutes	% street segments completed within scheduled work days	Number of lots mowed & cleaned	Number of unduplicated homeless persons placed in housing	Attendance at OCA supported arts events	% dollars spent with local businesses
% police emergency calls answered within 8 minutes	Number of lane miles resurfaced	% of code related 311 service requests responded within estimated time	Number of immigrant affairs community engagements	% of residents within ½ mile of park	
Police response time for dispatched priority 1 calls	% of surveyed thoroughfare street lights working	Average cost per home repair	Cost per household assisted		
Number of arrests by field patrol	% of streets with visible striping	Number of housing units produced	Number of seniors served		
% 911 calls answered within 10 seconds	DWU meter reading accuracy rate	Number of jobs created	% reduction in loose animal calls		
Total arrests by narcotics division		Missed refuse & recycling collections	Animal care live release rate	<div style="background-color: #4a86e8; color: white; padding: 10px; text-align: center;"> <p>Still under development - may change prior to release of Budget on Aug. 8</p> </div>	
Homicide clearance rate		Tons of recyclables collected			
		Value of building permits issued			

# Council Hosted Budget Town Hall Meetings

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# Town Hall Meetings

- City Manager will present his recommended budget to City Council on August 8
- Council Members have the opportunity to host town hall meetings from August 8 through September 1
- Council members should schedule meetings and notify City Manager's Office of date/time/location by July 14

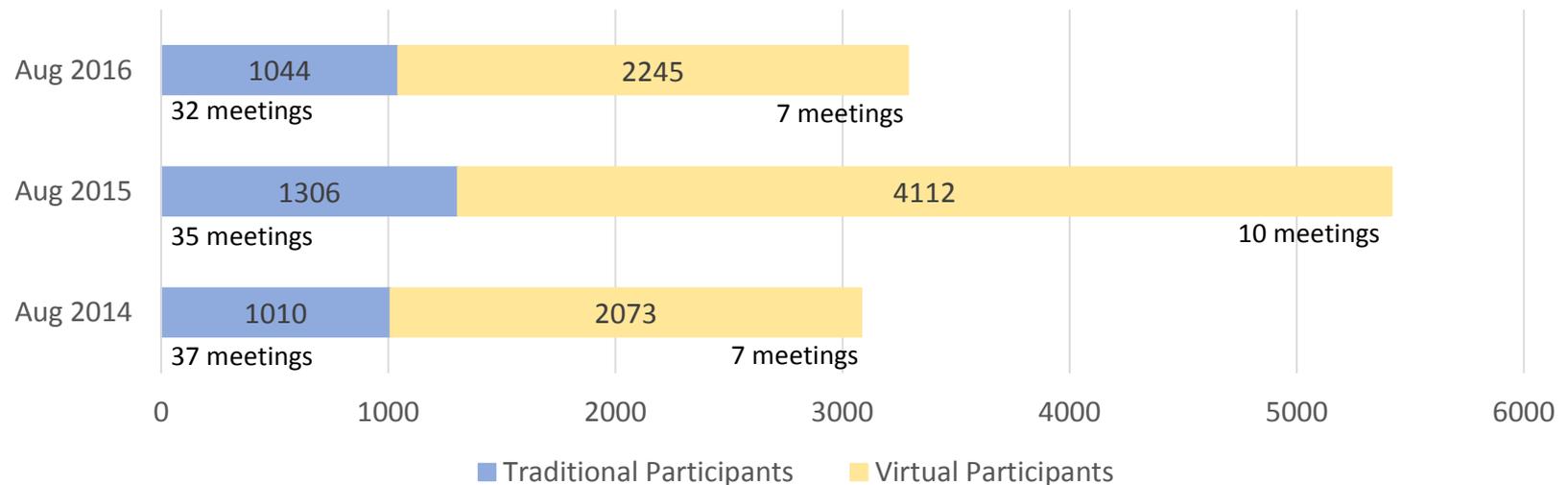


# Town Hall Meetings

- Traditional meetings are held at district locations and virtual meetings are webcast and by phone



Town Hall Meetings



Note: Mayor held a citywide virtual meeting in Aug 2015 which increased participation.

# Next Steps

- Receive Council feedback and, if necessary, schedule an item on June 28 to consider changing current over-65/disabled exemption
- Staff analysis and budget development will continue June through August
- Staff will continue to monitor State legislation for budget impacts
- City Council briefing on City Manager's recommended budget: August 8



# **FY 2017-18 Budget Update**

**City Council Briefing  
June 21, 2017**

**Elizabeth Reich,  
Chief Financial Officer  
City of Dallas**

**Jack Ireland, Director  
Office of Financial Services  
City of Dallas**

