

Memorandum



CITY OF DALLAS

DATE May 11, 2017

TO Honorable Mayor and Members of the City Council

SUBJECT May 17, 2017 Council Briefing
FY 2017-18 Budget Development Briefing

On Wednesday, May 17, 2017, the Office of Financial Services will brief City Council on FY 2017-18 Budget Development. We have attached the briefing materials 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

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)
Eric D. Campbell, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Joey Zapata, Assistant City Manager
Cheritta Johnson, Chief of Community Services (Interim)
Theresa O' Donnell, Chief of Resilience
Directors and Assistant Directors

FY 2017-18 Budget Development

**City Council Briefing
May 17, 2017**

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

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



Presentation Overview

- Review preliminary General Fund outlook for future years
- Consider topics that will affect FY 2017-18 budget development
 - Expense drivers
 - Economic indicators
 - State legislation
 - Biennial budgeting
 - Performance management
 - Citizen input
- Review budget development schedule



Preliminary General Fund Outlook

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General Fund – Preliminary Outlook for Future Years



Expense Drivers



Expense Drivers & Potential FY18 Cost Increase

- Police and Fire Meet and Confer agreement approved by Council includes \$89m pay adjustments over three years - \$30.8m
- Police and Fire Pension Fund - TBD
- Employee/retiree health benefits with 5% cost increase - \$6.3m
- Civilian merit program with 3% average - \$6.4m
- Tax Increment Financing cost increase as property values increase - \$5.5m

Economic Indicators

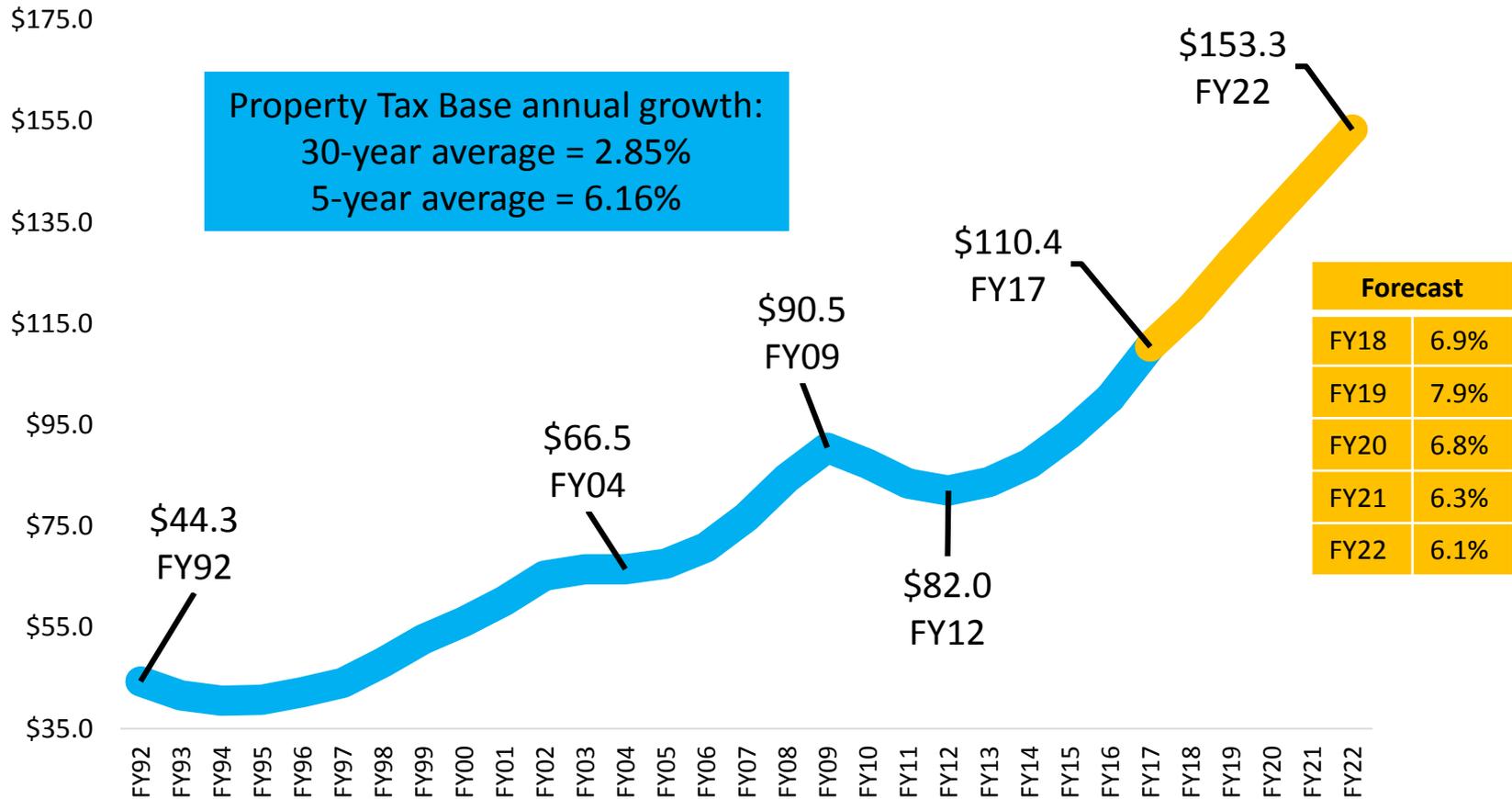


Economic Indicators

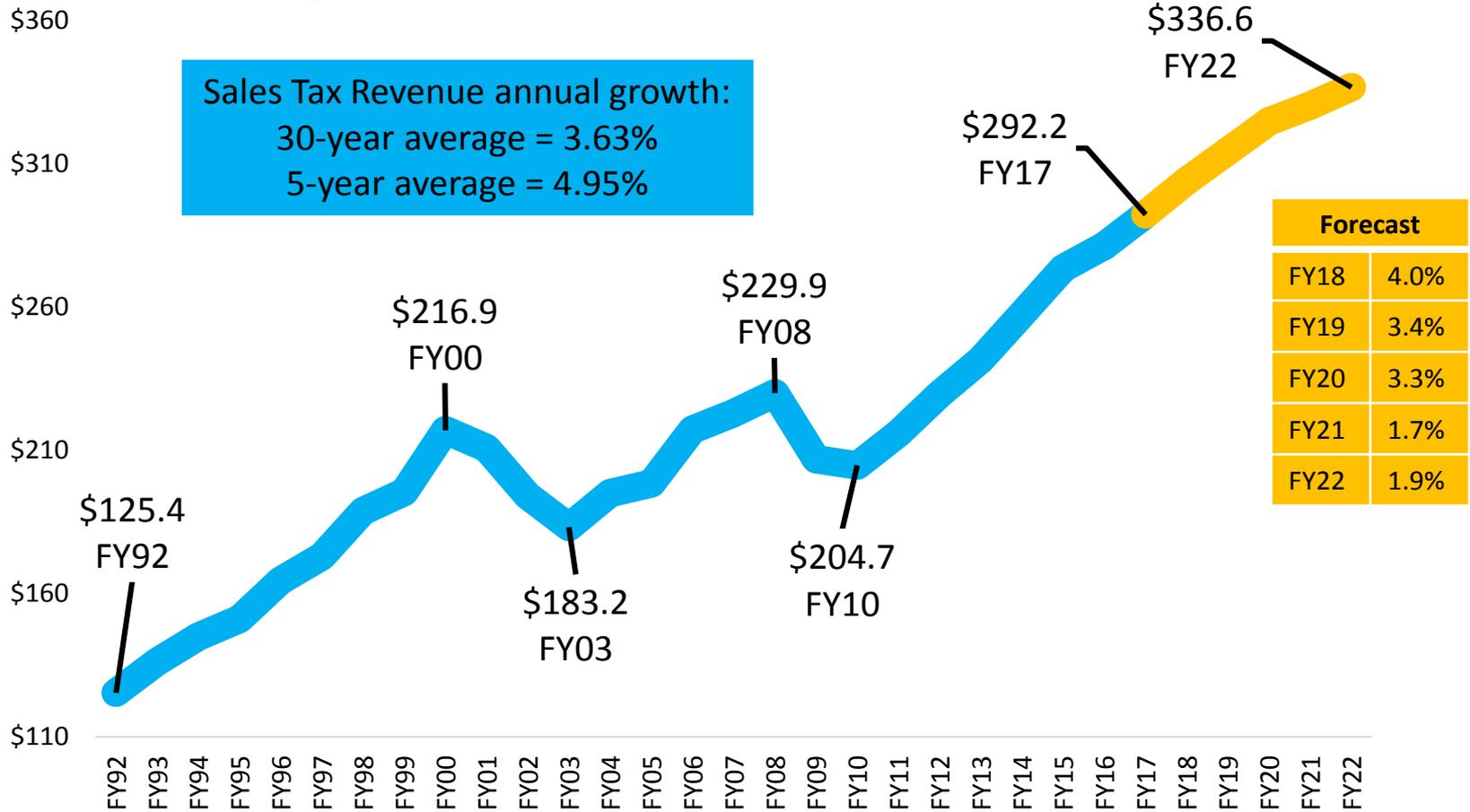
- Dallas' economy continues to grow
- Property tax base has grown for 5 consecutive years reaching all-time high
- Sales tax revenue has grown for 7 consecutive years reaching all-time high
- Unemployment in Dallas (4.5%) remains lower than both Texas (5.0%) and national (4.6%) levels as of March 2017



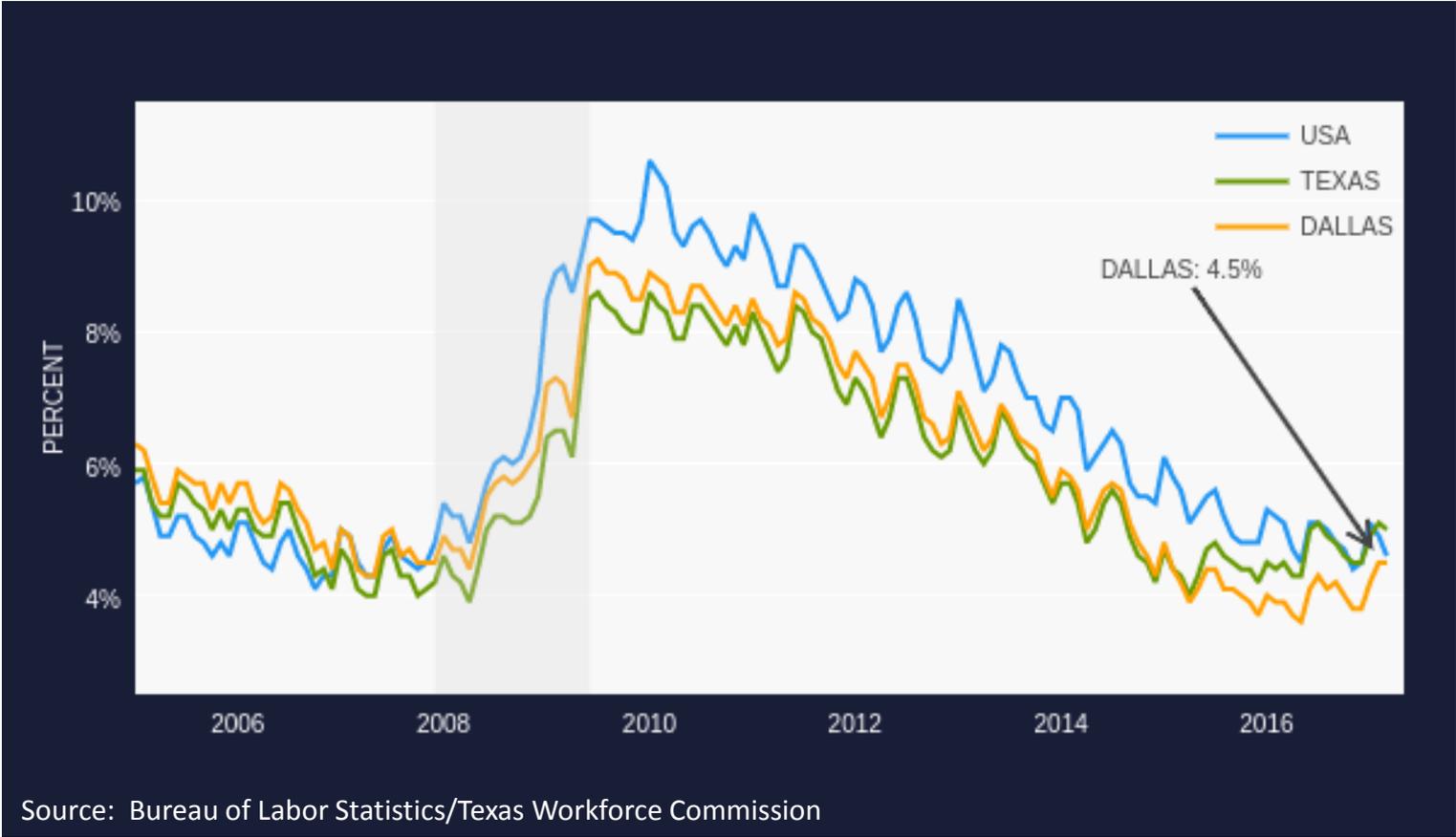
Property Tax Base Values (\$ in billions)



Sales Tax Revenue (\$ in millions)

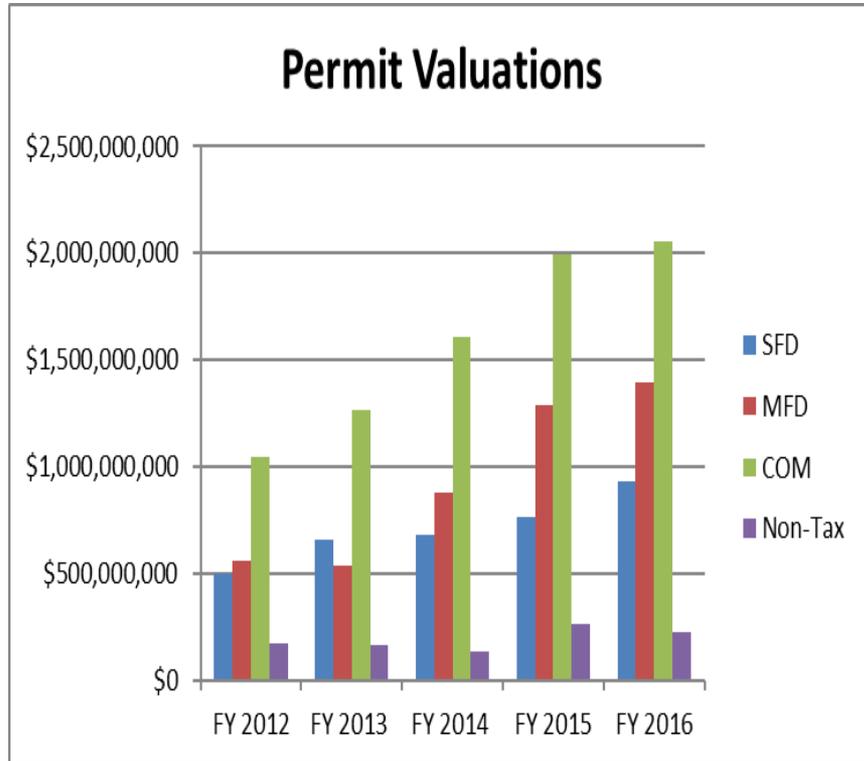


Annual Unemployment Rate

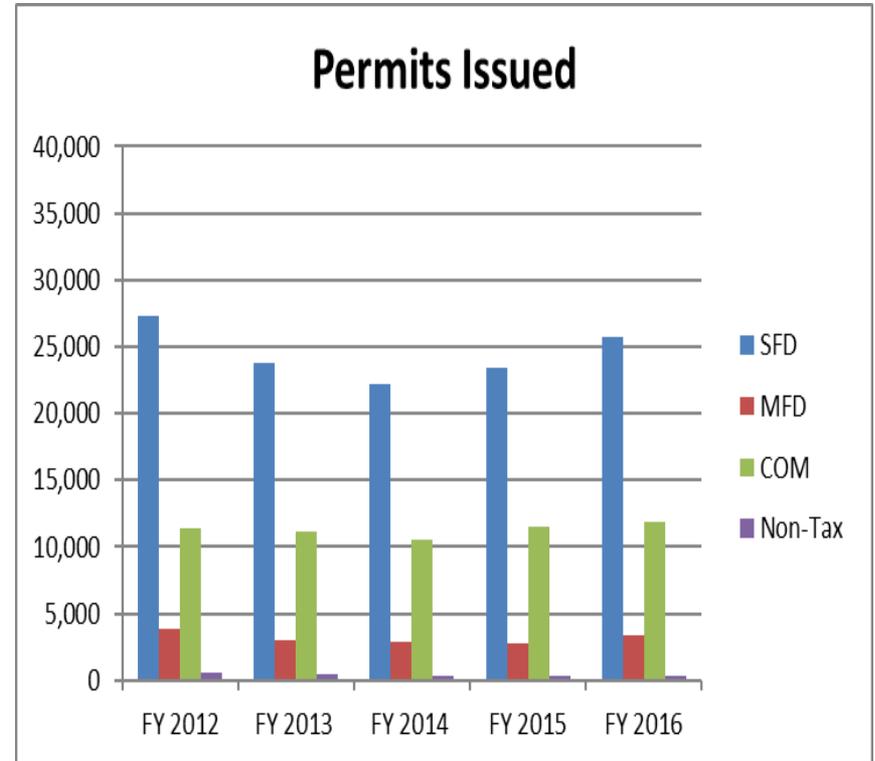


Building Permits

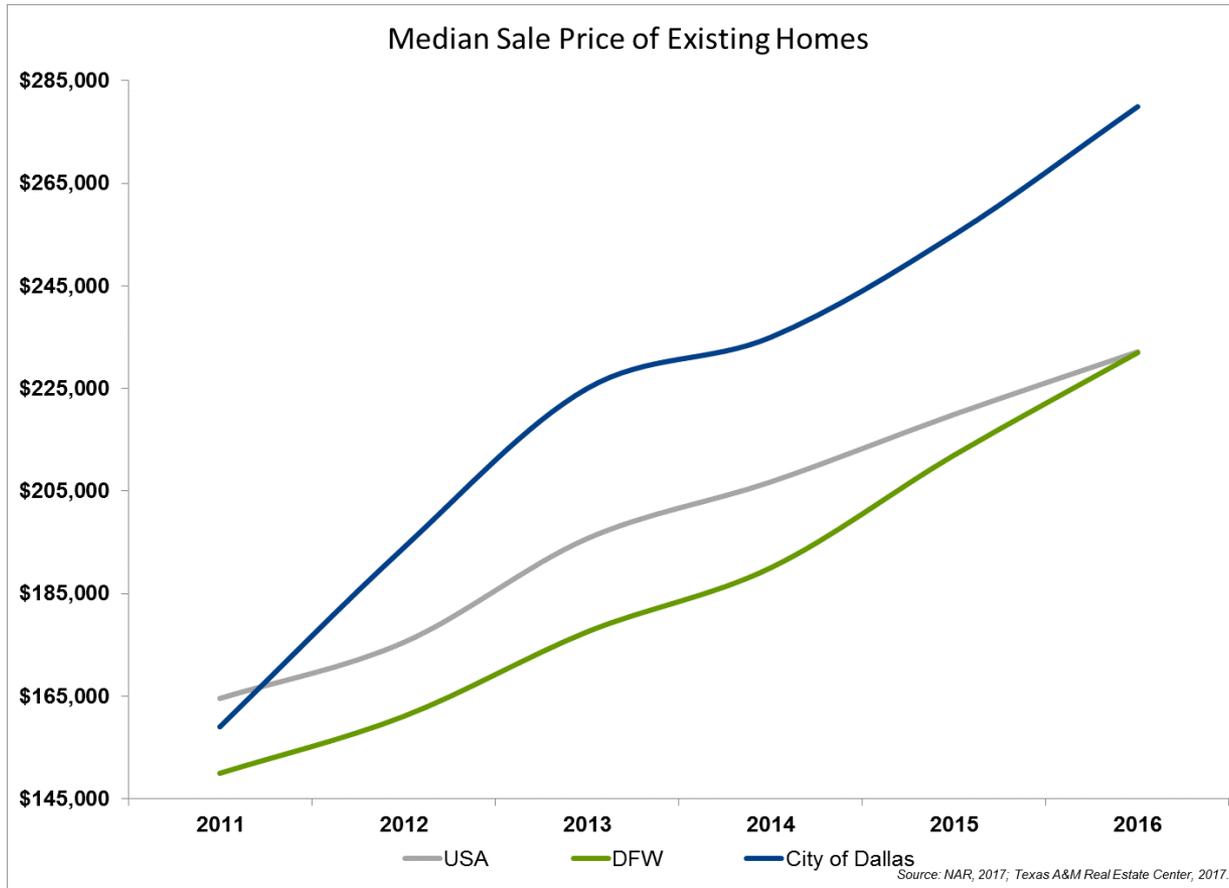
Value of permits issued has increased by more than 100% from FY12 to FY16



Number of permits issued has declined by less than 4% from FY12 to FY16



Median Sale Price of Existing Homes



Source: National Association of Realtors

State Legislation



Legislation: SB2 (Property Tax)

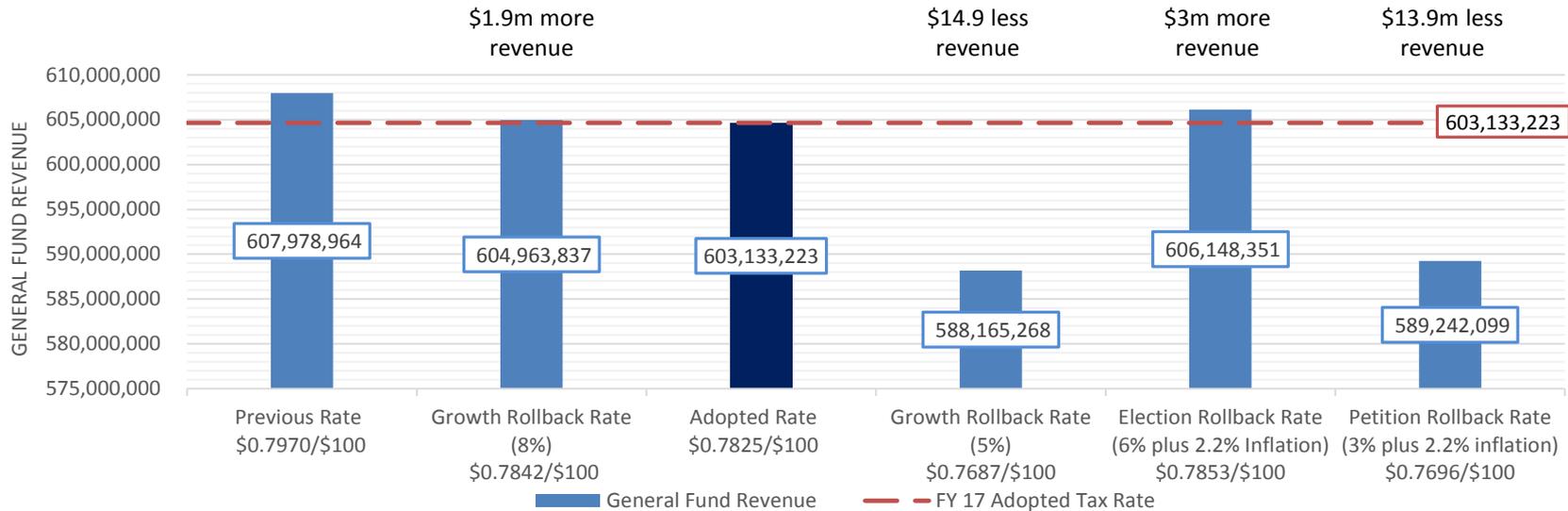
- Proposed change in State law will limit revenue from property tax in future years
- Senate Bill 2 main provisions:
 - Lowers amount cities can increase property taxes year over year without a vote
 - Changes rollback rate calculation from an allowed increase of 8% to 5%
 - Requires rollback election at 5% rather than allowing petition for an election at 8%
 - Increase exemption amount for Business Personal Property from \$500 to \$2,500

Legislation: SB2 (Property Tax)

- SB2 scheduled for House Ways and Means Committee on Wednesday, May 10, 2017
 - Petition Rollback Rate – Allows cities to have year over year revenue growth of 3% + inflation
 - If exceeded, citizens may petition for a roll-back election
 - Triggered by petition of 10% of voters in last gubernatorial election
 - Election Rollback Rate – Allows cities to have year over year revenue growth of 6% + inflation
 - If exceeded, cities are required to hold rollback election

Legislation: SB2 Impact

Analysis based on FY17 certified values and as if SB2 had been in effect last year.



- 8% rollback rate would have generated \$1.9m more revenue compared to FY17 adopted, but Council opted to reduce tax rate
- 5% rollback rate would have generated \$14.9m less revenue compared to FY17 adopted
- 6% + inflation election rollback rate would have generated \$3m more revenue compared to FY17 adopted
- 3% + inflation petition rollback rate would have generated \$13.9m less revenue compared to FY17 adopted



Legislation: HB3158 (Police & Fire Pension)

- Legislation will require significant additional contributions from City
- Discussions are on-going
- Update will be provided when legislation is finalized

Legislation

- Possible rollback election
 - Depending on final outcome of SB2 and HB3158, the Dallas Police and Fire Pension legislation, City Council may need to consider calling rollback election in November
 - It is too early to advise on specific scenarios



Biennial Budget

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Biennial Budget

- Current annual process is 8 month process involving 100+ City employees
- Although we balance annual General Fund budget, we have not ensured next fiscal year will be balanced
 - Decisions made in one year affect future years
 - Examples: meet and confer agreement, pay adjustments, and new programs
- Implementing biennial budgeting will result in:
 - Reduced time developing annual budget
 - Increased time available to implement the plan
 - Improved long range financial plan
 - Improved policy opportunities



Biennial Budget

- Dallas annual budget process has been driven by:
 - State Local Government Code
 - City Charter requirements
 - City's Financial Management Performance Criteria (FMPC)
- State Local Government Code and City Charter drive process timing and requirements:
 - Prepare budgets annually
 - Adopt appropriations annually
- City Charter requires budget submission to Council by August 15



Biennial Budget

- City could amend FMPC to require budget planning on two-year cycle
- FMPC change could allow for biennial budget to be approved; however, it would still be necessary to adopt tax rate and take certain actions on an annual basis in order to comply with State law



Biennial Budget

- Example scenarios using FY16 and FY17 adopted budget
 1. Plan expenses for each year to align with forecast revenues for each year
 2. Make decision to reduce expenses in first year in order to cover forecast expenses in second year

| Biennial Budget Scenario - Hypothetical Examples | | | |
|--|---------------|---------------|--------------------|
| | FY16 Budget | FY17 Budget | FY16+FY17 Biennial |
| Scenario 1 | | | |
| GF Revenue | 1,150,483,503 | 1,229,338,885 | 2,379,822,388 |
| GF Expense | 1,150,483,503 | 1,229,338,885 | 2,379,822,388 |
| Variance | - | - | - |
| Scenario 2 | | | |
| GF Revenue | 1,150,483,503 | 1,229,338,885 | 2,379,822,388 |
| GF Expense | 1,135,000,000 | 1,244,822,388 | 2,379,822,388 |
| Variance | 15,483,503 | (15,483,503) | - |

Performance Management

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Performance Management

- Past budgets have been loosely linked to Key Focus Areas
- Beginning with FY17 budget, strong linkage to strategic priorities with a focus on what will be accomplished with allocated funds
 - Improve message for Council and citizens to understand what they will receive for the money they are spending
- Each department will be accountable for performance measures included in budget



Performance Measures

- Dallas 365 will link 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
- City Manager will issue quarterly Dallas 365 reports in FY18



Citizen Input



Citizen Input

- 2016 citizen survey conducted by consultant provided results that have a confidence level of 95% with +/- 2.5% margin of error

| Importance and Satisfaction Rating | |
|------------------------------------|----------------------------------|
| Top 3 areas | Bottom 3 areas |
| #1 - Maintenance of Infrastructure | #18 - Dallas Love Field airport |
| #2 - Neighborhood code enforcement | #17 - Arts and cultural programs |
| #3 - Police services | #16 - Public library services |

Citizen Input

- Consider input received through nine community meetings with 278 attendees, 60 written comments, and 1,382 surveys
- Based on survey “spending of \$100”
 - Police and fire/EMS would receive reduced percent of funding
 - Street/alley would receive increased percent of funding
- Most written comments were made in support of maintenance of infrastructure and park/recreation

Budget Development Schedule

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| Date | Activity |
|----------------|--|
| May 17 | Budget Workshop |
| May 24 | Budget Public Hearing |
| June 21 | Budget Workshop |
| July 25 | Appraisal Districts certify 2016 tax roll |
| Aug 4 | Deliver City Manager's budget to Council Members |
| Aug 8 | Budget Workshop: City Manager's recommended budget |
| Aug 8 - Sept 1 | Budget Town Hall Meetings |
| Aug 16 | Budget Workshop: Topics TBD |
| Aug 23 | Budget Public Hearing |
| Aug 30 | Budget Workshop (optional): Topics TBD |
| Sept 6 | Budget Workshop: Council amendments |
| Sept 6 | Tax Rate Public Hearing (#1) |
| Sept 6 | Adopt budget on First Reading |
| Sept 12 | Budget Workshop: Amendments (if necessary) |
| Sept 13 | Tax Rate Public Hearing (#2) |
| Sept 20 | Adopt budget on Second Reading and adopt tax rate |
| Oct 1 | Begin FY 2017-18 |



Next Steps

- Staff analysis and budget development will continue May through August
- Staff will continue to monitor State legislation for budget impacts
- Next Council briefing: June 21
- City Council briefing on City Manager's recommended budget: August 8



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