

# Memorandum



CITY OF DALLAS  
(Report No. A11-011)

DATE: September 9, 2011

TO: Honorable Mayor and Members of the City Council

SUBJECT: Review of the Revenue Estimates Included in the Fiscal Year 2011-2012  
Proposed Annual Budget for the City of Dallas<sup>1</sup>

In total, the revenue estimates included in the Fiscal Year (FY) 2011-2012 Proposed Annual Budget appear reasonable; however, the Dallas Water Utilities (DWU) proposed revenue estimates have consistently exceeded actual revenues in prior years. The overall FY 2011-2012 Proposed Annual Budget for major revenue sources reflects a 1.68 percent increase over the FY 2010-2011 Estimated Actual Revenues (see Table II in Attachment I).

The FY 2010-2011 Adopted Annual Budget for major revenue sources of approximately \$1.73 billion is projected to be overestimated by a net amount of \$4.8 million. The result is a very low, total unfavorable variance of approximately 0.28 percent on Estimated Actual Revenues of \$1.72 billion (see Table I in Attachment I). While the total variance for the major revenue sources was very small, DWU continued to experience a pattern of unfavorable variances between budget and actual.

Over the past ten years, with one exception (FY 2005-2006), DWU's actual revenues have consistently, and sometimes significantly, been below the adopted budgets. For example, in FY 2009-2010, DWU actual revenues were under the budgeted amount by \$59.4 million or 11.21 percent. While showing

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<sup>1</sup> The audit objective was to review and verify the reasonableness of the revenue estimates included in the FY 2011-2012 Proposed Annual 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 the Fiscal Year 2010-2011 Audit Plan approved by the City Council. This performance audit was conducted 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 analyses.

improvement for FY 2010-2011, DWU revenues are projected to be under budget by nearly \$21 million dollars or 3.95 percent.

According to DWU, seasonal fluctuations in rainfall, the effects of water conservation initiatives, and the more recent unfavorable and uncertain economic conditions make developing more accurate revenue estimates challenging. Significant variances between budget and actual revenues over the past several years have caused DWU management to re-evaluate the revenue estimation process. For FY 2010-2011, DWU reduced projected retail sales by 2.0 billion gallons and increased retail rates by 3.1 percent. For FY 2011-2012, DWU has reduced projected retail sales by an additional 2.5 billion gallons and is proposing to increase retail rates approximately six percent (See Chart V in Attachment II).

When actual revenues fall short of projected amounts, DWU responds by reducing expenses where possible and cash transfers for planned capital construction projects. According to DWU, while most capital construction continues, reductions of cash transfers result in some project deferrals and increased costs through the use of additional debt financing for planned capital construction.

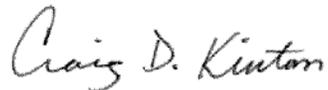
City management is responsible for preparing reasonable revenue estimates for inclusion in the FY 2011-2012 Proposed Annual Budget. In preparing these revenue estimates, City management develops revenue estimate methodologies, such as regression analyses and/or historical trends, and documents the significant assumptions used to support those methodologies. This information is reviewed by the Office of the City Auditor for reasonableness; however, neither City management nor the Office of the City Auditor guarantees the achievement of the FY 2011-2012 revenue estimates.

The Office of the City Auditor reviewed approximately \$1.71 billion of the \$2.12 billion in proposed revenue estimates for the General Fund, Enterprise Funds, and Debt Service Fund, or 80 percent of the revenue estimates included in the FY 2011-2012 Proposed Annual Budget (see Table III in Attachment I). Our review did not include the remaining \$417 million in revenue estimates which are mainly derived from department reimbursements and City, employee, and retiree contributions for retirement and health benefits. Five year budget-to-actual comparisons and the FY 2011-2012 Proposed Annual Budget amounts for the major revenue sources are shown in Attachment II (see Charts I through VIII).

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

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
- Jeanne Chipperfield, Chief Financial Officer
- Jack Ireland, Director – Office of Financial Services
- Kelly High, Director – Trinity Watershed Management
- Mary Nix, P.E., Director – Department of Sanitation Services
- Al Rojas, Interim Director – Department of Convention and Event Services
- Jo M. (Jody) Puckett, P.E., Director – Dallas Water Utilities
- Mark Deubner, Interim Director – Department of Aviation

Attachment I

Fiscal Year 2010-2011 Adopted Budget Revenues Compared  
 To Estimated Actual Revenues for Major Revenue Sources

Table I

Revenue Source	Fiscal Year 2010-2011			
	Adopted Budget	Estimated Actual Revenues*	\$ Variance	% Variance
<b>General Fund</b>				
Ad Valorem Taxes	\$ 435,784,656	\$ 439,983,307	\$ 4,198,651	0.96
Sales Tax	204,810,104	212,114,275	7,304,171	3.57
Sanitation Service Fees**	90,294,081	86,833,077	(3,461,004)	(3.83)
Franchise Fees	97,150,282	101,694,901	4,544,619	4.68
<b>Enterprise Funds</b>				
Water Utilities	531,240,295	510,240,330	(20,999,965)	(3.95)
Convention and Event Services	58,635,607	59,744,138	1,108,531	1.89
Aviation	47,006,853	46,512,653	(494,200)	(1.05)
Storm Water Drainage Management	48,233,910	49,195,239	961,329	1.99
<b>Debt Service Fund</b>				
Ad Valorem Taxes	215,596,286	217,640,866	2,044,580	0.95
<b>Totals</b>	<b>\$ 1,728,752,074</b>	<b>\$ 1,723,958,786</b>	<b>\$ (4,793,288)</b>	<b>(0.28)</b>

\* FY 2010-2011 estimate of actual revenues is based on information provided by City management.

\*\* Amounts provided by City management. (Amounts are not individually presented in the FY 2011-2012 Proposed Annual Budget)

Source: FY 2010-2011 Adopted Annual Budget and the FY 2011-2012 Proposed Annual Budget (Unaudited)

**Comparison of Actual Fiscal Year 2010-2011 Revenues  
 To Fiscal Year 2011-2012 Revenue Estimates for Major Revenue Sources  
 (For Estimated Actual Revenues and Fiscal Year 2011-2012  
 Proposed Columns Below)**

Table II

Revenue Sources	Fiscal Year 2010- 2011 Estimated Actual Revenues*	Fiscal Year 2011- 2012 Proposed Revenues	\$ Variance	% Variance
<b>General Fund</b>				
Ad Valorem Taxes	\$ 439,983,307	\$ 433,217,886	\$ (6,765,421)	(1.54)
Sales Tax	212,114,275	215,508,103	3,393,828	1.60
Sanitation Service Fees**	86,833,077	86,996,866	163,789	0.19
Franchise Fees	101,694,901	100,999,891	(695,010)	(0.68)
<b>Enterprise Funds</b>				
Water Utilities	510,240,330	551,600,305	41,359,975	8.11
Convention and Event Services	59,744,138	59,771,697	27,559	0.05
Aviation	46,512,653	47,682,030	1,169,377	2.51
Storm Water Drainage Management	49,195,239	49,198,588	3,349	0.01
<b>Debt Service Fund</b>				
Ad Valorem Taxes	217,640,866	207,867,166	(9,773,700)	(4.49)
<b>Totals</b>	<b>\$ 1,723,958,756</b>	<b>\$ 1,752,842,532</b>	<b>\$ 28,883,746</b>	<b>1.68</b>

\* FY 2010-2011 estimate of actual revenues is based on information provided by City management.

\*\* Amounts provided by City management. (Amounts are not individually presented in the FY 2011-2012 Proposed Annual Budget)

**Source:** FY 2010-2011 Adopted Annual Budget and the FY 2011-2012 Proposed Annual Budget (Unaudited)

**Revenue Sources and Estimates included in the  
 Proposed Fiscal Year 2011-2012 Budgets  
 Reviewed by the Dallas Office of the City Auditor**

Table III

Chart	Revenue Sources	FY 2011-2012 Proposed
<b>General Fund</b>		
I	Ad Valorem Taxes	\$ 433,217,886
II	Sales Tax	215,508,103
III	Franchise Fees	100,999,891
IV	Sanitation Service Fees*	86,996,866
<b>Enterprise Funds</b>		
V	Water Utilities	551,600,305
VI	Convention and Event Services – Hotel Occupancy Tax	34,600,000
VII	Storm Water Fees	49,198,588
VIII	Aviation - Concessions*	27,685,692
<b>Debt Service</b>		
	Ad Valorem Taxes	207,867,166
<b>Total Revenue Estimates Reviewed</b>		<b>\$ 1,707,674,497</b>
<b>Revenue Estimates Not Reviewed</b>		<b>417,164,750</b>
<b>Total FY 2011-2012 Proposed Review</b>		<b>\$ 2,124,839,247</b>

\*Amounts for Sanitation Service Fees and Aviation Concessions were provided by City management. (Amounts are not individually presented in the FY 2011-2012 Proposed Annual Budget)

**Source:** Revenue Estimates included in the FY 2011-2012 Proposed Annual Budget as of August 8, 2011 (Unaudited)

## **Attachment II**

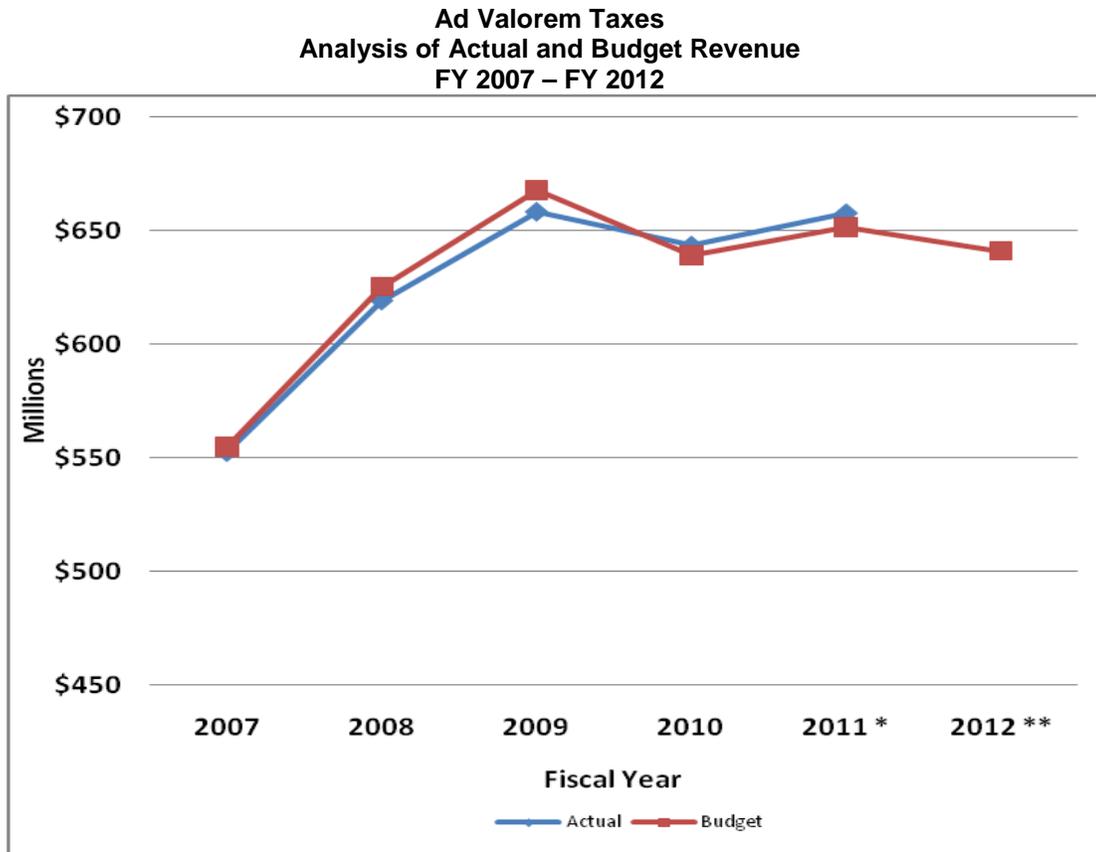
The following charts shown in Attachment II are based upon analyses of FY 2007 through FY 2010 actual and budget revenue and current year estimates included in the FY 2011-2012 Proposed Annual Budget for major revenue sources presented as of August 8, 2011. Descriptions for the revenue sources in Charts I to VIII on the following pages were provided by management or taken from the Office of Financial Services FY 2011-2012 Proposed Budget Appendices, Major Revenue Sources.

**Ad Valorem Taxes**

Ad Valorem (Property) Taxes are the largest revenue source for the General Fund and Debt Service Fund. Assessed property 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 are certified by the individual Appraisal Review Boards.

The assessed taxable value of \$81,993,746,356 per the tax roll as of January 1, 2011 was \$1,431,732,782, or 1.72 percent, less than the 2010 tax roll of \$83,425,479,138. The tax rate for FY 2011-2012 remains at 79.70 cents per \$100. The FY 2010-2011 Ad Valorem Taxes Adopted Budget of \$651,380,942 is \$6,243,231, or 0.96 percent, less than the \$657,624,173 City management estimates collecting. The FY 2011-2012 Proposed Annual Budget for Ad Valorem Taxes of \$641,085,052 is a decrease of approximately \$16,539,121, or 2.51 percent, from the FY 2010-2011 estimated actual collections.

**Chart I**



\* FY 2011 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2012 is proposed; therefore, actual is not available.

**Source:** City of Dallas Adopted Annual Budgets and FY 2011-2012 Proposed Annual Budget (Unaudited)

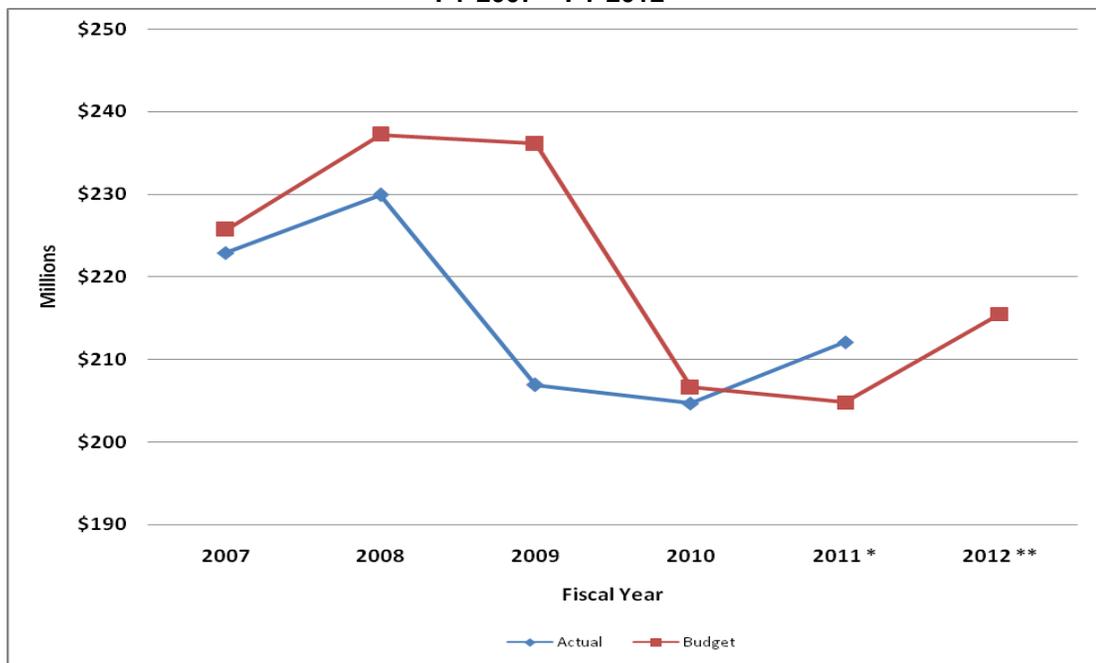
## Sales Tax

Sales Tax is the second largest revenue source for the General Fund. The Sales Tax rate in the City of Dallas (City) is 8.25 percent of taxable goods or services sold within the City limits. The sales tax is collected at the point of sale and forwarded to the Texas 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 and one percent to the Dallas Area Rapid Transit transportation authority.

The FY 2010-2011 Adopted Annual Budget for Sales Tax of \$204,810,104 is \$7,304,171, or 3.57 percent, less than the \$212,114,275 City management estimates collecting. The FY 2011-2012 Proposed Annual Budget for Sales Tax is \$215,508,103, which is an increase of \$3,393,828, or 1.60 percent, from the FY 2010-2011 estimated actual collections.

### Chart II

**Sales Tax  
Analysis of Actual and Budget Revenue  
FY 2007 – FY 2012**



\* FY 2011 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2012 is proposed; therefore, actual is not available.

**Source:** City of Dallas Adopted Annual Budgets and FY 2011-2012 Proposed Annual Budget (Unaudited)

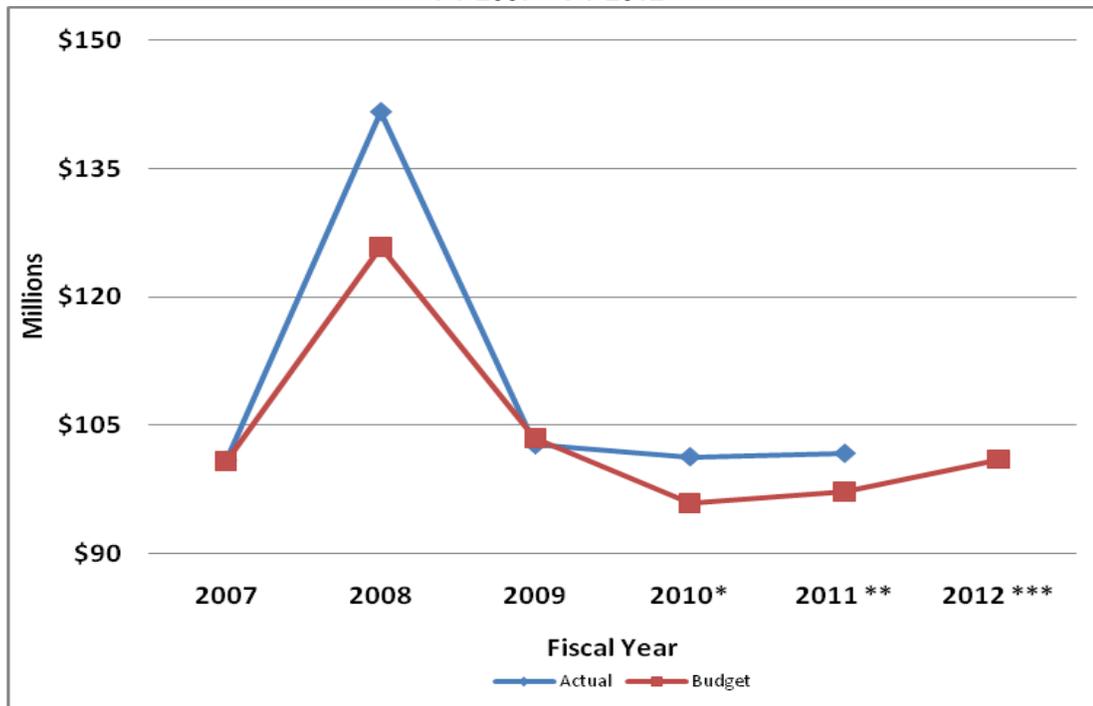
**Franchise Fees**

The City of Dallas maintains non-exclusive franchise agreements with utilities and other service providers that use the City’s right-of-ways to provide services to the public. These franchise ordinances provide for compensation to the City in the form of franchise fees. These fees are in lieu of all other fees and charges related to the use of the right-of-ways.

Franchise Fees totaling \$97,150,282 from the FY 2010-2011 Adopted Annual Budget is \$4,544,619, or 4.68 percent, less than the \$101,694,901 City management estimates collecting. The FY 2011-2012 Proposed Annual Budget of \$100,999,891 is a decrease of \$695,010, or 0.68 percent, from the FY 2010-2011 estimated actual collections.

**Chart III**

**Franchise Fees  
 Analysis of Actual and Budget Revenue  
 FY 2007 – FY 2012**



\* FY 2010 - FY 2012 include Fiber Optics revenues.

\*\* FY 2011 revenues, including estimates for the remaining months, were provided by management.

\*\*\* FY 2012 is proposed, therefore actual is not available.

**Source:** City of Dallas Adopted Annual Budgets and FY 2011-2012 Proposed Annual Budget (Unaudited)

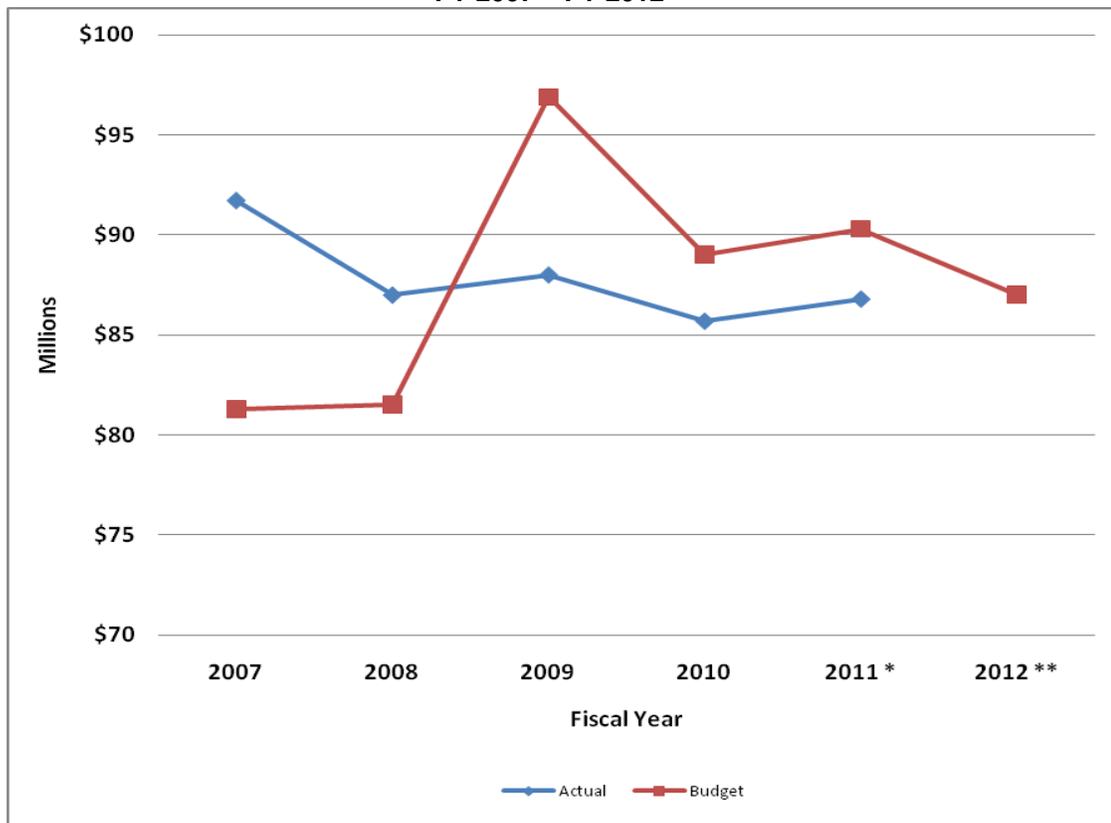
## Sanitation Services Fees

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). In addition, fees are charged to non-Dallas residents and commercial waste haulers for disposing of solid waste at the McCommas Bluff Landfill and the Northwest (Bachman) Transfer Station.

The FY 2010-2011 Adopted Annual Budget of \$90,294,081 is \$3,461,004, or 3.83 percent, more than the \$86,833,077 City management estimates collecting. The FY 2011-2012 Proposed Annual Budget of \$86,996,866 is an increase of \$163,789, or 0.19 percent, from the FY 2010-2011 estimated actual collections.

Chart IV

**Sanitation Service Fees  
Analysis of Actual and Budget Revenue  
FY 2007 – FY 2012**



\* FY 2011 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2012 is proposed; therefore, actual is not available.

**Source:** City of Dallas Adopted Annual Budgets and FY 2011-2012 Proposed Annual Budget (Unaudited).

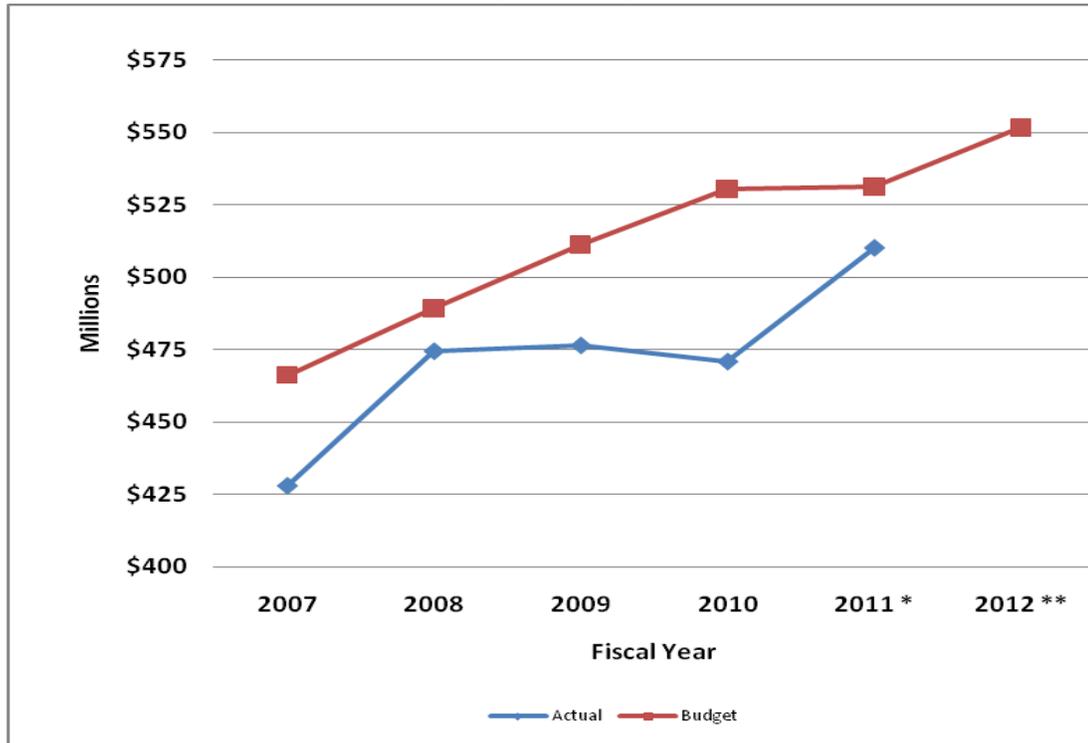
## Dallas Water Utilities Revenue

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 23 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 2010-2011 Adopted Annual Budget \$531,240,295 is \$20,999,965, or 3.95 percent, more than the \$510,240,330 City management estimates collecting. The FY 2011-2012 Proposed Annual Budget of \$551,600,305 is an increase of approximately \$41,359,975, or 8.11 percent, from the FY 2010-2011 estimated actual revenues.

**Chart V**

**Dallas Water Utilities Revenue  
 Analysis of Actual and Budget Revenue  
 FY 2007 – FY 2012**



\* FY 2011 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2012 is proposed; therefore, actual is not available.

**Source:** City of Dallas Adopted Annual Budgets and FY 2011-2012 Proposed Annual Budget (Unaudited)

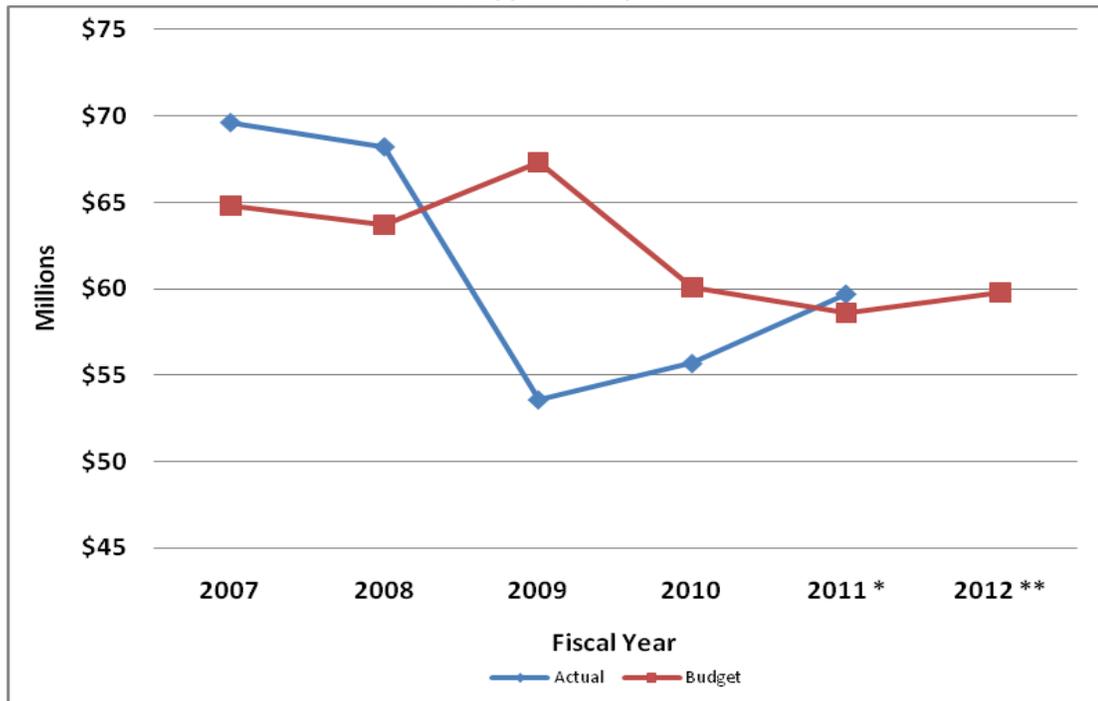
### Convention and Event Services Revenue

The major revenue source for Convention and Event Services (CES) is from the Hotel Occupancy Tax (HOT). The HOT rate in the City of Dallas (City) is 13 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 (7 percent) on a monthly basis. Of the 7 percent, remitted to the City, approximately one-third (or 32.6%) is allocated to the Dallas Convention and Visitors Bureau (DCVB) to market and promote the City as a convention and tourist destination. Two-thirds (or 67.4%) is allocated to the Dallas Convention Center (DCC) to support operations and capital improvements. Other revenue sources for CES include Contract Services, Alcohol Beverage Tax, and other miscellaneous revenues.

The FY 2010-2011 Adopted Annual Budget of \$58,635,607 is \$1,108,531, or 1.89 percent, less than the \$59,744,138 City management estimates collecting. The FY 2011-2012 Proposed Annual Budget of \$59,771,697 is an increase of \$27,559, or 0.05 percent, from the FY 2010-2011 estimated actual collections.

**Chart VI**

**Convention and Event Services Revenue  
 Analysis of Actual and Budget Revenue  
 FY 2007 – FY 2012**



\* FY 2011 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2012 is proposed; therefore, actual is not available.

**Source:** City of Dallas Adopted Annual Budgets and FY 2011-2012 Proposed Annual Budget (Unaudited)

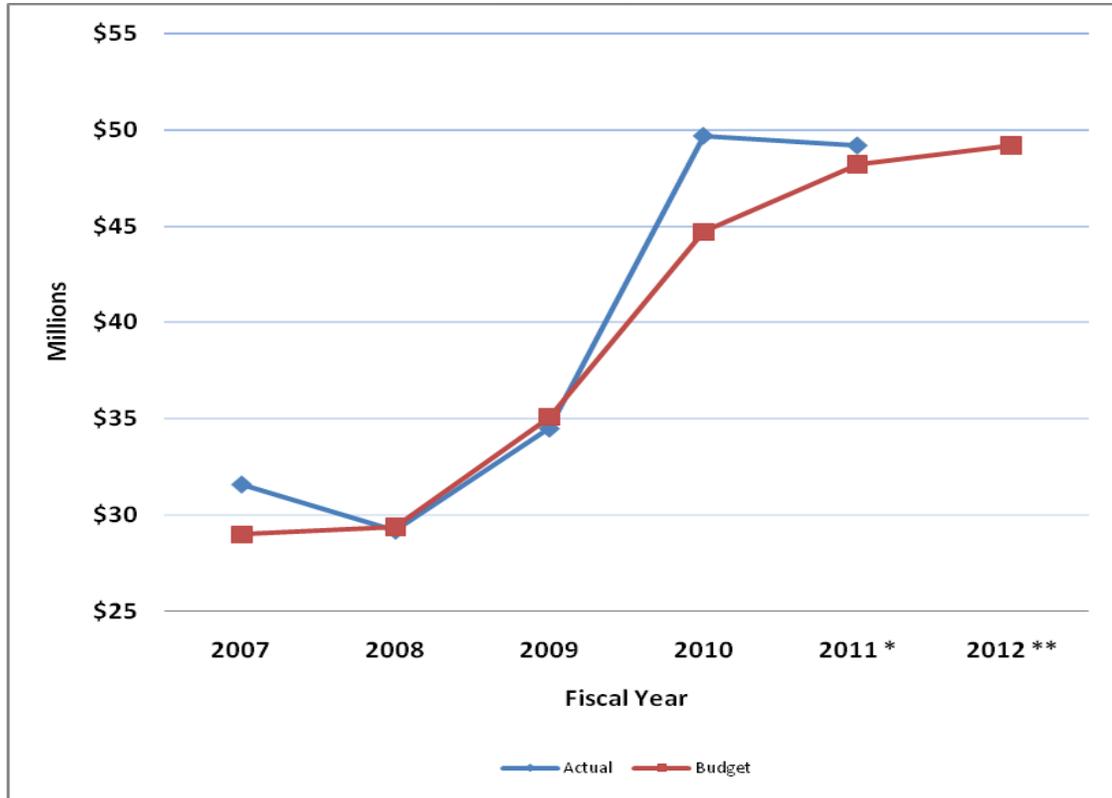
**Storm Water Fees**

The Storm Water Drainage Management 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, and hazardous spill cleanup and disposal; and, engineering, design, and inspection of storm sewer infrastructure. Utility fees are billed and collected through the monthly water bills.

The FY 2010-2011 Adopted Annual Budget of \$48,233,910 is \$961,329, or 1.99 percent, less than the \$49,195,239 City management estimates collecting. The FY 2011-2012 Proposed Annual Budget of \$49,198,588 is an increase of \$3,349, or 0.01 percent, from the FY 2010-2011 estimated actual collections.

**Chart VII**

**Storm Water Fees  
 Analysis of Actual and Budget Revenue  
 FY 2007 – FY 2012**



\* FY 2011 revenues, including estimates for the remaining months, were provided by City management.

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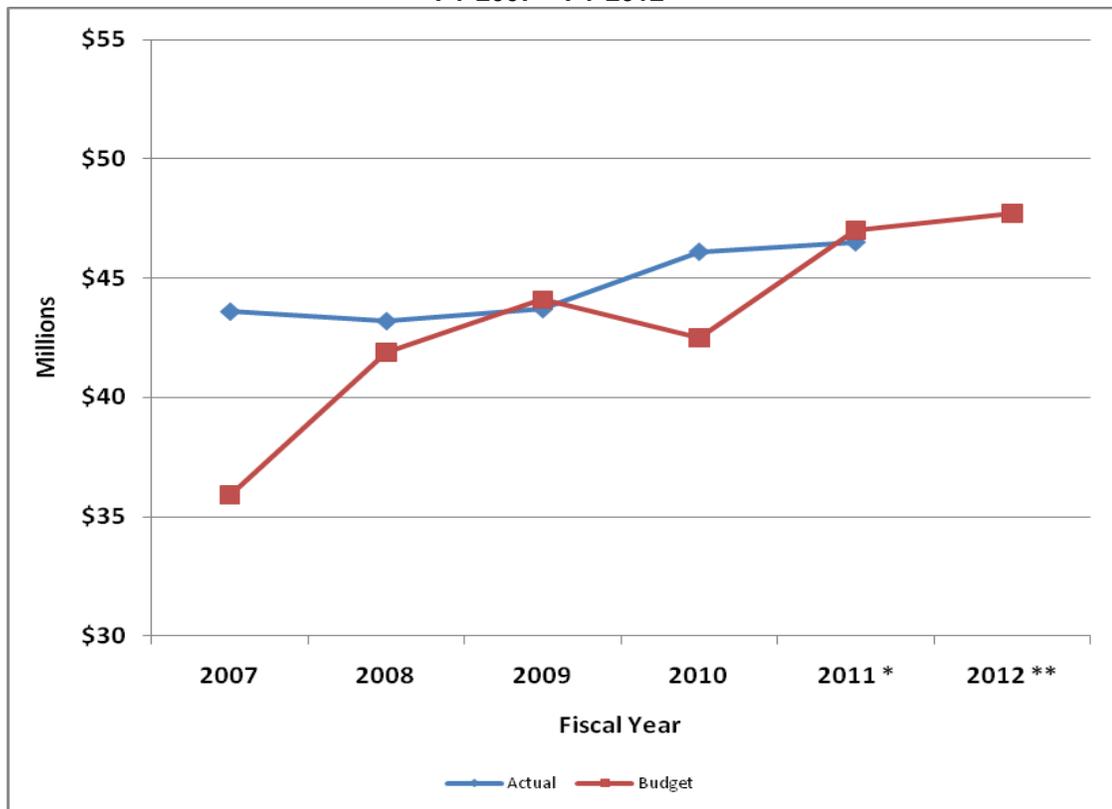
## Aviation Revenue

Aviation manages operations for both Dallas Love Field, Dallas Executive airports, and the downtown Vertiport. Revenues are comprised of landing fees, property rentals, and concession agreements, such as food and beverage retail and parking. Concession revenues are a significant amount of total Aviation revenues. 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. Concession agreements include parking, food and beverage services, retail stores, advertising, car rental agencies, shoe shine services, and bag cart rental.

The FY 2010-2011 Adopted Annual Budget of \$47,006,853 is \$494,200, or 1.05 percent, more than the \$46,512,653 City management estimates collecting. The FY 2011-2012 Proposed Annual Budget of \$47,682,030 is an increase of \$1,169,377, or 2.51 percent, from the FY 2010-2011 estimated actual collections.

Chart VIII

Aviation Revenue  
Analysis of Actual and Budget Revenue  
FY 2007 – FY 2012



\* FY 2011 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2012 is proposed; therefore, actual is not available.

**Source:** City of Dallas Adopted Annual Budgets and FY 2011-2012 Proposed Annual Budget (Unaudited)