

Memorandum



CITY OF DALLAS
(Report No. A14-013)

DATE: September 12, 2014

TO: Honorable Mayor and Members of the City Council

SUBJECT: Audit of Revenue Estimates Included in the Fiscal Year 2014-15 Proposed Annual Budget for the City of Dallas¹

In total, the revenue estimates included in the Fiscal Year (FY) 2014-15 Proposed Annual Budget appear reasonable (see Table I in Attachment I).

The Office of the City Auditor (Office) reviewed approximately \$1.95 billion of the \$2.55 billion in proposed revenue estimates for the General Fund, Enterprise Funds, and Debt Service Fund, or 77 percent, of the revenue estimates included in the FY 2014-15 Proposed Annual Budget (see Table I in Attachment I).

Overview

The FY 2014-15 Proposed Annual Budget of approximately \$2 billion is:

- \$115 million or 6.02 percent higher than the FY 2013-14 Estimated Actual Revenues (see Table I in Attachment I)

The FY 2013-14 Adopted Annual Budget of approximately \$1.90 billion is:

- \$9.4 million or 0.50 percent lower than the FY 2013-14 Estimated Actual Revenues (see Table III in Attachment I)

Source: City of Dallas

Our review did not include the remaining \$597 million in revenue estimates which are mainly derived from department reimbursements and City of Dallas (City), employee, and retiree contributions for retirement and health benefits. Five year budget-to-actual comparisons and the FY 2014-15 Proposed Annual Budget amounts for the major revenue sources are shown in Attachment II (see Charts I through VIII).

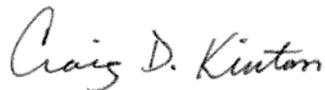
¹ The audit objective was to assess the reasonableness of the revenue estimates included in the FY 2014-15 Proposed Annual Budget. Council Resolution 904027 directs the City Auditor to review and verify the reasonableness of the revenue estimates included in the City Manager's proposed budget. This performance audit was conducted under the authority of the City Charter, Chapter IX, Section 3 and in accordance with the Fiscal Year 2014 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.

City management is responsible for preparing reasonable revenue estimates for inclusion in the FY 2014-15 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 for reasonableness; however, neither City management nor the Office guarantees the achievement of the FY 2014-15 revenue estimates.

We would like to acknowledge City management's cooperation in providing the information needed to complete this audit including the methodology improvements noted for the Department of Convention and Event Services' Hotel Occupancy Tax.

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

Sincerely,



Craig D. Kinton
City Auditor

Attachments

- C: A.C. Gonzalez, City Manager
Jeanne Chipperfield, Chief Financial Officer
Ryan Evans, First Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Mark McDaniel, Assistant City Manager
David Cossum, Director – Department of Sustainable Development and Construction
Mark Duebner, Director – Department of Aviation
Liz Fernandez, P.E., Director – Department of Trinity Watershed Management
Kelly High, Director – Department of Sanitation Services
Jack Ireland, Director – Office of Financial Services
Ron King, Director – Department of Convention and Event Services
Jo M. (Jody) Puckett, P.E., Director – Department of Dallas Water Utilities
Jing Xiao, Assistant Director – Office of Financial Services
Nick Fehrenbach, Manager (Utility Management) – Office of Financial Services

ATTACHMENT I

Table I

**FY 2014-15 Proposed Budget Revenue Sources Included in the
Office of the City Auditor’s Assessment**

Chart	Revenue Sources	FY 2014-15 Proposed Budget
General Fund		
I	Ad Valorem Taxes	\$ 520,321,181
II	Sales Tax	268,665,691
III	Franchise Fees	102,359,689
IV	Sanitation Service Fees*	88,916,037
Enterprise Funds		
V	Water Utilities	614,521,177
VI	Convention and Event Services – Hotel Occupancy Tax	50,263,468
VII	Storm Water Fees	51,078,585
VIII	Aviation - Concessions*	42,826,166
Debt Service		
	Ad Valorem Taxes	214,354,152
Total Revenue Estimates Assessed		\$ 1,953,306,146
Revenue Estimates Not Included		596,539,444
Total FY 2014-2015 Proposed Budget		\$ 2,549,845,590

* Amounts for Sanitation Service Fees and Aviation - Concessions were provided by City of Dallas (City) management.
(Amounts are not individually presented in the FY 2014-15 Proposed Annual Budget)

Source: Revenue Estimates included in the FY 2014-15 Proposed Annual Budget (Unaudited)

Audit of Revenue Estimates Included in the Fiscal Year 2013-2014 Proposed Annual Budget for the City of Dallas

Table II

Fiscal Year 2013-14 Estimated Actual Revenues Compared to Fiscal Year 2014-15 Proposed Revenues for Major Revenue Sources

Revenue Sources	Fiscal Year 2013-14 Estimated Actual Revenues*	Fiscal Year 2014-15 Proposed Revenues	\$ Variance	% Variance
General Fund				
Ad Valorem Taxes	\$ 484,025,686	\$ 520,321,181	\$ 36,295,495	7.50
Sales Tax	257,519,109	268,665,691	11,146,582	4.33
Franchise Fees	107,359,605	102,359,689	(4,999,916)	-4.66
Sanitation Service Fees**	88,134,807	88,916,037	781,230	0.89
Enterprise Funds				
Water Utilities	573,882,662	614,521,177	40,638,515	7.08
Convention and Event Services	75,668,057	77,391,801	1,723,744	2.28
Storm Water	50,328,639	51,078,585	749,946	1.49
Aviation	67,341,214	86,544,784	19,203,570	28.52
Debt Service Fund				
Ad Valorem Taxes	204,914,085	214,354,152	9,440,067	4.61
Totals	\$ 1,909,173,864	\$ 2,024,153,097	\$ 114,979,233	6.02

* FY 2013-14 Estimated Actual Revenues are based on information provided by City management.

** Amounts provided by City management. (Amounts are not individually presented in the FY 2014-15 Proposed Annual Budget)

Source: FY 2013-14 Adopted Annual Budget and the FY 2014-15 Proposed Annual Budget (Unaudited)

Audit of Revenue Estimates Included in the Fiscal Year 2013-2014 Proposed Annual Budget for the City of Dallas

Table III

Fiscal Year 2013-14 Adopted Budget Revenues Compared to Estimated Actual Revenues for Major Revenue Sources

Revenue Source	Fiscal Year 2013-14			
	Adopted Budget	Estimated Actual Revenues*	\$ Variance	% Variance
General Fund				
Ad Valorem Taxes	\$ 483,897,883	\$ 484,025,686	\$ 127,803	0.03
Sales Tax	249,565,006	257,519,109	7,954,103	3.19
Franchise Fees	101,908,351	107,359,605	5,451,254	5.35
Sanitation Service Fees**	87,572,746	88,134,807	562,061	0.64
Enterprise Funds				
Water Utilities	595,314,797	573,882,662	(21,432,135)	-3.60
Convention and Event Services	65,308,065	75,668,057	10,359,992	15.86
Storm Water	50,111,250	50,328,639	217,389	0.43
Aviation	61,184,205	67,341,214	6,157,009	10.06
Debt Service Fund				
Ad Valorem Taxes	204,863,694	204,914,085	50,391	0.02
Totals	\$ 1,899,725,997	\$1,909,173,864	\$9,447,867	0.50

* FY 2013-14 Estimated Actual Revenues are based on information provided by City management.

** Amounts provided by City management. (Amounts are not individually presented in the FY 2014-15 Proposed Annual Budget). The Adopted Budget amount of \$87,572,746 is \$1,180,000 higher than the FY 2013-14 Proposed Budget of \$86,392,746 due to a one-time increase in revenue related to a new contract signed with a waste hauler using the McCommas Landfill.

Source: FY 2013-14 Adopted Annual Budget and the FY 2014-15 Proposed Annual Budget (Unaudited)

ATTACHMENT II

Charts I to VIII shown on the following pages are based upon analyses of FY 2009-10 through FY 2013-14 actual and budget revenues and current year estimates included in the FY 2014-15 Proposed Annual Budget presented as of August 12, 2014. Descriptions for the revenue sources were provided by management or taken from the Office of Financial Services' FY 2014-15 Proposed Budget Appendices, *Major Revenue Sources*.

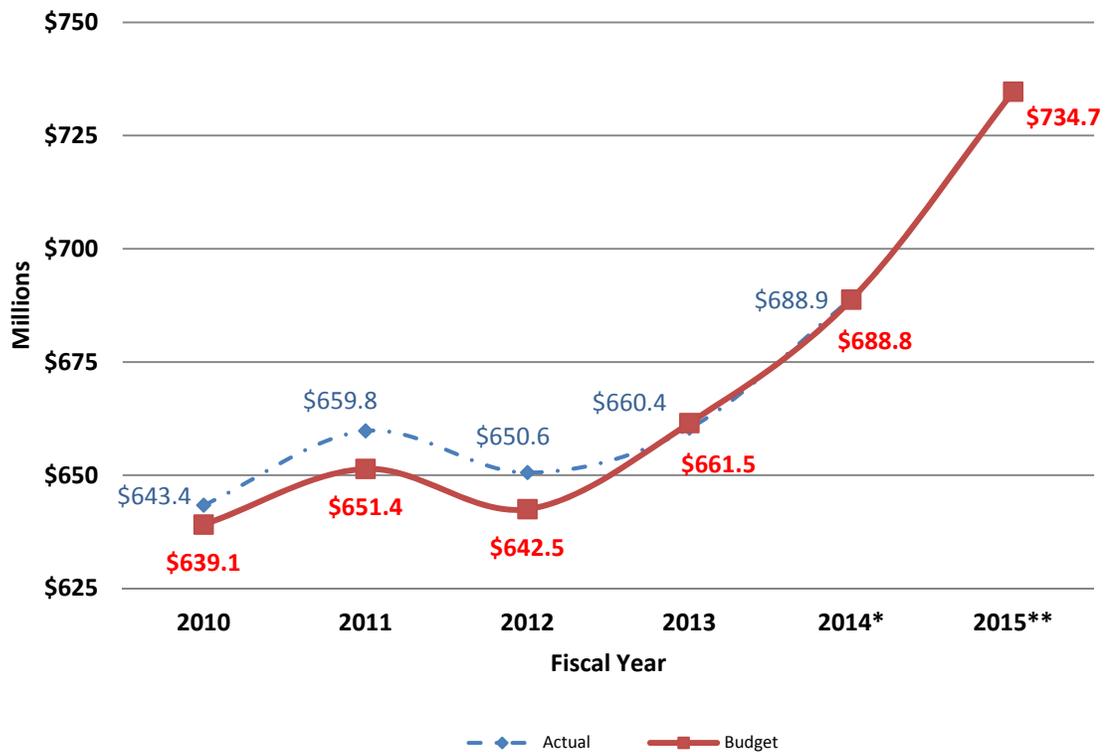
The Charts provide comparisons of the Adopted FY 2010 to FY 2013 budgets versus actual revenues collected for the same period. In addition, the Charts show the FY 2014 Estimated Actual revenues to the FY 2015 Proposed Annual Budget.

Ad Valorem Tax Revenue

Ad Valorem (Property) Tax is 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 (City) is located and are certified by the individual Appraisal Districts (Appraisal Review Boards).

Chart I

**Ad Valorem Tax Revenue
Analysis of Actual and Budget
FY 2010 to FY 2015**



* FY 2014 revenues, including estimates for the remaining months, were provided by City management.

** FY 2015 is proposed; therefore, actual is not available.

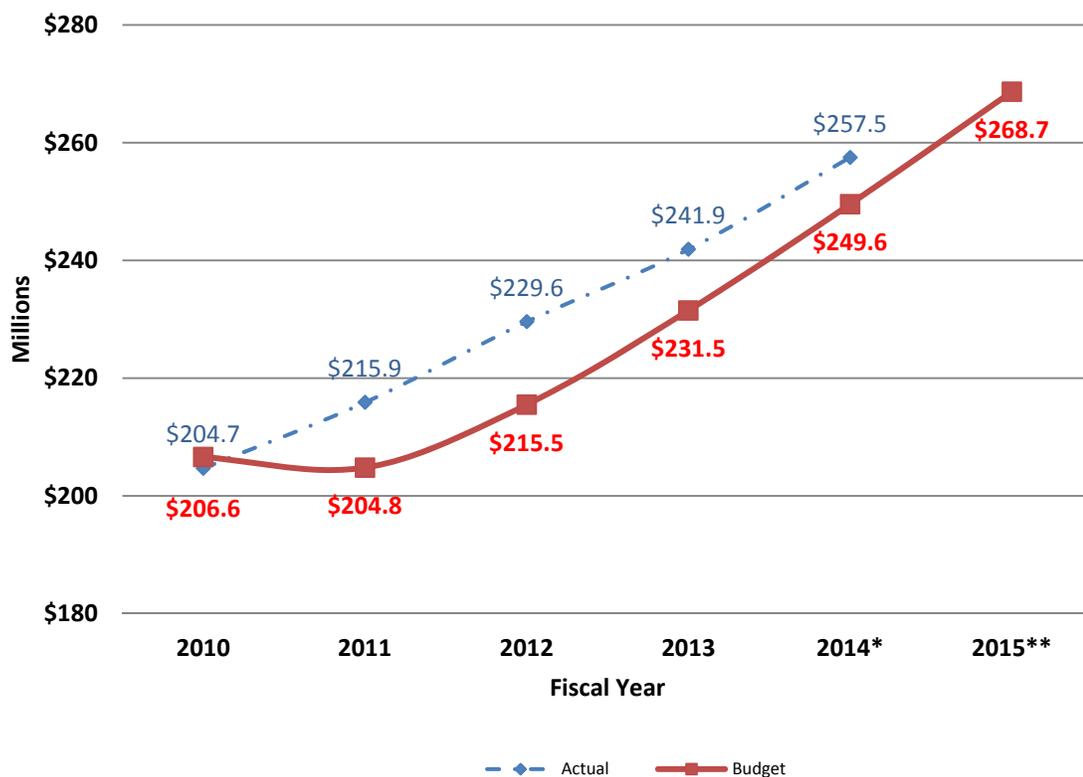
Source: City of Dallas Adopted Annual Budgets and FY 2014-15 Proposed Annual Budget (Unaudited)

Sales Tax Revenue

Sales tax is the second largest revenue source for the General Fund. The sales tax rate in the 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.

Chart II

**Sales Tax Revenue
Analysis of Actual and Budget
FY 2010 to FY 2015**



* FY 2014 revenues, including estimates for the remaining months, were provided by City management.

** FY 2015 is proposed; therefore, actual is not available.

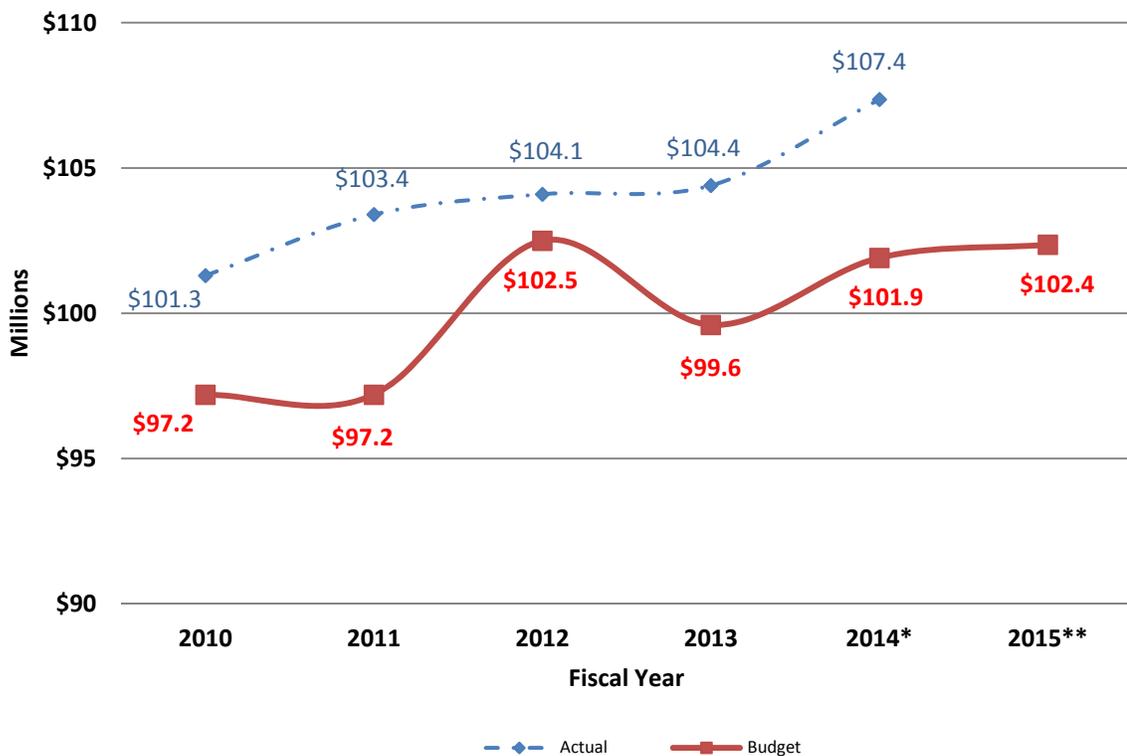
Source: City of Dallas Adopted Annual Budgets and FY 2014-15 Proposed Annual Budget (Unaudited)

Franchise Fees Revenue

The City maintains non-exclusive franchise agreements with utilities and other service providers that use the City’s rights-of-way to provide services to the public. These franchise agreements 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 rights-of-way.

Chart III

**Franchise Fees Revenue
Analysis of Actual and Budget
FY 2010 to FY 2015**



* FY 2014 revenues, including estimates for the remaining months, were provided by management.

** FY 2015 is proposed, therefore actual is not available.

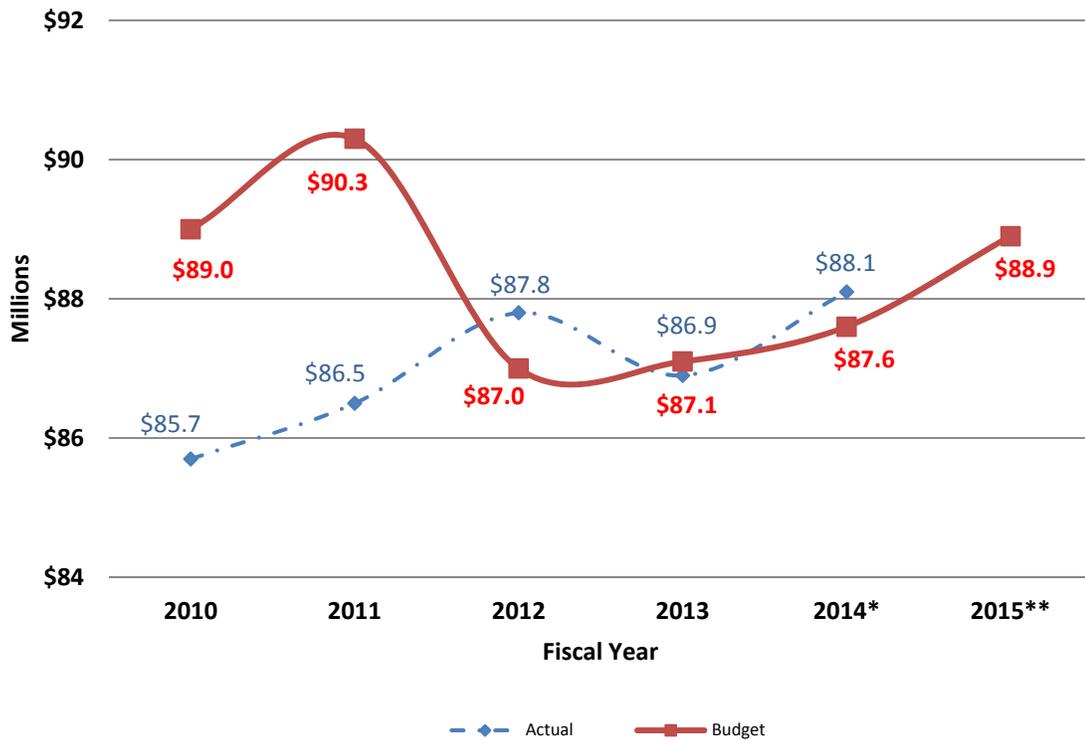
Source: City of Dallas Adopted Annual Budgets and FY 2014-15 Proposed Annual Budget (Unaudited)

Sanitation Services Fees Revenue

Sanitation Services Fees 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 the Department of 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.

Chart IV

**Sanitation Services Fees Revenue
Analysis of Actual and Budget
FY 2010 to FY 2015**



* FY 2014 revenues, including estimates for the remaining months, were provided by City management.

** FY 2015 is proposed; therefore, actual is not available.

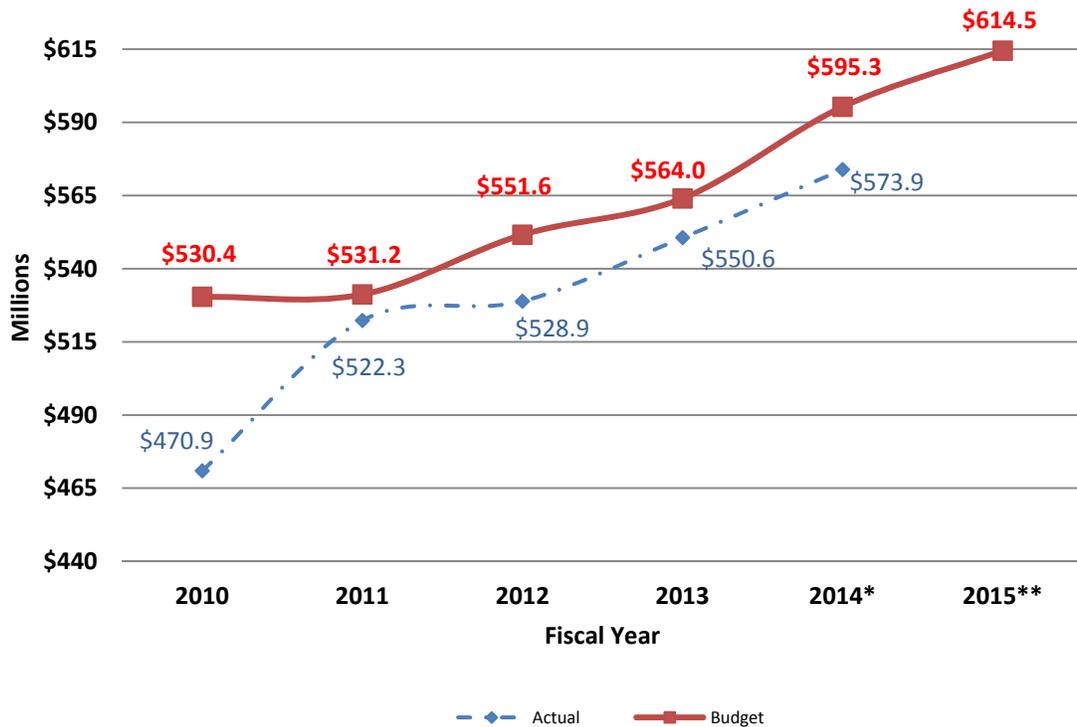
Source: City of Dallas Adopted Annual Budgets and FY 2014-15 Proposed Annual Budget (Unaudited)

Water Utilities Revenues

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 which receives treated water service, four communities which receives untreated water service, and 11 communities which receives wastewater service. Rates for 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.

Chart V

**Water Utilities Revenues
Analysis of Actual and Budget
FY 2010 to FY 2015**



* FY 2014 revenues, including estimates for the remaining months, were provided by City management.

** FY 2015 is proposed; therefore, actual is not available.

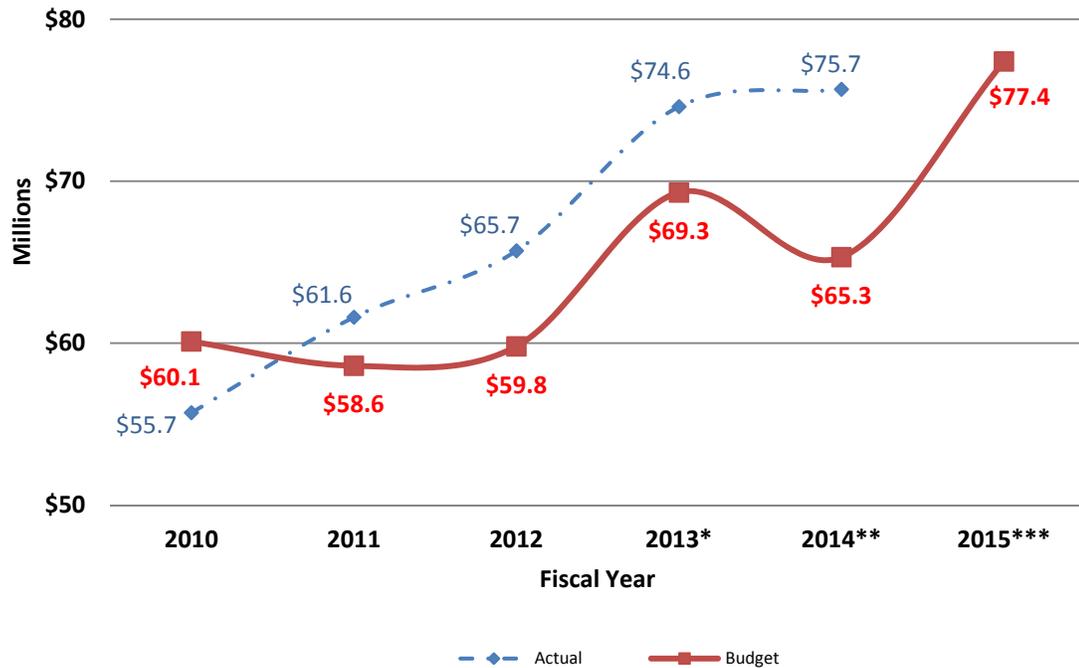
Source: City of Dallas Adopted Annual Budgets and FY 2014-15 Proposed Annual Budget (Unaudited)

Convention and Event Services Revenues

The major revenue source for the Department of Convention and Event Services (CES) is from the Hotel Occupancy Tax (HOT). The HOT rate in the 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 (six percent) and to the City (seven percent) on a monthly basis. Of the seven percent, remitted to the City, approximately one-third (or 32.6 percent) 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 percent) 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.

Chart VI

**Convention and Event Services Revenues
Analysis of Actual and Budget
FY 2010 to FY 2015**



* FY 2013 Adopted Budget was \$59,331,858. According to the FY 2013-14 Adopted Financial Summaries, the FY 2013 Budgeted Revenue is \$69,328,368. According to CES, the increase of approximately \$10 million was due to the mid-year appropriation adjustment.

** FY 2014 revenues, including estimates for the remaining months, were provided by City management.

*** FY 2015 is proposed; therefore, actual is not available.

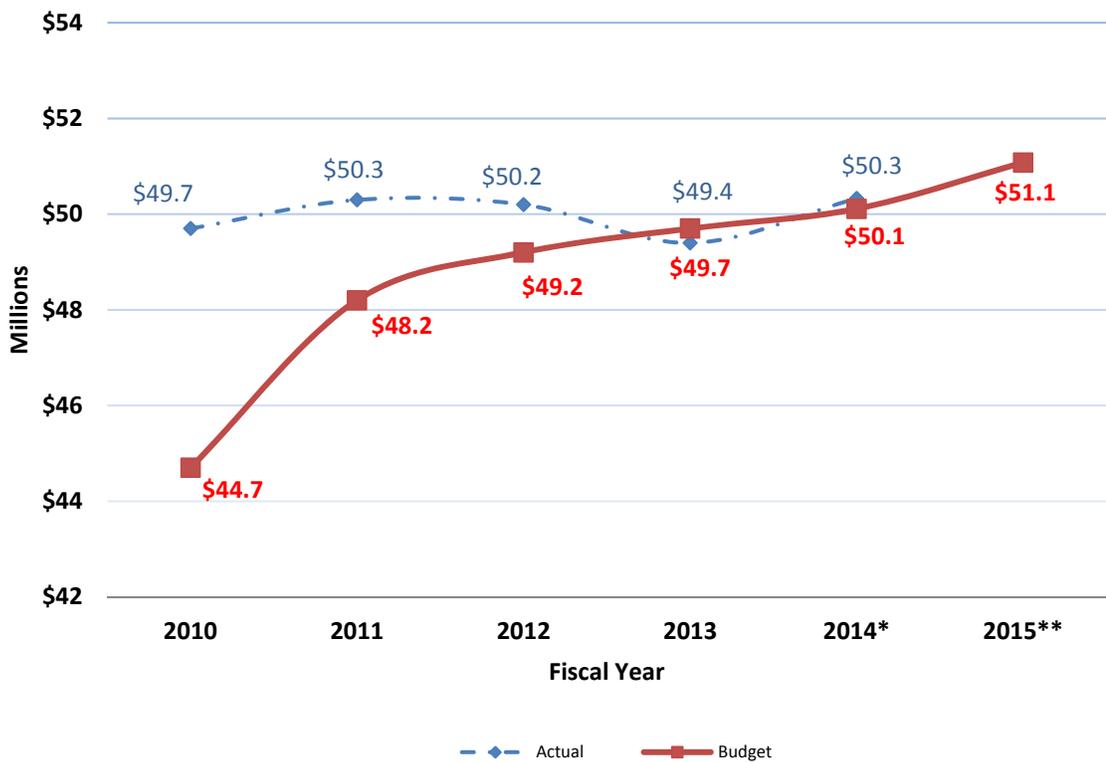
Source: City of Dallas Adopted Annual Budgets and FY 2014-15 Proposed Annual Budget (Unaudited)

Storm Water Fees Revenue

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.

Chart VII

**Storm Water Fees Revenue
Analysis of Actual and Budget
FY 2010 to FY 2015**



* FY 2014 revenues, including estimates for the remaining months, were provided by City management.

** FY 2015 is proposed; therefore, actual is not available.

Source: City of Dallas Adopted Annual Budgets and FY 2014-15 Proposed Annual Budget (Unaudited)

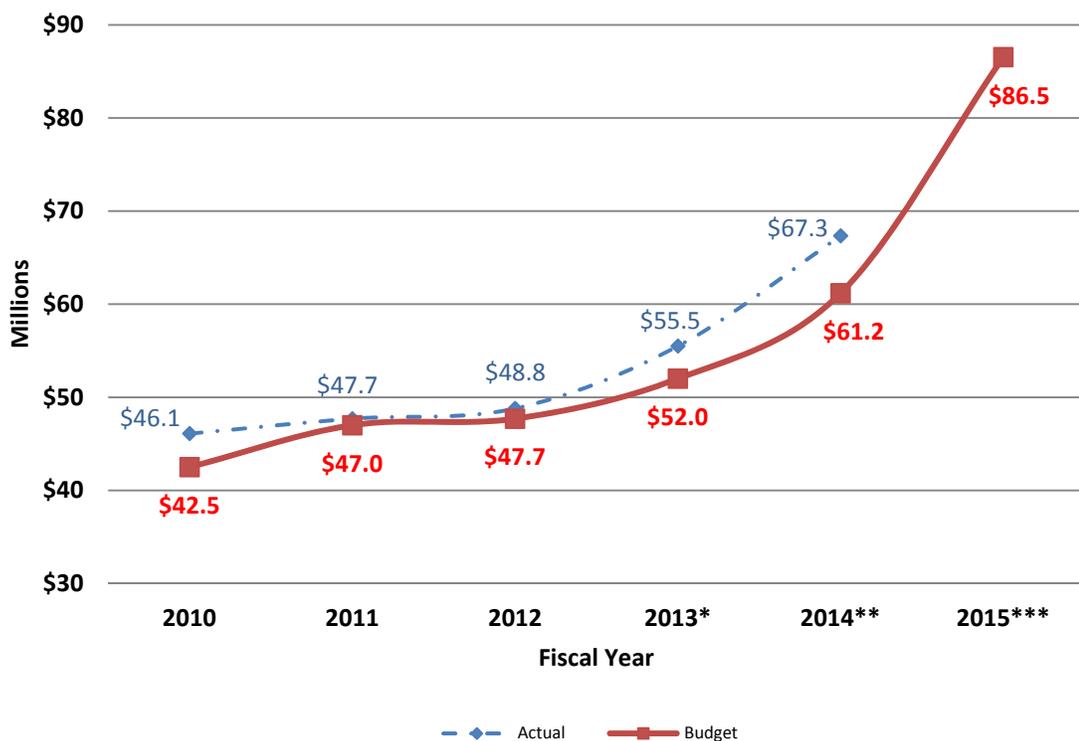
Aviation Revenues

The Department of Aviation (AVI) 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 AVI revenues. Airport businesses with concessions contracts are obligated to pay the City 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 2014-15 Proposed Budget for AVI has significantly increased due to the completion of the Love Field Modernization Program and the elimination of the Wright Amendment which increased projected revenues for property rentals, landing fees, and parking.

Chart VIII

**Aviation Revenues
Analysis of Actual and Budget
FY 2010 to FY 2015**



* FY 2013 Adopted Budget was \$49,073,971. According to the FY 2013-14 Adopted Financial Summaries, FY 2013 Budgeted Revenue is \$52,043,327. According to AVI, the increase of approximately \$3 million was due to the mid-year appropriation adjustment.

** FY 2014 revenues, including estimates for the remaining months, were provided by City management.

*** FY 2015 is proposed; therefore, actual is not available.

Source: City of Dallas Adopted Annual Budgets and FY 2014-15 Proposed Annual Budget (Unaudited)