

Memorandum



CITY OF DALLAS
(Report No. A07-017)

Date: September 14, 2007

To: Honorable Mayor and Members of the City Council

Subject: Final Report – Review of the Revenue Estimates Included in the Proposed Fiscal Year 2007-2008 Budget for the City of Dallas

Our review of selected revenue estimates showed that management has effective processes to ensure that reliable revenue estimates are included in the City's budget. Further, the methodologies, assumptions, and material considerations used in developing the estimates are reasonable, adequately supported, conservatively estimated, and calculated accurately. Information related to the revenue estimates that we reviewed are included as Attachments I through VIII.

We reviewed the following revenue sources in the proposed 2007-2008 budget that are estimated to exceed \$20 million.

Table 1

Revenue Source	Revenue Estimate
Ad Valorem Taxes	\$ 627,732,045
Sales Tax	237,145,975
Franchise Fees – Electric, Gas, Cable and Telephone	93,500,000
Sanitation Service Fees	57,053,713
Aviation Concessions	23,741,434
Hotel Occupancy Tax	37,409,481
Storm Water Fees	29,427,765
Dallas Water Utilities Water and Wastewater	470,738,659
TOTAL	\$1,576,749,072

Source: Fiscal Year 2007-2008 budget documentation provided by City departments

We **did not**, however, review revenues totaling \$207 million from the Internal Service, Risk Management, and Employee Benefits Funds. Revenues from these funds are mainly derived from department reimbursements and City / employee / retiree contributions. Excluding revenues from the Internal Service, Risk Management, and Employee Benefits Funds, the City of Dallas 2007-2008 budget is comprised of revenue estimates for the following funds:

Table 2

Fund Sources	Revenue Estimate
General Fund	\$1,043,911,682
Enterprise Funds	651,500,454
Other Funds (9-1-1, Debt Service)	236,891,658
Total Revenue Estimates Included in Our Review	\$1,932,303,794

Source: Fiscal Year 2007-2008 Proposed Budget

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

We reviewed 81.6 percent or \$1,576,749,072 of the \$1,932,303,794 proposed revenue estimates. During our review, we informed City management that we identified the following two immaterial issues involving the revenue estimates:


- Sanitation Department's rate model did not transfer the correct dollar amount to the corresponding documents used to prepare the revenue estimate. As a result, the revenue estimate was understated by \$177,000; and,
- Public Works included a proposed one-time cash balance transfer of \$671,000 for Storm Water fees which increased the proposed revenue estimate. A cash balance transfer is not revenue.

Council Resolution 904027 directs the City Auditor to review and verify the reasonableness of the revenue estimates included in the proposed budget. The objectives of our review were to determine whether the City has effective processes to ensure reliable revenue estimates are included in the operating budget. Specifically, we ensured that revenue estimate methodologies, material assumptions, and material considerations are reasonable and adequately supported, conservatively estimated, and calculated accurately.

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

If you have any questions or need additional information, please contact me at 214-670-3222 or Gary Lewis, Audit Manager, at 214-670-5347.

Respectfully,



Craig D. Kinton
City Auditor

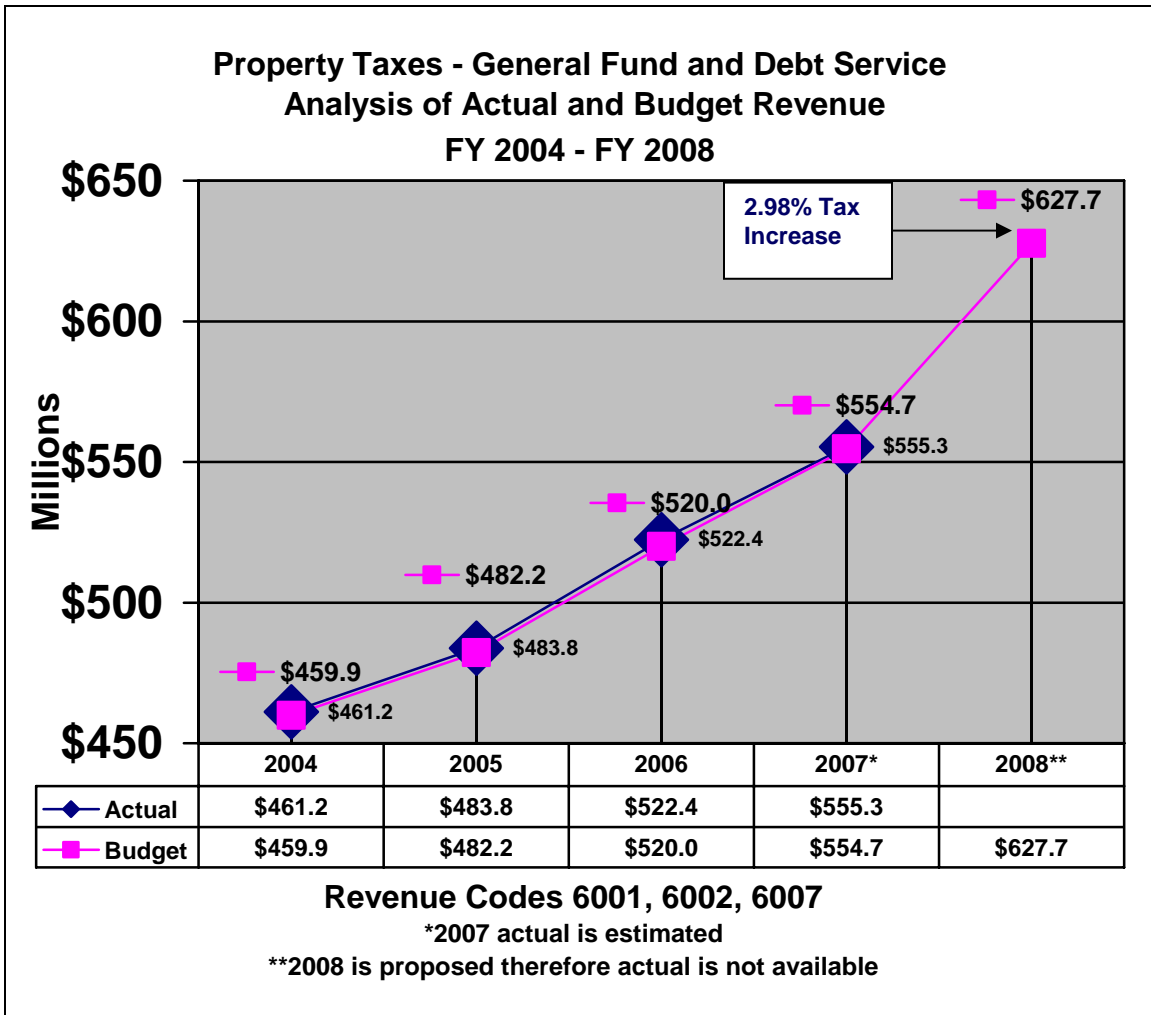
Attachments

C: Mary K. Suhm, City Manager
David K. Cook, Chief Financial Officer

Attachment I

Ad Valorem (Property) Taxes

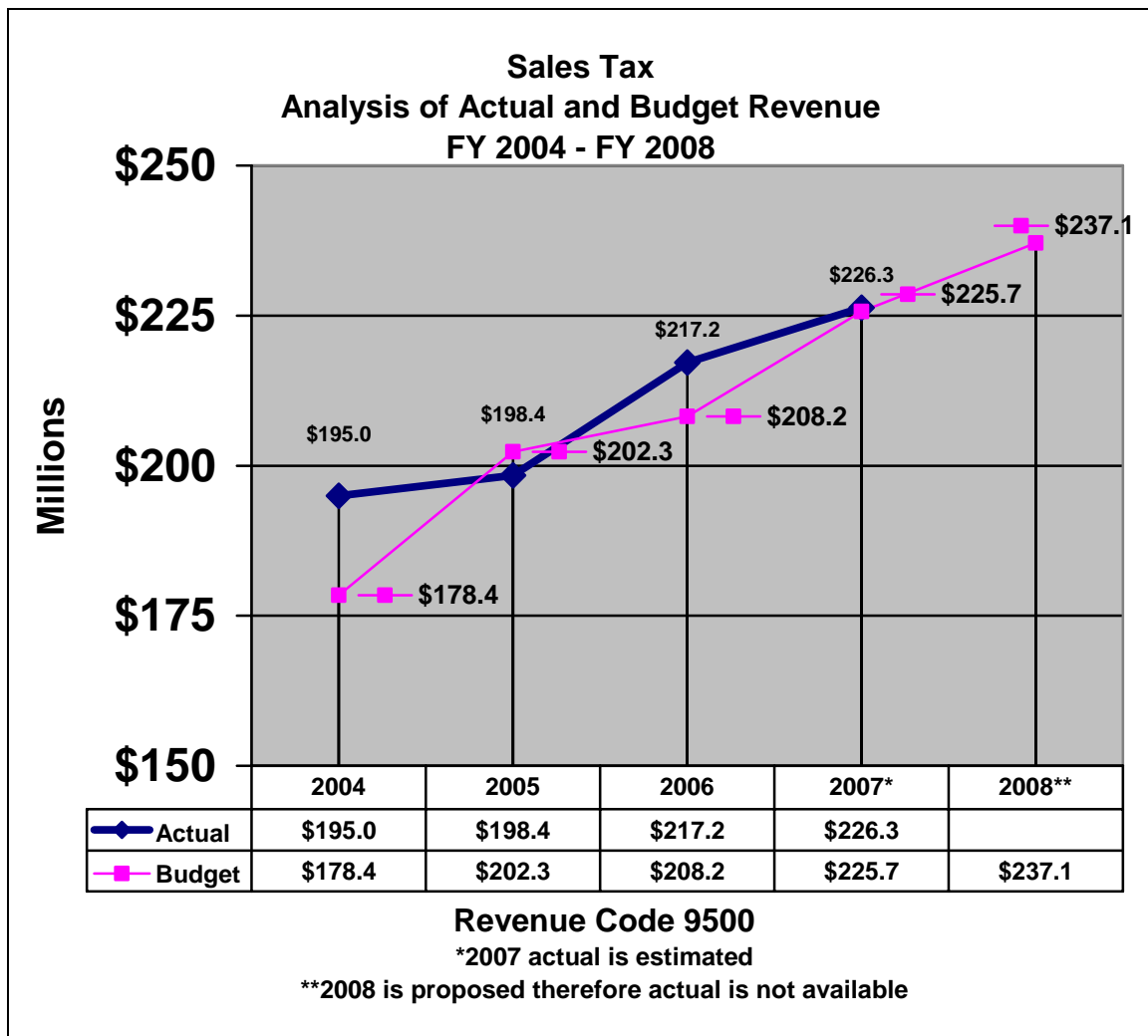
Property taxes are the largest source of revenue for the General Fund and Other Funds. Assessed values are established by the Dallas Central Appraisal District and certified by the Appraisal Review Board. The assessed taxable value for the tax roll as of January 1, 2007 (upon which the FY 2007-2008 levy is based) is \$84,526,933,754, or 10.1 percent higher than the 2006 tax roll.



Attachment II

Sales Tax

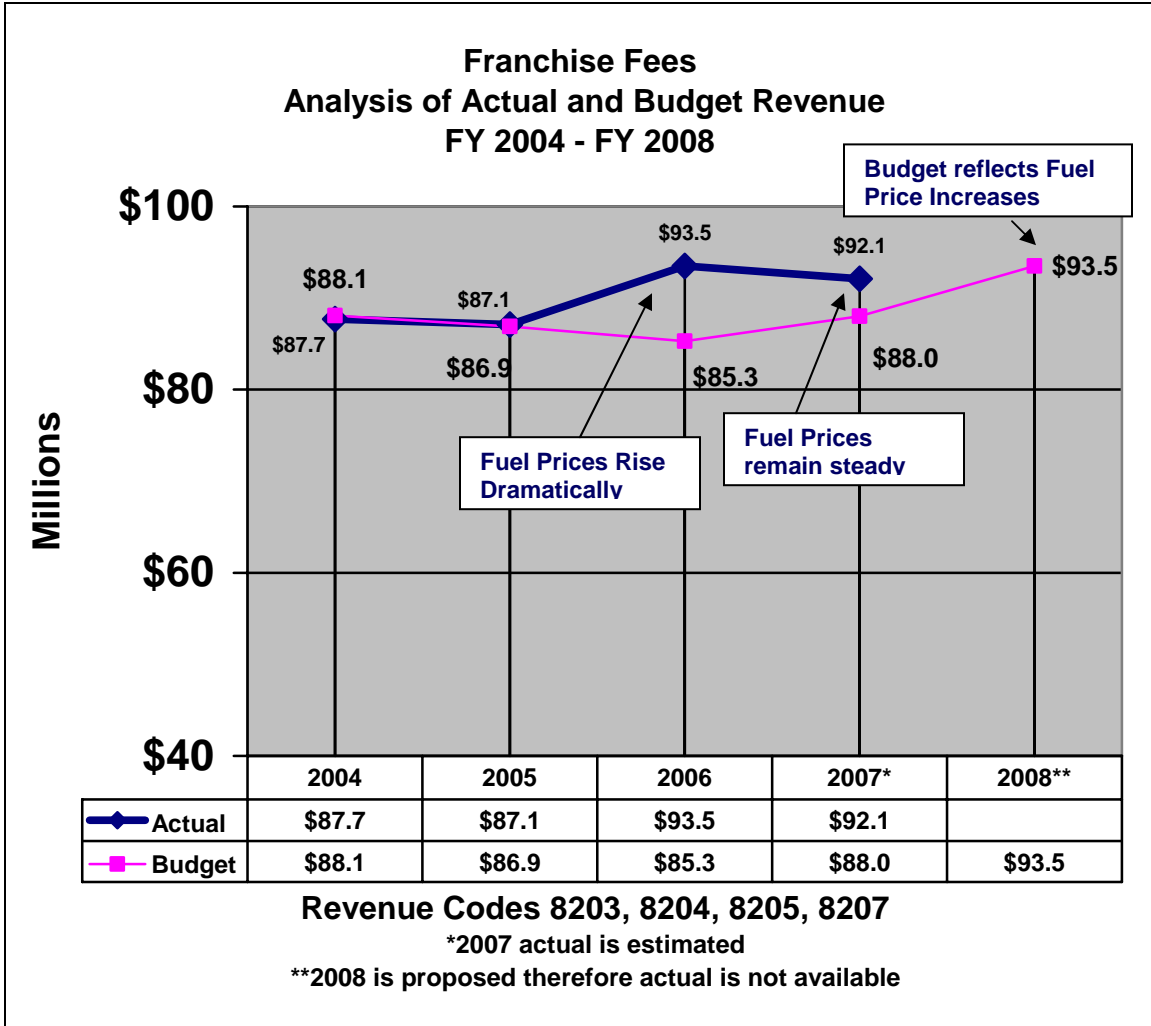
Sales tax is the second largest source of revenue for the General Fund. The sales tax rate in the City of Dallas is 8.25 percent of taxable goods or services sold within the City limits. The tax is collected at the point of sale and forwarded to the State Comptroller's Office on a monthly or quarterly basis. Of the 8.25 percent collected, the state retains 6.25 percent and distributes 1 percent to the City of Dallas and 1 percent to the Dallas Area Rapid Transit transportation authority.



Attachment III

Franchise Fees – Electric, Gas, Cable and Telephone

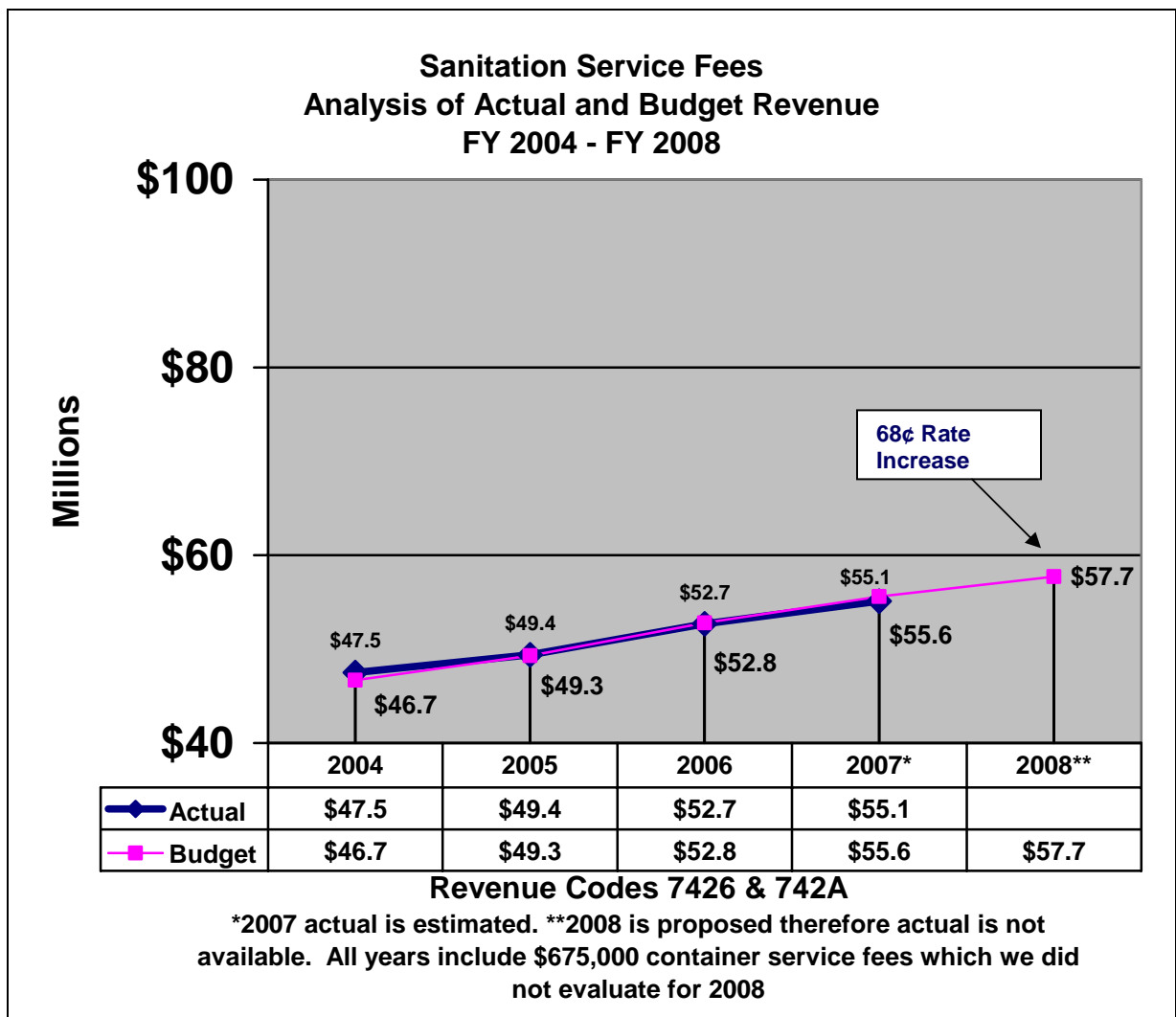
Franchise holders pay the City for use of City streets and public ways for the purpose of providing local electric (ONCOR), gas (ATMOS), cable television service (Time Warner), and operating a telecommunications system (AT&T).



Attachment IV

Sanitation Service Fees

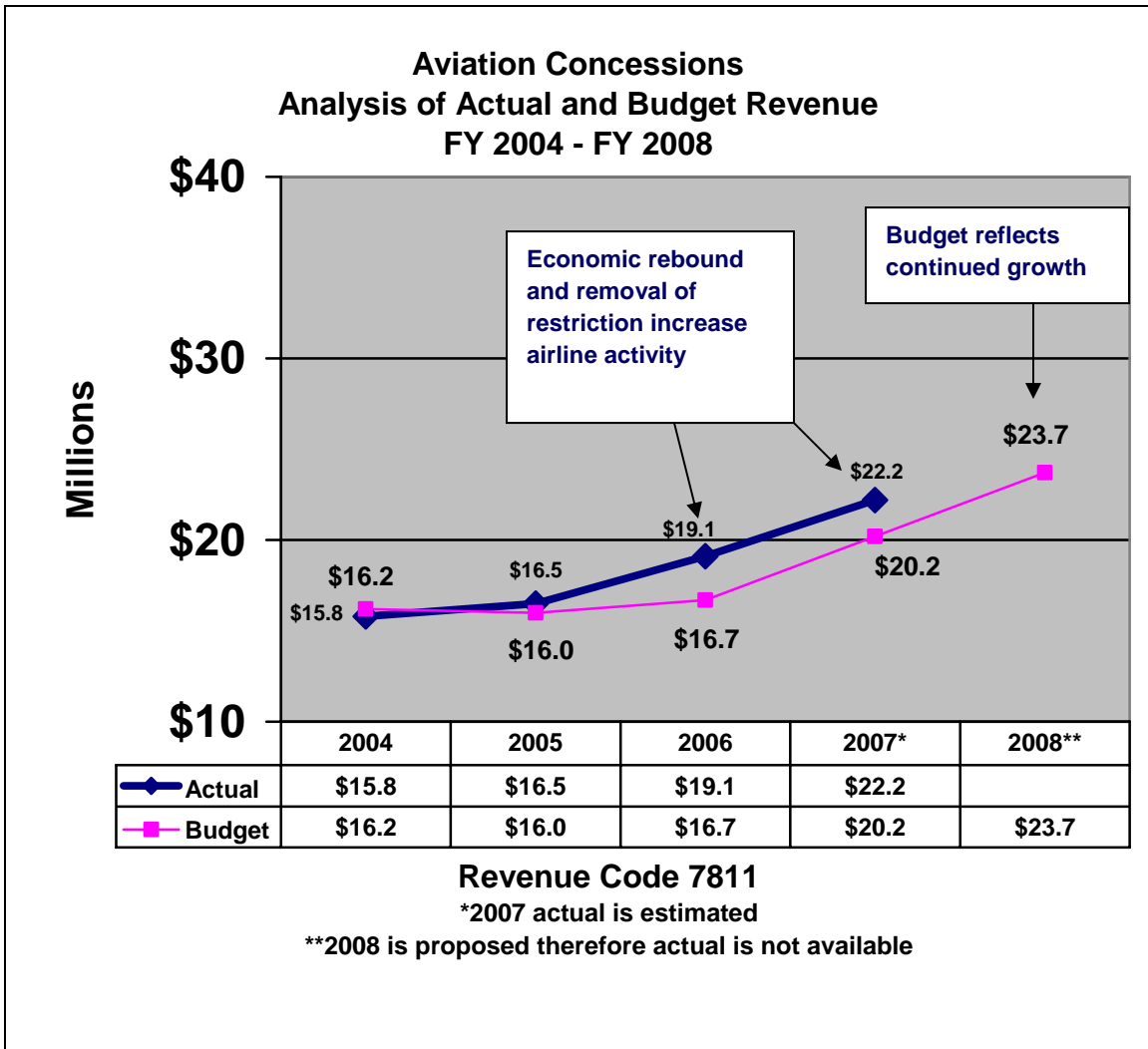
Sanitation service fees are charged to residential customers for twice-weekly garbage collection, weekly collection of recyclables, and monthly collection for brush and bulky items. Fees for sanitation collection service are developed for each type of account and kind of service provided. Setout and packout fees for Residential and Apartment Accounts consist of a simple monthly fee. Fees for Commercial and Animal Clinic Accounts reflect either frequency of collection and number of containers serviced, or number of animals picked up.



Attachment V

Aviation Concessions

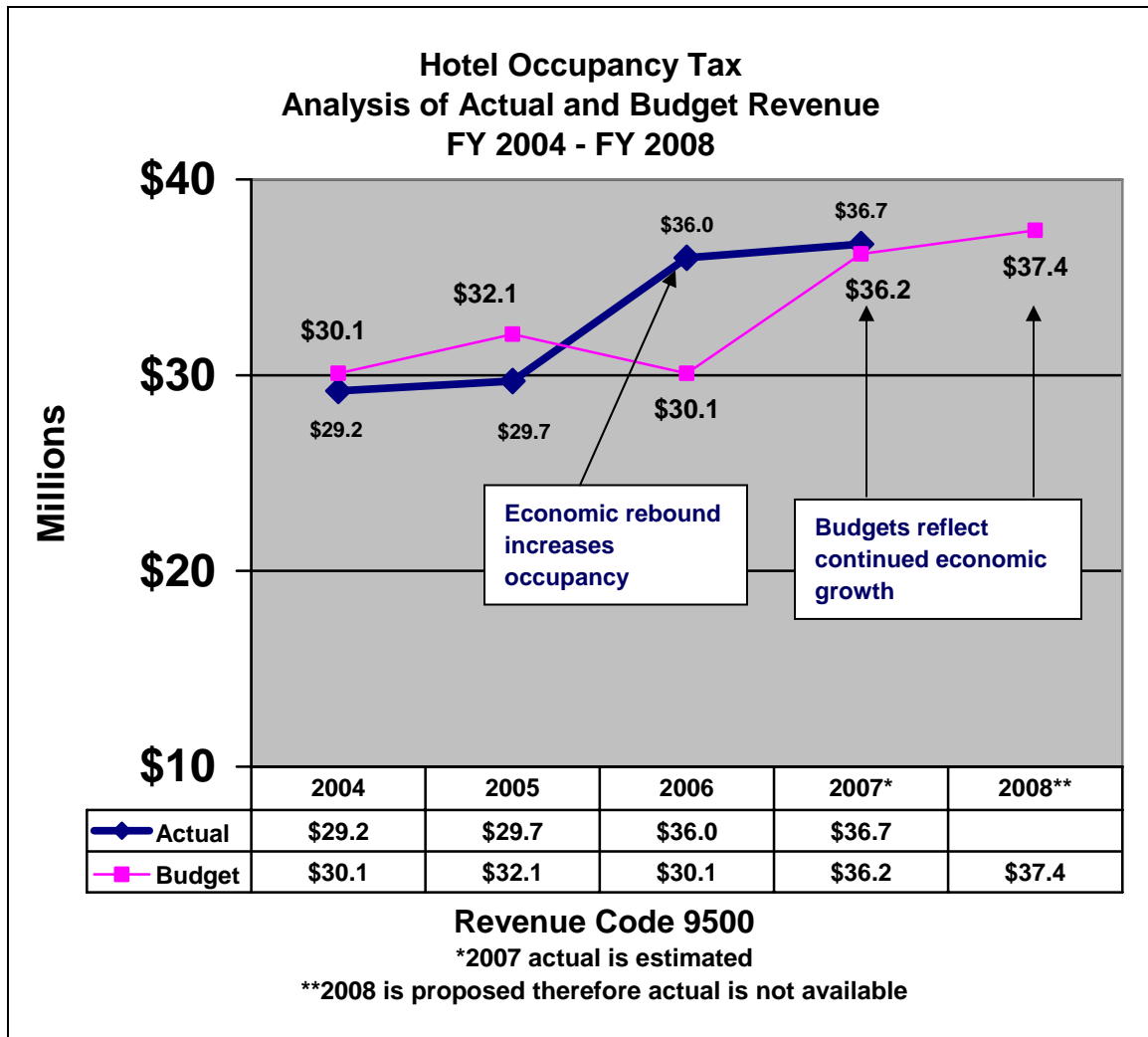
Airport businesses with concessions contracts are obligated to pay the City of Dallas a percentage of their monthly gross revenues or a guaranteed minimum payment. Concessions agreements include parking, food and beverage services, retail stores, advertising, car rental agencies, shoe shine services, and bag cart rental.



Attachment VI

Hotel Occupancy Tax

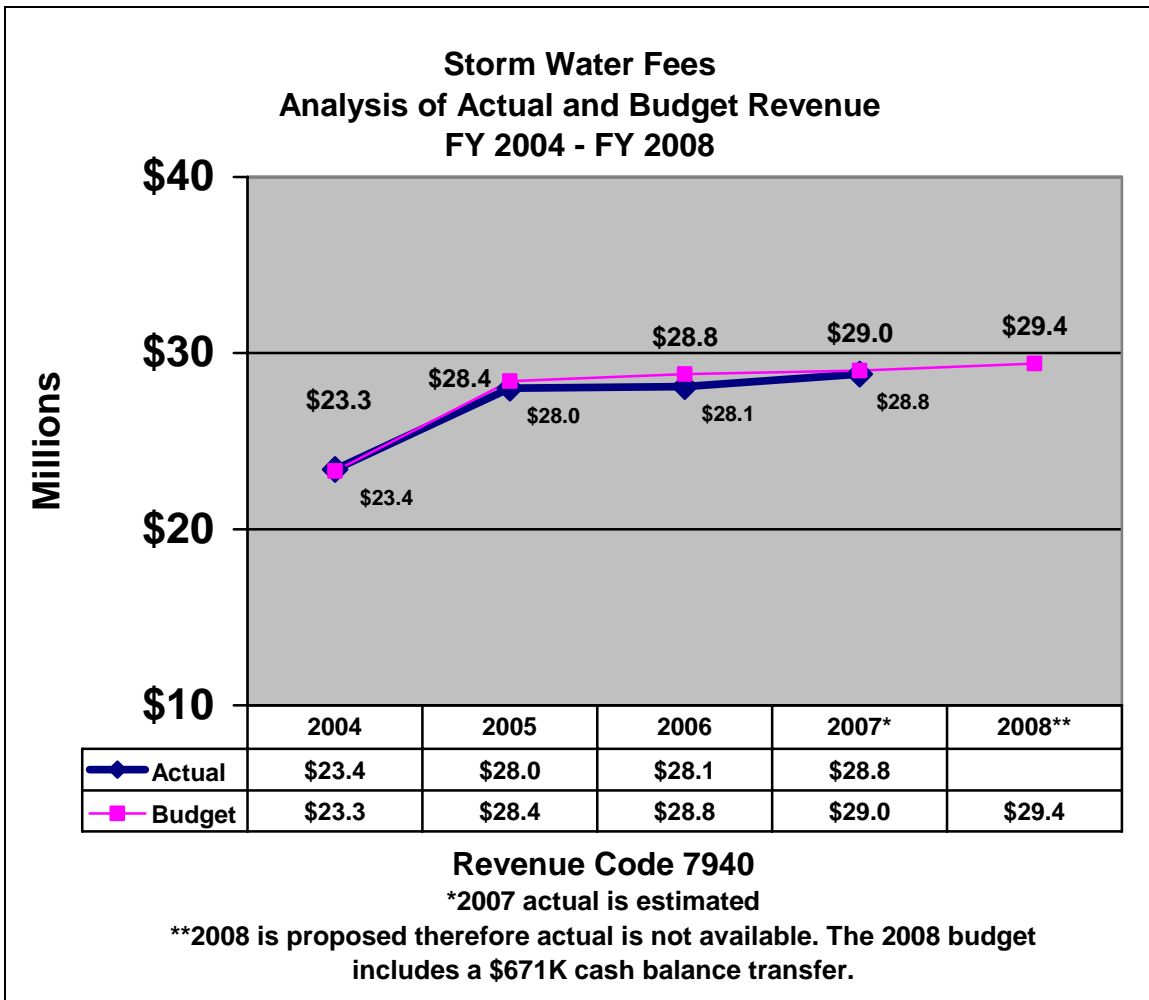
The Hotel Occupancy Tax rate in the City of Dallas is 15 percent of the room rate charged within the City limits. The tax is collected by the hotel at the point of sale and forwarded to the State (6 percent) and City (9 percent) on a monthly basis (7 percent to the Dallas Convention Center and 2 percent to the Sports Arena Project).



Attachment VII

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.



Attachment VIII

Dallas Water Utilities Water and Wastewater

Revenues are obtained through the sale of water and wastewater services in these 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 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.

