

# Memorandum



CITY OF DALLAS  
(Report No. A10-020)

**DATE:** September 17, 2010

**TO:** Honorable Mayor and Members of the City Council

**SUBJECT:** Review of the Revenue Estimates Included in the Fiscal Year 2010-2011 Proposed Annual Budget for the City of Dallas<sup>1</sup>

The revenue estimates included in the Fiscal Year (FY) 2010-2011 Proposed Annual Budget appear reasonable. The Office of the City Auditor reviewed approximately \$1.63 billion of the \$2.17 billion in proposed revenue estimates for the General Fund, Enterprise Funds, and Debt Service Fund, or 75 percent of the revenue estimates included in the FY 2010-2011 Proposed Annual Budget (see Table I in Attachment I). Our review did not include the remaining \$0.54 billion in revenue estimates which are mainly derived from department reimbursements and City, employee, and retiree contributions to employee retirement funds. Five year budget-to-actual comparisons and the FY 2010-2011 Proposed Annual Budget amounts for the major revenue sources are shown in Attachment II (see Charts I through VIII).

The FY 2009-2010 Adopted Annual Budget for major revenue sources of approximately \$1.71 billion was overestimated by \$67.3 million, or approximately 4.0 percent from Estimated Actual Revenues of \$1.64 billion (see Table II in Attachment I). Approximately \$64 million of the \$67.3 million overestimation, or 95.1 percent, was related to Dallas Water Utilities (DWU).

The DWU revenue collections have not met the adopted annual budgets for the past several years. According to City management, this trend is due to several factors, including seasonal fluctuations in rainfall, the effects of water conservation initiatives, and, to a lesser degree, the unfavorable economic conditions. The FY 2011

---

<sup>1</sup> The audit objective was to review and verify the reasonableness of the revenue estimates included in the FY 2010-2011 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 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.

Proposed Annual Budget is supported by the DWU cost model. Significant variances between budgeted and actual revenues over the past two fiscal years have caused DWU management to re-evaluate the revenue estimation process by reducing projected retail sales by two billion gallons and increasing retail rates by 3.1 percent (see Chart V in Attachment II).

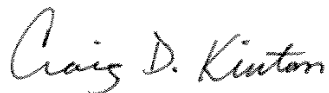
Although proposed revenue estimates for individual revenue sources vary, the overall FY 2010-2011 Proposed Annual Budget reflects a 2.9 percent increase over the prior year Estimated Actual Revenues (see Table III in Attachment I).

City management is responsible for preparing reasonable revenue estimates for inclusion in the FY 2010-2011 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 2010-2011 revenue estimates.

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

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, Executive General Manager  
Ricardo Galceran, P.E., Director – Public Works and Transportation  
Mary Nix, P.E., Director – Department of Sanitation Services  
Al Rojas, Interim Director – Convention and Event Services  
Jo M. (Jody) Puckett, P.E., Director – Dallas Water Utilities  
Daniel T. Weber, A.A.E., Director – Department of Aviation

**Attachment I**

**Revenue Sources and Estimates included in the  
 Proposed Fiscal Year 2010-2011 Budgets  
 Reviewed by the Dallas Office of the City Auditor**

**Table I**

<b>Chart</b>	<b>Revenue Sources</b>	<b>FY 2010-2011 Proposed</b>
<b>General Fund</b>		
I	Ad Valorem Taxes	\$ 396,305,567
II	Sales Tax	204,810,104
III	Franchise Fees – Electric, Telephone, Gas, and Cable*	83,540,000
IV	Sanitation Service Fees*	88,544,082
<b>Enterprise Funds</b>		
V	Water Utilities	531,240,295
VI	Hotel Occupancy Tax	35,276,860
VII	Storm Water Fees	47,800,000
VIII	Aviation Concessions*	26,620,685
<b>Debt Service</b>		
	Ad Valorem Taxes	215,596,286
<b>Total Revenue Estimates Reviewed</b>		<b>\$ 1,629,733,879</b>
<b>Revenue Estimates Not Reviewed</b>		<b>543,281,519</b>
<b>Total FY 2010-2011 Proposed Review</b>		<b>\$ 2,173,015,398</b>

\* Amounts provided by City management. (Amounts are not individually presented in the FY 2010-2011 Proposed Annual Budget)

**Source:** Revenue Estimates included in the FY 2010-2011 Proposed Annual Budget as of August 9, 2010 (Unaudited)

**Fiscal Year 2009-2010 Adopted Budget Revenues Compared  
 To Estimated Actual Revenues for Major Revenue Sources**

Table II

Revenue Source	Fiscal Year 2009-2010			
	Adopted Budget	Estimated Actual Revenues*	\$ Variance	% Variance
<b>General Fund</b>				
Ad Valorem Taxes	\$ 420,798,973	\$ 422,471,344	\$ 1,672,371	.40
Sales Tax	206,573,949	203,810,105	(2,763,844)	(1.34)
Sanitation Service Fees**	89,011,513	85,951,952	(3,059,561)	(3.44)
Franchise Fees	97,155,406	99,191,374	2,035,968	2.10
<b>Enterprise Funds</b>				
Water Utilities	530,365,482	466,416,929	(63,948,553)	(12.06)
Convention and Event Services	60,076,058	54,612,053	(5,464,005)	(9.10)
Aviation	42,488,533	44,242,603	1,754,070	4.13
Storm Water Drainage Management	44,674,000	46,405,264	1,731,264	3.88
<b>Debt Service Fund</b>				
Ad Valorem Taxes	218,270,049	218,988,001	717,952	.33
<b>Totals</b>	<b>\$ 1,709,413,963</b>	<b>\$ 1,642,089,625</b>	<b>\$ (67,324,338)</b>	<b>(3.94)</b>

\* FY 2010 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 2010-2011 Proposed Annual Budget)

**Source:** FY 2009-2010 Adopted Annual Budget and the FY 2010-2011 Proposed Annual Budget (Unaudited)

**Comparison of Selected Actual Fiscal Year 2009-2010 Revenues  
 To Fiscal Year 2010-2011 Revenue Estimates  
 (For Estimated Actual Revenues and Fiscal Year 2010-2011  
 Proposed Columns Below)**

Table III

Revenue Sources	Fiscal Year 2009- 2010 Estimated Actual Revenues*	Fiscal Year 2010- 2011 Proposed Revenues	\$ Variance	% Variance
<b>General Fund</b>				
Ad Valorem Taxes	\$ 422,471,344	\$ 396,305,567	\$ (26,165,777)	(6.19)
Sales Tax	203,810,105	204,810,104	999,999	.49
Sanitation Service Fees**	85,951,952	90,714,620	4,762,668	5.54
Franchise Fees	99,191,374	97,150,282	(2,041,092)	(2.06)
<b>Enterprise Funds</b>				
Water Utilities	466,416,929	531,240,295	64,823,366	13.90
Convention and Event Services	54,612,053	58,635,607	4,023,554	7.37
Aviation	44,242,603	47,006,853	2,764,250	6.25
Storm Water Drainage Management	46,405,264	47,800,000	1,394,736	3.01
<b>Debt Service Fund</b>				
Ad Valorem Taxes	218,988,001	215,596,286	(3,391,715)	(1.55)
<b>Totals</b>	<b>\$ 1,642,089,625</b>	<b>\$ 1,689,259,614</b>	<b>\$ 47,169,989</b>	<b>2.87</b>

\* FY 2010 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 2010-2011 Proposed Annual Budget)

**Source:** FY 2009-2010 Adopted Annual Budget and the FY 2010-2011 Proposed Annual Budget (Unaudited)

## **Attachment II**

The following charts shown in Attachment II are based upon the Office of the City Auditor's review of selected revenue sources and estimates included in the FY 2010-2011 Proposed Annual Budget presented as of August 9, 2010.

## Ad Valorem Taxes

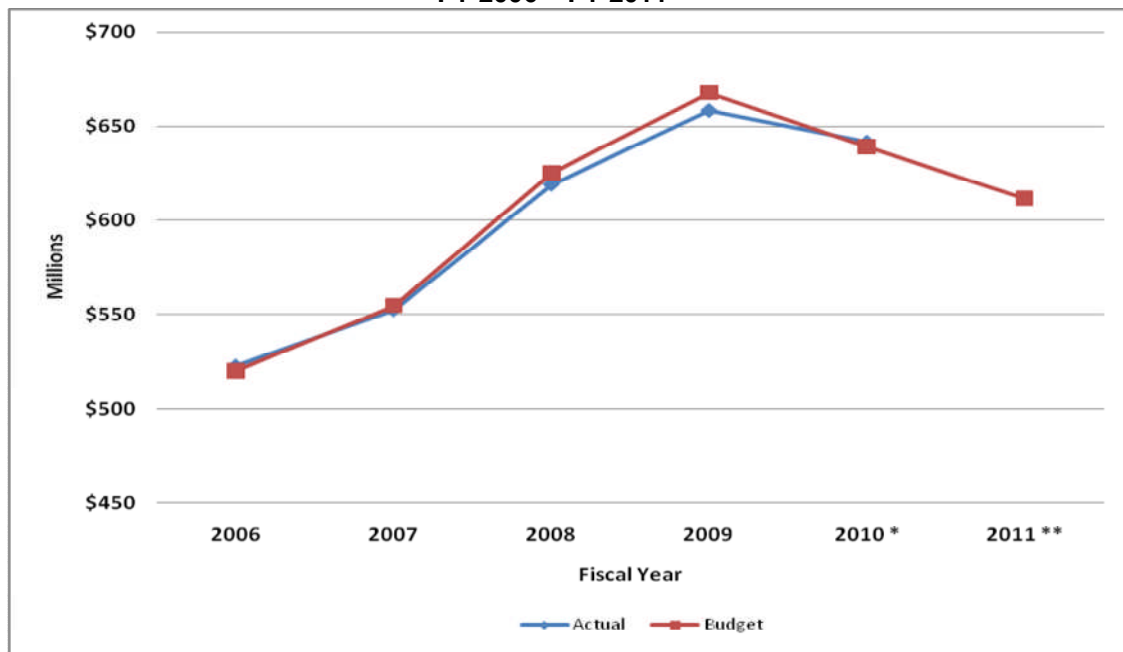
Ad Valorem (Property) Taxes are the largest revenue source for the General Fund and Debt Service Fund. Assessed property values are established by the Central Appraisal Districts in the four counties (Dallas, Collin, Denton, and Rockwall) in which the City of Dallas is located and are certified by the individual Appraisal Review Boards.

The assessed taxable value of \$83,425,479,138 per the tax roll as of January 1, 2010 was \$3,838,616,323, or 4.4 percent less than the 2009 tax roll of \$87,264,095,461. The tax rate for FY 2010-2011 remains at 74.79 cents per \$100.

The FY 2009-2010 Ad Valorem Taxes Adopted Budget of \$639,069,022 is \$2,390,323, or .4 percent, less than the \$641,459,345 City management estimates collecting. The FY 2010-2011 Proposed Annual Budget for Ad Valorem Taxes of \$611,901,853 is a decrease of approximately \$29,557,492, or 4.6 percent, from the FY 2009-2010 estimated actual collections. According to City management, FY 2009-2010 collections are expected to be slightly better than anticipated. Because economic conditions have not substantially improved, City management estimated the FY 2010-2011 Proposed Annual Budget for Ad Valorem Taxes more conservatively.

### Chart I

**Ad Valorem Taxes  
Analysis of Actual and Budget Revenue  
FY 2006 – FY 2011**



\* FY 2010 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2011 is proposed; therefore, actual is not available.

**Source:** City of Dallas Adopted Annual Budgets and FY 2010-2011 Proposed Annual Budget (Unaudited)

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

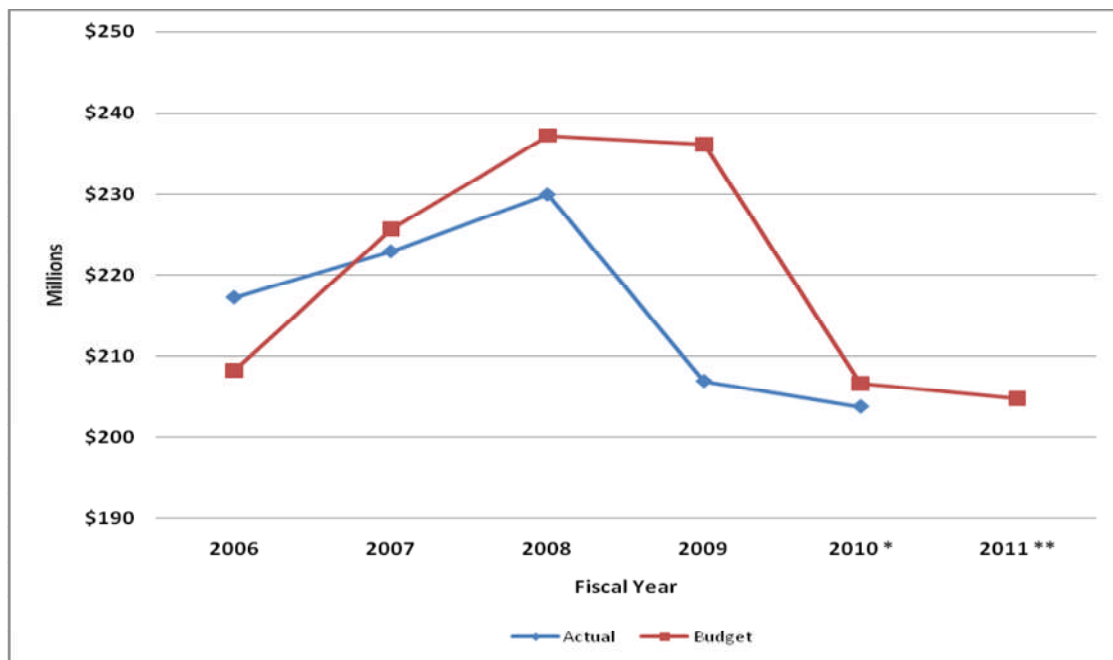
## Sales Tax

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 2009-2010 Adopted Annual Budget for Sales Tax of \$206,573,949 is \$2,763,844, or 1.3 percent, more than the \$203,810,105 City management estimates collecting. The FY 2010-2011 Proposed Annual Budget for Sales Tax is estimated at \$204,810,104, which is an increase of \$999,999, or .5 percent, from the FY 2009-2010 estimated actual collections. According to City management, the increase is anticipated as a result of a sales tax audit to be conducted in the upcoming fiscal year.

### Chart II

**Sales Tax  
Analysis of Actual and Budget Revenue  
FY 2006 – FY 2011**



\* FY 2010 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2011 is proposed; therefore, actual is not available.

**Source:** City of Dallas Adopted Annual Budgets and FY 2010-2011 Proposed Annual Budget (Unaudited)



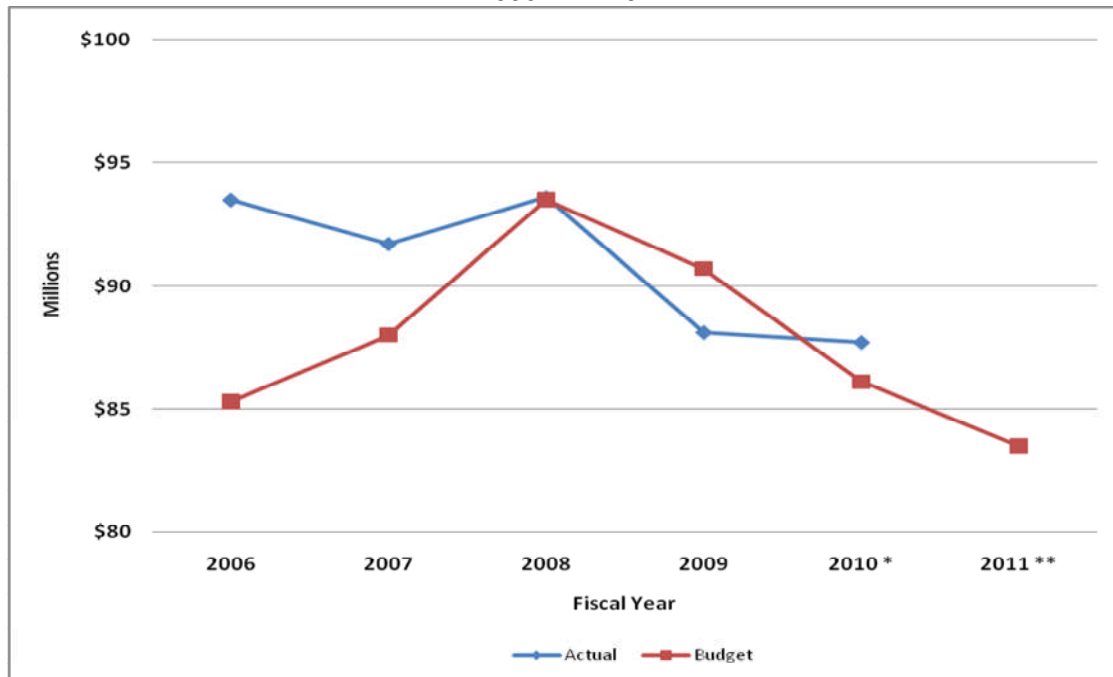
### Franchise Fees – Electric, Telephone, Gas, and Cable

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

The selected Franchise Fees (Electric, Telephone, Gas, and Cable) totaling \$86,058,000 from the FY 2009-2010 Adopted Annual Budget is \$1,632,333, or 1.9 percent, less than the \$87,690,333 City management estimates collecting. The FY 2010-2011 Proposed Annual Budget of \$83,540,000 is a decrease of \$4,150,333, or 4.7 percent, from the FY 2009-2010 estimated actual collections.

Chart III

**Franchise Fees  
Analysis of Actual and Budget Revenue  
FY 2006 – FY 2011**



\* FY 2010 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2011 is proposed; therefore, actual is not available.

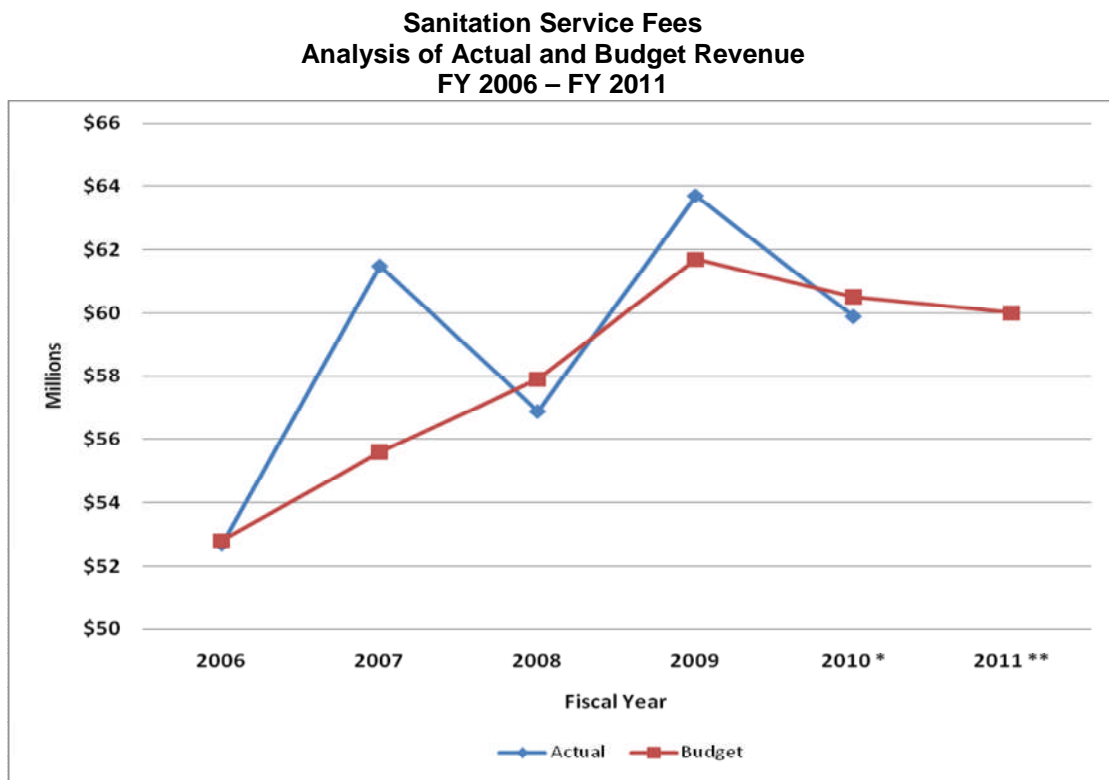
**Source:** City of Dallas Adopted Annual Budgets and FY 2010-2011 Proposed Annual Budget (Unaudited)

### 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).

The FY 2009-2010 Adopted Annual Budget of \$60,545,263 is \$685,065, or 1.1 percent, more than the \$59,860,198 City management estimates collecting. The FY 2010-2011 Proposed Annual Budget of \$60,003,736 is an increase of \$143,538, or .2 percent, from the FY 2009-2010 estimated actual collections.

Chart IV



\* FY 2010 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2011 is proposed; therefore, actual is not available.

**Source:** City of Dallas Adopted Annual Budgets and FY 2010-2011 Proposed Annual Budget (Unaudited). \$89 million was reviewed; however, the information in the chart represents \$60.5 million from the two main revenue sources: Sanitation Collection and City Facilities Contract.

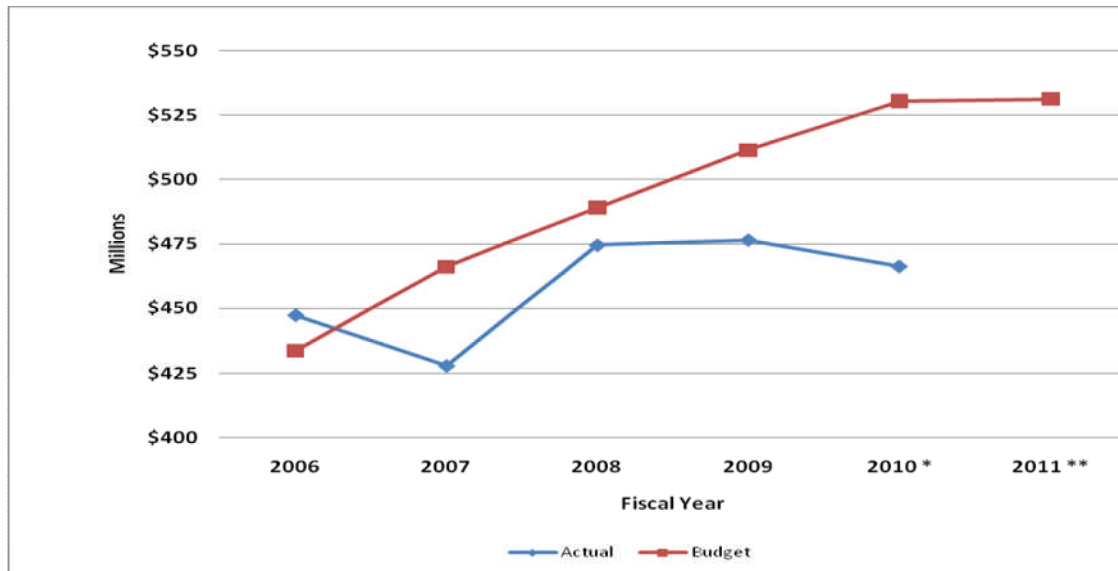
### Dallas Water Utilities (DWU)

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 22 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 2009-2010 Adopted Annual Budget \$530,365,482 is \$63,948,553 or 12.1 percent, more than the \$466,416,929 City management estimates collecting. The FY 2010-2011 Proposed Annual Budget of \$531,240,295 is an increase of approximately \$64,823,366, or 13.9 percent, from the FY 2009-2010 estimated actual revenues. Revenues collected have not met the adopted annual budgets for the past several years. According to City management, this trend is due to several factors including seasonal fluctuations in rainfall, the effects of water conservation initiatives, and more recently the unfavorable economic conditions. The FY 2011 Proposed Annual Budget is supported by the DWU cost model. Significant variances between budgeted and actual revenues over the past two fiscal years have caused DWU management to re-evaluate the revenue estimation process by reducing projected retail sales by two billion gallons and increasing retail rates by 3.1 percent.

**Chart V**

**Dallas Water Utilities  
 Analysis of Actual and Budget Revenue  
 FY 2006 – FY 2011**



\* FY 2010 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2011 is proposed; therefore, actual is not available.

**Source:** City of Dallas Adopted Annual Budgets and FY 2010-2011 Proposed Annual Budget (Unaudited)

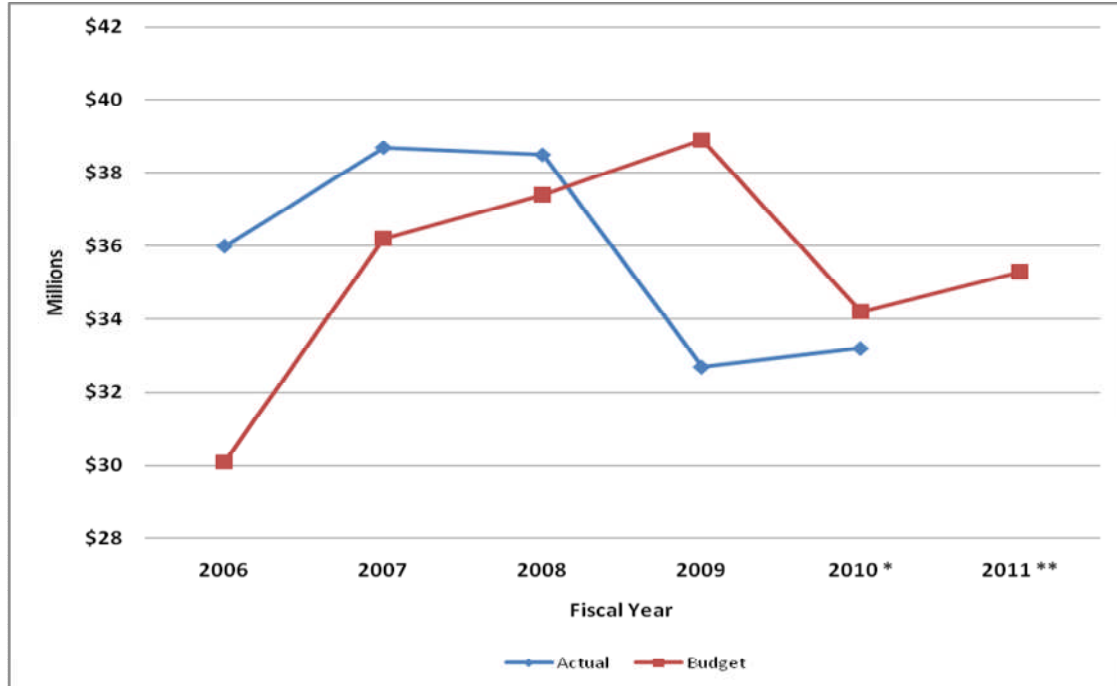
## Hotel Occupancy Tax

The Hotel Occupancy Tax rate in the City of Dallas (City) 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 (six percent) and to the City (nine percent) on a monthly basis. Of the nine percent remitted to the City, two percent is allocated to the Sports Arena Project. Of the remaining seven percent, approximately one-third is allocated to the Dallas Convention and Visitors Bureau (DCVB) to market and promote the City as a convention and tourist destination. Two-thirds is allocated to the Dallas Convention Center (DCC) to support operations and improvements.

The FY 2009-2010 Adopted Annual Budget of \$34,201,100 is \$1,028,824, or 3.0 percent, more than the \$33,172,276 City management estimates collecting. The FY 2010-2011 Proposed Annual Budget of \$35,276,860 is an increase of \$2,104,587 or 6.3 percent, from the FY 2009-2010 estimated actual collections. According to City management, the increase in the FY 2010-2011 Proposed Annual Budget is primarily due to the increased demand for hotels for the upcoming National Football League (NFL) Super Bowl.

### Chart VI

**Hotel Occupancy Tax  
Analysis of Actual and Budget Revenue  
FY 2006 – FY 2011**



\* FY 2010 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2011 is proposed; therefore, actual is not available.

**Source:** City of Dallas Adopted Annual Budgets and FY 2010-2011 Proposed Annual Budget (Unaudited)

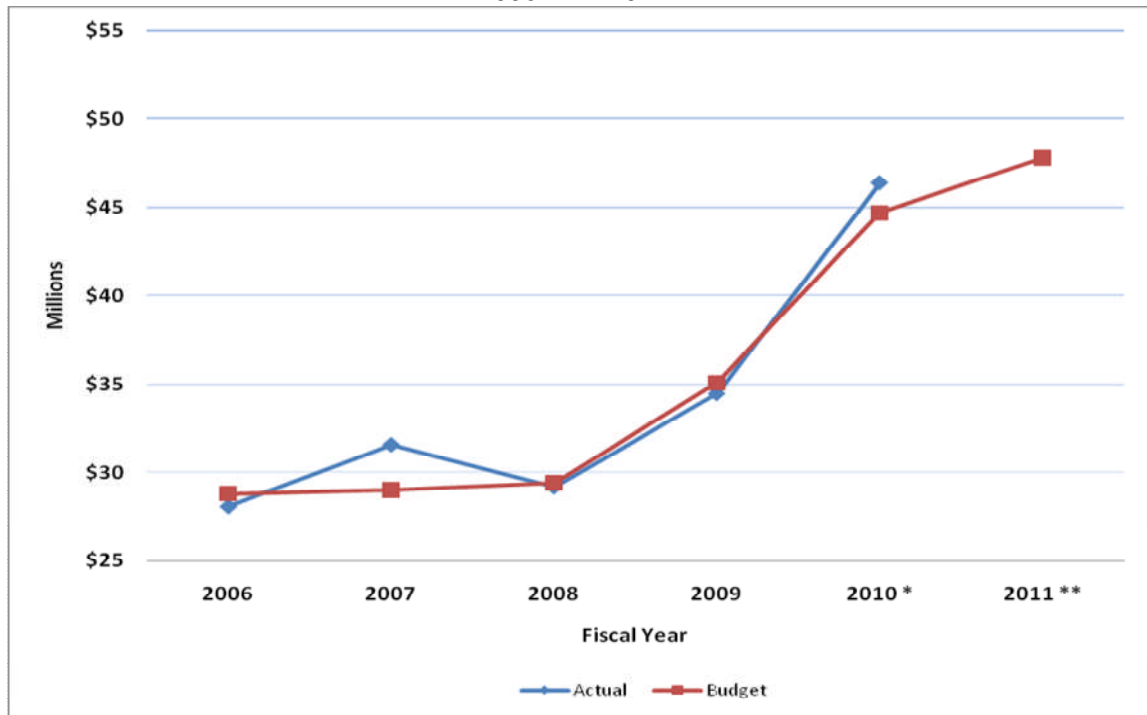
### Storm Water Fees

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 2009-2010 Adopted Annual Budget of \$44,674,000 is \$1,731,264, or 3.9 percent, less than the \$46,405,264 City management estimates collecting. The FY 2010-2011 Proposed Annual Budget of \$47,800,000 is an increase of \$1,394,736, or 3.0 percent, from the FY 2009-2010 estimated actual collections. The recent increase in revenue estimates is due to a change in tier structure, increased rates and additional commercial accounts.

**Chart VII**

**Storm Water Fees  
 Analysis of Actual and Budget Revenue  
 FY 2006 – FY 2011**



\* FY 2010 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2011 is proposed; therefore, actual is not available.

**Source:** City of Dallas Adopted Annual Budgets and FY 2010-2011 Proposed Annual Budget (Unaudited)

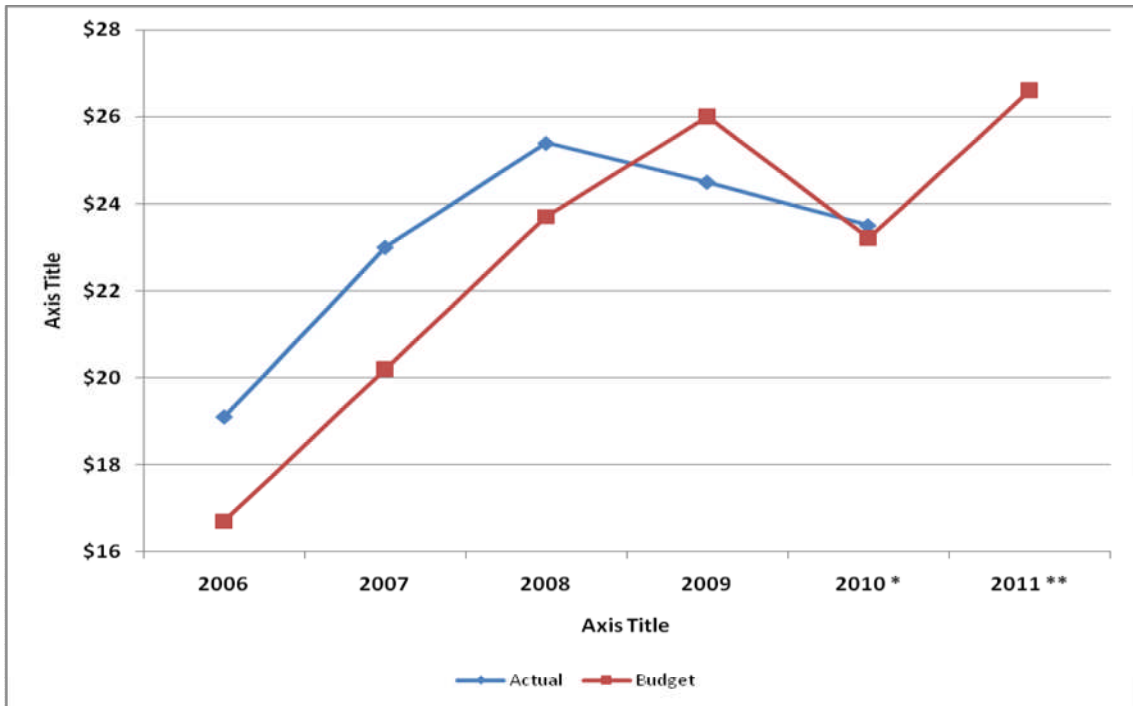
### Aviation Concessions (Parking Revenue and Terminal Maintenance)

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 2009-2010 Adopted Annual Budget of \$23,157,682 is \$332,060, or 1.4 percent, less than the \$23,489,742 City management estimates collecting. The FY 2010-2011 Proposed Annual Budget of \$26,620,685 is an increase of \$3,130,943, or 13.3 percent, from the FY 2009-2010 estimated actual collections. According to City management, the increase in the Proposed Annual Budget for FY 2010-2011 is due to an increase in the parking garage rates.

Chart VIII

Aviation Concessions  
Analysis of Actual and Budget Revenue  
FY 2006 – FY 2011



\* FY 2010 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2011 is proposed; therefore, actual is not available.

**Source:** City of Dallas Adopted Annual Budgets and FY 2010-2011 Proposed Annual Budget (Unaudited)