FIVE-YEAR FORECAST

INTRODUCTION

The Five-Year Forecast provides an early look at potential gaps between revenue and expenses. The forecast and biennial budget are financial planning tools that allow us to project the long-term fiscal sustainability of policy decisions. Many of the assumptions, projections, and cost estimates are based on early and preliminary information and as such, will change in future years. City management will propose budget adjustments necessary to maintain a balanced budget.

GENERAL FUND

ECONOMIC INDICATORS

FY 2023-24 General Fund revenue totals $1.8 billion composed primarily of two main sources: property tax and sales tax. Property and sales tax revenue, account for 81.6 percent of General Fund revenue and the forecast for both are detailed below. The City of Dallas contracts with Dearmon Analytics, LLC to develop the property and sales tax forecast. The projections are based on an analysis of variables including disposable personal income, producer price index, labor force, and historical trends. Additionally, both property and sales tax projections are updated regularly in the Budget Accountability Report (BAR).

PROPERTY TAXES

Property taxes are levied on net assessed value, which includes locally assessed real property, improvements, and personal property less exemptions. The aggregate assessed value in each of these categories changes from year to year due to market trends, depreciation, exemptions, legislative changes, and construction activity. Certified property tax values increased 10.5 percent in FY 2023-24. Of the $18.8 billion increase in total value, $3.7 billion is from new construction. Therefore, of the 10.5 percent growth in total value, 2.1 percent is from new construction and 8.4 percent is from reappraisals. This increase compares FY 2023-24 certified to FY 2022-23 certified. A year-over-year growth comparison of certified values are detailed in the tables below.

Future year property value growth assumptions reflect a 3.5 percent cap resulting from the Texas Reform and Transparency Act of 2019 (Senate Bill 2) and 2.6 percent growth in new construction for years three through five (which reflects three-year average growth).

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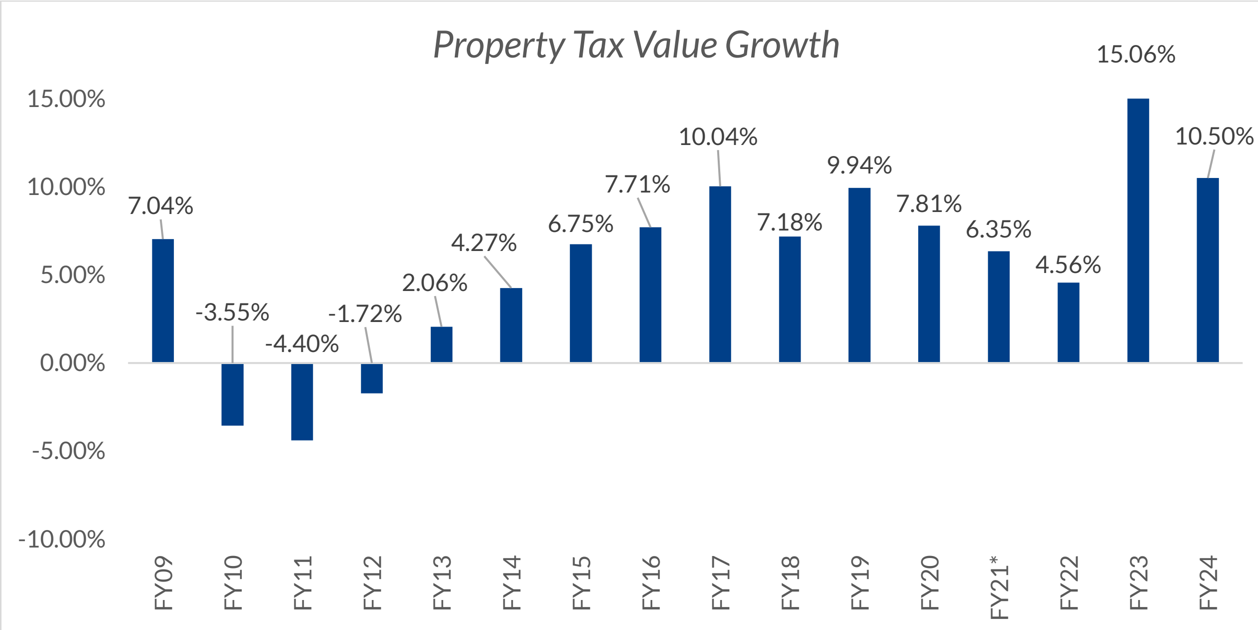

**Reflects Supplemental Values*

SALES TAX

The state collects 8.25 percent on taxable goods or services sold within the city limits. Of the 8.25 percent collected, the state retains 6.25 percent and distributes one percent to the City and one percent to Dallas Area Rapid Transit (DART).

Sales tax revenue is the most volatile General Fund revenue the City collects and is greatly affected by, not only the local economy, but also national and global forces. After declines in sales tax revenue from FY 2007-08 to FY 2009-10 due to the Great Recession, year-over-year collections improved (starting in FY 2010-11), and collections have improved every year until the 2021 recession.

Future growth projections assume the nation can orchestrate a smooth transition into a post-pandemic economy. We project sales tax revenue to maintain an average growth rate of 4.4 percent during the five-year forecast period.

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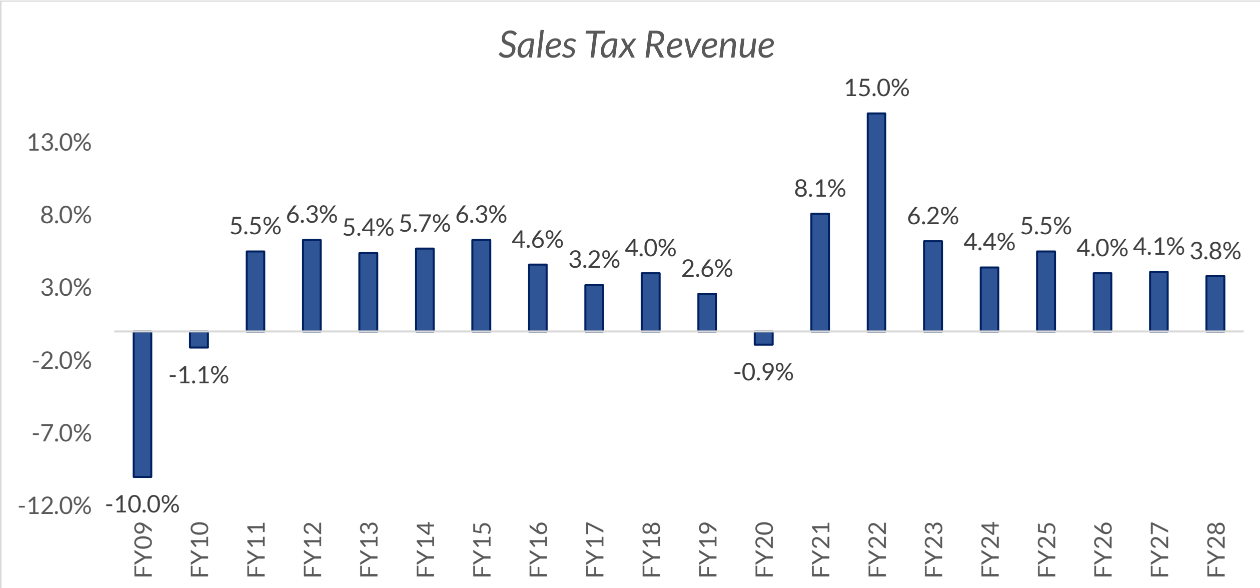

OTHER REVENUE

This category consists of revenues collected from various sources, including franchise revenues, licenses and permits, intergovernmental, fines and forfeitures, charges for services, and other miscellaneous sources. These revenues are budgeted at $338.2 million for FY 2023-24, an increase of $10.2 million or 3.1 percent compared to the FY 2022-23 adopted budget. This increase is primarily due to an anticipated spike in natural gas this winter, park and recreation activities starting their return to pre-pandemic levels, inspection fees, and an increase in traffic fines.

Even with the modest growth in property tax revenue and the assumed recovery of sales tax revenues over the next two years, the City is facing a structural deficit in years 3-5, due in part to personnel services (uniform and non-uniform salaries and benefits). The City must make trade-offs and make responsible budget decisions in future years to maintain services.

EXPENDITURES

Expenditure projections focus on personnel services, supplies, contracts, and capital. Personnel services reflect projections for salaries, medical benefits, and retirement. Supplies and materials, services, and charges include costs required to support utilities, fuel, fleet, risk management, information technology, infrastructure, and contributions to outside agencies.

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PERSONNEL SERVICES

Personnel services expenditure projections assume a constant level of staffing for non-uniform employees, and an average three percent merit increase in FY 2023-24 and annually from FY 2024-25 through FY 2027-28.

Uniform salary projections reflect hiring 250 officers in the first year of the biennial and 250 in the second year of the biennial, as well as market-based salary increases per the three-year Meet and Confer agreement. Additionally, retention incentives are to be implemented. The FY 2023-24 market-based salary increases raise the starting salary of a Police Officer/Firefighter to $70,314 from $66,960 annually. The City adopted a new Meet and Confer agreement on October 26, 2022. The forecast assumes a 5.01 percent market increase in FY 2023-24, and an average three percent market increase annually from FY 2024-25 through FY 2027-28.

The City's Financial Management Performance Criterion #25 states "the City shall attract, develop, motivate, reward, and retain a high-performing and diverse workforce. The City Manager shall provide analyses and recommendations for the City Council to consider each year in the budget development process to adjust employee pay. The recommendation for adjustments to uniformed employee pay will conform with the applicable meet and confer agreement. The recommendation for adjustments to non-uniformed/civilian employee pay will consider: (1) an annual survey of peer governmental entities; (2) an annual review of the Massachusetts Institute of Technology living wage; (3) a total compensation study every three years to assess market competitiveness; (4) parity with uniformed employee pay adjustments; and (5) budget capacity." While the forecast assumes salary increases, future increases for both uniform and non-uniform staff will be based on the criteria above.

Projected future pension costs for Police and Fire-Rescue reflect the minimum contributions the City is required to fund for police and fire pension as enacted by the Texas State Legislature through House Bill (HB) 3158. HB 3158 changed the City's contribution rate to 34.5 percent, changed computation categories, and requires a minimum contribution by the City of more than the calculated rate. The table reflects the City's minimum contribution by fiscal year. The required minimum contribution ends December 31, 2024 and future costs will be based solely on pensionable uniform salaries. Currently, the budgeted pension costs exceed the minimum contribution.

Fiscal Year	Minimum City Contribution
FY 2017-18	$150,712,800
FY 2018-19	$156,818,700
FY 2019-20	$161,986,377
FY 2020-21	$165,481,401
FY 2021-22	$169,023,200
FY 2022-23	$165,659,700
FY 2023-24	$168,856,000

Other personnel service expenditures, such as civilian pension, are forecast to remain flat, and health insurance is projected to increase seven percent during the forecast period.

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OTHER EXPENSES

Growth rates for supplies and contractual services are forecast to increase 3.0 percent from FY 2025-26 through FY 2027-28. The forecast includes $89.8 million in FY 2023-24 (a 3.9 percent increase compared to $86.4 million in FY 2022-23) for the required tax increment financing (TIF) payment and a $6.0 million annual contribution to the Infrastructure Investment Fund. The forecast assumes a five percent annual increase in TIF during the forecast period.

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FUND BALANCE

FMPC Criterion #2 states "the unassigned fund balance of the General Fund shall be maintained within a range of not less than 50 days and not more than 70 days of General Fund operating expenditures less debt service." The establishment and maintenance of a financial reserve policy is critical to prudent financial management. The projection reflects unassigned fund balance at 50+ days of General Fund operating expenditures in FY 2023-24 through FY 2026-27. The General Fund is forecast to be out of structural balance in FY 2025-26 (ongoing expenses exceed ongoing revenues) as shown in the table below. Although that is forecast, the City will not allow that to occur; we will secure a structural balance through budget reductions, revenue increases, or other corrective actions.

General Fund ($ in millions)					
	FY 2023-24 Budget	FY 2024-25 Planned	FY 2025-26 Planned	FY 2026-27 Planned	FY 2027-28 Planned
Property Tax	$1,047.6	$1,104.2	$1,121.6	$1,160.7	$1,201.1
Sales Tax	451.7	476.6	495.7	515.9	535.5
Franchise Fees	126.6	126.0	126.0	126.0	126.0
Other Revenue	211.6	207.9	209.5	210.2	210.8
Total Revenues	1,837.6	1,914.6	1,952.9	2,012.8	2,073.4
Non-uniform Pay & Overtime	306.4	319.8	329.2	338.8	348.7
Non-uniform Pension	42.3	44.6	47.6	49.0	50.4
Uniform Pay & Overtime	616.9	658.2	674.5	691.3	708.6
Uniform Pension	187.9	194.1	193.1	198.3	203.7
Health Benefits	97.6	103.5	110.7	118.5	126.8
Other Personnel Services	27.3	28.1	28.6	29.0	29.5
Personnel Services	1,278.3	1,348.3	1,383.8	1,425.0	1,467.7
Supplies	92.6	94.8	97.6	100.5	103.5
Contractual	531.1	543.8	562.0	580.8	600.2
Capital Outlay	25.2	20.2	20.2	20.2	20.2
Reimbursements	(89.8)	(92.5)	(92.5)	(92.5)	(92.5)
Total Expenditures	1,837.6	1,914.6	1,971.0	2,034.0	2,099.2
Change in Balance Sheet	(3.6)	0	0	0	0
Ending Fund Balance	$319.6	$319.6	$301.4	$280.2	$254.4
Days of Reserve	63.5	60.9	55.8	50.3	44.2

FIVE-YEAR FORECAST

OUTLOOK

The City's Financial Management Performance Criterion (FMPC) #18 states "management will project revenues and expenditures annually for at least five years beyond the current year for the General Fund and each Enterprise Fund of the City." The five-year forecast is presented for the following Enterprise Funds:

- Aviation
- Convention and Event Services
- Dallas Water Utilities (DWU)
- DWU—Storm Drainage Management
- Development Services
- Municipal Radio
- Sanitation Services

FIVE-YEAR FORECAST

AVIATION

The Department of Aviation (AVI) manages Dallas Love Field (DAL), Dallas Executive Airport (DEA), and the Dallas Vertiport. DAL is one of the busiest medium-hub air carrier/general aviation airports in the world and has experienced unprecedented growth in passenger traffic since the repeal of the Wright Amendment in 2014. Airport revenues reflect revenue from airlines (57 percent), parking (15 percent), concessions (13 percent), and other miscellaneous fees (15 percent).

Forecast Highlights

- The FY 2023-24 budget reflects a $24 million increase in revenue due to an increase in enplanements, concessions, parking, and other miscellaneous fees.
- Dallas Love Field has returned to a pre-pandemic level of passenger traffic with an estimate of 10.2 million enplanements in FY 2023-24.
- Dallas Love Field received $16,350,188 from the Bipartisan Infrastructure Law which expires September 2026.
- Expenditures for FY 2023-24 will increase by $25.2 million due to increases in staff, supplies, contracts, terminal repairs, and Commercial Paper debt service interest/insurance payment.

Aviation ($ in millions)					
	FY 2023-24 Budget	FY 2024-25 Planned	FY 2025-26 Planned	FY 2026-27 Planned	FY 2027-28 Planned
Total Revenues	$182.6	$188.6	$190.7	$196.4	$202.3
Total Expenditures	$184.9	$188.6	$183.0	$188.5	$194.1
Ending Fund Balance	$84.8	$84.8	$92.5	$100.4	$108.6

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CONVENTION AND EVENT SERVICES

The Kay Bailey Hutchison Convention Center Dallas (KBHCCD) is one of the nation's largest convention centers and the first named for a woman. The tourism and travel industry is an important element of the Dallas economy and serves as an economic driver for North Texas, bringing millions of visitors to the region annually. The Convention Center's largest revenue source comes from the 7 percent of Hotel Occupancy Tax (HOT) that the City receives from the 13 percent of the room rate charged within the City limits. In November 2022, the citizens of Dallas approved an additional 2 percent of room rates charged to support the master plan for the expanded convention center and some facility improvements at Fair Park.

Forecast Highlights

- FY 2022-23 revenues are projected to end the year 8.5 percent over budget due to increased HOT collection, alcohol and beverage tax and event revenue. Historically, the KBHCCD hosts 100 major events per year with attendance ranging from 40-60,000 and averaging $37 million in event revenues annually. A total of 88 events are forecasted through the end of FY 2022-23.
- HOT revenue is the largest revenue source for the KBHCCD. FY 2023-24 and FY 2024-25 HOT revenue is projected at approximately $78 million and $83 million, respectively. This revenue source supports convention center operating and capital costs – namely the master plan, tourism and marketing promotion for Dallas, and arts and culture. In FY 2023-24 Convention and Event Services is projected to contribute approximately $5 million to arts and culture from this revenue source.
- FY 2023-24 proposed operating expenses are projected to be approximately 19 percent higher than in FY 2022-23 amended budget as the number of bookings continue to increase. Additionally, contractual payments to VisitDallas, Spectra Venue Management, and master plan projects are forecasted as part of this expense increase.

Convention Center ($ in millions)					
	FY 2023-24 Budget	FY 2024-25 Planned	FY 2025-26 Planned	FY 2026-27 Planned	FY 2027-28 Planned
Total Revenues	$137.1	$137.9	$130.7	$128.5	$127.1
Total Expenditures	$137.1	$137.9	$130.7	$128.5	$127.1
Ending Fund Balance	$56.7	$56.7	$56.7	$56.7	$56.7

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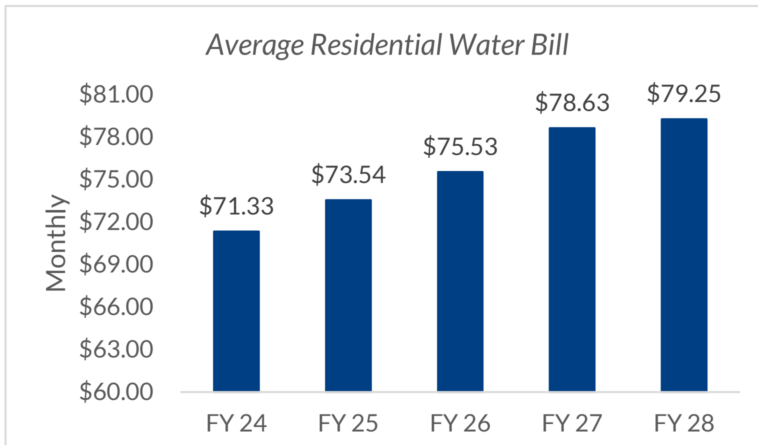
DALLAS WATER UTILITIES

Dallas Water Utilities (DWU) is owned and operated by the City as a self-supporting enterprise fund and receives revenues through the sale of water and wastewater services. In FY 2018-19, DWU and Storm Drainage Management were combined. By consolidating storm drainage, water supply, and wastewater utilities, Dallas aligned with national standards and now takes a holistic approach to planning, operating, and future needs. Compliance activities and drainage system operation and maintenance activities continue in the new "one water" system.

Forecast Highlights



- The proposed retail rate of $71.33 in FY 2023-24 will cover increased costs for the Integrated Pipeline Project and system maintenance.
- Retail rate increases will average approximately 2.5 percent from FY 2023-24 through FY 2027-28. These increases will cover higher personnel costs, additional payments to connect Lake Palestine to the Dallas water supply system, investment in department fleet, and additional capital program funding necessary to maintain DWU infrastructure.
- Major expenditure categories include operating and maintenance costs, debt service payments, and transfers to capital. Increases in the forecast period reflect inflation.

Dallas Water Utilities ($ in millions)					
	FY 2023-24 Budget	FY 2024-25 Planned	FY 2025-26 Planned	FY 2026-27 Planned	FY 2027-28 Planned
Total Revenues	$791.3	$814.4	$833.5	$863.0	$870.3
Total Expenditures	$791.3	$814.8	$833.5	$863.0	$870.3
Ending Fund Balance	$97.2	$96.9	$96.9	$96.9	$96.9

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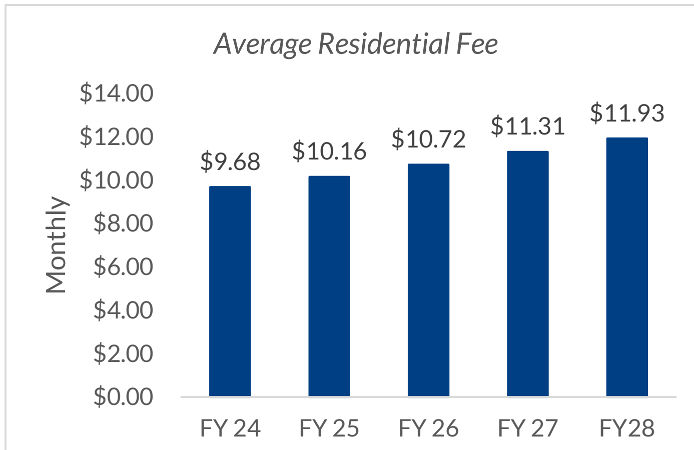
DALLAS WATER UTILITIES – STORM DRAINAGE MANAGEMENT

DWU—Storm Drainage Management (SDM) is owned and operated by the City as a self-supporting enterprise fund and receives revenues through monthly stormwater fees. These fees support the cost of compliance with the City's storm drainage discharge permit with the Texas Commission on Environmental Quality (TCEQ), operation, maintenance, and enhancement of the levee system.

Forecast Highlights

- Stormwater revenue is projected to grow an average of 5.4 percent during the forecast period (FY 2023-24 - FY 2027-28) to fund capital projects, annual operating expense increases, and maintain a 30-day cash balance for operating expenses.
- Upon completion of a Stormwater Comprehensive System Assessment, the utility will be proposing an expanded capital program for more sustainable infrastructure and the associated debt funding.



Dallas Water Utilities – Storm Drainage Management ($ in millions)					
	FY 2023-24 Budget	FY 2024-25 Planned	FY 2025-26 Planned	FY 2026-27 Planned	FY 2027-28 Planned
Total Revenues	$80.1	$85.9	$90.6	$95.6	$100.8
Total Expenditures	$80.1	$85.9	$90.6	$95.6	$100.8
Ending Fund Balance	$10.0	$10.0	$10.0	$10.0	$10.0

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DEVELOPMENT SERVICES

Development Services (DEV) provides plan review services for commercial and residential development and redevelopment projects, issues construction and trade permits, and processes Certificates of Occupancy applications for new and existing businesses.

Forecast Highlights

- A new One Stop Permit Facility acquisition in process to facilitate cross Departmental communication and permit issuance.
- The City will also work towards replacing the core permit processing system over the next two years.
- Restructure the permitting process and continue to implement customer service initiatives.
- Create a team for plan review & inspections group to support single family affordable housing projects.
- Create a Rapid Single-Family VIP Program (RSVP) expedited new single-family projects.
- Launch a Customer Advocate team to increase responsiveness, customers service and reduce permitting processing turn-around time.
- Implement a second Express Plan Review Unit (Q-Team) and expand the current number of projects qualifying for this service.
- Create multi-discipline Inspectors and Plans Examiners to increase departmental efficiencies.
- Continue technology initiatives by updating Electronic Plan Review software and exploring options to replace current Land Management System.
- Implement employee Certification Incentive Pay Program to incentivize cross training, agile workforce, and departmental scalability.
- Additional staff will decrease processing time for the high volume of permit applications and allow more efficient processing of both commercial and residential permit applications.

Development Services ($ in millions)					
	FY 2023-24 Budget	FY 2024-25 Planned	FY 2025-26 Planned	FY 2026-27 Planned	FY 2027-28 Planned
Total Revenues*	$45.5	$51.5	$55.5	$58.5	$60.0
Total Expenditures	$54.0	$57.1	$57.0	$58.7	$60.5
Ending Fund Balance	$12.3	$6.7	$5.2	$4.9	$4.4

*Revenue forecast assumes planned increase in fees (from current and future fee studies) to achieve full cost recovery in a phased fashion pending Council approval.

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MUNICIPAL RADIO

WRR 101.1 FM is owned by the City of Dallas and operated as a classical radio station by management partner KERA. It was the first licensed broadcast station in Texas and the second broadcast station issued a commercial license in the United States. The station provides 24-hour broadcast that includes classical music and other select programming. WRR's expenses that are paid by the City per Federal Communications Commission requirements are reimbursed by KERA, which fundraises and sells underwriting spots on air to fund operations.

Forecast Highlights

- The day-to-day operations of WRR has transitioned to management partner KERA.
- City-retained expenses, including 1.00 FTE and radio tower rents, to be reimbursed by KERA per the management agreement.
- Beginning in FY 2023-24, KERA will operate the station for the full fiscal year and will reimburse all City expenses.
- Additional revenue potential is possible from transfer of some of the contractual underwriting spots on KERA's platforms to other City departments, pending creation of the distribution policy and City Council approval.

Municipal Radio ($ in millions)					
	FY 2023-24 Budget	FY 2024-25 Planned	FY 2025-26 Planned	FY 2026-27 Planned	FY 2027-28 Planned
Total Revenues	$0.6	$0.7	$0.7	$0.7	$0.7
Total Expenditures	$0.6	$0.7	$0.7	$0.7	$0.7
Ending Fund Balance	$0.3	$0.3	$0.3	$0.3	$0.3

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SANITATION SERVICES

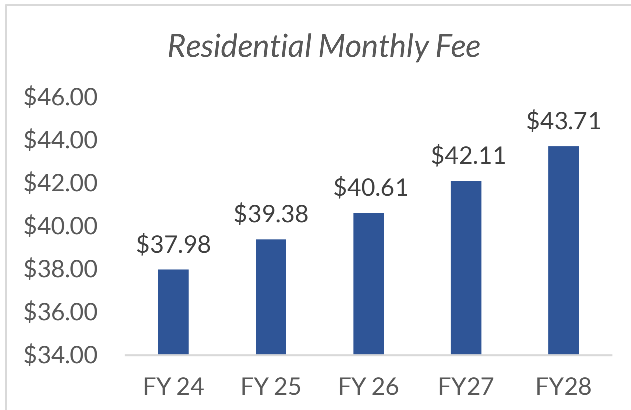
Sanitation Services (SAN) serves approximately 246,000 households in Dallas, and it provides programs and services that effectively and efficiently manage municipal solid waste. In addition to providing customers with reliable solid waste collection, SAN operates and maintains the McCommas Bluff Landfill and three transfer stations.

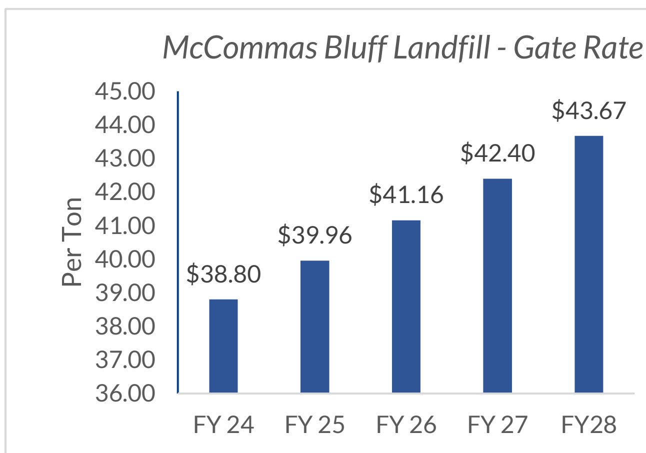
Forecast Highlights

- The residential monthly fee is projected to increase by 6.0 percent to $37.98 in FY 2023-24 and by 3.7 percent to $39.38 in FY 2024-25 (from $35.81 per month in FY 2022-23).

  Primary causes for the fee increases include increase to industrial temp labor living wage; increases to employee health benefit costs; increase to brush and bulky trash collection contract; and increases in equipment maintenance costs.

  To meet increased environmental regulatory requirements and on-going operational improvement needs, the FY 2023-24 gate rate at McCommas Bluff Landfill is projected to increase by 3.0 percent to $38.80 per ton in FY 2023-24 and by another 3.0 percent to $39.96 per ton in FY 2024-25 (from $37.67 per ton in FY 2022-23).





- The Sanitation Storm Reserve was established in FY 2020-21 and SAN will continue contributing to the reserve in future years to prevent significant fund balance usage caused by unexpected events or natural disasters.

- FY 2023-24 includes funding to continue fleet replacement of 45 pieces of equipment and vehicles and modernization of the fleet.

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Sanitation ($ in millions)					
	FY 2023-24 Budget	FY 2024-25 Planned	FY 2025-26 Planned	FY 2026-27 Planned	FY 2027-28 Planned
Total Revenues	$152.7	$157.9	$162.1	$167.3	$173.0
Total Expenditures	$153.7	$158.8	$162.3	$167.5	$173.0
Ending Fund Balance	$22.4	$21.5	$21.3	$21.0	$21.0