

Memorandum



CITY OF DALLAS

DATE November 26, 2014

TO Honorable Mayor and Members of the City Council

SUBJECT **FY 2015-16 Budget Outlook**

On Wednesday, December 3, 2014, the City Council will be briefed on the FY 2015-16 Budget Outlook. The materials are attached for your review.

If you have any questions, please let me know.


A.C. Gonzalez
City Manager

c: Warren M.S. Ernst, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Ryan S. Evans, First Assistant City Manager
Eric D. Campbell, Assistant City Manager

Jill A. Jordan, P.E., Assistant City Manager
Mark McDaniel, Assistant City Manager
Joey Zapata, Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager – Mayor & Council



FY 2015-16 Budget Outlook

City Council Briefing
December 3, 2014



Purpose of Briefing

- Recap FY 2014-15 adopted budget
- Discuss early considerations for FY 2015-16 budget
- Review changes in budget development process
- Provide first look at FY 2015-16 general fund
- Provide long-range general fund financial forecast
- Review schedule for developing budget
- Receive City Council input, comments, and questions

FY 2014-15 budget was balanced and adopted by City Council on September 17, 2014

Expenditures	FY 2013-14 Amended Budget	FY 2014-15 Adopted Budget	% Change
General Fund	\$1,130,580,755	\$1,166,685,000	3.19%
Aviation	66,852,583	86,544,784	29.46%
Convention and Event Services	75,606,836	77,345,050	2.30%
Municipal Radio	2,379,435	2,061,761	-13.35%
Storm Water Drainage Management	55,011,250	53,598,761	-2.57%
Sustainable Development and Construction	25,262,223	26,838,534	6.24%
Water Utilities	595,314,797	614,521,177	3.23%
Debt Service	234,511,248	229,908,362	-1.96%
Total Operating Budget	\$2,185,519,127	\$2,257,503,429	3.29%
Capital Budget	672,632,404	549,373,799	-18.32%
Total Budget	\$2,858,151,531	\$2,806,877,228	-1.79%

Early Considerations for FY 2015-16 Budget



Early Considerations for FY 2015-16 Budget

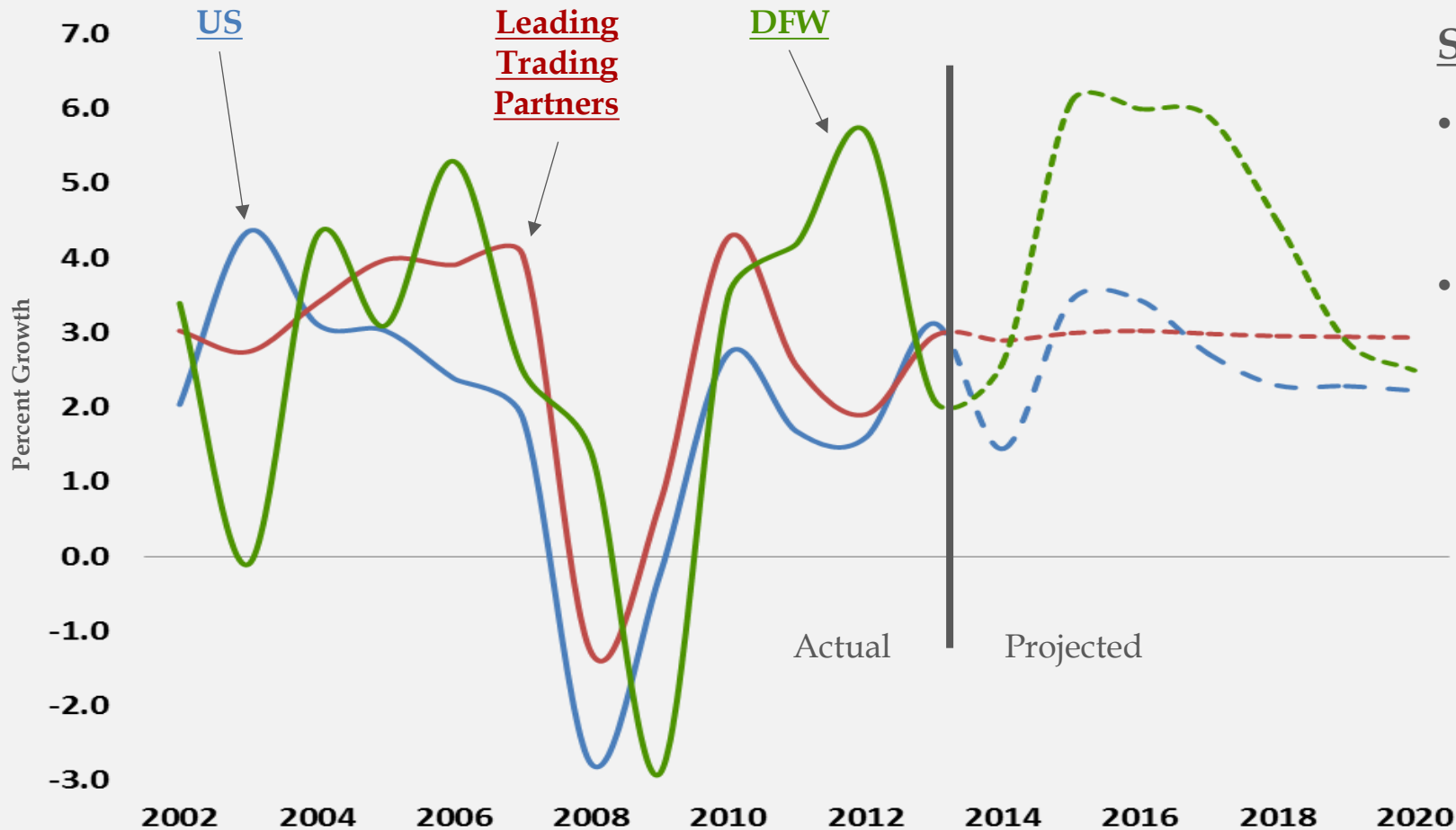
- Budget process is dynamic and requires understanding following types of information:
 - Economic outlook
 - Citizens' priorities (briefed to Council October 28)
 - Strategic direction of City Council including goals and objectives (briefed to Council November 18)

Economic Outlook

- Overview of economic outlook for City of Dallas and DFW metroplex
 - Since 2001, DFW average growth has outpaced US growth
 - Dallas has consistently outperformed nation's unemployment rate for nearly last 7 years
 - Business diversity and job mix helps Dallas through economic downturns
 - DFW ranks 6th in nation in both total office space inventory and in percentage of total office space inventory under construction

International, National, and Local Economic Growth

Real GDP in US, Leading Trading Partners, & DFW MSA



Since 2001

- DFW average growth has outpaced US growth (2.7% versus 1.9%)
- A diverse industry mix and a notably higher concentration than nation of high end service occupations have helped stabilize DFW economy and fueled faster economic recovery.

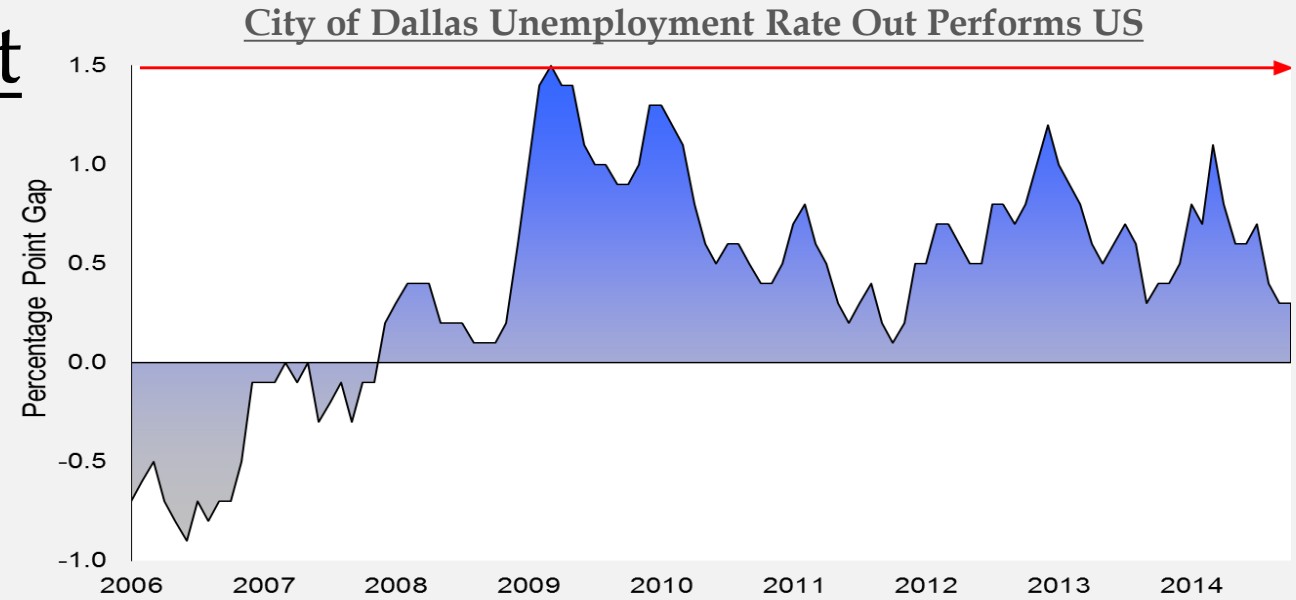
Sources: Congressional Budget Office; Bureau of Economic Analysis; Consensus Economics (projections made before July 30); Moody's Analytics.

NOTE: US leading trading partner GDP is calculated using an average of the rates of growth of their real GDPs, weighted by their shares of U.S. exports. The trading partners included in the average are Australia, Brazil, Canada, China, Hong Kong, Japan, Mexico, Singapore, South Korea, Switzerland, Taiwan, the United Kingdom, and the countries of the Euro zone.

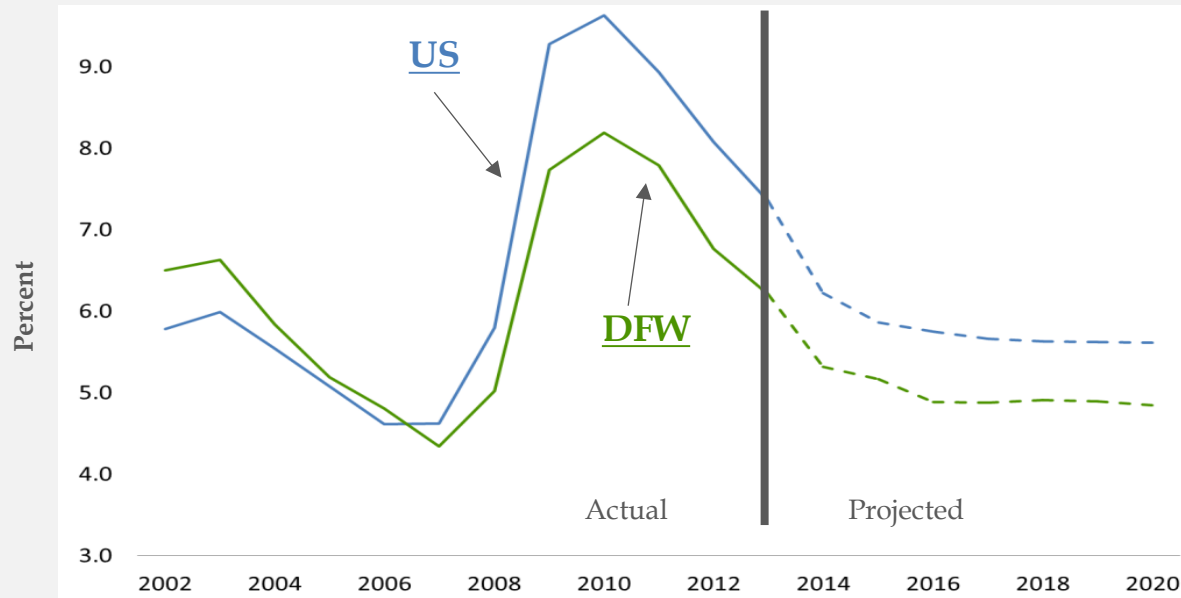
National and Local Employment

Minding the Gap

- Chart on right presents differences between City of Dallas and US unemployment rates. When Dallas outperforms US, it is reflected as a positive value.
- Dallas has consistently outperformed nation's unemployment rate for nearly last 7 years.
- Average "gap" difference between City and national unemployment rate has been 0.6 percentage points since December 2007.



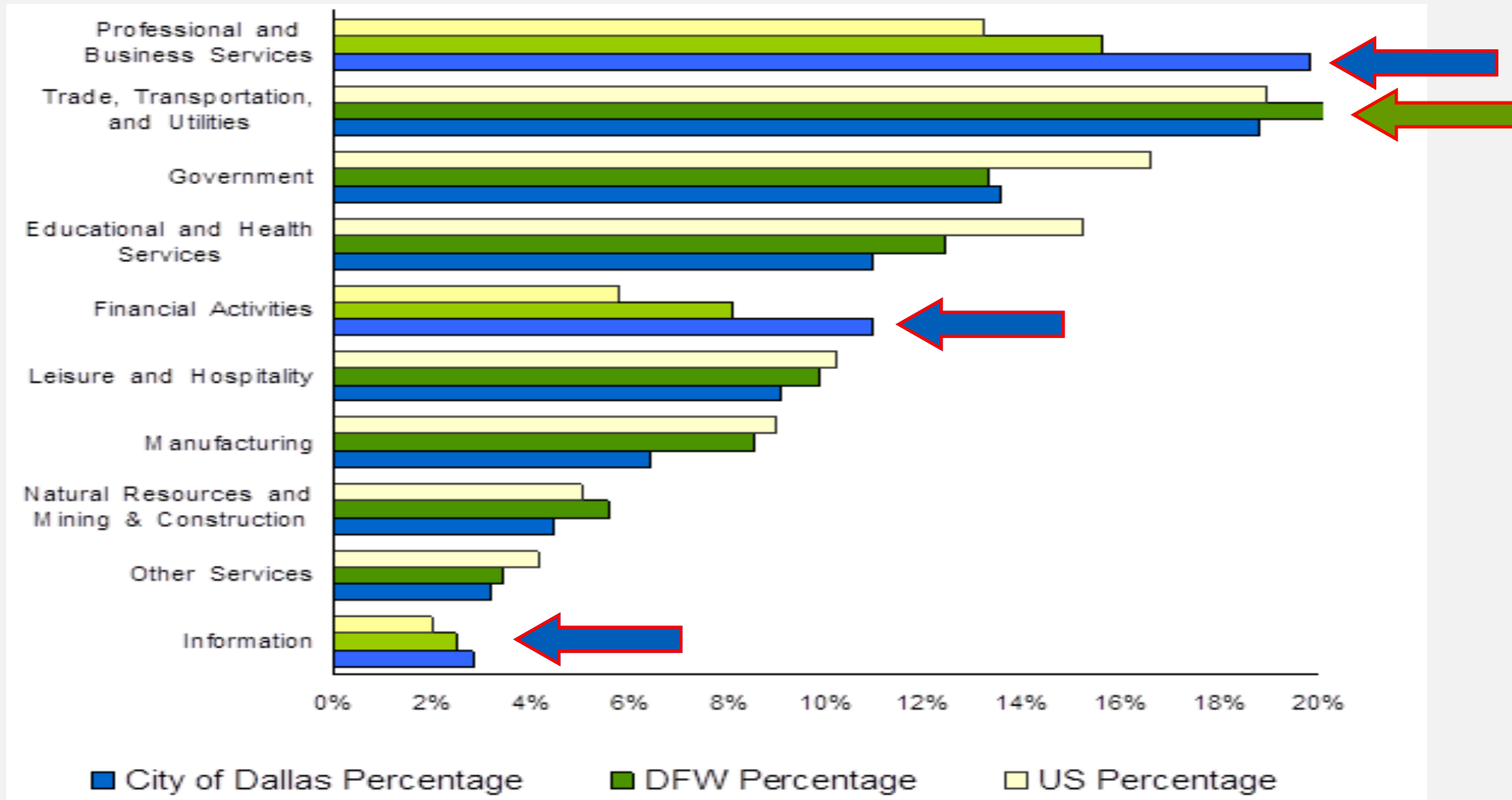
Unemployment Rate in US vs DFW MSA



Projected Unemployment

- DFW unemployment rate fell below national in 2007. This trend has continued, despite a regional net in-migration amount of more than 428,000 people since 2007.
- Projections of both US and DFW rates shows City's rate averaging one percentage point below nation's through 2020.
- Especially noteworthy is continued unemployment rate improvement while labor force participation in DFW increases.

Comparative Local Business Diversity: Industry Mix and Jobs

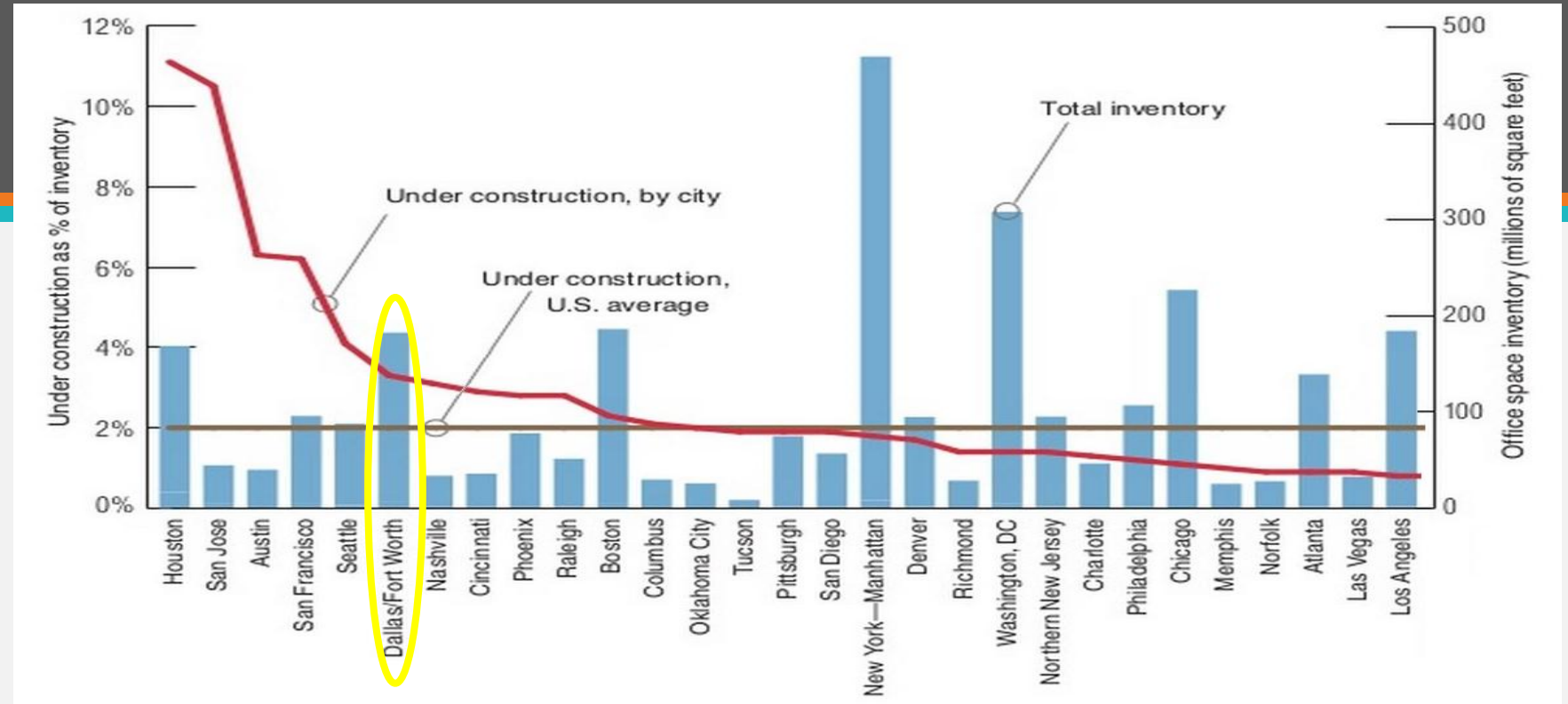


Area Industry Mix Compared to DFW and the Nation (Jobs)

City of Dallas and greater DFW region have a notably higher concentration than nation of high-end service occupations: professional services, finance and information.

Comparative Local Real Estate

Office Space Under Construction as a Percentage of Total Inventory, 2Q 2014



- DFW ranks 6th in nation in both total office space inventory and in percentage of total office space inventory under construction.
- DFW MSA ranks first among MSAs with a population greater than 6.5 million in percentage of total office space inventory under construction.
- Economic growth in North Texas is leading to an increase in office space construction, both in greater downtown Dallas and in surrounding city and suburbs.

Concerns not Currently Reflected in Economic Forecasts and Projections

- Global energy market uncertainty (international response to fracking)
- Greater volatility in global commodity pricing
- Effect of raising federal funds rate on financial markets
- Wealth/income gap
- Global political instability

Citizen
Engagement &
Strategic
Planning/Direction



Citizen Involvement in FY 2014-15 Budget

- As part of FY 2014-15 budget development, citizen involvement included 4,165 individuals
 - Public hearings at Dallas City Hall - 42 citizens
 - Three budget public hearings on March 26, May 28, and August 27 - 37
 - Two tax rate public hearings on September 3 and 10 - 5
 - Citizen survey - 1,040 citizens
 - TalkDallas.com on-line survey from May 12 to June 8 - 1,040
 - Town hall meetings - 3,083 citizens
 - 37 traditional town hall meetings from August 12 to August 28 - 1,010
 - 7 virtual town hall meetings from August 12 to August 28 - 2,073
- However, only 7.2% of residents report they attend City meetings according to information provided by ETC Institute

Citizen Input for FY 2015-16 Budget Development

- City contracted with ETC Institute to conduct city-wide survey through late Spring and early Summer 2014
- Consultant briefed City Council on results on October 28
- 1,523 surveys completed with at least 100 from each council district
 - Response rate exceeded 30% in each district
 - Randomly selected sample of households throughout City
- 95% confidence level with margin of error +/- 2.5% overall

Citizen Input through Spring/Summer 2014 Survey (October 28 briefing)

- Overall satisfaction with City services is 15% above the national average for large US cities
- The City is maintaining current service levels
- Overall satisfaction with city services is similar in most areas of the City
- Dallas rated above the national average for large U.S. cities in all areas of customer service that were assessed on the survey
- Although the City is generally heading in the right direction, there are opportunities for improvement

Citizen Input through Spring/Summer 2014 Survey

- Survey gauged both citizen rating for importance and citizen rating for satisfaction for major categories of City services
- Following 2 slides were provided by consultant and show ranking of those services based on importance and satisfaction

Importance-Satisfaction Rating

City of Dallas

Major Categories of City Services

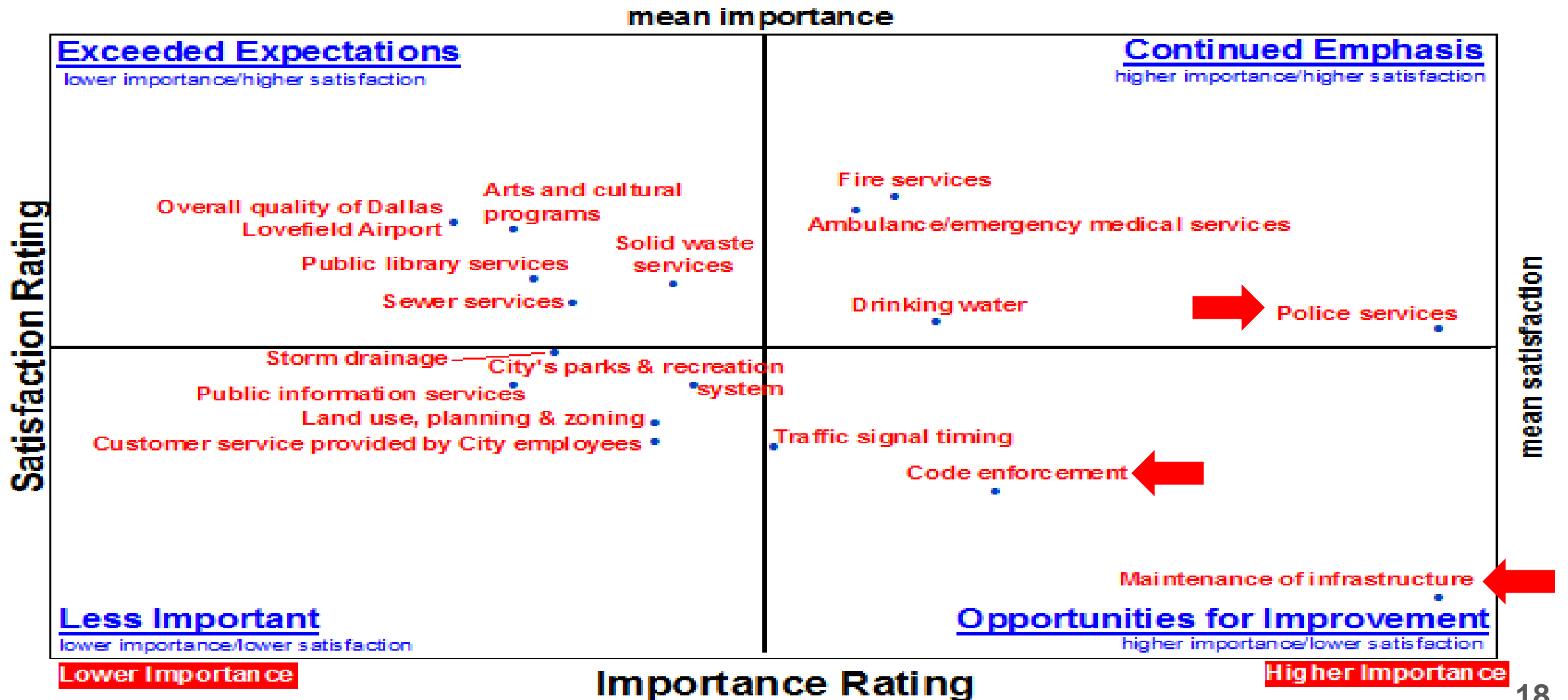
Category of Service	Most Important %	Most Important Rank	Satisfaction %	Satisfaction Rank	Importance-Satisfaction Rating	I-S Rating Rank
<u>Very High Priority (IS >.20)</u>						
Maintenance of infrastructure	53%	2	25%	17	0.3975	1
<u>High Priority (IS .10-.20)</u>						
Code enforcement	31%	3	42%	16	0.1798	2
Police services	53%	1	68%	9	0.1696	3
Traffic signal timing	20%	7	49%	15	0.1020	4
<u>Medium Priority (IS <.10)</u>						
Drinking water	28%	4	69%	8	0.0868	5
Customer service provided by City employees	14%	10	50%	14	0.0700	6
Land use, planning and zoning	14%	11	53%	13	0.0658	7
The City's parks and recreation system	16%	8	59%	12	0.0656	8
Solid waste services	15%	9	75%	6	0.0375	9
Storm drainage	9%	13	64%	10	0.0324	10
Ambulance/emergency medical services	24%	6	87%	2	0.0312	11
Public information services	7%	15	59%	11	0.0287	12
Fire services	26%	5	89%	1	0.0286	13
Sewer services	10%	12	72%	7	0.0280	14
Public library services	8%	14	76%	5	0.0192	15
Arts and cultural programs	7%	15	84%	4	0.0112	16
Overall quality of Dallas Lovefield Airport	4%	17	85%	3	0.0060	17

Overall priorities:

2014 City of Dallas DirectionFinder Importance-Satisfaction Assessment Matrix

-Major Categories of City Services-

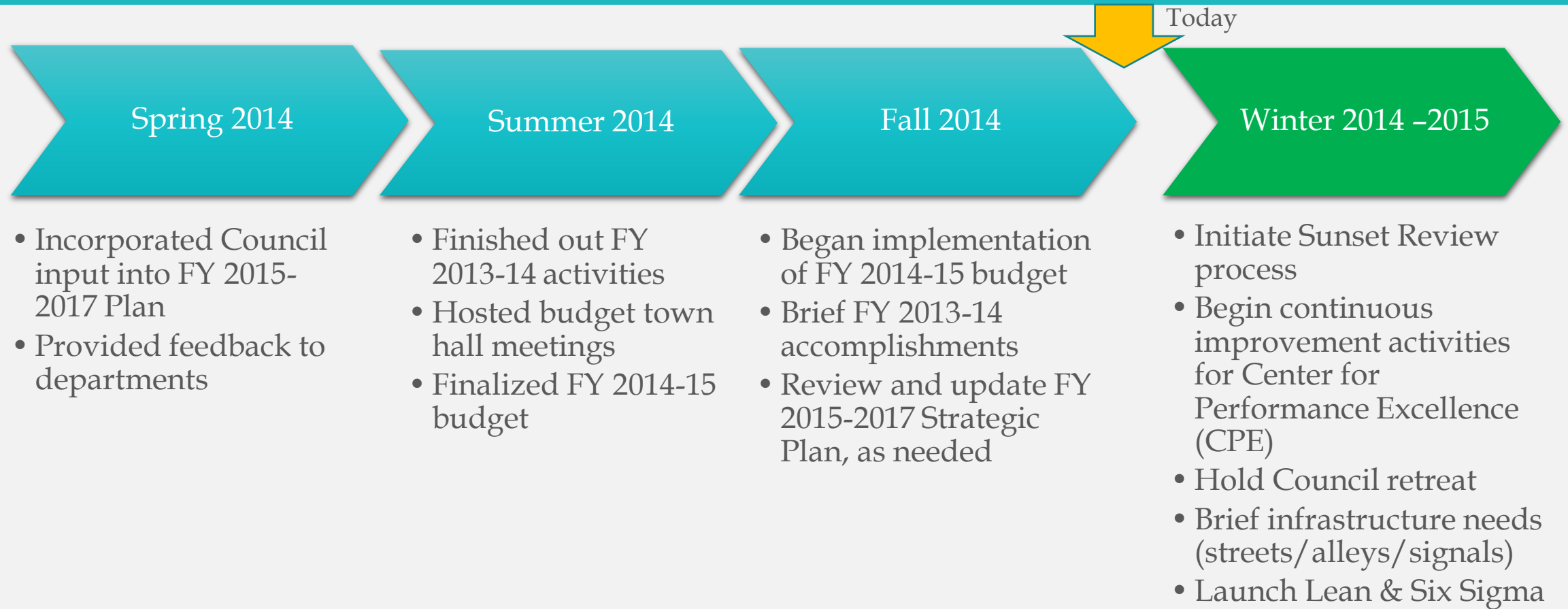
(points on the graph show deviations from the mean importance and satisfaction ratings given by respondents to the survey)



Strategic Planning Overview (November 18 Briefing)



FY 2015-17 Strategic Plan (November 18 Briefing)



FY 2015-17 Strategic Plan (November 18 Briefing)



Spring 2015

- Brief Council on Sunset Review results
- Launch Business Planning
- Host CPE Advisory Board Spring meeting
- Gather early community input on budget
- Tie performance metrics to budget
- Brief FY 2015-16 budget updates

Summer 2015

- Conduct enhanced citizen engagement on budget
- Incorporate community needs into budget
- Finalize FY 2015-16 budget

Fall 2015

- Begin implementation of FY 2015-16 budget
- Conduct business and community surveys
- Host CPE Fall meeting
- Brief FY 2014-15 accomplishments

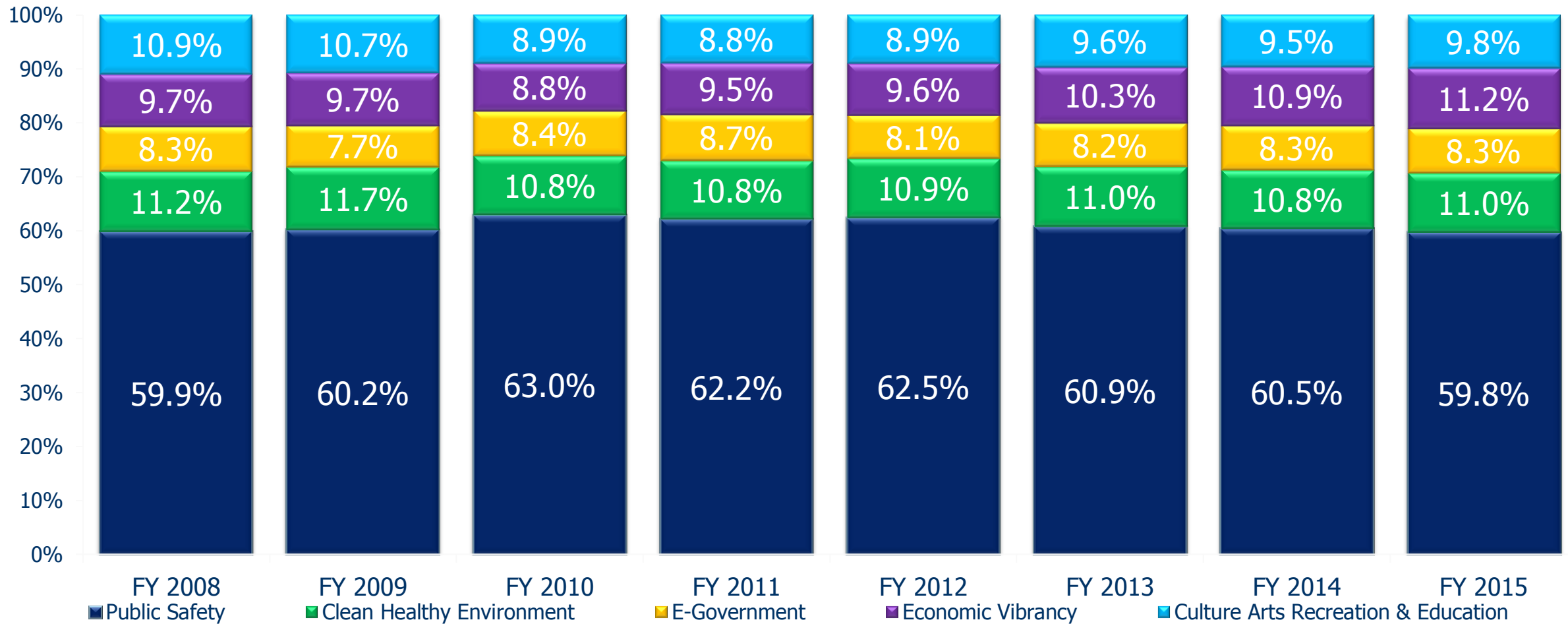
Strategic Direction of City Council

- Past and current strategic plans of City have provided guidance for development of City's annual operating budgets
- “Budgeting for Outcomes” approach has been used for budget development since FY 2005-06 and has provided more focus on results than in past
- Current Key Focus Areas (KFA) have been used since development of FY 2007-08 and have provided consistency for comparison over time

Strategic Direction of City Council

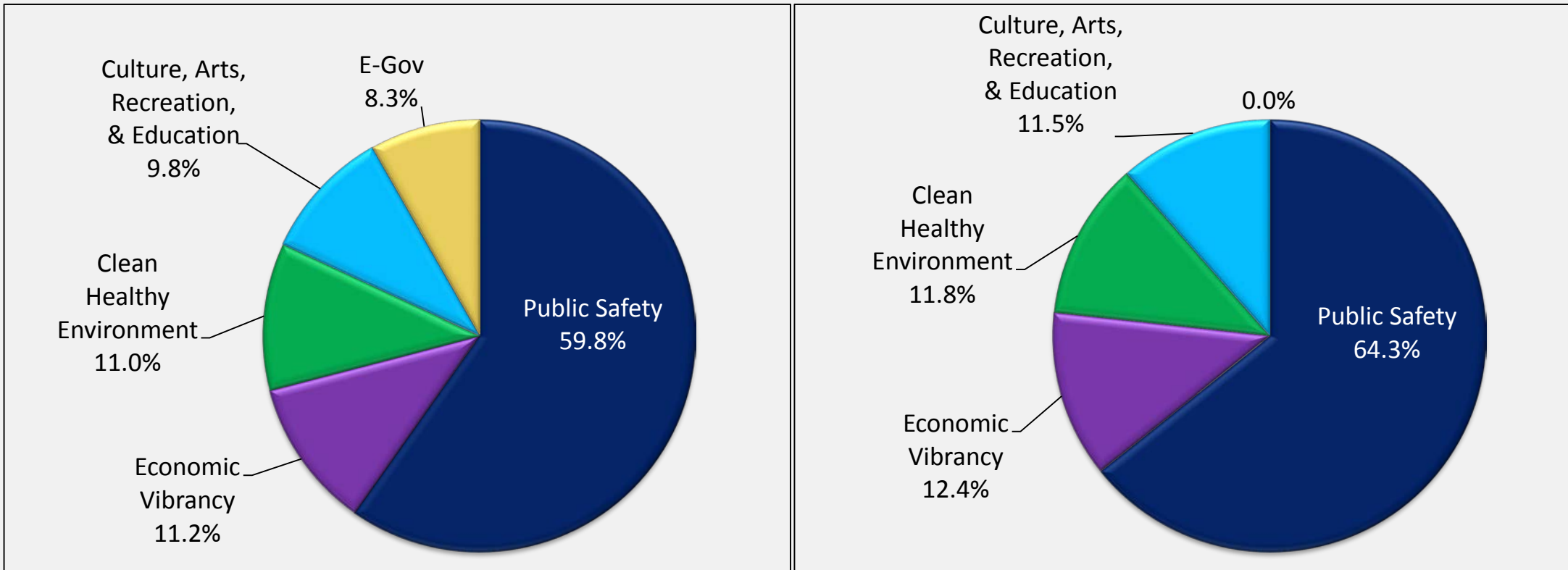
- Current KFA goals include following and are subject to Council change/refinement (goal descriptions are carried-over from prior years):
 - 1) Public Safety – enhance public safety to ensure people feel safe and secure where they live, work, and play
 - 2) Economic Vibrancy – grow a sustainable economy by job creation, private investment in the region, a broadened tax base, sustainable neighborhoods, and livability and quality of the built environment
 - 3) Clean Healthy Environment – Dallas, a sustainable community with a clean, healthy environment
 - 4) Culture, Arts, Recreation, and Education – support lifelong opportunities for Dallas residents and visitors in education, culture, recreation and art that contribute to Dallas’ prosperity, health and well-being
 - 5) E-Government – provide excellent government services to meet the needs of the City
- Annual budget focuses efforts and dollars towards 5 KFAs
 - FY 2014-15 general fund budget includes 148 services and 498 performance measures that are aligned to 5 KFAs

History of General Fund Expenses: by Key Focus Area



FY 2014-15 General Fund Expenses: By Key Focus Area

- Services within E-Gov support services of other 4 KFAs
- Following is representation E-Gov costs allocated to other KFAs based on most recent cost allocation plan and includes estimates/assumptions



Key Focus Areas		Department		Citizen Ranking		Other Challenges	Increase/Maintain/Decrease Funding or Comments
Public Safety	64.3%	Police	40.5%	Police	3		
		Fire	21.0%	EMS Fire	11 13	Public health	
		Courts	1.9%				
		Other	0.9%			Technology needs	
Economic Vibrancy	12.4%	Streets & Street Lighting	7.6%	Infrastructure Traffic signal	1 4	Capital needs inventory	
		TIF	1.8%				
		Fair Park	1.0%				
		Public Works & Trinity Watershed	1.0%	Infrastructure Storm drainage	1 10	Capital needs inventory	
		Other	1.0%	Land use/Planning	7	Poverty, Neighborhoods, Economic growth, Technology needs	
Clean Healthy Environment	11.8%	Sanitation	7.0%	Solid waste	9		
		Code	3.4%	Code Enforcement	2		
		Housing	1.2%				
		Other	0.2%			Technology needs	
Culture, Arts, Recreation, and Education	11.5%	Park & Recreation	6.9%	Park/Recreation	8	Public education	
		Library	3.0%	Library	15	Public education	
		OCA	1.6%	Arts/Culture	16		
		Other	0.0%			Technology needs	

Matrix is to help organize thoughts such as which KFAs, departments, or services to increase, maintain, or decrease funding; and where potential “new” unallocated resources are most needed.

Strategic Direction of City Council

- As part of January 15 and 16 council/staff planning retreat, discussion may include:
 - Additional review of economic outlook for Dallas
 - Ways to improve citizen engagement
 - Council feedback on metrics
 - Council prioritization of services for budget

Changes in Process



Changes in Budget Process

- As already noted, changes to budget process include:
 - More focus on citizen input through use of citizen survey briefed to City Council in October
 - Earlier and more specific involvement of City Council through prioritization exercises and through council/staff planning retreat January 15-16
- To achieve a more in-depth review of departmental budgets, a process modeled after State of Texas Sunset review is being implemented
 - However, Dallas implementation of Sunset review is being done by existing staff over 5 month period while State process spans 17 months by an agency dedicated to Sunset process

Sunset Review Process Overview

- Sunset review process is underway and will serve as very in-depth review of departments on a 5-year rotating schedule
- FY 2015-16 review focused on 7 departments
 - Dallas Police Department
 - Code Compliance Services
 - Court & Detention Services
 - Judiciary
 - 311
 - Office of Emergency Management
 - City Attorney's Office (public safety related services)
- Review process runs parallel to budget process and is not in-lieu of budget process for these departments

Sunset Review Process Overview

FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
Police	Fire	Convention Center	Mayor and City Council	Aviation
Courts	Equipment and Building Services	Cultural Affairs and WRR	City Attorney	Economic Development
Judiciary	Public Works	Library	City Manager	Housing
City Attorney	Street Services	Park and Recreation	City Secretary	Fair Housing
Code Compliance	Trinity Watershed and Storm Water	Civil Service	City Controller	Planning and Neighbor. Vitality
Emergency Management	Environmental Quality	Human Resources	Communication and Information Services	Sustainable Develop. and Construction
311 Operations	Sanitation	Employee Benefits	Financial Services	
	Water Utilities	Risk Management	Purchasing	
			Public Information	
			Intergovernmental Services	

Sunset Review Process Overview

- Most important to Sunset review process is complete, accurate, and thoughtful self-evaluation report by each department including following areas
 - 1) Purpose and activities
 - 2) Source of funds and revenues
 - 3) Expenditures
 - 4) Personnel
 - 5) Performance
 - 6) Stakeholders
 - 7) Technology and equipment
 - 8) Other: SWOT analysis, audits, studies, briefings, etc.

Sunset Review Process Overview

- Following completion of self-evaluation reports by departments, cross departmental teams will review reports and make recommendations
- Recommendations will be presented to Council committees in March 2015, and to full Council on April 1
 - Some recommendations may be for immediate implementation, and others may be incorporated into FY 2015-16 budget development

Changes in Budget Process

- Other changes being considered for budget process include:
 - Eliminate KFA ranking sheets that have been misinterpreted as a recommendation instead of part of on-going development process
 - Provide more information on departmental budgets earlier in process, rather than reports just by KFA
 - Re-organize budget document to focus on departmental budgets instead of solely by KFA

First Look at FY 2015-16 General Fund Budget



FY 2015-16 First Outlook

- An outlook into FY 2015-16 is forecasting revenue and expense changes 22 months into future (Oct 1, 2015 through Sep 30, 2016)
- Information is very preliminary and will change as more information becomes available through budget development process
- All numbers will change between first outlook and next August when budget for FY 2015-16 will be recommended
- First outlook into FY 2015-16 forecasts following:
 - Revenue increase: \$32.8m
 - Expense increase: \$64.0m
 - Variance/Gap: (\$31.2m)

Revenue Forecast

- Economic analysis has been conducted by City's Office of Economic Development utilizing several input variables from a variety of economic sources
- Long-range forecasting provides range of possible outcomes from pessimistic to optimistic
 - Forecasts will change as more information becomes available

Fiscal Year	Property Base Values			Sales Tax Revenue		
	Pessimistic	Base	Optimistic	Pessimistic	Base	Optimistic
FY 2015-16	3.17%	4.56%	5.99%	0.5%	4.5%	7.2%
FY 2016-17	3.94%	5.00%	6.18%	1.8%	3.4%	3.2%
FY 2017-18	4.84%	4.65%	5.35%	1.3%	2.4%	2.9%
FY 2018-19	5.08%	5.38%	6.44%	0.6%	2.3%	3.2%
FY 2019-20	5.11%	5.64%	6.69%	0.3%	2.2%	3.0%

Tax Base History & Forecast

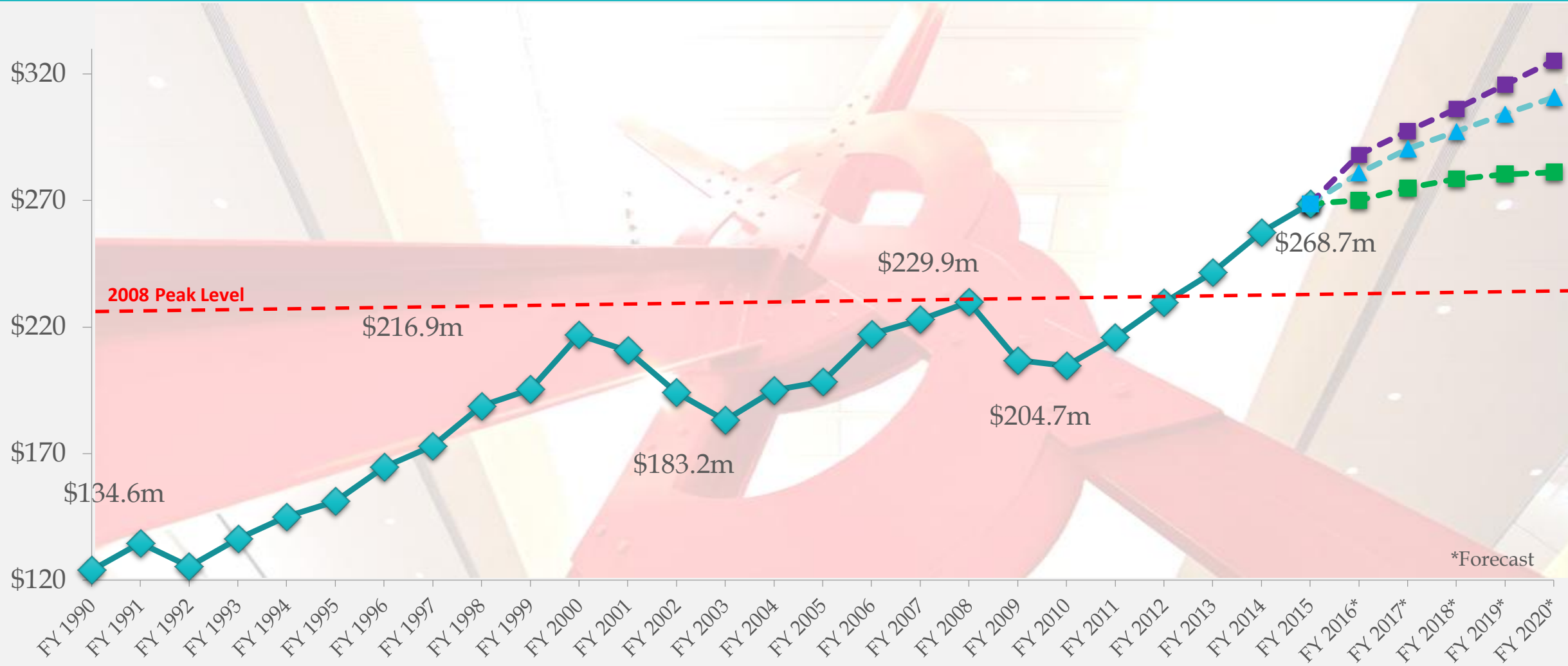
(Total Certified Value in \$ Billions)



Note: Forecasts are very preliminary and **will** change through budget development process.

Sales Tax Revenue History & Forecast

(\$ in millions)



Note: Forecasts are very preliminary and **will** change through budget development process.

FY 2015-16 Revenue Forecast

Preliminary revenue adjustments anticipated for FY 2015-16	Dollars
Property Tax – current growth assumptions range from 3.17% to 5.99% growth; base assumption is 4.56% growth	+ \$23.4m
Sales Tax – current growth assumptions range from 0.5% to 7.2% growth; base assumption is 4.5% growth	+ \$12.2m
Other general fund revenues – decline in non-recurring revenues offset by increase in Court revenue	- \$2.8m
Preliminary revenue adjustments for FY 2015-16	+ \$32.8m

Note: Forecasts are very preliminary and **will** change through budget development process.

FY 2015-16 Expense Forecast

Preliminary expense adjustments anticipated for FY 2015-16	Dollars
Meet and Confer – police and fire pay increases include (1) full-year funding for 4% across-the-board pay on 4/1/15; (2) full-year funding for FY 2014-15 step pay increase; and (3) partial-year funding for FY 2015-16 step pay increase	+ \$24.4m
Civilian employee pay adjustments include (1) full-year funding for average 3% merit on 1/1/15 is \$1.7m; and (2) average 3% merit for FY 2015-16 is \$7.0m	+ \$8.7m
Uniform and civilian employee/retiree health benefit cost increases (assumes 5% cost increases)	+ \$6.9m
Tax Increment Financing cost increase as property values within TIF districts increase	+ \$1.0m
Library increases include (1) full-year funding for expanded hours in FY 2014-15; and (2) full-year implementation of 2 nd of 2 year plan for expanded services	+ \$4.1m
Master lease cost increases required to pay debt for equipment and technology enhancements added for FY 2014-15 (no additional equipment or technology purchases assumed at this point for FY 2015-16)	+ \$3.4m

Note: Forecasts are very preliminary and **will** change through budget development process.

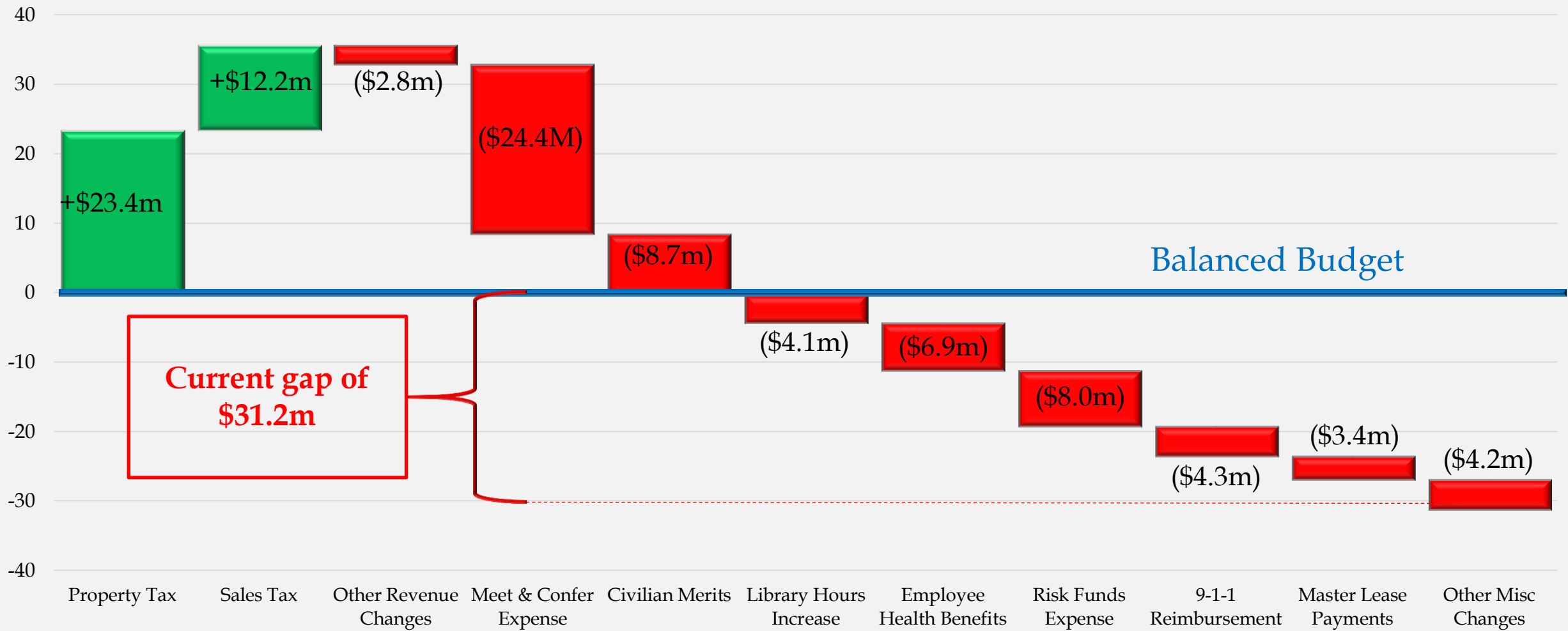
FY 2015-16 Expense Forecast

Preliminary expense adjustments anticipated for FY 2015-16	Dollars
FY 2015-16 funding requirements for liability, worker's compensation, and property insurance are expected to increase due to less prior year surplus being available	+ \$8.0m
Prior year surplus is not anticipated to be available to reimburse police and fire expenses from 911 Fund, therefore, cost increases will be necessary in FY 2015-16	+ \$4.3m
O&M cost required in FY 2015-16 for projects being placed in-service	+ \$1.8m
Net increase of other adjustments for costs deferred and/or one-time savings budgeted in FY 2014-15	+ \$1.4m
Preliminary expense adjustments for FY 2015-16	+ \$64.0m

Note: Forecasts are very preliminary and **will** change through budget development process.

FY 2015-16 First Outlook

(\$ in millions)



Note: Forecasts are very preliminary and **will** change through budget development process.

FY 2015-16 First Outlook

- Current outlook forecasts expenditures for FY 2015-16 to be \$31.2m more than forecast revenues
- Other challenges exist and have not been included at this time (examples include):
 - Information technology needs
 - Additional plans to address poverty
 - Capital needs inventory for infrastructure such as streets, alleys, signals, etc.
 - Maintenance and needs of City facilities
 - Additional plans to further economic development initiatives
 - Strategy for addressing public education

Long-Range General Fund Financial Forecast



Long-Range General Fund Financial Forecast

- Long-range forecast is financial planning tool designed to give an early look at revenues and expenses in future years
- Forecast is projection and does not reflect what general fund budget will actually be in any given future year
- Forecast is based on preliminary assumptions about growth in revenues and expenses

Long-Range General Fund Financial Forecast - Assumptions

- Long-range forecast model does include assumptions for:
 - Continued growth in property values and sales tax revenues based on economic analysis
 - Maintaining all FY 2014-15 service levels
 - Exception - fully fund 2-year plan to expand library services
 - Current meet and confer agreement with police and fire uniform employees; and continue step pay increases annually after current agreement
 - Current civilian merit; and provide annual merit increases in future years
 - Cost increases for employee/retiree health benefits
 - Costs associated with completed capital projects coming into service
 - Inflation costs for certain supplies and materials such as fuel and electricity
 - Increases for internal services such as information technology and fleet maintenance

Long-Range General Fund Financial Forecast - Assumptions

- Long-range forecast model does not include assumptions for:
 - Changes in property tax rate
 - Future meet & confer agreements for police and fire
 - Service enhancements such as increases to animal services, recreation center hours, cultural contracts, etc.
 - Impact of potential 2017 bond program
 - Changes resulting from State or Federal legislation on City

Long-Range General Fund Financial Forecast

	FY 2014-15 Current Year	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
General Fund Revenue	\$1,166.7m	\$1,199.5m	\$1,225.7m	\$1,256.5m
General Fund Expense	\$1,166.7m	\$1,230.7m	\$1,266.8m	\$1,299.1m
Variance/Gap	\$0	(\$31.2m)	(\$41.1m)	(\$42.6m)

Note: Forecasts are very preliminary and **will** change.

Schedule for FY 2015-16 Budget Development



Budget Schedule

October 28	Brief City Council on citizen survey
November 18	Brief City Council on FY 2013-14 Strategic Plan
November 19	Staff budget workshop led by Gov-Lab of NYU
December 3	Brief City Council: first outlook for FY 2015-16 budget
January 15-16	Council/staff planning session
February 4	Budget Workshop
March 23	Brief Public Safety Committee and Quality of Life Committee on Sunset Review
March 25	Budget Public Hearing
April 1	Brief City Council on Sunset Review
May 20	Budget Workshop
May 27	Budget Public Hearing
June 24	Budget Workshop
July 24	Appraisal Districts certify 2015 tax roll for FY 2015-16

Budget Schedule

August 7	Deliver City Manager's recommended budget to council members
August 11	Budget Workshop: City Manager's recommended budget
August 11 to Sept 3	Town hall meetings
August 19	Budget Workshop
August 26	Budget Public Hearing
September 2	Budget Workshop
September 2	Tax Rate Public Hearing #1 (if necessary)
September 9	Adopt Budget on First Reading
September 16	Budget Workshop: Council Amendments
September 16	Tax Rate Public Hearing #2 (if necessary)
September 23	Adopt Budget on Second Reading and Adopt Tax Rate
October 1	Begin FY 2015-16

City Council input, comments, and questions

