

FY 2019-20 and FY 2020-21 Budget Overview

**City Council Briefing
June 18, 2019**

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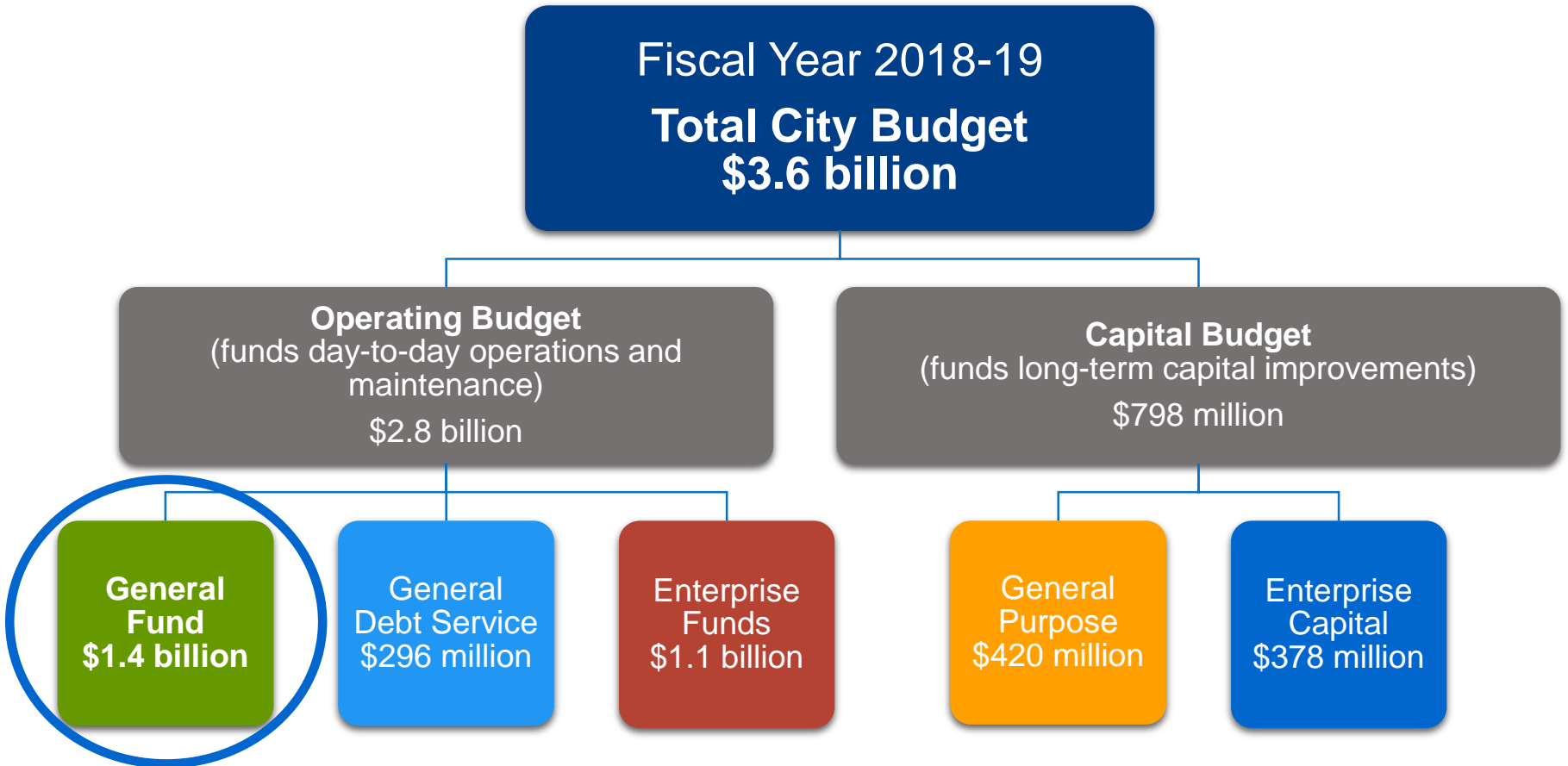
Overview

- Review background for biennial budget for FY 2018-19 (FY19) and FY 2019-20 (FY20)
- Discuss City Council and community engagement considerations
- Discuss factors that may affect General Fund revenues and expenses
- Discuss Enterprise Fund preliminary fee changes
- Review budget development schedule

Background—Budget Process

- City Manager recommended balanced budget on 8/14/18 for the FY19 and FY20 biennial
- City Council made amendments and adopted the FY19 annual budget on 9/18/18 totaling \$3.6B
- Current fiscal year began 10/1/18 and runs through 9/30/19
 - Staff are currently implementing programs and services funded in City Council-approved budget
 - Financial status is reported to GPFM committee each month in the Budget Accountability Report (BAR)

Background—FY19 Adopted Budget

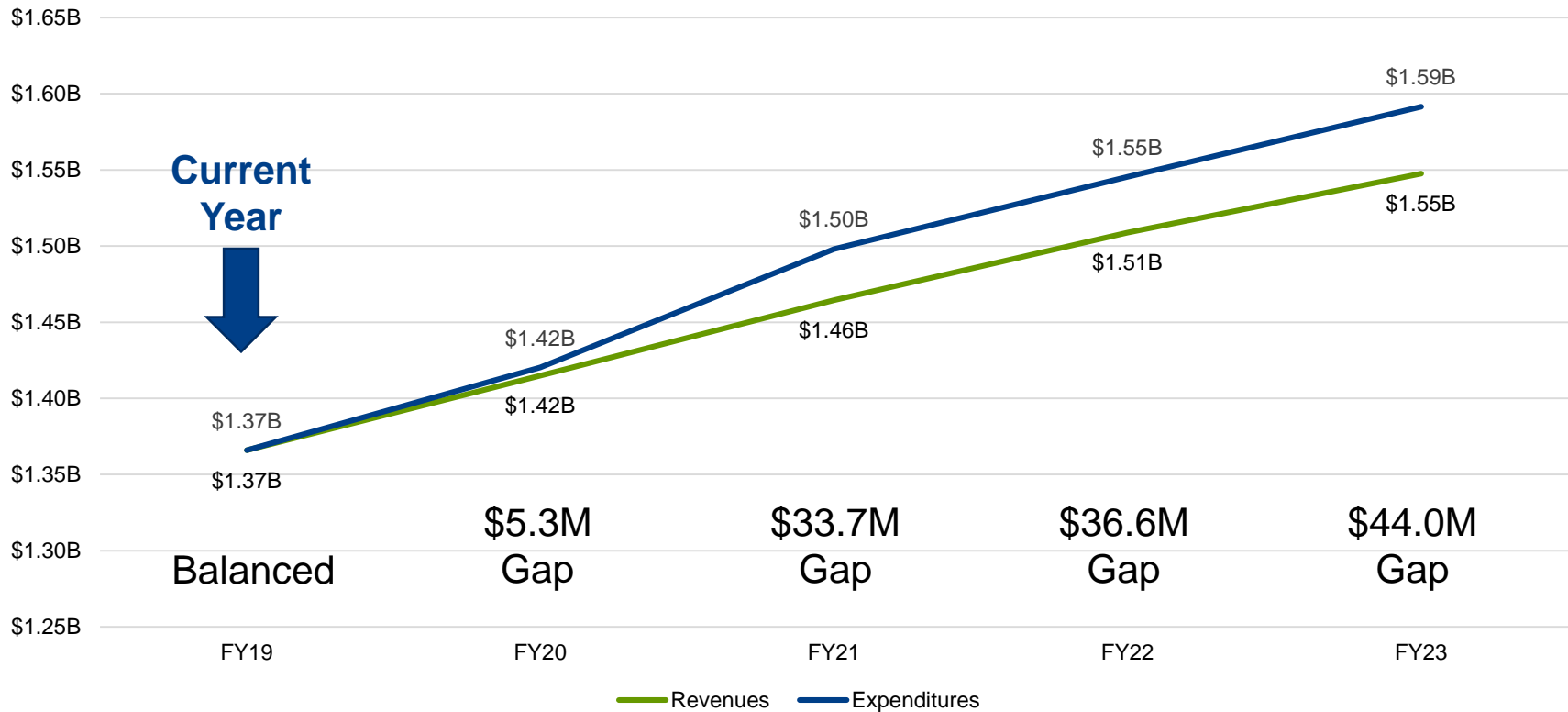


Background—Biennial Budget

- Budget development process is already underway for next budget recommendation
- Biennial budget will roll forward one year and include updates for FY20 and additional recommendations for FY21
- City Manager will recommend balanced biennial budget to City Council on 8/13/19
 - Although General Fund for FY20 planned year was balanced when presented, a City Council amendment to increase police and fire pay resulted in a structural imbalance for FY20
- Per state law, City Council will adopt only FY20

Background—Five-Year Forecast

Five-Year Forecast of
GF Revenues & Expenditures



City Council and Community Engagement Considerations



City Council Planning Session

- City Council identified priorities and set policy direction at annual planning session on 2/20/19
- City Council members' top 10 preferences for initiatives are detailed on the next slide
- These priorities will be considered during budget development over the next two months

City Council Planning Session

| FY19 | FY20 | Initiative |
|------|------|--|
| 8 | 6 | Housing/affordable and mixed-income housing development/programs to improve city's housing stock |
| 6 | 7 | Parks and recreation/youth activities |
| 7 | 5 | Develop contractor accountability guidelines |
| 4 | 7 | Develop tax relief and spending control strategy |
| 8 | 2 | Economic development/targeted economic development programs |
| 6 | 2 | Grocery store/strategy to eliminate food deserts in southern Dallas |
| 6 | 2 | Equity/equity programs/equity review of all policies |
| 3 | 3 | Implement homeless encampment site reclamation program |
| 1 | 5 | Develop gentrification mitigation strategy |
| 2 | 4 | Launch Civic Innovation Lab/small business innovation hub |



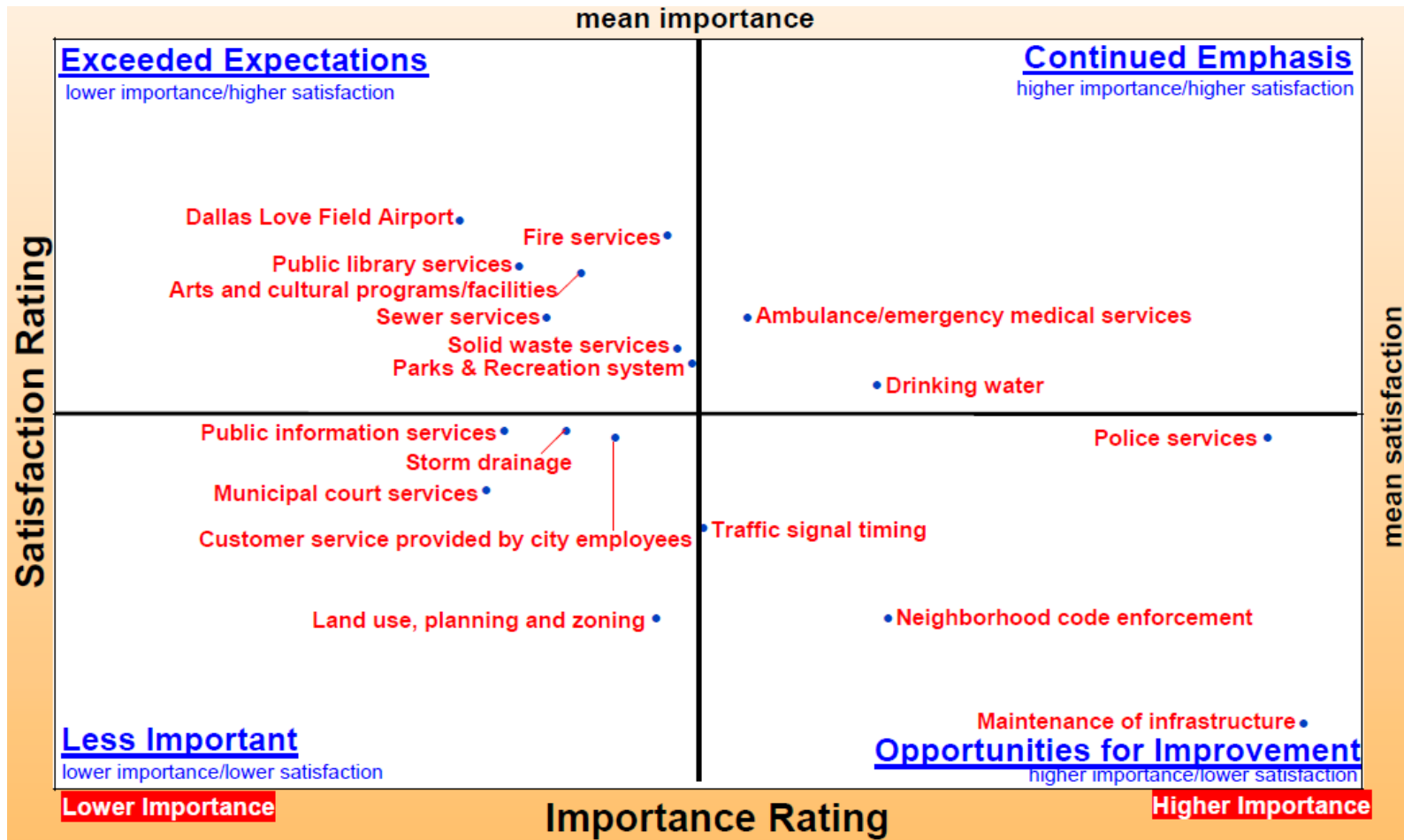
Community Engagement

- ETC Institute is a national leader in market research for local governments and has been engaged by the City to conduct the biannual Community Survey
- [2018 survey](#) used random sampling to produce results that are statistically significant at the 95% confidence level, with a +/- 2.6% margin of error (overall)
- 2018 survey sample size was 1,442 completed surveys, with at least 100 in each City Council district

Community Engagement

- Summary and conclusions presented by ETC Institute on 5/2/18:
 - Residents have a positive perception of the City
 - 72% rated the overall quality of life as “excellent” or “good”; only 4% gave a rating of “poor”
 - Overall satisfaction with City services is 9% above the national average for large U.S. cities
 - Dallas is setting the standard for customer service among large U.S. cities
 - Top priorities for residents were:
 - Infrastructure maintenance
 - Police services
 - Code enforcement

Importance-Satisfaction Assessment Matrix



Source: ETC Institute (2018)

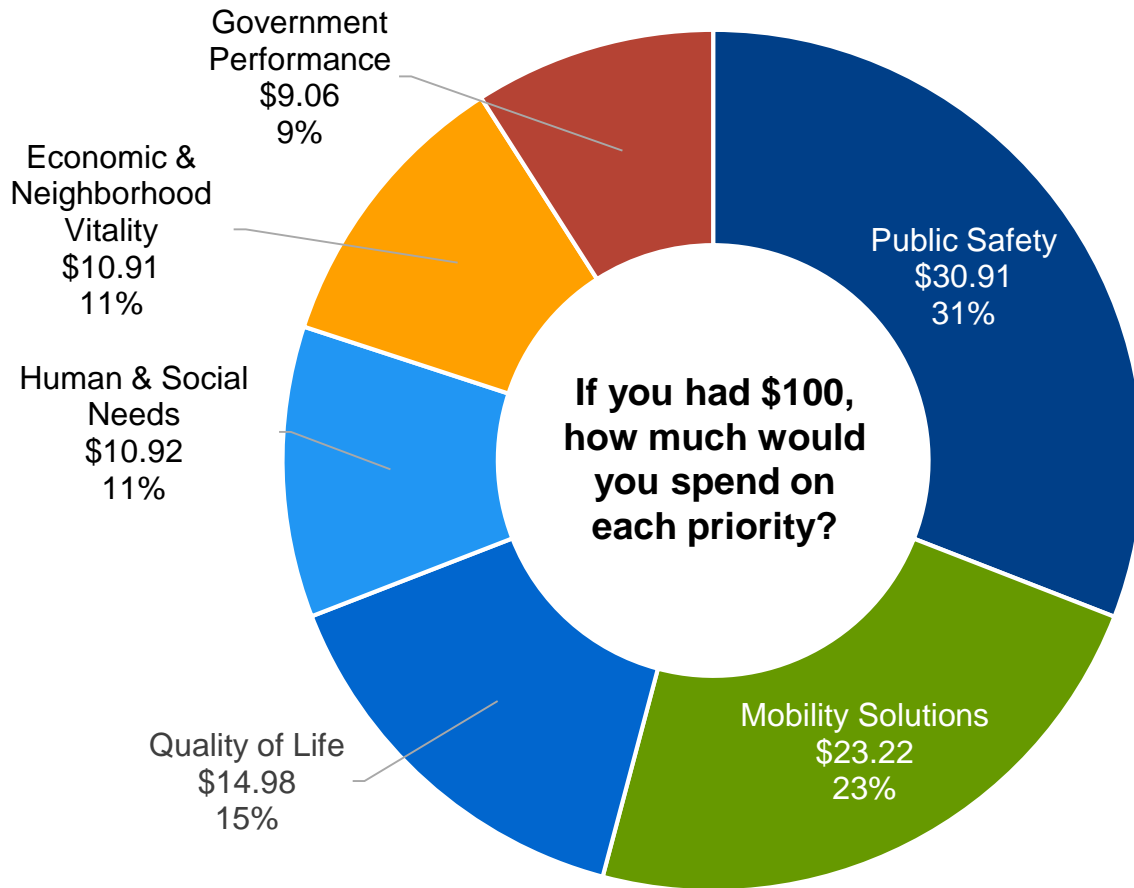
Community Engagement

- Three public hearings are held before City Council each year: March, May, and August
 - Historically, these are poorly attended with only two speakers at all three meetings last year and no speakers thus far this year
- Additional meetings and a survey are conducted each spring to give residents another means of providing input
- During spring 2019, approximately 1,000 residents participated in the budget development process
 - An informal budget survey available March 11-31
 - 848 online and 60 paper responses
 - Not statistically significant
 - 14 community meetings
 - Livestreamed meetings online and on City cable channel
 - Conducted one set of meetings in Spanish
 - 89 attendees and 303 livestream views
- Results of the survey and engagement meeting exercises are included on following slides

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Community Engagement



| Strategic Areas | FY19 Actual Allocation |
|-------------------------|------------------------|
| Public Safety | 60% |
| Mobility Solutions | 11% |
| Quality of Life | 15% |
| Human & Social Needs | 1% |
| Economic & Neighborhood | 5% |
| Gov't Performance | 8% |



Community Engagement

What City services are most important to you? (choose up to three)

| | |
|-----------------------------------|-------|
| Police services | 67.7% |
| Repairing and maintaining streets | 52.5% |
| Fire services | 30.3% |

Thinking about all City services, what sentence do you agree with most?

| | |
|---|-------|
| I prefer to lower taxes, even if it means cutting City services. | 21.1% |
| I prefer to keep taxes and City services about the same. | 56.2% |
| I prefer to raise taxes to allow the City to offer more services. | 22.7% |

Community Engagement

- City Council members typically host Budget Town Hall meetings each August and seek resident input on the City Manager's recommended budget
- Staff will be available to support City Council members at these meetings from August 15-29
- Traditional (in-person) and/or virtual meetings may be scheduled
 - Virtual meetings historically reach more residents
- City Council members should submit dates/times/locations for August Budget Town Hall meetings by July 3

Factors That May Impact General Fund Revenue

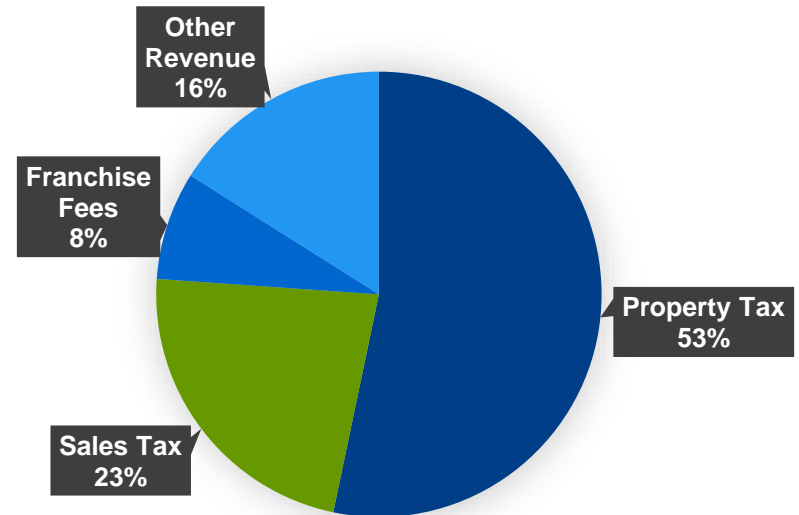


65/Older or Disabled Property Tax Exemption

- Property tax exemptions reduce a property owner's liability but also reduce revenues that come to the City to support services
- On 6/12/19, City Council approved an increase of the 65/older or disabled person exemption from \$90,000 to \$100,000
 - \$3.4M projected revenue foregone for this exemption
- City's 20% homestead exemption remains the same, as approved by City Council on 4/13/88, which is maximum allowed by state law
- In the current year, all partial and total exemptions reduced City revenue by \$280.1M (\$36.9B value exempt from being taxed)

FY20 and FY21 Budget Development

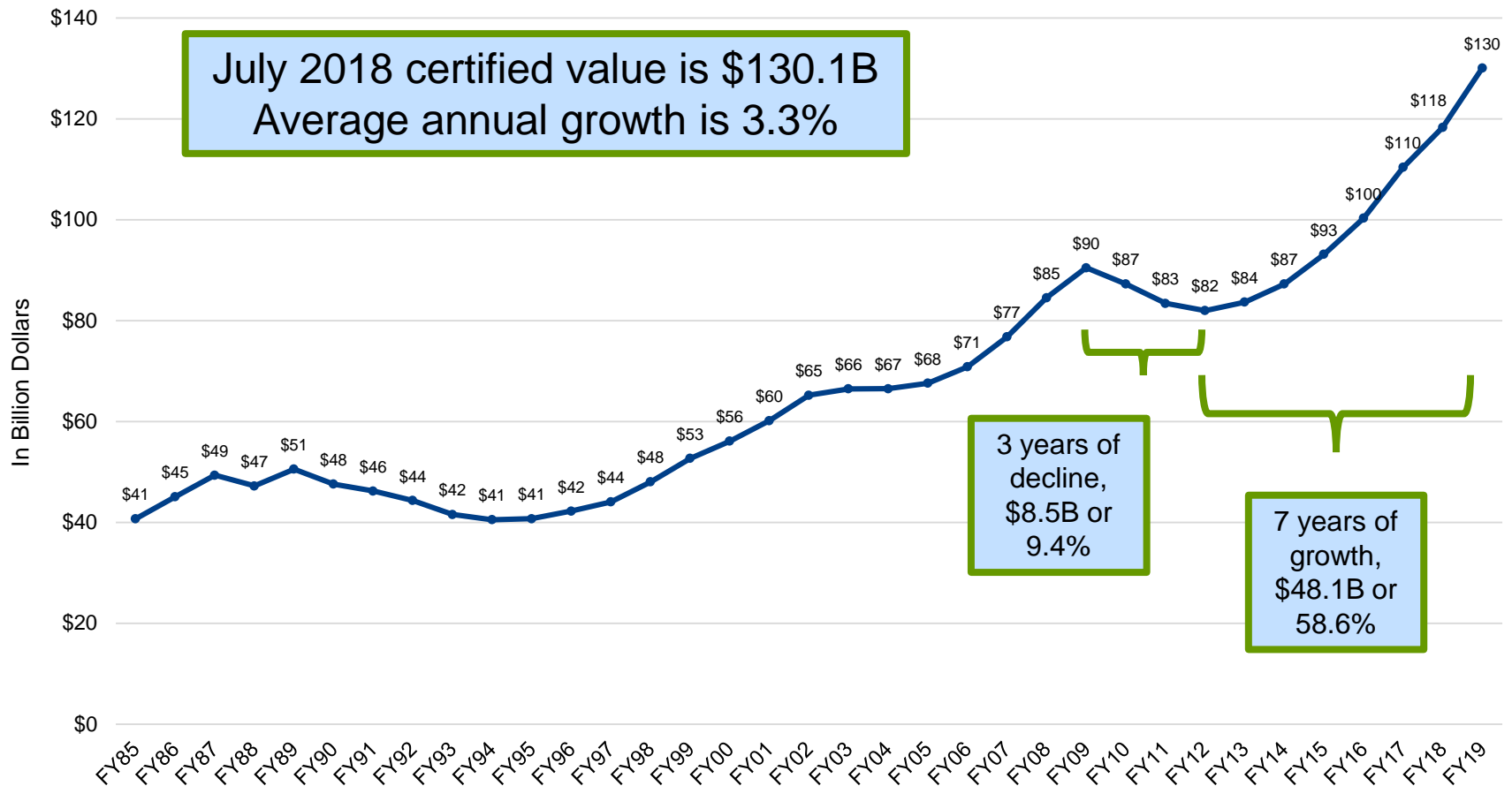
- Budget development for FY20 and future years must consider two significant factors affecting General Fund revenues:
 - Economic condition
 - State legislation
- These will impact the two largest revenues:
 - Property tax
 - Sales tax



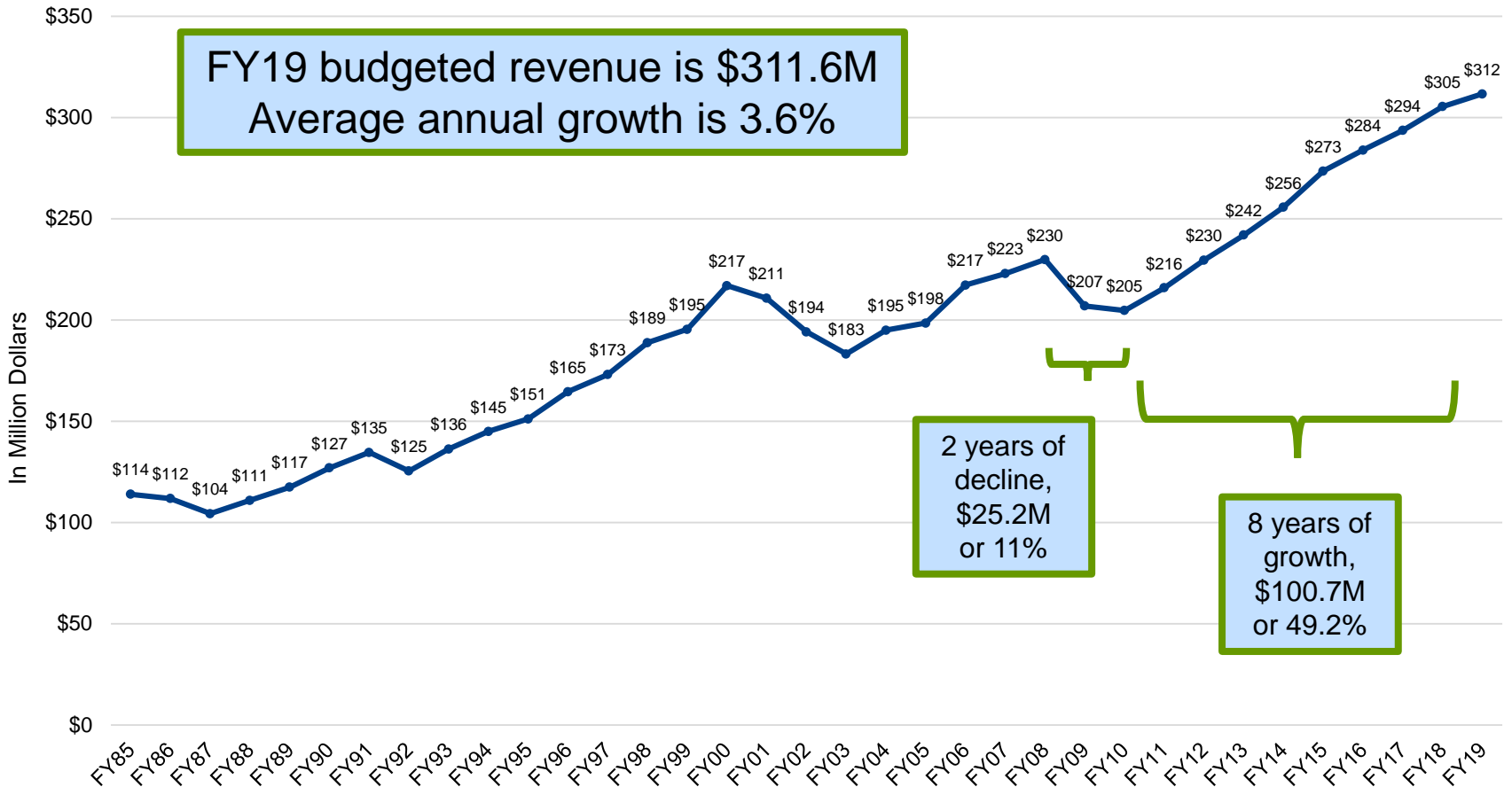
Economic Forecast

- Since 76% of General Fund revenue is property tax (53%) and sales tax (23%), independent consultant is used to provide an economic forecast
- TXP Consulting provided forecasts in June 2018 and again in June 2019
 - National outlook—positive national growth now, but slowing next year
 - Regional outlook—continued overall growth, but slowing for both retail and real estate
- Next slides provide historical context of property tax and sales tax through economic cycles

Property Tax Base Value (FY85–FY19)



Sales Tax Revenue (FY85–FY19)



Economic Forecast

| Fiscal Year | | Property Tax Values | Sales Tax Revenue |
|-------------|---------------------|---------------------|-------------------|
| FY17 | Actual | 10.0% | 3.4% |
| FY18 | | 7.2% | 4.0% |
| FY19 | | 9.9% | 3.0% |
| FY20 | Consultant Forecast | 9.6% | 2.1% |
| FY21 | | 7.6% | 2.4% |
| FY22 | | 5.8% | 2.5% |
| FY23 | | 3.8% | 2.5% |
| FY24 | | 2.3% | 2.6% |

Notes:

- TXP Consulting uses a regression analytics model to forecast with a 95% confidence level
- FY19 sales tax is based on six months actual

Legislative Change: SB2

- Texas Property Tax Reform and Transparency Act of 2019 (SB2) will cap the City's ability to grow property tax revenue at 3.5% instead of 8% without seeking voter approval
 - Applies to reappraisals for the General Fund
 - Continues to exclude revenue needed to pay voter-approved debt
 - Growth from new construction does not count against the cap

Legislative Change: SB2

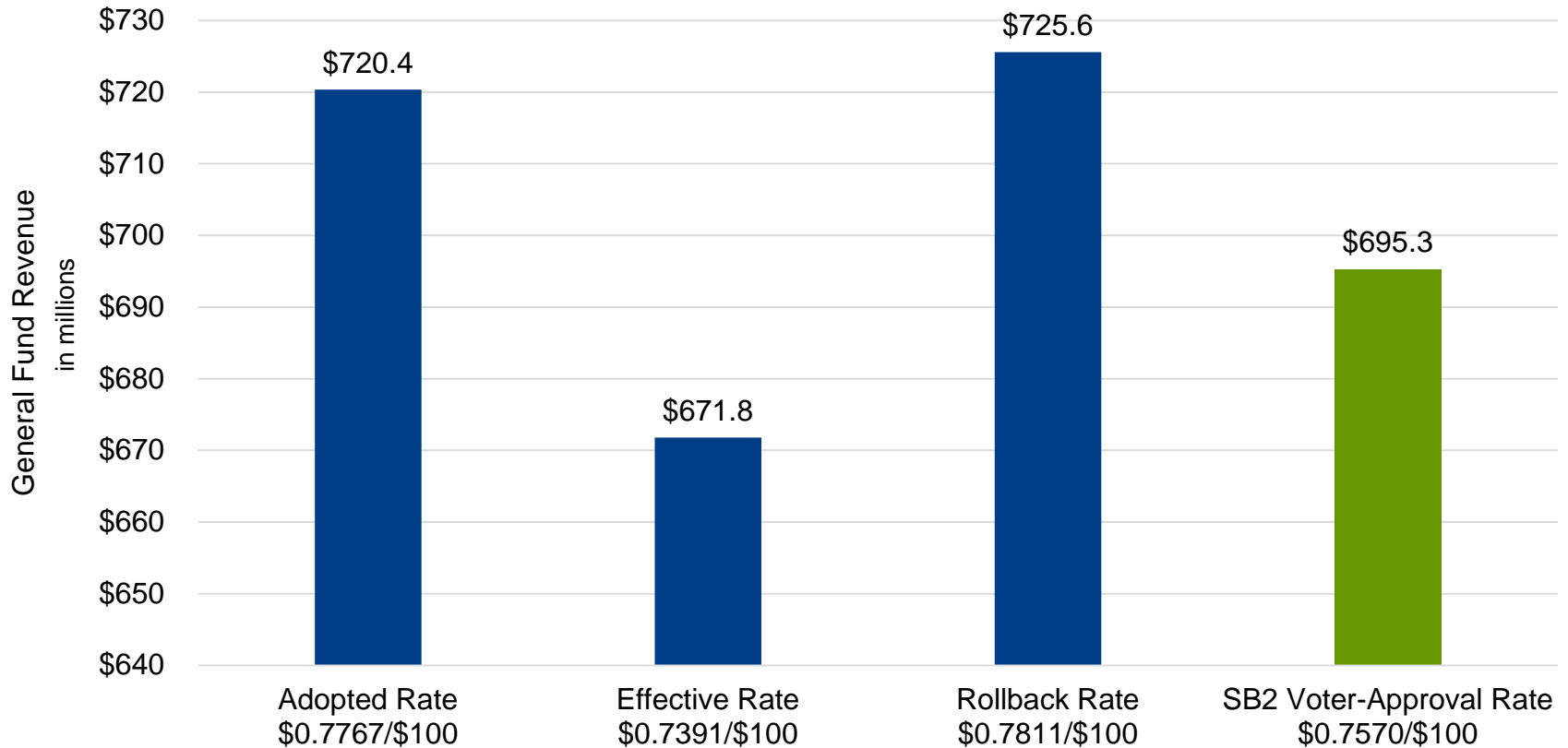
- Exceeding the 3.5% cap is allowed, but requires an election on the November uniform election date
- City Council must adopt the budget before it adopts the tax rate
- City Council must adopt the tax rate no later than the 71st day before the November uniform election date (mid- to late August)

Legislative Change: SB2

- SB2 will not affect FY20 but will affect FY21 (effective date 1/1/20)
 - Although property tax values are forecast to grow 7.6% for FY21, City will likely be unable to take advantage of all growth without voter approval
 - City may be required to reduce the property tax rate to avoid exceeding revenue cap
- If SB2 had been in effect September 2018, \$25.1M in revenue and expense reductions would have been required to balance FY19 budget

Legislative Change: SB2

Tax Rate Scenarios for FY19



Legislative Change: HB1525 and HB2153

- Sales tax collections have historically applied to “brick and mortar” stores, not online sales
- Supreme Court decision in South Dakota v. Wayfair, Inc. (6/21/18) determined states may charge tax on purchases from out-of-state sellers, even if the seller does not have a physical presence in the state
- Many of the largest online retailers, including Amazon, already voluntarily collect Texas sales and use taxes

Legislative Change: HB1525 and HB2153

- Effective 10/1/19, out-of-state internet retailers with at least \$500K in Texas sales in the prior 12 months will be required to collect and remit local sales and use taxes, per HB1525
- HB2153 provides options for retailers to calculate taxes using:
 - The combined rate of all applicable local taxes OR
 - A single local use tax rate equal to the average of all local tax rates in Texas in the prior fiscal year
- FY20 planned budget already included an adjustment in anticipation of this change in state law, and the TXP forecast also considered the impact

Legislative Change: SB1152

- Companies that provide both telecommunications and cable TV services are exempt from paying the lesser of:
 - Telecommunications right-of-way (ROW) fees (fixed rate per access line)
 - Cable TV franchise fees (5% of gross receipts)
- All cable TV providers currently serving Dallas also provide telecommunications services and pay both fees
- Based on SB1152, Time Warner Cable (Spectrum) and Grande Communications may be exempt from telecommunications ROW fees, and AT&T and Frontier Communications (Verizon) may be exempt from cable TV franchise fees
- An effective date of 1/1/20 will reduce revenue for both years of the upcoming biennial
 - FY20 = \$6.6M decrease
 - FY21 = \$9M decrease (total)

Legislative Change: HB1631

- Effective 6/1/19, the City will no longer operate its red-light camera program or issue citations for violations based on a photographic enforcement system
- Legislative change will reduce revenue
 - FY19 (current year) = \$1M net decrease
 - FY20 = \$2.4M net decrease
 - Decrease \$7.5M revenue and \$5.1M expense

Factors That May Impact General Fund Expenses



Equity in Budget Development

- FY20 budget process will begin to consider opportunities to provide resources and services that address historical and systemic practices and policies that have produced inequitable conditions in our community
- Equity will be considered when allocating new resources throughout FY20 budget process
 - All General Fund departments have considered equity when requesting additional funds to enhance services and when offering reductions
 - Eight departments will receive additional review related to the allocation of existing departmental resources
- City Manager's recommended budget presented on 8/13/19 will highlight these efforts

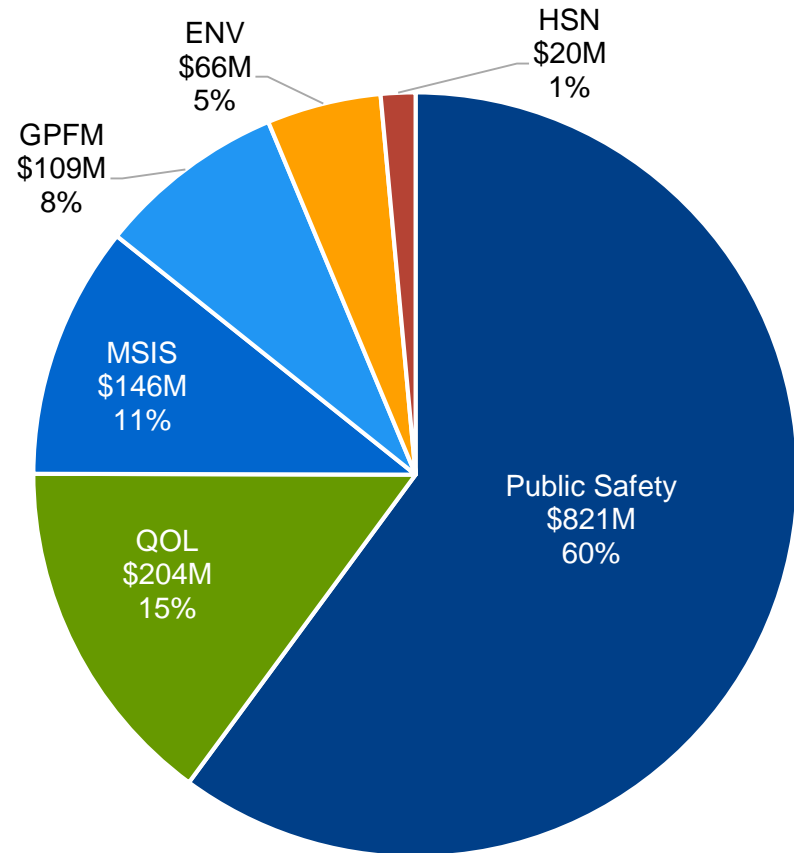
Strategic Priorities

General Fund expenses align to six strategic priorities:

1. Public Safety (PS)—Enhance the welfare and general protection of residents, visitors, and businesses in Dallas
2. Mobility Solutions, Infrastructure, and Sustainability (MSIS)—Design, build, and maintain the underlying structures necessary to support Dallas' residents
3. Economic and Neighborhood Vitality (ENV)—Strengthen and grow the business community while planning and strengthening the long-term vitality of Dallas neighborhoods by expanding housing options and creating job opportunities
4. Human and Social Needs (HSN)—Provide services and programs to meet basic human needs by focusing on prevention or resolution of systemic problems
5. Quality of Life (QOL)—Provide opportunities that enhance the standard of health, comfort, and happiness of Dallas residents
6. Government Performance and Financial Management (GPFM)—Ensure that internal operations are conducted in a manner that promotes our core values of empathy, ethics, excellence, and equity

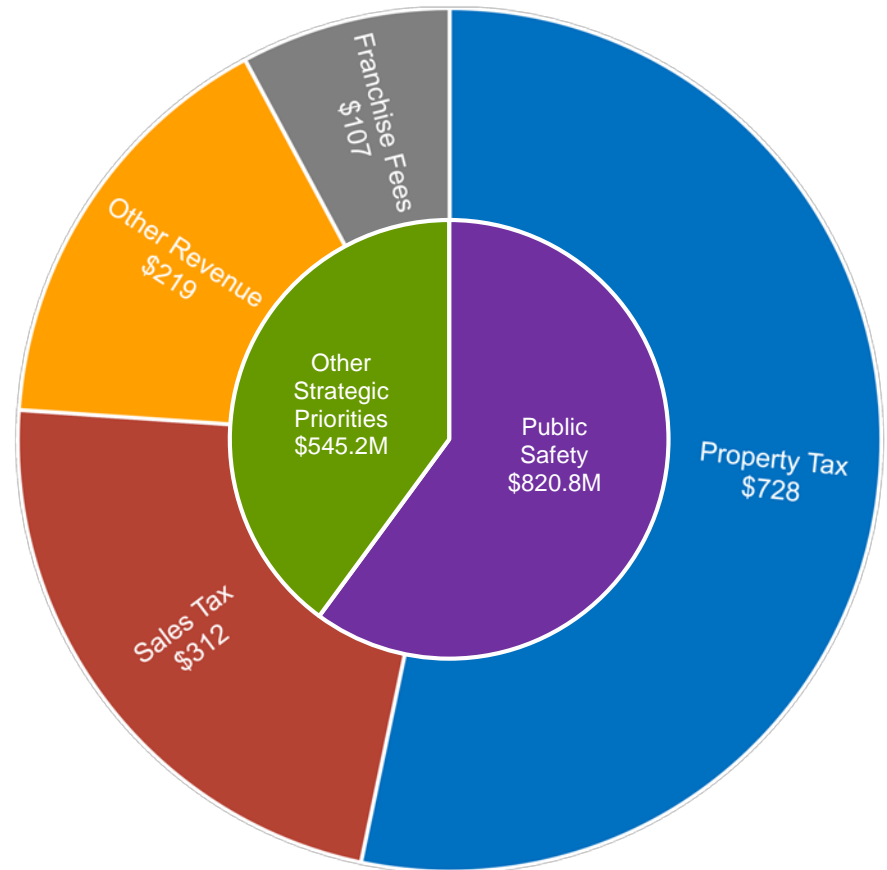
Strategic Priorities

- Public safety has been the City's top priority
- 60% of the General Fund pays for police, fire, ambulances, courts, and other public safety programs
 - DPD and DFR together total \$781.2M (57.2%) of General Fund



Strategic Priorities

- It takes 100% of our property tax and almost 30% of sales tax to pay just for public safety
- Recruitment and retention of first responders is a key priority for the upcoming budget
 - Meet & Confer negotiations are underway
 - Cost for FY20 and future years not yet known
- Balancing public safety needs with other needs of the City will be a challenge especially when revenue caps go into effect



Personnel Costs

- \$995.8M or about 73% of the General Fund is spent on employee compensation including pay, pension, health benefits, worker's compensation, etc.
- This cost is necessary for 5,393 uniform and 5,576 civilian positions to provide a vast array of services including police, fire, code, streets, parks, libraries, animal services, courts, cultural arts, etc.
- Current initiatives could affect these costs:
 - HR is completing a comprehensive study of the City's position classification and compensation systems
 - DPD is conducting a uniform staffing study
 - Meet & Confer negotiations are underway

Personnel Costs

- City wages have not kept up with market pay
- To address pay equity for lower-paid positions, City has made adjustments to entry level pay over the last few years
 - Current minimum pay is \$11.50 per hour
 - An increase to \$15.00 per hour would affect 1,470 employees (933 General Fund) and have a cost impact of \$5.7M (\$3.9M General Fund)
- Employee health and life insurance plans are being reviewed to determine if changes are warranted
 - Considering a tiered premium model for health benefits based on pay to benefit lower-paid employees

Other Expense Drivers

- Fleet Management Study results were briefed to City Council on 12/5/18 and identified 1,911 vehicles eligible for replacement this year at a cost of \$142M
 - \$300M in replacement needs over next five years
 - FY20 budget will increase funding for fleet replacement but still address this issue through a phased approach
- City Council approved a one-year consultant contract on 5/22/19 for a security assessment of City facilities and development of a Citywide security strategy

Other Expense Drivers

- FY20 budget will include funding to address the Drivers of Poverty with a focus on reducing and/or eliminating barriers to work
 - City Council amendment to the FY20 CDBG budget on 5/15/19 prioritized spending federal grant funds on Community Courts and using City General Fund to address the Drivers of Poverty
- Investments in technology will continue to be a part of the upcoming budget to replace/update existing systems and seek opportunities to improve efficiencies

Other Expense Drivers

- Recommendations from current and upcoming plans/studies may affect the budget during the FY20 and FY21 biennial
 - Comprehensive Environmental and Climate Action Plan
 - Comprehensive Housing Policy
 - Cultural Arts Plan
 - Dallas 2030
 - Economic Development Strategic Plan
 - Mobility Strategic Plan

Enterprise Fund Preliminary Fee Changes

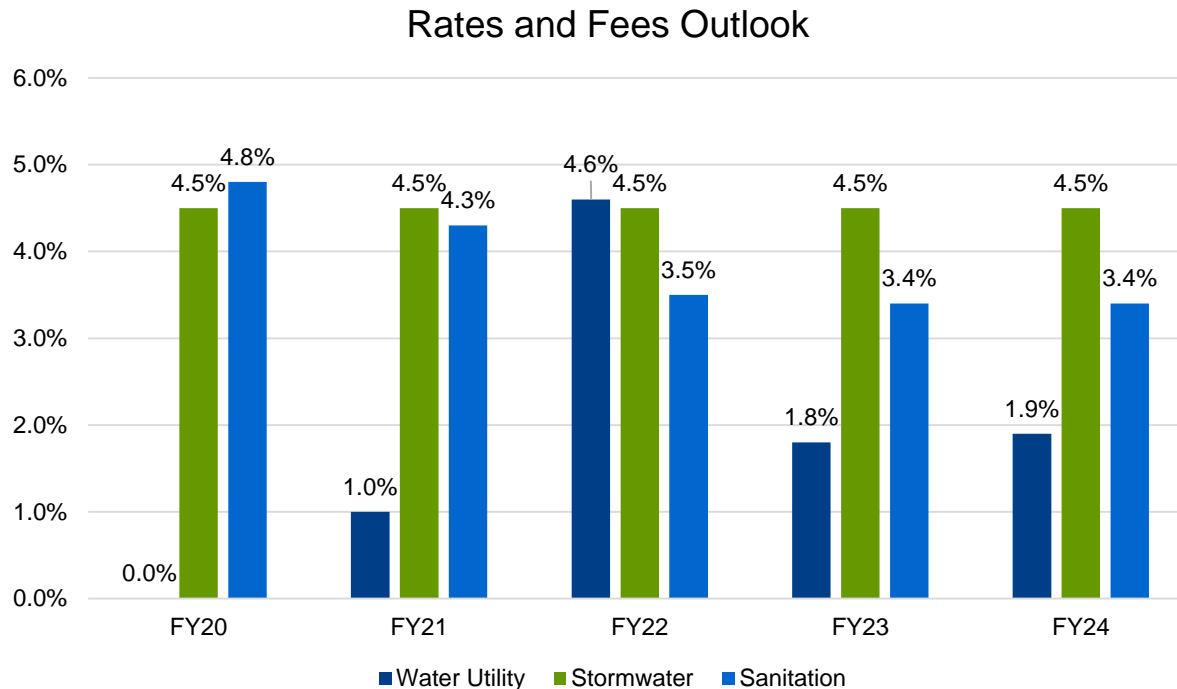


Enterprise Fund Fees

- Dallas Water Utilities' retail cost of service study and settlement of Sabine River Authority litigation resulted in no rate increase until FY21
 - Future increases primarily driven by capital investment in water/wastewater system including pipeline replacement, infrastructure maintenance, and Elm Fork WTP water quality improvements
- Stormwater fee increase is primarily due to “pay-as-you-go” capital projects and neighborhood drainage maintenance
- Sanitation residential fee increase is primarily driven by personnel cost, living wage increase for temporary labor, fleet, and fuel costs

Enterprise Fund Fees

- Preliminary update for Enterprise Fund fees is provided below
- Amounts listed may change to account for additional expenses still under consideration and/or service delivery changes



Enterprise Fund Fees

Projection for Monthly Residential Utilities Bill as of June 18, 2019

| | FY18 | FY19 | FY20* | FY21 | FY22 | FY23 | FY24 |
|------------------------------|----------------|-----------------|----------------|-----------------|-----------------|-----------------|-----------------|
| Water & Wastewater | \$67.12 | \$65.30 | \$62.62 | \$63.25 | \$66.16 | \$67.35 | \$68.63 |
| Stormwater | \$7.09 | \$7.41 | \$7.74 | \$8.09 | \$8.46 | \$8.84 | \$9.23 |
| Sanitation | \$25.18 | \$27.29 | \$28.60 | \$29.83 | \$30.87 | \$31.91 | \$33.01 |
| Total Utilities Bill | \$99.39 | \$100.00 | \$98.96 | \$101.17 | \$105.48 | \$108.09 | \$110.87 |
| Increase | - | \$0.61 | \$(1.04) | \$2.20 | \$4.31 | \$2.61 | \$2.78 |
| Percent Change | - | 0.6% | -1.0% | 2.2% | 4.3% | 2.5% | 2.6% |
| 5-Year Average Annual Change | - | - | - | - | - | 1.7% | 2.1% |

*Reduction in winter months average

Budget Development Schedule



Budget Development Schedule

| Date | Event—City Council and Community |
|--------------|---|
| February 20 | City Council planning session |
| March 11-31 | Budget engagement meetings and informal survey |
| March 27 | Budget public hearing |
| May 8 | Budget public hearing |
| June 18 | Budget Workshop |
| July 3 | City Council submits dates/times/locations for August budget Town Hall meetings |
| August 13 | Budget Workshop: City Manager's Recommended Budget |
| August 15-29 | Budget Town Hall meetings |
| August 21 | Budget Workshop |
| August 26 | Budget Workshop: Consider budget amendments (straw votes anticipated) |



Budget Development Schedule

| Date | Event—City Council and Community |
|--------------|--|
| August 28 | Budget public hearing |
| September 4 | Budget Workshop: Consider amendments and adopt budget on first reading Tax rate public hearing #1 (if needed) |
| September 10 | Budget Workshop (optional) |
| September 11 | Tax rate public hearing #2 (if needed) |
| September 18 | Budget Workshop: Adopt budget on second reading, adopt tax rate, and approve other budget-related items |
| October 1 | Begin FY20 |

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