

Memorandum



CITY OF DALLAS

DATE August 22, 2018

TO Honorable Mayor and Members of the City Council

SUBJECT **Follow Up to August 22, 2018 City Council Discussion on Tax Rate and Potential Changes to 2016 Meet and Confer Agreement on Police and Fire Pay**

Thank you for your questions prior to and at the City Council meeting today. This memorandum provides a recap of the many numbers we provided verbally today, as well as the additional information and calculations we committed to provide in writing.

Maximum Tax Rate City Council May Adopt on September 18

Today, the City Council approved a maximum tax rate for FY 2018-19 of **77.79¢** per \$100 in valuation, or 0.25¢ less than the current tax rate of 78.04¢. This action reserves the option to adopt a tax rate on Tuesday, September 18 that exceeds the effective tax rate, which is 73.91¢. The City Council may approve a rate lower than 77.79¢ but may not approve one higher.

Increasing the property tax rate from the City Manager's recommended rate of 76.50¢ to 77.79¢ is an increase of 1.29¢ per \$100 valuation. The revenue from 1.29¢ is **\$16,397,853**.

State law requires that we advertise and hold two public hearings to receive comments on the tax rate. The public hearings will be held on September 5 and September 12.

Growth of General Fund

The City Manager's proposed FY 2018-19 General Fund budget is \$1.35 billion, an increase of **\$74.8 million**, or 5.86 percent, from the FY 2017-18 adopted General Fund budget. The increase comprises \$61.3 million in property taxes, \$8.3 million in sales taxes, and \$5.2 million in other revenue.

Most of the increase, or \$63.9 million, funds items that we consider "have to do":

- TIF (\$10 million),
- Meet and Confer (\$25.7 million),
- Police and fire pension (\$6.1 million),
- Civilian merit (\$7.5 million),
- Employee/retiree health benefits (\$5.5 million),
- Master lease debt payment (\$2.5 million),
- Mayor/Council election (\$1.3 million), and
- School crossing guard program (\$5.3 million).

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If the City Council were to adopt the maximum tax rate set today, 77.79¢ per \$100 in valuation, then the FY 2018-19 General Fund budget would be **\$1.37 billion**, an increase of **\$91.2 million**, or **7.14 percent**, from the FY 2017-18 adopted General Fund budget. The increase would comprise **\$77.7 million** in property taxes, \$8.3 million in sales taxes, and \$5.2 million in other revenue.

Growth in Property Values

Total property value within the City of Dallas increased by **9.94 percent** when comparing the 2018 certified values with the 2017 certified values. The 2018 certified tax roll includes \$3.57 billion of new construction value. Of the 9.94 percent growth, 6.92 percent is attributable to property taxed in the current year, and 3.02 percent is attributable to new construction.

The five-year forecast included in the biennial budget assumes property values will grow:

- 6.25 percent in FY 2019-20,
- 5.47 percent in FY 2020-21,
- 4.61 percent in FY 2021-22, and
- 3.77 percent in FY 2022-23.

The average value for a single-family residential property increased from \$250,000 in 2017 to \$275,000 in 2018. The tax bill for the average single-family residential home-owner will increase from \$1,553.13 to \$1,681.21, or **\$128.08**, or **8.24 percent**, considering the increased value and the City Manager's recommended change in the tax rate from 78.04¢ to 76.50¢.

If the City Council were to adopt the maximum tax rate set today, 77.79¢ per \$100 in valuation, as opposed to the City Manager's recommended tax rate of 76.50¢, the single-family residential tax bill will increase an **additional \$28.38** per year, or **\$156.46** total.

Please note that individual tax bills are a factor of each individual's property value.

Potential Changes to the 2016 Meet and Confer Agreement on Police and Fire Pay

The City Manager's recommended FY 2018-19 and FY 2019-20 biennial budget includes over \$40 million for increased police and fire pay based on the December 2016 Meet and Confer Agreement. This includes \$25.7 million in FY 2018-19 to implement the double step pay increases, add an additional 2 percent top step, and bring starting pay to \$51,688. FY 2019-20 includes an additional \$15 million to provide full-year funding for these increases in the second year of the biennial.

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Based on your requests, we have provided information regarding additional pay increases in several tables:

- Table A is the cost to provide across-the-board pay raises to all ranks and steps, over and above those included in the budget due to the 2016 agreement.
- Table B is the cost to increase starting pay from \$51,688 to \$59,840 and bring all current employees below this salary up to \$59,840.
- Table C is the cost to provide across-the-board pay raises for employees not receiving pay adjustments in Table B, over and above those included in the budget due to the 2016 agreement.

Each table includes:

- *Full Year Salary Cost (Includes Pension)* – This provides the full magnitude of the scenario including the 12-month cost of the salary adjustment, FICA (i.e. Medicare), and pension (34.5 percent).
- *Cost of Salary Increase (Excludes Pension)* – This provides the amount of money the City Council needs to include in the budget to fund the base salary portion of the scenario. As a result of HB 3158, the proposed budget already includes the amount necessary to meet the City's required pension contribution in FY 2018-19, i.e. the "floor." None of the scenarios would require additional pension contributions above the "floor."
- *Cost of Overtime Increase (Excludes Pension)* – This provides the amount of money the City Council needs to include in the budget to fund the overtime portion of the scenario. Since employees' average pay will increase, the cost of overtime will increase as well. Overtime is not pensionable.
- *Cost of Salary plus Overtime (Excludes Pension)* – This is the total amount needed to fund the scenario.
- *Tax Rate to Generate Revenue to Cover Salary and Overtime* – This is the tax rate that generates revenue in an amount equal to the salary and overtime expense.
- *Incremental Tax Bill for Average Residential Property* – This is the dollar cost of the tax rate to the average single-family residential home-owner.

As an example, you can see on Table A, the cost for a 3 percent across-the-board raise for all uniform employees plus overtime is \$12.8 million. The tax rate required to generate \$12.8 million revenue is \$0.0101 or 1.01¢. The dollar value of the tax bill associated with this rate for the average single-family residential home-owner is \$22.12 per year.

As another example, to increase starting pay to \$59,840, give all others a 2 percent across-the-board raise, and fund overtime, you would need to add the amounts in Table B to those listed for the 2 percent scenario in Table C. The cost of the scenario is \$16.4 million (\$9,371,022 + \$7,053,909, rounded). The tax rate required to generate \$16.4 million revenue is \$0.0129 or 1.29¢ (0.0074 + 0.0055). The dollar value of the tax bill associated with this rate for the average single-family residential home-owner is \$28.43 per year (\$16.22 + \$12.21).

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Police and Fire Uniform Employee - Increase Pay Options	Full-year Salary Cost (Includes Pension)	Cost of Salary Increase (Excludes Pension) *	Cost of Overtime Increase (Excludes Pension) *	Cost of Salary + Overtime (Excludes Pension) *	Tax Rate to Generate Revenue to cover Salary + Overtime Expense	Incremental Tax Bill for Average Single-Family Residential Property at Average Value ***
Table A						
1% Raise for all uniform employees	5,708,767	4,260,054	<i>Overtime Cost Already Incorporated into Salary Cost**</i>	4,260,054	0.0034	7.37
2% Raise for all uniform employees	11,417,534	8,520,108		8,520,108	0.0067	14.75
3% Raise for all uniform employees	17,126,301	12,780,162		12,780,162	0.0101	22.12
4% Raise for all uniform employees	22,835,068	17,040,216		17,040,216	0.0134	29.49
5% Raise for all uniform employees	28,543,835	21,300,270		21,300,270	0.0168	36.86
Table B						
Increase pay to \$59,840	11,364,539	8,480,563	890,459	9,371,022	0.0074	16.22
Table C						
1% Raise for those above \$59,840	4,277,251	3,191,814	335,140	3,526,954	0.0028	6.10
2% Raise for those above \$59,840	8,554,502	6,383,628	670,281	7,053,909	0.0055	12.21
3% Raise for those above \$59,840	12,831,753	9,575,442	1,005,421	10,580,863	0.0083	18.31
4% Raise for those above \$59,840	17,109,004	12,767,256	1,340,562	14,107,818	0.0111	24.42
5% Raise for those above \$59,840	21,386,255	15,959,070	1,675,702	17,634,772	0.0139	30.52
* Cost for salary and overtime do not include pension since that cost is already included in the City Manager's Recommended budget as necessary to meet HB3158 contribution requirements.						
** Overtime cost was previously incorporated into the cost scenarios for pay increases for all uniform employees.						
*** Tax Bill is based on \$275,000, the average value for a residential property with a homestead exemption.						

We have also received a request to provide the cost of increasing the starting pay to \$55,000 instead of \$59,840, and the cost of across-the-board pay raises for those not impacted by the \$55,000 starting pay. As we have explained, uniform pay scenarios are complex calculations. Therefore, we will calculate these additional scenarios and provide them to you on Friday.

If you have additional questions, please let me know.

M. Elizabeth Reich
Chief Financial Officer

- c: T.C. Broadnax, City Manager
- Larry Casto, City Attorney
- Craig D. Kinton, City Auditor
- Biliera Johnson, City Secretary
- Preston Robinson, Administrative Judge
- Kimberly Bizer Tolbert, Chief of Staff to the City Manager
- Majed A. Al-Ghafry, Assistant City Manager

- Jon Fortune, Assistant City Manager
- Joey Zapata, Assistant City Manager
- Nadia Chandler Hardy, Assistant City Manager
- Theresa O'Donnell, Chief Resilience Officer
- Raquel Favela, Chief of Economic Development & Neighborhood Services
- Directors and Assistant Directors