FY 2019-20 and FY 2020-21 Budget Overview

City Council Briefing
June 18, 2019

M. Elizabeth Reich, CFO
Jack Ireland, Office of Budget, Director
Janette Weedon, Office of Budget, Assistant Director
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)
Fiscal Year 2018-19
Total City Budget
$3.6 billion

Operating Budget
(funds day-to-day operations and maintenance)
$2.8 billion

Capital Budget
(funds long-term capital improvements)
$798 million

General Fund
$1.4 billion

General Debt Service
$296 million

Enterprise Funds
$1.1 billion

General Purpose
$420 million

Enterprise Capital
$378 million
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

Current Year

Balanced $5.3M Gap $33.7M Gap $36.6M Gap $44.0M Gap

FY19 FY20 FY21 FY22 FY23

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

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

• Several initiatives are used to engage residents and gather input on the community’s needs for the budget
  • Biannual Community Survey
  • Public hearings at City Council meetings
  • Budget community engagement meetings
  • Online budget survey
  • City Council member-hosted Town Hall meetings
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
If you had $100, how much would you spend on each priority?

<table>
<thead>
<tr>
<th>Strategic Areas</th>
<th>FY19 Actual Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Safety</td>
<td>60%</td>
</tr>
<tr>
<td>Mobility Solutions</td>
<td>11%</td>
</tr>
<tr>
<td>Quality of Life</td>
<td>15%</td>
</tr>
<tr>
<td>Human &amp; Social Needs</td>
<td>1%</td>
</tr>
<tr>
<td>Economic &amp; Neighborhood Vitality</td>
<td>5%</td>
</tr>
<tr>
<td>Gov’t Performance</td>
<td>8%</td>
</tr>
</tbody>
</table>
## Community Engagement

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

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Police services</td>
<td>67.7%</td>
</tr>
<tr>
<td>Repairing and maintaining streets</td>
<td>52.5%</td>
</tr>
<tr>
<td>Fire services</td>
<td>30.3%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Sentence</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>I prefer to lower taxes, even if it means cutting City services.</td>
<td>21.1%</td>
</tr>
<tr>
<td>I prefer to keep taxes and City services about the same.</td>
<td>56.2%</td>
</tr>
<tr>
<td>I prefer to raise taxes to allow the City to offer more services.</td>
<td>22.7%</td>
</tr>
</tbody>
</table>
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

Property Tax: 53%
Sales Tax: 23%
Franchise Fees: 8%
Other Revenue: 16%
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)

July 2018 certified value is $130.1B
Average annual growth is 3.3%

3 years of decline, $8.5B or 9.4%
7 years of growth, $48.1B or 58.6%
Sales Tax Revenue (FY85–FY19)

FY19 budgeted revenue is $311.6M
Average annual growth is 3.6%

2 years of decline, $25.2M or 11%
8 years of growth, $100.7M or 49.2%

Government Performance and Financial Management
City of Dallas
## Economic Forecast

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Property Tax Values</th>
<th>Sales Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY17 Actual</td>
<td>10.0%</td>
<td>3.4%</td>
</tr>
<tr>
<td>FY18 Actual</td>
<td>7.2%</td>
<td>4.0%</td>
</tr>
<tr>
<td>FY19 Actual</td>
<td>9.9%</td>
<td>3.0%</td>
</tr>
<tr>
<td>FY20 Actual</td>
<td>9.6%</td>
<td>2.1%</td>
</tr>
<tr>
<td>FY21 Actual</td>
<td>7.6%</td>
<td>2.4%</td>
</tr>
<tr>
<td>FY22 Actual</td>
<td>5.8%</td>
<td>2.5%</td>
</tr>
<tr>
<td>FY23 Actual</td>
<td>3.8%</td>
<td>2.5%</td>
</tr>
<tr>
<td>FY24 Actual</td>
<td>2.3%</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

### Consultant Forecast

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Property Tax Values</th>
<th>Sales Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY20</td>
<td>9.6%</td>
<td>2.1%</td>
</tr>
<tr>
<td>FY21</td>
<td>7.6%</td>
<td>2.4%</td>
</tr>
<tr>
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<td>2.5%</td>
</tr>
<tr>
<td>FY23</td>
<td>3.8%</td>
<td>2.5%</td>
</tr>
<tr>
<td>FY24</td>
<td>2.3%</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

### 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

- **Adopted Rate**: $0.7767/$100, General Fund Revenue: $720.4 million
- **Effective Rate**: $0.7391/$100, General Fund Revenue: $671.8 million
- **Rollback Rate**: $0.7811/$100, General Fund Revenue: $725.6 million
- **SB2 Voter-Approval Rate**: $0.7570/$100, General Fund Revenue: $695.3 million
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

Government Performance & Financial Management
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

**Rates and Fees Outlook**

<table>
<thead>
<tr>
<th>Year</th>
<th>Water Utility</th>
<th>Stormwater</th>
<th>Sanitation</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY20</td>
<td>4.5%</td>
<td>4.8%</td>
<td></td>
</tr>
<tr>
<td>FY21</td>
<td>4.5%</td>
<td>4.3%</td>
<td>1.0%</td>
</tr>
<tr>
<td>FY22</td>
<td>4.6%</td>
<td>4.5%</td>
<td>3.5%</td>
</tr>
<tr>
<td>FY23</td>
<td>4.5%</td>
<td></td>
<td>1.8%</td>
</tr>
<tr>
<td>FY24</td>
<td>4.5%</td>
<td></td>
<td>1.9%</td>
</tr>
</tbody>
</table>

0.0% 1.0% 2.0% 3.0% 4.0% 5.0% 6.0%

City of Dallas
## Enterprise Fund Fees

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

<table>
<thead>
<tr>
<th></th>
<th>FY18</th>
<th>FY19</th>
<th>FY20*</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water &amp; Wastewater</td>
<td>$67.12</td>
<td>$65.30</td>
<td>$62.62</td>
<td>$63.25</td>
<td>$66.16</td>
<td>$67.35</td>
<td>$68.63</td>
</tr>
<tr>
<td>Stormwater</td>
<td>$7.09</td>
<td>$7.41</td>
<td>$7.74</td>
<td>$8.09</td>
<td>$8.46</td>
<td>$8.84</td>
<td>$9.23</td>
</tr>
<tr>
<td>Sanitation</td>
<td>$25.18</td>
<td>$27.29</td>
<td>$28.60</td>
<td>$29.83</td>
<td>$30.87</td>
<td>$31.91</td>
<td>$33.01</td>
</tr>
<tr>
<td><strong>Total Utilities Bill</strong></td>
<td><strong>$99.39</strong></td>
<td><strong>$100.00</strong></td>
<td><strong>$98.96</strong></td>
<td><strong>$101.17</strong></td>
<td><strong>$105.48</strong></td>
<td><strong>$108.09</strong></td>
<td><strong>$110.87</strong></td>
</tr>
</tbody>
</table>

**Increase**
- FY18: -
- FY19: $0.61
- FY20: $(1.04)
- FY21: $2.20
- FY22: $4.31
- FY23: $2.61
- FY24: $2.78

**Percent Change**
- FY18: -
- FY19: 0.6%
- FY20: -1.0%
- FY21: 2.2%
- FY22: 4.3%
- FY23: 2.5%
- FY24: 2.6%

**5-Year Average Annual Change**
- FY18: -
- FY19: -
- FY20: -
- FY21: -
- FY22: -
- FY23: 1.7%
- FY24: 2.1%

*Reduction in winter months average*
## Budget Development Schedule

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Event—City Council and Community</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 28</td>
<td>Budget public hearing</td>
</tr>
<tr>
<td>September 4</td>
<td><strong>Budget Workshop:</strong> Consider amendments and adopt budget on first reading</td>
</tr>
<tr>
<td></td>
<td>Tax rate public hearing #1 (if needed)</td>
</tr>
<tr>
<td>September 10</td>
<td><strong>Budget Workshop:</strong> (optional)</td>
</tr>
<tr>
<td>September 11</td>
<td>Tax rate public hearing #2 (if needed)</td>
</tr>
<tr>
<td>September 18</td>
<td><strong>Budget Workshop:</strong> Adopt budget on second reading, adopt tax rate, and approve other budget-related items</td>
</tr>
<tr>
<td>October 1</td>
<td>Begin FY20</td>
</tr>
</tbody>
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FY 2019-20 and FY 2020-21
Budget Overview

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June 18, 2019

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