

Memorandum



CITY OF DALLAS
(Report No. A18-014)

DATE: September 14, 2018
TO: Honorable Mayor and Members of the City Council
SUBJECT: Audit of Revenue Estimates Included in the Fiscal Year 2018-19 Proposed Annual Budget for the City of Dallas¹

In total, the revenue estimates included in the *Fiscal Year 2018-19 Proposed Annual Budget* appear reasonable (see Table I in Attachment I).

The Office of the City Auditor’s assessment included approximately \$2.5 billion of the \$3.1 billion in proposed revenue estimates for the General Fund, Enterprise Funds, and Debt Service Fund, or 80 percent, of the revenue estimates included in the *Fiscal Year 2018-19 Proposed Annual Budget* (see Table I in Attachment I). The remaining \$608.3 million in revenue estimates, which are mainly derived from department reimbursements, and City of Dallas (City) employee and retiree contributions for retirement and health benefits, were excluded from the assessment.

City management is responsible for preparing reasonable revenue estimates for inclusion in the *Fiscal Year 2018-19 Proposed Annual Budget*. In preparing these revenue estimates, City management develops

Overview of Major Revenue Sources

The *Fiscal Year 2018-19 Proposed Annual Budget* for Major Revenue Sources of approximately \$2.5 billion is \$89.8 million, or 3.7 percent, higher than the Fiscal Year (FY) 2017-18 forecast revenues for Major Revenue Sources assessed. (see Table II in Attachment I).

The FY 2017-18 amended budget for Major Revenue Sources of approximately \$2.4 billion is \$17 million, or 0.7 percent, below the FY 2017-18 forecast revenues for Major Revenue Sources assessed (see Table III in Attachment I)

Source: City of Dallas

¹ The objective of the audit was to determine whether the City of Dallas (City) has effective processes to ensure reasonable revenue estimates are included in the City Manager’s *Fiscal Year 2018-19 Proposed Annual Budget*. The audit scope was the Major Revenue Sources included in the *FY 2018-19 Proposed Annual Budget* and the associated supporting documentation; however, certain other matters, outside that audit scope were reviewed to understand and verify information. Council Resolution 904027 directs the City Auditor to review and verify the reasonableness of the revenue estimates included in the City Manager’s proposed budget. This performance audit was conducted under the authority of the City Charter, Chapter IX, Section 3 and in accordance with the Fiscal Year 2018 Audit Plan approved by the City Council. This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We interviewed department personnel, reviewed revenue estimate methodologies and material assumptions for reasonableness, verified mathematical accuracy, traced amounts to the appropriate fiscal year budget documents, and performed various analyses.

revenue estimate methodologies, such as regression analyses and/or historical trends, and documents significant assumptions used to support the methodologies. The Office of the City Auditor's assessment considers the reasonableness of these revenue estimate methodologies; however, neither City management nor the Office of the City Auditor guarantees the achievement of the Fiscal Year (FY) 2018-19 revenue estimates.

Five-year budget-to-actual comparisons and the FY 2018-19 proposed budget amounts for the Major Revenue Sources included in the assessment are shown in Attachment II (see Charts I through VIII). As Charts I, V, VI and VII show, revenue estimates for certain major general and enterprise fund operations increased by more than 5.0 percent from the FY 2017-18 amended budget. City management provided descriptions of these revenue sources and explanations for the associated variances as discussed in more detail below:

- **Office of Budget – Ad Valorem Taxes**

The Office of Budget (OB) increased the FY 2018-19 proposed budget for Ad Valorem Taxes by \$69.8 million, or 7.6 percent, from the \$913.7 million FY 2017-18 amended budget. According to OB, the certified taxable property value in Dallas increased by 9.9 percent from \$118.3 billion in 2017 to \$130.1 billion in 2018.

- **Department of Aviation**

The Department of Aviation's (AVI) FY 2018-19 proposed budget includes a \$17.1 million, or 13.5 percent, increase from the \$127 million FY 2017-18 amended budget. The AVI uses a cost recovery methodology to estimate budgeted revenues whereby incurred costs are reimbursed by the airlines using Dallas Love Field Airport. According to AVI, the revenue increase primarily results from:

- \$7 million for Concessions revenue resulting from the opening of Garage C in October 2018 and an accounting change in parking revenue
- Reimbursement of approximately \$10 million from airlines and terminal tenants for a Debt Service payment increase for the General Airport Revenue Bonds

- **Department of Sanitation**

The Department of Sanitation (SAN) continues to experience significant favorable variances between budget and actual revenue attributed to a conservative approach to budgeting revenue. According to SAN, many non-contracted cash customers from surrounding cities continue to use McCommas

Landfill because of the competitive rates and extended operating hours. The SAN plans to increase: (1) the McCommas Landfill gate rate 5.0 percent from \$25 per ton to \$26.25 per ton; (2) discounted disposal rates for contracted landfill customers with a 2.7 percent Consumer Price Index adjustment; and, (3) residential rates by 8.4 percent from \$25.18 to \$27.29. As a result, the FY 2018-19 proposed budget was increased by \$6.1 million, or 5.7 percent, from the \$106.6 million FY 2017-18 amended budget.

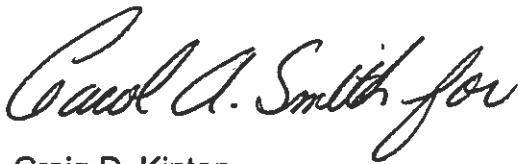
- **Department of Convention and Event Services**

The Department of Convention and Event Services (CES) FY 2018-19 proposed budget includes a \$7.5 million, or 7.4 percent, increase from the \$101.2 million FY 2017-18 amended budget. According to CES, the revenue increase primarily results from: (1) Hotel Occupancy Tax and Alcoholic Beverage Tax revenues; and, (2) operating revenues, including food and beverage, space rental, and electrical charges with anticipated revenues from clients that are already booked or assumed to be booking conventions and conferences in FY 2018-19. For example, major shows booked for FY 2018-19 include the Supercomputing Conference 2018, O'Reilly Auto Parts, and the Composite, and Advanced Materials Expo.

We would like to acknowledge City management's cooperation in providing the information needed to complete this audit.

If you have any questions or need additional information, please contact Thandee Kywe, Assistant City Auditor IV at 214-939-2524 or by email at thandee.kywe@dallascityhall.com. You may also contact Carol Smith, First Assistant City Auditor, at 214-670-4517 or by email at carol.smith@dallascityhall.com.

Sincerely,



Craig D. Kinton
City Auditor

Attachments

- C: T.C. Broadnax, City Manager
- Christopher Caso, Interim City Attorney
- Kimberly Tolbert, Chief of Staff
- Majed Al-Ghafry, Assistant City Manager
- Jon Fortune, Assistant City Manager
- M. Elizabeth Reich, Chief Financial Officer
- Joey Zapata, Assistant City Manager
- Mark Duebner, Director – AVI
- Rosa Fleming, Interim Director – CES
- Kelly High, Director – SAN
- Jack Ireland, Director – OB
- Terry Lowery, Director – Department of Water Utilities
- Sarah Standifer, Director – Department of Trinity Watershed Management
- Janette Weedon, Assistant Director – OB
- Nick Fehrenbach, Manager (Utility Management) – OB

**Audit of the Revenue Estimates Included in the Fiscal Year 2018-19
Proposed Annual Budget for the City of Dallas**

ATTACHMENT I

Table I

**Fiscal Year 2018-19 Proposed Budget Revenue Sources Included in the
Office of the City Auditor's Assessment**

Chart	Revenue Sources	Fiscal Year 2018-19 Proposed Revenues
General Fund		
I	Ad Valorem Taxes	\$ 713,416,155
II	Sales Tax	311,645,016
III	Franchise Fees	107,331,079
Enterprise Funds		
IV	Water Utilities	665,005,577
V	Aviation	144,132,819
VI	Sanitation Services	112,653,465
VII	Convention and Event Services	108,647,915
VIII	Storm Water Fees	58,436,837
Debt Service Fund		
	Ad Valorem Taxes	270,069,503
Total Revenue Estimates Assessed		\$ 2,491,338,366
Revenue Estimates Not Assessed		608,281,974
Total Fiscal Year 2018-19 Proposed Budget		\$ 3,099,620,340

Source: Fiscal Year 2018-19 Proposed Annual Budget (Unaudited)

**Audit of the Revenue Estimates Included in the Fiscal Year 2018-19
Proposed Annual Budget for the City of Dallas**

Table II

**Fiscal Year 2017-18 Forecast Revenues Compared
to Fiscal Year 2018-19 Proposed Revenues for Major Revenue Sources**

Revenue Sources	Fiscal Year 2017-18 Forecast Revenues	Fiscal Year 2018-19 Proposed Revenues	Amount Variance	Percentage Variance
General Fund				
Ad Valorem Taxes	\$ 653,733,742	\$ 713,416,155	\$ 59,682,413	9.1
Sales Tax	304,904,662	311,645,016	6,740,354	2.2
Franchise Fees	114,067,865	107,331,079	(6,736,786)	(5.9)
Enterprise Funds				
Water Utilities	671,624,514	665,005,577	(6,618,937)	(1.0)
Aviation	127,133,158	144,132,819	16,999,661	13.4
Sanitation Services	109,056,415	112,653,465	3,597,050	3.3
Convention and Event Services	104,430,364	108,647,915	4,217,551	4.0
Storm Water Fees	55,868,207	58,436,837	2,568,630	4.6
Debt Service Fund				
Ad Valorem Taxes	260,761,812	270,069,503	9,307,691	3.6
Totals	\$ 2,401,580,739	\$ 2,491,338,366	\$ 89,757,627	3.7

Source: Fiscal Year 2018-19 Proposed Annual Budget (Unaudited)

**Audit of the Revenue Estimates Included in the Fiscal Year 2018-19
Proposed Annual Budget for the City of Dallas**

Table III

**Fiscal Year 2017-18 Amended Budget Revenues Compared
to Forecast Revenues for Major Revenue Sources**

Revenue Sources	Amended Budget	Forecast Revenues	Amount Variance	Percentage Variance
General Fund				
Ad Valorem Taxes	\$ 653,667,958	\$ 653,733,742	\$ 65,784	0.01
Sales Tax	303,349,086	304,904,662	1,555,576	0.5
Franchise Fees	109,290,898	114,067,865	4,776,967	4.4
Enterprise Funds				
Water Utilities	667,471,388	671,624,514	4,153,126	0.6
Aviation	127,028,405	127,133,158	104,753	0.1
Sanitation Services	106,579,097	109,056,415	2,477,318	2.3
Convention and Event Services	101,187,266	104,430,364	3,243,098	3.2
Storm Water Fees	55,987,895	55,868,207	(119,688)	(0.2)
Debt Service Fund				
Ad Valorem Taxes	260,036,328	260,761,812	725,484	0.3
Totals	\$ 2,384,598,321	\$ 2,401,580,739	\$ 16,982,418	0.7

Source: Fiscal Year 2018-19 Proposed Annual Budget (Unaudited)

**Audit of the Revenue Estimates Included in the Fiscal Year 2018-19
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ATTACHMENT II

Charts I to VIII shown on the following pages are based upon analyses of Fiscal Year (FY) 2014 through FY 2019 budget-to-actual revenue and current year forecasts included in the *Fiscal Year 2018-19 Proposed Annual Budget* presented as of August 14, 2018. Descriptions for the revenue sources were provided by City management or taken from the Office of Budget *Fiscal Year 2018-19 Proposed Annual Budget* Appendices, Major Revenue Sources.

The Charts provide comparisons of the Adopted FY 2014 to FY 2017 budget-to-actual revenue collected for the same period. In addition, the Charts show the FY 2018 amended budget to forecast revenue and the FY 2019 proposed budget.

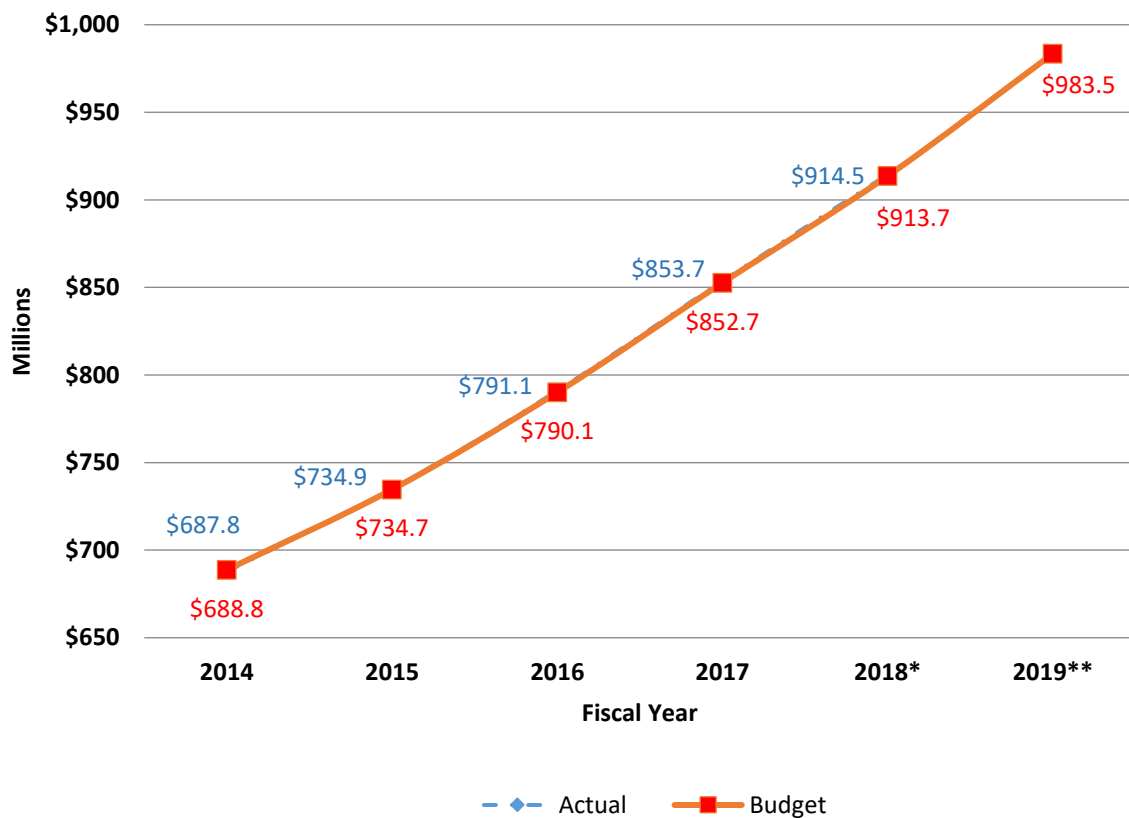
**Audit of the Revenue Estimates Included in the Fiscal Year 2018-19
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Ad Valorem Taxes

Ad Valorem (Property) Taxes are the largest revenue source for the General Fund and Debt Service Fund. Assessed property values are established by the Central Appraisal Districts in the four counties (Dallas, Collin, Denton, and Rockwall) in which the City of Dallas (City) is located and are certified by the individual Appraisal Districts (Appraisal Review Boards).

Chart I

**Ad Valorem Taxes
Analysis of Budget-to-Actual Revenue
FY 2014 to FY 2019**



* Fiscal Year (FY) 2018 adopted budget was \$912,104,186. According to the FY 2018-19 Proposed Financial Summaries, the FY 2018 amended budget was \$913,704,286. The increase of approximately \$1.6 million was related to the FY 2017-18 appropriation adjustments.

FY 2018 revenue, including the forecast for the remaining months, were provided by management.

** FY 2019 is proposed; therefore, actual is not available.

Source: City of Dallas Adopted Annual Budgets and *Fiscal Year 2018-19 Proposed Annual Budget (Unaudited)*

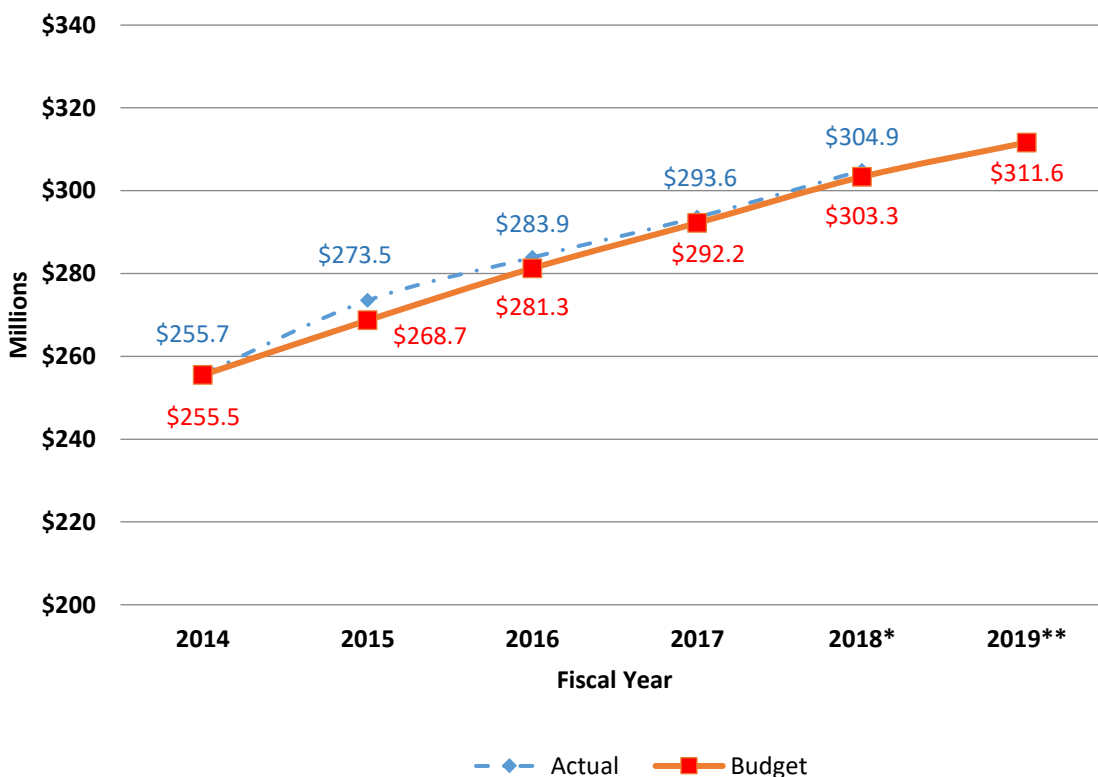
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Sales Tax

Sales Tax is the second largest revenue source for the General Fund. The sales tax rate in the City is 8.25 percent of taxable goods or services sold within the City limits. The sales tax is collected at the point of sale and forwarded to the Texas State Comptroller’s Office on a monthly or quarterly basis. Of the 8.25 percent collected, the State retains 6.25 percent and distributes 1.0 percent to the City and 1.0 percent to the Dallas Area Rapid Transit transportation authority.

Chart II

**Sales Tax
Analysis of Budget-to-Actual Revenue
FY 2014 to FY 2019**



* FY 2018 revenue, including the forecast for the remaining months, were provided by management.

** FY 2019 is proposed; therefore, actual is not available.

Source: City of Dallas Adopted Annual Budgets and *Fiscal Year 2018-19 Proposed Annual Budget* (Unaudited)

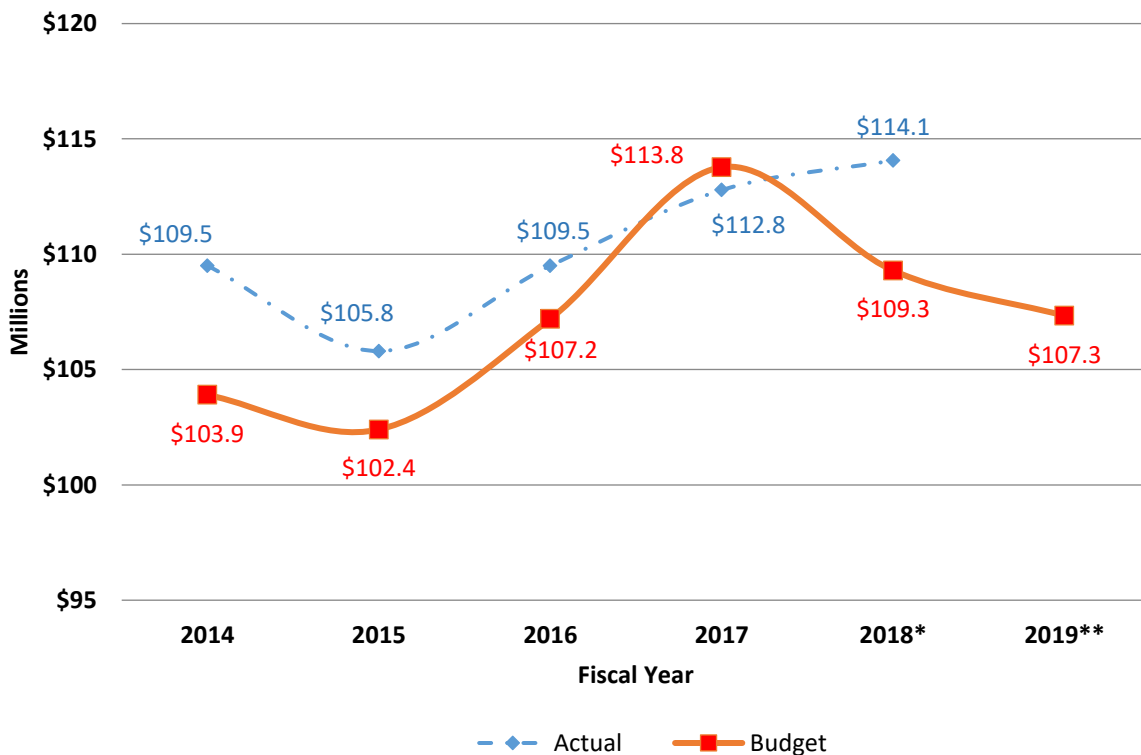
**Audit of the Revenue Estimates Included in the Fiscal Year 2018-19
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Franchise Fees

The City maintains non-exclusive franchise agreements with utilities and other service providers that use the City’s rights-of-way to provide services to the public. These franchise agreements provide for compensation to the City in the form of franchise fees. These fees are in lieu of all other fees and charges related to the use of the rights-of-way.

Chart III

**Franchise Fees
Analysis of Budget-to-Actual Revenue
FY 2014 to FY 2019**



* FY 2018 revenue, including the forecast for the remaining months, were provided by management.

** FY 2019 is proposed, therefore actual is not available.

Source: City of Dallas Adopted Annual Budgets and *Fiscal Year 2018-19 Proposed Annual Budget (Unaudited)*

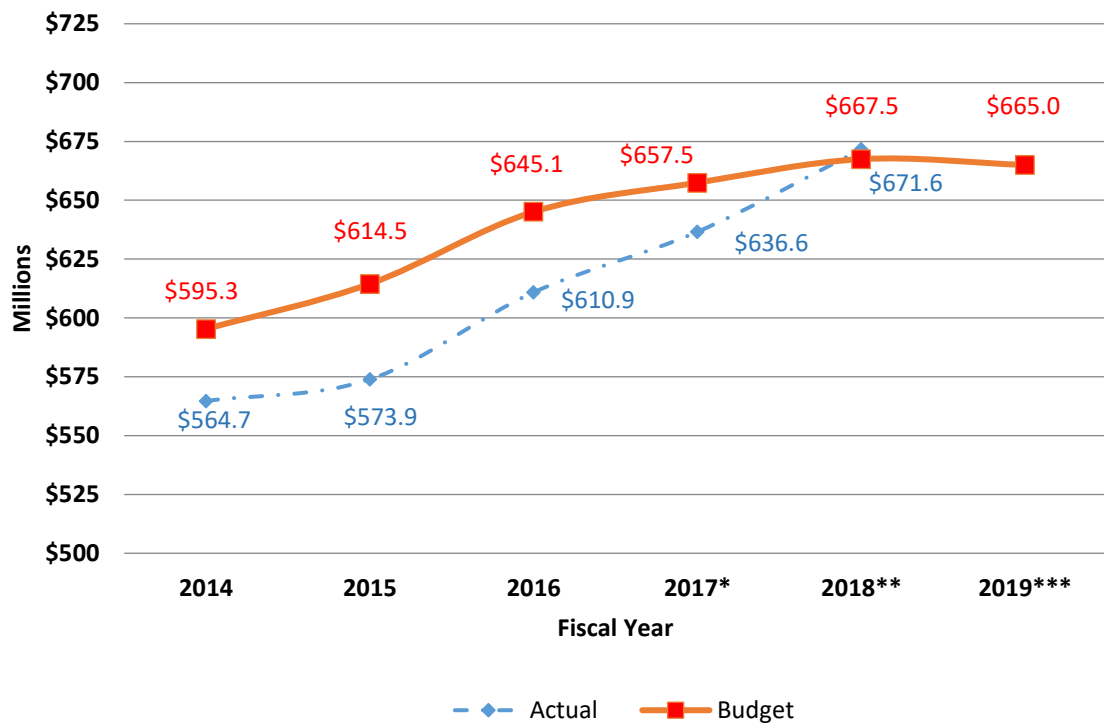
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Water Utilities

The Department of Dallas Water Utilities' (DWU) revenue is obtained through the sale of water and wastewater services in five customer classes: Residential, General Service, Municipal, Optional General Service, and Wholesale. The Wholesale customer class is comprised of 23 communities outside the City which receive treated water service and 11 communities which receive wastewater service. Rates for each class are determined by a cost of service study that assigns costs to each customer class based on DWU's cost to provide these services.

Chart IV

**Water Utilities
Analysis of Budget-to-Actual Revenue
FY 2014 to FY 2019**



* FY 2017 actual revenue does not include the \$23.2 million of non-operating revenue from the Sabine River Authority settlement.

** FY 2018 revenue, including the forecast for the remaining months, were provided by City management.

*** FY 2019 is proposed; therefore, actual is not available.

Source: City of Dallas Adopted Annual Budgets and *Fiscal Year 2018-19 Proposed Annual Budget (Unaudited)*

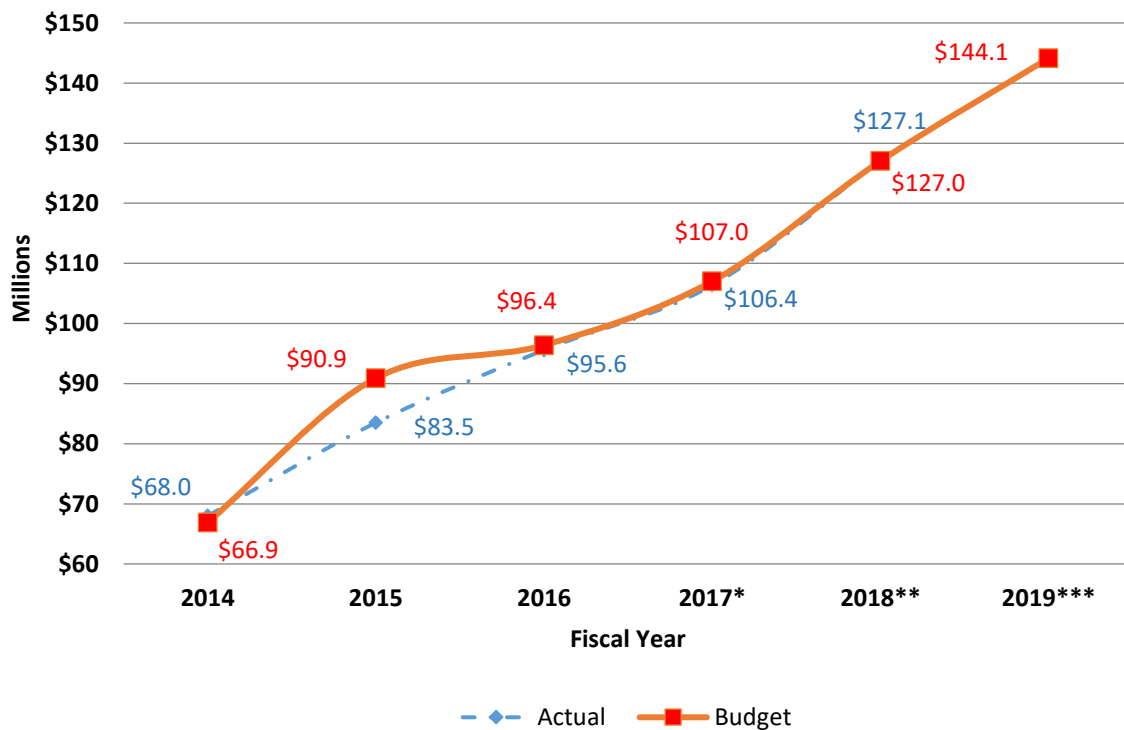
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Aviation

The Department of Aviation manages operations for Dallas Love Field, Dallas Executive Airport, and the downtown Vertiport. Revenue is comprised of landing fees, property rentals, and concessions. Airport businesses with concession contracts are obligated to pay the City a percentage of their monthly gross revenue or a guaranteed minimum payment. Concession contract agreements with airport businesses include parking, food and beverage services, retail stores, advertising, car rental agencies, shoe shine services, and bag cart rental. Rental on airport revenue includes rental payments received from leased property at Dallas Love Field and Dallas Executive Airport. The leased property includes rent for airfield (ground) space, terminal building space, cargo building space, and the associated shop and warehouse space.

Chart V

**Aviation
Analysis of Budget-to-Actual Revenue
FY 2014 to FY 2019**



* FY 2017 adopted budget was \$98,173,764. According to the FY 2017-18 Adopted Financial Summaries, the FY 2017 adopted budget was \$107,026,764. The increase of approximately \$8.9 million was due to the Checked Baggage Reconciliation Area expansion at the Dallas Love Field Airport.

** FY 2018 revenue, including the forecast for the remaining months, were provided by City management.

*** FY 2019 is proposed; therefore, actual is not available.

Source: City of Dallas Adopted Annual Budgets and *Fiscal Year 2018-19 Proposed Annual Budget* (Unaudited)

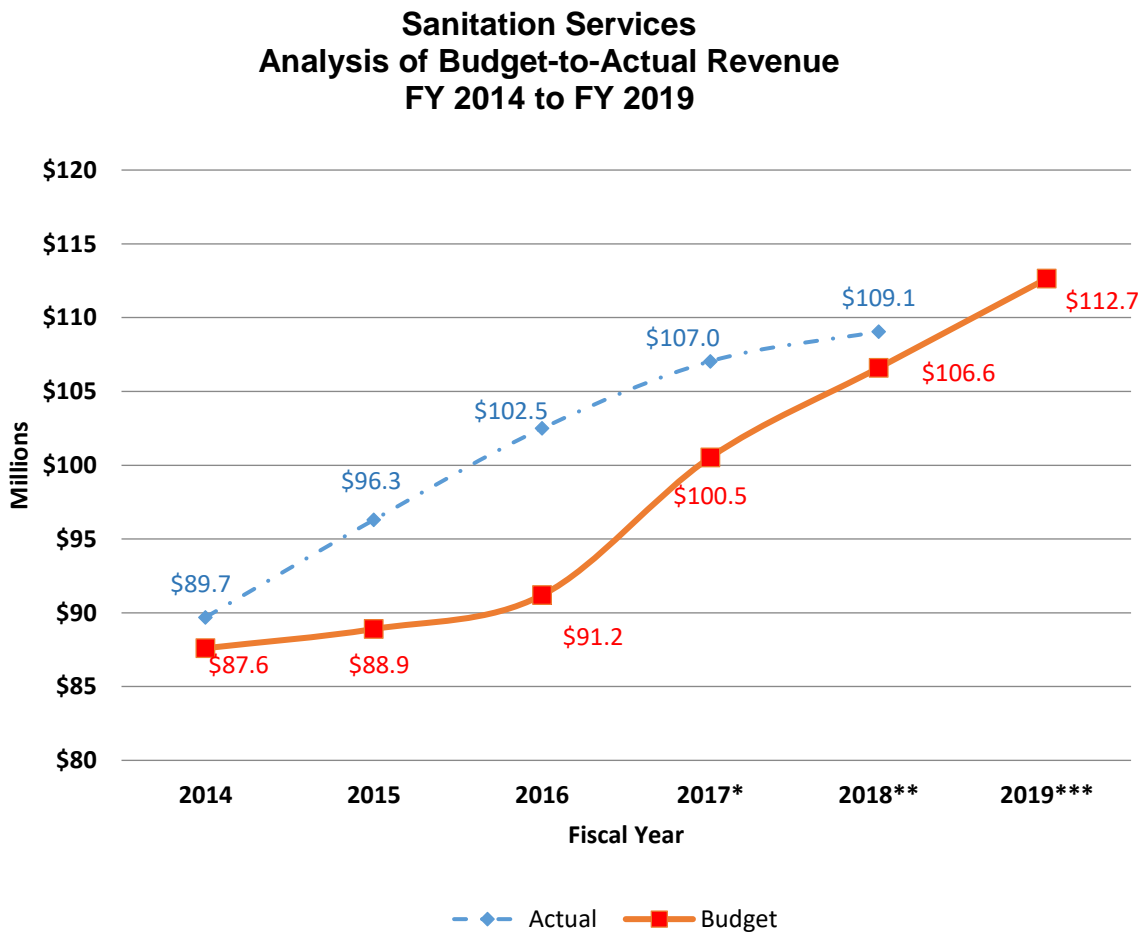
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Sanitation Services

Sanitation Services revenue is collected to match the cost of providing garbage collection, brush and bulky collection, and recyclables collection services for residential customers and a few small commercial customers. This revenue is based on fees, which are collected through the monthly water bills issued by DWU. In addition, fees are charged to non-Dallas residents and commercial waste haulers for disposing of solid waste at the McCommas Bluff Landfill and the Northwest (Bachman) Transfer Station.

The Department of Sanitation Services converted to an Enterprise Fund in FY 2015-16. According to management, after conversion of two revenue sources, the McCommas Site Rental and Commercial Container Fee will remain in the General Fund.

Chart VI



* FY 2017 adopted budget was \$95,946,054. According to the FY 2017-18 Adopted Financial Summaries, the FY 2017 adopted budget was \$100,541,054. The increase of approximately \$4.6 million was due to the FY 2016-17 appropriation adjustments.

** FY 2018 adopted budget was \$102,279,097. According to the FY 2018-19 Proposed Financial Summaries, the FY 2018 amended budget was \$106,579,097. The increase of approximately \$4.3 million was related to the FY 2017-18 appropriation adjustments.

FY 2018 revenue, including the forecast for the remaining months, were provided by management.

*** FY 2019 is proposed; therefore, actual is not available.

Source: City of Dallas Adopted Annual Budgets and *Fiscal Year 2018-19 Proposed Annual Budget* (Unaudited)

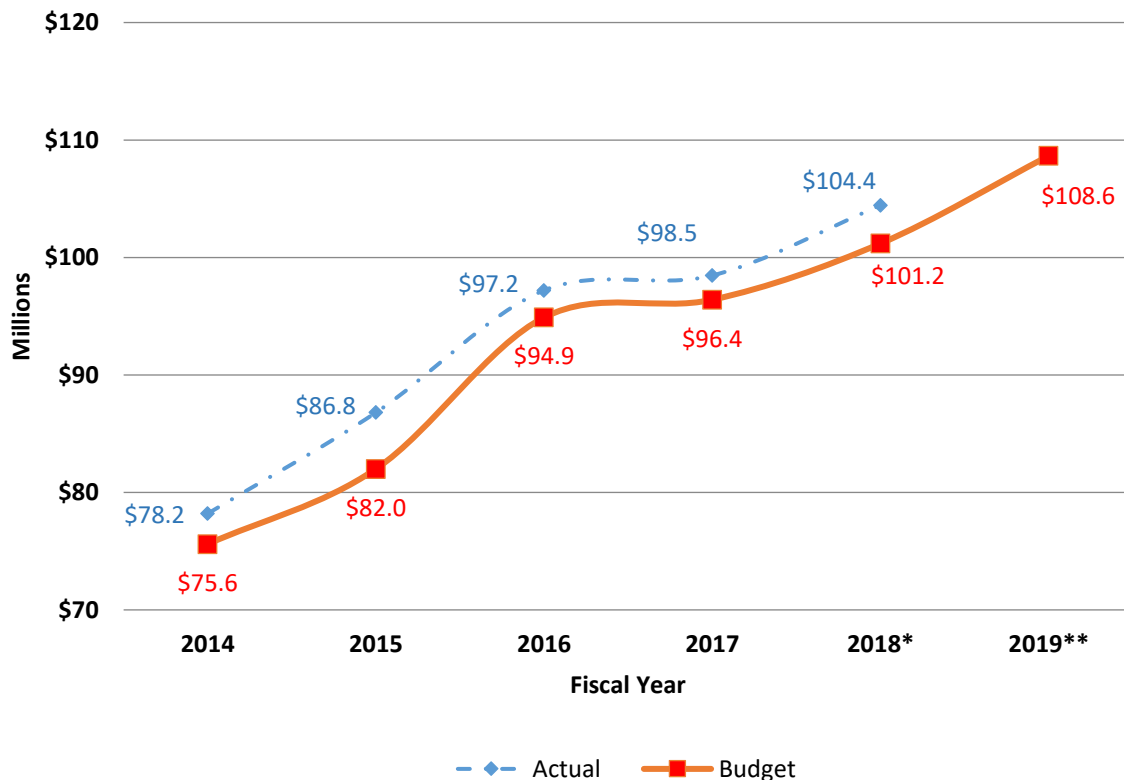
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Convention and Event Services

The major revenue source for the Department of Convention and Event Services (CES) is from the Hotel Occupancy Tax (HOT). The HOT rate in the City is 13 percent of the room rate charged within the City limits. The HOT is collected by the hotel at the point of sale, and on a monthly basis, 6.0 percent is remitted to the State of Texas and 7.0 percent is remitted to the City. Of the 7.0 percent remitted to the City, approximately 30 percent is allocated to VisitDallas to market and promote the City as a convention and tourist destination. Approximately 67 percent is allocated to the Kay Bailey Hutchison Convention Center to support operations and capital improvements and approximately three percent is allocated to the Office of Cultural Affairs to encourage, promote, and improve the arts. Other revenue sources for CES include Alcohol Beverage Tax, Operating Revenues, and the Office of Special Events.

Chart VII

**Convention and Event Services
Analysis of Budget-to-Actual Revenue
FY 2014 to FY 2019**



* FY 2018 adopted budget was \$97,787,266. According to the FY 2018-19 Proposed Financial Summaries, the FY 2018 amended budget was \$101,187,266. The increase of approximately \$3.4 million was related to the FY 2017-18 appropriation adjustments.

FY 2018 revenue, including the forecast for the remaining months, were provided by management.

** FY 2019 is proposed; therefore, actual is not available.

Source: City of Dallas Adopted Annual Budgets and *Fiscal Year 2018-19 Proposed Annual Budget (Unaudited)*

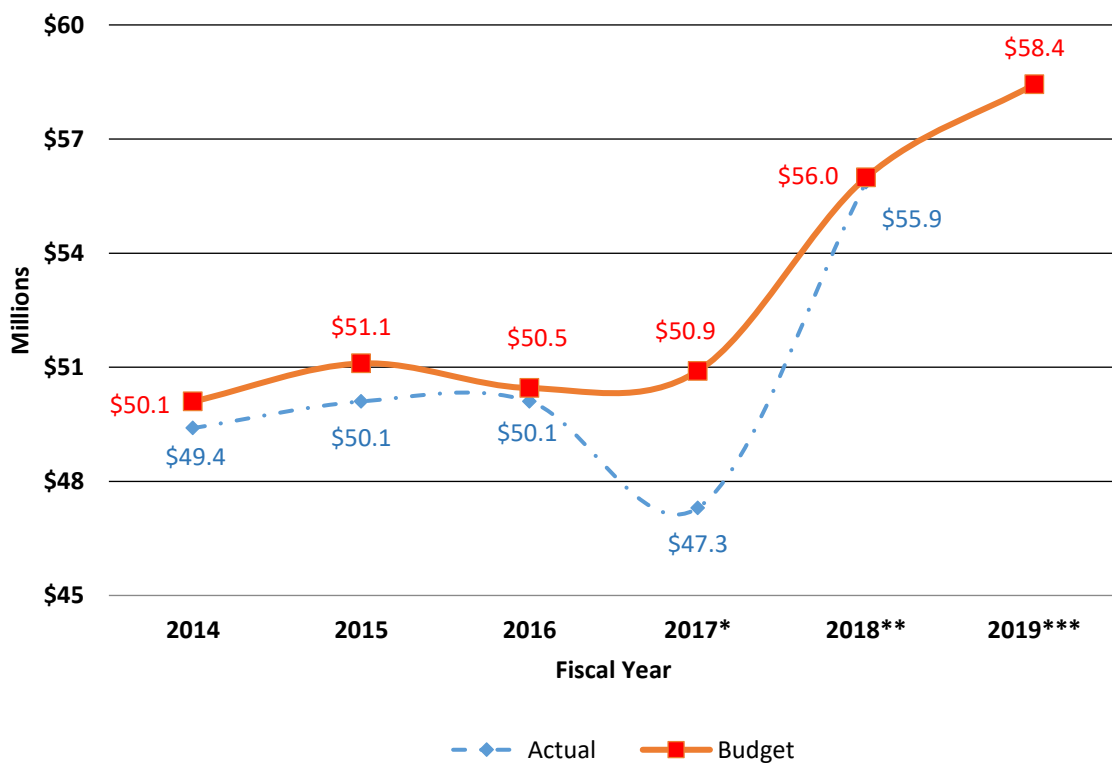
**Audit of the Revenue Estimates Included in the Fiscal Year 2018-19
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Storm Water Fees

The Storm Drainage Management Utility revenue is collected to support the cost of operating and maintaining the City’s storm sewer system; maintenance of creeks, rivers and levees; monthly sweeping of the City’s major thoroughfares; water quality activities required by storm water permit (e.g., sampling, testing, monitoring, public education, and hazardous spill cleanup and disposal); and, engineering, design, and inspection of storm sewer infrastructure. Utility fees are billed and collected through the monthly water bills.

Chart VIII

**Storm Water Fees
Analysis of Budget-to-Actual Revenue
FY 2014 to FY 2019**



* FY 2017 was the first year the City started charging the rate based on actual impervious areas (hard surface area) rather than the size of a lot. The Department of Trinity Watershed Management planned to adjust the billing system to reflect this rate change; however, the adjustments were not completed as anticipated. As a result, a significant number of accounts were not billed.

** FY 2018 revenue, including the forecast for the remaining months, were provided by City management.

*** FY 2019 is proposed; therefore, actual is not available.

Source: City of Dallas Adopted Annual Budgets and *Fiscal Year 2018-19 Proposed Annual Budget* (Unaudited)