

# Memorandum



CITY OF DALLAS  
(Report No. A15-013)

**DATE:** September 4, 2015

**TO:** Honorable Mayor and Members of the City Council

**SUBJECT:** Audit of Revenue Estimates Included in the Fiscal Year 2015-16 Proposed Annual Budget for the City of Dallas<sup>1</sup>

In total, the revenue estimates included in the Fiscal Year (FY) 2015-16 Proposed Annual Budget appear reasonable (see Table I in Attachment I).

Although the revenue estimates in total appear reasonable, the Department of Aviation (AVI) did not provide the proper documentation for portions of its FY 2015-16 revenue estimate. Approximately \$43.2 million (Concessions of \$20.3 million and Rental on Airport of \$22.9 million):

- was not supported by proper documentation
- contained calculation errors and internal inconsistencies
- was not fully supported by a formal documented methodology

As a result, AVI's revenue estimate methodologies were not always clear and the underlying calculations and documentation did not always support AVI's revenue estimates. According to management, the unexpected loss of a key employee contributed to these issues.

## Overview

The FY 2015-16 Proposed Annual Budget of approximately \$2.7 billion is:

- \$166.6 million, or 8.5 percent, higher than the FY 2014-15 Estimated Actual Revenues for Major Revenue Sources (see Table II in Attachment I)

The FY 2014-15 Adopted Annual Budget for Major Revenue Sources of approximately \$2 billion is:

- \$54.4 million, or 2.7 percent, above the FY 2014-15 Estimated Actual Revenues for Major Revenue sources (see Table III in Attachment I)

**Source:** City of Dallas

<sup>1</sup> The audit objective was to assess the reasonableness of the revenue estimates included in the FY 2015-16 Proposed Annual Budget. 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 FY 2015 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 FY budget documents, and performed various analyses.

The Office of the City Auditor (Office) reviewed approximately \$2.1 billion of the \$2.7 billion in proposed revenue estimates for the General Fund, Enterprise Funds, and Debt Service Fund, or 78 percent, of the revenue estimates included in the FY 2015-16 Proposed Annual Budget (see Table I in Attachment I).

Our review did not include the remaining \$604.3 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. Five year budget-to-actual comparisons and the FY 2015-16 Proposed Annual Budget amounts for the major revenue sources are shown in Attachment II (see Charts I through VIII).

City management is responsible for preparing reasonable revenue estimates for inclusion in the FY 2015-16 Proposed Annual Budget. In preparing these revenue estimates, City management develops revenue estimate methodologies, such as regression analyses and/or historical trends, and documents the significant assumptions used to support those methodologies. This information is reviewed by the Office for reasonableness; however, neither City management nor the Office guarantees the achievement of the FY 2015-16 revenue estimates.

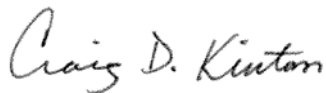
We recommend the Director of the Office of Financial Services (OFS) work with the Director of AVI to ensure all revenue estimates: (1) methodologies are formally documented; and, (2) are properly supported, including the verification of calculations and internal consistency.

Please see Attachment III for management's response to the recommendation.

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 me at 214-670-3222 or Carol Smith, First Assistant City Auditor, at 214-670-4517.

Sincerely,



Craig D. Kinton  
City Auditor

Attachments

C: A.C. Gonzalez, City Manager

Jeanne Chipperfield, Chief Financial Officer

Ryan 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

Mark Duebner, Director – Department of Aviation

Kelly High, Director – Department of Sanitation Services

Jack Ireland, Director – Office of Financial Services

Ron King, Director – Department of Convention and Event Services

Jo M. (Jody) Puckett, P.E., Director – Department of Dallas Water Utilities

Sarah Standifer, Interim Director – Department of Trinity Watershed Management

Jing Xiao, Assistant Director – Office of Financial Services

Nick Fehrenbach, Manager (Utility Management) – Office of Financial Services

**ATTACHMENT I**

**Table I**

**Fiscal Year 2015-16 Proposed Budget Revenue Sources Included in the Office of the City Auditor’s Assessment**

<b>Chart</b>	<b>Revenue Sources</b>	<b>Fiscal Year 2015-16 Proposed Revenues</b>
<b>General Fund</b>		
I	Ad Valorem Taxes	\$ 559,636,084
II	Sales Tax	281,271,586
III	Franchise Fees	107,198,289
<b>Enterprise Funds</b>		
IV	Water Utilities	645,128,387
V	Sanitation Service Fees <sup>1</sup>	87,188,361
VI	Aviation - Concessions and Rental on Airport <sup>2</sup>	70,103,252
VII	Convention and Event Services – Hotel Occupancy Tax	54,001,830
VIII	Storm Water Fees	50,452,299
<b>Debt Service</b>		
	Ad Valorem Taxes	230,334,357
<b>Total Revenue Estimates Assessed</b>		<b>\$ 2,085,314,445</b>
<b>Revenue Estimates Not Included</b>		<b>604,323,344</b>
<b>Total FY 2015-16 Proposed Budget</b>		<b>\$ 2,689,637,789</b>

**Source:** Revenue Estimates included in the FY 2015-16 Proposed Annual Budget (Unaudited)

<sup>1</sup> Effective FY 2015-16, Sanitation Service Fees will be reported in Enterprise Funds

<sup>2</sup> Amounts for Aviation – Concessions and Rental on Airport were provided by City of Dallas (City) management. (The \$70.1 million amount is not individually presented in the FY 2015-16 Proposed Annual Budget)

**Audit of Revenue Estimates Included in the Fiscal Year 2015-16 Proposed Annual Budget for the City of Dallas**

Table II

**Fiscal Year 2014-15 Estimated Actual Revenues Compared to Fiscal Year 2015-16 Proposed Revenues for Major Revenue Sources**

Revenue Sources	Fiscal Year 2014-15 Estimated Actual Revenues <sup>1</sup>	Fiscal Year 2015-16 Proposed Revenues	\$ Variance	% Variance
<b>General Fund</b>				
Ad Valorem Taxes	\$ 520,067,180	\$ 559,636,084	\$ 39,568,904	7.6
Sales Tax	272,209,574	281,271,586	9,062,012	3.3
Franchise Fees	105,356,992	107,198,289	1,841,297	1.8
<b>Enterprise Funds</b>				
Water Utilities	537,670,215	645,128,387	107,458,172	20.0
Convention and Event Services	82,161,799	83,996,067	1,834,268	2.2
Storm Water	51,078,585	50,452,299	(626,286)	(1.2)
Aviation	93,752,011	91,214,993	(2,537,018)	(2.7)
Sanitation Service Fees <sup>2</sup>	93,093,640	87,188,361	(5,905,279)	(6.3)
<b>Debt Service Fund</b>				
Ad Valorem Taxes	214,402,070	230,334,357	15,932,287	7.4
<b>Totals</b>	<b>\$ 1,969,792,066</b>	<b>\$ 2,136,420,423</b>	<b>\$ 166,628,357</b>	<b>8.5</b>

Source: FY 2014-15 Adopted Annual Budget and the FY 2015-16 Proposed Annual Budget (Unaudited)

<sup>1</sup> FY 2014-15 Estimated Actual Revenues are based on information provided by City management.

<sup>2</sup> FY 2014-15 Estimated Actual Revenue amount is provided by City management and is not individually presented in the FY 2015-16 Proposed Annual Budget.

The Department of Sanitation Services is proposed to convert to an Enterprise Fund in FY 2015-16. After conversion, two revenue sources associated with the McCommas Bluff Landfill – the McCommas Site Rental and Commercial Container Fee (\$5,385,104 in revenue) – will remain in the General Fund. According to management, if the FY 2014-15 Estimated Actual Revenues are adjusted to reflect this change, the Sanitation Services Fees shown in Table II above would show:

Revenue Sources	Fiscal Year 2014-15 Estimated Actual Revenues	Fiscal Year 2015-16 Proposed Revenues	\$ Variance	% Variance
Sanitation Service Fees**	\$87,708,536	87,188,361	(520,175)	(0.6)

**Audit of Revenue Estimates Included in the Fiscal Year 2015-16 Proposed Annual Budget for the City of Dallas**

**Table III**

**Fiscal Year 2014-15 Adopted Budget Revenues Compared to Estimated Actual Revenues for Major Revenue Sources**

Revenue Source	Fiscal Year 2014-15			
	Adopted Budget	Estimated Actual Revenues <sup>1</sup>	\$ Variance	% Variance
<b>General Fund</b>				
Ad Valorem Taxes	\$ 520,321,181	\$ 520,067,180	\$ (254,001)	(0.1)
Sales Tax	268,665,691	272,209,574	3,543,883	1.3
Franchise Fees	102,359,689	105,356,992	2,997,303	2.9
Sanitation Service Fees <sup>2</sup>	88,916,037	93,093,640	4,177,603	4.7
<b>Enterprise Funds</b>				
Water Utilities	614,521,177	537,670,215	(76,850,962)	(12.5)
Convention and Event Services	77,391,801	82,161,799	4,769,998	6.2
Storm Water	51,078,585	51,078,585	-	0.0
Aviation	86,544,784	93,752,011	7,207,227	8.3
<b>Debt Service Fund</b>				
Ad Valorem Taxes	214,354,152	214,402,070	47,918	0.0
<b>Totals</b>	<b>\$ 2,024,153,097</b>	<b>\$ 1,969,792,066</b>	<b>\$ (\$54,361,031)</b>	<b>(2.7)</b>

**Source:** FY 2014-15 Adopted Annual Budget and the FY 2015-16 Proposed Annual Budget (Unaudited)

<sup>1</sup> FY 2014-15 Estimated Actual Revenues are based on information provided by City management.

<sup>2</sup> Amounts provided by City management and are not individually presented in the FY 2015-16 Proposed Annual Budget. Effective FY 2015-16, Sanitation Service Fees will be reported in Enterprise Funds.

## **ATTACHMENT II**

Charts I to VIII shown on the following pages are based upon analyses of: (1) Fiscal Year (FY) 2010-11 through FY 2013-14 actual and budgeted revenues; (2) the FY 2014-15 Adopted Budget; and, (3) FY 2014-15 Estimated Actual Revenues and FY 2015-16 proposed revenues as of August 11, 2015. Descriptions for the revenue sources were provided by management or taken from the Office of Financial Services' (OFS) FY 2015-16 Proposed Budget Appendices, Major Revenue Sources.

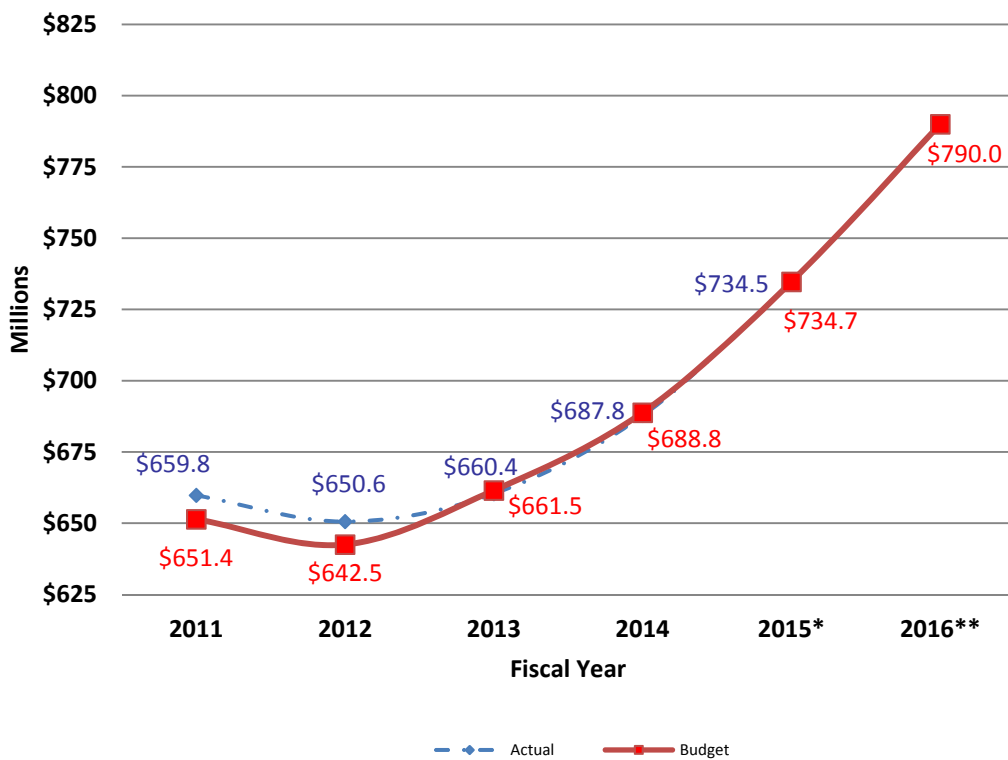
The Charts provide comparisons of the Adopted FY 2011 to FY 2014 budgets versus actual revenues collected for the same period. In addition, the Charts show the FY 2015 Adopted Budget versus the Estimated Actual Revenues and the FY 2016 Proposed Budget.

**Ad Valorem Tax Revenue**

Ad Valorem (Property) Tax is 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 Tax Revenue  
Analysis of Actual and Budget  
FY 2011 to FY 2016**



**Source:** City of Dallas Adopted Annual Budgets and FY 2015-16 Proposed Annual Budget (Unaudited)  
 \* FY 2015 revenues, including estimates for the remaining months, were provided by City management.  
 \*\* FY 2016 is proposed; therefore, actual is not available.

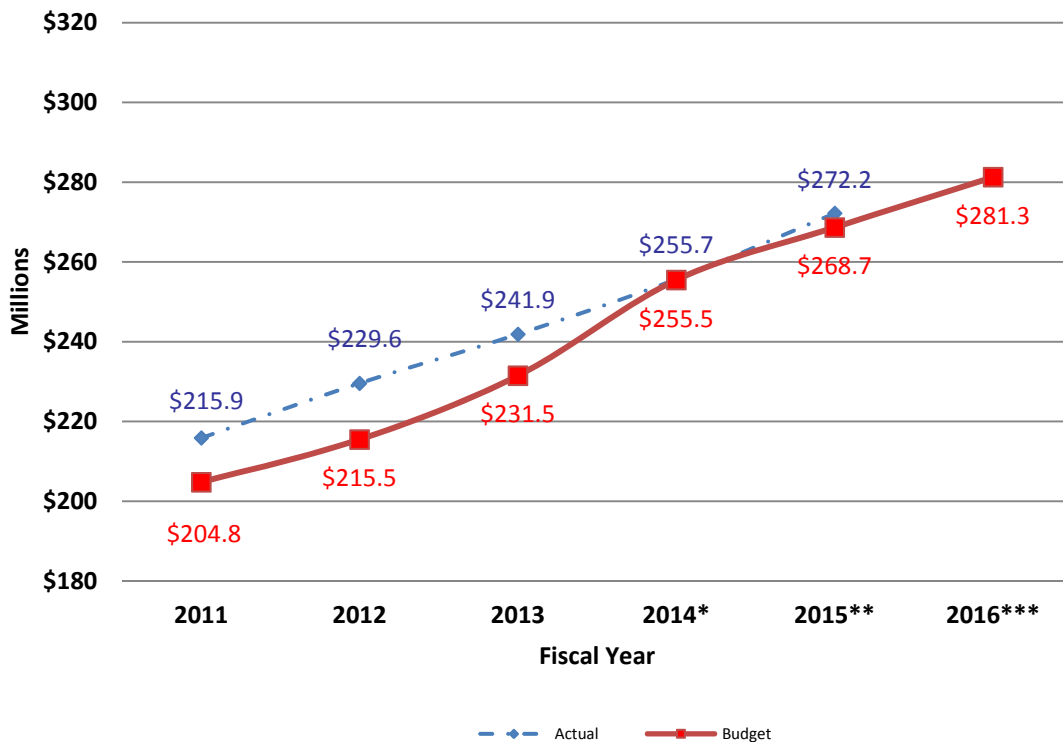


**Sales Tax Revenue**

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 one percent to the City and one percent to the Dallas Area Rapid Transit transportation authority.

**Chart II**

**Sales Tax Revenue  
Analysis of Actual and Budget  
FY 2011 to FY 2016**



**Source:** City of Dallas Adopted Annual Budgets and FY 2015-16 Proposed Annual Budget (Unaudited)

\* FY 2014 Adopted Budget was \$249,565,006. According to the FY 2014-15 Adopted Financial Summaries, the FY 2014 Budgeted Revenue is \$255,519,109. The OFS stated that the increase of approximately \$6 million was due to the mid-year appropriation adjustment.

\*\* FY 2015 revenues, including estimates for the remaining months, were provided by City management.

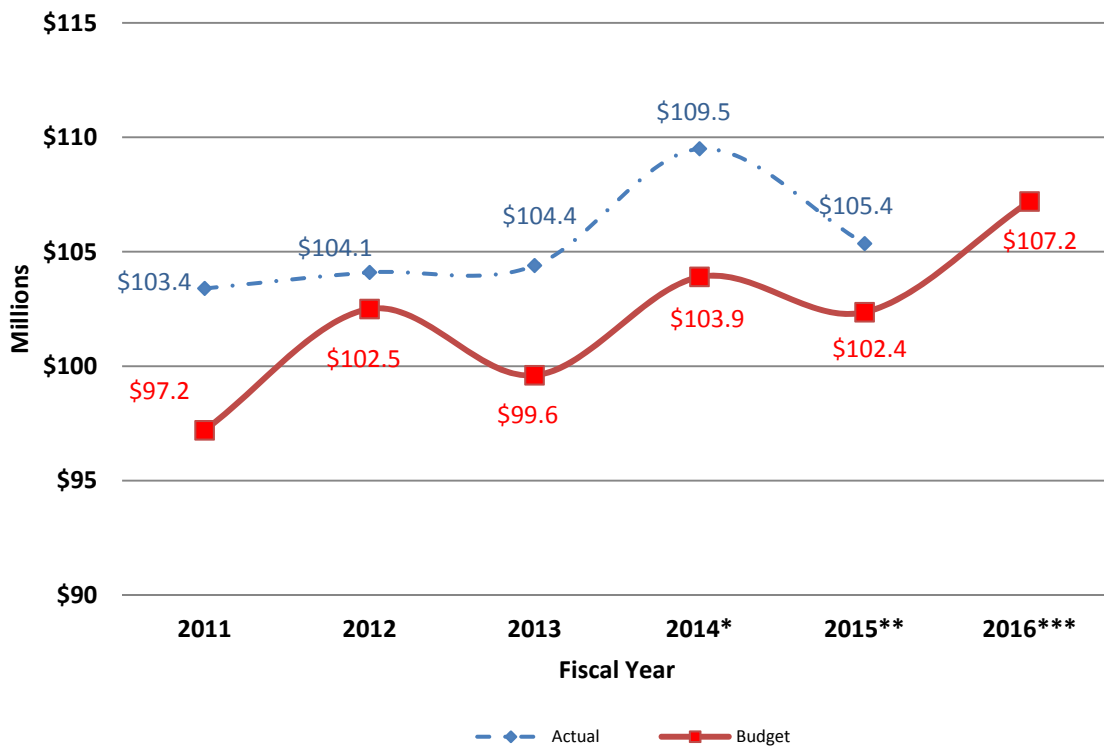
\*\*\* FY 2016 is proposed; therefore, actual is not available.

**Franchise Fees Revenue**

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 Revenue  
Analysis of Actual and Budget  
FY 2011 to FY 2016**



**Source:** City of Dallas Adopted Annual Budgets and FY 2015-16 Proposed Annual Budget (Unaudited)

\* FY 2014 Adopted Budget was \$101,908,351. According to the FY 2014-15 Adopted Financial Summaries, the FY 2014 Budgeted Revenue is \$103,908,351. The OFS stated the increase of approximately \$2 million was due to a mid-year appropriation adjustment.

\*\* FY 2015 revenues, including estimates for the remaining months, were provided by management.

\*\*\* FY 2016 is proposed, therefore actual is not available.

**Water Utilities Revenues**

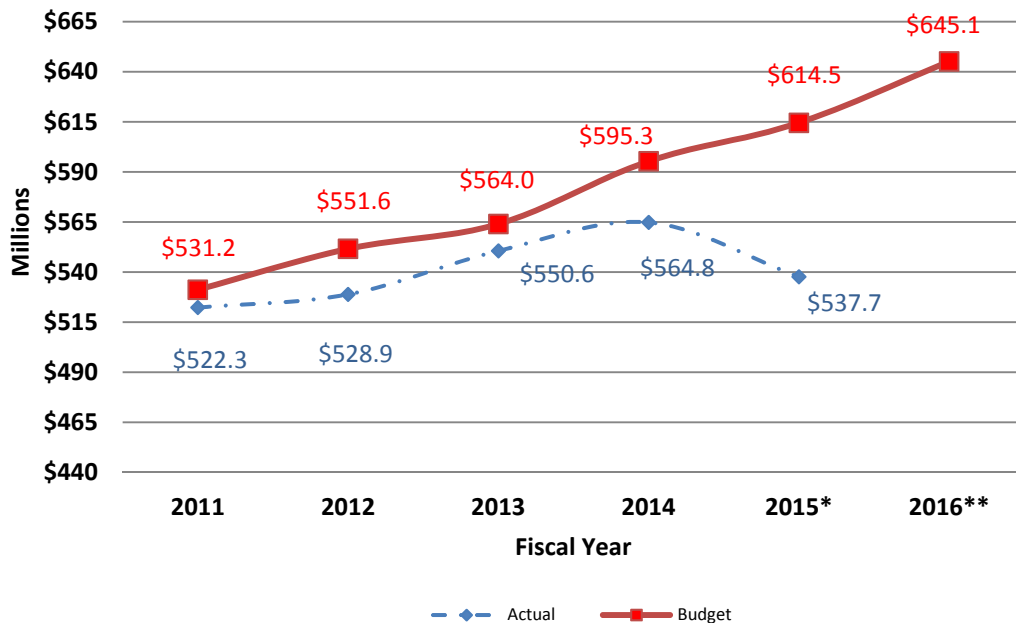
The Department of Dallas Water Utilities (DWU) revenues are obtained through the sale of water and wastewater services in five customer classes: residential, general service, municipal, wholesale, and optional general service. The wholesale customer class is comprised of 23 communities outside the City which receive treated water service, four communities which receive untreated 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 the department’s cost to provide these services.

The DWU projected a significant unfavorable variance (12.5 percent) between the FY 2014-15 Adopted Budget and the Estimated Actual Revenues (see Table III). According to DWU: (1) FY 2014-15 Estimated Actual Revenues are under budget due to record setting rainfall during the spring of 2015 (the second wettest spring on record for North Texas); and, (2) July 2015 revenue collections improved reducing the unfavorable variance to \$54 million, or 8.8 percent.

The DWU also projected a FY 2015-16 Proposed Budget increase of 20 percent over FY 2014-15 Estimated Actual Revenues of \$537.7 million (see Table II). According to DWU: (1) the improved July 2015 revenue collections reduced this variance to 15 percent; and, (2) the increase in the FY 2015-16 Proposed Budget is based on increasing retail rates by 5.3 percent and a return to normal rainfall patterns.

**Chart IV**

**Water Utilities Revenues  
Analysis of Actual and Budget  
FY 2011 to FY 2016**



**Source:** City of Dallas Adopted Annual Budgets and FY 2015-16 Proposed Annual Budget (Unaudited)  
 \* FY 2015 revenues, including estimates for the remaining months, were provided by City management.  
 \*\* FY 2016 is proposed; therefore, actual is not available.

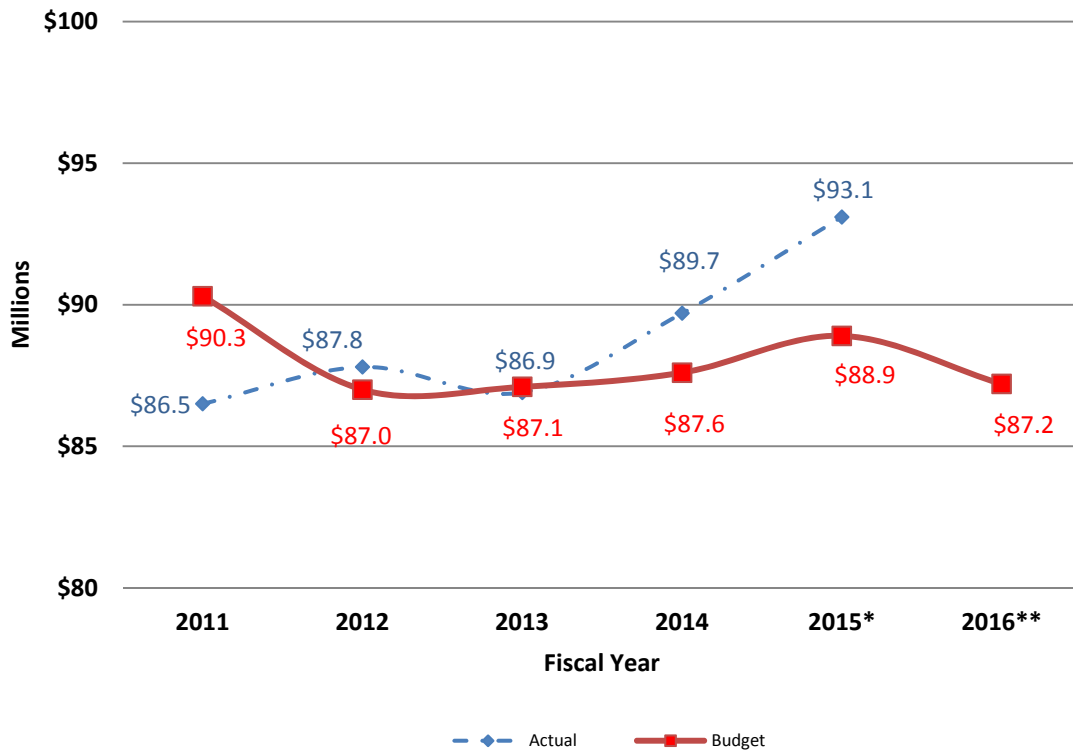
**Sanitation Services Fees Revenue**

The Department of Sanitation Services (SAN) fees 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 the Department of Dallas Water Utilities (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 SAN is proposed to convert from the General Fund to an Enterprise Fund in FY 2015-16. According to management, after conversion, two of the revenue sources associated with the McCommas Bluff Landfill – the McCommas Site Rental and Commercial Container Fees (\$5.4 million in revenue) – will remain in the General Fund. If the current FY 2014-15 Estimated Actual Revenues reflected in Table II and Chart V below are adjusted by the \$5.4 million, the FY 2015-16 Budgeted Revenues would represent a (0.6) percent decrease from the adjusted FY 2014-15 Estimated Actual Revenue.

**Chart V**

**Sanitation Services Fees Revenue  
Analysis of Actual and Budget  
FY 2011 to FY 2016**



**Source:** City of Dallas Adopted Annual Budgets and FY 2015-16 Proposed Annual Budget (Unaudited)

\* FY 2015 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2016 is proposed; therefore, actual is not available.

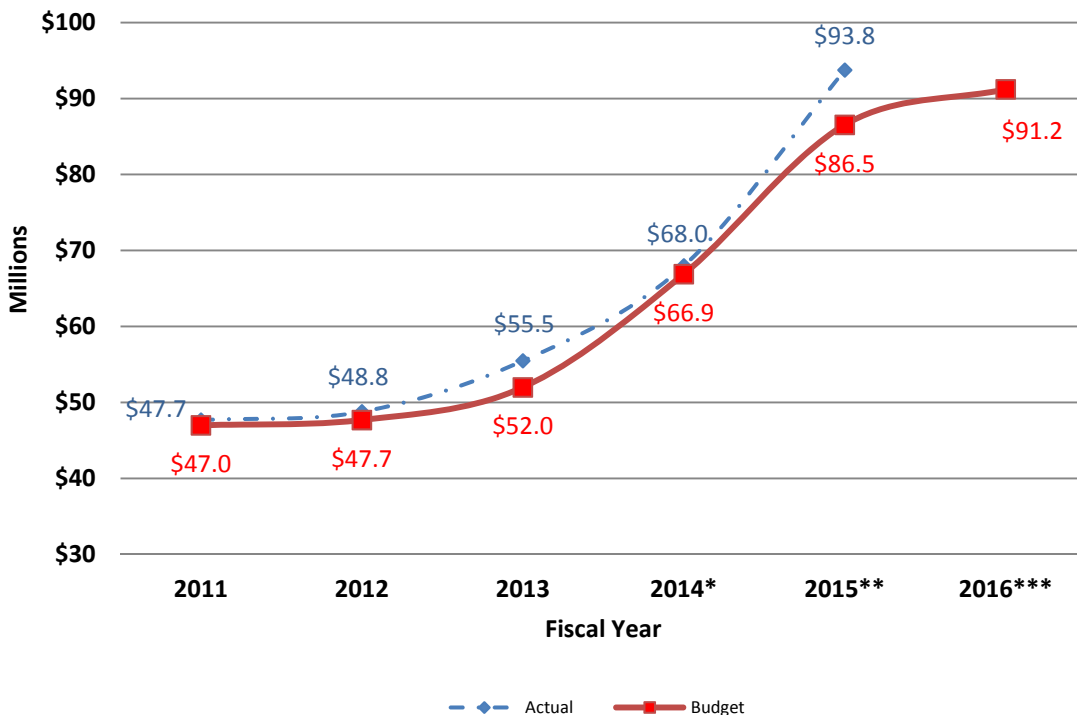
**Aviation Revenues**

The Department of Aviation (AVI) manages operations for both Dallas Love Field, Dallas Executive airports, and the downtown Vertiport. Revenues are comprised of landing fees, property rentals, and concessions. Airport businesses with concessions contracts are obligated to pay the City a percentage of their monthly gross revenues or a guaranteed minimum payment. Concessions include parking, food and beverage services, retail stores, advertising, car rental agencies, shoe shine services, and bag cart rental. Rental on Airport revenues are 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, associated shop and warehouse space.

The AVI revenues have significantly increased due to the Love Field Modernization Program and the elimination of the Wright Amendment which increased projected revenues for property rentals, landing fees, and parking.

**Chart VI**

**Aviation Revenues  
Analysis of Actual and Budget  
FY 2011 to FY 2016**



**Source:** City of Dallas Adopted Annual Budgets and FY 2015-16 Proposed Annual Budget (Unaudited)

\* FY 2013 and FY 2014 Adopted Budget were \$49,073,971 and \$61,184,205 respectively. According to the FY 2013-14 and FY 2014-15 Adopted Financial Summaries, FY 2013 and FY 2014 Budgeted Revenues are \$52,043,327 and 66,852,583 respectively. The OFS stated that the increases of approximately \$3 million and \$6 million were due to the mid-year appropriation adjustments in the respective years.

\*\* FY 2015 revenues, including estimates for the remaining months, were provided by City management.

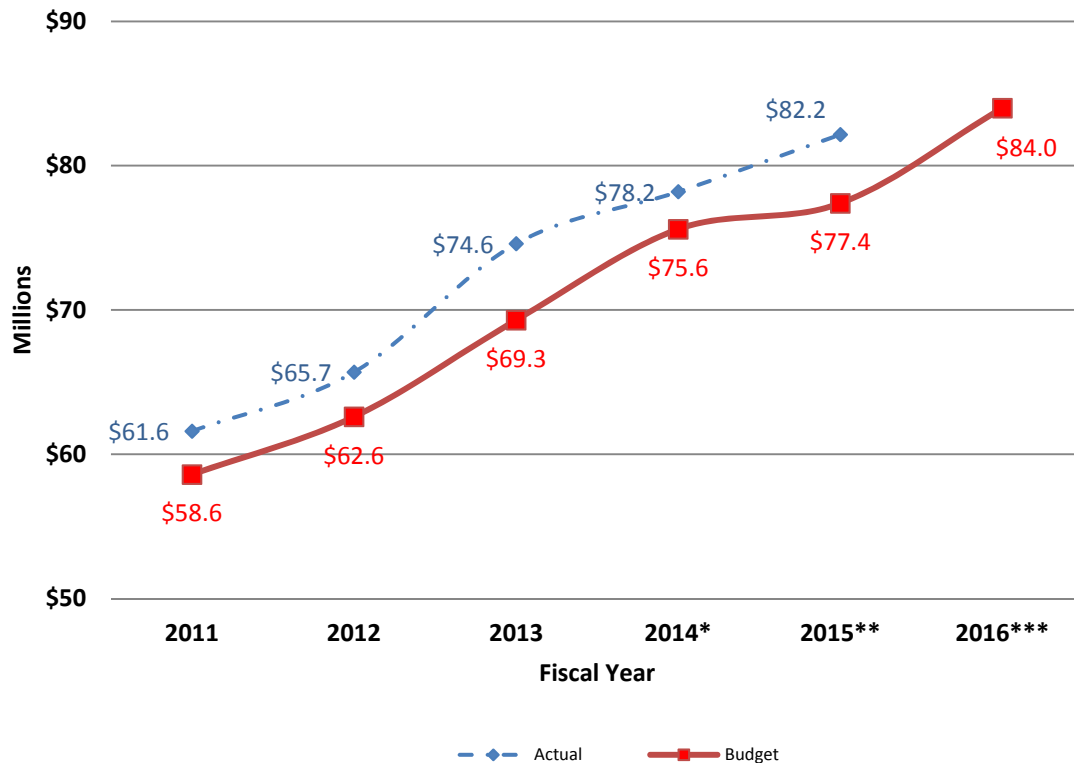
\*\*\* FY 2016 is proposed; therefore, actual is not available.

**Convention and Event Services Revenues**

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 tax is collected by the hotel at the point of sale and forwarded to the State (six percent) and to the City (seven percent) on a monthly basis. Of the seven percent, remitted to the City, approximately 30 percent is allocated to the Dallas Convention and Visitors Bureau (DCVB) to market and promote the City as a convention and tourist destination. Approximately 67 percent is allocated to the Dallas Convention Center (DCC) to support operations and capital improvements and approximately three percent is allocated to the Office of Cultural Arts to encourage, promote, and improve the arts. Other revenue sources for CES include Contract Services, Alcohol Beverage Tax, and other miscellaneous revenues.

**Chart VII**

**Convention and Event Services Revenues  
Analysis of Actual and Budget  
FY 2011 to FY 2016**



**Source:** City of Dallas Adopted Annual Budgets and FY 2015-16 Proposed Annual Budget (Unaudited)

\* FY 2012, FY 2013 and FY 2014 Adopted Budget were \$59,771,697; \$59,331,858; and \$65,308,065 respectively. According to the FY 2012-13, FY 2013-14 and FY 2014-15 Adopted Financial Summaries, the FY 2012, FY 2013 and FY 2014 Budgeted Revenues are \$62,641,782; \$69,328,368; and \$75,606,836 respectively. The OFS stated that the increases of approximately \$3 million, \$10 million, and \$10 million were due to the mid-year appropriation adjustments in the respective years.

\*\* FY 2015 revenues, including estimates for the remaining months, were provided by City management.

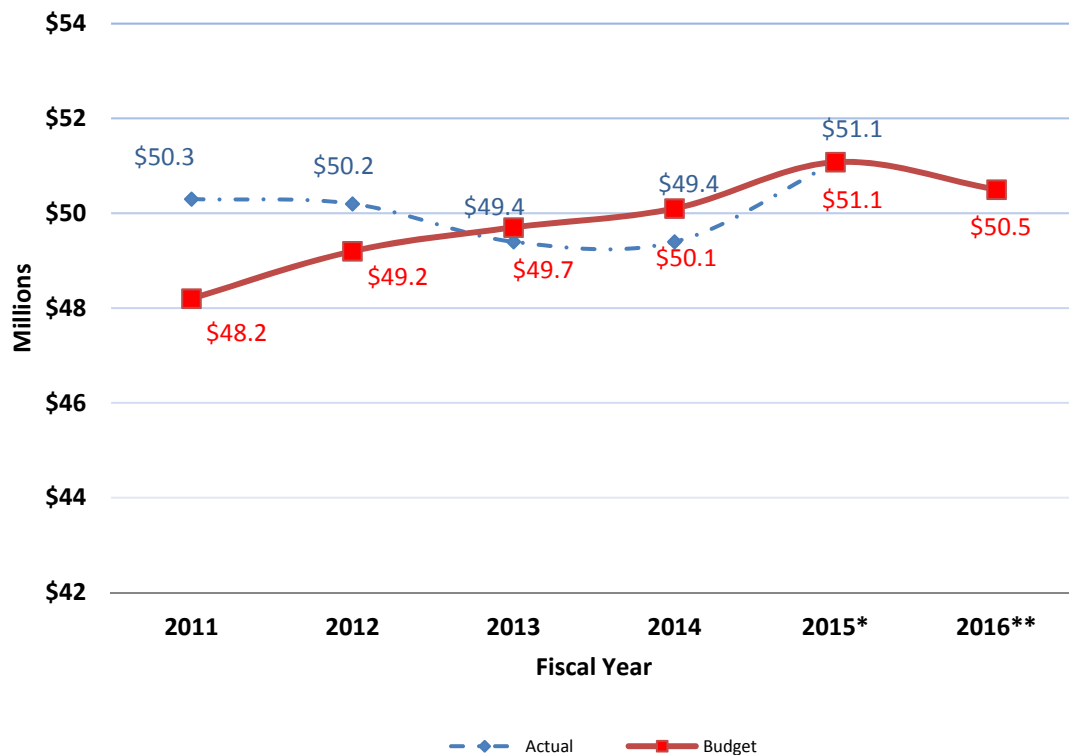
\*\*\* FY 2016 is proposed; therefore, actual is not available.

**Storm Water Fees Revenue**

The Storm Water 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 permits (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 Revenue  
Analysis of Actual and Budget  
FY 2011 to FY 2016**



**Source:** City of Dallas Adopted Annual Budgets and FY 2015-16 Proposed Annual Budget (Unaudited)  
 \* FY 2015 revenues, including estimates for the remaining months, were provided by City management.  
 \*\* FY 2016 is proposed; therefore, actual is not available.

ATTACHMENT III

Management's Response to the Report

Memorandum

RECEIVED

SEP 03 2015

City Auditor's Office



CITY OF DALLAS

DATE: September 3, 2015

TO: Craig D. Kinton, City Auditor

SUBJECT: Response to Audit Report: Revenue Estimates for FY2016 Proposed Annual Budget

Our responses to the audit report recommendations are as follows:

**Recommendation I**

We recommend the Director of the Office of Financial Services work with the Director of Aviation to ensure all revenue estimates: (1) methodologies are formally documented; and, (2) are properly supported, including the verification of calculations and internal consistency.

**Management Response / Corrective Action Plan**

Agree  Disagree

The Director of Financial Services and the Director of Aviation will ensure that a methodology for forecasting revenues is developed and documented.

**Implementation Date**

August 5, 2016

**Responsible Manager**

Director of Office of Financial Services  
Director of Department of Aviation

Sincerely,

Handwritten signature of Jack Ireland in blue ink.

Jack Ireland  
Office of Financial Services

Handwritten signature of Jeanne Chipperfield in blue ink.

Jeanne Chipperfield  
Chief Financial Officer

C: AC Gonzalez, City Manager  
Ryan Evans, First Assistant City Manager  
Mark Duebner, Director, Department of Aviation