

# Memorandum



CITY OF DALLAS  
(Report No. A13-010)

DATE: September 13, 2013

TO: Honorable Mayor and Members of the City Council

SUBJECT: An Audit of Revenue Estimates Included in the Fiscal Year 2013-2014 Proposed Annual Budget for the City of Dallas<sup>1</sup>

In total, the revenue estimates included in the Fiscal Year (FY) 2013-2014 Proposed Annual Budget appear reasonable. Although revenue estimates in total appear reasonable, the Department of Convention and Event Services (CES) revenue estimate methodology and the underlying assumptions for Hotel/Motel (HOT) Tax continue to lack adequate analysis and supporting documentation. As a result, it was not clear why the methodology and underlying assumptions did not align with supporting economic and industry projections provided by City of Dallas (City) management.

The Office of the City Auditor (Office) reviewed approximately \$1.84 billion of the \$2.44 billion in proposed revenue estimates for the General Fund,

## Overview

**FY 2012-2013 Adopted Annual Budget of approximately \$1.80 billion:**

- Projected to be underestimated (favorable variance) by a net amount of approximately \$19.59 million, or approximately 1.09 percent (see Table I in Attachment I)

**FY 2013-2014 Proposed Annual Budget of approximately \$2.44 billion:**

- Reflects a 4.23 percent increase over the total FY 2012-2013 Estimated Actual Revenues (see Table II and 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 2013-2014 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 Fiscal Year 2013 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 conclusion 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.

Enterprise Funds, and Debt Service Fund, or 76 percent, of the revenue estimates included in the FY 2013-2014 Proposed Annual Budget (see Table III in Attachment I).

Our review did not include the remaining \$593 million in revenue estimates which are mainly derived from department reimbursements and City, employee, and retiree contributions for retirement and health benefits. Five year budget-to-actual comparisons and the FY 2013-2014 Proposed Annual Budget amounts for the major revenue sources are shown in Attachment II (see Charts I through VIII).

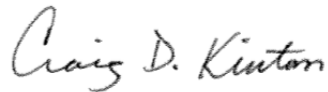
City management is responsible for preparing reasonable revenue estimates for inclusion in the FY 2013-2014 Proposed Annual Budget. In preparing these revenue estimates, City management develops revenue estimate methodologies, such as regression analyses and/or historical trends, and documents the significant 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 2013-2014 revenue estimates.

We recommend the Director of the Office of Financial Services (OFS) work with the Director of CES to develop a revenue estimate methodology for HOT Tax that includes adequate analysis and documentation to support the methodology and underlying assumptions. 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, Interim City Manager  
Jeanne Chipperfield, Chief Financial Officer  
Ryan Evans, Interim First Assistant City Manager  
Jill Jordan, P.E., Assistant City Manager  
Theresa O'Donnell, Interim Assistant City Manager  
Forest Turner, Assistant City Manager  
Mark Duebner, Director – Department of Aviation  
Elizabeth Fernandez, P.E., Director – Department of Trinity Watershed Management  
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  
Jing Xiao, Assistant Director – Office of Financial Services

ATTACHMENT I

Table I

Fiscal Year 2012-2013 Adopted Budget Revenues Compared to Estimated Actual Revenues for Major Revenue Sources

Revenue Sources	Adopted Budget	Estimated Actual Revenues*	\$ Variance	% Variance
<b>General Fund</b>				
Ad Valorem Taxes	\$ 451,488,822	\$ 451,958,272	\$ 469,450	0.10
Sales Tax	231,463,168	241,592,455	10,129,287	4.38
Franchise Fees	99,638,565	101,653,455	2,014,890	2.02
Sanitation Service Fees**	87,066,023	87,153,027	87,004	0.10
<b>Enterprise Funds</b>				
Water Utilities	563,964,120	553,143,435	(10,820,685)	(1.92)
Convention and Event Services	59,331,858	69,365,474	10,033,616	16.91
Storm Water	49,746,328	50,300,047	553,719	1.11
Aviation	49,073,971	56,049,088	6,975,117	14.21
<b>Debt Service Fund</b>				
Ad Valorem Taxes	210,058,159	210,205,318	147,159	0.07
<b>Totals</b>	<b>\$ 1,801,831,014</b>	<b>\$ 1,821,420,571</b>	<b>\$ 19,589,557</b>	<b>1.09</b>

\* FY 2012-2013 estimate of actual revenues is based on information provided by City management.

\*\* Amounts provided by City management. (Amounts are not individually presented in the FY 2013-2014 Proposed Annual Budget)

Source: FY 2012-2013 Adopted Annual Budget and the FY 2013-2014 Proposed Annual Budget (Unaudited)

**An Audit of Revenue Estimates Included in the Fiscal Year 2013-2014 Proposed Annual Budget for the City of Dallas**

Table II

**Fiscal Year 2012-2013 Estimated Actual Revenues Compared to Fiscal Year 2013-2014 Proposed Revenues for Major Revenue Sources**

Revenue Sources	Fiscal Year 2012-2013 Estimated Actual Revenues*	Fiscal Year 2013-2014 Proposed Revenues	\$ Variance	% Variance
<b>General Fund</b>				
Ad Valorem Taxes	\$ 451,958,272	\$ 483,897,883	\$ 31,939,611	7.07
Sales Tax	241,592,455	249,565,006	7,972,551	3.30
Franchise Fees	101,653,455	101,908,351	254,896	0.25
Sanitation Service Fees**	87,153,027	86,392,746	(760,281)	(0.87)
<b>Enterprise Funds</b>				
Water Utilities	553,143,435	595,314,797	42,171,362	7.62
Convention and Event Services	69,365,474	65,308,065	(4,057,409)	(5.85)
Storm Water	50,300,047	50,111,250	(188,797)	(0.38)
Aviation	56,049,088	61,184,205	5,135,117	9.16
<b>Debt Service Fund</b>				
Ad Valorem Taxes	210,205,318	204,863,694	(5,341,624)	(2.54)
<b>Totals</b>	<b>\$ 1,821,420,571</b>	<b>\$ 1,898,545,997</b>	<b>\$ 77,125,426</b>	<b>4.23</b>

\* FY 2012-2013 estimate of actual revenues is based on information provided by City management.

\*\* Amounts provided by City management. (Amounts are not individually presented in the FY 2013-2014 Proposed Annual Budget)

Source: FY 2012-2013 Adopted Annual Budget and the FY 2013-2014 Proposed Annual Budget (Unaudited)

**An Audit of Revenue Estimates Included in the Fiscal Year 2013-2014 Proposed Annual Budget for the City of Dallas**

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Table III

**FY 2013-2014 Proposed Budget Revenue Sources Included in the Dallas Office of the City Auditor's Assessment**

Chart	Revenue Sources	FY 2013-2014 Proposed Budget
<b>General Fund</b>		
I	Ad Valorem Taxes	\$ 483,897,883
II	Sales Tax	249,565,006
III	Franchise Fees	101,908,351
IV	Sanitation Service Fees*	86,392,746
<b>Enterprise Funds</b>		
V	Water Utilities	595,314,797
VI	Convention and Event Services – Hotel Occupancy Tax	40,923,630
VII	Storm Water Fees	50,111,250
VIII	Aviation - Concessions*	30,898,698
<b>Debt Service</b>		
	Ad Valorem Taxes	204,863,694
<b>Total Revenue Estimates Assessed</b>		<b>\$ 1,843,876,055</b>
<b>Revenue Estimates Not Included</b>		<b>592,615,900</b>
<b>Total FY 2013-2014 Proposed Budget</b>		<b>\$ 2,436,491,955</b>

\* Amounts for Sanitation Service Fees and Aviation - Concessions were provided by City management. (Amounts are not individually presented in the FY 2013-2014 Proposed Annual Budget)

**Source:** Revenue Estimates included in the FY 2013-2014 Proposed Annual Budget (Unaudited)

## **ATTACHMENT II**

Charts I to VIII shown on the following pages are based upon analyses of FY 2008-2009 through FY 2011-2012 actual and budget revenues and current year estimates included in the FY 2013-2014 Proposed Annual Budget presented as of August 7, 2013. Descriptions for the revenue sources were provided by management or taken from the Office of Financial Services' FY 2013-2014 Proposed Budget Appendices, *Major Revenue Sources*.

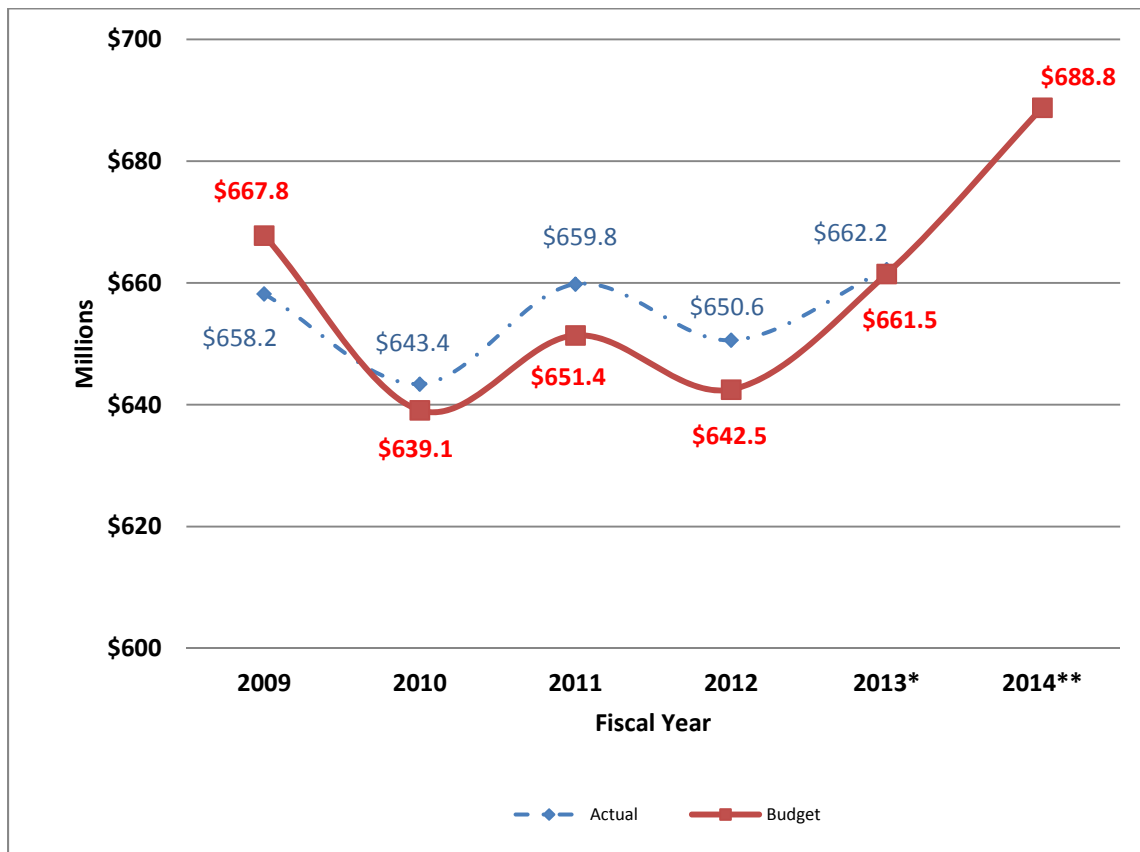
The Charts provide comparisons of the Adopted FY 2009 to FY 2012 budgets versus actual revenues collected for the same period. In addition, the Charts compare the FY 2013 Estimated Actual revenues to the FY 2014 Proposed Annual Budget.

**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 2009 to FY 2014**



\* FY 2013 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2014 is proposed; therefore, actual is not available.

Source: City of Dallas Adopted Annual Budgets and FY 2013-2014 Proposed Annual Budget (Unaudited)

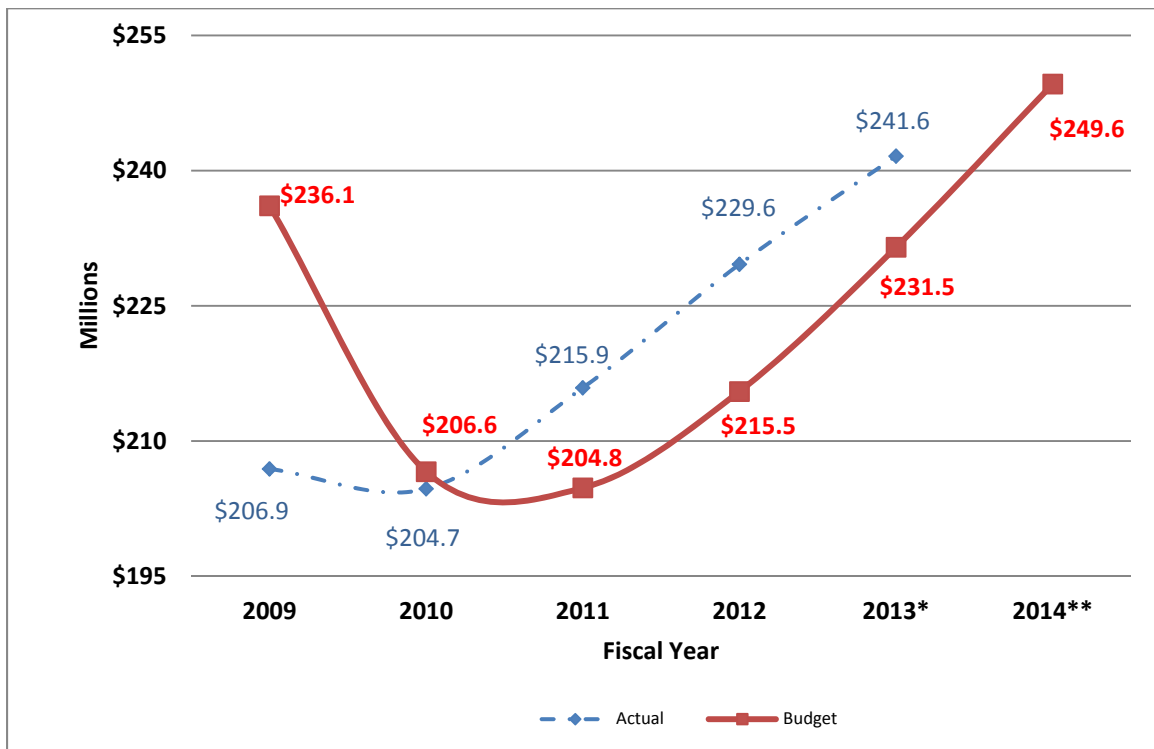


**Sales Tax Revenue**

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 2009 to FY 2014**



\* FY 2013 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2014 is proposed; therefore, actual is not available.

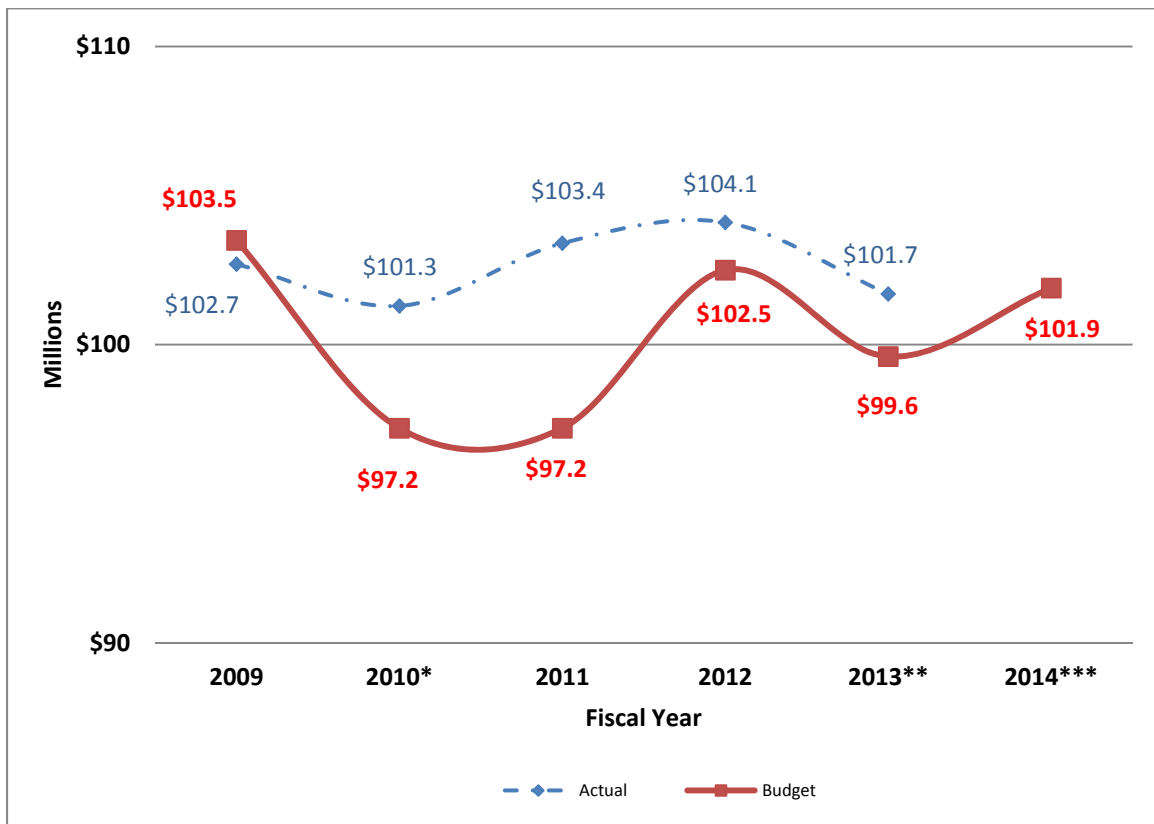
Source: City of Dallas Adopted Annual Budgets and FY 2013-2014 Proposed Annual Budget (Unaudited)

**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 2009 to FY 2014**



\* FY 2010 to FY 2014 include revenues for fiber optics.

\*\* FY 2013 revenues, including estimates for the remaining months, were provided by management.

\*\*\* FY 2014 is proposed, therefore actual is not available.

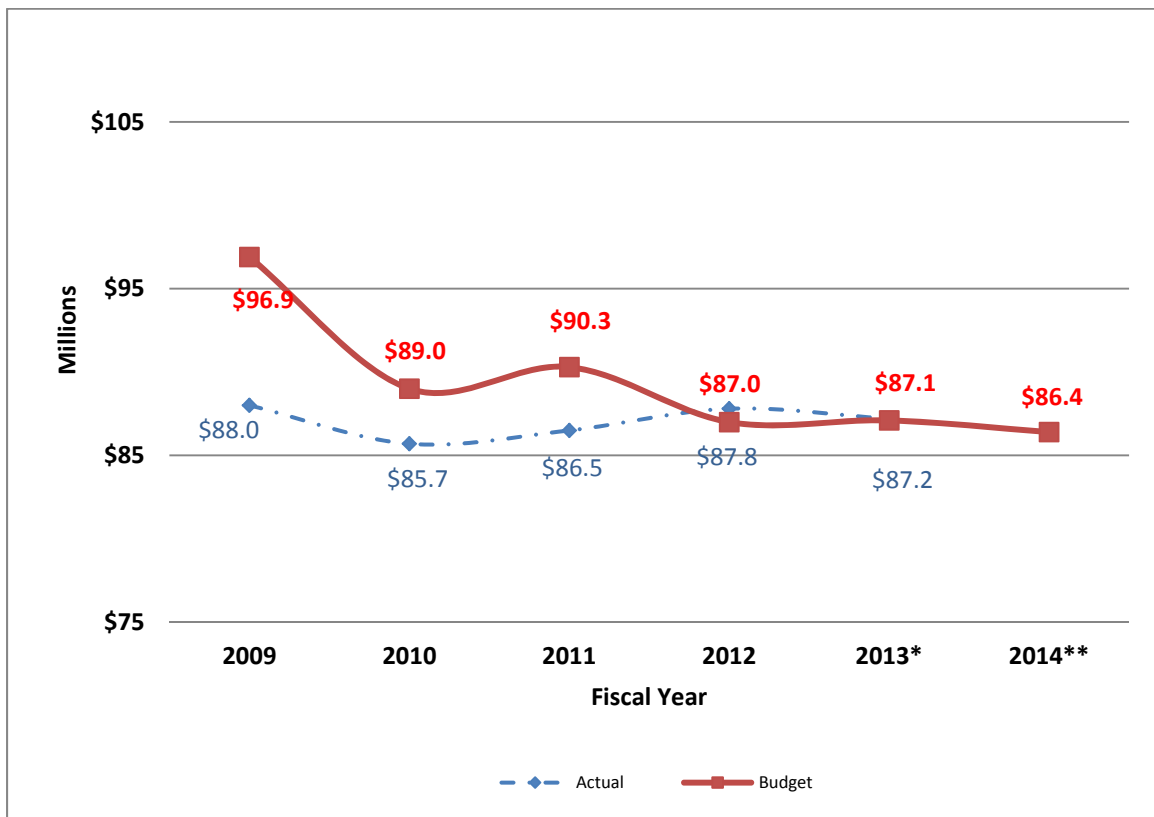
Source: City of Dallas Adopted Annual Budgets and FY 2013-2014 Proposed Annual Budget (Unaudited)

**Sanitation Services Fees Revenue**

Sanitation Services 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.

**Chart IV**

**Sanitation Services Fees Revenue  
Analysis of Actual and Budget  
FY 2009 to FY 2014**



\* FY 2013 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2014 is proposed; therefore, actual is not available.

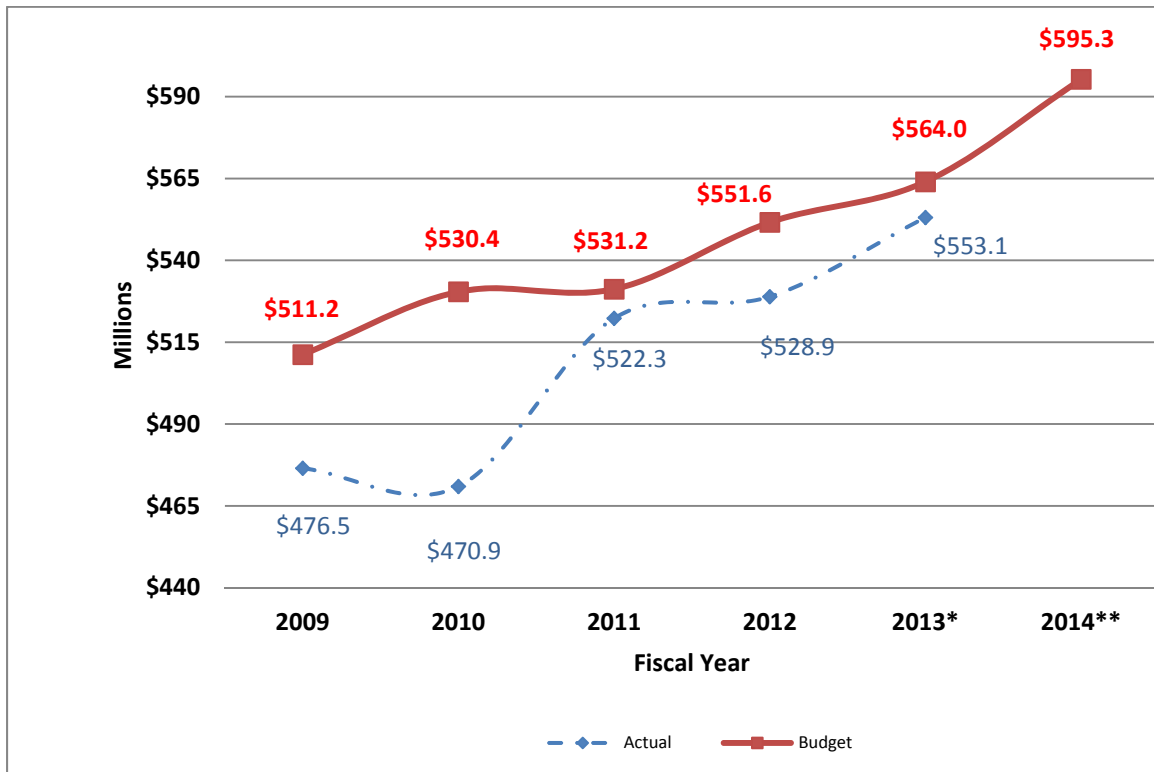
Source: City of Dallas Adopted Annual Budgets and FY 2013-2014 Proposed Annual Budget (Unaudited)

**Water Utilities Revenues**

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 receives water service, and 11 communities which receive wastewater service. Rates from 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.

**Chart V**

**Water Utilities Revenues  
Analysis of Actual and Budget  
FY 2009 to FY 2014**



\* FY 2013 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2014 is proposed; therefore, actual is not available.

Source: City of Dallas Adopted Annual Budgets and FY 2013-2014 Proposed Annual Budget (Unaudited)

**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 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 one-third (or 32.6%) is allocated to the Dallas Convention and Visitors Bureau (DCVB) to market and promote the City as a convention and tourist destination. Two-thirds (or 67.4%) is allocated to the Dallas Convention Center (DCC) to support operations and capital improvements. Other revenue sources for CES include Contract Services, Alcohol Beverage Tax, and other miscellaneous revenues.

**Chart VI**

**Convention and Event Services Revenues  
Analysis of Actual and Budget  
FY 2009 to FY 2014**



\* FY 2013 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2014 is proposed; therefore, actual is not available.

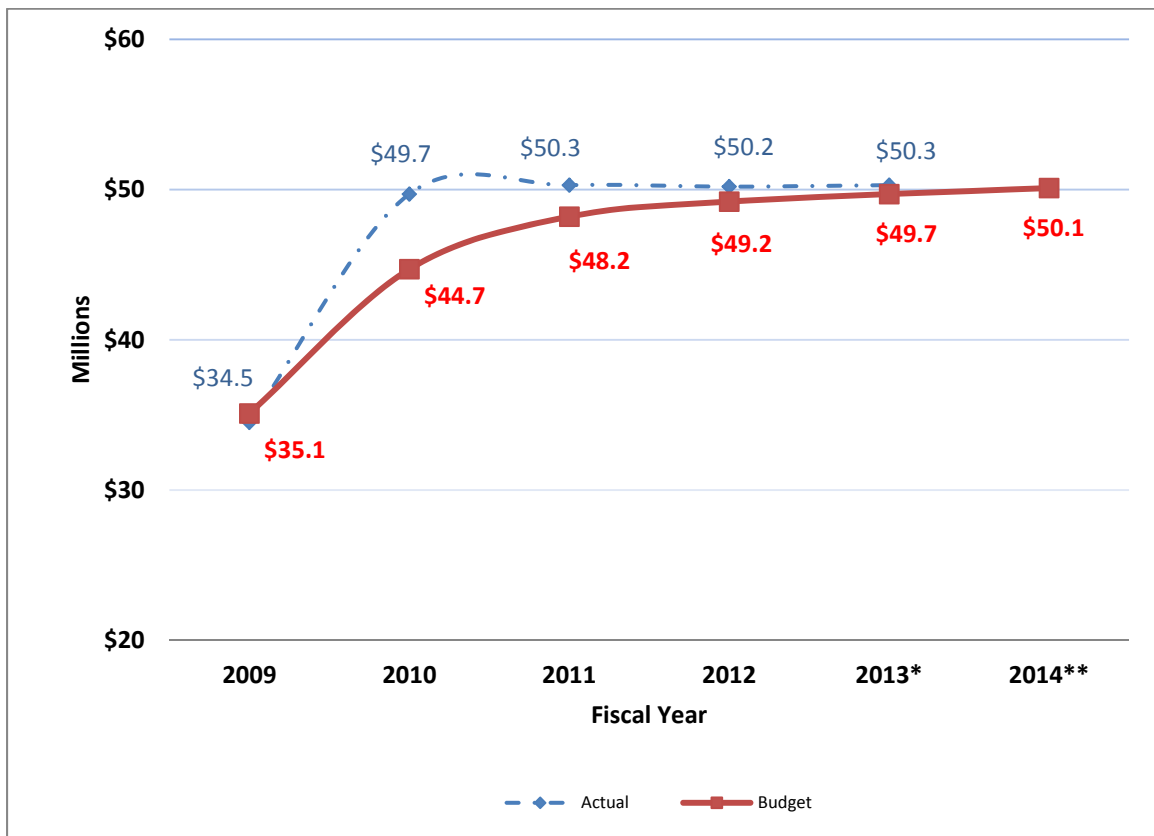
Source: City of Dallas Adopted Annual Budgets and FY 2013-2014 Proposed Annual Budget (Unaudited)

**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; creek, river and levee maintenance; 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 VII**

**Storm Water Fees Revenue  
Analysis of Actual and Budget  
FY 2009 to FY 2014**



\* FY 2013 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2014 is proposed; therefore, actual is not available.

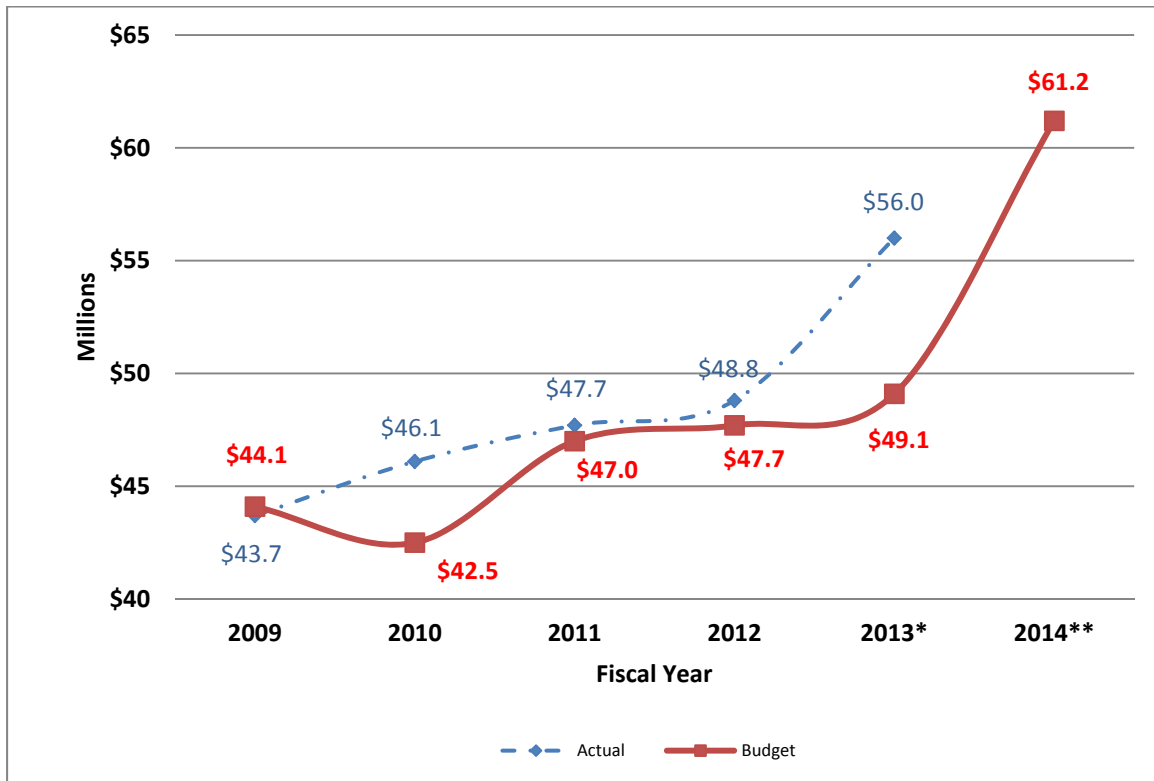
Source: City of Dallas Adopted Annual Budgets and FY 2013-2014 Proposed Annual Budget (Unaudited)

**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 concession agreements, such as food and beverage retail and parking. Concession revenues are a significant amount of total AVI revenues. Airport businesses with concessions contracts are obligated to pay the City a percentage of their monthly gross revenues or a guaranteed minimum payment. Concession agreements include parking, food and beverage services, retail stores, advertising, car rental agencies, shoe shine services, and bag cart rental.

**Chart VIII**

**Aviation Revenues  
Analysis of Actual and Budget  
FY 2009 to FY 2014**



\* FY 2013 revenues, including estimates for the remaining months, were provided by City management.

\*\* FY 2014 is proposed; therefore, actual is not available.

Source: City of Dallas Adopted Annual Budgets and FY 2013-2014 Proposed Annual Budget (Unaudited)

**ATTACHMENT III**

**Management's Response**

Memorandum

**RECEIVED**

SEP 05 2013

**City Auditor's Office**



DATE: September 5, 2013

TO: Craig D. Kinton, City Auditor

SUBJECT: Response to Audit Report:  
An Audit of Revenue Estimates Included in the Fiscal Year 2013-2014 Proposed Annual Budget for the City of Dallas

Our responses to the audit report recommendations are as follows:

**Recommendation I**

We recommend the Director of the Office of Financial Services (OFS) work with the Director of the Department of Convention and Event Services (CES) to develop a revenue estimate methodology for Hotel/Motel (HOT) Tax that includes adequate analysis and documentation to support the methodology and underlying assumptions.

**Management Response / Corrective Action Plan**

Agree  Disagree

The Director of OFS and the Director of CES will review the methodology for forecasting Hotel Occupancy Tax revenue prior to the development of the FY 2014-15 budget proposal, and ensure adequate analysis and supporting documentation.

**Implementation Date**

August 8, 2014

**Responsible Manager**

Jack Ireland, Director of OFS and Ron King, Director of CES

Sincerely,

Jack Ireland, Director  
Office of Financial Services

c: A.C. Gonzalez, Interim City Manager  
Forest Turner, Assistant City Manager  
Jeanne Chipperfield, Chief Financial Officer  
Ron King, Director, Convention and Event Services  
Renee Hayden, Internal Control Program Manager