

Memorandum



CITY OF DALLAS
(Report No. A12-011)

DATE: September 14, 2012

TO: Honorable Mayor and Members of the City Council

SUBJECT: Audit of the Revenue Estimates Included in the Fiscal Year 2012-2013 Proposed Annual Budget for the City of Dallas¹

In total, the revenue estimates included in the Fiscal Year (FY) 2012-2013 Proposed Annual Budget for the City of Dallas (City) appear reasonable. The Department of Dallas Water Utilities' (DWU) pattern of unfavorable budget to actual variances has improved over the past two fiscal years due to reductions in water sales assumptions and recent water rate increases. For example, the FY 2010-2011 actual revenues of \$522.3 million were \$8.9 million, or 1.68 percent, lower than the Adopted Annual Budget of \$531.2 million (see Chart V in Attachment II).

The DWU's ability to improve and/or minimize unfavorable variances is important because when actual revenues fall short of projected amounts, cash transfers to fund planned capital construction projects are reduced. According to DWU, while most capital construction continues, reductions of cash transfers result in some project deferrals and increased costs through the use of additional debt financing for planned capital construction.

Overview

FY 2011-2012 Adopted Annual Budget of approximately \$1.76 billion:

- Projected to be underestimated (favorable variance) by a net amount of approximately \$5.60 million, or approximately .32 percent (See Table I in Attachment I.)

FY 2012-2013 Proposed Annual Budget of approximately \$2.28 billion:

- Reflects a 2.30 percent increase over the FY 2011-2012 Estimated Actual Revenues (See Table II and Table III in Attachment I.)

Source: City of Dallas

¹ The audit objective was to assess the reasonableness of the revenue estimates included in the FY 2012-2013 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 2012 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.

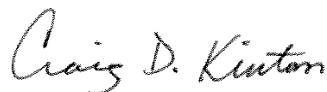
Although the revenue estimates appear reasonable, certain revenue estimate methodologies, including the significant assumptions which provide the basis for the revenue estimates, were not always adequately documented. The need for more complete revenue estimate documentation was discussed with management and a recommendation for improvement was included in a separate Management Letter; however, no formal written response was requested of management. The Office will follow-up on the issue in FY 2012-2013 to determine whether corrective actions were taken.

City management is responsible for preparing reasonable revenue estimates for inclusion in the FY 2012-2013 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 of the City Auditor (Office) for reasonableness; however, neither City management nor the Office guarantees the achievement of the FY 2012-2013 revenue estimates.

The Office reviewed approximately \$1.76 billion of the \$2.28 billion in proposed revenue estimates for the General Fund, Enterprise Funds, and Debt Service Fund, or 77 percent, of the revenue estimates included in the FY 2012-2013 Proposed Annual Budget (see Table III in Attachment I). Our review did not include the remaining \$523 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 2012-2013 Proposed Annual Budget amounts for the major revenue sources are shown in Attachment II (see Charts I through VIII).

We would like to acknowledge City management's cooperation during 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: Mary K. Suhm, City Manager
Jeanne Chipperfield, Chief Financial Officer
Mark Duebner, Director – Department of Aviation
Elizabeth Fernandez, Interim Director – Trinity Watershed Management
Jack Ireland, Director – Office of Financial Services
Ron King, Director – Department of Convention and Event Services
Kelly High, Interim Director – Department of Sanitation Services
Jo M. (Jody) Puckett, P.E., Director – Department of Dallas Water Utilities

Attachment I

Table I

Fiscal Year 2011-2012 Adopted Budget Revenues Compared
 To Estimated Actual Revenues for Major Revenue Sources

Revenue Source	Adopted Budget	Estimated Actual Revenues*	\$ Variance	% Variance
General Fund				
Ad Valorem Tax	\$ 434,638,437	\$ 439,569,317	\$ 4,930,880	1.13
Sales Tax	215,508,103	225,526,990	10,018,887	4.65
Franchise Fees	102,468,537	103,412,444	943,907	.92
Sanitation Service Fees**	86,998,057	87,043,798	45,741	.05
Enterprise Funds				
Water Utilities	551,600,305	533,832,228	(17,768,077)	(3.22)
Convention and Event Services	59,771,697	62,641,782	2,870,085	4.80
Storm Water	49,198,588	49,838,421	639,833	1.30
Aviation	47,682,030	47,817,012	134,982	.28
Debt Service Fund				
Ad Valorem Tax	207,867,166	211,656,751	3,789,585	1.82
Totals	\$ 1,755,732,920	\$ 1,761,338,743	\$ 5,605,823	0.32

* FY 2011-2012 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 2012-2013 Proposed Annual Budget.)

Source: FY 2011-2012 Adopted Annual Budget and the FY 2012-2013 Proposed Annual Budget (Unaudited)

Table II

**Comparison of Fiscal Year 2011-2012 Estimated Actual Revenues
To Fiscal Year 2012-2013 Proposed Revenues for Major Revenue Sources**

Revenue Sources	Fiscal Year 2011- 2012 Estimated Actual Revenues*	Fiscal Year 2012- 2013 Proposed Revenues	\$ Variance	% Variance
General Fund				
Ad Valorem Tax	\$ 439,569,317	\$ 451,488,822	\$ 11,919,505	2.71
Sales Tax	225,526,990	231,463,168	5,936,178	2.63
Franchise Fees**	103,412,444	99,638,565	(3,773,879)	(3.65)
Sanitation Service Fees***	87,043,798	87,066,081	22,283	0.03
Enterprise Funds				
Water Utilities	533,832,228	563,964,120	30,131,892	5.64
Convention and Event Services	62,641,782	59,331,858	(3,309,924)	(5.28)
Storm Water	49,838,421	49,746,328	(92,093)	(0.18)
Aviation	47,817,012	49,073,971	1,256,959	2.63
Debt Service Fund				
Ad Valorem Tax	211,656,751	210,058,159	(1,598,592)	(0.76)
Totals	\$ 1,761,338,743	\$ 1,801,831,072	\$ 40,492,329	2.30

* FY 2011-2012 estimate of actual revenues is based on information provided by City management.

** Franchise Fees include a revenue estimate revision of an additional \$329,440 to the FY 2012-2013 Proposed Annual Budget. The revision updates the FY 2012-2013 Proposed Annual Budget that was originally released on August 13, 2012.

*** Amounts provided by City management. (Amounts are not individually presented in the FY 2012-2013 Proposed Annual Budget.)

Source: FY 2011-2012 Adopted Annual Budget and the FY 2012-2013 Proposed Annual Budget (Unaudited)

Table III

**FY 2012-2013 Proposed Budget Revenue Sources Included in the
Dallas Office of the City Auditor’s Assessment**

Chart	Revenue Sources	FY 2012-2013 Proposed Budget
General Fund		
I	Ad Valorem Tax	\$ 451,488,822
II	Sales Tax	231,463,168
III	Franchise Fees *	99,638,565
IV	Sanitation Service Fees**	87,066,081
Enterprise Funds		
V	Water Utilities	563,964,120
VI	Convention and Event Services – Hotel Occupancy Tax	37,600,000
VII	Storm Water	49,746,328
VIII	Aviation - Concessions**	27,791,056
Debt Service		
	Ad Valorem Tax	210,058,159
Total Revenue Estimates Assessed		\$ 1,758,816,299
Revenue Estimates Not Included		523,036,824
Total FY 2012-2013 Proposed Assessed		\$ 2,281,853,123

* Franchise Fees include a revenue estimate revision of an additional \$329,440 to the FY 2012-2013 Proposed Annual Budget. The revision updates the FY 2012-2013 Proposed Annual Budget that was originally released on August 13, 2012.

** Amounts for Sanitation Service Fees and Aviation - Concessions were provided by City management. (Amounts are not individually presented in the FY 2012-2013 Proposed Annual Budget.)

Source: Revenue Estimates included in the FY 2012-2013 Proposed Annual Budget as of August 13, 2012 (Unaudited)

Attachment II

Charts I to VIII shown on the following pages are based upon analyses of FY 2007-2008 through FY 2010-2011 actual and budget revenues and current year estimates included in the FY 2012-2013 Proposed Annual Budget presented as of August 13, 2012. Descriptions for the revenue sources were provided by management or taken from the Office of Financial Services' FY 2012-2013 Proposed Budget Appendices, *Major Revenue Sources*.

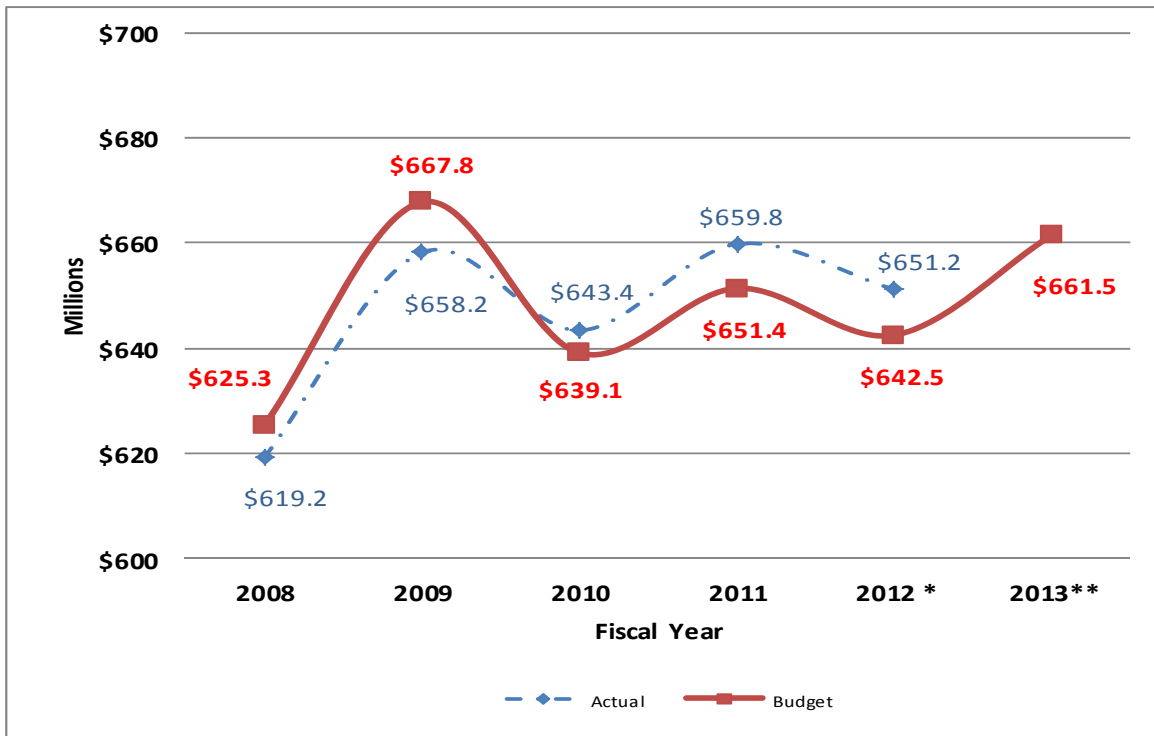
The Charts provide comparisons of the Adopted FY 2008 to FY 2011 budgets versus actual revenues collected for the same period. In addition, the Charts compare the FY 2012 Estimated Actual revenues to the FY 2013 Proposed Annual Budget.

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.

Chart I

**Ad Valorem Tax Revenue
 Analysis of Actual and Budget
 FY 2008 to FY 2013**



* FY 2012 revenues, including estimates for the remaining months, were provided by City management.

** FY 2013 is proposed; therefore, actual is not available.

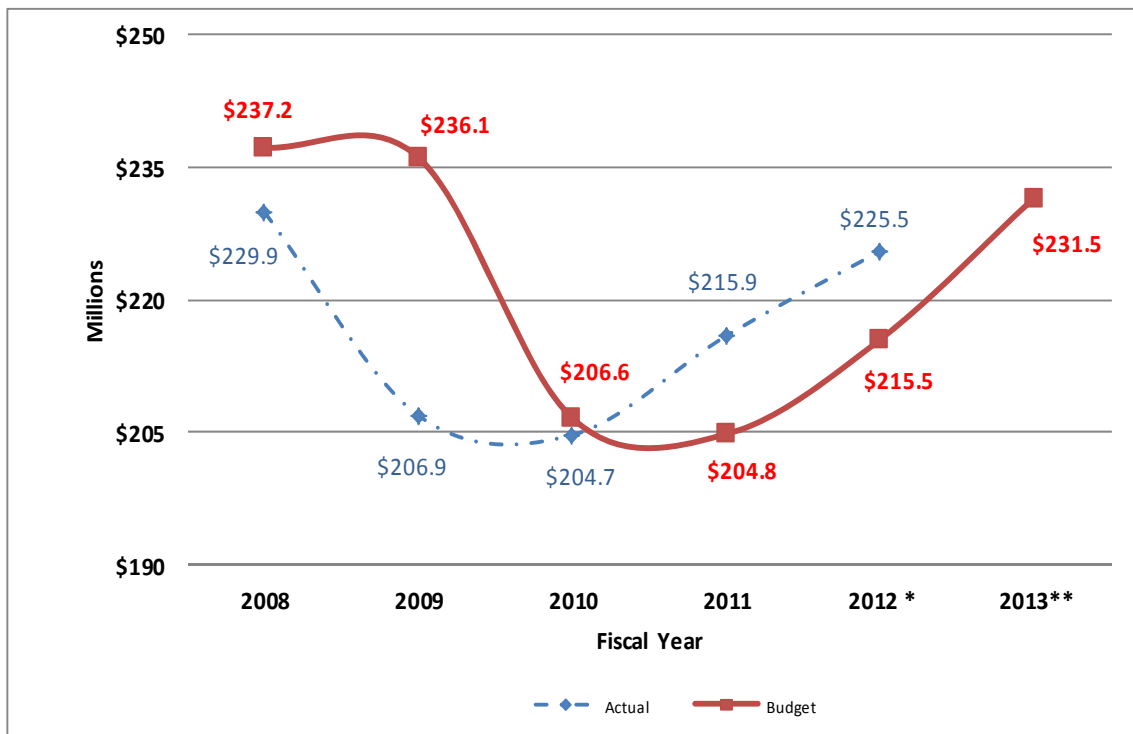
Source: City of Dallas Adopted Annual Budgets and FY 2012-2013 Proposed Annual Budget (Unaudited)

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 (State) 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 2008 to FY 2013



* FY 2012 revenues, including estimates for the remaining months, were provided by City management.

** FY 2013 is proposed; therefore, actual is not available.

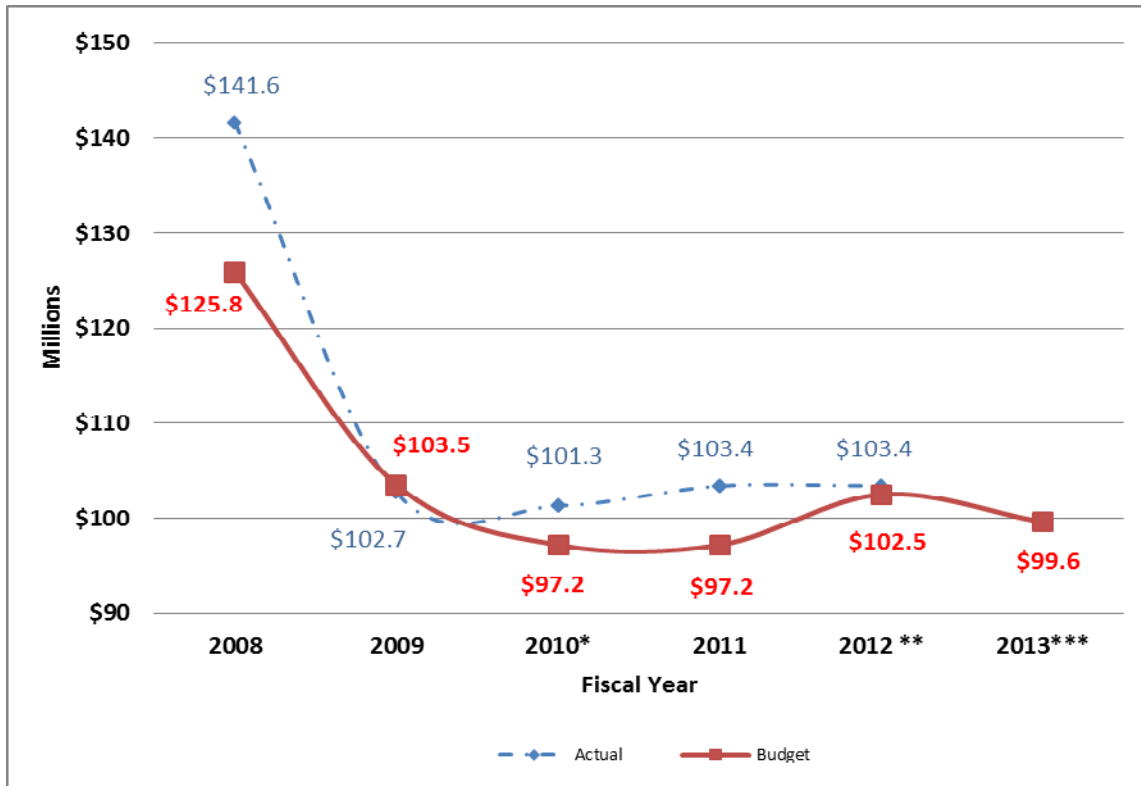
Source: City of Dallas Adopted Annual Budgets and FY 2012-2013 Proposed Annual Budget (Unaudited)

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 2008 to FY 2013



* FY 2010 to FY 2013 include Fiber Optics revenues.

** FY 2012 revenues, including estimates for the remaining months, were provided by management.

*** FY 2013 is proposed, therefore actual is not available.

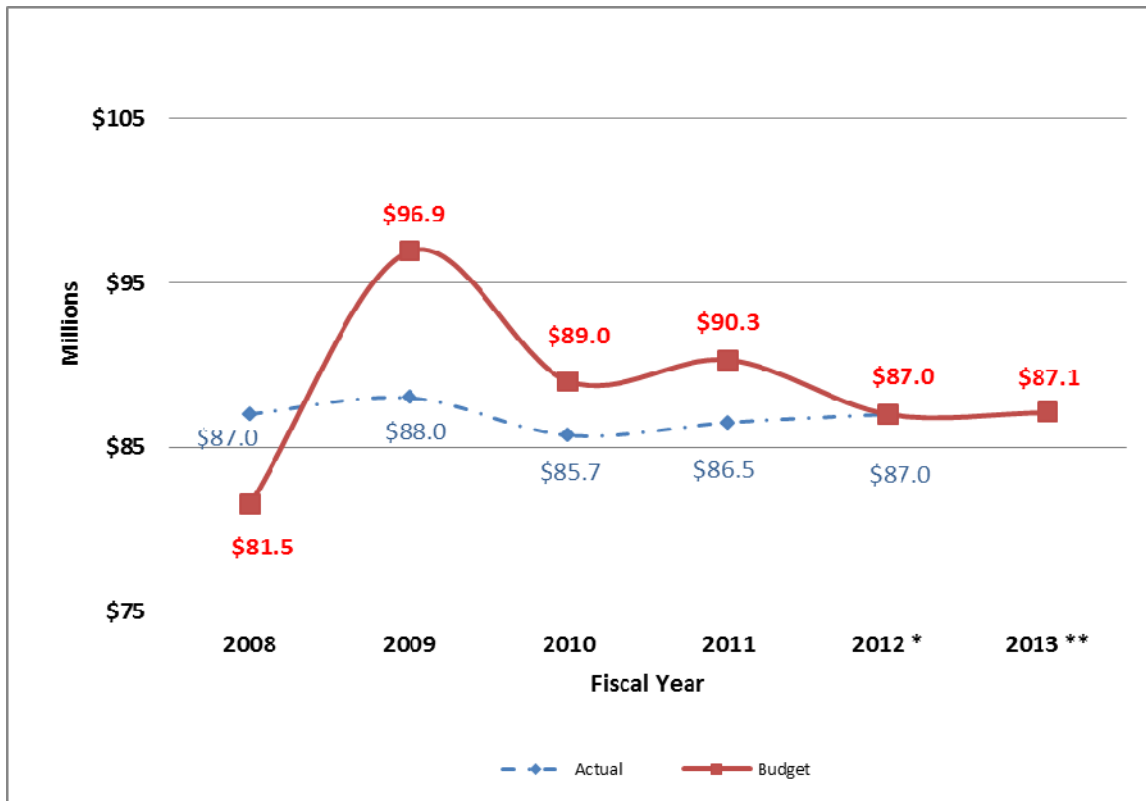
Source: City of Dallas Adopted Annual Budgets and FY 2012-2013 Proposed Annual Budget (Unaudited)

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 Service Fees Revenue
 Analysis of Actual and Budget
 FY 2008 to FY 2013**



* FY 2012 revenues, including estimates for the remaining months, were provided by City management.

** FY 2013 is proposed; therefore, actual is not available.

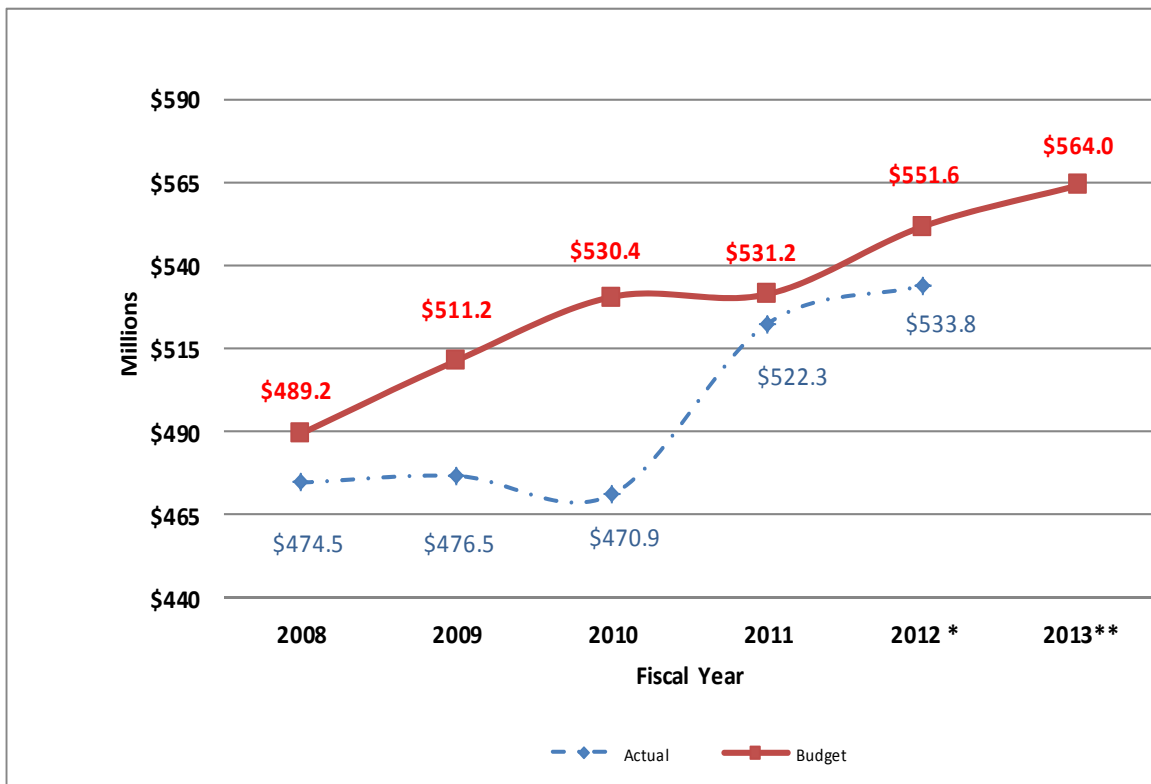
Source: City of Dallas Adopted Annual Budgets and FY 2012-2013 Proposed Annual Budget (Unaudited).

Dallas Water Utilities Revenue

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 of 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

Dallas Water Utilities Revenue Analysis of Actual and Budget FY 2008 to FY 2013



* FY 2012 revenues, including estimates for the remaining months, were provided by City management.

** FY 2013 is proposed; therefore, actual is not available.

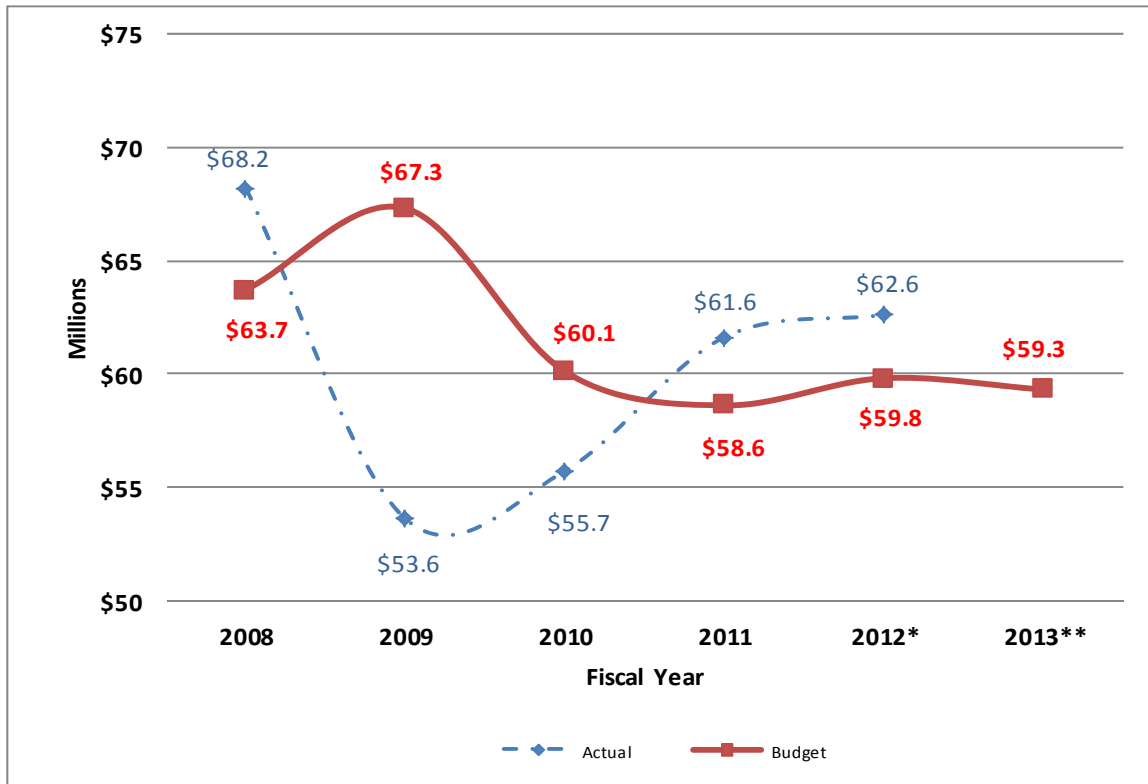
Source: City of Dallas Adopted Annual Budgets and FY 2012-2013 Proposed Annual Budget (Unaudited)

Convention and Event Services Revenue

The major revenue source for 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 Revenue Analysis of Actual and Budget FY 2008 to FY 2013



* FY 2012 revenues, including estimates for the remaining months, were provided by City management.

** FY 2013 is proposed; therefore, actual is not available.

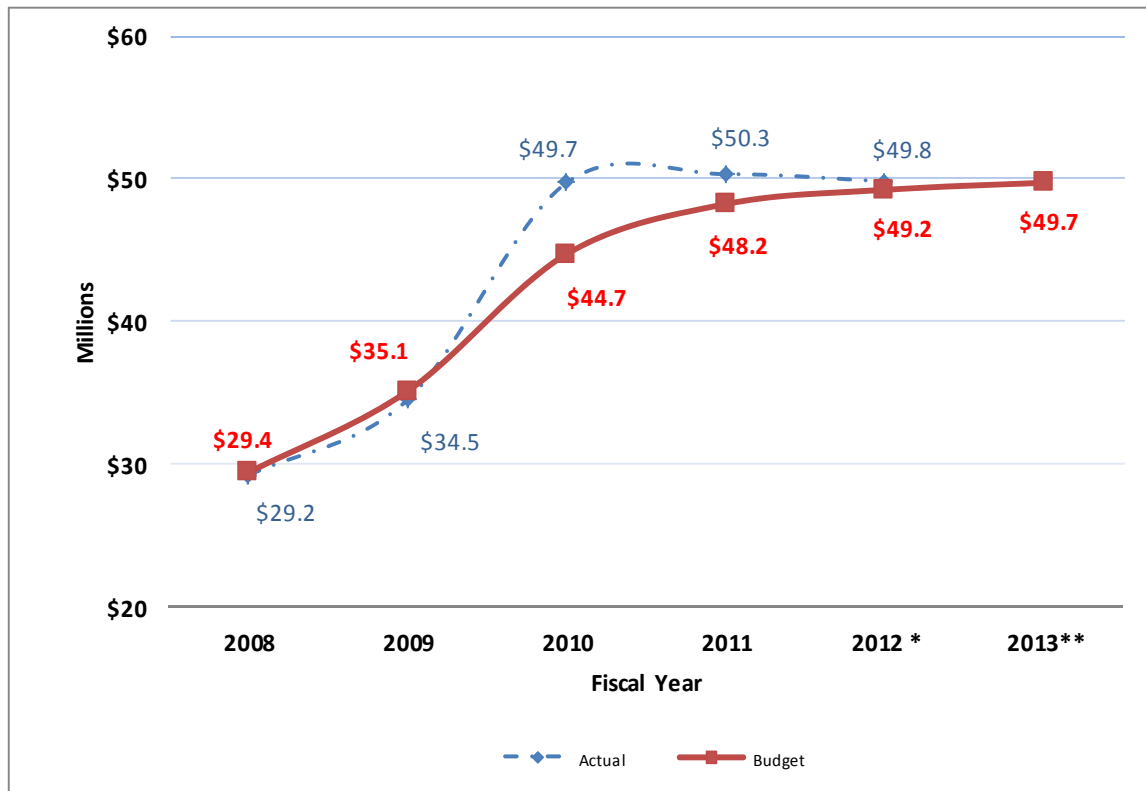
Source: City of Dallas Adopted Annual Budgets and FY 2012-2013 Proposed Annual Budget (Unaudited)

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 2008 to FY 2013**



* FY 2012 revenues, including estimates for the remaining months, were provided by City management.

** FY 2013 is proposed; therefore, actual is not available.

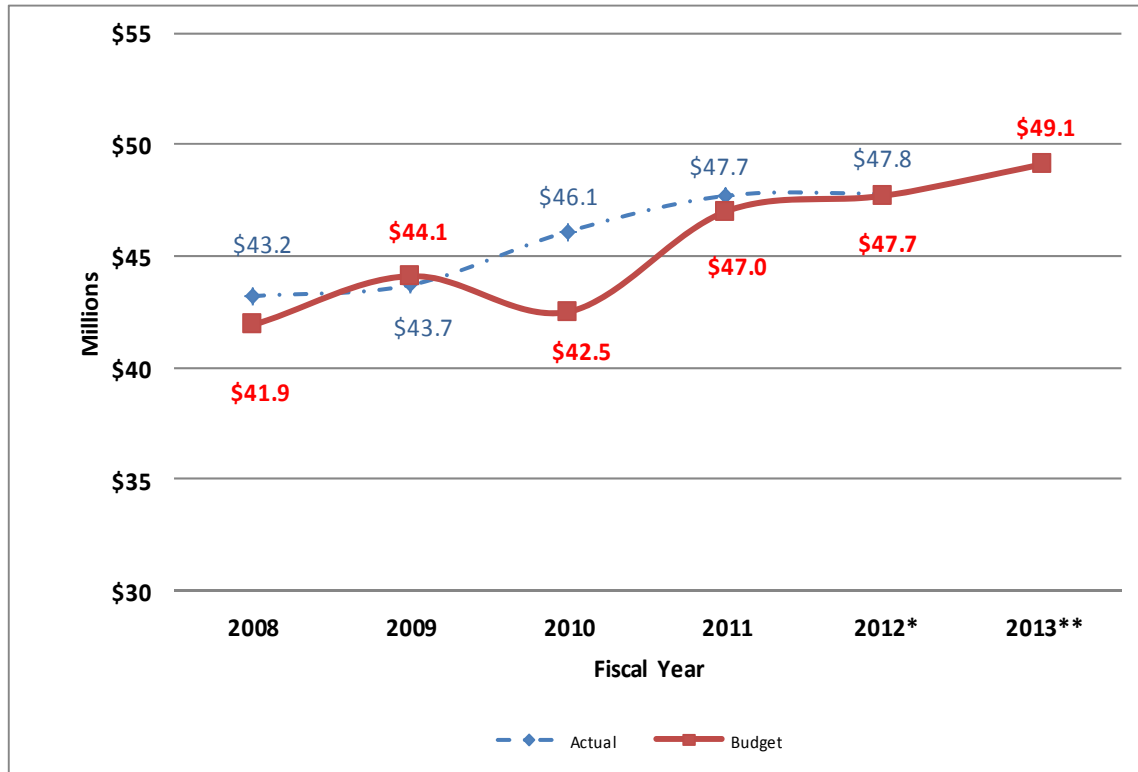
Source: City of Dallas Adopted Annual Budgets and FY 2012-2013 Proposed Annual Budget (Unaudited)

Aviation Revenue

Aviation 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 Aviation 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 Revenue
 Analysis of Actual and Budget
 FY 2008 to FY 2013**



* FY 2012 revenues, including estimates for the remaining months, were provided by City management.

** FY 2013 is proposed; therefore, actual is not available.

Source: City of Dallas Adopted Annual Budgets and FY 2012-2013 Proposed Annual Budget (Unaudited)