

FY2005-06 Budget Outlook

**City Council Briefing
May 18, 2005**

Purpose of Briefing

- **Review process being used for development of the FY2005-06 budget**
- **Examine previous budgetary decisions impacting the FY2005-06 Budget Outlook**
- **Provide General Fund revenue and expenditure outlook for FY2005-06**

Budgeting for Outcomes

- **New budgeting strategies respond to citizens demand for responsive, accountable government services at the best value**
- **Dallas City Council has taken steps toward budgeting for outcomes**
 - In FY2004-05 continued and improved zero-based budgeting
 - Formalized City Council Priorities (January 2005)
 - Upgrading financial system and allow tracking costs by services and City Council priorities
 - Finalizing new performance measurement system for each service
 - Budgeting for outcomes workshop with City Council held on April 11, 2005.

Budget Process for FY2005-06

Continue zero-based budgeting

- No budget targets - each budget must be built from zero
- No costs automatically rolled forward from the current year

Continue to refine costs and services

- FY2005-06 Budget will organize services by City Council Key Focus Areas
- Departments will provide a separate budget for each service and must be prepared to justify the continuation of the service

Balancing the Budget

- **Each service should contribute to the established City Council priorities**
- **As a result**
 - High priority services might be enhanced
 - Middle priority services might be maintained or reduced
 - Lower priority services might be reduced or eliminated

Revenue & Expenditure Outlook

- **Revenue and expenditures will be refined through the Spring and Summer**
- **City Manager will present a balanced budget recommendation in August 2005**
- **The following information provides:**
 - Examination of challenges addressed in FY2004-05 and the budgetary impact in FY2005-06
 - Highlights of changes and additional issues under review that may impact FY2005-06 budget

Dallas City Council Has Aggressively Addressed Major Challenges Facing Our City

- **In January 2004 established Five Key Focus Area Priorities to concentrate City resources on critical challenges**
 - Economic Development
 - Staff Accountability
 - Neighborhood Quality
 - Public Safety and Homeland Security
 - Trinity River
- **FY2004-05 Budget supported the City Council priorities, resulting in progress toward goals**
- **Continuing this support in FY2005-06 will further enhance services and advance City Council priorities**

Dallas City Council Has Aggressively Addressed Major Challenges Facing Our City

Public Safety

Addressing Crime Rate through investments in Public Safety

- Improved crime fighting efforts with the addition of 168 personnel through
 - Additional recruit class (50)
 - Reassignment
 - Civilianization
 - Use of private security
 - Addition of 12 Public Service Officers
- Re-established 100,000 mile replacement policy for squad cars
- Completed implementation of the 3-year 5%, 5%, 5% uniform salary increase
- Invested in hand-held citation writers and printers

Note: Recommendations based on Dallas Police Department Management and Efficiency Study, December 2004

Dallas City Council Has Aggressively Addressed Major Challenges Facing Our City

Economic Development

Building for our future through investment in economic development programs now

- Increased staffing for Economic Development:
 - To gain expertise in developing and monitoring economic indicators
 - To enhance business retention
 - To improve neighborhood reinvestment
- Established economic development focus teams for downtown and Southern Dallas
- Allocated resources for public/private partnership to encourage private development
- A Comprehensive Economic Development Strategy will be presented to City Council in June 2005

Dallas City Council Has Aggressively Addressed Major Challenges Facing Our City

Neighborhood Quality

Increased investment in basic infrastructure programs to improve current conditions and plan for the future

- Committed to support the 2003 Capital Improvements Bond Program \$579M
- Investment in Streets has improved the total streets in satisfactory condition to 82.8%
- Increased recreation center hours to 55 hrs/week
- Continuing implementation of Comprehensive Plan
- Enhance book and materials budget for Libraries
- Adjusted water rates to accelerate Water and Wastewater infrastructure replacement from 130 years to 70 years, by replacing 50% of system over the next 30 years

Dallas City Council Has Aggressively Addressed Major Challenges Facing Our City

Staff Accountability	Enhance systems to ensure an efficient and accountable workforce <ul style="list-style-type: none">•Established a Performance Appraisal System for employees•Established Service Level Agreements for Departments and customer quality assurance team•Established measuring, surveying and benchmarking of best practices for all services•Protected and secured the Employees Retirement Fund
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Dallas City Council Has Aggressively Addressed Major Challenges Facing Our City

Trinity River

Continuing efforts to implement the Trinity River Corridor

- First Trinity River Bridge (Margaret Hunt Hill Bridge) under design – Planned ground breaking December 2005
- Established parkway alignment
- Trinity River Interpretive Center under design with planned opening in early 2008

Budgetary Decisions Impacting FY2005-06 Budget

- **FY2004-05 budget plan committed continued support of Council's Key Focus Areas, including:**
 - 2003 Bond Program Support
 - Debt Service schedules require 2.25¢ property tax increase in FY2005-06
 - Presented in memorandum, September 9, 2004 – Responses to Budget Workshop questions
 - Residential Sanitation Collection Fee
 - Full cost recovery requires 36¢/month increase in FY2005-06
 - Council Briefing - June 16, 2004
 - City-wide Recycling Program Fee
 - Requires 4¢/month increase
 - HEHS Briefing - May 9, 2005
 - Water & Wastewater Rate Increase
 - Requires a 7.3% increase
 - Council Briefing - August 9, 2004
 - Additional Police Officers
 - Council Briefing – August 9, 2004

Revenue Outlook for FY2005-06

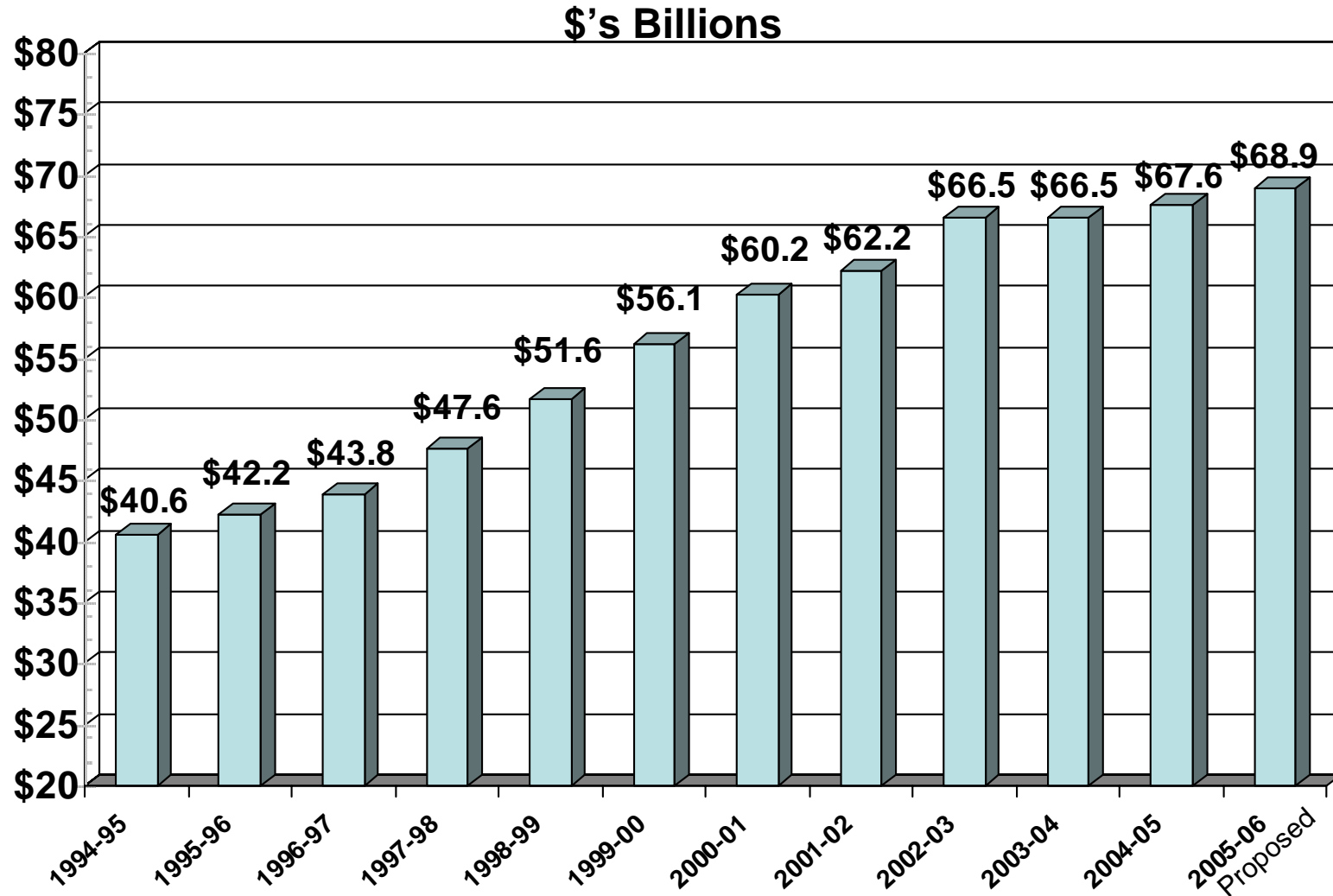
Ad Valorem Tax

- Represents 42.2% of General Fund (GF) revenues
- **FY2004-05 Tax Rate**
 - Operating Budget: 54.83¢ per \$100 assessed value
 - Debt Service Budget: 17.14¢ per \$100 assessed value
 - Total 71.97¢ per \$100 assessed value
- **Dallas County Appraisal District Tax Roll Due Dates**
 - Preliminary tax roll - May 25th 2005
 - Certified tax roll - July 25, 2004
- **Planned Ad Valorem Tax Increases to Revenues**
 - 2.25¢ increase for debt service expenditures for the 2003 Bond Program (Approx. \$15M Revenues)
- **Increased O&M Cost of 2003 Bond Program**
 - Bond program presentations included operating costs for FY2005-06 for new facilities - \$4.8M
 - This amount equates to 0.72¢ increase in property tax rate

Property Appraisal Values

FY 1994-95 to FY 2002-03 = Annual Growth of 7.97%

FY 2002-03 to FY 2005-06 = Annual Growth of 1.2%



Revenue Outlook for FY2005-06

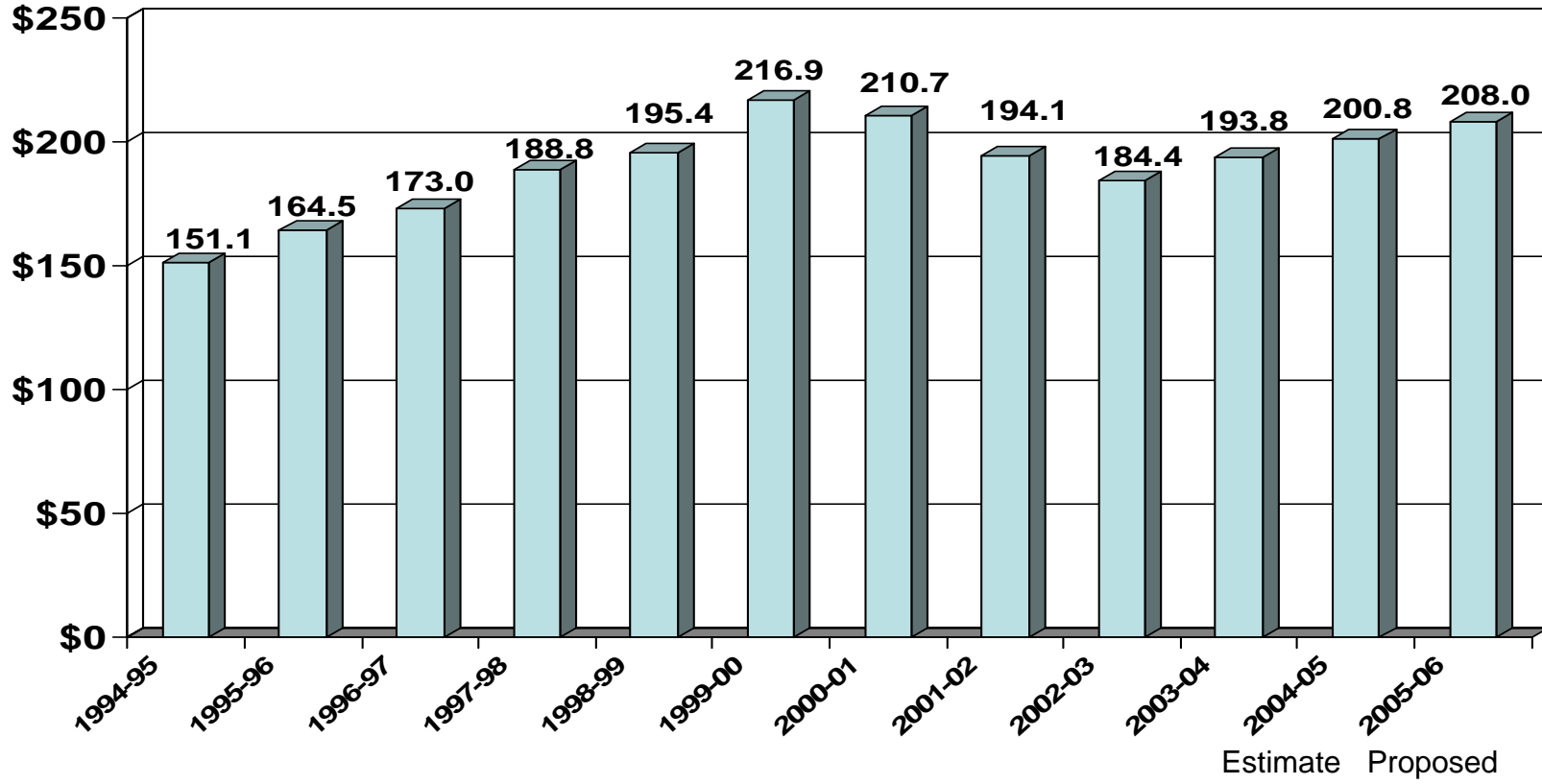
Sales Tax

- Represents approximately 23.0% of total GF revenues
- The total sales tax within the city of Dallas is 8.25% and includes:
 - 6.25% for the State
 - 1.00% for DART
 - 1.00% for the City of Dallas
- FY2004-05 budgeted Sales Tax revenue was 4.34% greater than prior year
- FY2004-05 revenues have been volatile from October 2004 thru March 2005
- **Budget Outlook assumes a 3.6% increase from the current year estimate - Approx. \$5.8 M above current year budget**
- If Sales Tax Revenue volatility continues it may be necessary to lower next year estimated revenues

Sales Tax Revenue Increasing Slightly, But Remains Below The FY1999-00 Levels

Sales Tax Trend Analysis

\$'s Millions



Revenue Outlook for FY2005-06

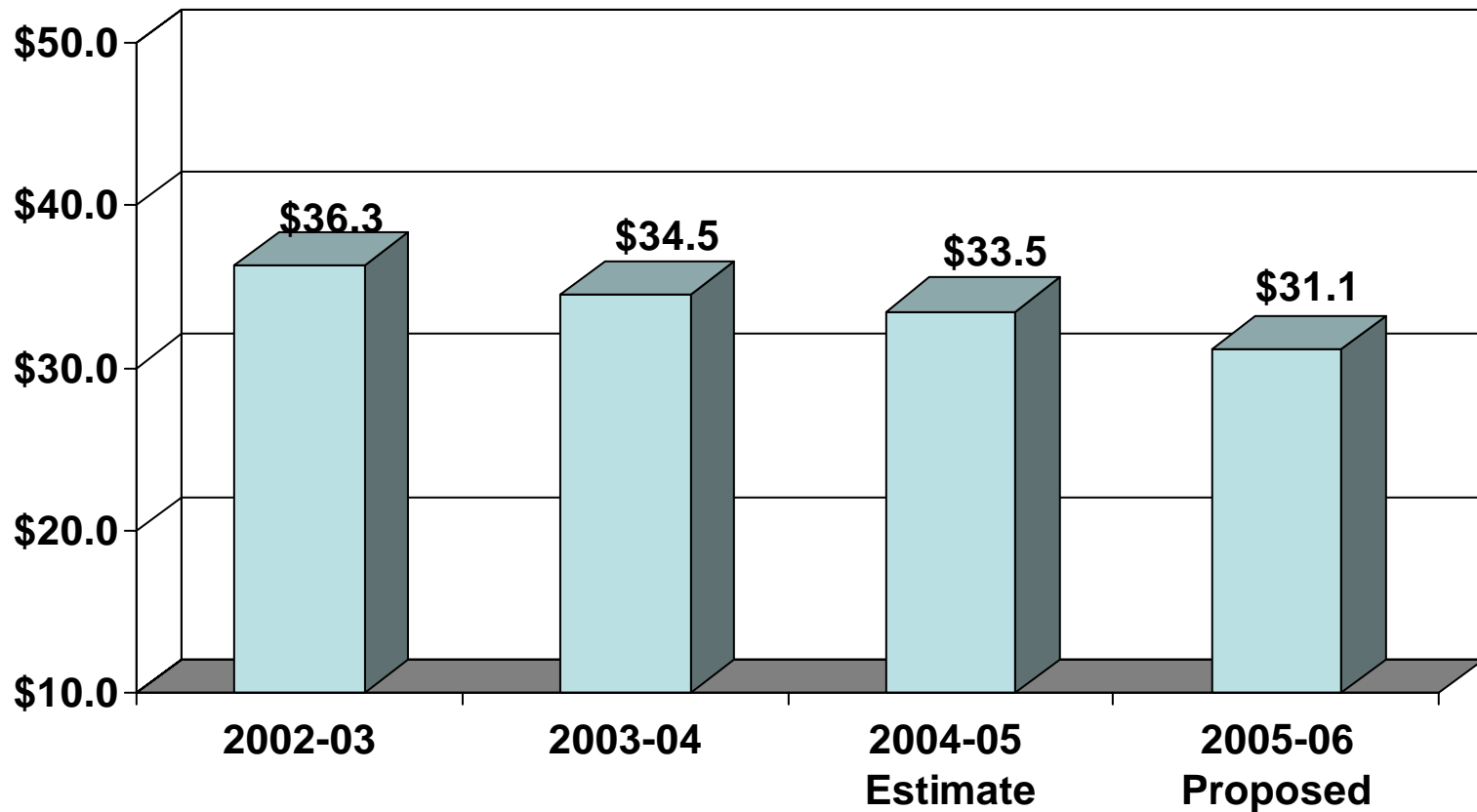
Franchise Revenues

- Represents approximately 11.4% of GF revenues and includes fees in lieu of charges to various utilities occupying the public rights of way.
- **Overall franchise revenues continue to decline 1.2% in FY2005-06 from current year estimate (Approx. \$3.3M from current year budget)**
 - Cable Fee (5% of gross receipts)
 - Electric Franchise Fee (flat fee per kilowatt hour)
 - Gas Franchise Fees (4% of gross receipts)
 - SBC & Other Telephone Franchise Fees (fee per access line)

Technological Changes in Telecom Sector Driving Decline In Franchise Revenues

SBC & Other Telecom Fees

\$'s Millions



Revenue Outlook for FY2005-06

Fees for Service

- Represents approximately 12% of GF revenues from Sanitation Service, Park, Private Disposal Fees, Emergency Ambulance, Security Alarm, Street Lighting, Vital Statistics, Parking Services and other charges
 - **Potential Residential Sanitation Fee increase of 36¢ = Approx. \$1M revenues**
 - To continue equipment replacement
 - To continue full cost recovery policy requires an adjustment from \$16.54 to \$16.94 per month
 - additional 36¢ per month
 - To provide transitional funding for Recycling Program requires an additional 4¢ per month in addition to the 36¢
 - **Potential Ambulance Fee adjustments = Approx. \$1.5M revenues**
 - Presented to the Public Safety Committee on May 16, 2005
 - Medicare allowable reimbursable rates have increased
 - Consider increase “Base Transport Rate” from \$320 to \$450 and “Loaded Mileage Rate” from \$7.40 to \$9.00

Revenue Outlook for FY2005-06

Interfund Revenues

- Includes indirect cost payments from other City Funds, DWU street rental payments and surplus property auction revenue.
 - **Sale of surplus property may result in increased one-time revenues for FY2005-06 = Approx. \$4.3M revenues**

Miscellaneous Revenues

- Includes revenues from rental, gifts and donations and collections for damages to City property.
 - **TXU settlement accepted by City Council in March 2005, will provide a fee each year until conclusion of the next TXU rate case = Approx. \$2.5M revenues**

Expenditure Outlook for FY2005-06

Full Year Funding	\$5.5M
New programs, facilities or services and salary adjustments implemented in FY2004-05	
Continuation of Performance Appraisal System/Staff Accountability	\$3.7M
Average 3% - Effective May 1, 2006	
Workers' Compensation Savings	(\$0.5M)
– Implementation of new Loss Prevention & Absence Management Program	
– This program will save approx. \$3M annually by FY2008	
November 2005 Charter Election	\$ 1.0M
Miscellaneous One Time Costs In FY2004-05	(\$2.1M)

Expenditure Outlook for FY2005-06

Civilian Pension Contribution

- Continue implementation of the Employees' Retirement Fund Study Committee recommendations
- In November 2004 City sold \$533M in Pension Obligation Bonds (POB) to stabilize the Employees' Retirement Fund
- April 2005 Actuarial Valuation Report documented reduction in actuarial liability and established contribution rates for FY 2005-06
- **City contribution rate increases from 11% to 15.38% or \$9.6M for General Fund**
- **Employee contribution rate increases from 6.5% to 9.03% (Approx. \$38.92 per pay period for employee earning \$40,000)**

Expenditure Outlook for FY2005-06

Fuel Cost Increase	\$3.8M
– Increase in average fuel cost per gallon based on about \$60 a barrel	
Electricity Cost Increase	\$2.7M
– Preliminary retail electric providers pricing indicate a 9.43% increase from current year budget	
Added New Facility Costs	\$4.8M
– Libraries	
– Park Facilities	
– Day Resource Center Replacement	
– Fire Station	
City Matching Funds-Central Library	\$1.0M
– 3 rd Floor Renovation	
Replace Attrition & Increase of Police Sworn Personnel by 50	\$1.6M
Police Equipment Purchases	\$4.0M

Employee/Retiree Health Benefits

- **FY2004-05 budgeted \$88.7M for Employee Health Care costs**
- **City's Current Contracts**
 - Humana - Third Party Administrator for the Self Insured PPO Plan
 - Blue Cross Blue Shield - Fully Insured HMO Plan
 - AARP - Fully Insured Plan for Retirees <65
- **Deloitte Consultants serve as the City's advisor for all health care issues.**

Employee/Retiree Health Benefits

Deloitte Consultants Analysis

- Deloitte Consultants provided two Cost Analysis Reports:
 - Claims Transactional Review Report
 - Request for Information Comparison
- The Claims Transactional Review Report revealed that Humana's Third Party Administrative Performance did not meet the City's contract agreement for year 2004.

Deloitte Consultants' Performance Review Chart

Measure	Generally Accepted Industry Goal	Contract Performance Agreement	Humana's Claims Results
Financial Accuracy (Dollars)	99.0%	99.0%	94.1%
Payment Accuracy (incidence)	97.0%	97.0%	90.5%
Procedural Accuracy (incidence)	95.0%	N/A	97.4%
Average Turnaround Time (processed within 14 calendar days)	90.0%	90.0%	80.8%

Employee/Retiree Health Benefits

Deloitte Consultants Analysis (Continued)

- Deloitte implemented a Request for Information Process, comparing the City of Dallas 2004 claims data with six different health care carriers (including Humana)
- The Request For Information Report revealed that the City could potentially reduce costs by changing the Third Party Administrator

2006 Health Care Cost Avoidance Plan

- **FY 2005-06 Goal: Avoid industry standard 10-15% cost increase**
 - Minimize or avoid premium increase to employees
 - Minimize or avoid premium increase to retirees
 - Minimize or avoid increase to City costs
- **In August 2004, the Employee & Retiree Health Benefits Committees were re-established and jointly recommended the following:**
 - Increase City contribution for employee's subsidy
 - Restore the subsidy for employee spouses
 - Consider In-Network cost compared to Out-of-Network cost
 - Obtain legal opinion regarding local government code 175, to determine feasibility of offering retirees over 65 an AARP plan in lieu of the PPO plan
 - Develop a comprehensive disease management / wellness program

2006 Health Care Cost Avoidance Plan

- **Seek new Request for Proposal among carriers serving the DFW Area**
- **Seek greater network coverage of health care providers and better discounts**
- **Increase employees use of “in-network” health care providers**
 - Establish two different deductibles for In-Network utilization and Out-of-Network utilization
- **Implement a comprehensive wellness and disease management program that is fully integrated with employees utilization.**

Additional Issues Under Review

Public Safety Improvements

- Replacement of three Police Helicopters
- New and/or replacement of Emergency Warning Sirens
- Establish annual replacement cycle of Squad Cars with 100k miles
- Computer aided dispatch expenses
- Upgrade/replace mobile radios

Facility Improvements

- Computer system security
- Major maintenance of City facilities

Potential Impact of State Legislative Session

- Telecom franchise / changes cable regulation
- Uniform personnel “Meet and Confer” legislation
- Vehicle towing and storage fee regulation
- Any revenue changes associated with school funding regulations

Reminder

Enterprise Funds are also facing economic challenges:

Water and Wastewater Rates

- Forecasts presented to City Council projected a rate increase of 7.3%.
Weather patterns are continuing to impact revenues negatively

Convention & Event Services

- Revenues continue to decline since 2001

Aviation

- Enplanements have not recovered to their pre-September 11, 2001 levels

Storm Water Fees

- Compliance with regulatory requirements may continue to increase costs

MOVING FORWARD

- **Council has taken bold steps to address the many difficult issues facing the City, such as:**
 - Established priorities and made progress in addressing them
 - 2003 Bond Program
 - Investment in Water/Wastewater
- **The economy is turning around**
- **In order to move forward, there will continue to be difficult choices regarding**
 - Taxes
 - Fees
 - Services Levels

FY2005-06 Budget Development Schedule

- **May 18** **Budget Outlook Update**
- **May 25** **Preliminary Tax Roll Due from DCAD**
- **June 15** **Budget Outlook Update**
- **July 25** **Certified Tax Roll Due from DCAD**
- **August 15** **Presentation of City Manager's
Proposed Budget**
- **August 15 –
September 13** **City Council Budget Townhall Meetings**
- **September 7** **Budget Workshop**
- **September 14** **Vote to Adopt Budget – First Reading**
- **September 19** **Budget Amendment Workshop**
- **September 21** **Budget Amendment Workshop (if needed)**
- **September 28** **Budget Adoption – Second Reading**

EXAMPLE

Key Focus Area: Neighborhood quality of life

Component: Provide equitable and enhanced social, cultural, leisure and environmental programs

Service: Branch Libraries

Department: Library

Description: A system of 23 branch libraries provide informational, recreational, educational and cultural resources to the community. These libraries serve the needs of people of all ages, backgrounds and interests and reflect the cultural diversity of the community.

Source of Funds	Budget FY 2004-05		Estimate FY 2004-05		Proposed FY 2005-06	
	Dollars	FTEs	Dollars	FTEs	Dollars	FTEs
General Fund	13,256,363	229.2	13,087,415	229.2	13,306,817	231.7
Other Funds	41,404	1.0	41,404	1.0	41,024	1.0
Total	13,297,767	230.2	13,128,819	230.2	13,347,841	232.7

Service Target for FY 2005-06: Open two branch libraries, West Love Field (Grauwlyer) and Timberglen. Open two replacement branch libraries, Lancaster-Kiest and Hampton-Illinois (co-location with DISD). These two new facilities will result in a 2% increase in material use for FY 2005-06.

Community Indicator: One branch library for every 53,500 citizens (Source: Library Master Plan 2000-2010)

Service: Cultural Programs

Department: Office of Cultural Affairs

Description: Implement a cultural services procurement process to fund artists and organizations to provide cultural services for the citizens of Dallas.

Source of Funds	Budget FY 2004-05		Estimate FY 2004-05		Proposed FY 2005-06	
	Dollars	FTEs	Dollars	FTEs	Dollars	FTEs
General Fund	7,128,388	2.0	7,442,972	1.8	7,462,566	2.0
Other Funds	0	0	0	0	0	0
Total	7,128,388	2.0	7,442,972	1.8	7,462,566	2.0

Service Target for FY 2005-06: Maintain operating and project support for over 200 artists and cultural organizations.

Community Indicator: Continue to leverage private funds at a 10:1 rate