

Memorandum



CITY OF DALLAS

DATE May 2, 2008

TO Honorable Mayor and Members of the City Council

SUBJECT Budget Workshop #4 – FY2008-09 Global Issues

At February's Budget Workshop #3, you reviewed the methodology to set the "Price of Government" for FY2008-09 and the expenditure outlook for the upcoming fiscal year. You provided the policy direction that the preliminary "Price of Government" for FY2008-09 would be \$1.967 billion.

This briefing provides an overview of the FY2008-09 Global Issues, including updated revenue and expenditure estimates. All numbers are **preliminary and will continue to change**; but we do want for you to be aware of the issues we are facing as we prepare the FY2008-09 budget submission.

While property tax base growth seems to be continuing, there is less than previously experienced. Sales tax growth is dropping somewhat. On the expense side, we must continue our public safety enhancements (200 officers/equipment annually). Additionally, the costs of doing business (fuel/electricity) are rising for the City as they are for our citizens and businesses.

Departments have submitted their budget offers to the Key Focus Area (KFA) Teams and the preliminary assessment and ranking will be presented to Council Committees in mid-May.

Please let me know if you have any further questions or comments.

A handwritten signature in black ink, appearing to read 'Mary K. Suhm'.

Mary K. Suhm
City Manager

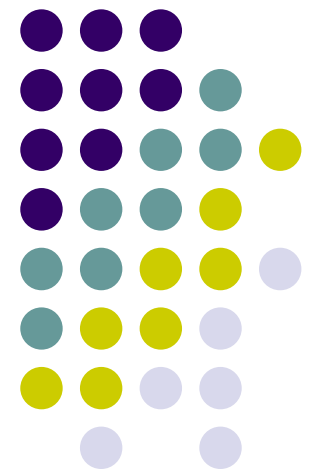
c: Deborah Watkins, City Secretary
Thomas P. Perkins, Jr., City Attorney
Craig Kinton, City Auditor
Judge Jay E. Robinson
Ryan S. Evans, First Assistant City Manager
Ramón F. Míguez, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
A.C. Gonzalez, Assistant City Manager
David Brown, Interim Assistant City Manager
David Cook, Chief Financial Officer
Jeanne Chipperfield, Interim Director, Budget Services

Budget Workshop #4

FY2008-09

Global Issues

City Council Briefing
May 7, 2008





Purpose

- Review:
 - Status of Budgeting for Outcomes
 - Price of Government Process
 - Preliminary Price of Government set in February
- Review updated FY2008-09 revenue and expenditure information
- Review Next Steps

FY2008-09 Budgeting for Outcomes Status



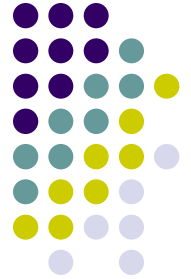
- ✓ Establish Citywide Results & Indicators
 - ✓ Set Strategic Direction for FY 2008-09
 - ✓ Create “Requests for Offers”
 - ✓ Invite Departments to Make Offers
 - ✓ Set Overall “Price” of Dallas Government
 - ✓ Allocate “Price” to Each Key Focus Area
- Evaluate & Prioritize Offers in Each Key Focus Area
 - Buy Down the List of Offers Until the Money Runs Out (“draw the line”)
- Build Final Budget to present to Council



FY2008-09 Price of Government

- The “Price” is what the residents of Dallas are willing to pay for the services they receive
- “Price” = Amount of locally-generated city revenue as a % of gross personal income
- Includes all taxes, fees, and charges
- A price of \$1.967 billion was recommended by the City Council in February as a starting point to build the FY 2008-09 Budget
 - This price can change prior to budget adoption on September 24, 2008

Overview of FY2008-09 Revenue and Expenditure Information



- Briefing provides updates of changes since Price of Government was set in February
- February briefing outlined:
 - \$92m revenue increases over the current year
 - \$128m expenditure increases over the current year
 - \$36m differential
- Update:
 - \$23m revenue reductions from February briefing estimate
 - \$9m expenditure reductions from February briefing estimate
 - \$50m revised differential
- All numbers are **preliminary** and will continue to change
 - Still very early in the budgeting process
 - Figures are forecast 18 months in advance
 - Appraisal districts updates on tax base are not yet available
 - Sales tax continues to be volatile
 - Uncertainty regarding fuel and energy costs

FY2008-09 Price of Government (\$ millions)



	<u>February</u> <u>POG</u>	<u>May</u> <u>Update</u>	<u>Variance</u>
FY 07-08 Revenues	\$1,875	\$1,875	-
Ad Valorem Tax Base Growth	46	34	(12)
Sales Tax Growth	11	3	(8)
Water & Wastewater Rate Increase	41	41	-
Sanitation Services Rate Increase	2	2	-
Other Net Revenue Changes	(8)	(11)	(3)
Total	\$1,967	\$1,940	(\$23)



FY2008-09 Revenue Updates

Ad Valorem Taxes

- February Price of Government (POG) forecast 7% growth in tax base
- No tax rate increase assumed
- **Update: Reduce growth rate assumption to 5% which reduces the February POG revenue estimate by \$12m**

Sales Tax

- Year-to-date collections are below budget
 - FY2007-08 estimate reduced by \$5 million
- FY2008-09 POG forecast 4.79% growth
- **Update: Reduce growth rate assumption to 3.55% over the current year estimate which reduces the February POG revenue estimate by \$7.8m**
- If volatility in the collections continues, it may be necessary to further lower next year's POG revenues

FY2008-09 Revenue Updates



Water and Waste Water Rate Increase

- 10.2% rate increase forecasted (8/15/07 Council Briefing)
- Generates \$41 million
- Additional revenue will be necessary for increased power, fuel, chemicals and capital improvement program costs
- **Update: No change to the February POG revenue estimate**



FY2008-09 Revenue Updates

Sanitation Service

- Fee increase of \$0.88 per month - \$2.2m revenue generated
 - Continues full cost recovery policy
 - Cost increases due to day labor minimum wage increases, fuel, and equipment rental
- **Update: No change from February POG revenue estimate**

Private Disposal

- Projected increase in tonnage and recommended tipping fee increase of \$1 from \$18 to \$19 per ton
- **Update: Increase estimated revenue by \$7 million from February POG revenue estimate**



FY2008-09 Revenue Updates

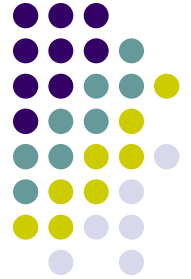
Red Light Cameras

- Achievement of program goal of increased red light compliance results in revenue reductions
- Revenue reduction of \$4.4m offset by reduced payment to the State of \$2m
- **Update: Net revenue reduction of \$2.4m from the February POG revenue estimate**

Municipal Court Fines

- Fewer citations written by Police and an increase in cases not being disposed and/or awaiting trial
- **Update: Reduce the February POG revenue estimate by \$2.5m**

FY2008-09 Revenue Updates



Franchise Revenue

- TXU Electric revenue - \$3.5m reduction
- Atmos Energy revenue increase - \$1.2m increase
 - Pending rate case likely to result in higher rates
- **Update: Reduce franchise revenue estimate by \$2.3m from February POG revenue estimate**

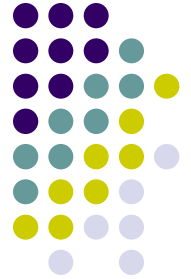
FY2008-09 Revenue Updates



Fee Studies

- 2 Fee studies currently in progress as required by the FMPC
 - General Fund – 3 departments to be reviewed:
 - Sanitation, Environmental & Health Services, Library
 - Storm Water Drainage Utility
- Determines extent of full cost recovery and recommends new fees as appropriate
- Results expected in late June and will be incorporated into the proposed budget

Changes in Expenditure Outlook for FY08-09 based on Current Policy Direction (\$ millions)



EXPENDITURE INCREASES / DECREASES	February Forecast	May Update	Variance
Police and Fire Pay Plan	\$9.9	\$9.9	-
Full Year Funding for 200 Officers added in FY 07-08; Funding for 200 additional Officers in FY 08-09	18.0	18.0	-
General Obligation Debt Service	25.7	21.4	(4.3)
Sanitation / Recycling Programs	3.0	3.0	-
Water/Wastewater costs for needed Capital Investment	42.1	42.1	-
Employee/Retiree Health Benefits (10% for City's contribution; also 10% increase for participants)			
General Fund	4.0	4.0	-
Other Funds	1.0	1.0	-
Civilian Merits (average 4% - January 2009)			
General Fund	8.3	8.3	-
Other Funds	4.0	4.0	-
TIF Payment Increase	3.3	3.3	-
Bond Program O & M	9.0	3.6	(5.4)
May 2009 Election	1.0	1.0	-
One-time Expenses	(1.3)	(1.3)	-
Red Light Camera Payment to State	-	(2.0)	(2.0)
Replenishment of Reserves	-	2.7	2.7
TOTAL	\$128.0	\$119.0	(\$9.0)

FY2008-09 Expenditure Updates



November 2008 Bond Sale

- Bond sale has been re-sized to fund only those projects that are planned for award
 - Projects remain on schedule
- Original forecast was \$344.8m
 - 2006 Bond Program \$304.54m
 - 1998 Trinity Proposition \$40.24m
- Recommend \$214.7m sale
- The November 2009 bond sale will be \$434.6m, larger than the original forecast of \$304.5m, to allow award of projects currently under design



FY2008-09 Expenditure Updates

November 2008 Bond Sale (cont'd)

- Reduce 2006 Flood Protection proposition sale by \$89.9m from \$101.9m to \$12.0m
- Contract awards are scheduled for December 2009 and will be included in the November 2009 sale, based on the project schedules
 - Middle Peaks Branch Phase I & II (\$30m)
 - Mill Creek Phase I (\$49m)
 - State Thomas at Woodall Rodgers (\$10m)
- **Projects currently under design remain on schedule for construction**



FY2008-09 Expenditure Updates

November 2008 Bond Sale (cont'd)

- Reduce 1998 Trinity Proposition sale by \$40.2m to \$0
 - In November 2006, \$38.4m in bonds were sold for the Trinity River Corridor Project
 - Funds were needed in anticipation of land acquisition for the Trinity Parkway during FY2006-07
 - Property acquisition did not occur as planned
 - Proceeds are being used in FY2008 and FY2009 as acquisition of land for the Trinity Parkway continues
- **Update: Reduce November bond sale by \$130.1m and reduce the associated debt service cost by \$4.3m from February expenditure outlook**



FY2008-09 Expenditure Updates

- Bond Programs Operating & Maintenance Costs
(\$ million)

Fire Stations #50 & #10	\$2.2
Dallas Center for the Performing Arts	0.8
Park & Recreation Facilities	0.4
Bachman Lake Library	0.1
Oak Cliff Cultural Center	0.1
Total O&M	\$3.6

- **Update: Reduce the February expenditure outlook by \$5.4m based on a review of facility opening dates and maintenance requirements**

FY2008-09 Expenditure Updates



Replenishment of Reserves

- Fund Contingency Reserve at FMPC requirement of at least \$6m
- **FY2008-09 Update: \$2.7m increase from February expenditure outlook due to usage during FY2007-08**



Other Considerations

Other funding issues to be considered include:

- Convention Center Hotel
- Reunion Arena
- Economic Development – Public/Private Partnership Fund
- Code Compliance Enhancements
- Housing
- Information Technology Expenses



Summary

- When comparing the updated revenue and expenditure estimates, currently there is an estimated \$50m differential
 - No tax rate increase is assumed
- Options to eliminate this differential:
 - Identify \$50m in revenue,
 - Reduce \$50m in expenditures, or
 - A combination of additional revenue increases and expenditure reductions

Preliminary Rankings Committee Briefings



- Committee briefings on Preliminary Rankings of Bids are scheduled for mid-May
- Briefings will include the Key Focus Area Teams' preliminary recommended rankings of the bids
 - Rankings show the services that are funded and those that “fall below the line”
 - At the current Price of Government, there are many services that would be below the current year's level of service
- Each Key Focus Area's Price of Government allocation is based on the updated revenues provided in this briefing

As you review these briefings, keep in mind that the rankings reflect a no tax rate increase budget and preliminary revenue estimates.

Next Steps



Committee briefings on Preliminary Rankings of Bids are scheduled as follows:

- May 12 - Quality of Life Committee
 - E³ Government
 - Educational Enhancements
 - Culture, Arts & Recreation
- May 12 - Transportation & Environment Committee
 - Clean, Healthy Environment
- May 19 - Economic Development Committee
 - Economic Vibrancy
- May 19 - Public Safety Committee
 - Public Safety



Next Steps (cont'd)

- May 21 - Council Briefing - Preliminary Budget Rankings
- June 18 - Council Briefing - City Manager's Proposed Budget Preview
- August 11 - Council Briefing - City Manager's Proposed Budget
- August-September - Review, amend, and approve final budget