

Memorandum



CITY OF DALLAS

DATE May 13, 2011
TO The Honorable Mayor and Members of the City Council
SUBJECT Budget Workshop #3 – FY 2011-12 Budget Development Update

As part of your Council meeting on Wednesday, May 18th, the briefing entitled “Budget Workshop #3 – FY 2011-12 Budget Development Update” will be presented. This update provides a status of the work that has been completed since your January briefing on the FY 2011-12 Budget. Significant work has gone into improving the outlook for next fiscal year which begins on October 1, 2011.

After your May 18th meeting, you will receive another update on June 15th. We will continue our work and recommend to you a balanced budget for FY 2011-12 on August 8th.

Please let me know of any questions you may have.

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

Mary K. Suhm
City Manager

- C: Thomas P. Perkins, Jr., City Attorney
- Deborah A. Watkins, City Secretary
- Craig Kinton, City Auditor
- C. Victor Lander, Judiciary
- Ryan S. Evans, First Assistant City Manager
- Jill A. Jordan, P.E., Assistant City Manager

- A.C. Gonzales, Assistant City Manager
- Forest Turner, Assistant City Manager
- Jeanne Chipperfield, Chief Financial Officer
- Helena Stevens-Thompson, Assistant to the City Manager
- Jack Ireland, Director, Office of Financial Services

Budget Workshop #3 – FY 2011-12 Budget Development Update

City Council Briefing – May 18, 2011



Purpose of Briefing

- Update Council on progress made in development of FY 2011-12 budget
 - Briefing is a “snapshot” as of May 13 towards developing a balanced budget to present to Council on August 8
 - Numbers included in briefing are estimates/projections and are subject to further review and change
- Review both revenue and expenditures
 - Forecast revenues to be included in FY 2011-12
 - Ranking of expenses developed by Key Focus Area (KFA) Teams
 - Identify Lower Priority Services subject to reduction or elimination
- Discuss strategies for balancing the current forecast differential

Looking Back

- In spite of recent economic challenges over the last several years, much has been accomplished through our investments
 - Public safety – 2010 was 7th consecutive year of crime reduction in Dallas with crime being down 36% (from 2004 to 2010)
 - Economic development – significant growth in tax base -- 23% increase -- (from FY 2004-05 to FY 2010-11)
 - Infrastructure improvements – improved street condition from 77% to 84% in satisfactory condition (from 1999 to 2010)
 - Customer service – increases in customer satisfaction as reported in Citizen Survey – 26.8% increase (from FY 2004-05 to FY 2008-09)
 - Commitment to sustainability – significant improvements in sustainability
 - 40% renewable power
 - 38% alternative-fueled fleet
 - 35% reduction since 1998 in per capita water usage
 - 30% reduction in lighting costs
 - \$5.3m saved in energy costs through performance contracts
 - 136% increase in tons recycled from FY 2006-07 to FY 2009-10

Looking Back

- Period of economic growth experienced by City prior to FY 2008-09 ended as result of international recession
- Recession resulted in significant budget challenges for FY 2009-10 and FY 2010-11
- Council not only made tough decisions to balance the budget through these difficult years, but decisions were also made to continue to invest in catalyst projects

Looking Back

- While there is some indication of economic recovery, development of FY 2011-12 budget will continue to be a challenge and difficult decisions will still be needed
- Additional challenge may result from state and federal actions that impact the City going forward

Looking Back

- In January 2011, an early forecast indicated that City would have less revenue and more expenses in FY 2011-12 than City has this year (FY 2010-11)
- Combination of revenue and expense changes indicated a differential for October 1, 2011 through September 30, 2012 (FY 2011-12) to be between \$41.0m to \$96.0m (Jan 19, 2011 briefing)

	Lesser Impact	Greater Impact
Revenue changes	+\$3.0m	(\$44.7m)
Expenditure changes	+\$44.0m	+\$51.3m
Differential	(\$41.0m)	(\$96.0m)

FY 2011-12 Outlook

- Eliminating differential and recommending a balanced budget on August 8 is required
- Today's outlook for FY 2011-12 is a snapshot that shows progress since January briefing and current status
- All revenue and expense forecasts will continue to be analyzed and updated as we move forward to City Manager's recommendation on August 8

FY 2011-12 Outlook – Revenue Update

- Since January briefing and as new information is available, revenue forecasts have been updated
- Sales tax revenue accounts for about 20% of General Fund
 - Modest gains have been seen over last 11 months when compared to same month of previous year; however, this was preceded by 18 of 21 months declining
 - FY 2011-12 is estimated to be 2% more than estimate for the current year, however, this is still \$15.4m less or nearly 7% less than actual revenues in FY 2007-08 before recession

FY 2011-12 Outlook – Revenue Update

- Property tax revenue is single largest revenue source and accounts for about 43% of General Fund
 - Property values are appraised once per year and changes lag behind other economic conditions
 - After 15 years of growth in the tax base, property values decreased by 3.6% in tax year 2009 and 4.4% in tax year 2010
 - At this point, further decline is forecast to be 4.2% for tax year 2011
 - July 25 is deadline for appraisal districts to certify their tax rolls

FY 2011-12 Outlook – Revenue Update

- Revenues are now forecast to decline by \$31.0m from \$1,006.0m for current year (FY 2010-11) budget to \$975.0m for next year (FY 2011-12) budget

Revenue Forecast – Source of Funds	Jan 2011 “Greater Impact”	Changes since Jan 2011 Forecast	May 2011 Forecast
FY 2010-11 Adopted Revenues			\$1,006.0m
Sales Tax	+\$1.7m	+\$7.9m	+\$9.6m
Property Tax	(\$27.1m)	\$0.0m	(\$27.1m)
Franchise Fees	(\$1.5m)	+\$5.4m	+\$3.9m
Landfill Revenues	(\$4.4m)	(\$0.8m)	(\$5.2m)
Other revenues	(\$13.4m)	\$1.2m	(\$12.2m)
Total Revenue Changes	(\$44.7m)	+\$13.7m	(\$31.0m)
FY 2011-12 Forecast Revenues			\$975.0m

FY 2011-12 Outlook – Expense Update

- Since January, departments have submitted “bids” or budget requests for each service and as result our expense forecasts have been updated
- Expenditures totaling \$1,054.3m are needed next year in order to fund all current year services, make adjustments for escalating costs, and provide for key expenditures

FY 2011-12 Outlook – Revenue & Expense Update

- Examples of key drivers that have caused expenditures to increase from FY 2010-11 to FY 2011-12 include:
 - Possible impact from Federal and State budget reductions, \$21.4m
 - Increasing fuel prices, \$5.7m
 - Electricity transmission and distribution costs result of Oncor rate increase, \$1.6m
 - Employee Health Benefits, \$5.8m
 - Ambulance replacement, \$1.8m
 - Increasing obligations in public private partnerships such as with the Zoo and ATPAC, \$2.0m
 - Operational cost for capital projects being placed in-service, \$2.8m
 - 2nd year of Meet and Confer Agreement, restore \$9.0m (1st year savings was \$22.4m)
 - Train 60 paramedics, \$4.5m
 - Incremental increase of 64 fire recruits to reduce overtime in future years saving (\$5.5m in FY 2012-13), \$1.9m

FY 2011-12 Outlook – Revenue & Expense Update

- Since January briefing, adjustments have been made (primarily to revenues) that reduce the differential between revenues and expenses to (\$79.3m)

FY 2011-12 Forecast Revenue – May 2011 updated forecast	\$975.0m
FY 2011-12 Forecast Expense – to fund same services, adjust for escalating costs, and some new programs as necessary	\$1,054.3m
Differential	(\$79.3m)

- Today's briefing shows work of the KFA Teams, CMO Team, and additional adjustments to further reduce this differential

FY 2011-12 Outlook – KFA Teams

- Key Focus Area teams were utilized to review, analyze and rank bids submitted for funding consideration by each City department
- Forecast revenues were allocated to each Key Focus Area proportionate to amount budgeted for each area in FY 2010-11
- KFA Teams have reviewed and analyzed each bid received from departments to determine which bids best accomplish objectives of KFA
- Bids were prioritized and ranked by KFA Teams with input from City Manager's team

FY 2011-12 Outlook – KFA Teams

- Bids may include KFA Team recommended reductions of lower priority expenses within a bid (detailed within comment section of attachment)
- Critical bids (services) which fall below funding line after KFA Team ranking are marked with an asterisk and considered higher priority to be added back should funding become available
- Services without an asterisk which fall below the funding line are subject to elimination and thus not provided in FY 2011-12

FY 2011-12 Outlook – Ranking Sheets

- Ranking Sheets indicate prioritized and ranked services by KFA Teams with input from City Manager's Team
 - Bids totaling \$975.0m are above funding line
 - Bids totaling \$59.3m marked with an asterisk (many at a reduced level) indicating these are Higher Priority services to be restored should revenue become available
 - Bids totaling \$20.0m without an asterisk indicating these are Lower Priority services
 - Lower Priority services are not funded and subject to elimination

FY 2011-12 Outlook – Ranking Sheets (continued)

- Lower priority services (continued)
 - Services falling below funding line without an asterisk are subject to following:
 - Elimination
 - Slower delivery
 - Increased potential for errors
 - Limitations on the flexibility of organization
 - Reductions include about 450 FTEs

FY 2011-12 Outlook – Ranking Sheets

Summary

Key Focus Area	Services Above the Line – <u>“IS FUNDED”</u>	Higher Priority *** Services – <u>NOT FUNDED, but “SHOULD BE”</u>	Lower Priority Services <u>“ISN’T FUNDED”</u>
Public Safety	\$556.3m	\$45.8m	\$6.3m
Economic Vibrancy	\$71.9m	\$8.1m	\$3.2m
Clean Healthy Environment	\$108.0m	\$0.4m	\$0.0m
Culture, Arts & Recreation	\$57.8m	\$4.4m	\$8.1m
Educational Enhancements	\$16.8m	\$0.0m	\$0.0m
E3 Government	\$87.6m	\$0.5m	\$2.4m
E3 – Citywide Cost to be Distributed Later	* \$76.5m	N/A	N/A
Total	\$975.0m	\$59.3m	\$20.0m

* E3 “funded” amount includes cost that will be distributed to other KFA s later in process, including CIS charges, Risk charges, electricity, fuel, employee health benefits, and impact from federal/state budget.

FY 2011-12 Outlook – Ranking Sheets Summary

- Is Funded – \$975.0m above the line; enough revenue is forecast to fund these services
- Should be Funded – \$59.3m marked with asterisk; although not enough revenue is forecast at this time to cover these services, effort is underway to determine a means of funding them
- Isn't Funded – \$20.0m below funding line with no asterisk; not enough revenue so these services are not funded

FY 2011-12 Outlook – Public Safety

- See Appendix for Public Safety bids and rankings

Services Above the Line (Is Funded)	Higher Priority *** Services (Should be Funded)	Lower Priority Services (Isn't Funded)
\$556.3m	\$45.8m	\$6.3m

- “Is Funded” highlights
 - Police field patrol, with no uniform layoffs
 - Fire and rescue emergency response services with exception of 3.5 fire companies
 - Municipal court services enhanced with implementation of computerized case management system
 - Emergency medical services with exception of overtime for 11 ambulances

FY 2011-12 Outlook – Public Safety (continued)

- “Is Funded” highlights (continued)
 - Low Sterrett jail contract and City Detention Center
 - Narcotics, criminal investigations, vice, police intelligence, etc.
 - Police Special Operations such as mounted, helicopter, tactical, traffic, and Love Field
- “Should be Funded” highlights
 - Police recruitment, personnel, academy and in-service training based on police officer hiring plan to be implemented in FY 2011-12
 - Recruitment, selection, hiring, and training of fire/rescue officers
 - School crossing guards (State allows County to charge fee)
 - Police officer attrition (hire 50 officers)
 - Add training of 60 paramedics

FY 2011-12 Outlook – Public Safety (continued)

- “Should be Funded” highlights (continued)
 - 3.5 fire companies
 - Overtime for ambulances and replacement ambulances
 - O&M for new station #50 at Keeneland and Walton Walker
 - Marked squad cars to meet utilization needs
- “Isn’t Funded” highlights
 - Civilian personnel at auto pound, Lew Sterrett jail, evidence room, etc.
 - 12 security officers at City facilities (greater use of cameras and contract security)

FY 2011-12 Outlook – Economic Vibrancy

- See Appendix for Economic Vibrancy bids and rankings

Services Above the Line (Is Funded)	Higher Priority *** Services (Should be Funded)	Lower Priority Services (Isn't Funded)
\$71.9m	\$8.1m	\$3.2m

- “Is Funded” highlights
 - Street lighting
 - City ROW maintenance
 - TxDOT ROW maintenance except one-time remedial clean-up for FY 2010-11
 - Flood control and floodplain/drainage management
 - Asphalt and concrete street maintenance but at a reduced level
 - Fair Park operation and maintenance
 - Public Works’ bond program implementation
 - 57% of slurry seal and 72% of micro-surfacing streets
 - Economic Development initiatives substantially maintained

FY 2011-12 Outlook – Economic Vibrancy (continued)

- “Should be Funded” highlights
 - 43% of slurry seal and 28% of micro-surfacing streets in order to maintain FY 2010-11 level
 - Street asphalt (restores street rehabilitation and full-depth repairs) and concrete (restores partial reconstruction, curb/gutter and sidewalk)
- “Isn’t Funded” highlights
 - Support of New Year’s Day college bowl game at Fair Park
 - Various economic development services

FY 2011-12 Outlook – Clean Healthy Environment

- See Appendix for Clean Healthy Environment bids and rankings

Services Above the Line (Is Funded)	Higher Priority *** Services (Should be Funded)	Lower Priority Services (Isn't Funded)
\$108.0m	\$0.4m	\$0.0m

- “Is Funded” highlights
 - Sanitation services
 - Storm water management
 - Environmental initiatives
 - Neighborhood code, restaurant and bar inspections, environmental assessments, demolitions, and consumer protection, and most Neighborhood Nuisance Abatement

FY 2011-12 Outlook – Clean Healthy Environment (continued)

- “Should be Funded” highlights
 - Neighborhood Nuisance Abatement (7 positions)
 - Some community center positions – temporarily funded by stimulus funds
- “Isn’t Funded” highlights
 - Animal Services – overtime to staff vaccination/registration clinics and off-site adoption events (to be conducted through use of flex-time or volunteer services)

FY 2011-12 Outlook – Culture, Arts, and Recreation

- See Appendix for Culture, Arts, and Recreation bids and rankings

Services Above the Line (Is Funded)	Higher Priority *** Services (Should be Funded)	Lower Priority Services (Isn't Funded)
\$57.8m	\$4.4m	\$8.1m

- “Is Funded” highlights
 - Park land maintenance funded at 64% of amount funded in current year
 - 29 of 43 recreation centers will be open
 - 8 of 16 community pools, Bahama Beach, and Bachman indoor pool will be open
 - Golf and tennis centers will be in operation and supported by fees
 - Commitment to public private partnerships such as the Zoo, Arboretum, Texas Discovery Garden, etc.
 - City Performance Hall to open in 2012

FY 2011-12 Outlook – Culture, Arts, and Recreation (continued)

- “Is Funded” highlights (continued)
 - 5 City cultural centers funded with program funds at 80% current year level; 14 cultural facilities are supported including an increase of \$1m for ATTPAC; and cultural services contracts are funded at 75% of current year level
- “Should be Funded” highlights
 - 2 additional recreation centers would increase the number of centers open to 31 compared to 43 in the current year
 - Park land maintenance would increase the amount funded to 82% of current funding level
- “Isn’t Funded” highlights
 - Cultural programs not funded include 20% of program related expenses at 5 cultural centers, 50% of funding for facility maintenance and repair at 14 city-owned facilities, and 25% of cultural services contracts to arts organizations

FY 2011-12 Outlook – Educational Enhancements

- See Appendix for Educational Enhancements bids and rankings

Services Above the Line (Is Funded)	Higher Priority *** Services (Should be Funded)	Lower Priority Services (Isn't Funded)
\$16.8m	\$0.0m	\$0.0m

- “Is Funded” highlights
 - Central Library (all floors) open 40 hours per week, 26 Neighborhood Libraries open 40 hours per week, and 2 DISD locations open 56.25 hours per week
 - Materials funded at \$1.7m, same level as current year
 - White Rocks Hills scheduled to open in 2012

FY 2011-12 Outlook – Educational Enhancements (continued)

- “Isn’t Funded” highlights
 - 93 positions at Central and Neighborhood libraries not funded
 - Result of streamlined processes and improved technology such as paperless, self-service, and on-line processes
 - Also result of reduced service levels during operating hours such as less one-on-one service and reduction in variety and number of programs offered

FY 2011-12 Outlook – E3 Government

- See Appendix for E3 Government bids and rankings

Services Above the Line (Is Funded)	Higher Priority *** Services (Should be Funded)	Lower Priority Services (Isn't Funded)
\$164.1m	\$0.5m	\$2.4m

- “Is Funded” highlights
 - City-wide costs such as appraisal districts, tax collection, independent audit, liability, TIF payments, electricity, payroll, financial reporting, etc.
 - Fund election in November 2012 for future General Obligation Bond Program
 - Change Mandatory Civilian Leave Days from 8 to 6

FY 2011-12 Outlook – E3 Government (continued)

- “Is Funded” highlights (continued)
 - Federal and state budget impact on City
 - Auditor’s Office – no reduction
 - Attorney’s Office – reduction of \$25K for supplies, postage, materials, and professional services
 - Secretary’s Office – reduction of 1 position for lobbyist registration
 - Manager’s Office – reduction of 4 administrative positions

FY 2011-12 Outlook – E3 Government (continued)

- “Should be Funded” highlights
 - Add compliance officer and contract for independent review of EMS billing
- “Isn’t Funded” highlights
 - Facility maintenance at current level, 7 positions
 - Custodial service at current level, 4 positions and \$600,000 in contracted service
 - 4 positions in 311 Customer Service Center

FY 2011-12 Outlook – Revised Differential

- After reducing or eliminating bids/services determined to be Lower Priority Services, differential between revenues and expenditures is currently forecast to be (\$59.3m)

Differential in revenues and expenses from slide 13	(\$79.3m)
Less: Reduction or elimination of Lower Priority Services	(\$20.0m)
Revised Differential	(\$59.3m)

- Combination of strategies is necessary to eliminate (\$59.3m) forecasted differential

FY 2011-12 Outlook – Balancing Issues

- Proceeding towards Council update briefing on June 15 and CMO recommendation to Council on August 8, many issues require further analysis to determine impact
 - Continue restrictive hiring throughout FY 2010-11 and FY 2011-12
 - Review new fee study and prior year studies to ensure fees are set to full cost recovery where possible
 - Evaluate transportation user fee
 - Evaluate solid waste flow-control
 - Further evaluation of state and federal budgets
 - Evaluate need for multiple service locations such as fleet maintenance facilities, libraries, recreation centers, etc.
 - Implement reduction-in-force
 - Review internal service costs

FY 2011-12 Outlook – Balancing Issues (continued)

- Implement request for proposal to develop naming rights, sponsorships, and donor giving
- Continue review and analysis of all budget bids to eliminate lower priority spending
- Continue to seek out efficiencies
- Evaluate outsourcing options such as auto pound and farmers market
- Evaluate capital spending and debt issuance
- Evaluate volatile market for fuel prices
- Seek partnership opportunities such as with County or private businesses
- Examine service levels and funding mechanisms in development processes to ensure customer needs are met as economy recovers

Schedule and Process

✓ Oct 19	Budget Workshop #1: Update on results of citywide Strategic Plan
✓ Jan 19	Budget Workshop #2: (A) preliminary outlook of general fund and debt service fund and (B) City Council confirm objectives and strategies for six Key Focus Areas (KFA)
✓ Jan 25	Departments invited to submit bids to accomplish City Council goals and objectives
✓ Feb 28	Departments submit bids to OFS, CMO, and KFA Teams for funding consideration
✓ Mar 9	Public Hearing
✓ Mar 21- Apr 11	KFA Teams evaluate and prioritize bids/offers submitted by departments based on Council confirmed objectives and strategies; and “draw the line” when money allocated to KFA Team runs out
✓ Apr 22	Memo distributed setting overall “price” of government for FY 2011-12
✓ Apr 18- May 13	City Manager’s Office reviews and refines rankings established by KFA Teams
May 18	Budget Workshop #3: Preliminary rankings
May 25	Public Hearing

Schedule and Process

May 19	Preliminary tax rolls
Jun 15	Budget Workshop #4: Rankings and budget review
Jul 25	Certified tax roll
Aug 8	Budget Workshop #5: City Manager's recommended budget
Aug 8–Sep 6	Town hall meetings
Aug 22	Budget Workshop #6: Topics TBD
Aug 24	Public Hearing
Sep 7	Budget Workshop #7: Topics TBD
Sep 14	Adopt Budget at First Reading
Sep 19	Budget Workshop #8: Council Amendments
Sep 21	Budget Workshop #9: Council Amendments (if necessary)
Sep 28	Adopt Budget at Second Reading

Appendix A
O&M Costs for Capital Projects
Placed In-service

O&M Costs for Capital Projects Placed In-service

- White Rock Hills Library - \$332,744
- Fire Station #50 - \$1,228,805
- City Performance Hall – \$211,498
- Woodall Rodgers Tunnel - \$438,480
- Margaret Hunt Hill Bridge - \$41,000
- Belo Garden – \$138,000
- Dallas Wave – \$50,490
- Elm Fork Soccer Complex – \$115,250
- Trinity Forest Trail Phases 1 and 2 – \$36,000
- North Bark Park – \$92,000
- 10 miles of trail maintenance, Trinity Strand, Northhaven – \$83,000

- Total cost for FY 2011-12 = \$2,767,267

Appendix B

History of Allocations by KFA

History of Allocations by KFA

(In Million Dollars)

Key Focus Area	FY 2007-08		FY 2008-09		FY 2009-10		FY 2010-11	
Public Safety	\$624.8	59.9%	\$658.7	60.2%	\$641.8	63.0%	\$625.5	62.2%
Clean, Healthy Environment	\$116.5	11.2%	\$127.5	11.7%	\$110.1	10.8%	\$108.8	10.8%
E3 Government	\$97.2	9.3%	\$98.4	9.0%	\$97.7	9.6%	\$97.7	9.7%
Economic Vibrancy	\$91.1	8.7%	\$92.5	8.5%	\$78.1	7.7%	\$85.4	8.5%
Culture, Arts and Recreation	\$82.1	7.9%	\$85.6	7.8%	\$68.4	6.7%	\$68.4	6.8%
Educational Enhancements	\$31.3	3.0%	\$31.2	2.9%	\$22.3	2.2%	\$20.3	2.0%
Total	\$1,043.1		\$1,094.0		\$1,018.5		\$1,006.0	

Appendix C
FY 2011-12 Preliminary Ranking
Sheets

Ranking Sheets

- Bid (Offer) Number (Column 1) – unique identifier assigned to each bid
- Bid Name (Column 2) – service title
- Bid Price (Column 3) – amount requested by department
- Recommended Amount (Column 4) – amount of funding recommended by the KFA Team which may be less than the bid price
- Running Total (Column 5) – remaining amount available to “spend”
- Revenue (Column 6) – revenue associated with that bid
- Reimbursement (Column 7) – additional funds from another source that add to the recommended amount as the total amount available for that service
- Comments/Impact Statement (Column 8) – additional information about the service including statement about reduction or source of reimbursements, etc.

Ranking Sheets

- “Is Funded” – Above the Funding Line Services are those services which currently are above funding line on Ranking Sheets and are considered to be funded in preliminary FY 2011-12 budget
- “Should be Funded” – Higher Priority *** Services are those services which fall “below funding line” but are designated as a higher priority to be restored to FY 2011-12 budget, should funding become available
- “Isn’t Funded” – Lower Priority Services are those services which fall “below funding line” and are subject to elimination and not restored in FY 2011-12 budget