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CITY SECRETARY
DALLAS, TEXAS

Memorandum

CITY OF DALLAS

DATE August 17, 2023

TO Mayor Eric L. Johnson

SUBJECT **FY23-24 Budget Concerns and Recommendations**

As the former chair of the Government Performance and Financial Management Committee, please allow me to share with you my deep concerns regarding the ever-increasing city budget, the effects on residents, and the sustainability of these increases for the future of the City of Dallas. The FY23-24 proposed budget provides for a slight tax rate reduction, but still increases the tax burden on residents and businesses. The decisions we make about levels of taxation are important, and we must be ever-mindful of how taxpayer funding is used to provide needed services. In short, we must control spending.

Dallas has an endless list of needs and opportunities to provide services, but the residents and businesses are limited on how much they can pay as a reasonable portion of their income and will pay, given the proximity to other cities in which to live and conduct business with substantially lower tax rates. Additionally, just because the city can identify a problem or needed service, doesn't mean the city is the right level of government to offer the service or address the issue. **With a backlog of over $16 billion in unfunded maintenance and financial investment, city attention and funding must be laser-focused on the basic city services where the city has primary or exclusive jurisdiction and work with our partners to address items outside our jurisdiction.**

It is reported in *Just the Facts: Property Taxes in Texas' Most Populous Cities, Counties, and School Districts – 2nd Edition*, February 2022, produced by the Texas Public Policy Foundation (TPPF), that the tax levy in the City of Dallas increased from 2016 to 2020, from $863.9 million to $1.3 billion, representing an increase of 56.5%. Over the same period, the city's population shrank from 1,323,916 to 1,304,379, a decrease of 1.5%, and inflation climbed from a Consumer Price Index (CPI) of 240.007 to 258.811, amounting to a 7.8% increase. Overall, TPPF determined from 2016 to 2020, Dallas' property tax burden jumped by 56.5%, while our population and inflation rose just 6.4%. The sizeable difference here strongly suggests that city taxes are increasing faster than what taxpayers can afford.

This budget cycle, I am especially alarmed by the very small tax rate reduction of .65 cents, lowering our rate from 74.58 cents per $100 valuation to 73.93 cents. While a lower tax rate makes for a nice soundbite, this rate reduction still results in a big tax increase for property owners. That is because certified property value growth is estimated at 10.5% more than the current fiscal year, and when that elevated metric is paired with the minor rate reduction in the proposed budget, it would increase revenue significantly and lead to the largest City of Dallas budget in history. This comes after a 15.07% increase in property values for the current fiscal year, the largest increase since the city began tracking this data in 1984.

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In the five-year budget forecast, the City Manager included two sentences that sum up our future and used the words “structural deficit” to describe future budgets beginning in FY25-26.

> “*Even with the modest growth in property tax revenue and the assumed recovery of sales tax revenue over the next two years, the City is facing a structural deficit in years 3-5, due in part to public safety, and employee costs. The city must make trade-offs and make responsible budget decisions in future years to maintain services.” – page 83, City of Dallas Annual Budget FY23-24*

The words “structural deficit” included in the City Manager’s proposed budget and “financial cliff,” used by the City Manager informally during a one-on-one briefing, combined with the proposed budget’s significant increase of $127 million in revenue from ad valorem taxes inclusive of significant new hiring, have created an inflection point for our city. The exercise of creating a five-year forecast is to remain alert and vigilant of challenges and “financial cliffs” ahead. It is deeply concerning that we are aware of a significant, impending challenge to our city’s fiscal health and that there is not a proposed course correction before we come to the edge of the cliff. With the knowledge of what is ahead, we have a strong need for fiscal restraint to prepare ourselves for our financial future, not a budget that proposes additional new spending and accelerates the city more rapidly toward the financial cliff. Out of exceptional concern, instead of merely criticizing the proposed budget, I am proposing a new way to reduce the budget.

The proposal below sets a framework for substantially reducing the tax rate, calls on the City of Dallas’ department leaders to improve efficiency, and charts the course for future efficiency changes by leveraging the expertise of outside professionals.

My hope is the Dallas City Council will adopt a much lower ceiling for the tax rate using this framework and that department leaders will revise the line items of their respective budgets to present to the city council for consideration at an upcoming budget meeting or at a special called meeting, depending on timing.

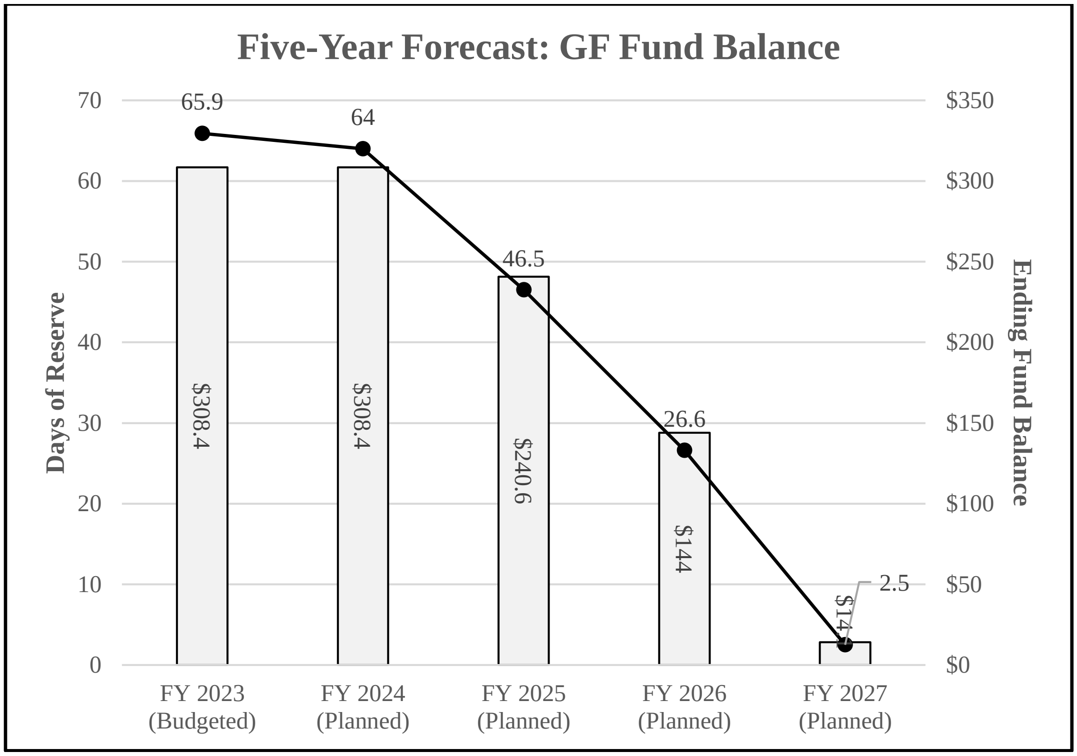
Ever-Increasing Budget

Our budget has grown at a level that outpaces our population, inflation (as measured by changes in the CPI), and residential income. It is not sustainable to continue to ask our residents and businesses to support an increased tax burden. Residents and businesses have choices as to where they locate in the Dallas-Fort Worth region, with all nearby cities offering a lower tax rate.

City of Dallas	Population Estimates	Consumer Price Index	Median Household Income	All Funds Budget (Millions)
2014	1,279,098	236.74	$41,666	$2,811.6
2015	1,301,329	237.02	$43,103	$2,806.9
2016	1,323,916	240.01	$44,461	$3,097.5
2017	1,342,479	245.12	$46,581	$3,056.0
2018	1,341,802	251.11	$47,285	$3,120.7
2019	1,343,573	255.66	$51,419	$3,586.2
2020	1,303,641	258.81	$52,580	$3,789.5
2021	1,290,711	270.97	$52,580	$3,854.1
2022	1,299,544	292.66	$54,747	$4,349.1
2023	Not Available	Not Available	Not Available	$4,505.0
% Change	1.6%	23.6%	31.4%	54.7%

Source(s): U.S. Census Bureau, City and Town Population Totals: 2010-2019
U.S. Census Bureau, City and Town Population Totals: 2020-2022
U.S. Bureau of Labor Statistics, U.S. city average, All items
City of Dallas, Annual Comprehensive Financial Report 2022
City of Dallas, Adopted Budgets

As a result of the city's persistent overspending, our reserve balance is relatively low today, and it is projected to be nearly depleted in the near future. In fact, according to the proposed budget, "the General Fund is forecast to be out of structural balance in FY 2025-26 (ongoing expenses exceed ongoing revenues)," meaning that the unassigned fund balance in the General Fund will contain less than 50 days operating expenditures. This gives me great concern.



Source: City of Dallas, Proposed Budget page 86

Much of the growth that propels city spending has to do with the fact that the number of City of Dallas staff members, often expressed as Full-Time Equivalents (FTEs) has grown significantly, and the proposed budget includes the largest FTE count in the history of Dallas. Salary expenses for civilian staff, including overtime, will go from approximately $273.3 million in FY22-23 to a proposed $342.8 million in FY23-24, an almost $70 million increase in one year and a more than 25% increase from FY22-23. Senior leaders frequently note that most of the city budget is personnel expenses. **For this reason, staff increases should be limited and targeted, and all departments except public safety should focus on reducing headcount through efficiency, technology, and streamlined procedures and processes.**

Of the 28 departments outlined in the budget, 23 have expense increases, 4 have decreases, and one essentially stays the same. We are headed in the wrong direction.

Dallas has been fortunate to see an increase in our city's revenue from growing sales tax revenues, new property being developed, and an increase in property valuation. The City of Dallas should be careful about increasing the length of its Tax Increment Financing (TIF) Districts, as this tax revenue should instead return to the General Fund. The City of Dallas should also more carefully consider its granting of tax abatements for multiple decades, as those funds are needed to support current city services and obligations.

Effects on Residents

The City of Dallas has the lowest median income of all cities in Dallas County. Furthermore, the status quo has presented an enormous obstacle for many Dallas-area families. According to one recent study, "Residents of Dallas had an average property tax bill of $2,851 in 2016 and that jumped to $4,671 in 2021," a staggering 63.8% increase. Every dollar we can reduce of their tax burden lets them keep their own money or benefit from a slower growth in rental costs.

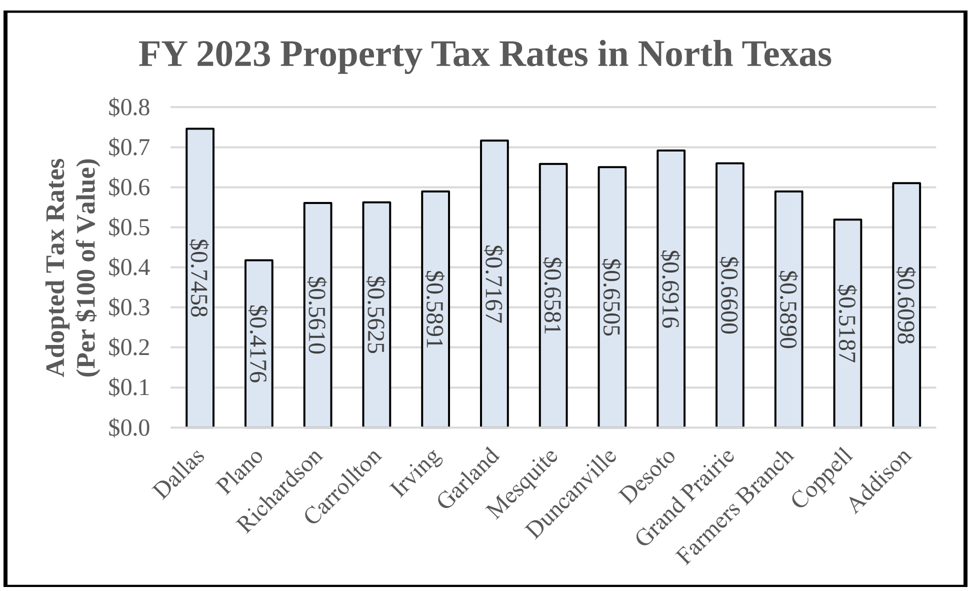
When property was valued lower, many residents did not pay any city property tax because their property value was lower than the homestead exemption, especially if they also had a senior or disabled exemption. The rise in property values means many more residents from neighborhoods with the lowest home values are now paying property taxes, an unwelcome burden, especially on struggling seniors and residents living paycheck to paycheck. This creates the risk of non-payment and possible liens and foreclosure, removing possible gains in generational wealth, especially for people of color, who make up the largest percentage of these property owners.

Many think of single family residences and businesses when discussing property taxes, but as the City of Dallas tries to address the issue of affordable housing, it is important to note that more than half of Dallas housing is rental property, and rental home and apartment landlords have a larger property tax burden in Dallas than in other nearby cities and do not qualify for homestead exemptions. Increased taxes are passed on to tenants as increases in rent, and the indirect effect on renters should be considered in tax rate restraint for staff and elected officials. Dallas has already adopted the maximum homestead exemption allowed by Texas and increased the senior/disabled exemption to $139,400 to address affordability.

Sustainability of Increases

The property tax rate affects our ability to be competitive in attracting businesses to the City of Dallas, as compared to our surrounding cities. And right now, our current tax rate is making us less competitive.

Consider some data from the Dallas Central Appraisal District, which indicates that our city has the *highest* adopted tax rate in the area.



Source: Dallas Central Appraisal District, 2023 Estimated Ad Valorem Tax Rates for Dallas County

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We must find balance between affordable taxes and sustainable public services. The City of Dallas' high property tax rate is already a barrier to residency and a concern for business owners.

With known deferred maintenance of $16 billion (and an unknown dollar amount for facilities not yet evaluated), it is not possible to continue raising taxes and using funds for new programs or initiatives. The State of Texas has recognized the important issue of property tax reform and taken bold actions, now it is time for the City of Dallas to also respond to the calls of our residents and businesses for tax relief.

Below are recommendations for how to achieve three primary goals: substantially reduce the tax rate, improve departments' efficiency today, and ensure future efficiency.

HOW TO SUBSTANTIALLY REDUCE THE TAX RATE

Recommendation #1: Direct the City Manager to submit a revised budget to the City Council at least four days prior to the next budget briefing that meets the no-new-revenue (NNR) rate, plus $5 million, using any or all of the treatments below.

For residents and businesses, this means they will essentially have the same or lower tax bill as last year. For the city budget, this means a cut in the proposed budget of $121 million, but still reflects an increase in overall revenue, including a very conservatively forecast $19 million increase in sales tax, $27.7 million from new property added to the tax rolls, $7 million in additional interest revenue, and increased fees for residents and businesses. I have the utmost confidence this can be done, as each department has already submitted to the City Manager a proposed budget with an 8% decrease, and this NNR rate challenge will either provide no decrease or a 5% decrease, depending on each department's five-year expense history.

Below are the suggested means for accomplishing the NNR rate. Using all methods together may even exceed the NNR goal.

1. **Remove all "ghost" FTEs from the budget.** "Ghost" FTEs are full-time equivalent positions that have been open more than nine months or have little chance of being filled this fiscal year.

    Example: The Dallas Police Department (DPD) is budgeted to hire 290 officers in FY22-23. In FY21-22, DPD was budgeted to hire 250 officers. Even with tremendous effort, only 185 recruits were hired. DPD's recent, post-George Floyd/COVID-19 hiring history demonstrates it is unlikely that more than 200 police officers will be hired this fiscal year, even though more recruits are urgently needed and desired. To unrealistically budget and overtax residents for something we know is unlikely to occur and then repurpose those dollars is wrong. We should commit to our DPD that if they can hire more than the number of recruits budgeted in a realistic scenario, the city council will fund additional recruit classes using contingency reserve funds.

2. **Fully fund DPD, Dallas Fire-Rescue (DFR), and Information and Technology Services (ITS) as proposed by the City Manager in the FY23-24 budget, minus ghost FTEs.** Make commitments to DPD and DFR that the city council will authorize additional recruits and academy classes if they exceed their realistic hiring goals.

3. **Reset each department's total budget to the same dollar amount included in our current fiscal year budget, FY22-23**, minus any FY22-23 one-time funding expenses and ghost FTEs, unless the department has grown by more than 50% in the last five years.

4. **Reduce the budget of any department that has grown more than 50% in the last five years by 5%.** City departments that have experienced a prolonged and pronounced level of spending increase over the last several years should have a budget set at their FY22-23 level minus 5%, and less any one-time funding and ghost FTEs.

5. **Remove city funding for programs that are the domain of the county, state, or federal government or transit agency.**

    Example: The City of Dallas funds a senior transportation program though the Dallas Area Rapid Transit (DART) agency that is charged with delivering local transportation services and receives one cent of local sales tax, which is equivalent to $432 million this year. The city must compel DART to do its job and provide appropriate and needed transportation to low-income seniors.

6. **Remove redundant funding in the General Fund of $1 million for contingency funding.** The city already has a separate contingency fund available with city council approval.

7. **Accept the City Manager's prioritized list of services and expenses provided in his NNR budget presented as required by Financial Management Performance Criteria #24, except for cuts to public safety, parks, and/or public works.** This would result in a savings of $43 million.

8. **Reevaluate sales tax revenue** estimates to determine if the FY23-24 revenue projections should be increased.

<u>HOW TO IMPROVE DEPARTMENT EFFICIENCY</u>
Recommendation #2: Challenge department leaders to realign, rethink, and rework their budgets to focus on resident responsiveness and efficiency goals with the same dollars. Since each department manager was required to submit a budget scenario to the City Manager with an 8% decrease, every department manager has already considered various funding scenarios that are more austere than this proposal. When reviewing the Strengths, Weaknesses, Opportunities, and Threats analysis that each department conducted in advance of last year's city council retreat, it is clear department leaders are aware of the challenges associated with, and changes needed to improve, their service delivery.

<u>HOW TO ENSURE FUTURE EFFICIENCY</u>
Recommendation #3: Add an additional $5 million in funding to the NNR rate budget to initiate an outside, professional efficiency audit of eight key departments, providing recommendations for future efficiency to the city manager and city council. Change is difficult, and sometimes old ways become ingrained, or the change needed is too large and complicated for staff alone to evaluate and initiate. The future financial health of the City of Dallas rests on the ability of city staff and management to transform our city's government into an efficient, effective organization. The proposed departments include DPD, DFR, Planning and

Urban Design, Public Works, Environmental Quality & Sustainability, ITS, and Human Resources.

The recently released and briefed to city council 2023 City of Dallas, Texas Community Survey Findings Report by the ETC Institute confirmed with a statistically valid survey initiated by the City Manager's office that only 24% of Dallas residents agree or strongly agree they receive a good value for the city taxes they pay.

Mayor Johnson, as the only city-wide elected official, I thank you for the opportunity to share my concerns about, and proposed solutions to address, the issues presented by the proposed FY23-24 budget and hope you will give them your thoughtful consideration. I look forward to discussing these items with you.

Sincerely,

Cara Mendelsohn
Councilwoman, District 12