

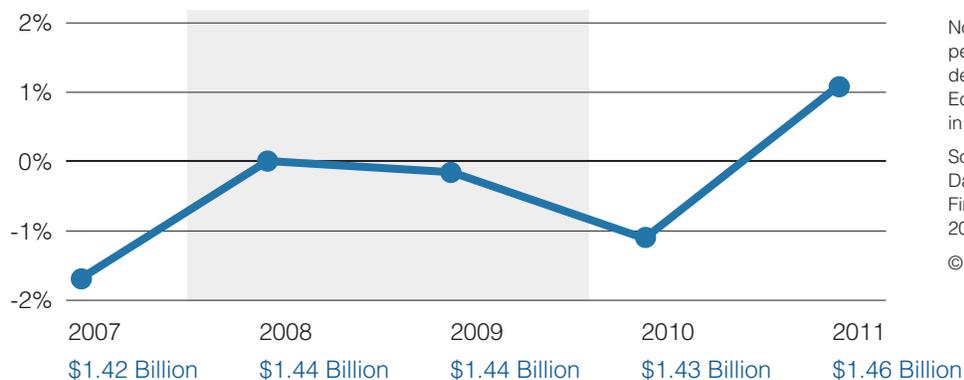
# Dallas

## Dallas' revenue declined modestly, but postrecession spending cuts enabled the city to restore its reserves

Dallas' revenue bounced back from the Great Recession in 2011 to surpass the previous peak, but financial challenges remain. (See Figure 1.) The city's total revenue declined slightly during the downturn, with just a 1 percent difference between the 2008 peak and the low point two years later. Intergovernmental aid was the largest factor in the growth between the low point in 2010 and 2011. Even as revenue rebounded, Dallas cut operating spending in 2011 to its lowest point since 2006, allowing the city to replenish its reserves, which it had tapped during the downturn. Still, declining pension funding and unfunded retiree health care obligations are causes for long-term concern.<sup>1</sup>

FIGURE 1

### Dallas Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Dallas' Comprehensive Annual Financial Reports for fiscal 2007-11.

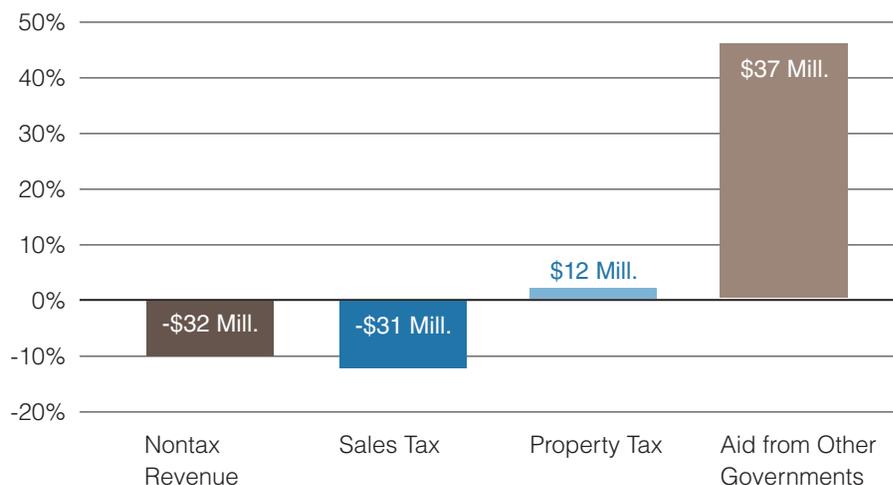
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## Early losses in sales taxes and investment income forced Dallas to tap its reserves

Receipts from Dallas' local 1 percent sales tax dropped \$31 million between 2008 and 2010, after adjusting for inflation, and nontax revenue, primarily investment income, declined \$32 million, losses the city attributed to declining interest rates and smaller initial investments.<sup>2,3</sup> Those losses were partially offset by growth in property tax collections as well as intergovernmental aid during a period that included an influx of funds from the American Recovery and Reinvestment Act. (See Figure 2.)

FIGURE 2

### Key Drivers of Change in Dallas' Revenue, 2008-10



Source: Pew calculations from Dallas' Comprehensive Annual Financial Reports for fiscal 2007-11.

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Between 2008 and 2010, Dallas drew down 31 percent of its reserves to cover the revenue decline and a \$56 million increase in operational spending, primarily higher debt service expenditures, as well as outlays for general government and public safety. The debt service payments grew as the city issued \$440 million in bonds, partially for water and wastewater facilities, in 2008.<sup>4</sup>

## Postrecession growth in intergovernmental aid drove the revenue rebound

Intergovernmental aid continued to grow in 2011 and was the largest category of overall revenue growth that year. Sales taxes rebounded, and nontax revenue increased because of contributions and gifts to support projects such as parks.<sup>5</sup>

Even as revenue grew, spending dropped by \$93 million in 2011 to the lowest level since 2006. Savings from lower debt service payments driven by an absence of new bond issuances and increased bond refinancing accounted for half of the spending reduction. Another \$31 million came out of the city's public safety budget, which still accounted for 44 percent of all operating expenditures in 2011.

## Managing the future: Reserves were replenished, but retiree benefits pose a long-term challenge

Spending commitments, demand for services, and revenue performance driven by economic activity and demographic changes will shape Dallas' fiscal future. Long-term factors of financial health, which can be analyzed using the data available, are pensions and retiree health care obligations and reserve levels.

The combination of revenue growth and spending cuts allowed Dallas to restore its reserve balance to \$104 million, positioning the city to handle future revenue shortages. But challenges remain.

The city had not set aside any assets for retiree health care as of 2010.<sup>6</sup> Dallas' pension plan had assets to cover 85 percent of obligations in 2010, although this was down from nearly full funding in 2007 because of increasing liabilities. In an effort to shore up its long-term obligations, the city's police and fire pension plan changed its coverage for new hires after March 1, 2011, reducing benefits by as much as 30 percent.<sup>7</sup>

See Pew's 30-city interactive at [pewstates.org/City-Fiscal-Conditions-Interactive](http://pewstates.org/City-Fiscal-Conditions-Interactive) for complete data.

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### Endnotes

1 See the full study methodology at [pewstates.org/City-Fiscal-Methodology](http://pewstates.org/City-Fiscal-Methodology) for a detailed explanation of the terms used in this profile and view the underlying data at [pewstates.org/City-Fiscal-Conditions-Interactive](http://pewstates.org/City-Fiscal-Conditions-Interactive).

2 State of Texas, Office of the Comptroller of Public Accounts, "Local Sales and Use Tax," <http://www.window.state.tx.us/taxinfo/local/city.html>.

3 City of Dallas, *Comprehensive Annual Financial Report, for Fiscal Year Ended September 30, 2010* (2010), 7, [http://www.dallascityhall.com/financial\\_services/pdf/CAFR\\_FY2010.pdf](http://www.dallascityhall.com/financial_services/pdf/CAFR_FY2010.pdf).

4 City of Dallas, *Comprehensive Annual Financial Report, for Fiscal Year Ended September 30, 2008* (2008), 10, [http://www.dallascityhall.com/financial\\_services/pdf/CAFR\\_FY2008.pdf](http://www.dallascityhall.com/financial_services/pdf/CAFR_FY2008.pdf); City of Dallas, *Comprehensive Annual Financial Report, for Fiscal Year Ended September 30, 2011* (2011), 71, [http://www.dallascityhall.com/financial\\_services/pdf/CAFR\\_FY2011.pdf](http://www.dallascityhall.com/financial_services/pdf/CAFR_FY2011.pdf).

5 City of Dallas, *Comprehensive Annual Financial Report, for Fiscal Year Ended September 30, 2011*, 106 and 138–39.

6 For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), [http://www.pewstates.org/uploadedFiles/PCS\\_Assets/2013/Pew\\_city\\_pensions\\_brief.pdf](http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf).

7 Gary Jacobson, "What Changes Mean for Dallas Police, Fire Employees," *Dallas Morning News* (July 28, 2012), <http://www.dallasnews.com/business/headlines/20120728-what-changes-mean-for-dallas-police-fire-employees.ece>.