

Financial Forecast & Presentation

April 2008



City of Austin

Financial and Administrative Services - Budget Office

PRESENTATION

Factors Shaping the Economic & Sales Tax Outlook for Austin

City of Austin



Presented by TXP | April 23, 2008

Presentation Structure

Major Categories

1. Economic context: National/External
2. Local economy
 - i. Recent Trends
 - ii. Longer-Term
3. Sales tax

1. Economic Context

National Overview

- Data says U.S. economy continues to expand, but general sense is growth is flat at best, recession at worst, and likely to not improve significantly for time.
- On the upside: business investment and profits decent, with inflation data more moderate than be expected. Given everything, job growth could worse.
- On the downside: housing/mortgage issues, rising prices, and a general hesitancy in lending policy suggest problems remain unresolved.

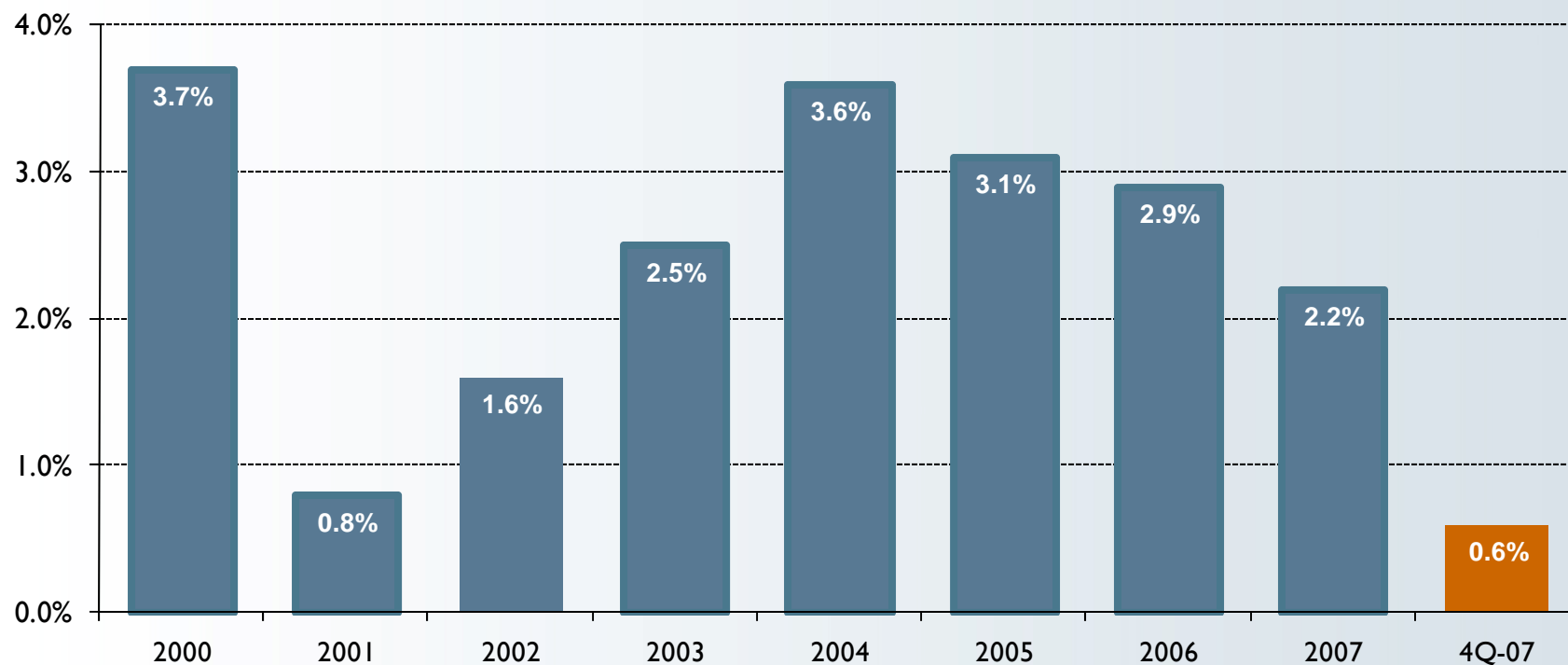
1. Economic Context

National Overview

- Expectations for 2008:
 - More interest rate cuts, to little avail – spread between and market remains wide – dollar gets even weaker
 - Housing prices shake out – watch for foreign \$ looking for deals – market opens back up later in year
 - Consumers get weaker – rise in foreclosure/bankruptcy – spending shaky for most of the year
 - Inflation should pick up – dollar and energy have to show at some point
 - Small silver lining – exports very competitive – goods and services
- Near-term forecast: GDP up 0.5% this year, 1.4% year, then moving back toward the 2.5-3% range the next five years.

1. Economic Context

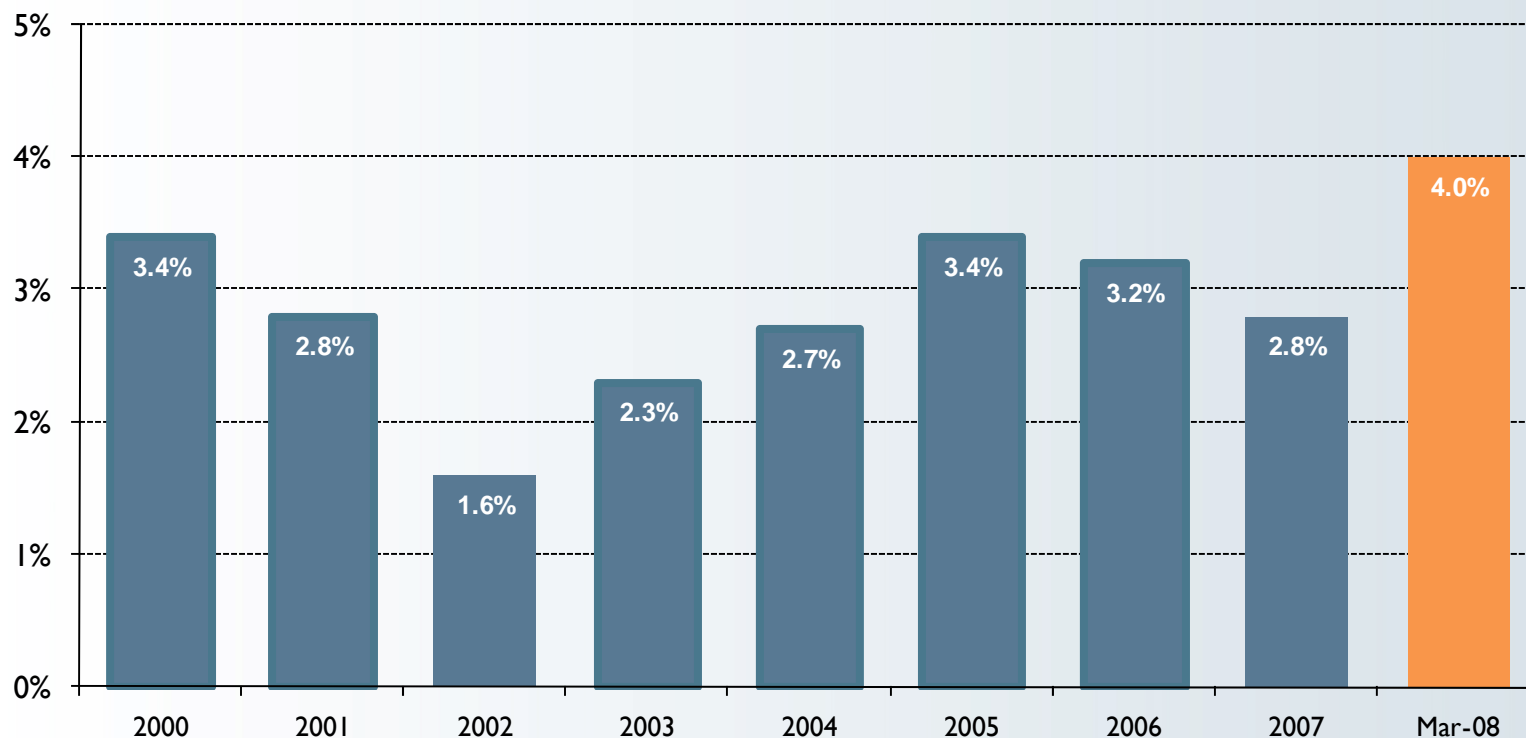
Key National Indicators - GDP



Note: Seasonally-Adjusted at Annual Rates

1. Economic Context

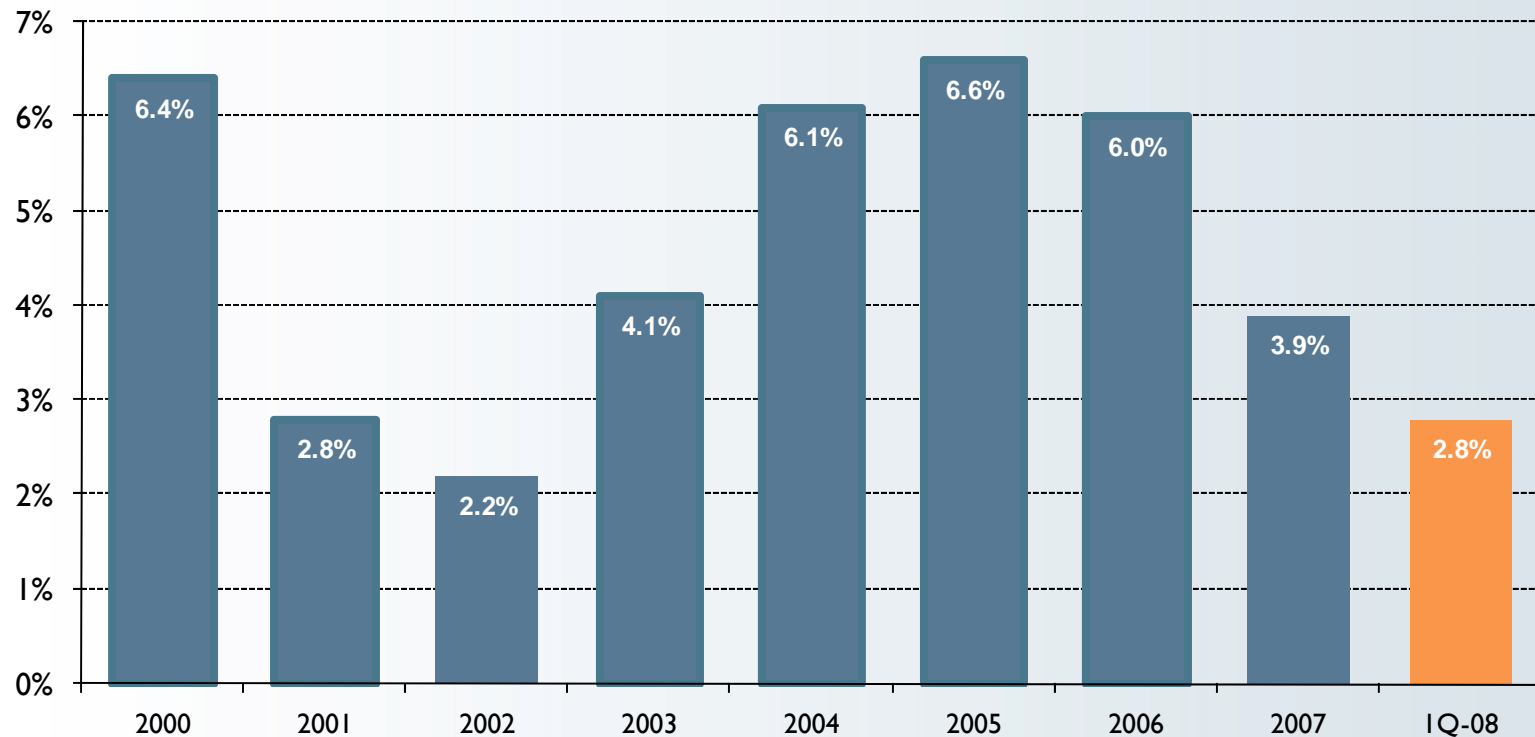
Key National Indicators – Inflation (CPI)



Note: 12-Month Change

1. Economic Context

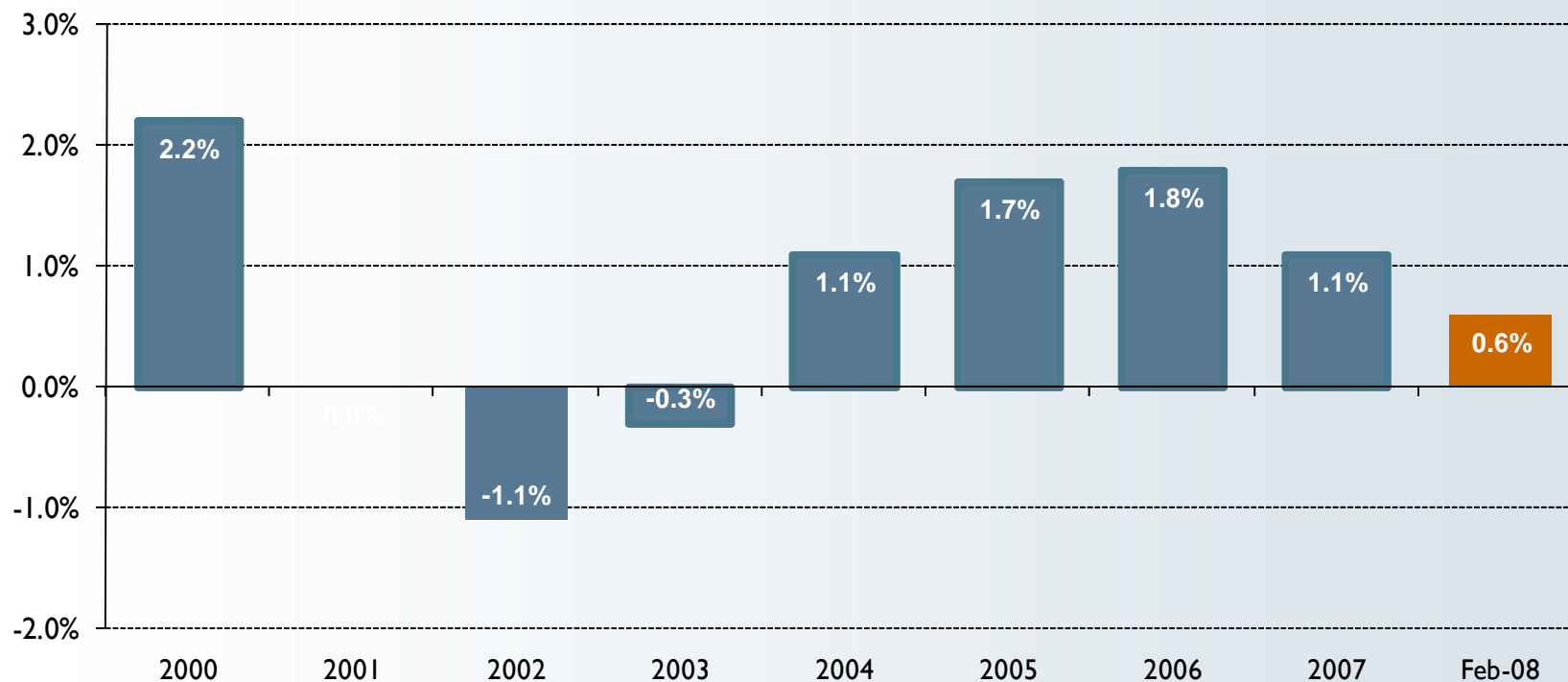
Key National Indicators – Retail Sales



Note: Seasonally-Adjusted, 12-Month Change

1. Economic Context

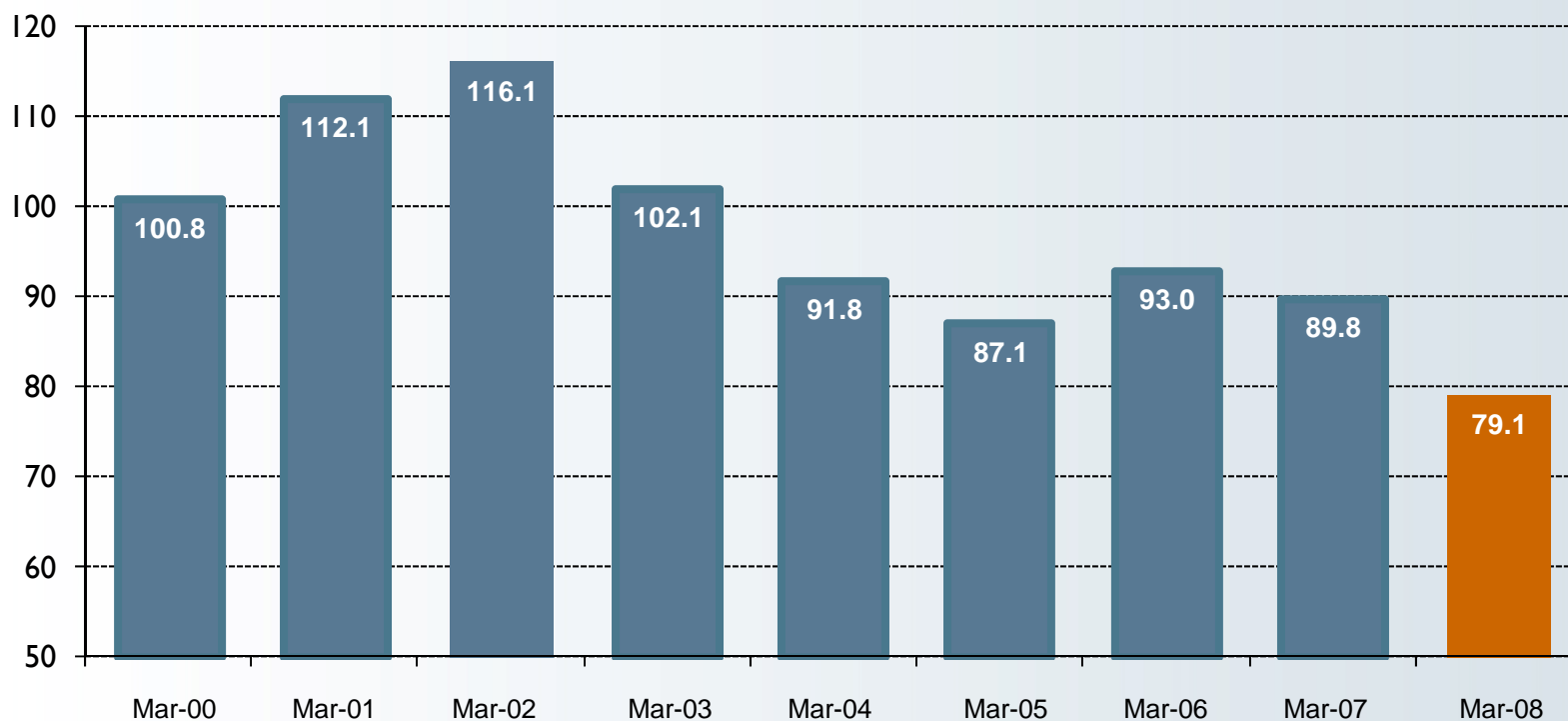
Key National Indicators – Employment



Note: 12-Month Change

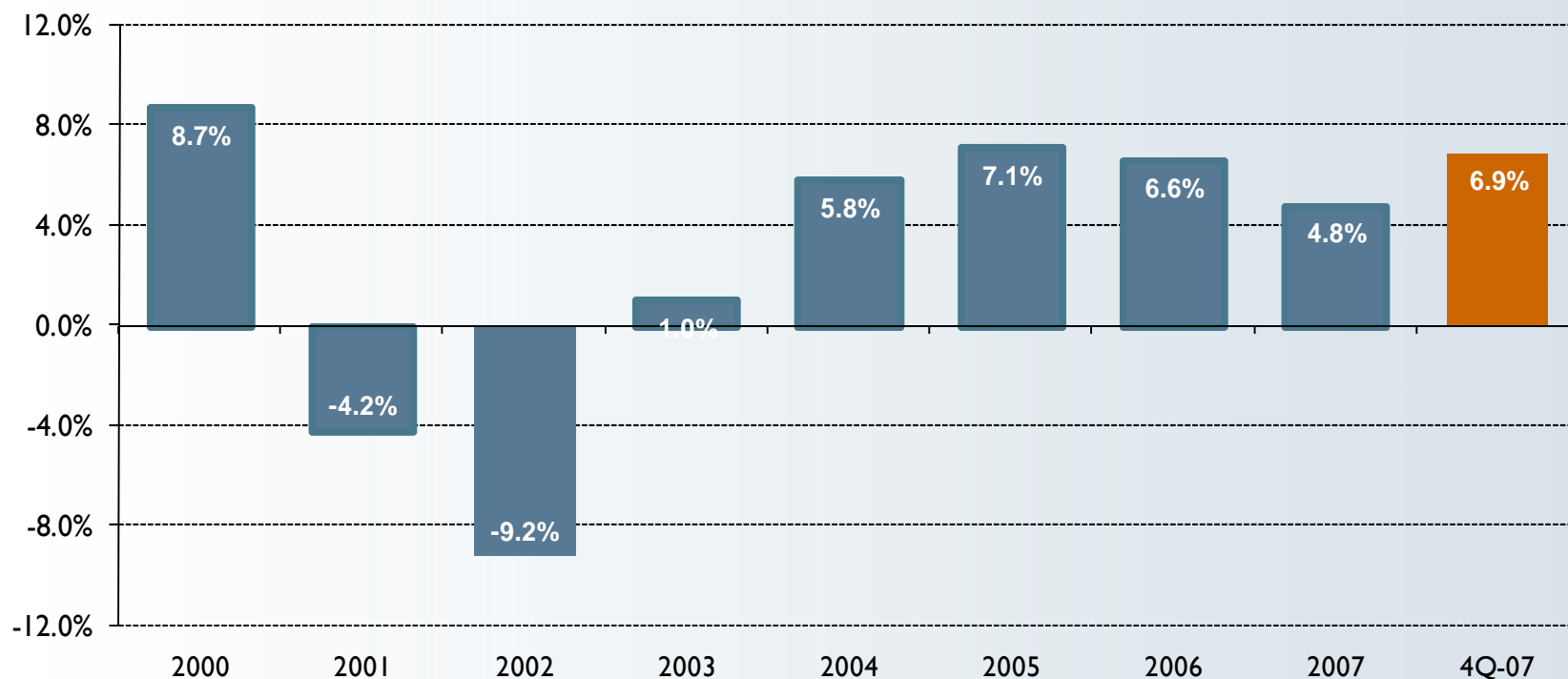
1. Economic Context

Price-Adjusted Value of the Dollar



1. Economic Context

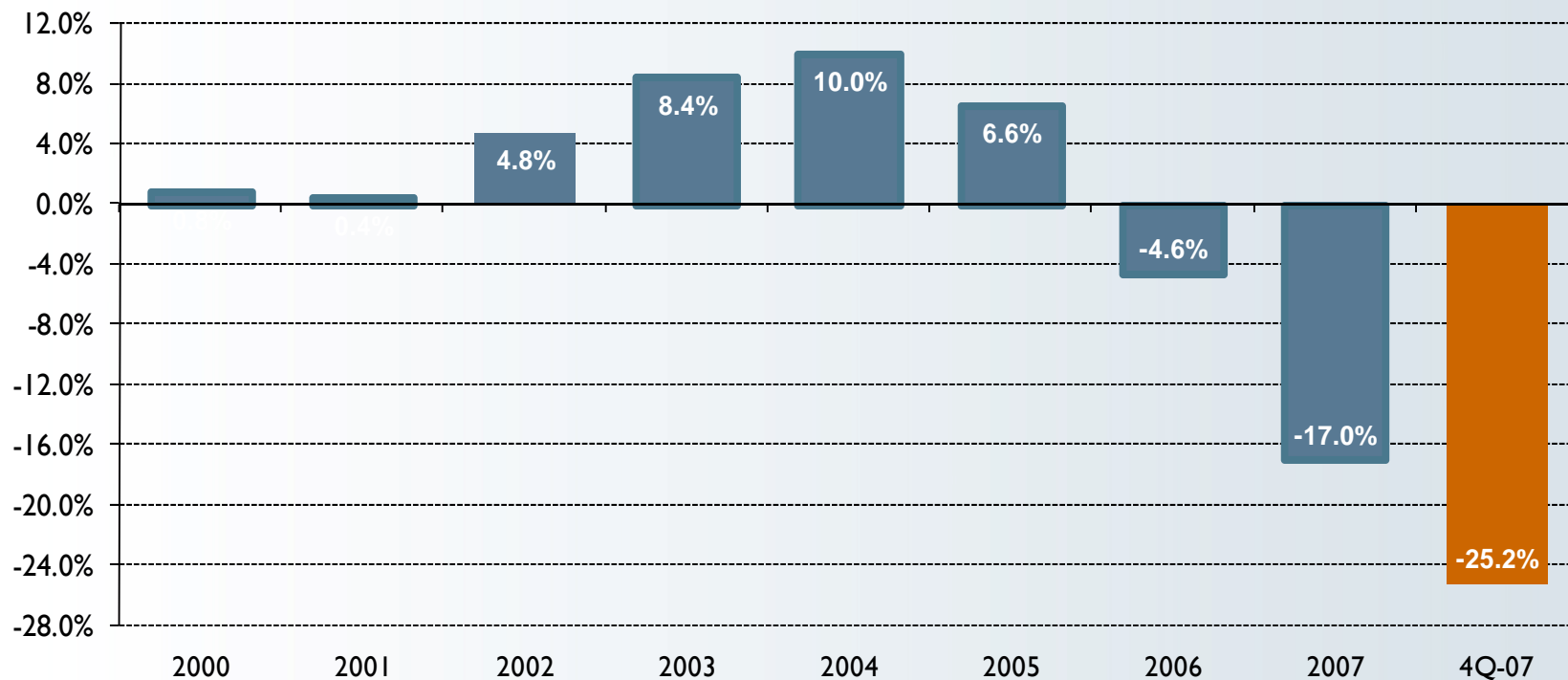
Key National Indicators – Non-Residential Investment



Note: Seasonally-Adjusted at Annual Rates

1. Economic Context

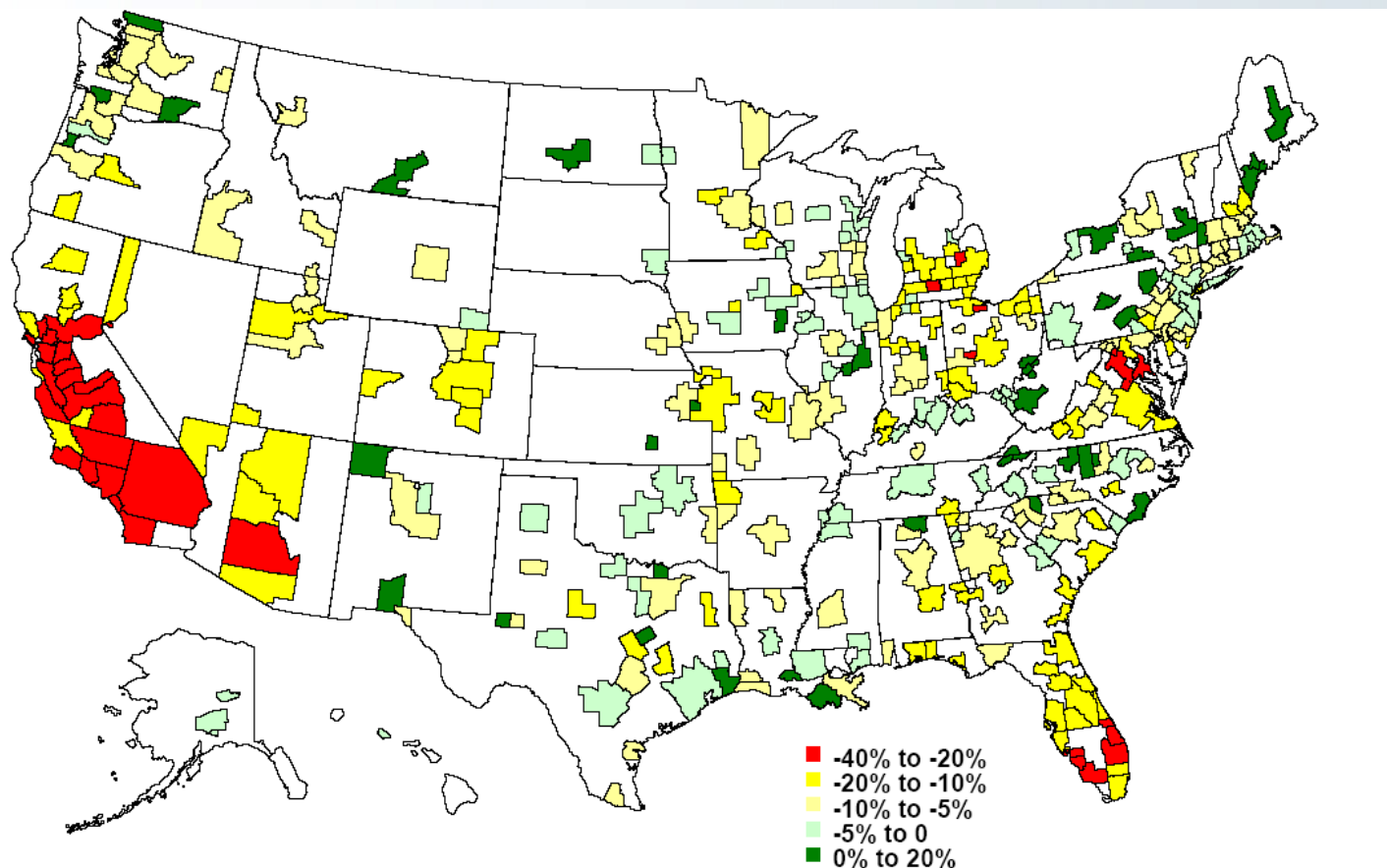
Key National Indicators – Residential Investment



Note: Seasonally-Adjusted at Annual Rates

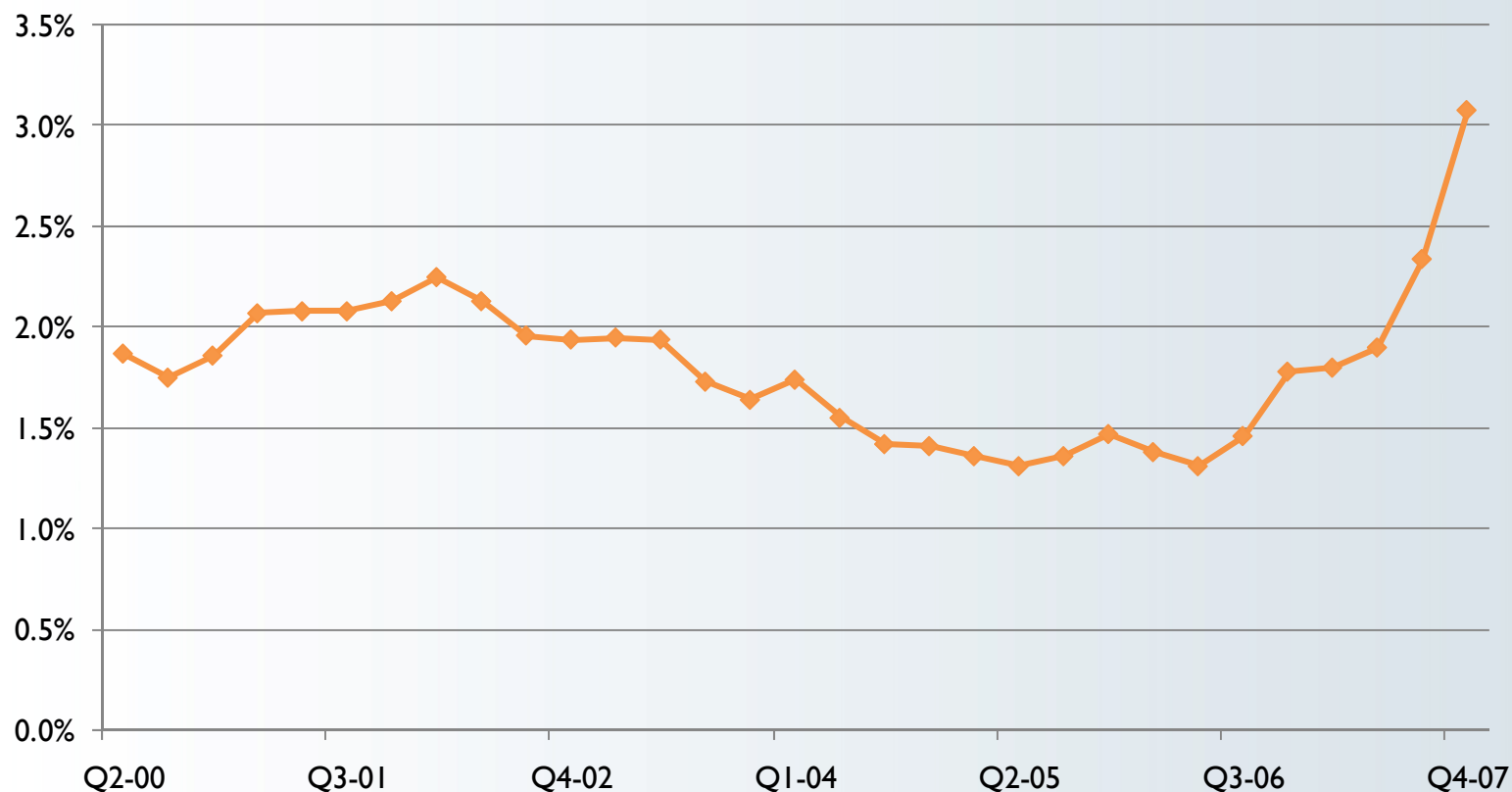
1. Economic Context

Housing Prices – 4Q/07 Annual Rate of Change



1. Economic Context

Delinquency Rates on All Loans



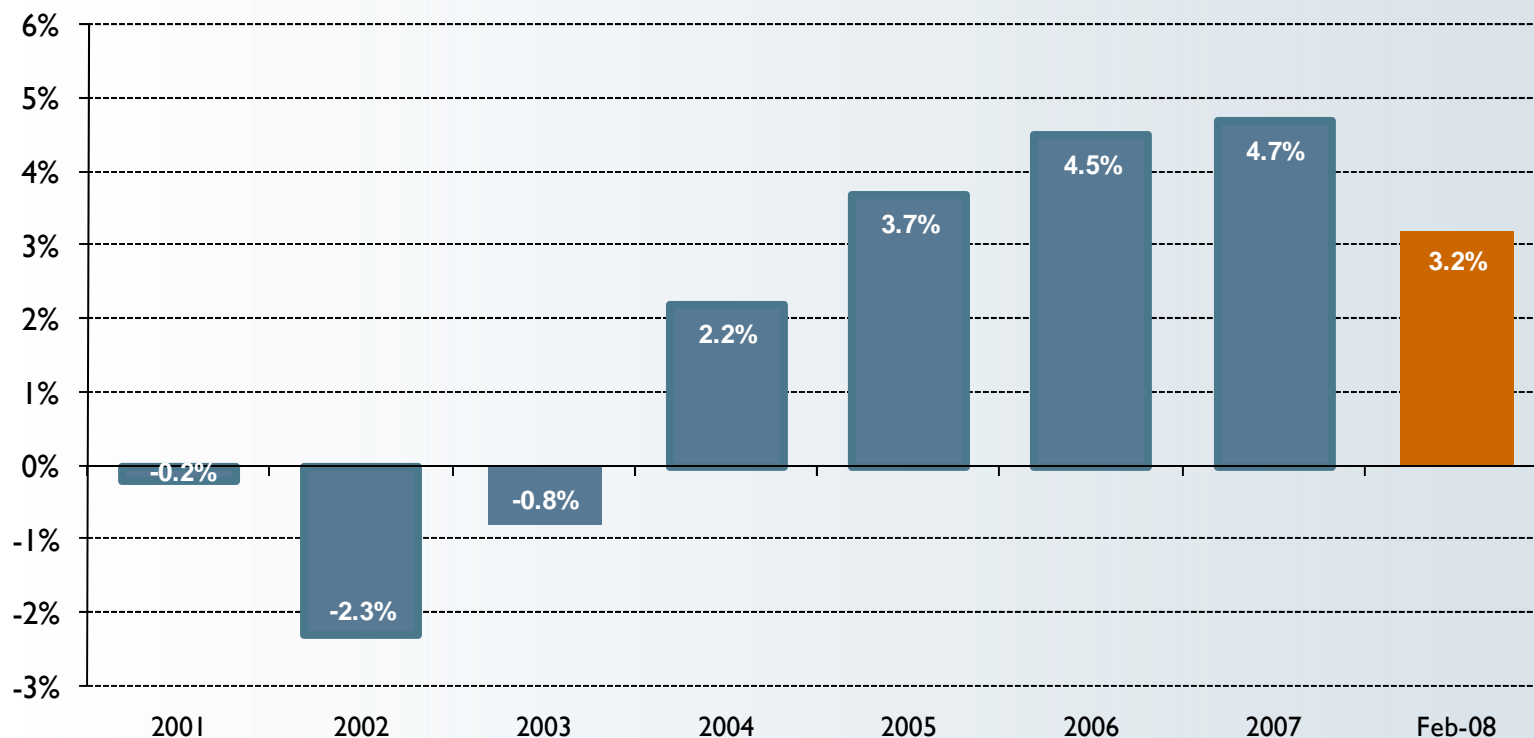
2a. Local Economy

Austin Overview

- Revised 2007 job growth very strong (4.7%), a pace that sustained. Consumer spending has held up surprisingly well, though should soften over the course of the year. Tourism a strong element of local economy.
- Home builders beginning to slow down – combination of response and caution. All development indicators (except are down.
- Lending activity very slow right now – caution breeds
- In-migration and economic recovery have combined to record levels of activity – reminiscent of several past booms.
- Fundamentals remain solid, but icing is off the cake.

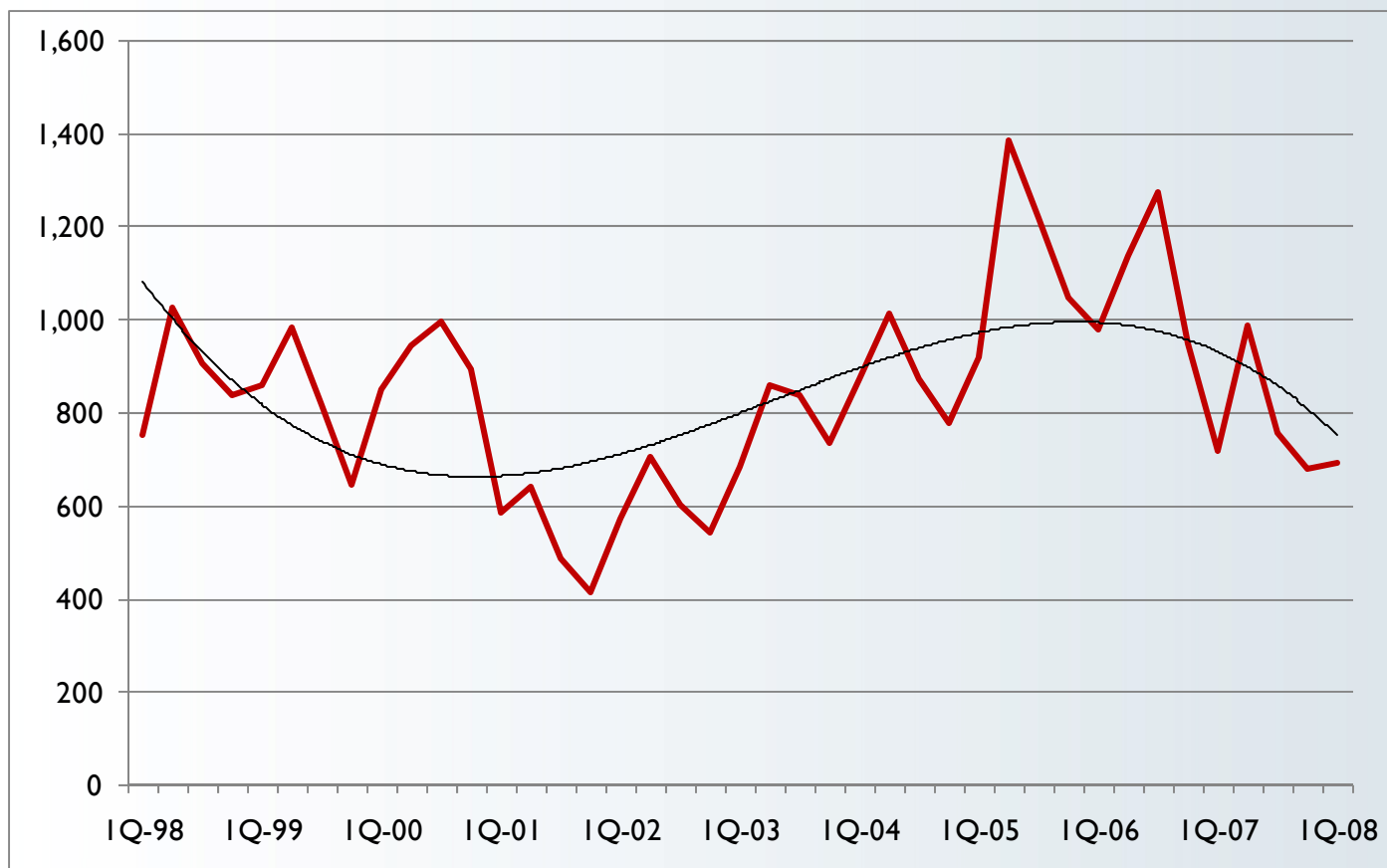
2a. Local Economy - Overall

Change in Austin MSA Total Non-Ag Employment



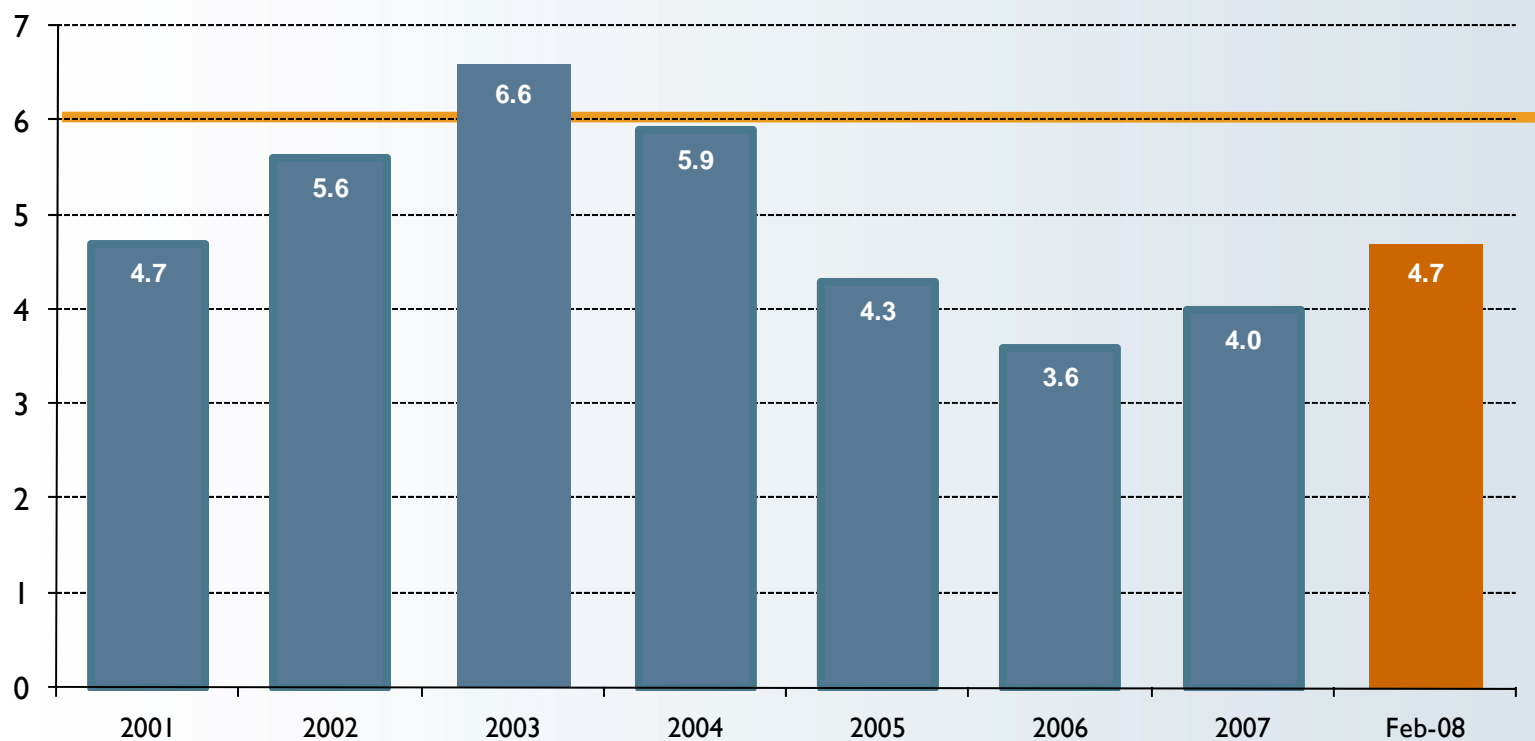
2a. Local Economy - Housing

City of Austin Single-Family Building Permits



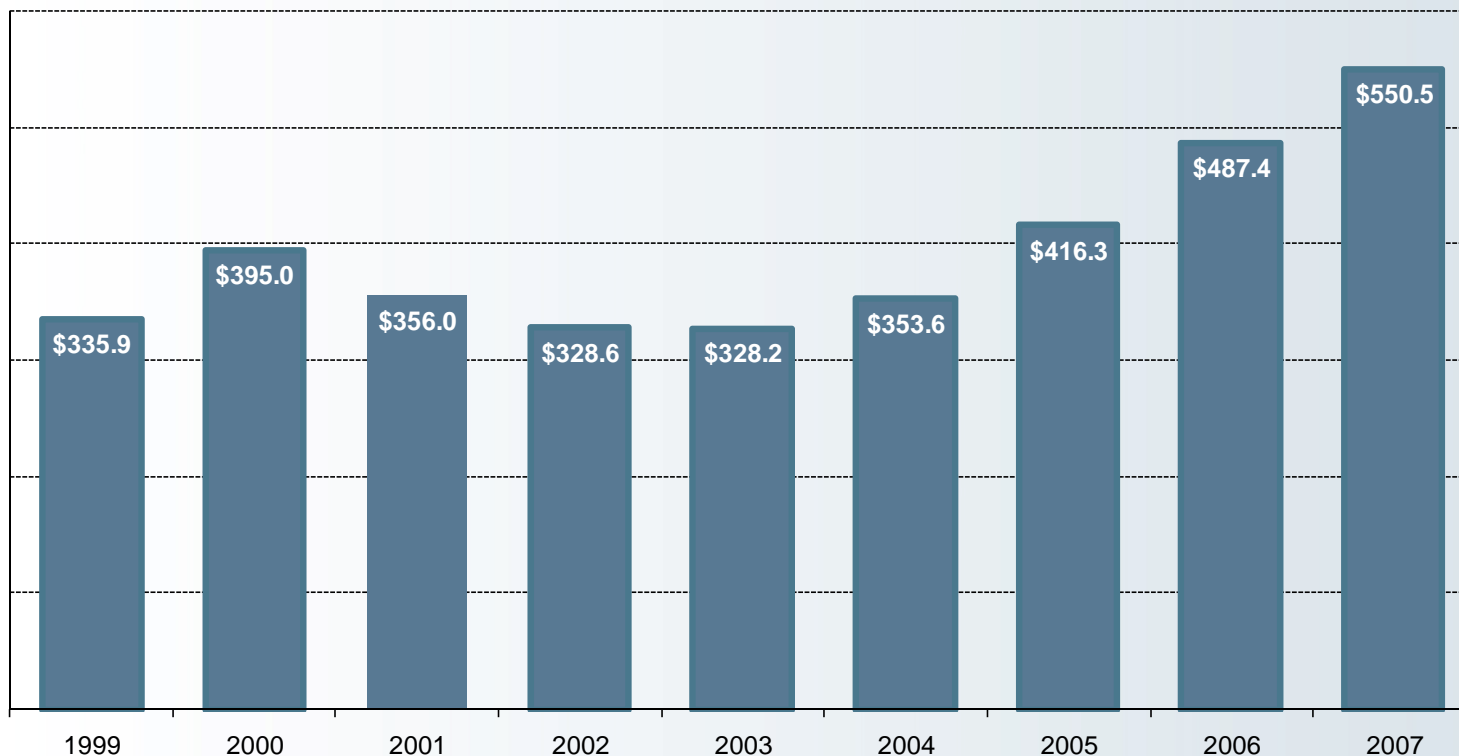
2a. Local Economy - Housing

Austin MSA – Months of Housing Inventory



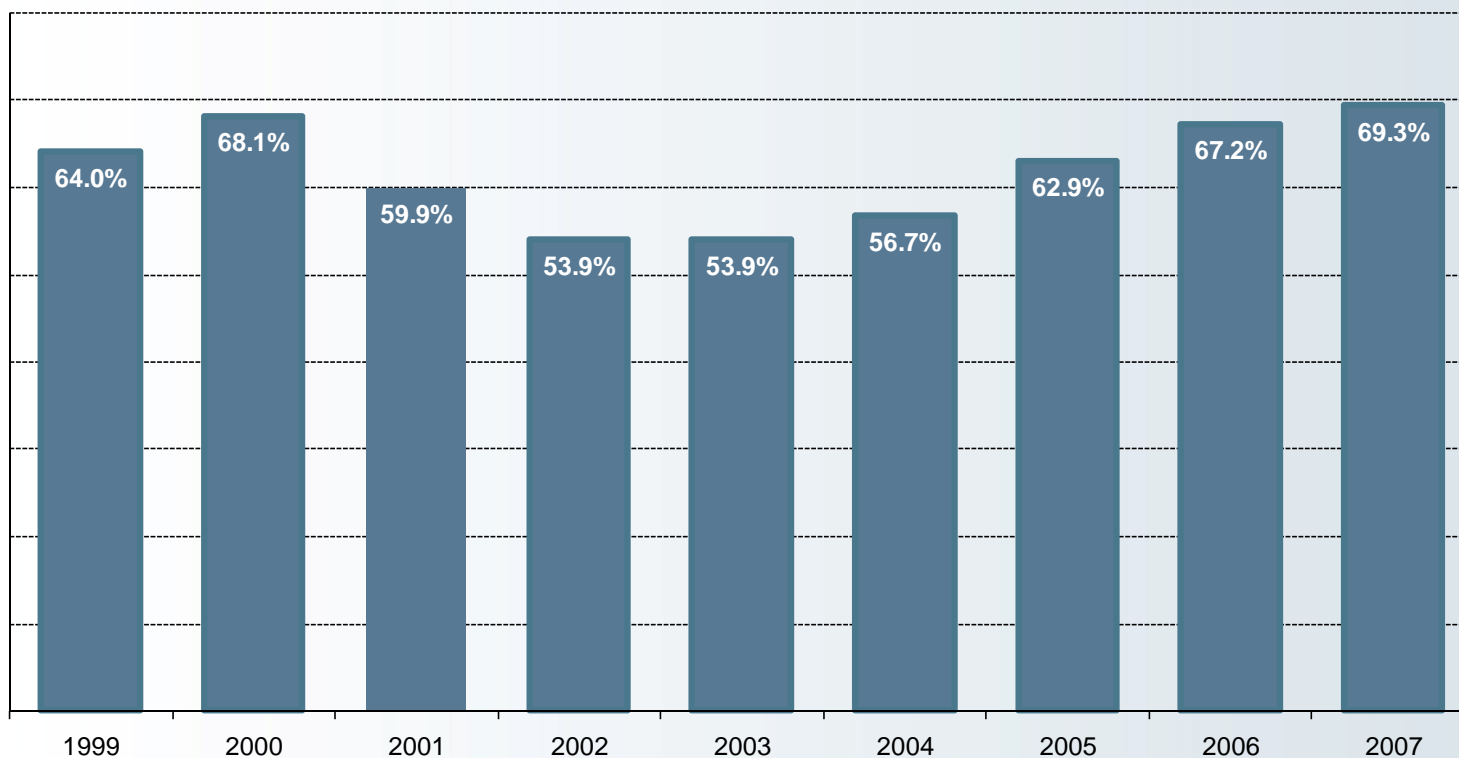
2a. Local Economy – Travel/Tourism

Austin Tourism Activity – Hotel Revenue (millions)



2a. Local Economy – Travel/Tourism

Austin Tourism Activity – Hotel Occupancy



2a. Local Economy - Forecast

Near-Term

- Housing market problems, credit concerns, and national slowdown have a local impact, but Austin relatively well-positioned – migration and economic development success provide some offset.
- Housing market softens, but does not crash – reduction in means that market remains relatively balanced – may have much office. Credit/financing issues.
- Forecast is for MSA job growth this year to be up 1.7% jobs), with 2009 at 2.1% (16,500 jobs). Personal income will 5.4%; MSA population will pass 1.63 million. Job growth toward 2.3% over time.
- Most growth is in support sectors outside development and education/health – construction declines, but all else at least modestly expands.

2b. Longer-Term Factors

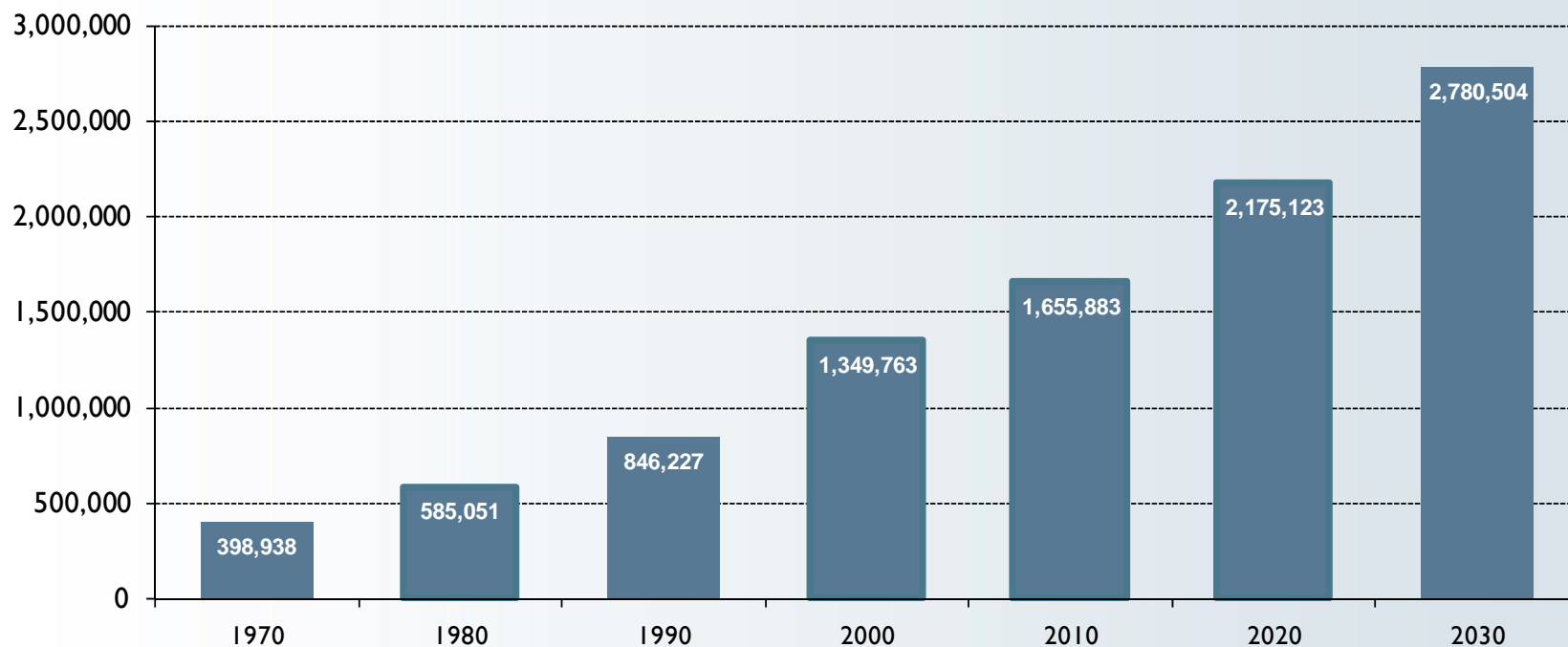
Issues

- Demographics – while slightly slower than in the past, growth within the region (partially as a function of migration to the region) is still projected to be among the nation's most rapid
- Structure of the local economy – transition from traditional of government and some manufacturing toward services of kinds – reflects national trends and local evolution.
- Physical context : Placemaking – community design (transportation, land use, housing types, physical design, recreation, etc)all have an increasing impact on economic development, as well as public sector costs.

2b. Demographics

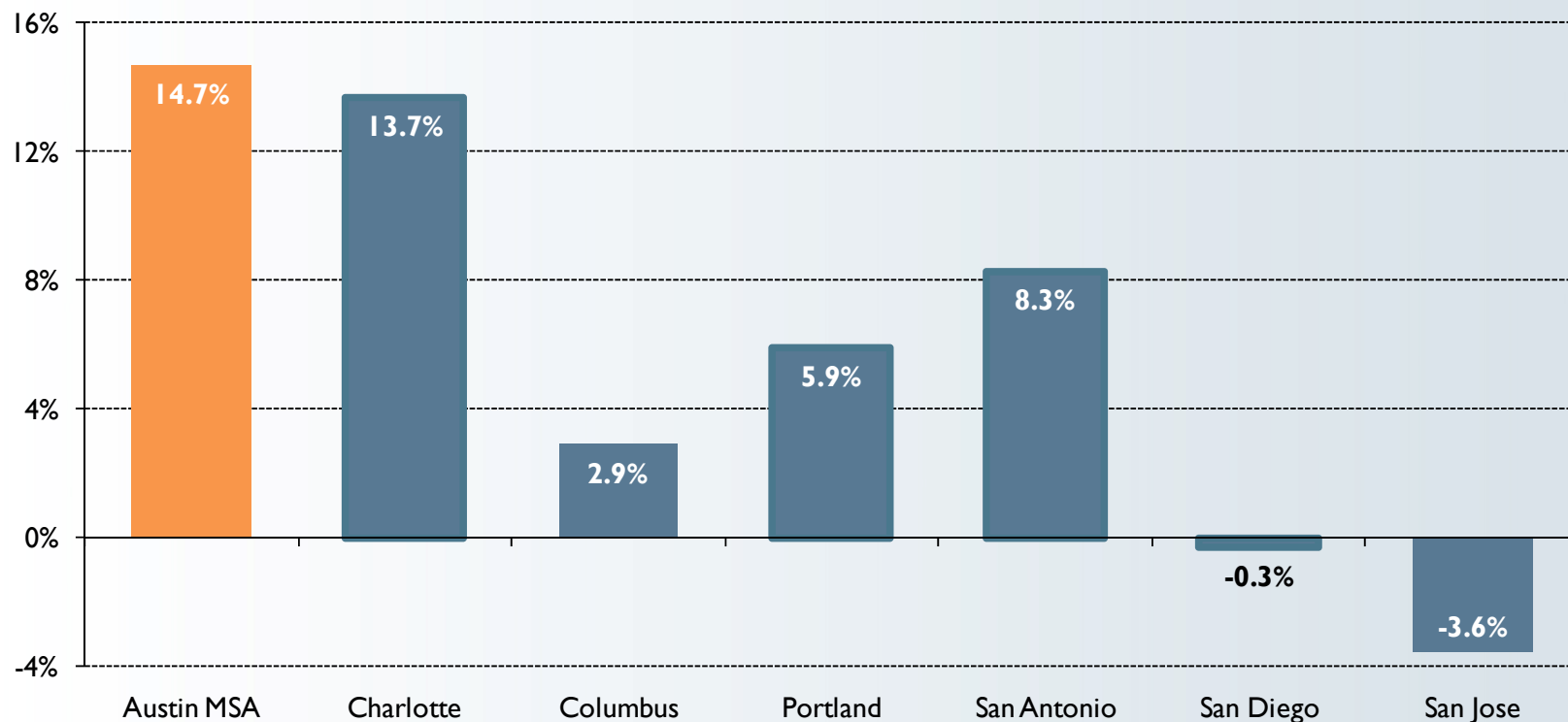
Austin MSA Keeps Growing

Population expected to double over next 25 years.



2b. Demographics

2000-2007 Migrants as % of Current Population



Note: Austin had 234.2 thousand total migrants from 2000-07; about a third in the last year

2b. Economic Structure

Shares of Employment

- Traditional bases of government and declining - relative decline for government; decline for mfg.
- Growth comes from combination of population (consumer-driven sectors) and restructuring services.
- Broad categories don't reveal full range of impact – shifts within sectors just as important as change between sectors.

2b. Economic Structure

Shares of Employment Base

Sector	1992	1997	2002	2007
Government	27.6%	22.3%	22.0%	20.6%
Manufacturing	12.7%	12.9%	9.6%	7.9%
Other Services	3.9%	3.6%	3.6%	3.7%
Information	2.7%	3.0%	3.4%	2.9%
Financial Activities	5.9%	5.6%	5.8%	5.9%
Education & Health Services	9.8%	9.4%	9.8%	10.1%
Leisure/Hospitality	9.0%	9.1%	9.5%	10.4%
Professional/Business Services	10.0%	12.3%	13.2%	14.1%
Natural Resources/Construction	3.8%	5.6%	5.8%	6.4%
Trade, Transportation & Utilities	14.7%	16.2%	17.2%	17.9%

2b. Economic Structure

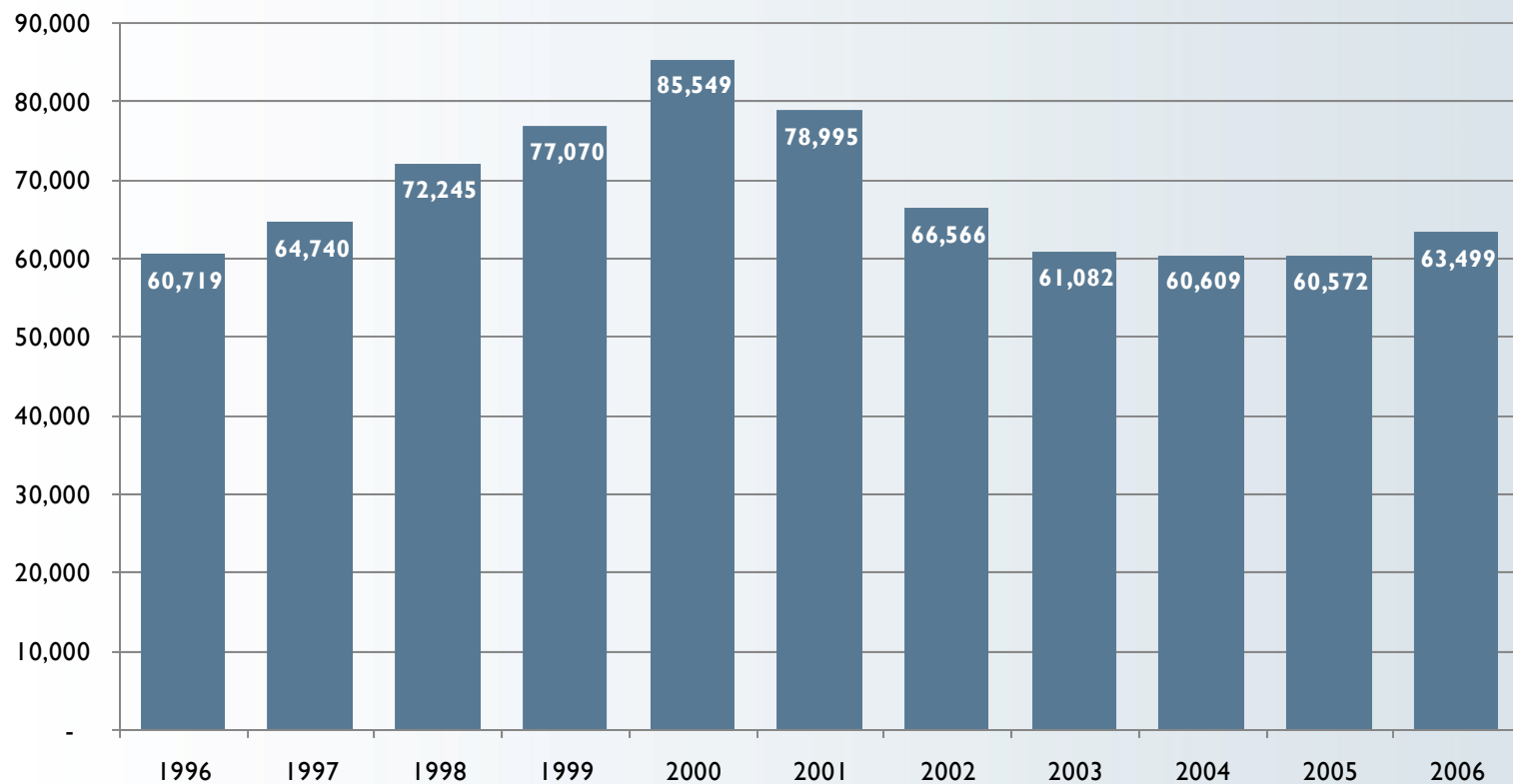
Mayor's 2003 Taskforce: Concentrations of Economic Activity

- Technology-related manufacturing and research.
- Entertainment, including live music, film, and media.
- Information, especially publishing and software.
- Professional services.

Common denominator: high value-added knowledge-intensive industries that rely significantly on and creativity.

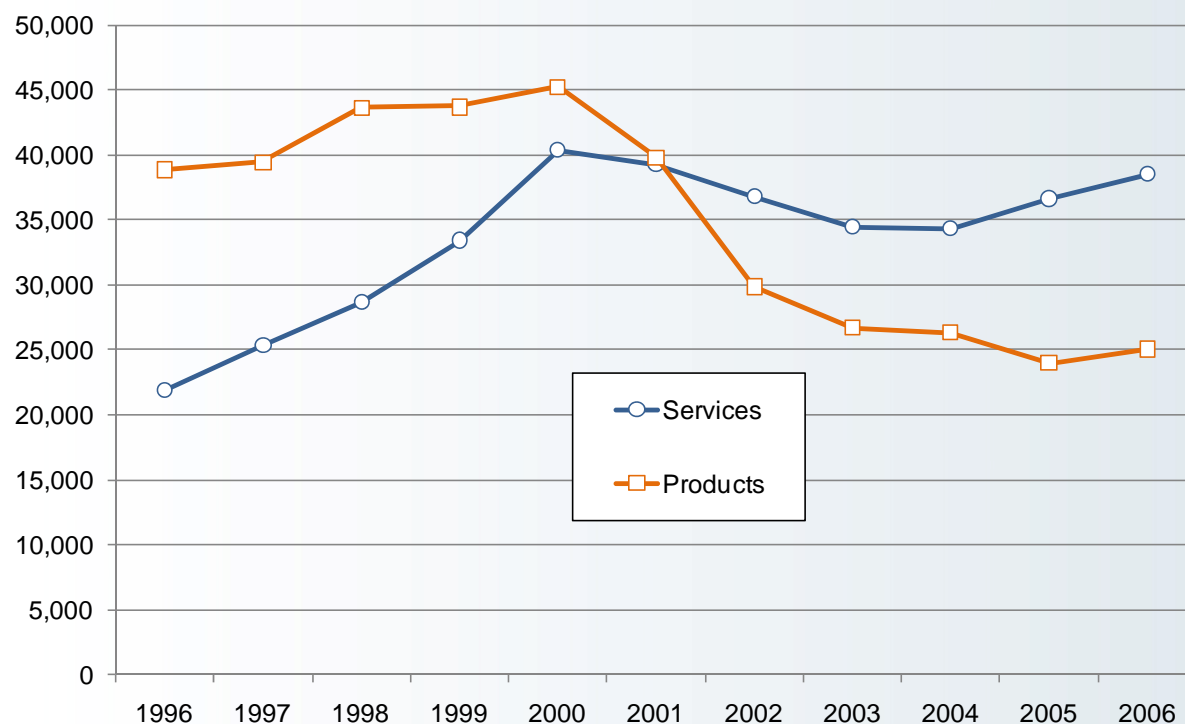
2b. Economic Structure

Austin MSA Technology Employment Levels



2b. Economic Structure

Austin Technology Employment by Segment



Products Sectors

- Communications Equipment
- Computer & Peripheral Equipment
- Consumer Electronics
- Defense Electronics
- Electronic Components
- Measuring & Controlling Instruments
- Photonics/Optics
- Semiconductors

Services Sectors

- Communications Services
- Computer Systems Design
- Computer Training
- Engineering Services
- Internet Services
- R&D Testing Labs
- Software

2b. Economic Structure

Next Iteration – New Technology Industries

- Digital Entertainment & Media
- Biotechnology/Life Sciences
- Wireless
- Clean Energy
- Early-stage commercialization of other technology industries

All of the above are accelerating sectors where either a market leader or has a significant
There is also significant potential for cross-over activity within and between these industries.

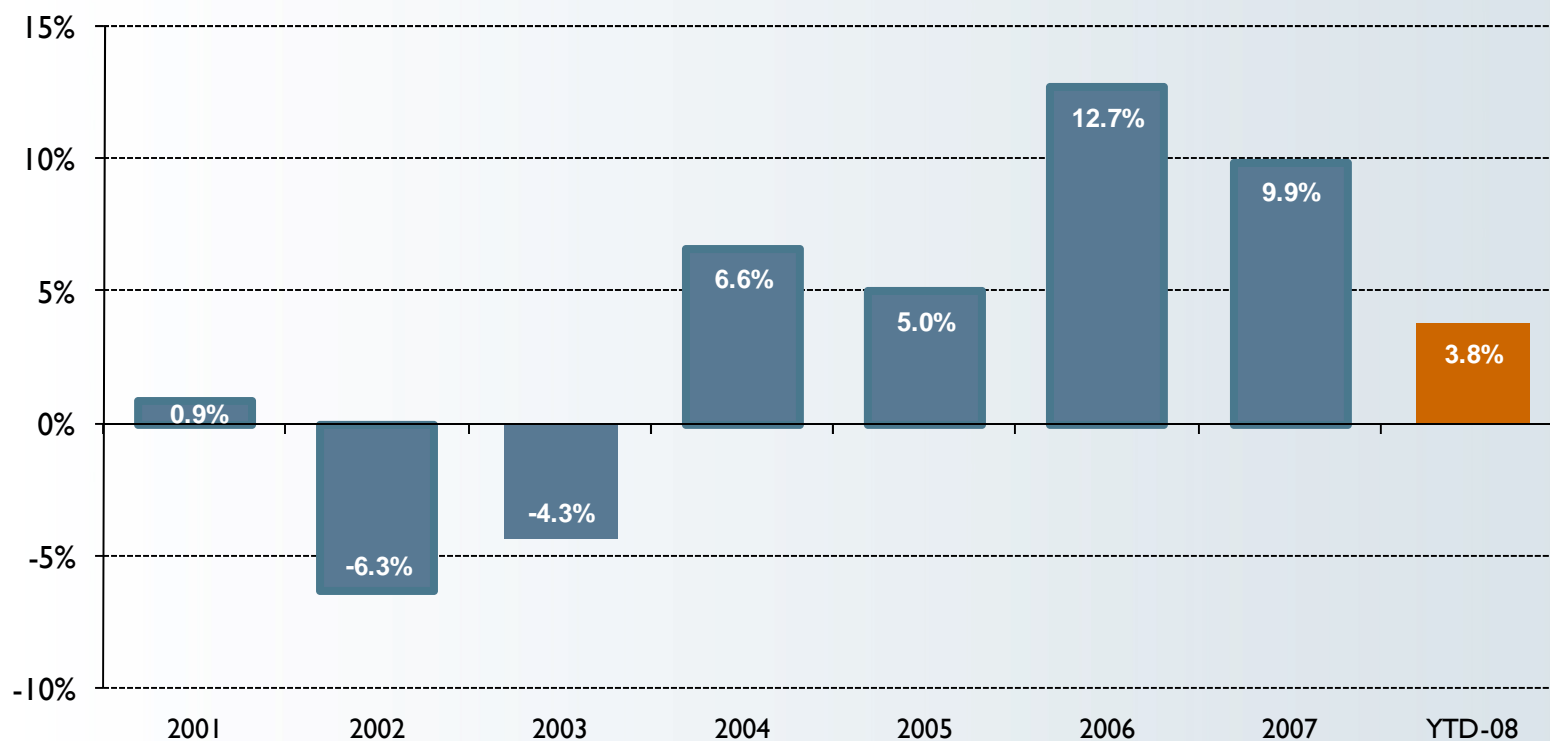
3. Sales Tax

Recent Trends

- Growth has clearly slowed, although still positive at this
- Austin grows more rapidly than other large cities in Texas – Houston & Fort Worth hot right now (perhaps due to direct indirect impact of energy) - San Antonio very rapid in 2006, leveled off since.
- Retail chases roof-tops within Central Texas – relatively rapid growth in Austin MSA cities outside Austin.
- Building materials grab larger share of pie over past five along with general merchandise stores. Sporting goods, book, music stores fall – impact of on-line shopping?

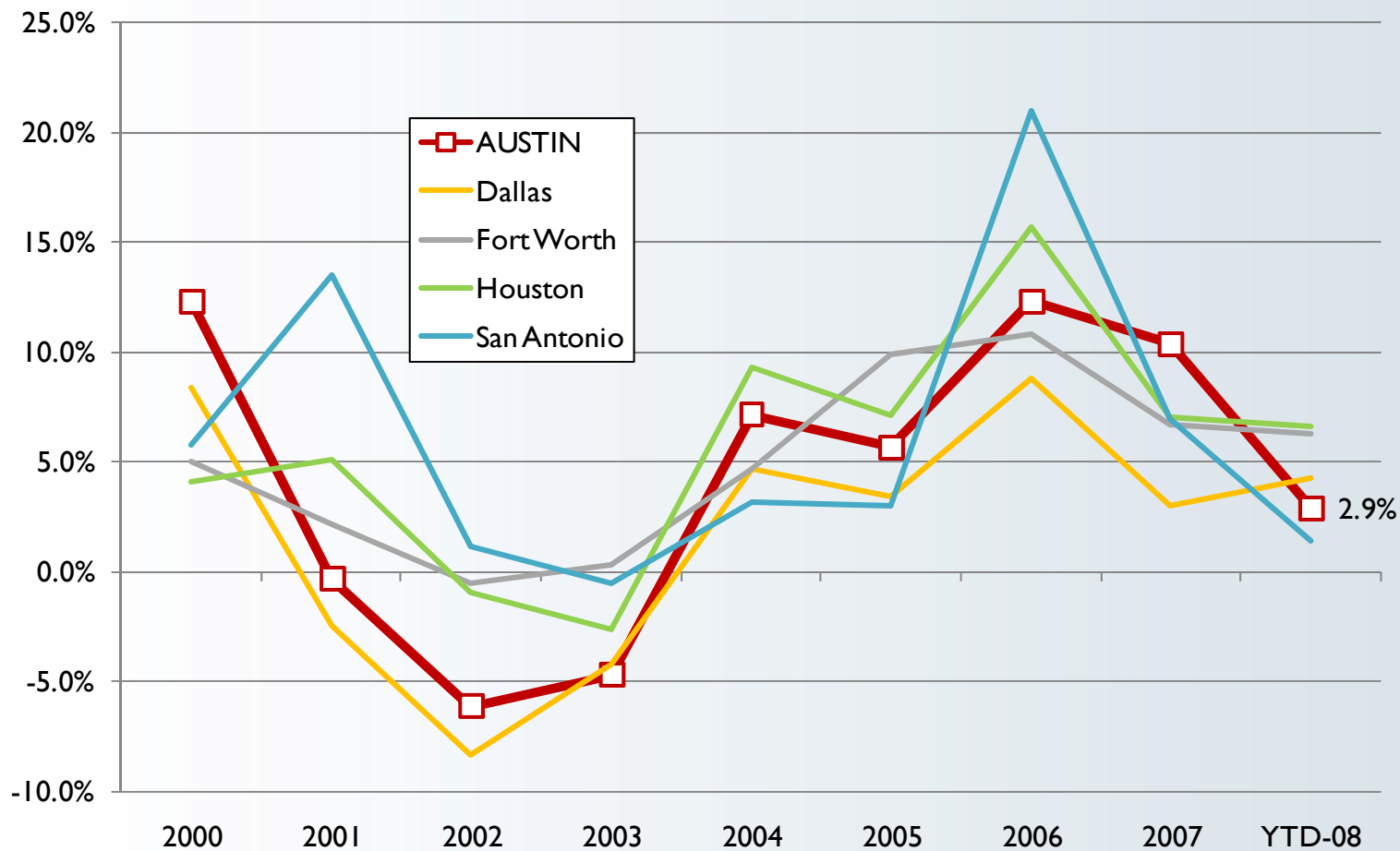
3. Sales Tax

Change in City of Austin Sales Tax Revenues - FY



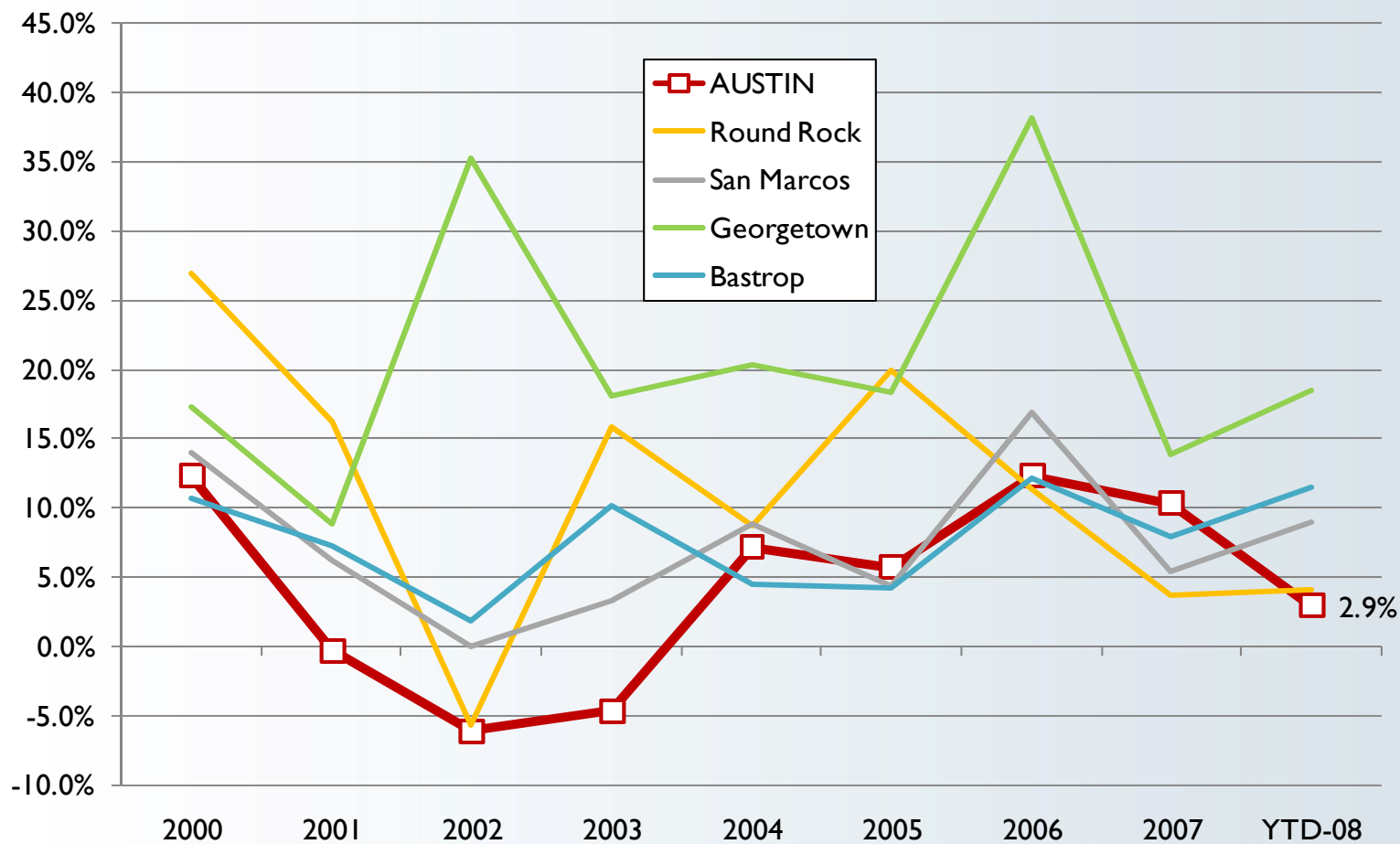
3. Sales Tax

City of Austin vs. Peer Communities – Calendar Yr.



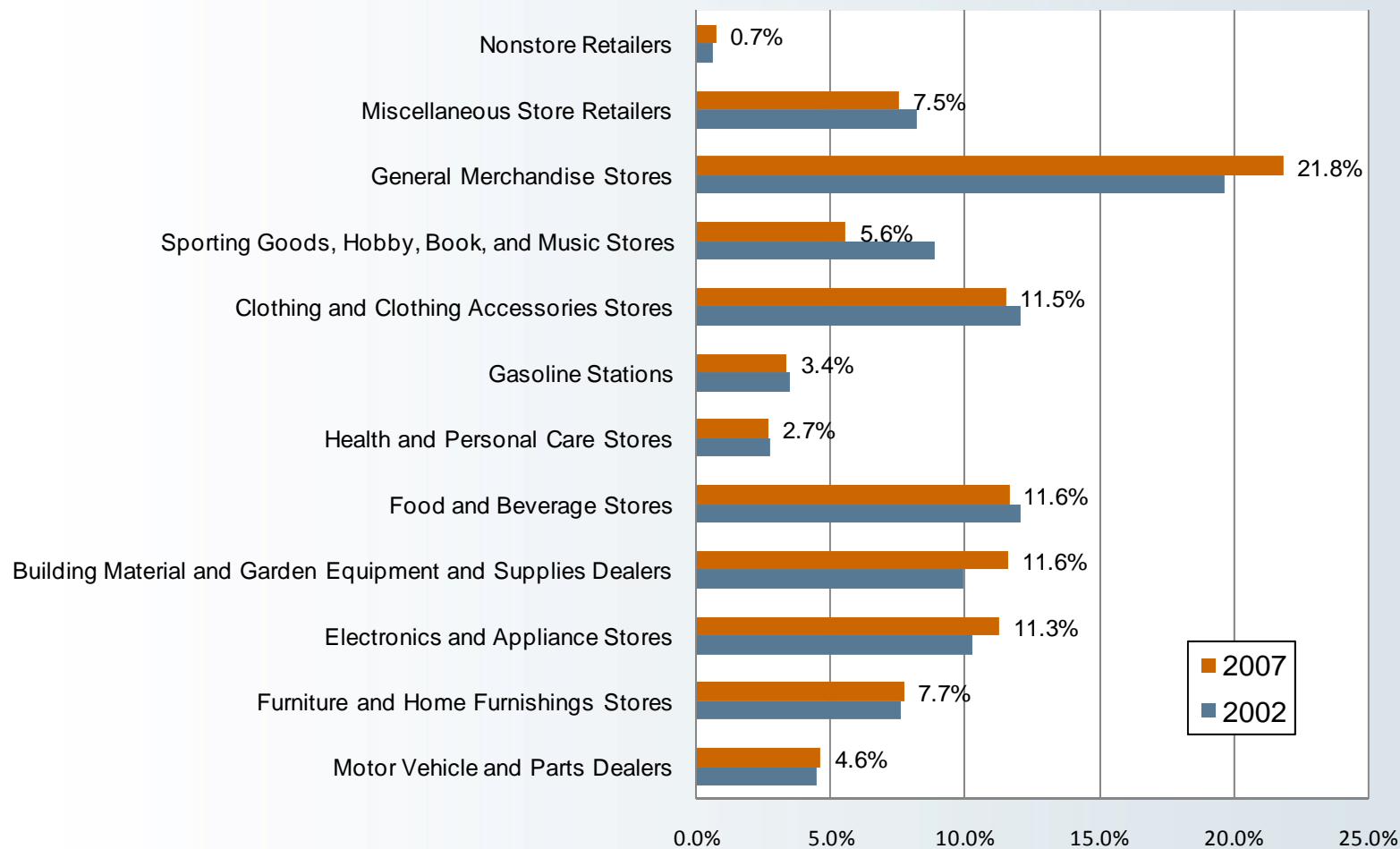
3. Sales Tax

City of Austin vs. Regional Communities – Calendar Yr.



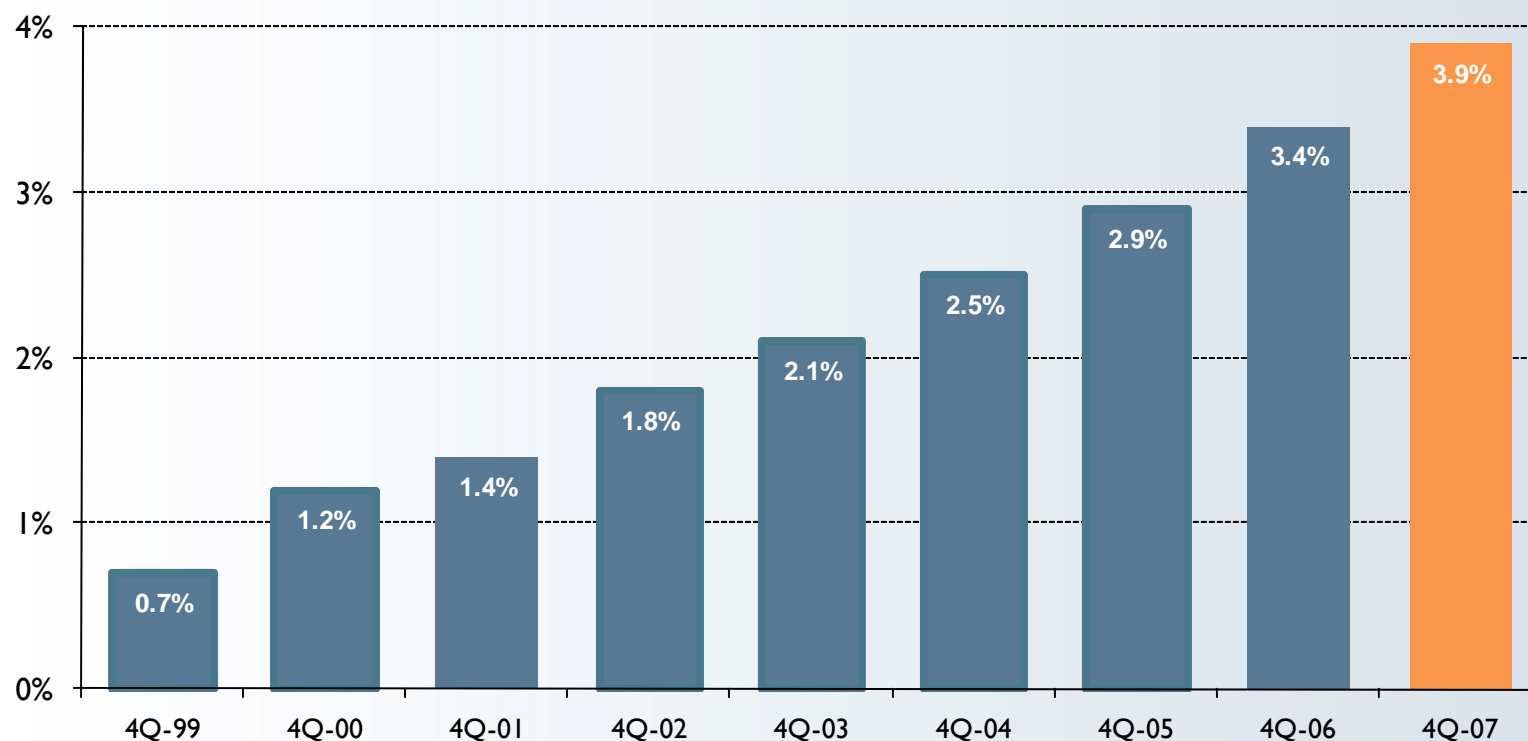
3. Sales Tax

Share of Sales Tax by Sector



3. Sales Tax

E-Commerce as a Percentage of Total - Nationwide



3. Sales Tax

Demographics of Internet Use - 2007

Use the Internet	
Total Adults	71%
Women	70
Men	71
Age	
18-29	87%
30-49	83
50-64	65
65+	32
Race/ethnicity	
White, Non-Hispanic	73%
Black, Non-Hispanic	62
English-speaking Hispanic	78
Geography	
Urban	73%
Suburban	73
Rural	60
Household income	
Less than \$30,000/yr	55%
\$30,000-\$49,999	69
\$50,000-\$74,999	82
\$75,000 +	93
Educational attainment	
Less than High School	40%
High School	61
Some College	81
College +	91

Source: Pew Internet & American Life Project, February 15 – March 7, 2007 Tracking Survey. N=2,200 adults, 18 and older. Margin of error is $\pm 2\%$ for results based on the full sample and $\pm 3\%$ for results based on internet users. Hispanic internet usage statistics are taken from the Pew Research Center 2006 National Survey of Latinos and 2006 Hispanic Religion Survey. N=6,016 adults, 18 and older. Margin of error is $\pm 2\%$ for results based on the full sample.

See http://www.pewinternet.org/pdfs/Latinos_Online_March_14_2007.pdf

Please note that prior to our January 2005 survey, the question used to identify internet users read, "Do you ever go online to access the Internet or World Wide Web or to send and receive email?" The current two-part question wording reads, "Do you use the internet, at least occasionally?" and "Do you send or receive email, at least occasionally?"

Last updated June 15, 2007.

Conclusions

Key Variables

- Austin still performing “above-the-line,” but national recession is contributing to local slowdown.
- Housing market remains roughly in balance, as signs that few new projects will enter pipeline this year.
- Consumer spending is beginning to reflect slower construction, movement toward suburbs, and overall caution on the economy. Watch and see if local financial institutions pull back home equity.
- Longer-term prospects remain bright, as region remains attractive to tourists and migrants. Public sector challenge: economic structure not tax-intensive.

Economic Outlook & Financial Forecast – General Fund

City of Austin
Financial and Administrative Services
April 23, 2008



Changes in 2009 Budget Process

- Worksession format
 - interactive and collaborative process
- More opportunities to receive Council input and direction
 - additional worksessions, iterative
 - scheduled to provide for earlier input
- Provide more in-depth information by department for Council and community
 - key services, key indicators
 - current and upcoming challenges

Budget Timeline

Oct 1 st	Begin Fiscal Year
April 23 rd	Economic Outlook
	Financial Forecast – General Fund
May 7 th	Financial Forecast – Enterprise Funds
May 14 th	General Fund Department Briefings
May 21 st	General Fund Department Briefings
June 4 th	Council Budget Direction
July 24 th	Deliver Proposed Budget
Aug 7 th /21 st /28 th	Budget Public Hearings
Sept 10 th – 12 th	Budget Approval Readings

Today's Presentation

- Economic Outlook

Jon Hockenyos, Texas Perspectives

- Financial Forecast – General Fund

- Revenue
- Expenditures
- Reserves

- Current Year Update

Enterprise Funds will present their Financial Outlook on May 7th.

Forecast Summary: General Fund



Observations

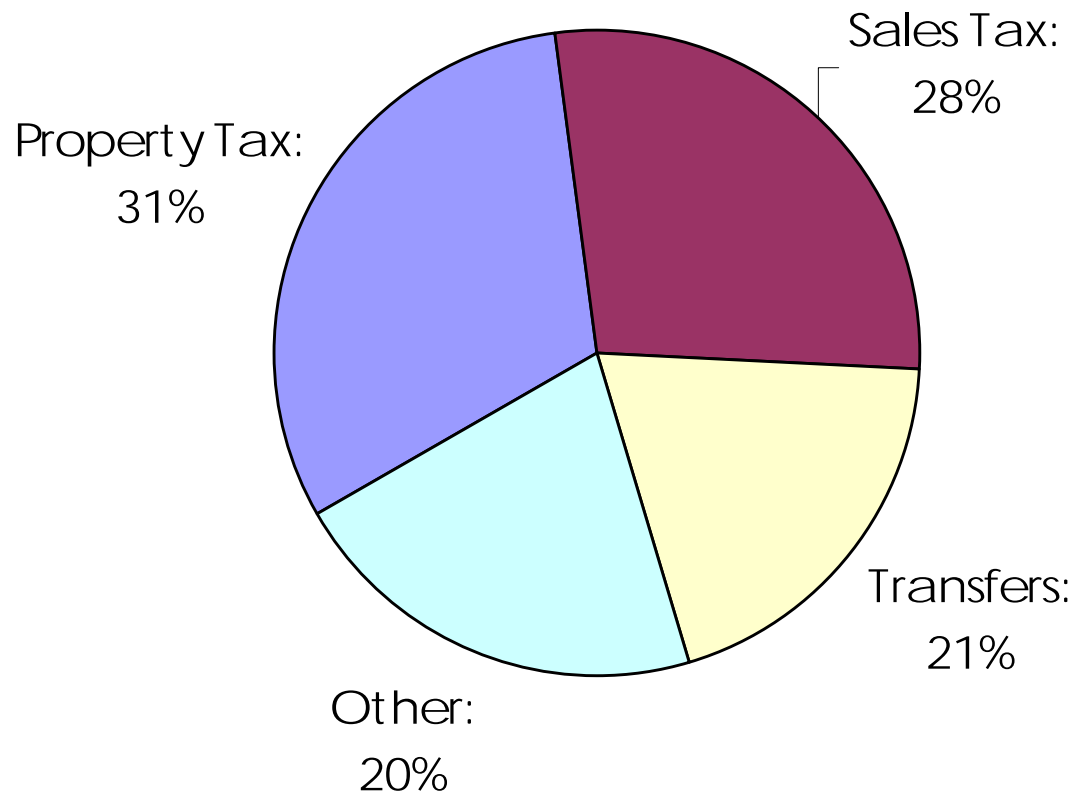
- Growth in expenditures are outpacing growth in revenue
- Austin has a high reliance on Sales Tax revenue
 - more volatile than property tax revenue
 - slower sales tax growth is expected to continue next year
- Challenges ahead as we look to balance FY09 Budget
 - generate savings in current year to position the City for upcoming year

Forecast: General Fund Revenue



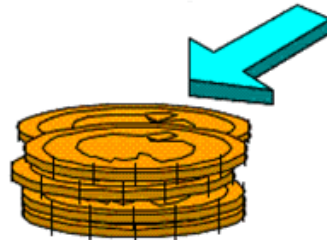
General Fund Revenue Categories

2008 General Fund Revenue: \$593.4 Million

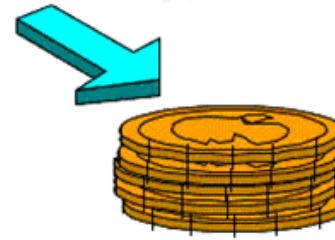


Property Tax

Current Tax Rate: 40.34 ¢



**O&M:
27.30 ¢**



**Debt Service:
13.04 ¢**

- O&M tax rate generates \$186.2 million for the General Fund
- Debt Service tax rate generates \$88.9 million for the Debt Service Fund to cover debt service payments related to our bond program and other debt issuances

Property Tax Rates - Definitions

■ Effective

- a tax rate that generates the same amount of property tax revenue on existing properties as in the prior year
- additional revenue is realized from “New Property”
- when property values increase, this tax rate is lower than the current tax rate
- does not allow cities to cover growth of base expenditures

■ Nominal

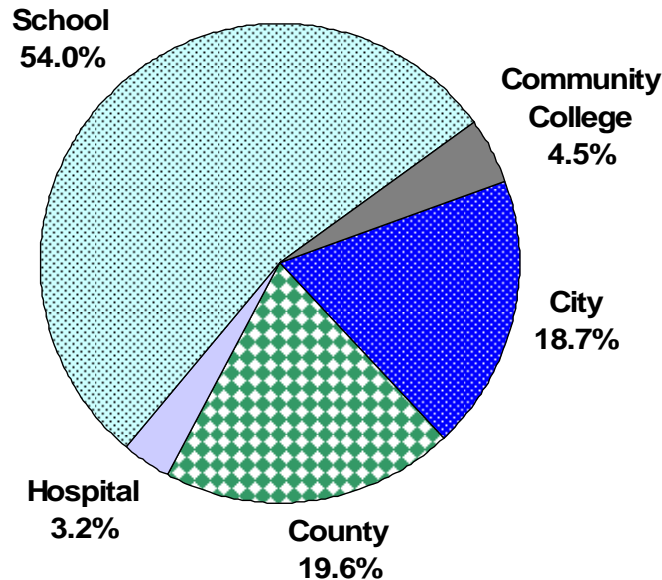
- a tax rate that does not change from the prior year

■ Rollback

- a tax rate that is 108% above the O&M portion of the effective tax rate

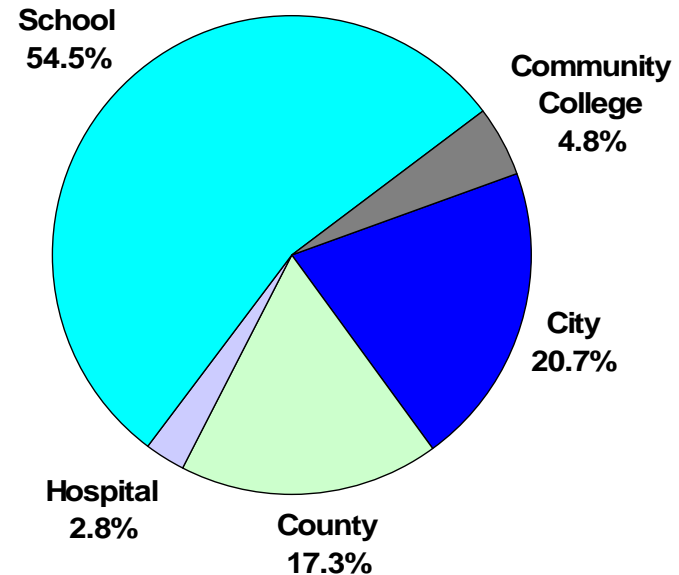
Austin 2007-08 Overlapping Property Tax

TAX RATE



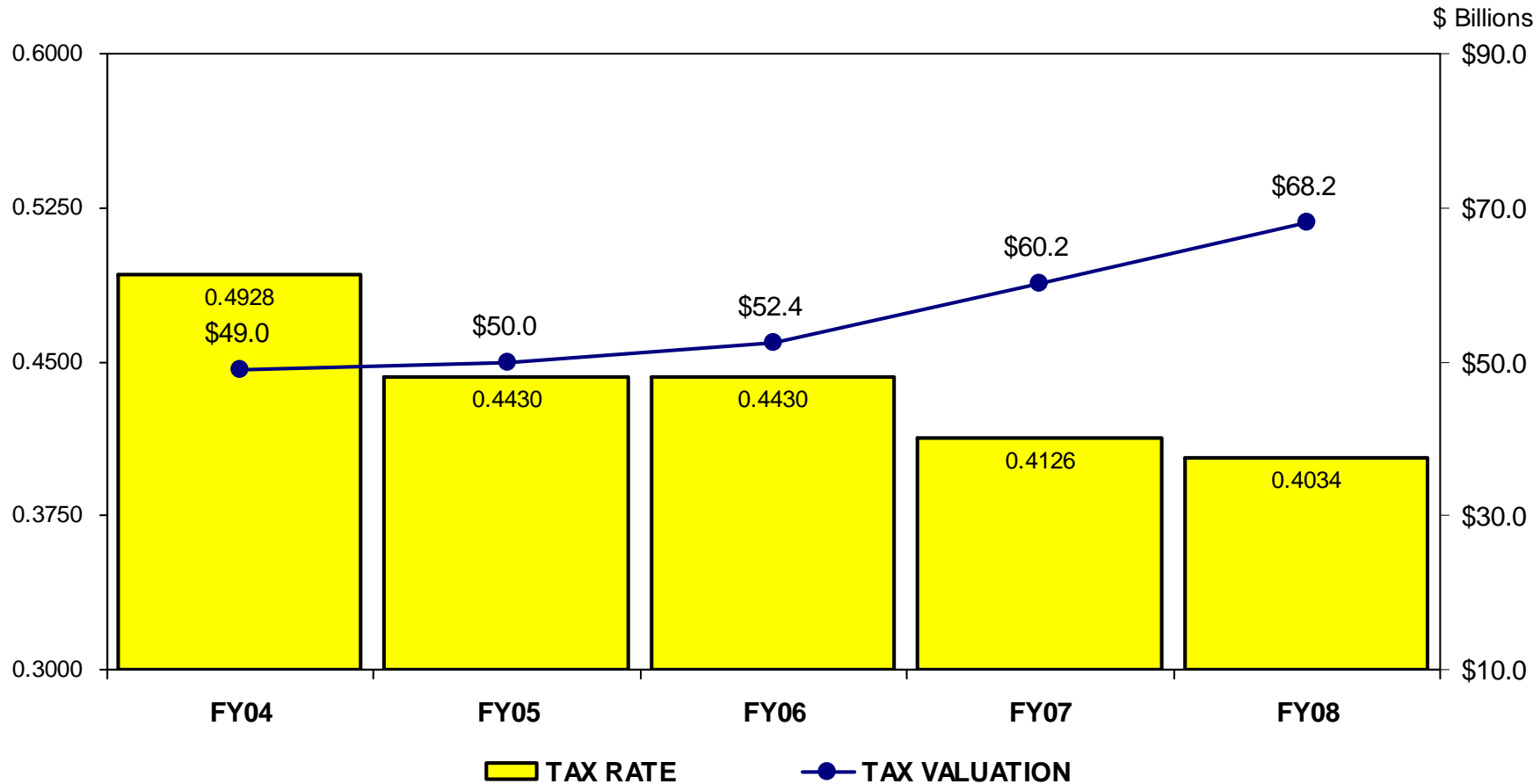
Jurisdiction	Austin	Share
City	0.4034	18.7%
County	0.4216	19.6%
Health Care	0.0693	3.2%
School	1.1630	54.0%
Community College	0.0958	4.5%
Total Tax Rate	2.1531	

TAX BILL \$175,000 HOME

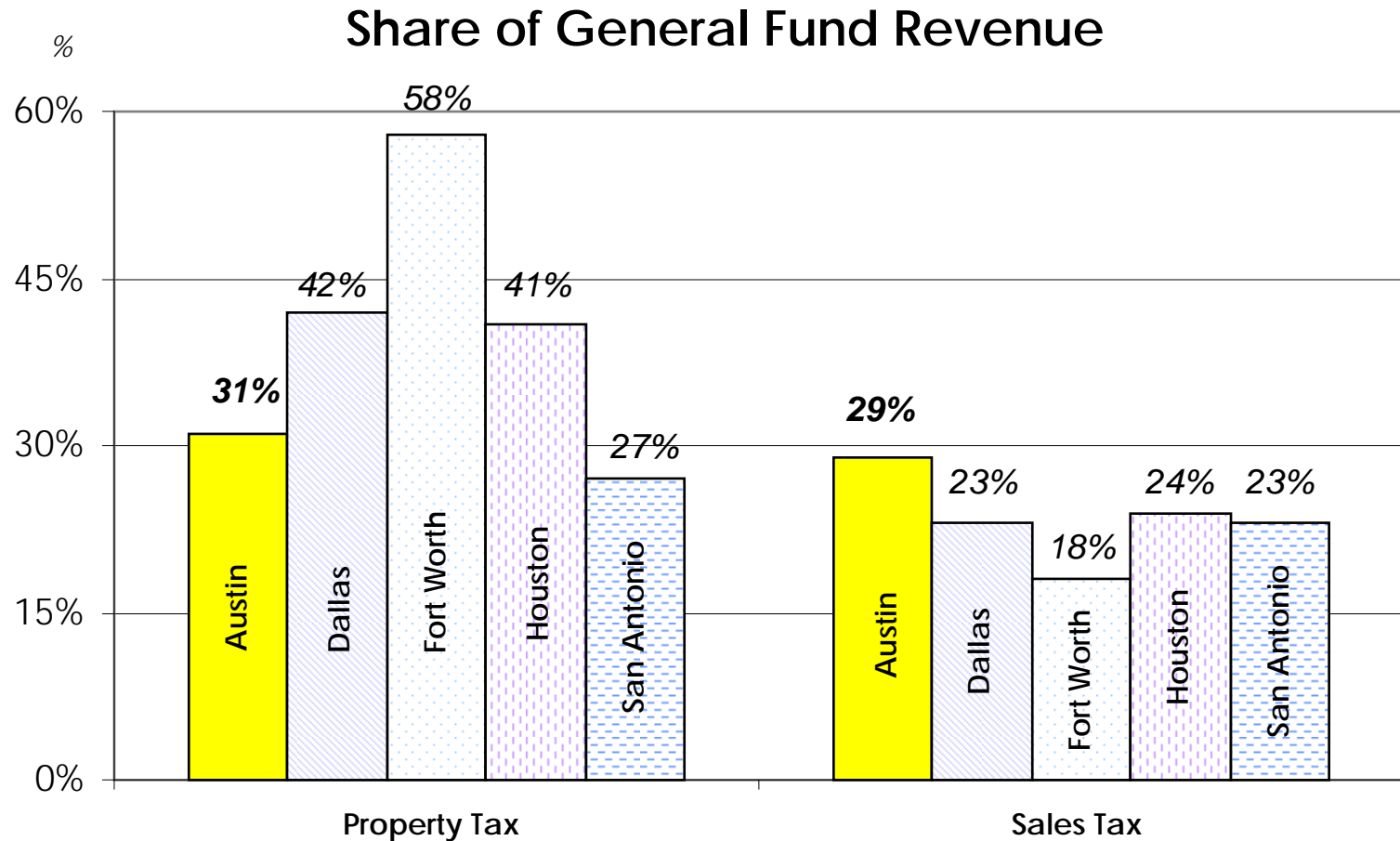


Jurisdiction	Austin	Share
City	\$706	20.7%
County	\$590	17.3%
Health Care	\$97	2.8%
School	\$1,861	54.5%
Community College	\$163	4.8%
Total Tax Bill	\$3,417	

Property Tax History



General Fund Revenue Comparison

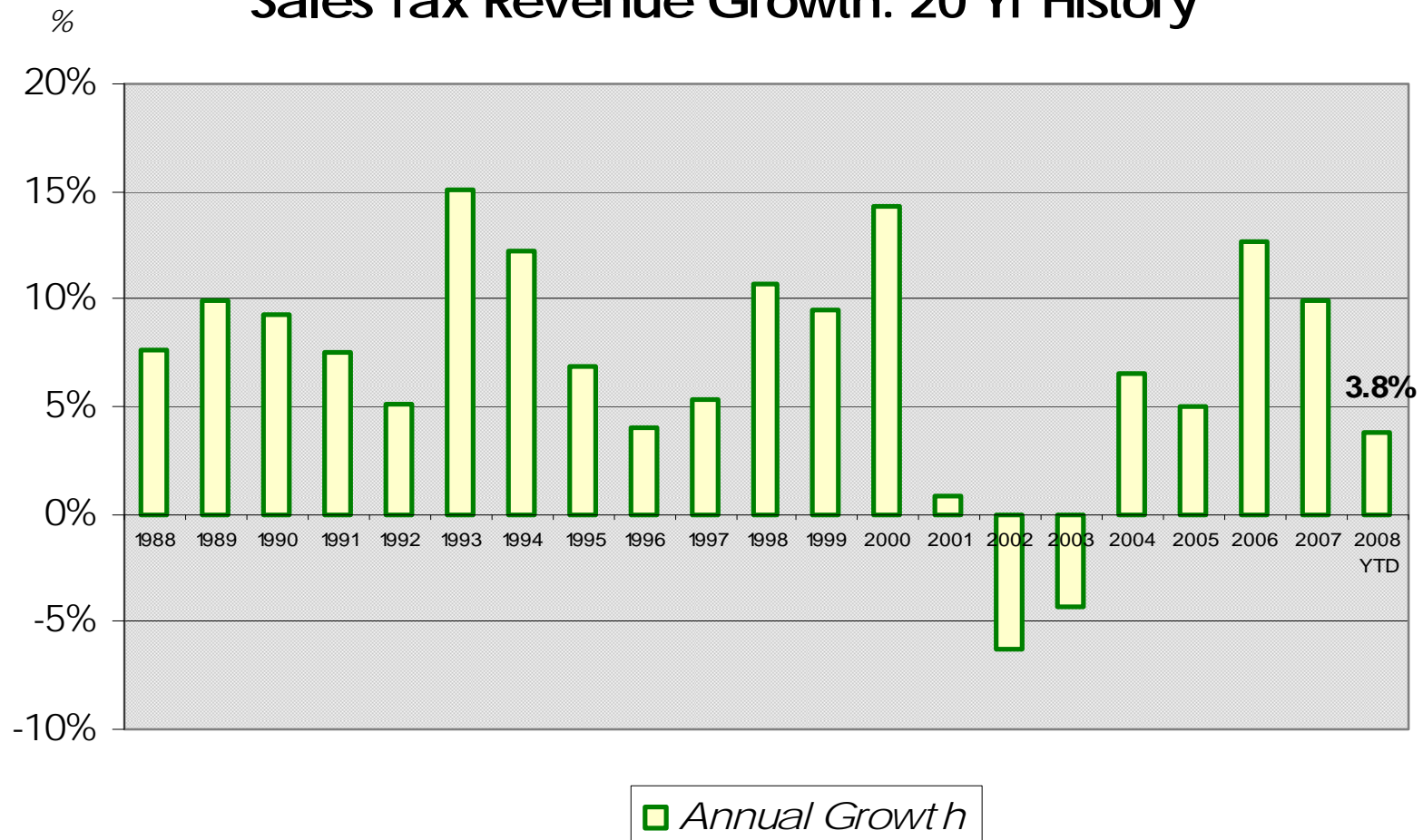


Sales Tax

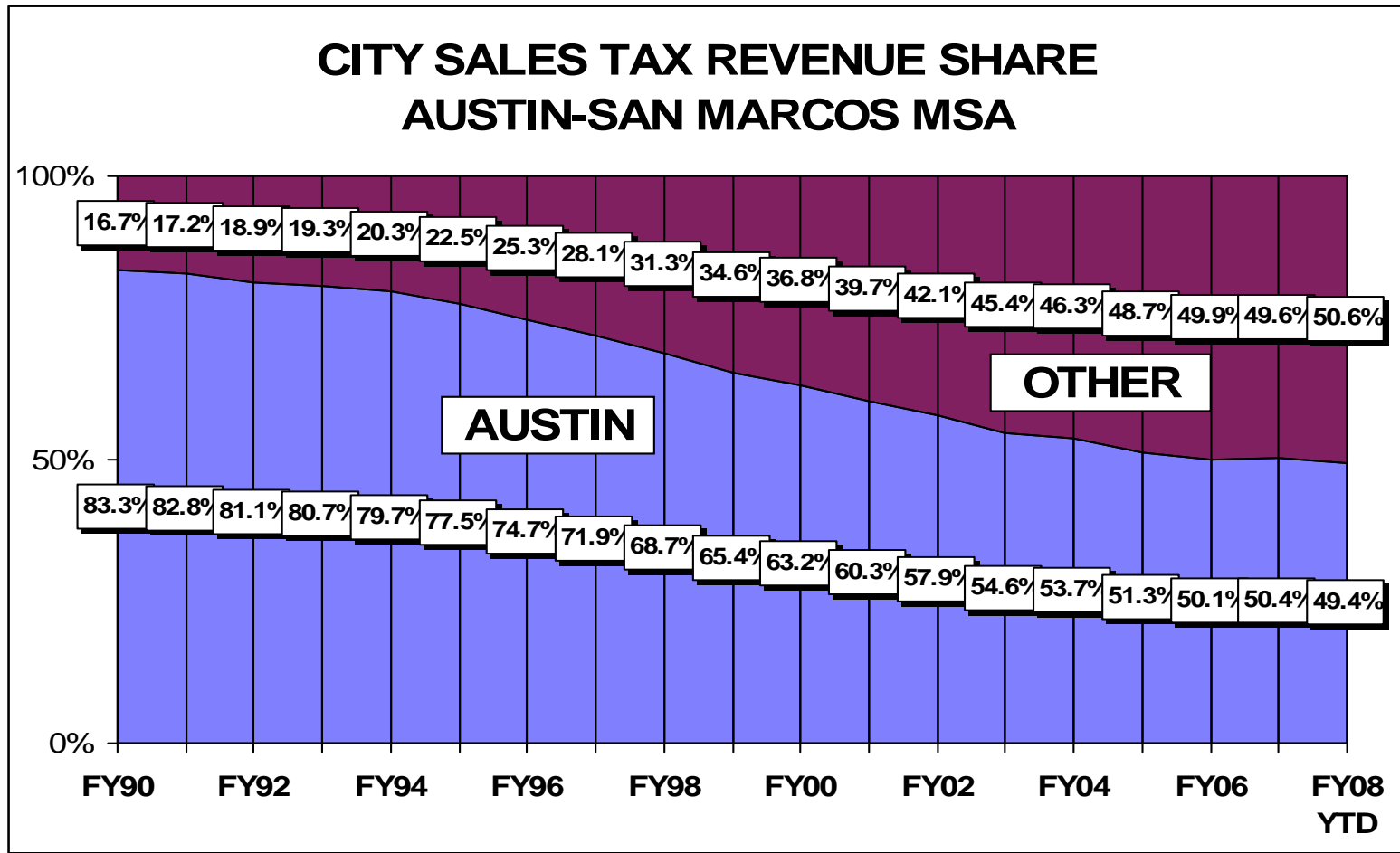
- Austin has a higher reliance on sales tax than any other major Texas City
- Budgeted sales tax growth for FY08 of 7.6% was based on several factors
 - projected strong local economy
 - previous 5 years' average growth of 8.5%
- Key economic factors
 - national credit crunch
 - rapid rise in basic commodity costs – fuel, food
 - slower job market

Sales Tax

Sales Tax Revenue Growth: 20 Yr History



Sales Tax



Forecast Scenarios – Revenue

- Three Revenue Scenarios have been developed
 - Choices about property tax rates
 - Volatility of Sales Tax growth
 - current year growth is a factor in future years' growth
 - Provide an early appraisal of the impacts of different assumptions

Forecast Ranges – Revenue

Common Assumptions for all Scenarios

■ Property Tax

Assessed Valuation: (current year \$68.6 b)

	Growth Rate	Total AV	New Property
▣ FY 2009	8.5%	\$ 74.0 b	\$3.1 b
▣ FY 2010	5.0%	\$ 77.7 b	\$3.1 b
▣ FY 2011	5.0%	\$ 81.5 b	\$2.1 b
▣ FY 2012	5.0%	\$ 85.6 b	\$2.1 b
▣ FY 2013	5.0%	\$ 89.9 b	\$1.9 b

■ Transfer rates

▣ Electric Utility	9.1%
▣ Water Utility	8.2%

■ All Other Revenue

- ▣ moderate increase of between 2% and 4% annually

Forecast Ranges – Revenue

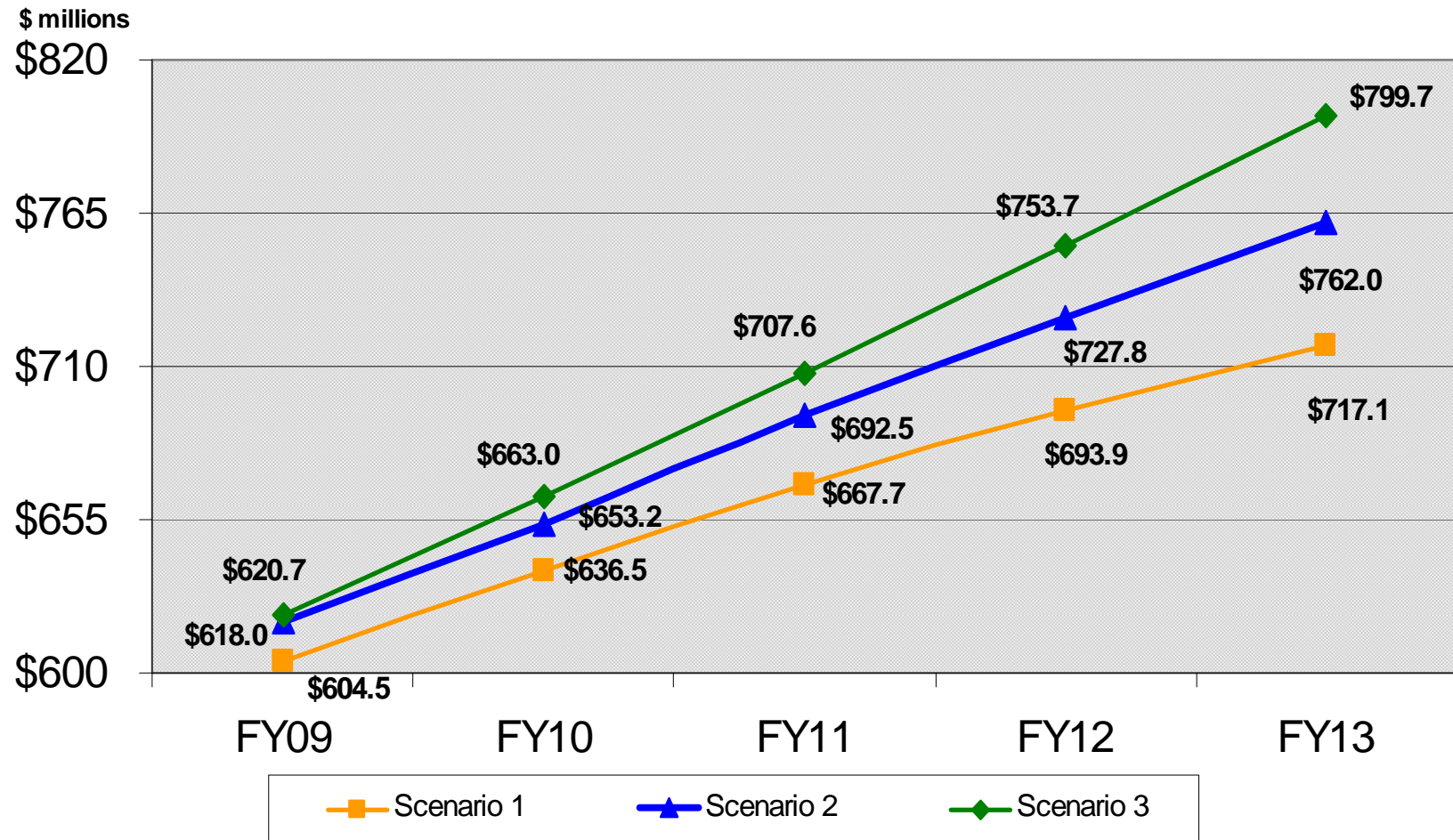
Variable Assumptions for Three Scenarios

- Property Tax Rate
- Sales Tax Growth

	<u>FY08 est</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>
<u>Scenario 1</u>						
Effective Tax Rate		39.82 ¢ *	40.00 ¢ *	39.59 ¢ *	38.67 ¢	37.62 ¢
Sales Tax Growth	2.0%	3.0%	5.0%	5.0%	5.0%	5.0%
<u>Scenario 2</u>						
Nominal Tax Rate		41.34 ¢ *	41.84 ¢ *	42.34 ¢ *	42.34 ¢	42.34 ¢
Sales Tax Growth	3.0%	3.5%	5.0%	5.0%	5.0%	5.0%
<u>Scenario 3</u>						
Rollback Tax Rate		41.39 ¢ *	42.79 ¢ *	43.88 ¢ *	45.07 ¢	46.25 ¢
Sales Tax Growth	4.0%	4.0%	5.0%	5.0%	5.0%	5.0%

* Includes an additional 1 ¢ in FY09, 0.5 ¢ in FY10, and 0.5 ¢ in FY11 in order to fund the commitment of the 2006 Bond Program

Forecast Ranges – Revenue



Summary – Revenue

- Reliance on sales tax
- Revenue is growing under all three scenarios
 - more moderate sales tax growth is assumed for next year, consistent with the economic outlook for the region
- Effective tax rate produces imbalance in revenue
 - growth in revenue from the effective tax rate slows over the period
- Nominal tax rate allows for steady revenue growth
- Rollback tax rate allows for slightly increased revenue growth

Questions / Comments



Forecast: General Fund Expenditures



Expenditure Assumptions

Flat Funding

- Maintain current funding in the General Fund
 - Public Safety, Public Health & Social Services
 - Parks programs & Library services
 - Permitting, Review & Inspection

Plus: Cost Increases

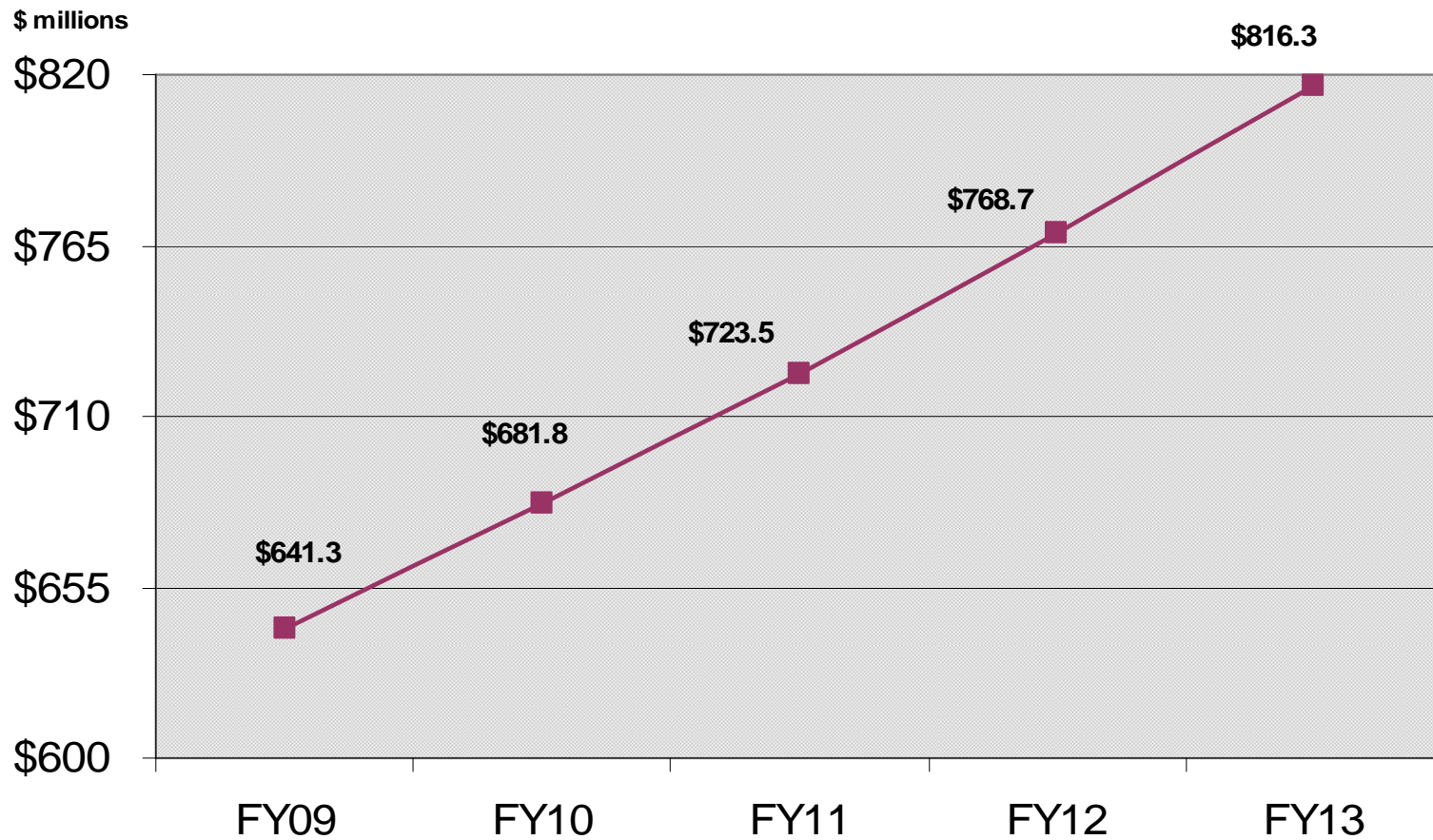
- Pay for Performance same for all employees
- 10% increase in Health Insurance Costs
- Market Study salary adjustments
- Maintain 2.0 Police Officers per 1,000 population
- Includes funding for public safety consolidation
- O&M for new/expanded facilities
- ***Inflationary cost increases for fuel, utilities, contractual services, commodities***
- Increase for Social Service Contracts

Expenditure Assumptions

FY09 Cost Increases
(\$ mills)

<u>Category</u>	<u>Estimated Increase</u>	<u>Justification</u>
Personnel	\$17.0	<ul style="list-style-type: none"> * Pay for Performance * Health Insurance * Market Adjustments
Other Departmental Costs	\$17.8	<ul style="list-style-type: none"> * 2.0 Officers * Step/Longevity * New Facilities * Annualized Costs from FY 08 * Outside Contract Increases * Inflationary Increases
Transfers	\$13.2	<ul style="list-style-type: none"> * Support Services Fund * Communication & Technology * Transportation Fund * Workers Compensation * Accrued Payroll * Liability Reserve * Economic Incentives
Total	\$48.0	

Expenditure Forecast



Summary – Expenditures

- Expenditures increase in each year
 - range between \$41M and \$48M annually
 - does not include any service or operational enhancements
- Costs beyond our control
 - Inflationary costs for fuel, outside contracts, commodities
- Costs that we can influence by policy
 - Employee Pay
 - Health Insurance Plans
 - Staffing policies

General Fund Reserves



“Hard” Reserves

	2008	2009
<i>Emergency Reserve</i>	<i>\$40 M</i>	<i>\$40 M</i>
<i>Contingency Reserve</i>	<i>\$5.7 M</i>	<i>\$6.1 M</i>

- Emergency Reserve
 - for temporary funding for unanticipated/unforeseen extraordinary emergency needs
- Contingency Reserve
 - 1% of total expenditures for annual unforeseen needs
- Must be repaid in 1 year if used
- Close to 10% of budgeted operating expenditures
 - good benchmark according to rating agencies
 - important factor in our AAA bond rating

Budget Stabilization Reserve

- Reserve helps provide funds for capital replacement and one-time critical needs
 - Established in 2006
- Per City's Financial Policies:
 - At end of each year, excess revenue and unspent appropriation deposited into this reserve
 - Fund may be used for capital and one-time expenditures, but “will not normally exceed” 1/3 of total amount in the reserve, with 2/3 reserved for future years
 - Policy designed to prevent rapid depletion of funds

Budget Stabilization Reserve Fund

	<i>2008</i>	<i>2009</i>
<i>Beginning Balance</i>	<i>\$52.0 M</i>	<i>\$29.2 M</i>
<i>Transfer In from General Fund Ending Balance</i>	<i>\$0.0 M</i>	<i>\$0.0 M</i>
<u><i>Expenses</i></u>		
<i>Capital & One-Time Funds</i>	<i>\$17.8 M</i>	<i>\$9.7 M</i>
<i>Transfer to General Fund Operating</i>	<i>\$5.0 M</i>	<i>\$0.0 M</i>
<i>Ending Balance</i>	<i>\$29.2 M</i>	<i>\$19.5 M</i>

Budget Stabilization Reserve Fund

- Major capital items such as vehicles and IT equipment not in General Fund budget
 - these items have been funded from Budget Stabilization
 - capital replacement can be deferred if money is tight, but not indefinitely
 - capital needs always exceed available funds
- Each year there will be less available to spend if a surplus is not generated
- Estimated that \$9.7 M will be available for FY09
 - \$8.1 M less than FY08

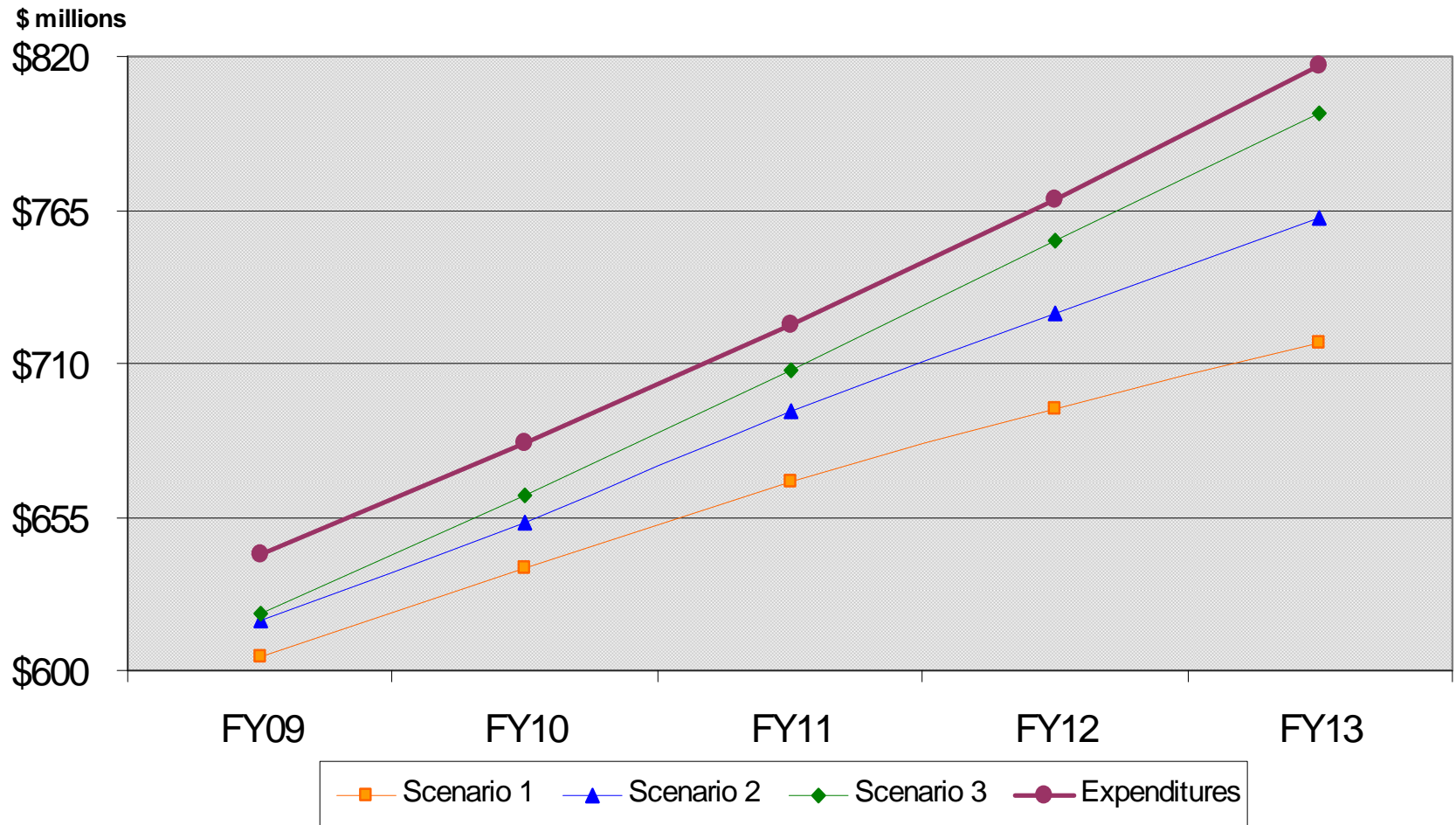
Questions / Comments



Forecast: General Fund Summary



Revenue to Expenditures



Revenue to Expenditures – 2009

	<i>Scen 1 Revenue</i>	<i>Scen 2 Revenue</i>	<i>Scen 3 Revenue</i>
Revenue	<u>Effective</u> : 39.82 <u>Sales Tax</u> : 3%	<u>Nominal</u> : 41.34 <u>Sales Tax</u> : 3.5%	<u>Rollback</u> : 41.39 <u>Sales Tax</u> : 4%
Property Tax	198.1	209.3	209.6
Sales Tax	160.8	163.2	165.6
Other Revenue	245.5	245.5	245.5
Total Revenue	604.5	618.0	620.7
Expenditures			
Departmental	549.4	549.4	549.4
Transfers / Other Requirements	91.9	91.9	91.9
Total Expenditures	641.3	641.3	641.3
Excess / (Deficit)	(36.8)	(23.3)	(20.6)

Revenue to Expenditures

Conclusions

- Local economy is growing, but at more modest levels
- Sales Tax revenue is moderate in all scenarios, in line with economic outlook
- Basic expenditure projections
 - No planned budget enhancements in forecast
- Under all three revenue scenarios, projections not sufficient to cover costs in 2009
 - Effective tax rate produces the largest shortfall of \$36.8 million
- Unlike recent past, significant revenue increases are not expected to be available to help balance the budget

Current Year Update



Current Year Objectives

Generate Savings:

- To help offset lower Sales Tax revenue so far
- To help cover further decreases in revenue, if this occurs, as the fiscal year progresses
- To help replenish the Budget Stabilization Reserve in 2008
 - To provide more funding for capital or other critical needs in 2009
- To position the City for the upcoming fiscal year,
 - more moderate revenue growth
 - growth in expenditures outpacing growth in revenue

Next Steps

- May 7th - Enterprise Funds
- Early May – Sales Tax Update
- May 14th / May 21st – General Fund Departments
- June 4th – Wrap-up to prepare for Budget Submittal in July
- July 24th – Submit Proposed Budget

Questions / Comments / Discussion



FORECAST

FINANCIAL FORECAST OVERVIEW

The Financial Forecast is prepared in compliance with the City's Financial Policies. The purpose of the Financial Forecast is to provide an early financial outlook to the City Council as part of the budget planning process. The Financial Forecast is not in the City's Proposed Budget. Many of these assumptions, projections, and cost estimates are based on early and preliminary information. As such, many assumptions, projections, and cost estimates may change as the Proposed Budget is developed.

OCTOBER 1	BEGIN FISCAL YEAR
APRIL 23 RD	FINANCIAL FORECAST PRESENTATION
MAY 7 TH	ENTERPRISE FUNDS PRESENTATION
MAY 14 TH / 21 ST	GENERAL FUND DEPARTMENT BRIEFINGS
JUNE 4 TH	WRAP-UP TO PREPARE FOR BUDGET PRESENTATION IN JULY
JULY 24 TH	PROPOSED BUDGET PRESENTATION
SEPT 8 TH - 10 TH	BUDGET APPROVAL READINGS

Economic Outlook	1
Fund Projections-General Fund	6



Factors Shaping the Economic and Sales Tax Outlook for Austin: Spring 2008

City of Austin



PRESENTED BY



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Austin MSA Economic Forecast

The National Economy

The national economy is likely in recession. Over-heated housing markets are perhaps the most obvious reason, as many communities across the country have seen a decline in prices and a rise in available inventory. This in turn has lead to a credit crisis, as uncertainty over asset values, credit quality, and breadth and depth of potential exposure have prompted a tightening of standards across the board. When combined with higher prices (especially for food and energy), growth is probably negative at this point.

Table 1: Change in Key National Indicators: Year-Over-Year

	2Q-07	3Q-07	4Q-07	1Q-08
Employment Growth	1.2%	1.0%	0.9%	0.6%
Unemployment Rate	4.4%	4.7%	4.6%	5.3%
CPI – All Urban Consumers	2.7%	2.4%	4.0%	4.1%
PPI – Finished Goods less Food/Energy	1.6%	2.2%	2.2%	2.5%
Retail Sales	3.7%	3.9%	4.6%	2.8%

Table 2: Change in Key National Indicators: SAAR

	1Q-07	2Q-07	3Q-07	4Q-07
GDP	0.6%	3.8%	4.9%	0.6%
Personal Consumption	3.7%	1.4%	2.8%	2.3%
Non-Residential Investment	2.1%	11.0%	9.3%	6.0%
Residential Investment	-16.3%	-11.8%	-20.5%	-25.2%
Exports	1.1%	2.5%	19.1%	6.5%
Imports	3.9%	-2.7%	4.4%	-1.4%

As a result, consumer spending will weaken in the near terms, with diminished employment prospects, higher prices, and little to no home equity available all contributing to the mix. The Fed has sharply relaxed monetary policy in recent months, with little impact. Part of the explanation lies in the uncertainty of the financial sector, creating a widening spread between policy and market rates. Most indications suggest at least one more rate cut is in the offing.

Going forward, it appears that the financial crisis may have reached its apex, although the ripple effects should be felt for some time. Part of the process will be a national shakeout in the housing sector, as activity falls markedly (starts are currently at their lowest level in over fifteen years), prices fall, and supply and demand begin to come back into balance. As that happens, the impact of looser monetary policy will be more fully felt, especially if credit markets feel more confident in their ability to assess risk. As a side note, lower interest rates are contributing a weaker dollar, which enhances the competitiveness of our exports.

As a result of all of the above, the U.S. should see GDP increase 0.5 percent during 2008, followed by 1.4 percent growth in 2009. Growth should remain positive over the next five years, but the rate of expansion likely will not match the recent past.

The Austin MSA Economic Forecast

The national economy is an important driver of the short-term outlook for the Austin MSA, as national and international trends are the determinants of success or failure for an increasing number of locally-based firms. In addition to the obvious connection for the bulk of the local tech manufacturing sector, “soft” technology and professional services are also serving broader and broader markets. Meanwhile local consumer confidence is influenced by the overall national situation and outlook. This trend is exacerbated by the “globalization” of not just production industries, but professional and business services as well. On the other hand, the appeal of the region as a site for expansion and relocation (of both people and firms), has helped Austin consistently perform “above the line” relative to the U.S. as a whole. Assuming that U.S. economic recession is neither deep nor durable, Austin-area job growth should remain positive, although the torrid pace of 2007 will slow sharply. The forecast is for a total of 12,900 net new jobs to be created this year (approximately 1.7 percent ahead of last year, measured on an annual year-over-year basis). This improvement will be fairly broad-based; while construction should decline, the bulk of the net new jobs will be in the secondary sectors of services, trade, and government, we expect that every sector of the local economy should finish the year ahead of 2006.

During 2009, overall growth in the Austin region will remain positive, with the forecast for an additional 16,500 net new jobs to be added. On the one hand, recent economic development announcements will lead to job creation over the next several years, which will help bolster the production side of the local economy. On the other hand, the ripple effects of the national housing crisis could mute growth in consumer spending, both for retail purchases and real estate. Tourism will continue to make a strong contribution, as new infrastructure, a weak dollar, and momentum/buzz all drive growth.

Table 3: Forecast of Aggregate Measures of the Austin MSA Economy

	Employment (000s)	Personal Income (millions)	Population
2007	757.3	\$59,643,606	1,558,972
2008	770.2	\$62,887,187	1,596,387
2009	786.7	\$66,594,174	1,636,297
2010	805.4	\$70,677,948	1,680,477
2011	824.6	\$75,025,409	1,725,396
2012	844.3	\$79,642,629	1,771,285
2013	864.6	\$84,546,482	1,818,160

Over the ensuing five years, growth in the Austin region should remain relatively strong, as the region moves toward a sustainable trend. The forecast is for the local job base should expand at a compound annual rate of 2.3 percent from 2009 through 2013. Similarly, total MSA personal income will rise 6.1 percent annually over the same period.

The national economy remains an important determinant of Austin's economic outlook. Other key factors that will help shape the course of the economy include:

- *Continued migration to the region and downtown.* While population growth tends to follow the local economic cycle to some degree, the longer-term outlook is for Austin to remain an attractive site for relocation, especially for those whose income is not tied to the local economy. Attraction of people is arguably as important to Austin's economic future (and tax base) as attraction of firms, and the community will be well served by remaining a desirable destination for those who can afford to live wherever they choose.
- *Maturation of the local tourism sector.* The growth of music-driven tourism has coupled with expansion of local tourist infrastructure to drive visitor traffic up sharply in recent years, a pattern expected to continue.
- *Maintenance of the current "hard" technology base.* Given the increasingly competitive environment for semiconductors and other manufactured technology products, the recent announcements of several expansions and relocations bodes well for the future of "hard" technology in Austin. On the other, several pillars of the local hard tech sector are struggling.
- *Growth in activity related to research and development and creative industries.* While the creative sector has hit Austin's economic development radar screen, the business side of the equation has yet to reach its full potential. Meanwhile, activity related to medicine (both on the academic side and through commercialization) may soon join more traditional areas of R&D where Austin enjoys a concentration of activity.
- *Regionalization of the "local" economy.* A number of regional events will have an economic impact on Austin, as San Antonio's continued evolution, ongoing growth of higher education in the area (witness Texas State in Williamson County and Texas A&M in San Antonio), and efforts to enhance transportation infrastructure (both rail and highway) will all influence the longer-term outlook.

Table 4: Austin MSA Employment Forecasts (000s)

	2007	2008	2009	2010	2011	2012	2013
Const/Nat Resource	48.6	46.7	46.0	46.9	47.9	49.0	50.0
Ed/Health Services	76.6	78.4	80.4	82.6	84.8	87.1	89.4
Financial Activities	45.0	45.5	46.2	46.8	47.6	48.4	49.2
Government	156.3	158.6	161.8	165.1	168.4	171.7	175.2
Information	21.9	22.1	22.4	22.7	23.1	23.4	23.7
Leisure & Hospitality	78.4	80.8	82.9	85.0	87.2	89.5	91.8
Manufacturing	60.0	60.8	62.2	63.0	63.8	64.6	65.5
Other Services	28.2	28.7	29.5	30.3	31.1	32.0	32.9
Prof/Bus Services	106.7	109.2	112.0	115.4	118.8	122.4	126.0
Trade/Trans/Utilities	135.6	139.4	143.4	147.6	151.9	156.3	160.8
TOTAL	757.3	770.2	786.7	805.4	824.6	844.3	864.6

FUND PROJECTIONS

GENERAL FUND

➡ REVENUE

➡ EXPENDITURES

➡ ASSUMPTIONS

➡ PROJECTIONS

GENERAL FUND

The General Fund is the general operating fund for the City of Austin. It includes ten departments that provide direct programs, activities and services to the citizens of Austin as well as to surrounding communities. These departments include Municipal Court, Neighborhood, Planning and Zoning, Watershed Protection and Development Review, Police, Fire, Emergency Medical Services, Public Safety & Emergency Management, Health & Human Services, Parks & Recreation and Library.

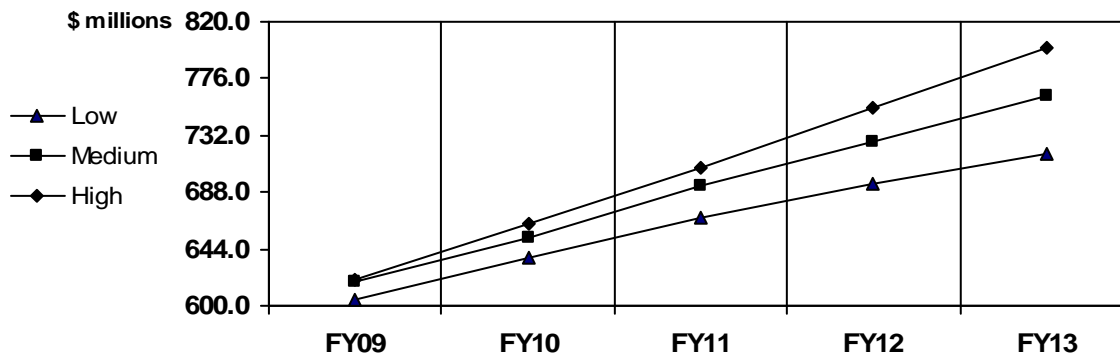
Funding for the General Fund is generated through three primary sources. Revenue from property tax generates 31.4% of total revenue. The current approved property tax rate for FY2008 is 40.34 cents per \$100 valuation. Revenue from sales tax generates 27.8%. The third major source is through transfers in from the electric and water utilities for a total of 20.5%. The remaining 20.3% is derived from various sources which include franchise fees, fines, forfeitures, penalties, licenses, permits, inspections, charges for services and interest.

REVENUE SUMMARY

The financial forecast for General Fund revenue is represented by three different scenarios that are low, medium, and high revenue options. During the forecast period, total General Fund revenue is expected to continue at annual growth rates ranging from 1.9% to 5.3% for the low scenario, 4.1% to 6.0% for the medium scenario, and 4.6% to 6.8 % for the high scenario. The FY 2008-09 revenue forecast compared to the current year is increases approximately \$11.1 million or 1.9% in the low scenario, \$24.6 million or 4.1% in the medium scenario, and \$27.4 million or 4.6% in the high scenario. Below is a summary of total revenue for the forecast period followed by additional information on the major revenue categories.

General Fund Forecast of Major Revenue

	2008-09	2009-10	2010-11	2011-12	2012-13
Scenario 1: Low	\$ 604.5	\$ 636.5	\$ 667.7	\$ 693.9	\$ 717.1
Prior Year Increase	11.1	32.1	31.1	26.3	23.2
Scenario 2: Medium	\$ 618.0	\$ 653.2	\$ 692.5	\$ 727.8	\$ 762.0
Prior Year Increase	24.6	35.2	39.3	35.3	34.2
Scenario 3: High	\$ 620.7	\$ 663.0	\$ 707.6	\$ 753.7	\$ 799.7
Prior Year Increase	27.4	42.3	44.6	46.1	46.0

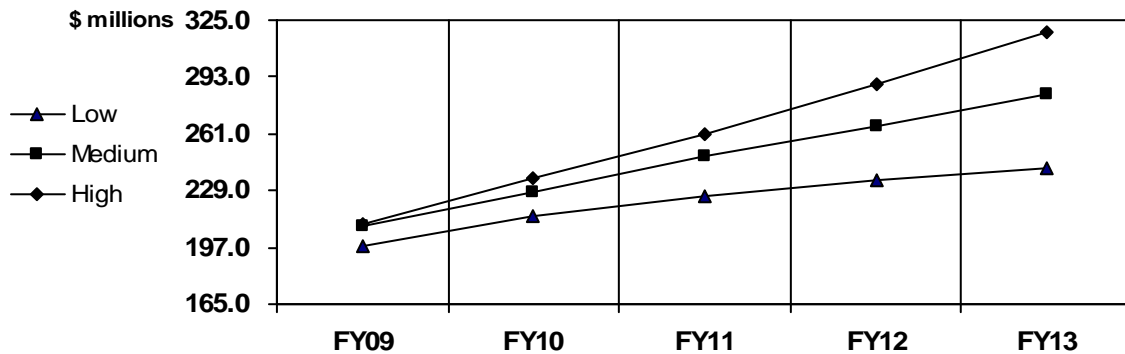


PROPERTY TAX

Property tax revenue accounts for approximately 31.4% of total General Fund revenue. The financial forecast for property tax revenue for the low, medium, and high scenarios is presented in the following chart and graph:

General Fund Forecast of Property Tax Revenue

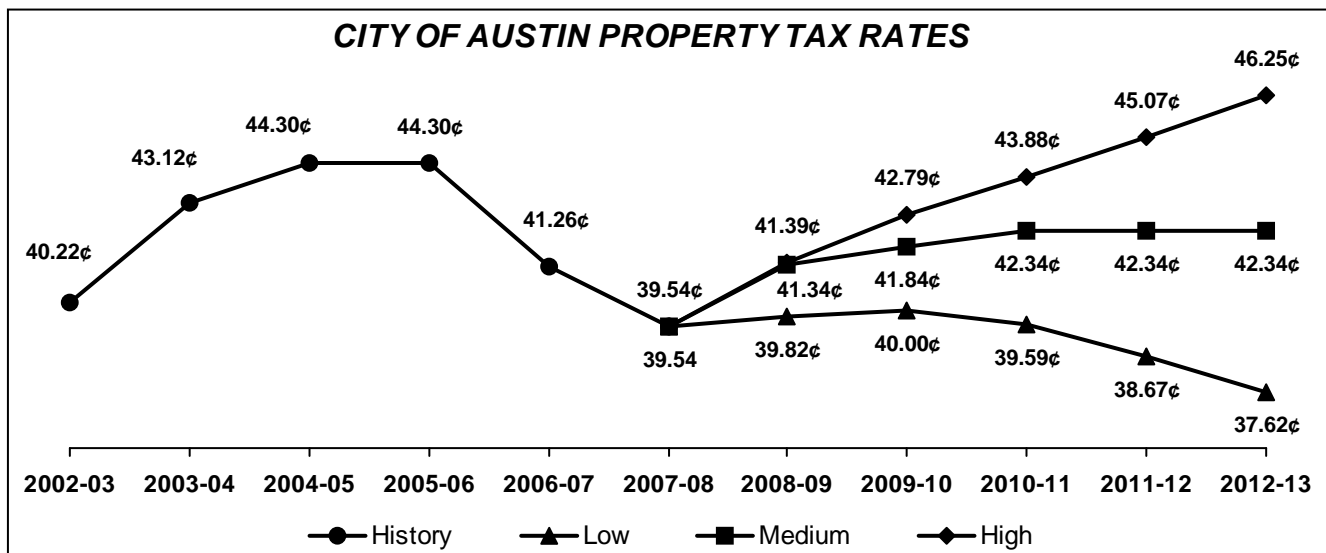
	2008-09	2009-10	2010-11	2011-12	2012-13
Scenario 1: Low	\$ 198.1	\$ 214.1	\$ 226.1	\$ 234.3	\$ 241.3
Prior Year Increase	12.0	16.0	12.0	8.2	7.0
Scenario 2: Medium	\$ 209.3	\$ 228.3	\$ 248.4	\$ 265.4	\$ 283.3
Prior Year Increase	23.1	19.0	20.1	17.1	17.9
Scenario 3: High	\$ 209.6	\$ 235.6	\$ 260.8	\$ 288.6	\$ 318.1
Prior Year Increase	23.5	25.9	25.2	27.8	29.6



- ➡ The financial forecast scenarios assume lower revenue at the effective tax rate; medium revenue at the nominal tax rate; and high revenue at the rollback tax rate. All scenarios include an additional 1¢ in FY2009, 0.5¢ in FY2010, and 0.5¢ in FY2011 in order to fund the 2006 voter approved Bond Program commitment.

Property Tax Rates

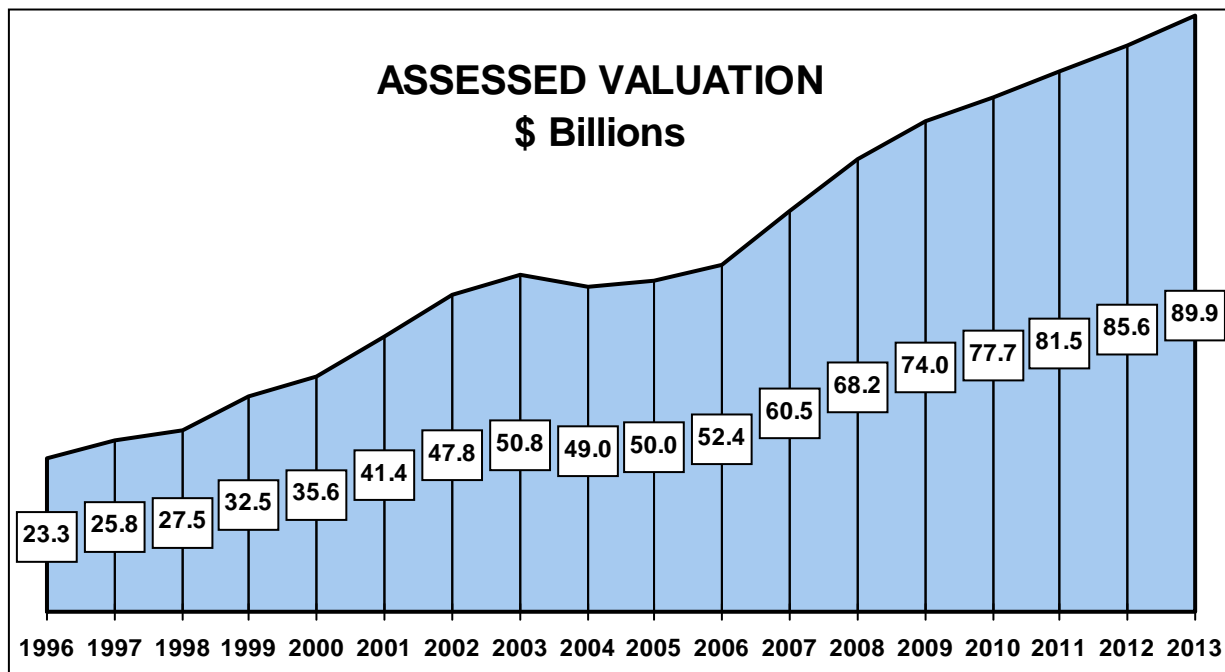
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Low: Effective	39.82¢	40.00¢	39.59¢	38.67¢	37.62¢
Medium: Nominal	41.34¢	41.84¢	42.34¢	42.34¢	42.34¢
High: Rollback	41.39¢	42.79¢	43.88¢	45.07¢	46.25¢



The Travis County Hospital District was created in 2004-05. For ease of comparison tax rates for fiscal years 2002-03 through 2003-04, have been restated to reflect their estimated value had the hospital district been in existence.

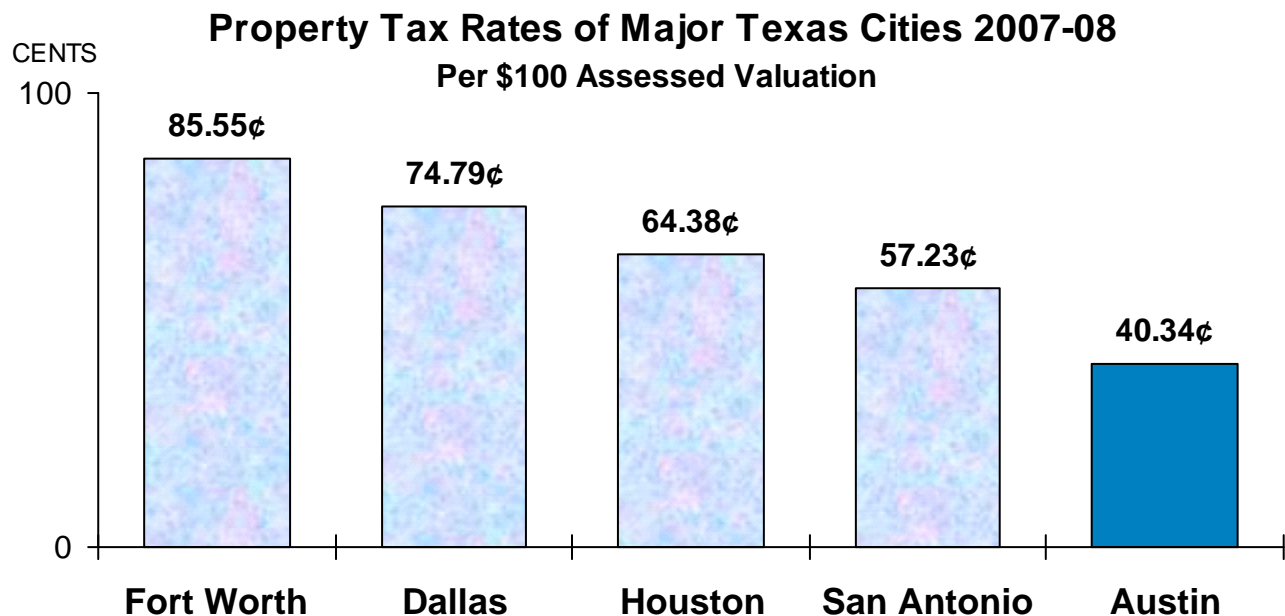
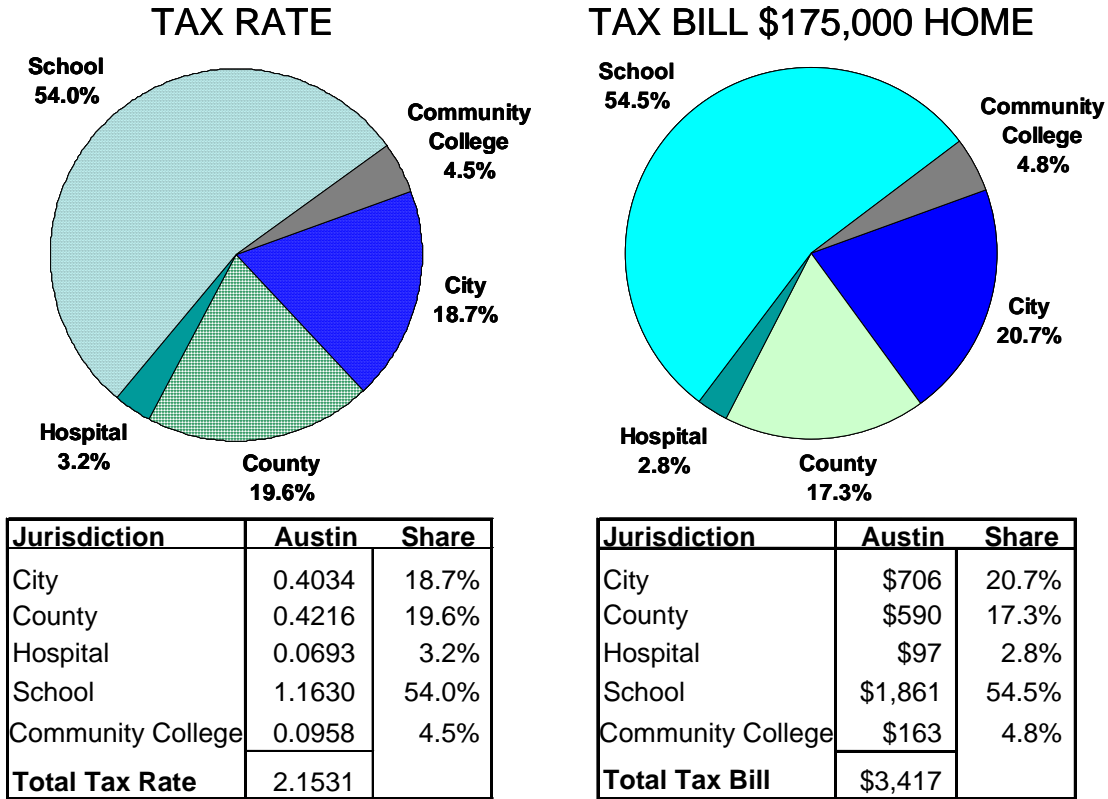
- Based on preliminary information from the Appraisal District, assessed valuations for fiscal 2009 are expected to grow at just under nine percent. We are projecting continued strong growth throughout the forecast period.

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Taxable Assessed Valuation (billions)	\$ 74.0	\$ 77.7	\$ 81.5	\$ 85.6	\$ 89.9
Percentage Change	8.5%	5.0%	5.0%	5.0%	5.0%



PROPERTY TAX COMPARISONS

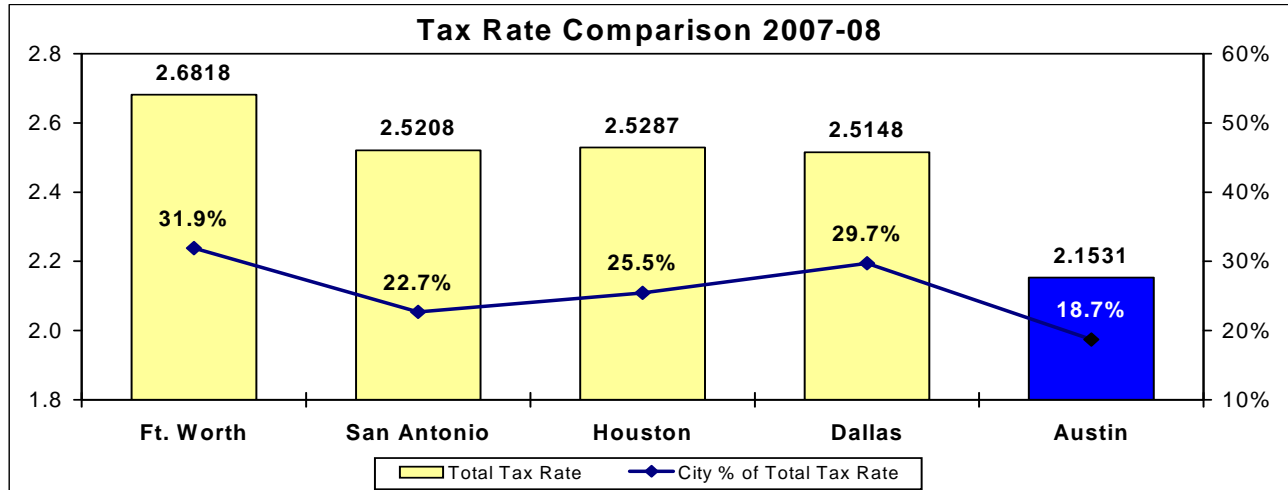
The following section provides comparisons of tax rates and bills for a \$175,000 home, with each taxing jurisdiction's tax exemption applied, and median family income for Austin and the major Texas cities.



Overlapping Property Tax Rates 2007-08

Jurisdiction	Ft. Worth	Share	San Antonio	Share	Houston	Share	Dallas	Share	Austin	Share
City	0.8555	31.9%	0.5723	22.7%	0.6438	25.5%	0.7479	29.7%	0.4034	18.7%
County	0.2665	9.9%	0.2951	11.7%	0.3924	15.5%	0.2281	9.1%	0.4216	19.6%
Hospital	0.2304	8.6%	0.2374	9.4%	0.1922	7.6%	0.2540	10.1%	0.0693	3.2%
School	1.1900	44.4%	1.2497	49.6%	1.1567	45.7%	1.1996	47.7%	1.1630	54.0%
Special District ⁽¹⁾	0.1394	5.2%	0.1663	6.6%	0.1437	5.7%	0.0851	3.4%	0.0958	4.5%
Total Tax Rate	2.6818		2.5208		2.5287		2.5148		2.1531	

(1) Special Districts are different for each county. They can include such special districts as a community college, flood plain, board of education, school transportation, or port authority. However, each county has different special districts.

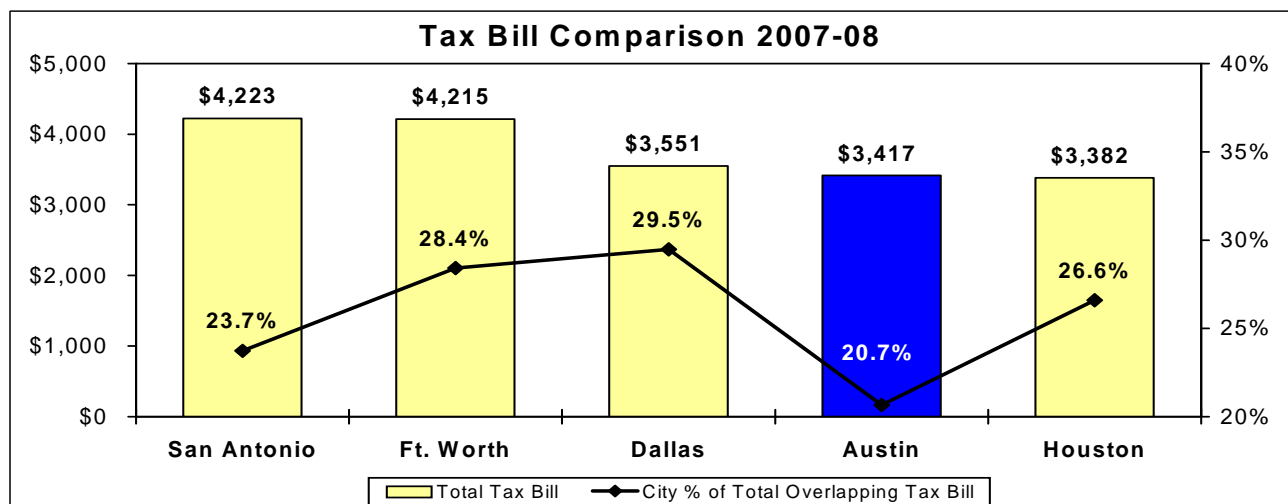


Overlapping Property Tax Bill 2007-08

Jurisdiction	San Antonio	Share	Ft. Worth	Share	Dallas	Share	Austin	Share	Houston	Share
City	\$1,002	23.7%	\$1,198	28.4%	\$1,047	29.5%	\$706	20.7%	\$901	26.6%
County	\$516	12.2%	\$466	11.1%	\$319	9.0%	\$590	17.3%	\$549	16.2%
Hospital	\$415	9.8%	\$403	9.6%	\$356	10.0%	\$97	2.8%	\$269	8.0%
School	\$2,000	47.4%	\$1,904	45.2%	\$1,709	48.1%	\$1,861	54.5%	\$1,446	42.8%
Special District ⁽¹⁾	\$290	6.9%	\$244	5.8%	\$120	3.4%	\$163	4.8%	\$217	6.4%
Total Tax Bill ⁽²⁾	\$4,223		\$4,215		\$3,551		\$3,417		\$3,382	

(1) Special Districts are different for each county. They can include such special districts as a community college, flood plain, board of education, school transportation, or port authority. However, each county has different special districts.

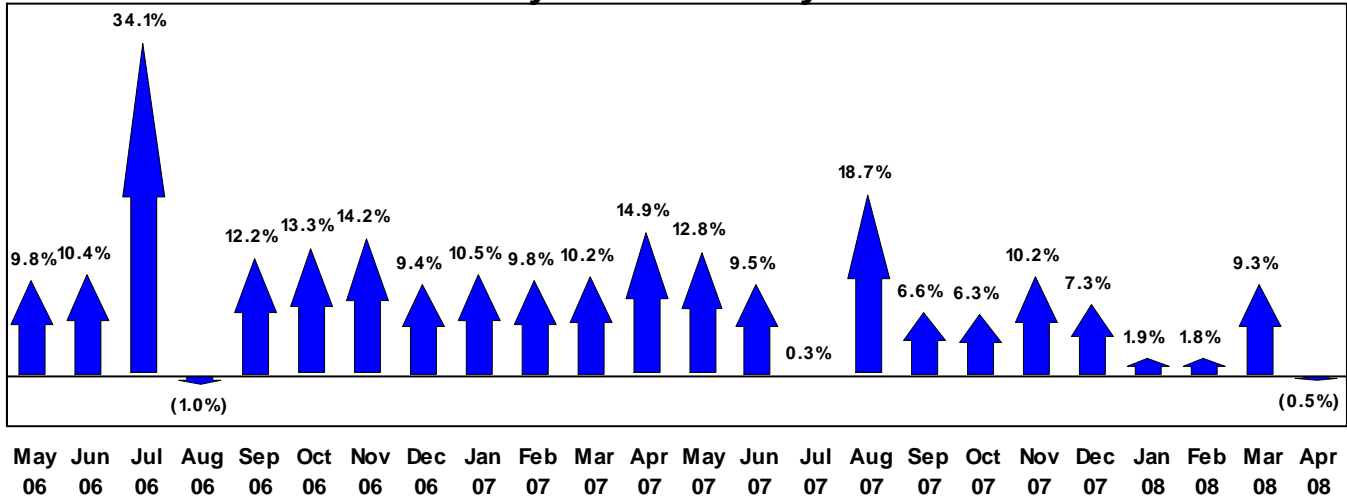
(2) Tax bills are based on a \$175,000 home with each taxing jurisdiction's tax exemption applied.



SALES TAX

Sales Tax revenue accounts for approximately 27.8% of total General Fund revenue. The estimate and financial forecast for sales tax revenue is presented in three scenarios: low, medium, and high options. Sales tax revenue has exhibited a slower growth trend over the last eight months:

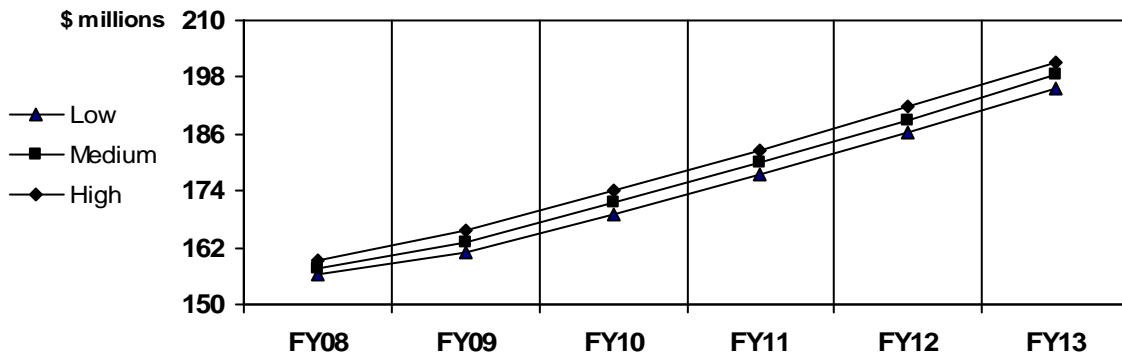
Actual Monthly Sales Tax Payment Growth



Following two years of peak recovery, 12.7% growth in 2005-06 and 9.9% growth in 2006-07, the 2007-08 sales tax is estimated at lower growth rates for each scenario: 2.0% low, 3.0% medium, and 4.0% high. The forecast for 2008-09 projects a minor increase in sales tax growth rates of 3.0% for the low scenario, 3.5% for the medium scenario, and 4.0% for the high scenario. The remaining forecast years for all scenarios are 5.0% each year. Sales tax revenue is presented in the following chart and graph:

General Fund Forecast of Sales Tax Revenue

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Scenario 1: Low Growth Rate	\$ 156.2 2.0%	\$ 160.8 3.0%	\$ 168.9 5.0%	\$ 177.3 5.0%	\$ 186.2 5.0%	\$ 195.5 5.0%
Scenario 2: Medium Growth Rate	\$ 157.6 3.0%	\$ 163.2 3.5%	\$ 171.4 5.0%	\$ 179.9 5.0%	\$ 188.9 5.0%	\$ 198.4 5.0%
Scenario 3: High Growth Rate	\$ 159.2 4.0%	\$ 165.6 4.0%	\$ 173.9 5.0%	\$ 182.6 5.0%	\$ 191.7 5.0%	\$ 201.3 5.0%



OTHER REVENUE

Utility transfer revenue accounts for approximately 20.5% of total General Fund revenue. The forecast revenue is based on maintaining the current utility transfer rates which are consistent with the City's financial policies:

Electric Utility	9.1%
Water Utility	8.2%

Because of slight upward trends in utility revenues, increases in utility transfers are projected for each year of the forecast period.

EXPENDITURES SUMMARY

Projections show that while revenue will continue a very moderate growth throughout the forecast period, expenditure requirements will exceed those revenue projections. Personnel costs continue to be the main base requirement driving the increase in total expenditures and make up 78% of the total current year General Fund Budget. Two main variables of personnel costs include health insurance and pay for performance.

Other base requirements in the forecast period include funding for annexations and new or expanded facilities such as Roy Guerrero Colorado River Park, Northwest Recreation Center, Dickinson Museum and the animal shelter. Finally, the forecast includes other expenditure increases for obligations such as contract inflators for the jail contract and social services contracts as well as requirements for transfers to funds such as workers compensation, liability reserve, accrued payroll, Transportation Fund, Support Services Fund and Communications & Technology Management Fund.

Basic Assumptions FY 2008 thru FY 2012

Base Budget

- Maintain funding to meet current service levels
 - EMS, Public Health & Social Services
 - Parks Programs & Library Services
 - Permitting, Review & Inspection

Base Increases

- Maintain 2.0 Police Officers per 1,000 population
- O&M for new/expanded facilities
- Increase for Social Service Contracts
- Inflationary increases for operational contractuals and commodities

Personnel Increases

- Pay for Performance for all employees at same level
- Market Adjustments
- Health insurance increase of 10% each year
- Continuation of 2% supplemental retirement contribution
- Includes funding for public safety consolidation

General Fund Summary
Financial Forecast FY 2009 - FY 2013
(\$ millions)

Scenario 1 - Low Revenue

	2009	2010	2011	2012	2013
Revenue	\$604.5	\$636.5	\$667.7	\$693.9	\$717.1
Expenditures					
Departmental	\$549.4	\$583.8	\$616.2	\$651.0	\$703.6
Transfers /					
Other Requirements	\$91.9	\$98.0	\$107.3	\$117.7	\$112.8
Total Projected Expenditures	\$641.3	\$681.8	\$723.5	\$768.7	\$816.3
Excess / (Deficit)	(\$36.8)	(\$45.3)	(\$55.8)	(\$74.8)	(\$99.2)

General Fund Summary
Financial Forecast FY 2009 - FY 2013
(\$ millions)

Scenario 2 - Medium Revenue

	2009	2010	2011	2012	2013
Revenue	\$618.0	\$653.2	\$692.5	\$727.8	\$762.0
Expenditures					
Departmental	\$549.4	\$583.8	\$616.2	\$651.0	\$703.6
Transfers /					
Other Requirements	\$91.9	\$98.0	\$107.3	\$117.7	\$112.8
Total Projected Expenditures	\$641.3	\$681.8	\$723.5	\$768.7	\$816.3
Excess / (Deficit)	(\$23.3)	(\$28.6)	(\$31.0)	(\$40.9)	(\$54.3)

General Fund Summary
Financial Forecast FY 2009 - FY 2013
(\$ millions)

Scenario 3 - High Revenue

	2009	2010	2011	2012	2013
Revenue	\$620.7	\$663.0	\$707.6	\$753.7	\$799.7
Expenditures					
Departmental	\$549.4	\$583.8	\$616.2	\$651.0	\$703.6
Transfers / Other Requirements	\$91.9	\$98.0	\$107.3	\$117.7	\$112.8
Total Projected Expenditures	\$641.3	\$681.8	\$723.5	\$768.7	\$816.3
Excess / (Deficit)	(\$20.6)	(\$18.8)	(\$15.9)	(\$15.0)	(\$16.6)