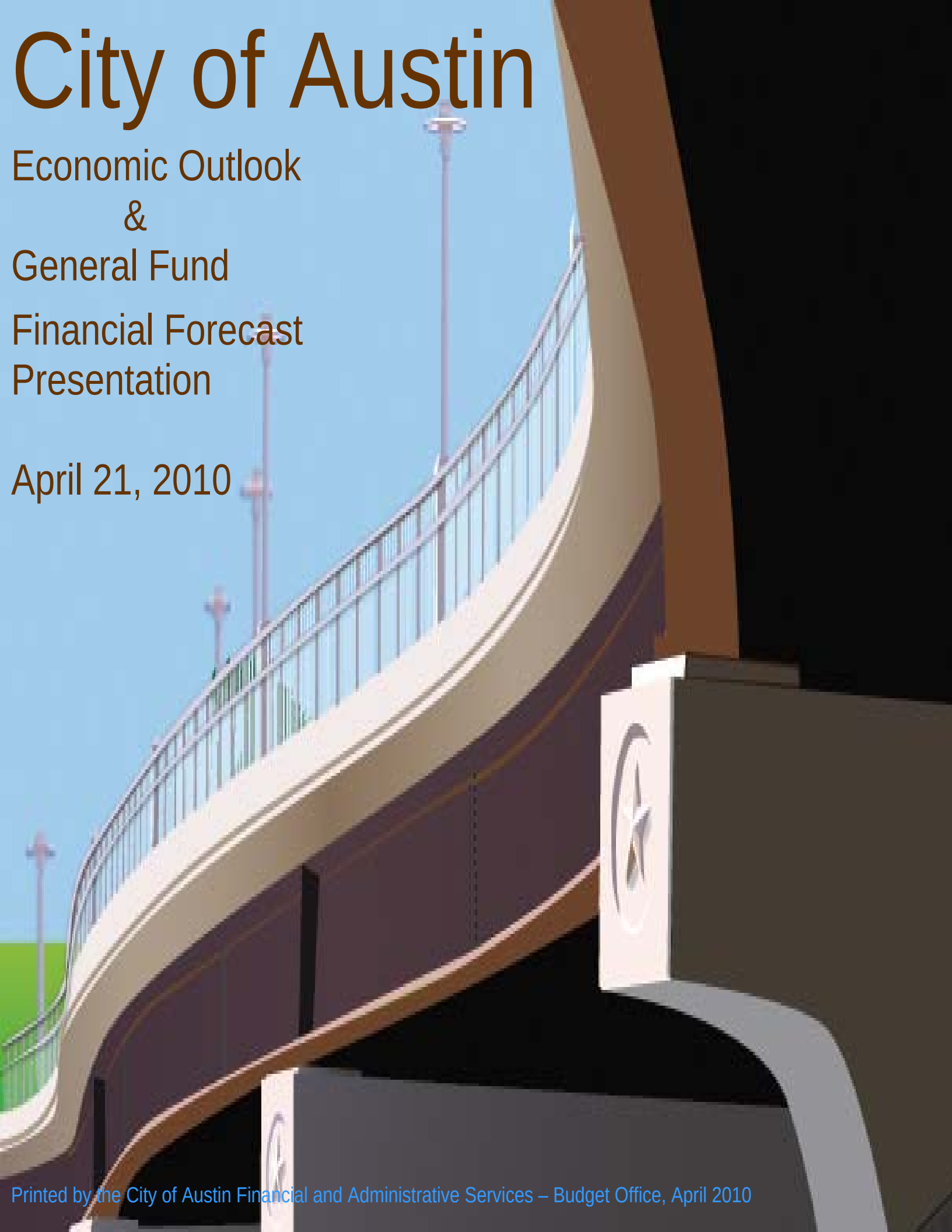


City of Austin



Economic Outlook & General Fund Financial Forecast Presentation

April 21, 2010



City of Austin Financial Forecast

General Fund

April 21, 2010



2011 Budget Priorities

- Continued commitment to an inclusive and transparent budget process
 - community engagement
 - boards & commissions
 - annual citizen survey
 - quarterly financial updates to Audit & Finance committee
 - all presentations and reports available at www.ci.austin.tx.us/budget
- Some level of employee wage increase
- Focus on enterprise operations and impact on rates
- Publication of departmental “horizon issues” report to supplement economic outlook and financial forecast
 - to provide a comprehensive picture of the local economy, City finances, and operational challenges over the next 5 years

Today's Presentation

- 2011 Budget Goals
- Economic Outlook
 - *Jon Hockenyos, Texas Perspectives*
- General Fund Recap & Forecast Highlights
- Financial Forecast – General Fund
 - expenditures
 - revenue
 - key forecast assumptions
- Conclusions and Next Steps
 - budget calendar



Economic Outlook

Jon Hockenyos
Texas Perspectives

ECONOMIC OUTLOOK



The Economic Climate Influencing Austin, with Implications for COA

City of Austin

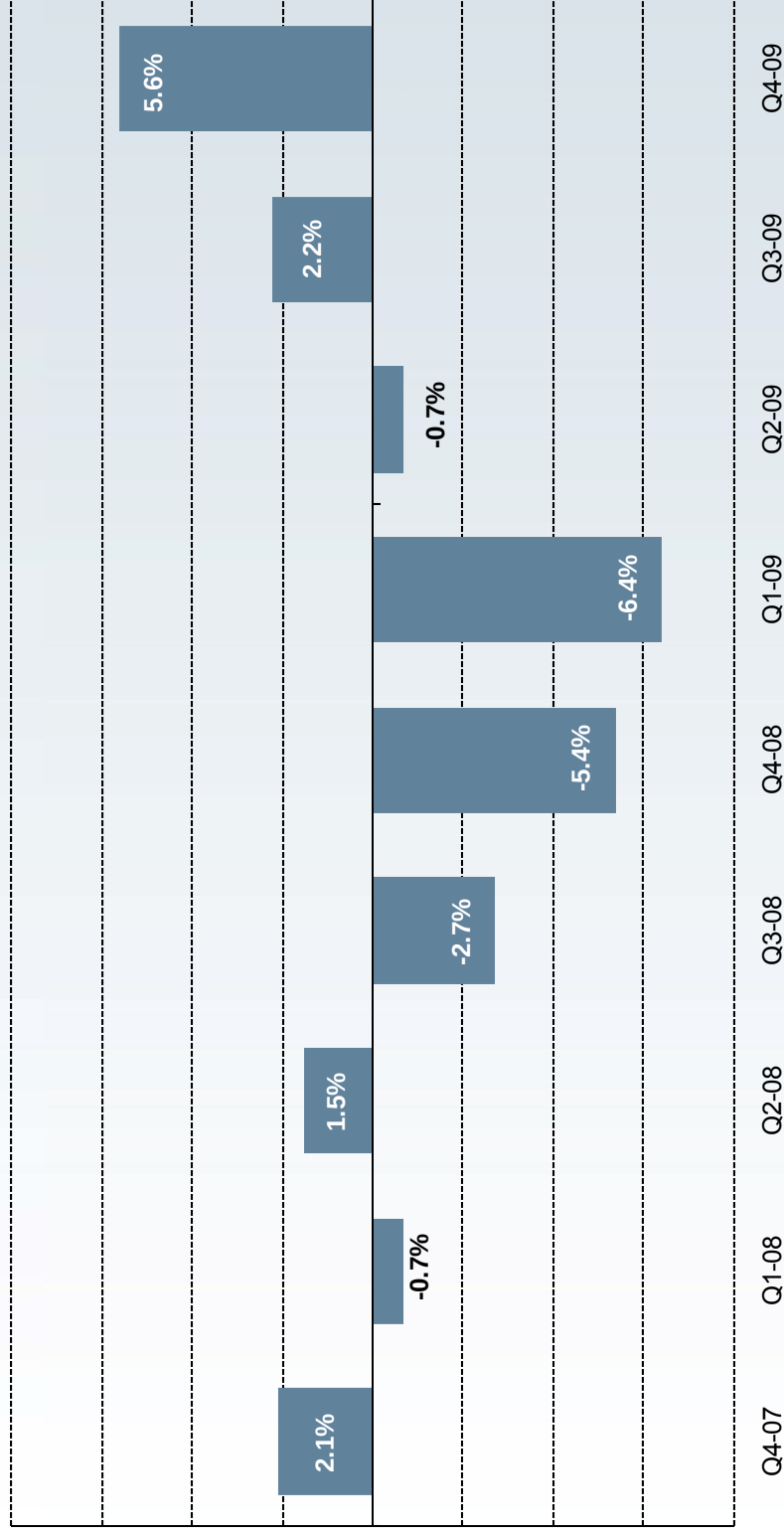
Presented by TXP | Spring 2010

National Overview

- Economics is part science and part art/psychology – science says continued sluggishness, but art says things are improving.
 - Measures that have turned have to do with attitude & lack of alternatives – consumer confidence, stock market, etc.
 - Some beginning signs of actual improvement – productivity, consumers (a little), foreign trade, job situation (a little)
 - GDP is now growing – taken as a good sign, but things are still weak
- Second wave of impacts is hitting – lost jobs, exhausted savings, foreclosure, bankruptcy, etc. Public sector will struggle for at least next two years.
- Conventional wisdom is that debt has to yield inflation over time – not for the foreseeable future, but logically down the road.
- Commercial real estate remains a significant “shoe to drop” – should be a restraint on growth for several years.
- Bottom likely was mid-summer 2009.

National Indicators

GDP Growth (SAAR)



Sources: Bureau of Economic Analysis; TXP

National Indicators

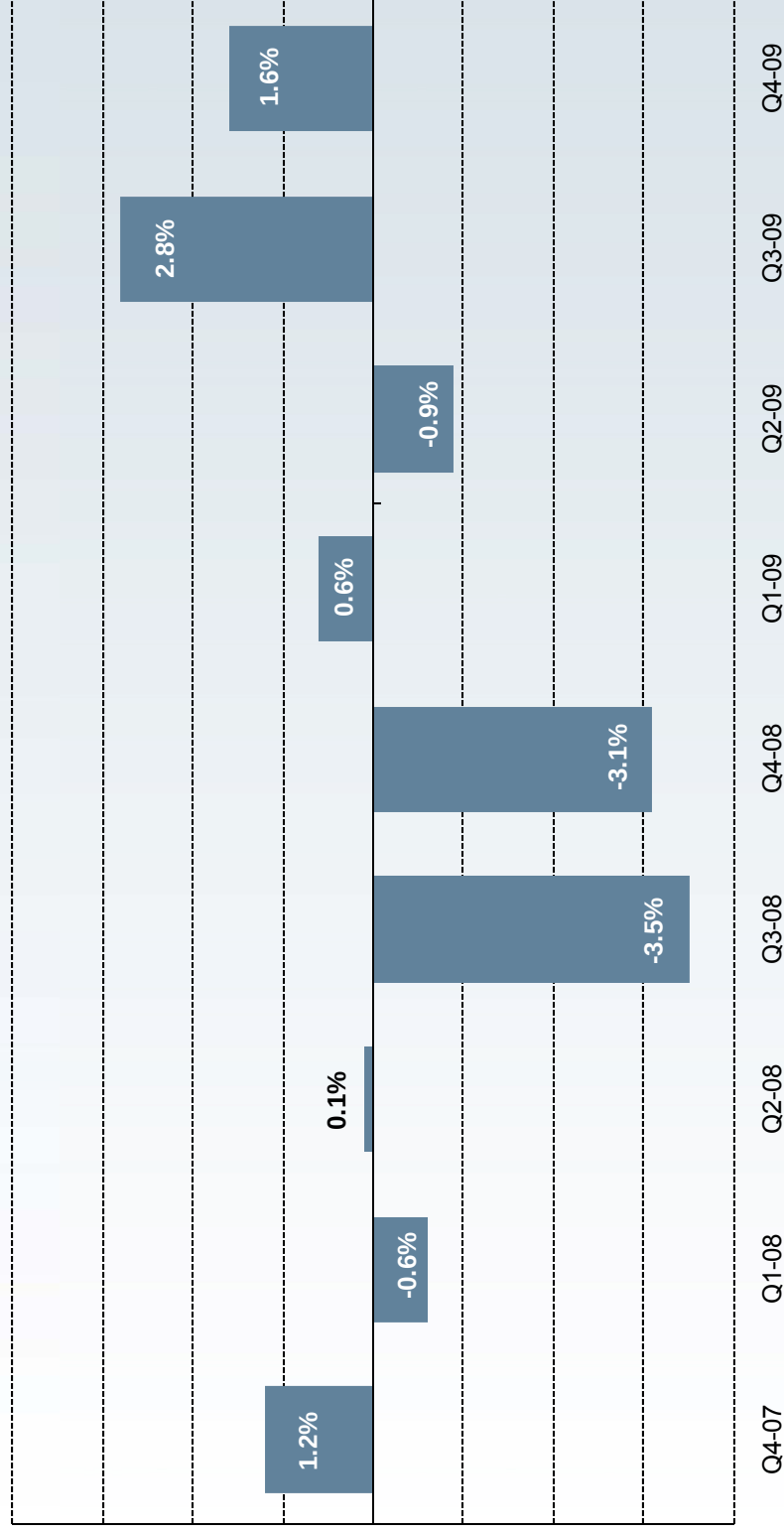
Contributions to Growth (SAAR)

	4Q-08	1Q-09	2Q-09	3Q-09	4Q-09
Gross domestic product	-5.4	-6.4	-0.7	2.2	5.6
Personal Consumption Expenditures	-2.2	0.4	-0.6	2.0	1.2
Goods	-2.4	0.6	-0.7	1.6	0.7
Services	0.3	-0.1	0.1	0.4	0.5
Gross private domestic investment	-3.9	-9.0	-3.1	0.5	4.4
Fixed investment	-3.3	-6.6	-1.7	-0.2	0.6
Nonresidential	-2.5	-5.3	-1.0	-0.6	0.5
Residential	-0.8	-1.3	-0.7	0.4	0.1
Change in private inventories	-0.6	-2.4	-1.4	0.7	3.8
Net exports of goods and services	0.5	2.6	1.7	-0.8	0.3
Exports	-2.7	-4.0	-0.5	1.8	2.4
Imports	3.1	6.6	2.1	-2.6	-2.1
Government Expenditures	0.2	-0.5	1.3	0.6	-0.3
Federal	0.5	-0.3	0.9	0.6	0.0
National defense	0.2	-0.3	0.7	0.5	-0.2
Nondefense	0.3	-0.1	0.2	0.2	0.2
State and local	-0.3	-0.2	0.5	-0.1	-0.3

Sources: Bureau of Economic Analysis; TXP

National Indicators

Consumer Spending Growth (SAAR)

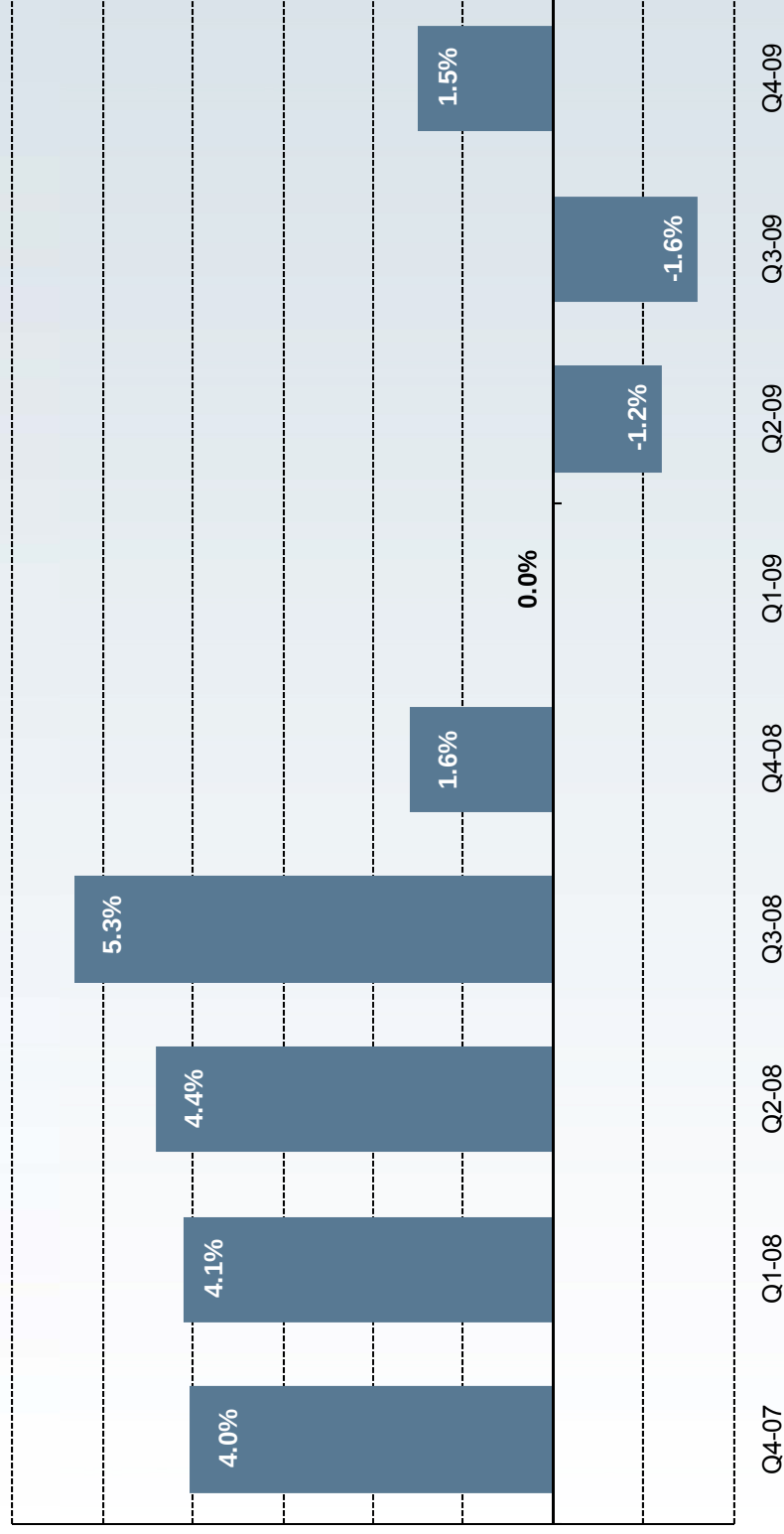


Sources: Bureau of Economic Analysis; TXP



National Indicators

Consumer Price Index Growth (12-Month Change)

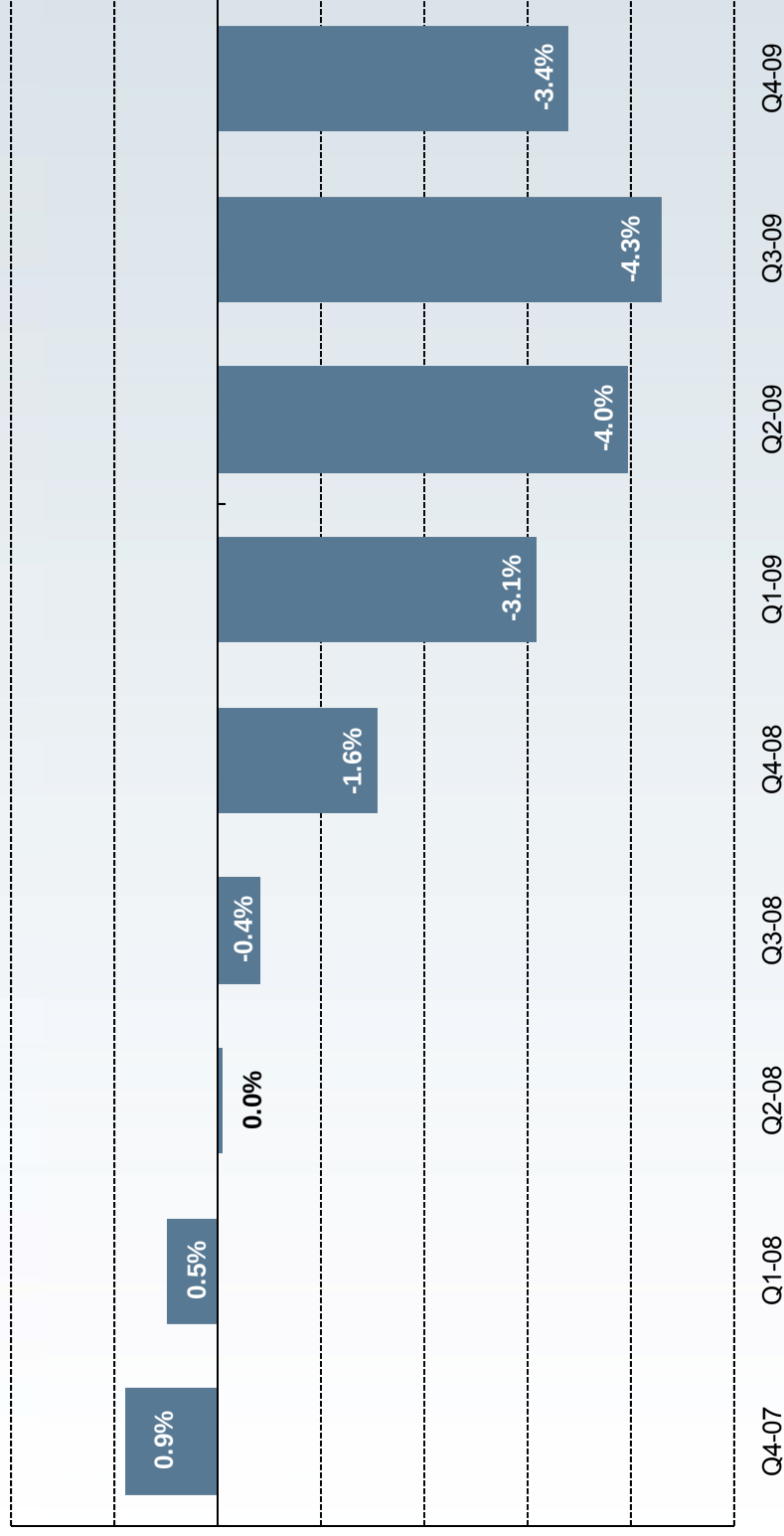


Sources: Bureau of Labor Statistics; TXP



National Indicators

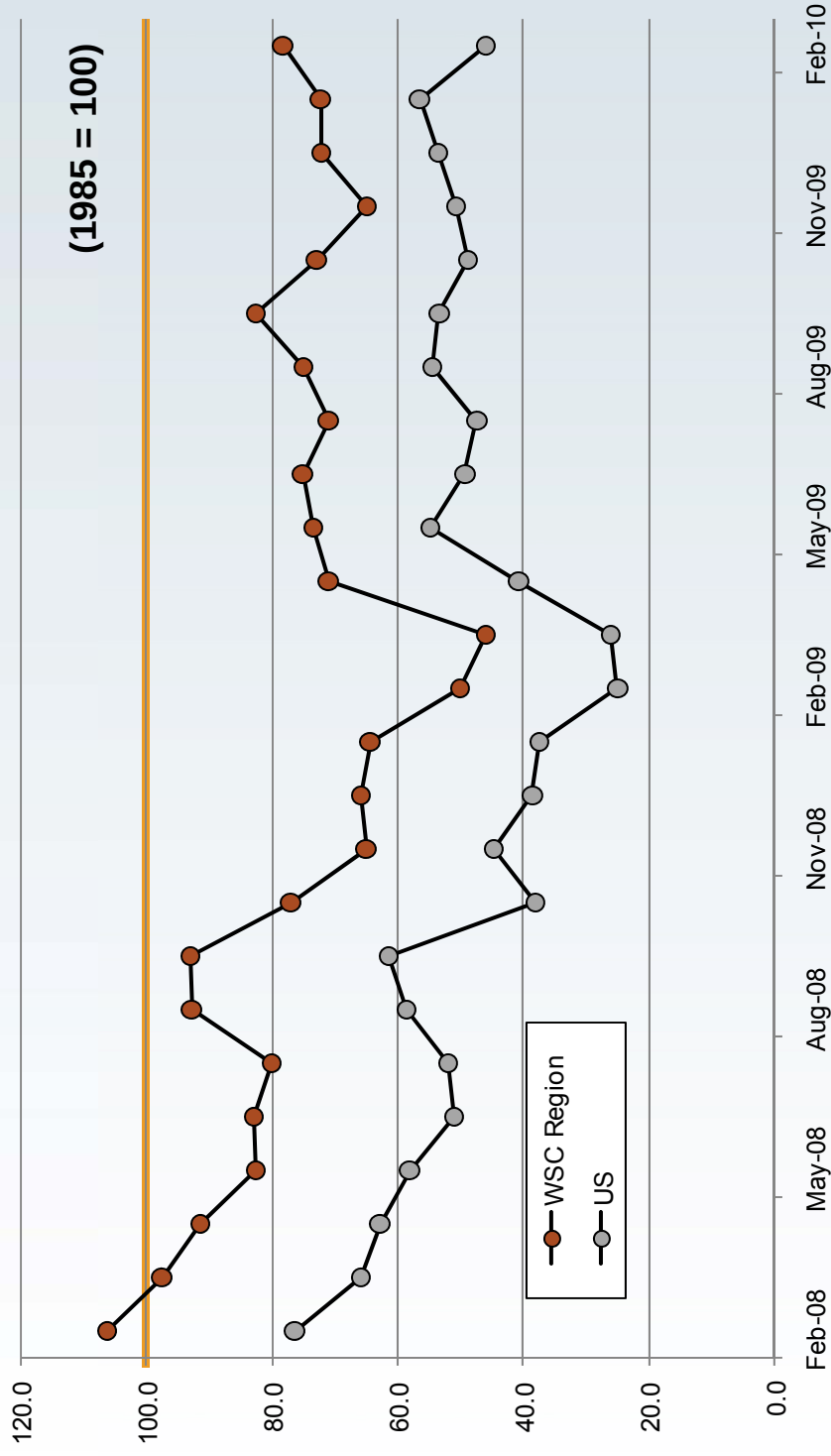
Employment Growth (12-Month Change)



Sources: Bureau of Labor Statistics; TXP

National Indicators

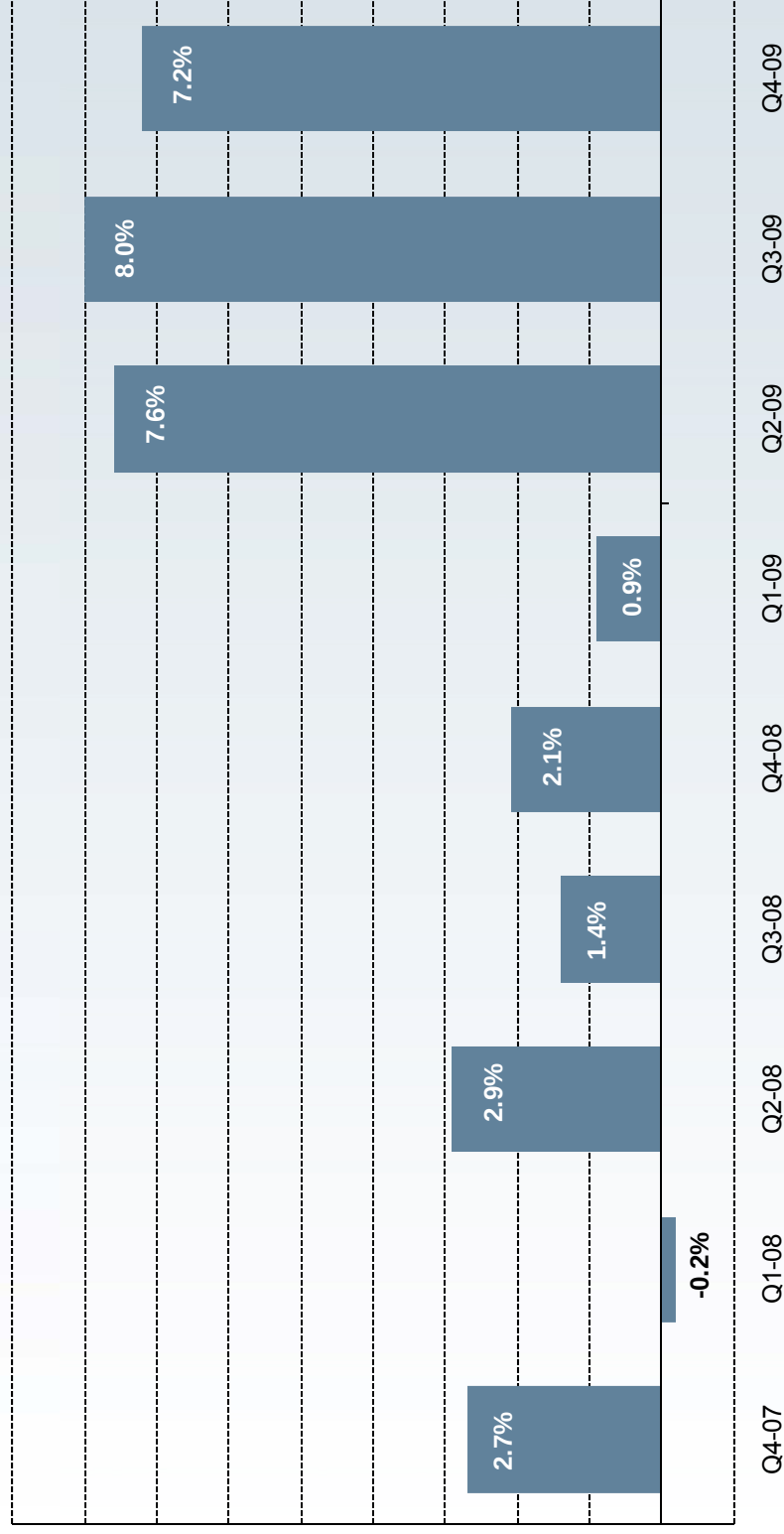
Consumer Confidence



Sources: Conference Board; TXP

National Indicators

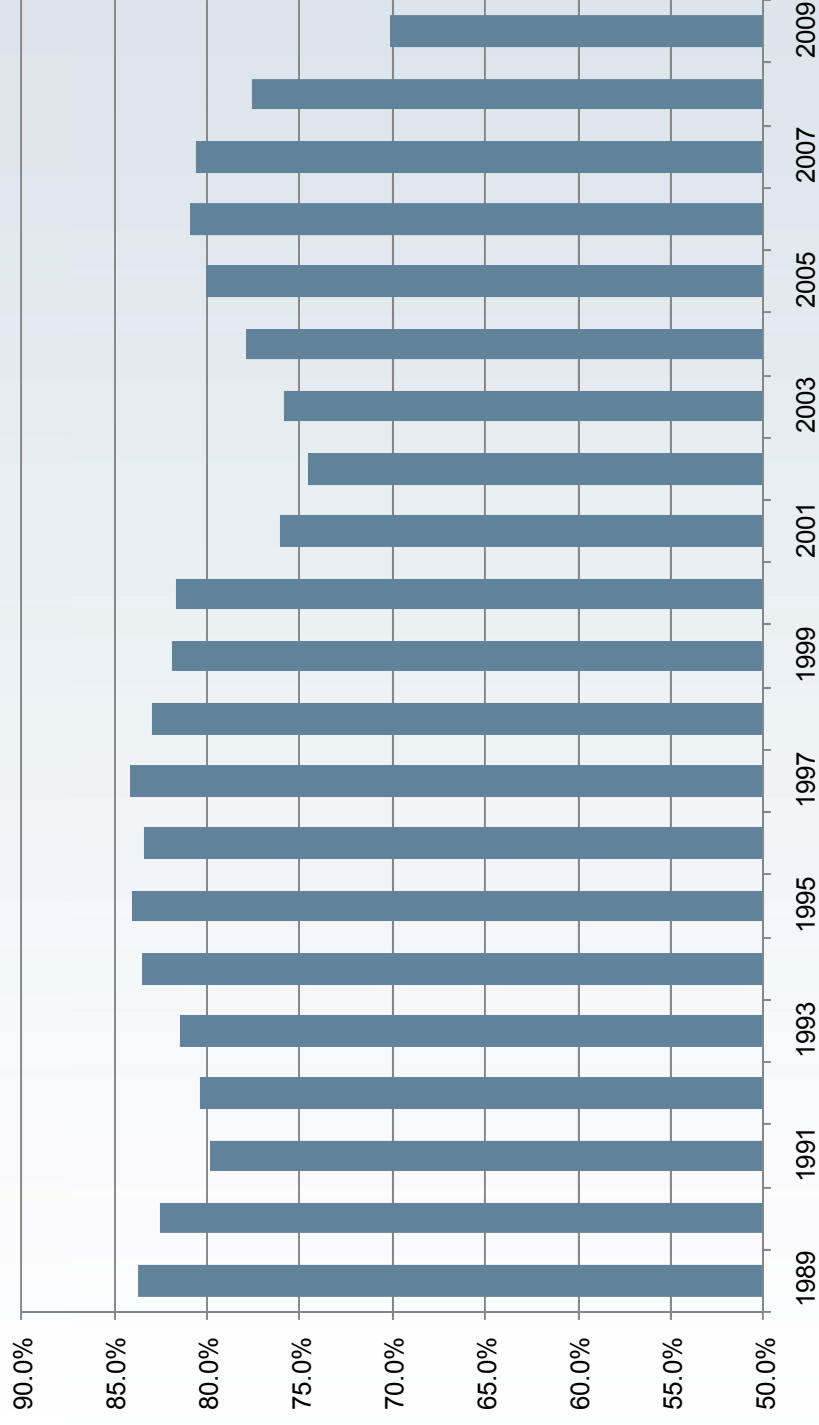
Business Productivity Growth (SAAR)



Sources: Bureau of Labor Statistics; TXP

National Indicators

Industrial Capacity Utilization



Sources: Federal Reserve Bank; TXP



National Context

Commercial Real Estate

- Increased vacancy rates, which now range from 8% for multifamily housing to 18% for office buildings, and falling rents, which have declined 40% for office and 33% for retail, have exerted a powerful downward pressure on the value of commercial properties.
- The problems facing commercial real estate have no single cause. The loans most likely to fail were made at the height of the real estate bubble when commercial real estate values had been driven above sustainable levels and loans; many were made in a rush for profit. Other loans were potentially sound when made but the severe recession has translated into fewer retail customers, less frequent vacations, decreased demand for office space, and a weaker apartment market, all increasing the likelihood of default on commercial real estate loans. Even borrowers who own profitable properties may be unable to refinance their loans as they face tightened underwriting standards, increased demands for additional investment by borrowers, and restricted credit
- Between 2010 and 2014, about \$1.4 trillion in commercial real estate loans will reach the end of their terms. Nearly half are at present “underwater” – that is, the borrower owes more than the underlying property is currently worth. Commercial property values have fallen more than 40% since the beginning of 2007.

National Context

Commercial Loan Status

Figure 6: Percentage of CMBS that were Interest-only and Partial Interest-only at Origination, by Year⁶⁵

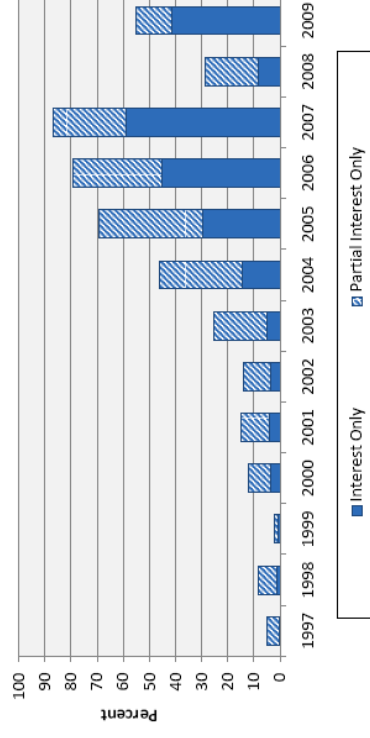


Figure 26: Commercial Real Estate Delinquencies for All Domestic Commercial Banks²¹⁹

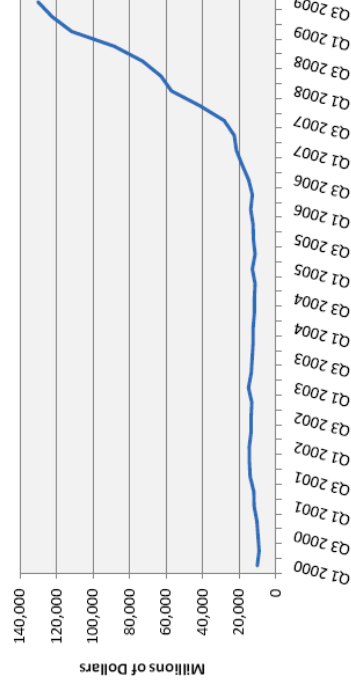


Figure 27: Delinquent, Defaulted, and Non-Performing Commercial Real Estate Loans for All Domestic Commercial Banks²³⁰

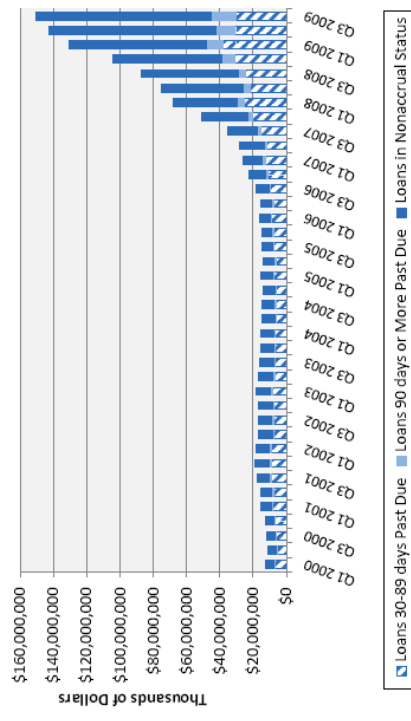
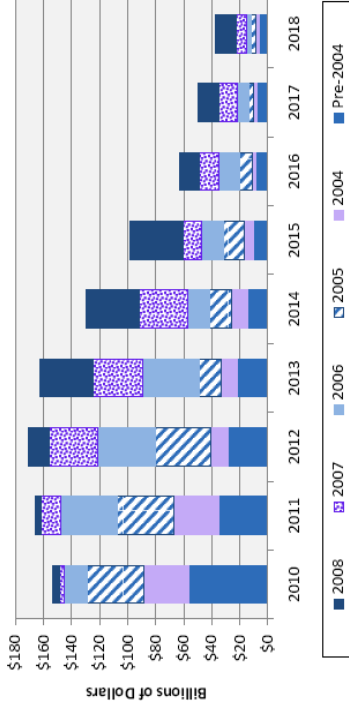


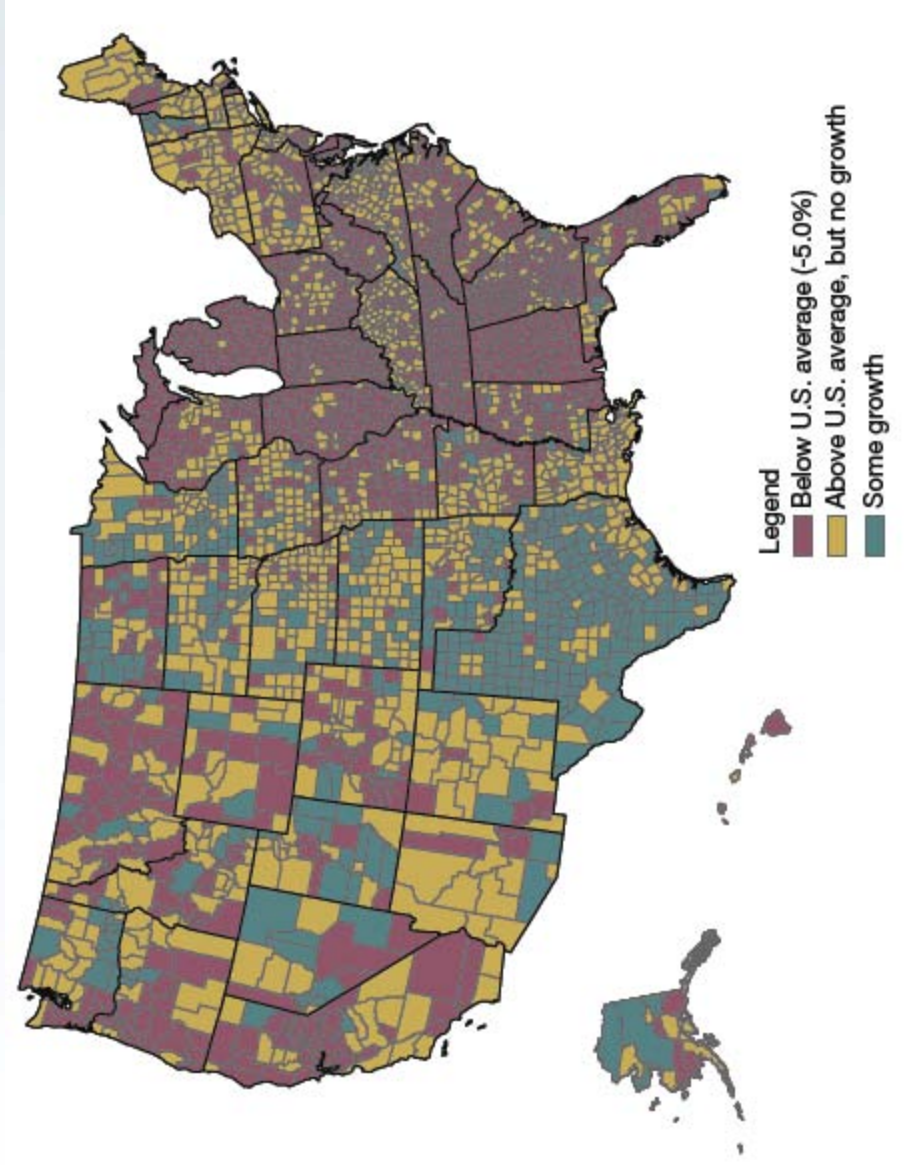
Figure 33: Maturity Schedule for Commercial Real Estate Loans Held by Banks by Origination Year²⁴⁴



Sources: Congressional Oversight Panel; TXP

National Indicators

Employment Change: 4Q-07 to 4Q-09



Sources: Amber Waves (USDA), Bureau of Labor Statistics; TXP



National Indicators

Average Home Sales Price (\$000s)

	2006	2007	2008	2009	06 to '09	08 to '09
Austin	\$173.7 \$	183.7 \$1	88.6 \$18	7.4	7.9%	-0.6%
Boston	\$402.2 \$	395.6 \$3	61.1 \$33	2.9	-17.2%	-7.8%
Charlotte	\$190.6 \$	204.3 \$1	97.8 \$18	9.1	-0.8%	-4.4%
Chicago	\$273.5 \$	276.6 \$2	45.6 \$19	9.2	-27.2%	-18.9%
Dallas-Ft Worth	\$149.5 \$	150.9 \$1	45.8 \$14	5.1	-2.9%	-0.5%
Denver	\$249.5 \$	245.4 \$2	19.3 \$21	9.9	-11.9%	0.3%
Houston	\$149.1 \$	152.5 \$1	51.6 \$15	3.1	2.7%	1.0%
Las Vegas	\$317.4 \$	297.7 \$2	20.5 \$14	2.9	-55.0%	-35.2%
Miami	\$371.2 \$	365.5 \$2	85.1 \$21	1.2	-43.1%	-25.9%
Minneapolis	\$232.3 \$	225.2 \$2	02.0 \$18	1.2	-22.0%	-10.3%
New York	\$539.4 \$	540.3 \$4	94.3 \$43	7.6	-18.9%	-11.5%
Phoenix	\$268.2 \$	257.4 \$1	91.3 \$13	7.0	-48.9%	-28.4%
Portland, OR	\$280.8 \$	295.2 \$2	80.1 \$24	4.1	-13.1%	-12.9%
Sacramento	\$374.5 \$	342.8 \$2	16.7 \$18	0.5	-51.8%	-16.7%
San Antonio	\$141.7 \$	153.2 \$1	52.8 \$14	9.3	5.4%	-2.3%
San Diego	\$601.8 \$	588.7 \$3	85.6 \$35	9.5	-40.3%	-6.8%
San Francisco	\$752.8 \$	804.8 \$6	22.0 \$49	3.3	-34.5%	-20.7%
Seattle	\$361.2 \$	386.9 \$3	57.2 \$30	6.2	-15.2%	-14.3%
Tampa	\$228.9 \$	214.9 \$1	73.0 \$14	0.7	-38.5%	-18.7%
Tucson	\$244.9 \$	244.8 \$2	04.3 \$17	2.5	-29.6%	-15.6%
Washington	\$431.0 \$	430.8 \$3	43.4 \$30	8.7	-28.4%	-10.1%

Sources: National Association of Realtors; TXP

National Conclusions

- GDP will be positive for 2010, but real “recovery” won’t happen until at least the second half of the year.
 - Job creation will follow demand growth that isn’t stimulus-driven – can’t happen without credit resolution
 - Double-dip could happen
 - Modest uptick in prices, but interest rates/monetary policy unlikely to change significantly until recovery is firmly in place.
 - Health care and other policy issues unlikely to have measurable economic impact in 2010
- Economic recovery will almost certainly bring inflation acceleration, although property values are countervailing force
 - Rising interest rates curtail growth, depress tax revenues
 - Deficit/debt impact?
- Longer-Term Outlook (Next Five Years)
 - Best Case – back to traditional model: global recovery leads to export-driven growth (lower dollar and new tech/products) that allows job creation and creates overseas markets for investment.
 - Worst Case – some version of stagflation: debt yields inflation, causing interest rates to rise sharply and growth to be stifled.



Austin Overview

City of Austin

Presented by TXP | Spring 2010

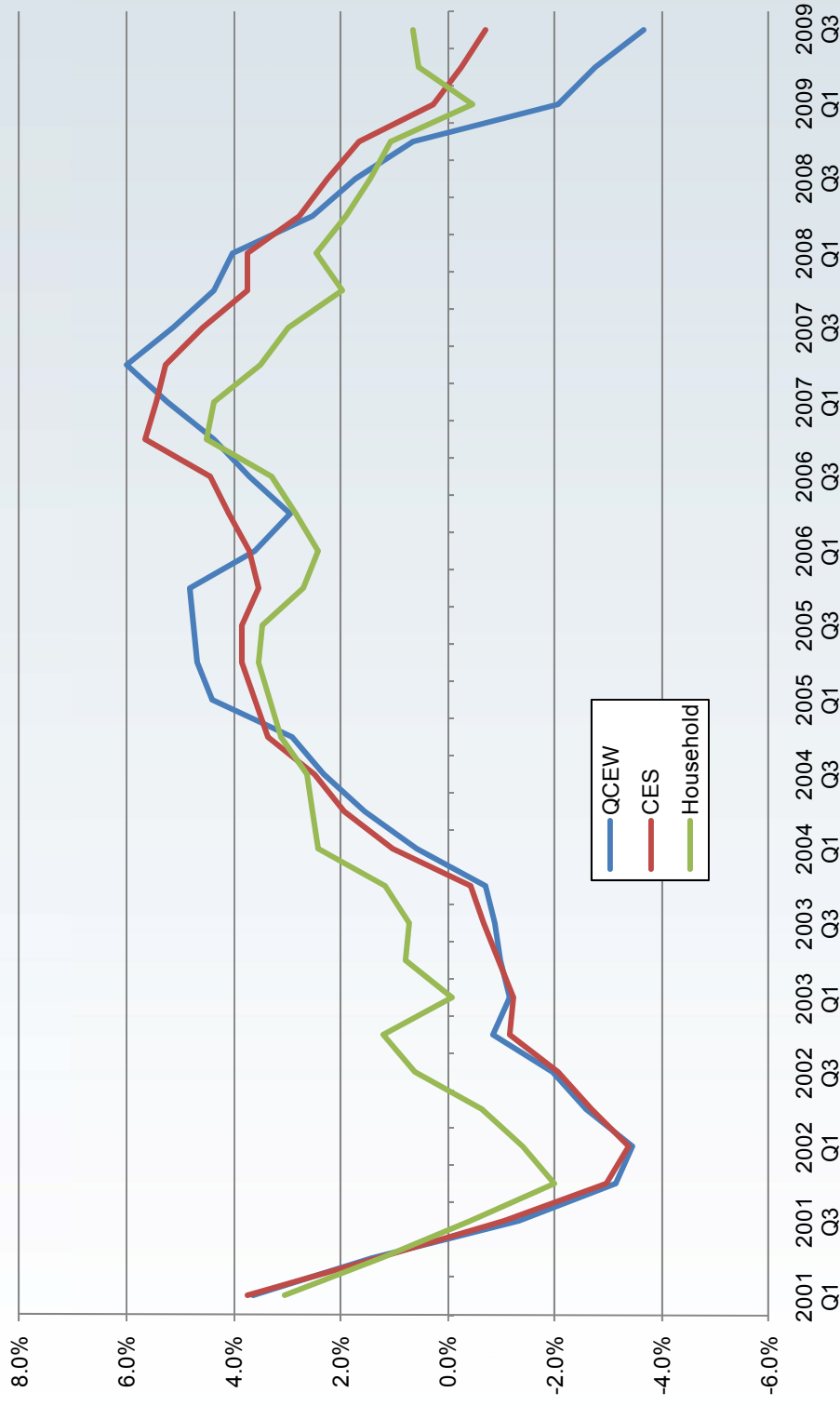
Austin Context

Overview

- Recession is just about over, at least technically.
 - Local consumer spending remains very sluggish, with a few bright signs
- Real estate will lag recovery in the rest of the economy, both nationally and in Austin area.
 - Overcapacity has been addressed on development side, but other shoe has yet to fall on values, especially for commercial space. Could see a lot shortage in 18 months – 2 years.
 - Resetting of real estate values is crucial to resumption of flow of capital
 - better understanding of collateral and working off excess inventory will set stage for future investment.
- Job creation can't really begin to accelerate without new investment
 - along with everything else, there is too much uncertainty on both economic and public policy front at this point
 - Look for job growth toward the end of 2010
- Confidence and capacity to spend are slowly recovering – expect about another year before balance has been restored. Recovery is U-shaped at best.

Austin MSA Indicators

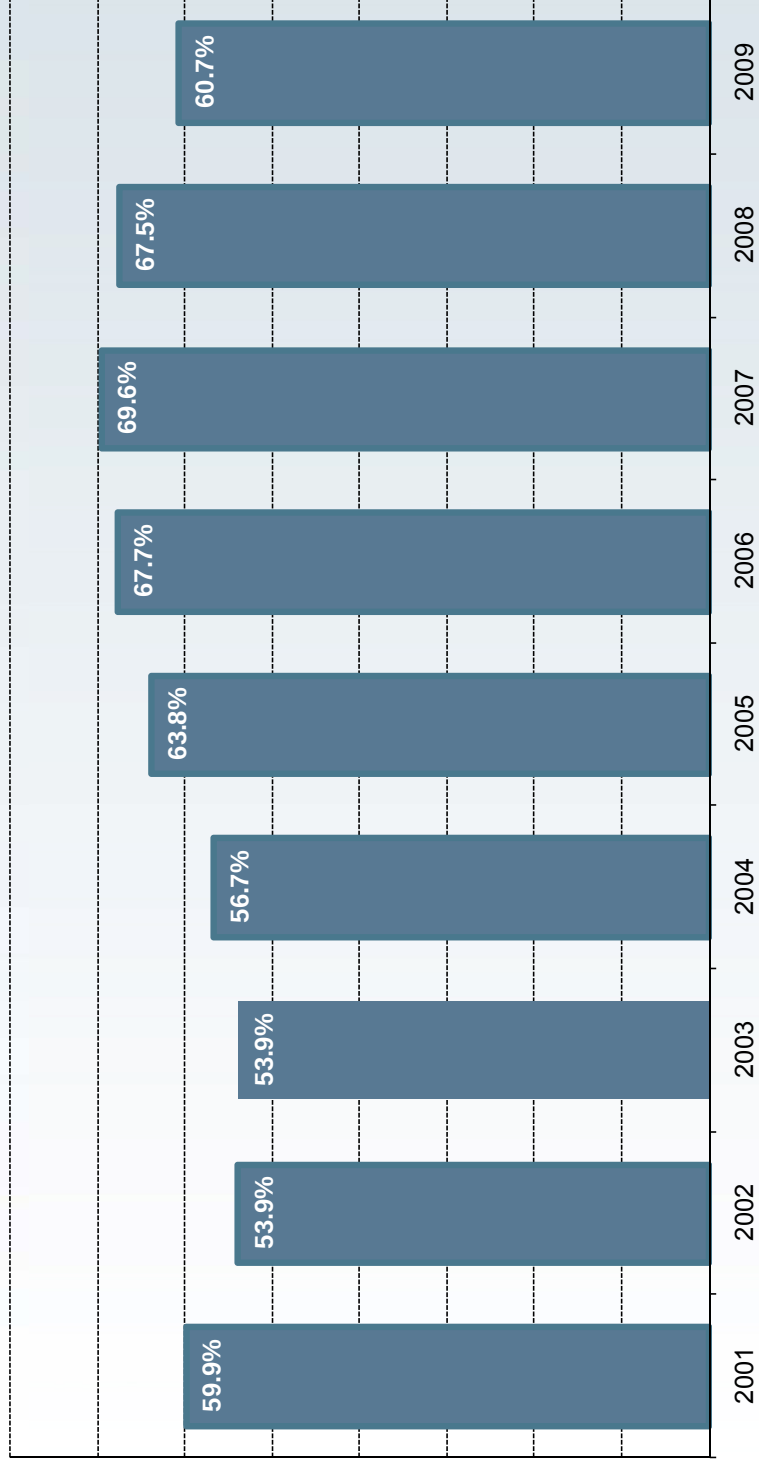
Employment Comparison – 3 Series



Source: BLS, TXP

Austin Indicators

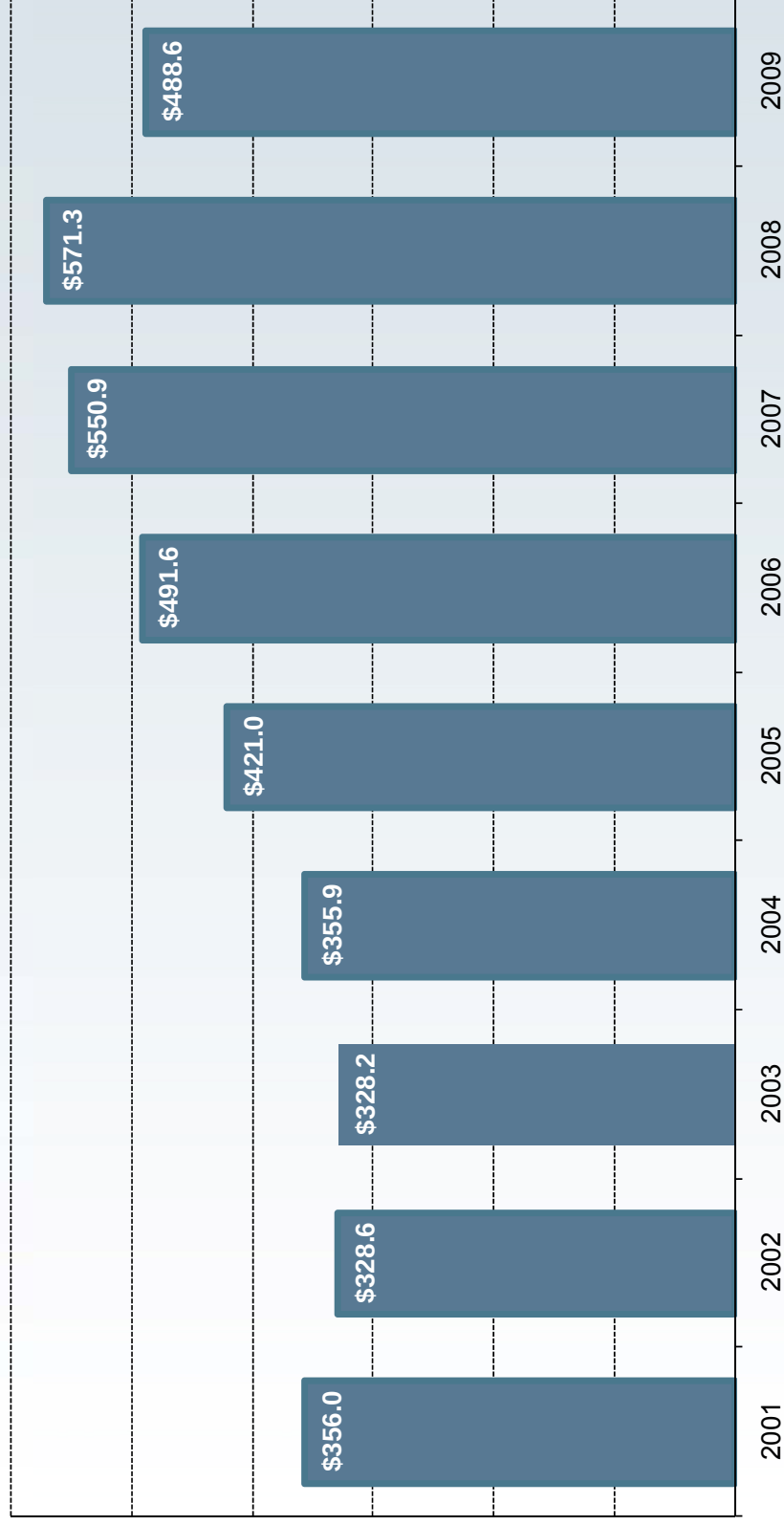
Hotel Occupancy – City of Austin



Source: Governor's Office of Economic Development

Austin Indicators

Hotel Revenue in City of Austin (\$millions)



Source: Governor's Office of Economic Development



Austin Real Estate

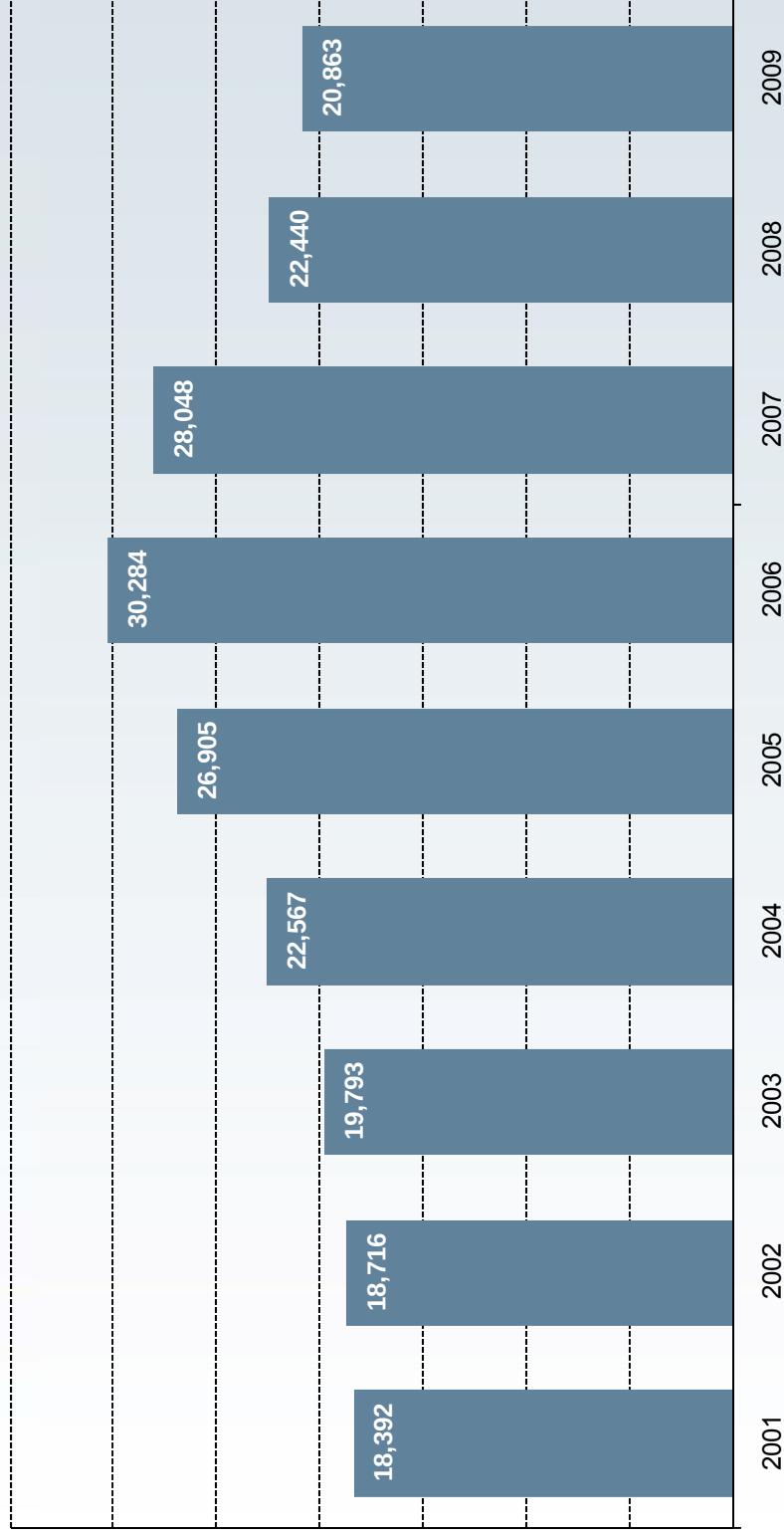
Overview

- Single-Family: Some slowdown, but supply and demand reasonably balanced (esp. for mid-priced houses) – lot shortage could occur in the near future, esp. if population growth continues.
- Apartments: Occupancy and rents fairly steady - the pace of construction is beginning to slow somewhat, allowing absorption to exceed deliveries for the first time in 24 months – outlook is for modest improvement.
- Office: In most areas, 2010 will be feature building owners competing aggressively to capture tenants with expansion needs, or retain those whose lease terms are up for renewal. A notable exception is the CBD and central city, where higher occupancy rates & strong leasing activity in the new buildings yields higher rental rates than elsewhere.
- Retail: During the last half of 2009, absorption was a negative, reflecting the closing of several stores and corporate downsizing. The decline in sales volume across virtually all retail product groups may have a further negative effect on effective rents in coming months.
- Industrial: New construction will be limited to build-to-suit development until excess space is absorbed and lending restrictions ease.



Austin MSA Indicators

Annual Home Sales

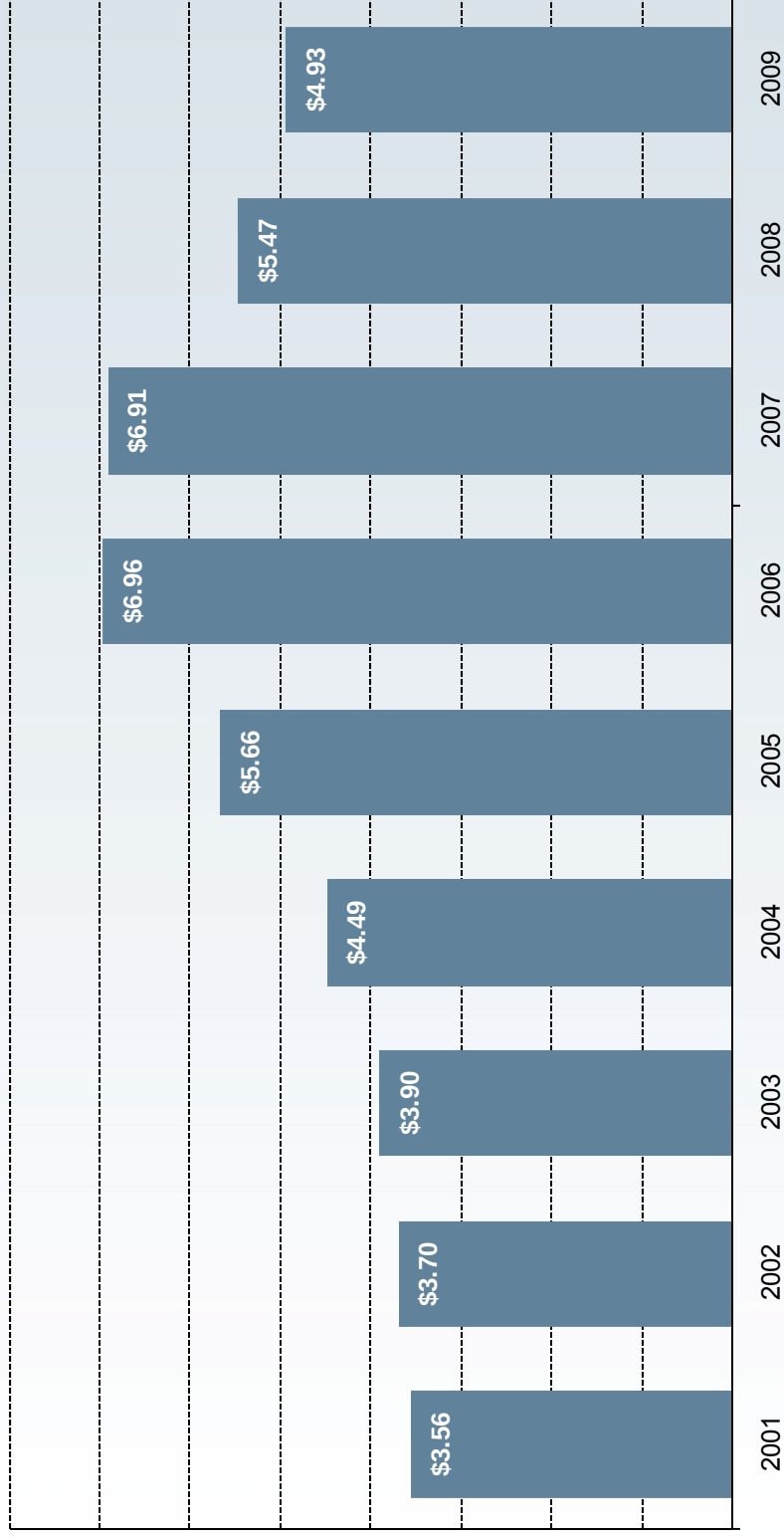


Source: Texas A&M Real Estate Research Center, TXP



Austin MSA Indicators

Dollar Volume of Home Sales (\$Billions)

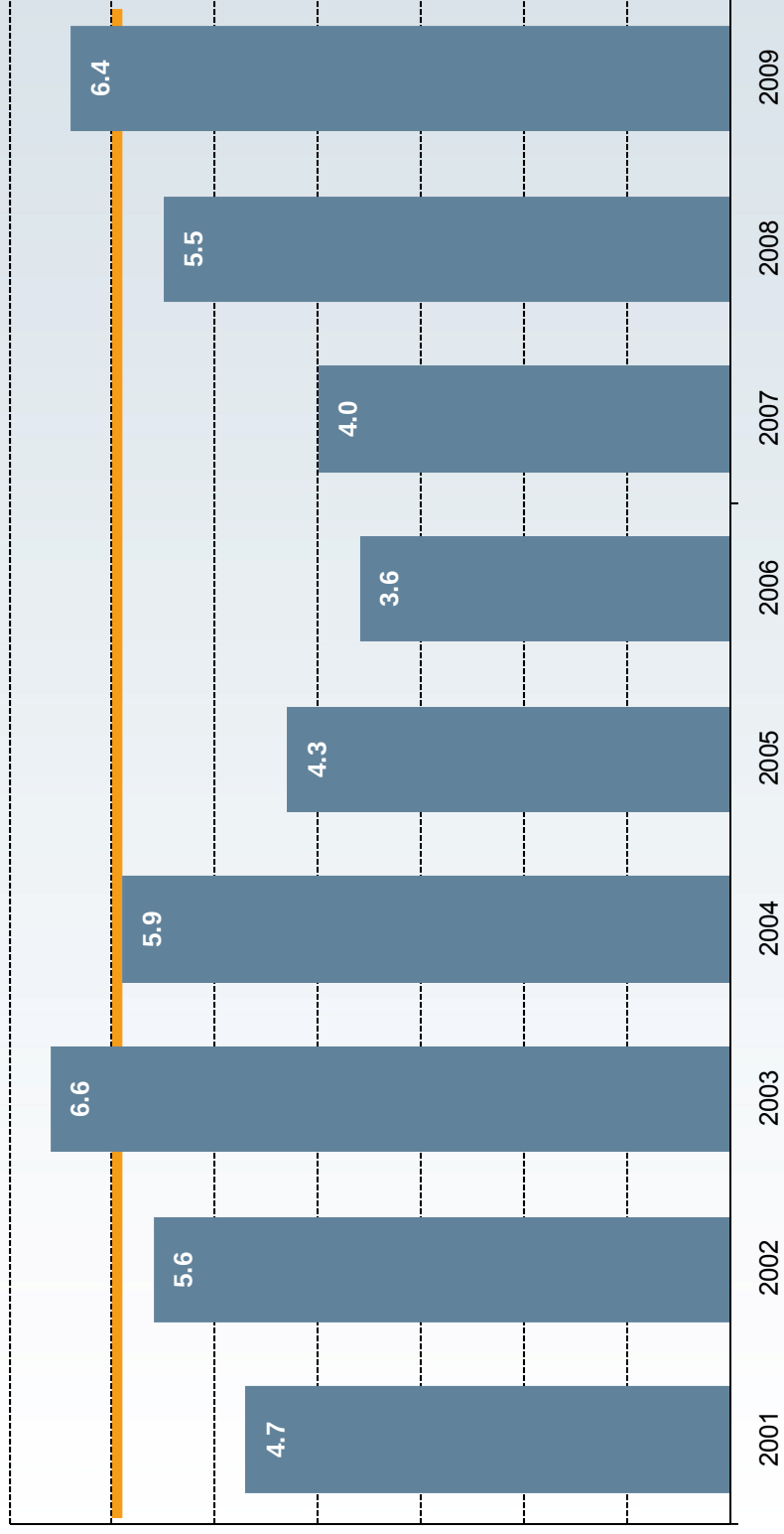


Source: Texas A&M Real Estate Research, TXP



Austin MSA Indicators

Months of Available Housing Inventory

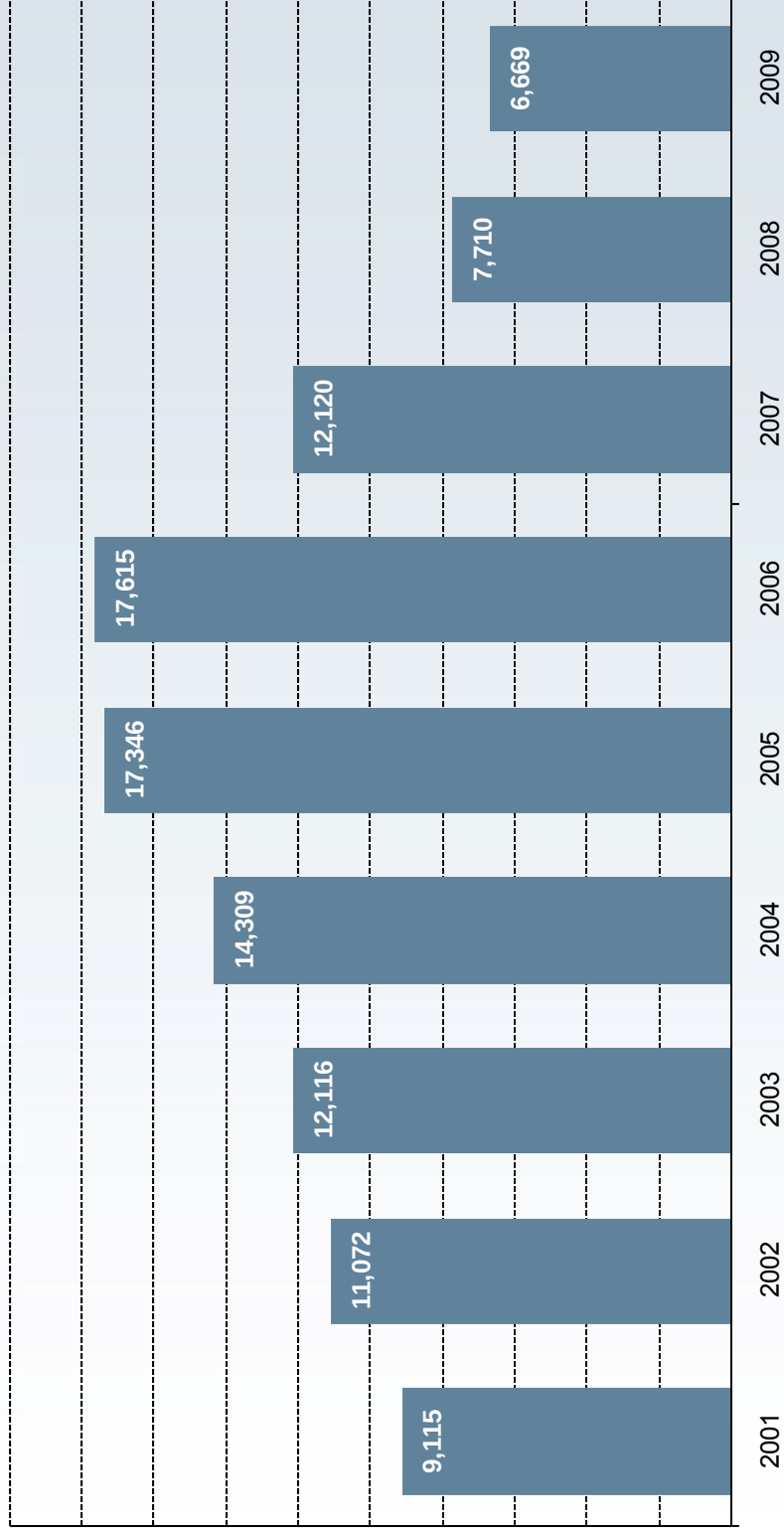


Source: Texas A&M Real Estate Research, TXP



Austin MSA Indicators

Single-Family Building Permits

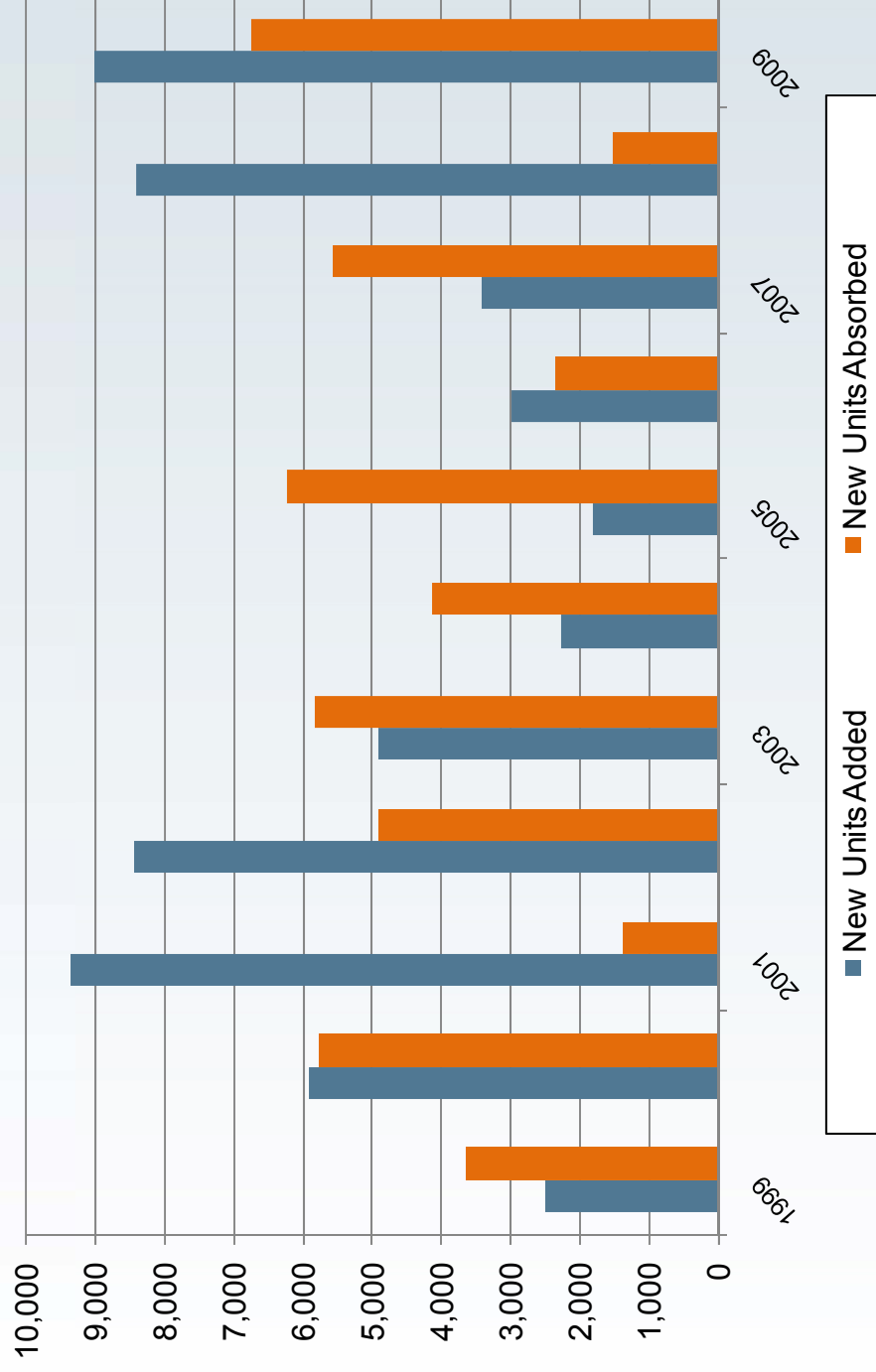


Source: Texas A&M Real Estate Research Center, TXP



Austin MSA Indicators

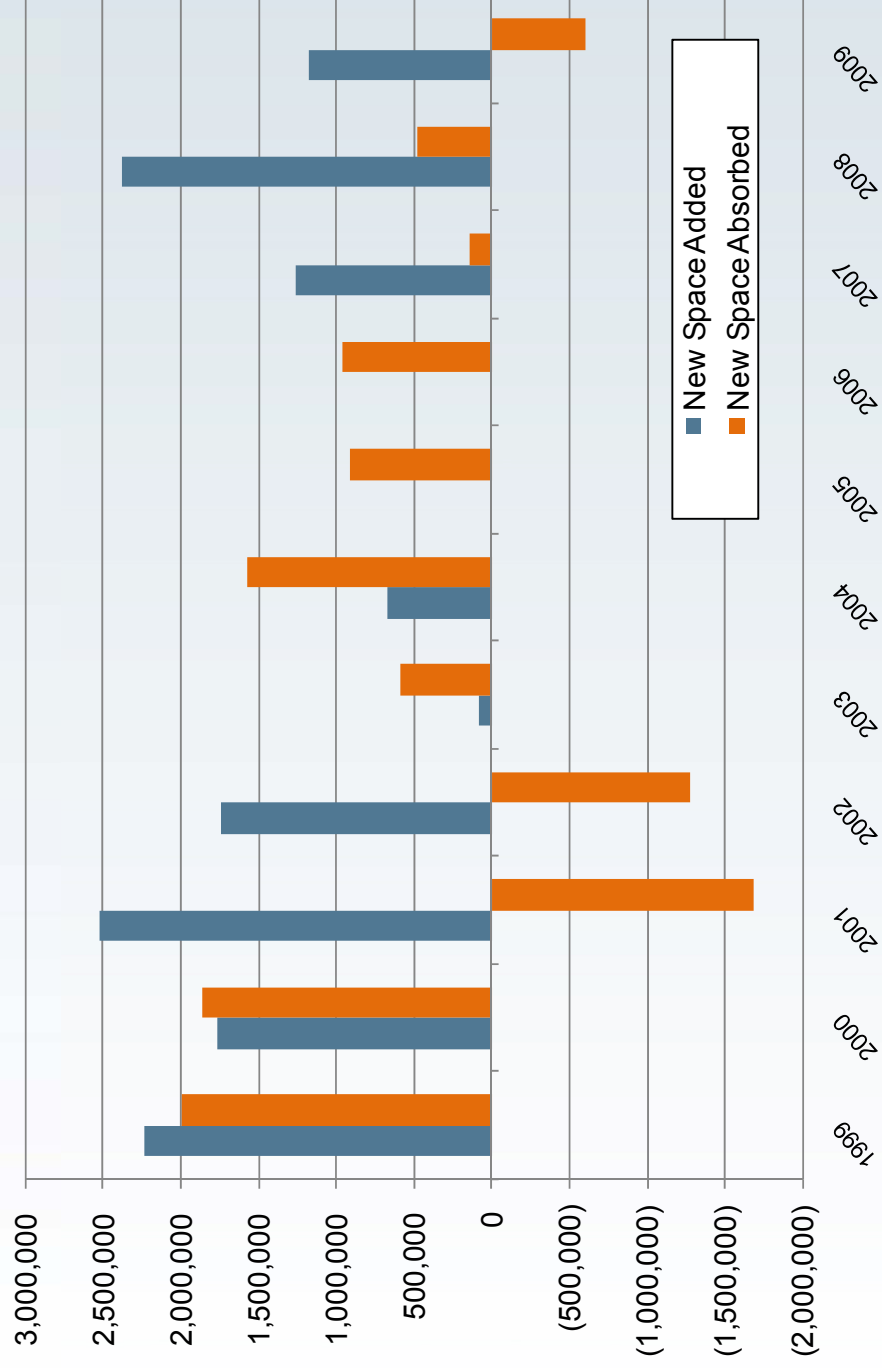
Apartment Market Data - Units



Source: Capitol Market Research, TXP

Austin MSA Indicators

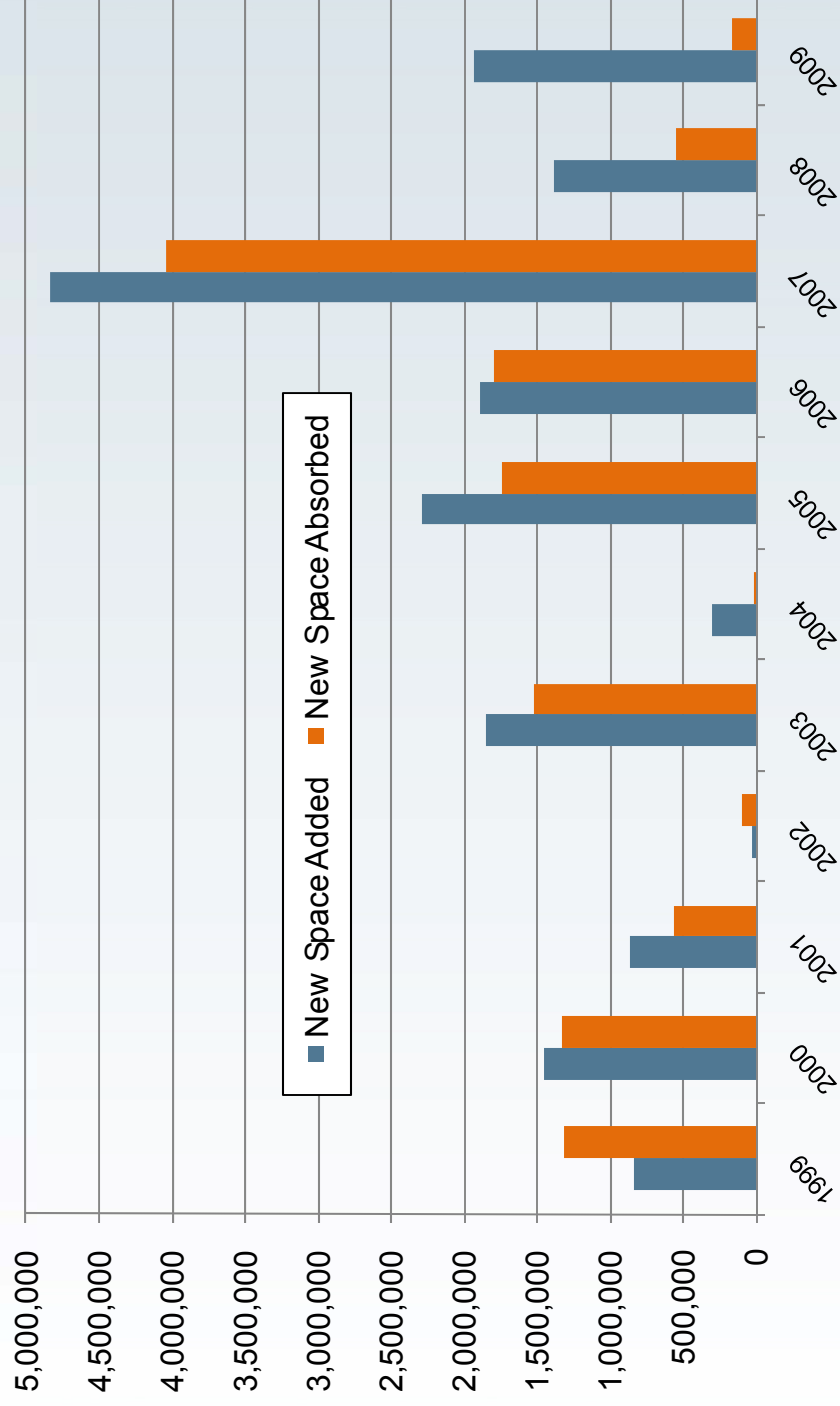
Office Market – Square Feet



Source: Capitol Market Research, TXP

Austin MSA Indicators

Retail Market – Square Feet

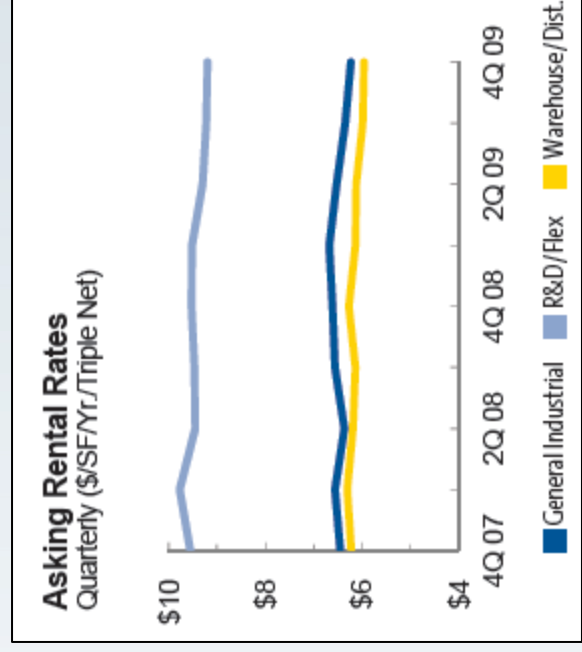
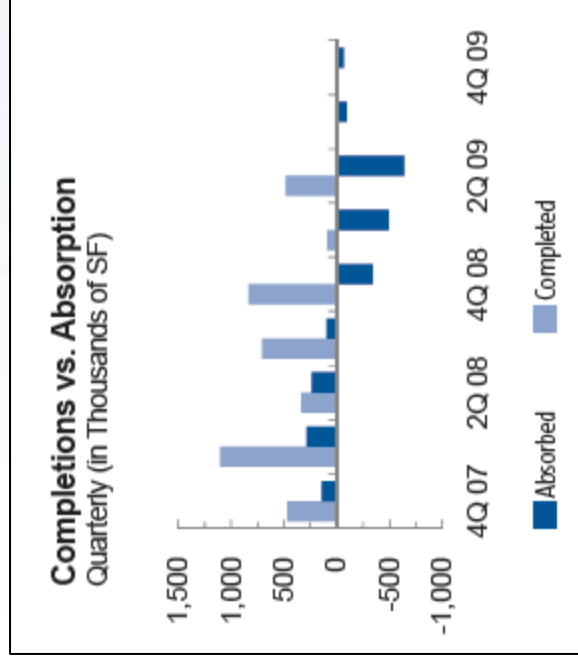
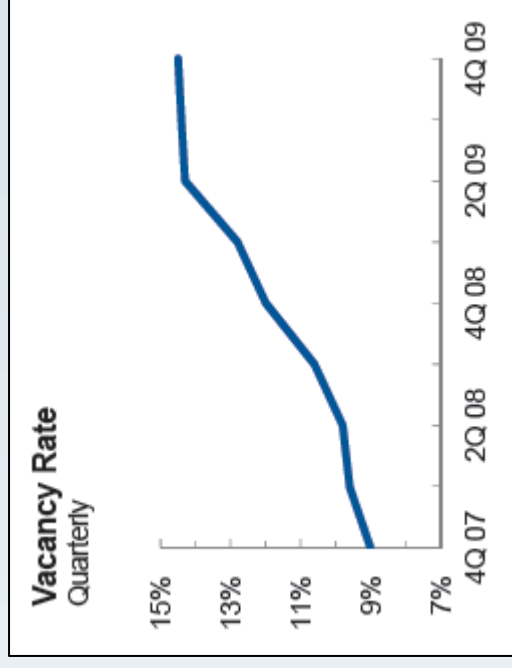


Source: Capitol Market Research, TXP



Austin MSA Indicators

Industrial Market

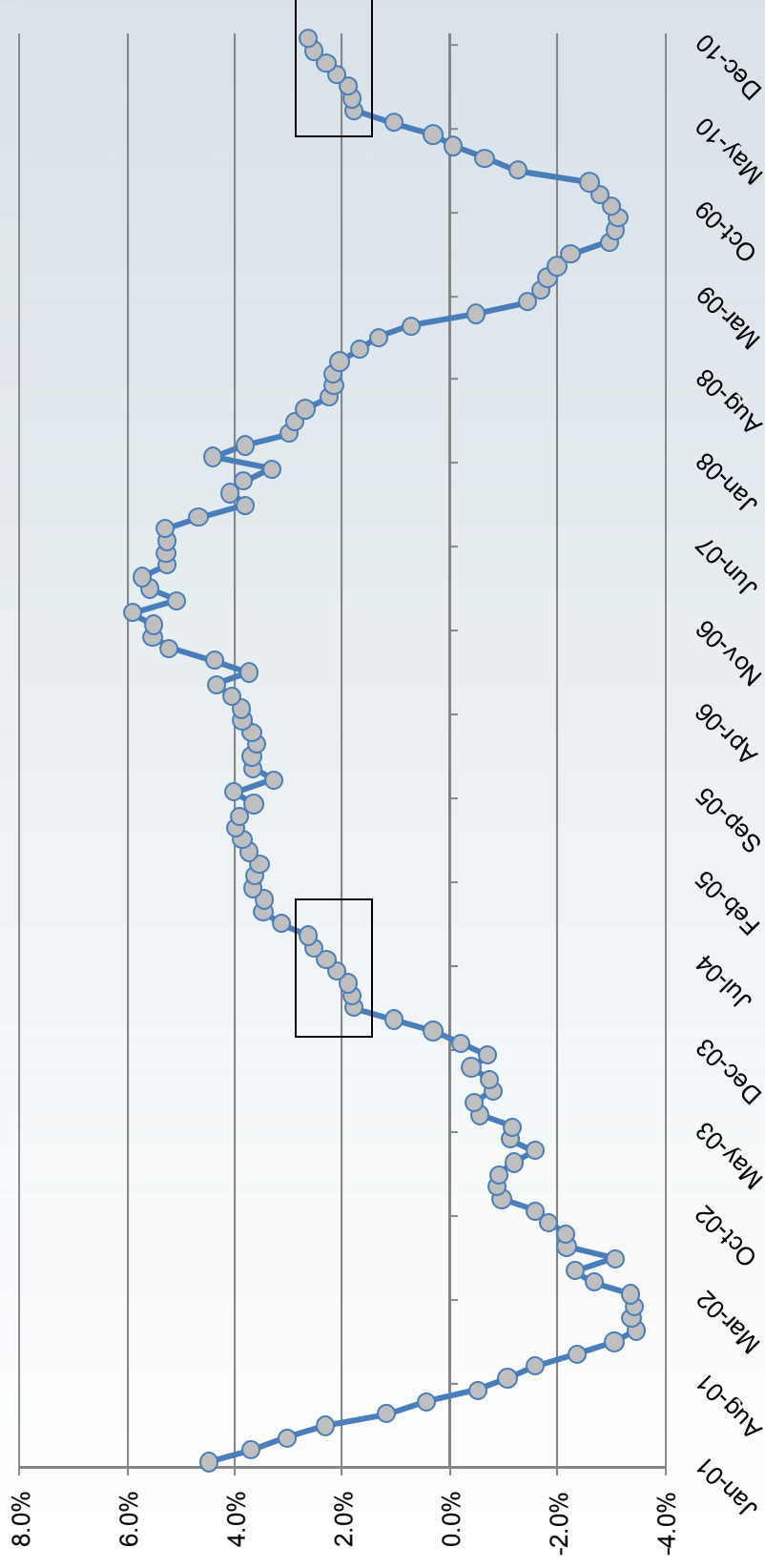


Source: Grubb & Ellis, TXP



Austin MSA Indicators

Long-Term Employment Growth

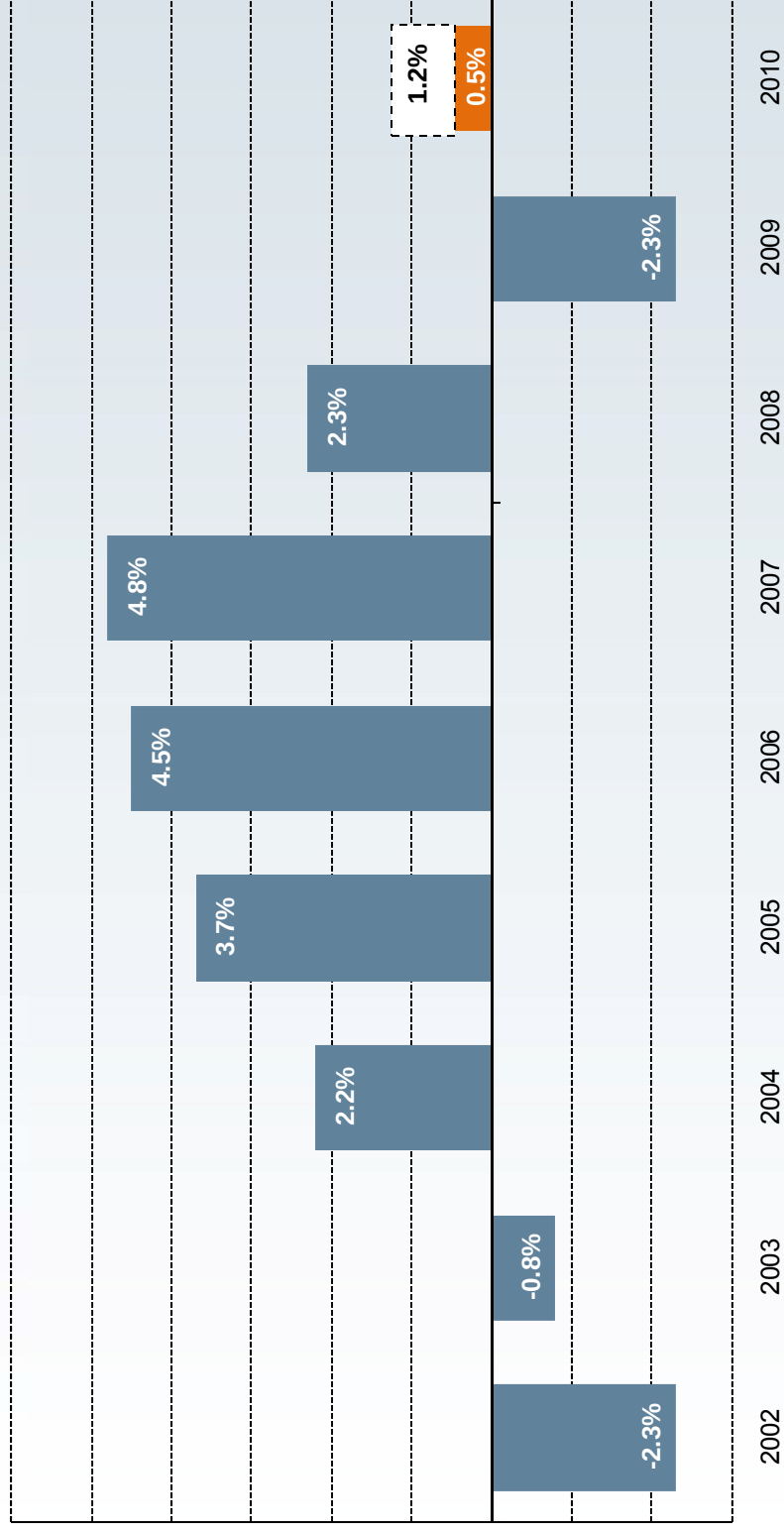


Source: BLS, TXP



Austin MSA Indicators

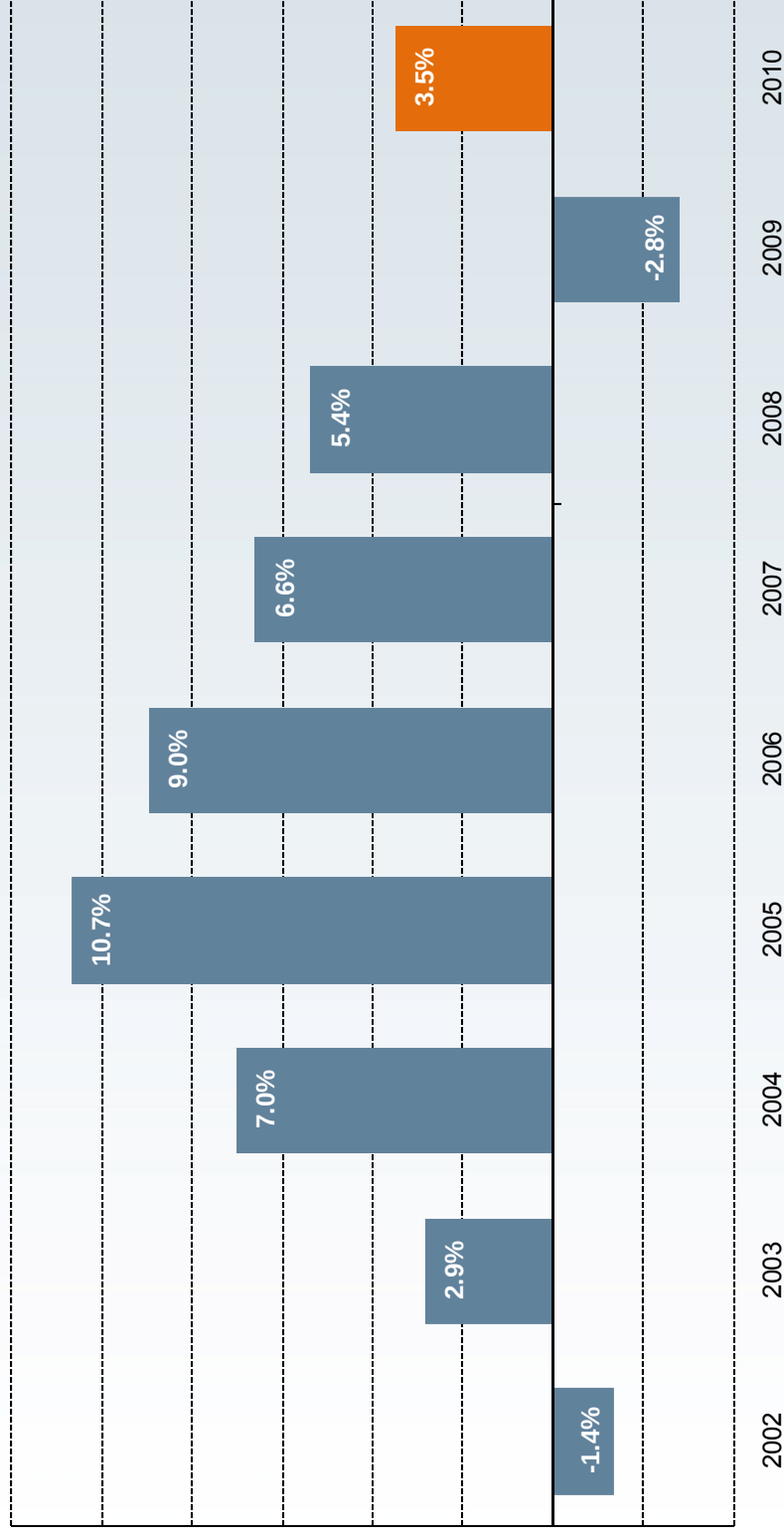
Total Employment Growth



Source: Bureau of Labor Statistics; TXP

Austin MSA Indicators

Total Personal Income Growth

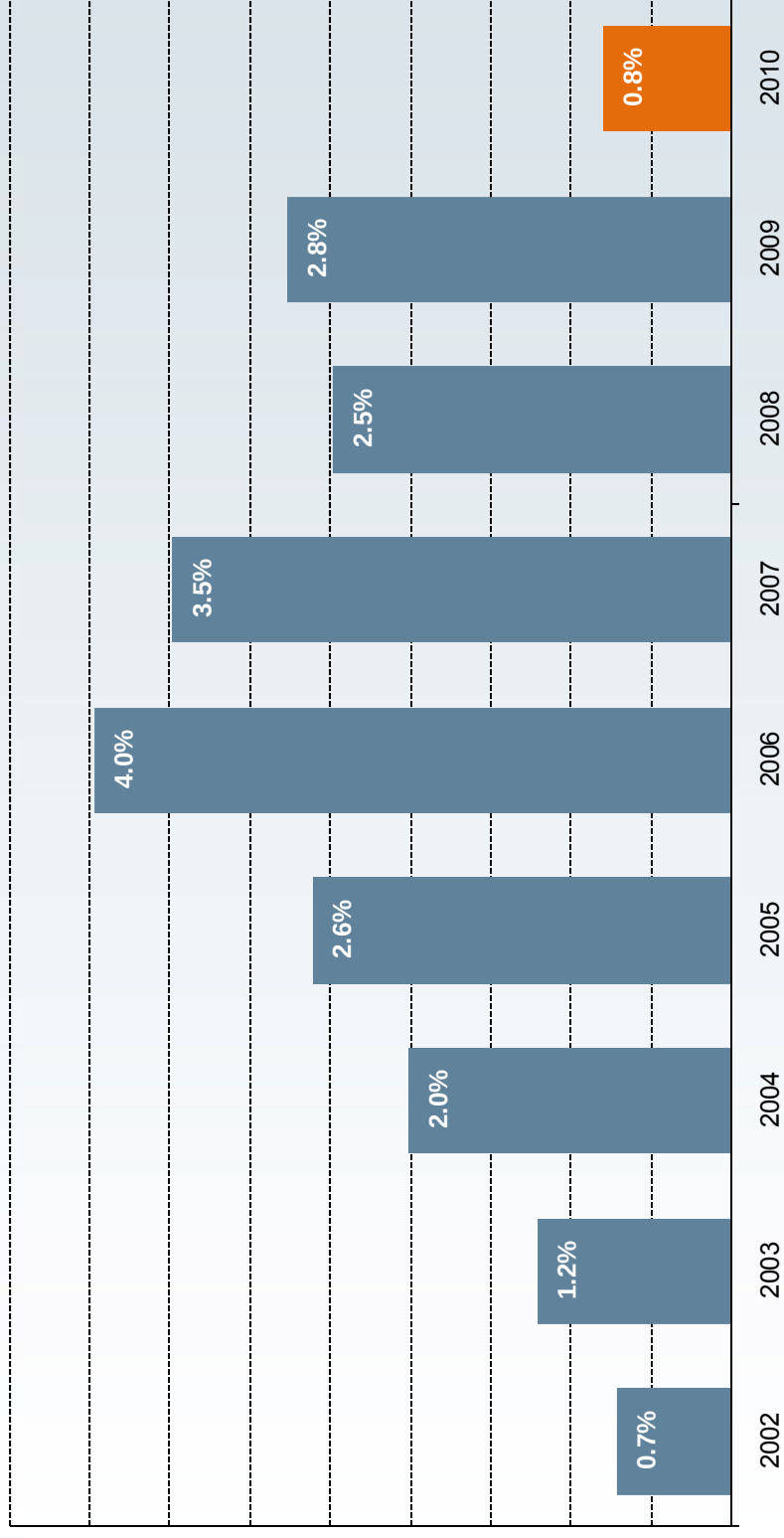


Source: Bureau of Economic Analysis; TXP



Austin MSA Indicators

Total Travis County Population Growth



Source: Bureau of Census; TXP

Austin Sales Tax Forecast

Near-Term

- Sales tax tends to track job growth – past downturn (2003) would suggest 3x relationship, but there have been unusual factors in the recent boom:
 - Surge in construction (building materials taxed)
 - Rising property values associated with boom yields easy home equity credit
 - Over-investment in real estate due to downturn in alternative investment options.
- Additional factors to consider in the bust:
 - Consumer confidence shaken; re-examination of preferences – focus on necessities (not luxuries; not as heavily taxed)
 - Cuts in wages rather than jobs
 - Internet share continues to grow – e-commerce now around 4% of total, up from 1% ten years ago
 - Shift from consumption to debt reduction/investment
- Translation is little growth for 2010.



Austin MSA Indicators

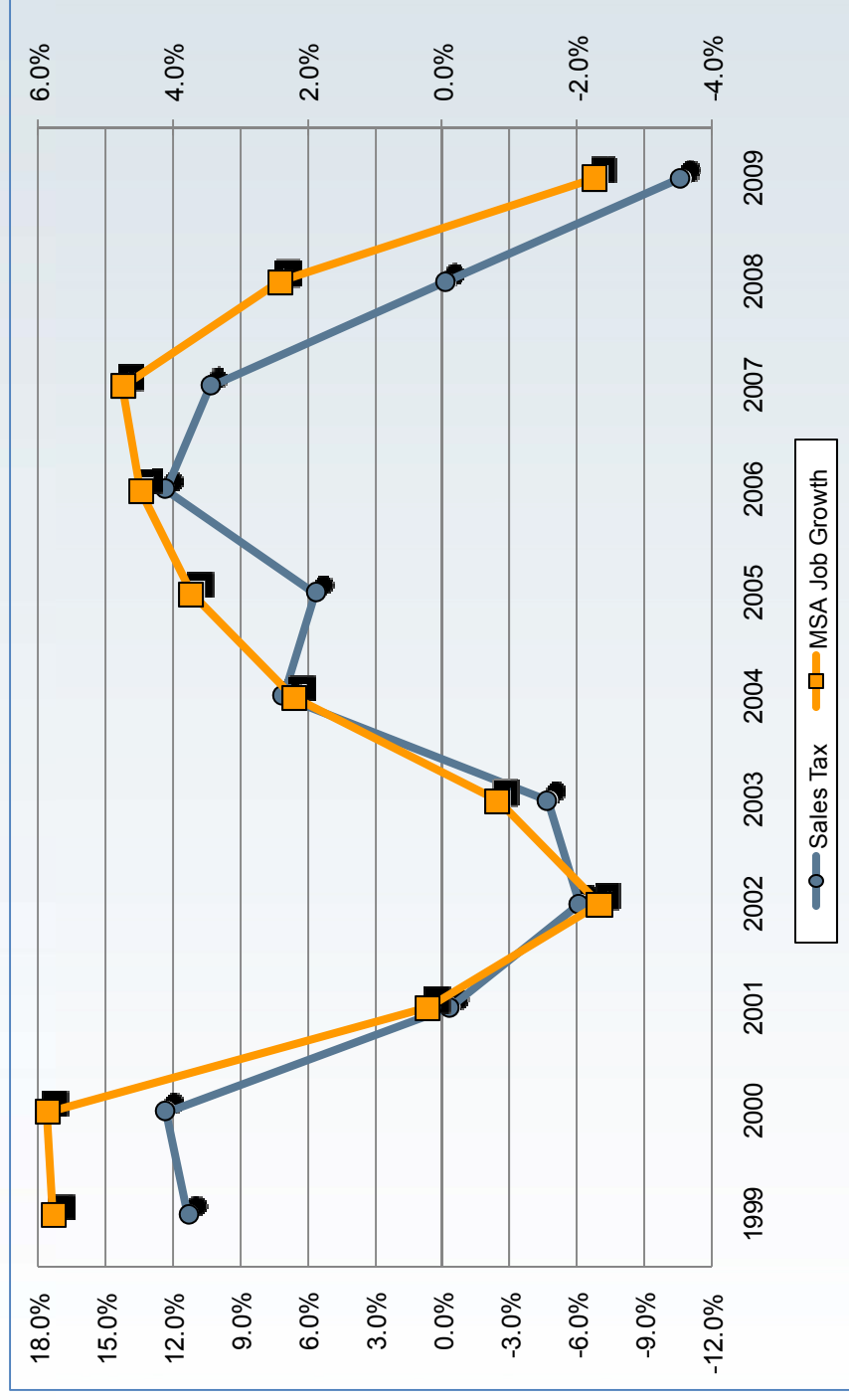
History and Forecasts

Aggregate Indicators	2003	2004	2005	2006	2007	2008	2009	2010
Total MSA Employment (000s)	652.5	667.5	692.3	723.4	758.3	776.0	758.1	761.9
MSA Personal Income (Billions)	\$43.10	\$46.13	\$51.06	\$55.64	\$59.31	\$62.49	\$60.74	\$62.87
Travis County Population (000s)	865.2	882.6	905.6	941.6	974.4	998.5	1,026.2	1,034.4
Sector Employment								
Construction/Natural Resources	37.4	37.7	40.2	44.6	49.0	47.4	40.8	38.6
Education/Health Services	65.9	68.4	71.1	73.8	77.2	80.8	83.3	85.0
Financial Activities	39.4	40.0	41.2	43.3	44.7	45.1	43.7	42.7
Government	145.6	145.8	148.9	152.0	156.6	162.1	166.4	168.1
Information	20.8	20.5	21.5	21.8	21.9	21.0	19.8	19.8
Leisure & Hospitality	63.7	67.1	69.7	74.3	78.3	81.4	83.3	85.0
Manufacturing	57.7	57.4	57.3	58.9	59.7	57.2	48.3	48.3
Other Services	24.4	26.0	26.5	27.7	28.2	30.8	33.2	33.7
Professional/Business Services	85.6	89.1	94.1	99.6	106.7	111.0	106.5	108.1
Trade/Transportation/Utilities	112.0	115.5	121.8	127.4	136.0	139.2	132.8	132.7

Source: TXP

Austin Indicators

COA Sales Tax vs. Job Growth



Source: Texas State Comptroller; BLS, TXP

GENERAL FUND

Financial Forecast

General Fund



Managing the General Fund Budget

- **As sales taxes began to decline in 2008, the City Manager took steps to reduce spending in mid-year to remain within projected revenues**
 - modest surplus generated in 2008 used to fund replacement vehicles and equipment, primarily public safety vehicles
- **In 2009, as sales taxes continued to decline and the recession hit Austin, the City Manager implemented further spending reductions**
 - mid-year cost cutting measures
 - rigorous hiring review process

Managing the General Fund Budget

- **Surplus was generated in 2009, primarily due to savings in departmental expenditures that were higher than estimated savings at mid year**
 - additional savings in public safety, health and human services
 - sales tax revenue slightly better than expected
 - increase in EMS fees approved by Council in June 2009
 - Surplus helps fund future fleet replacement and equipment needs
 - goal = begin gradually adding back to reserve balances over time

(\$ mills)	Actual 2007-08	Actual 2008-09	Difference
Emergency Reserve	\$40.0	\$40.0	\$0.0
Contingency Reserve	\$5.7	\$6.0	\$0.3
Budget Stabilization Reserve	\$35.3	\$36.6	\$1.3
Total	\$81.0	\$82.6	\$1.6

Managing the General Fund Budget

- **Structural corrections were made in 2010 to address a projected \$30 million budget deficit**
 - budget balanced without tapping into reserves for operations
 - revenue projections scaled back to reflect downturn in the economy
 - utility transfers held stable
 - extensive community outreach indicated strong support for maintaining core service levels
 - reductions made primarily in non-core areas (e.g. elimination of vacant internal service and support positions)
 - no employee layoffs, pay reductions and furloughs
- **Employee “give backs” have been a key factor in maintaining service levels**
 - public safety labor contracts renegotiated
 - no pay increase or market adjustments for civilian workforce
 - hiring freeze resulting in fewer staff with increased workload

Summary of Recent Budget Cuts

<u>Service Area</u>	<u>Budget Cuts</u>
Public Safety	*elimination of 4 vacant non-sworn police positions * redeployment of 5 sworn FTEs from support functions to fire combat operations & eliminate 1 civilian vacant FTE * two EMS non-uniformed vacant positions eliminated * elimination of 2 part-time and 2 full-time vacant positions in Municipal Court
Recreation and Culture	* replacement 8 fill and draw pools with splash pads * elimination of 7.25 vacant library positions and 14.25 park positions
Human Services	* elimination of 4.5 vacant positions * closure of one of two day labor sites
Planning and Development Review	* elimination of 15 vacant positions
Housing	* elimination of 5 vacant support positions * restructuring of Community Preservation and Revitalization program
Transportation Fund	* \$3.5 million reduction in General Fund transfer * elimination of 12.5 vacant positions
Capital Projects Mgmt Fund	* \$1.3 million reduction in General Fund transfer * elimination of 1 vacant position
Internal Services	* elimination of 64 vacant positions

2011 Forecast Highlights

- Focus on funding of built-in cost drivers and maintaining existing service levels
 - increases in employee wages, insurance, and retirement costs
 - operating costs associated with new or expanded facilities
- Continued decline in development revenue
 - \$19.3 million 2007
 - \$17.3 million 2008
 - \$12.4 million 2009
 - \$ 7.5 million 2010 (projected)
- Better than expected sales tax numbers in FY 2010 are helping to offset shortfall in development revenue
- \$11.4 million shortfall projected in 2011 at rollback tax rate
 - gap increases to \$28.1 million at effective rate

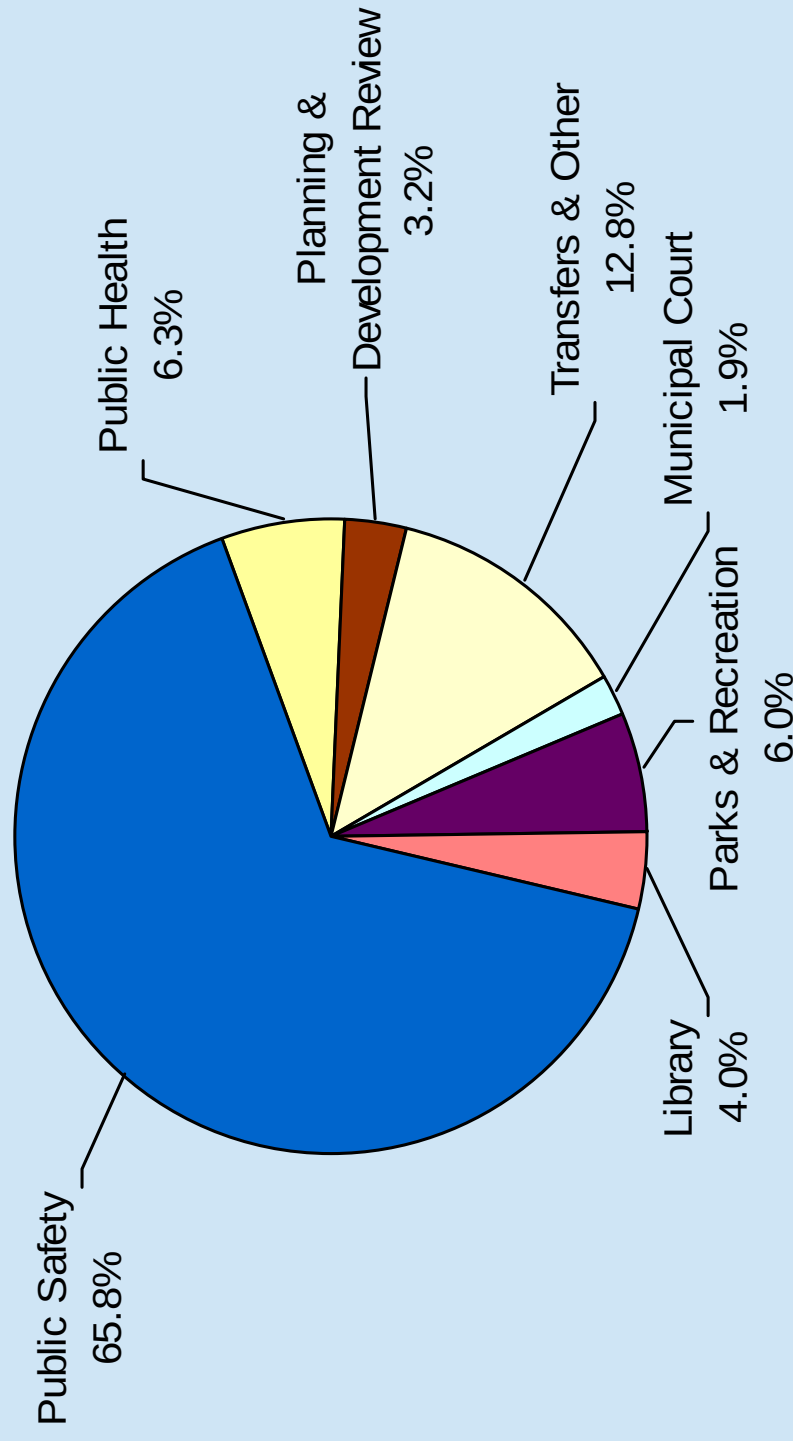


Financial Forecast

General Fund Expenditures

General Fund – Uses of Funds

Fiscal Year 2010 Amended Budget – \$614.9 Million



Expenditure Assumptions

- Basic expenditure projections
 - forecast assumes existing programs and service levels maintained
 - forecast is not a budget
- Funding for all currently authorized FTEs
 - personnel costs have been reduced to reflect anticipated vacancy savings resulting from normal attrition
- Employee wage increases
 - 3.0% annually for sworn police, fire, and EMS employees
 - 2.5% annually for civilian employees
- Supplemental funding for employee retirement systems
 - 1% annually in 2011-13 for sworn police
 - 1% annually in 2011-12 and 2% in 2013 for sworn fire
 - 2% annually in 2011-13 for civilian employees

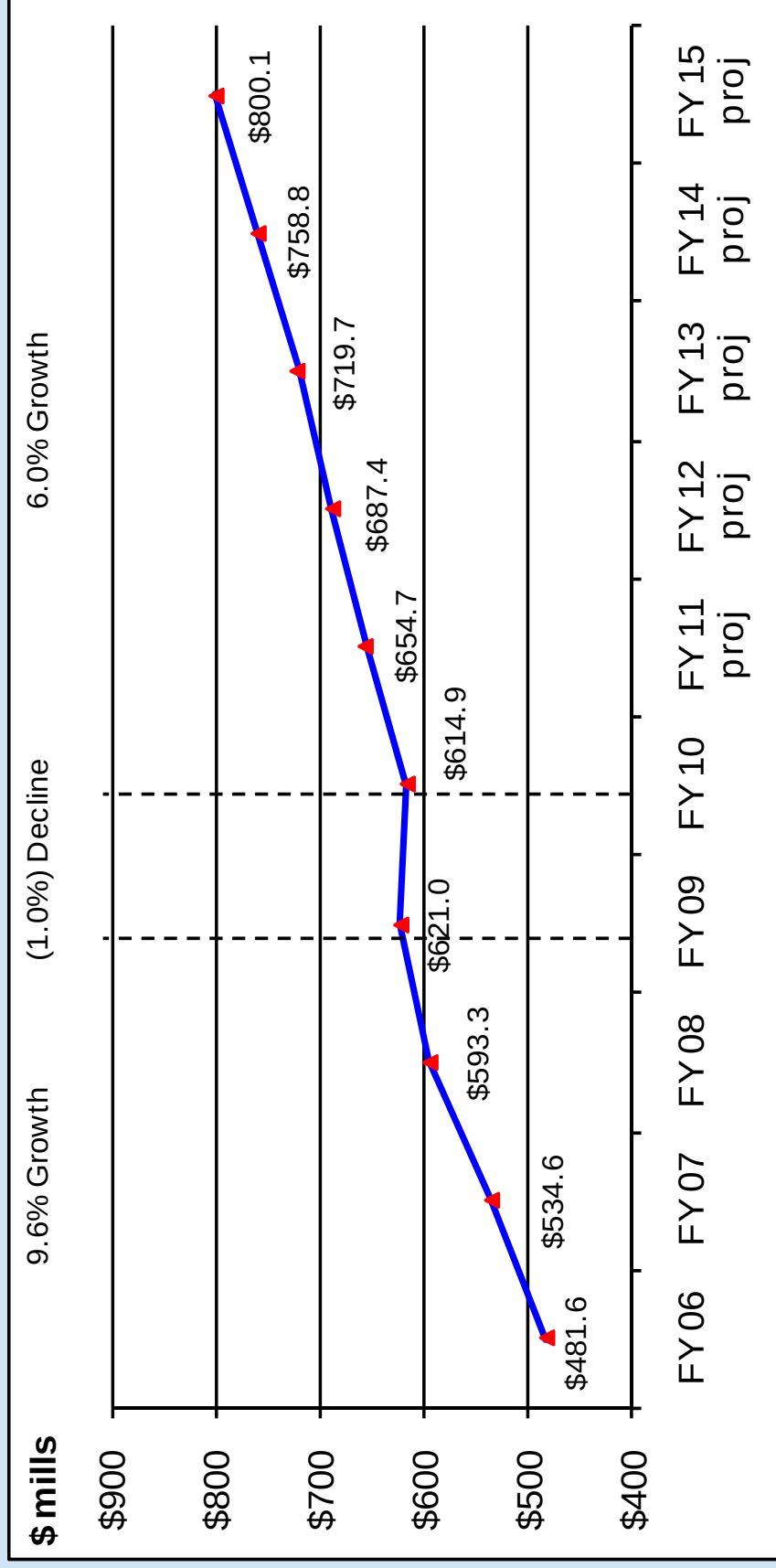
Expenditure Assumptions

- Annual increases in City health insurance costs of 10%
 - employee premium also anticipated to increase 10% in 2011
- Inflationary cost increases for utilities, fuel, contractual services and commodities
- Operations and maintenance costs associated with new or expanded facilities – primarily Parks and Recreation
- Addition of 1 EMS unit to service Avery Ranch annexation
- 13 sworn APD positions in 2011 due to population growth
- Transition to 4 person staffing per Council resolution
 - one additional unit converted in 2011, 2013 and 2015
- Funding for live outcomes/no kill plan

FY 2011 Cost Drivers

<u>Category</u>	<u>Estimated Increases</u>	<u>Justification</u>
Uniformed Personnel	\$20.2	* police, fire & EMS contracts / provisions * police & fire step / longevity * Avery Ranch - EMS * 2.0 officers per 1000 - police * 4 person staffing - fire * health insurance
Non-Uniformed Personnel	\$7.8	* health Insurance * civilian wage adjustments * supplemental pension funding
Other Departmental Costs	\$4.6	* outside contract increases * facility openings * implementation of live outcomes/no kill plan * other miscellaneous commodities
Transfers / Other Requirements	\$7.2	* workers compensation * accrued payroll * liability reserve * support services fund * communication & technology * economic incentives
Totals	\$39.8	

Budget Forecast



Expenditure Summary

- Average growth of 6.0% over forecast period
 - significantly slower than in years prior to downturn
 - focus is on service maintenance and cost containment
 - includes implementation of live outcomes/no kill plan
- Costs beyond our control
 - public safety contracts
 - inflationary costs for fuel, outside contracts, commodities
- Costs that we can influence by policy
 - non-contract employee compensation
 - health insurance plan design
 - staffing policies & service levels

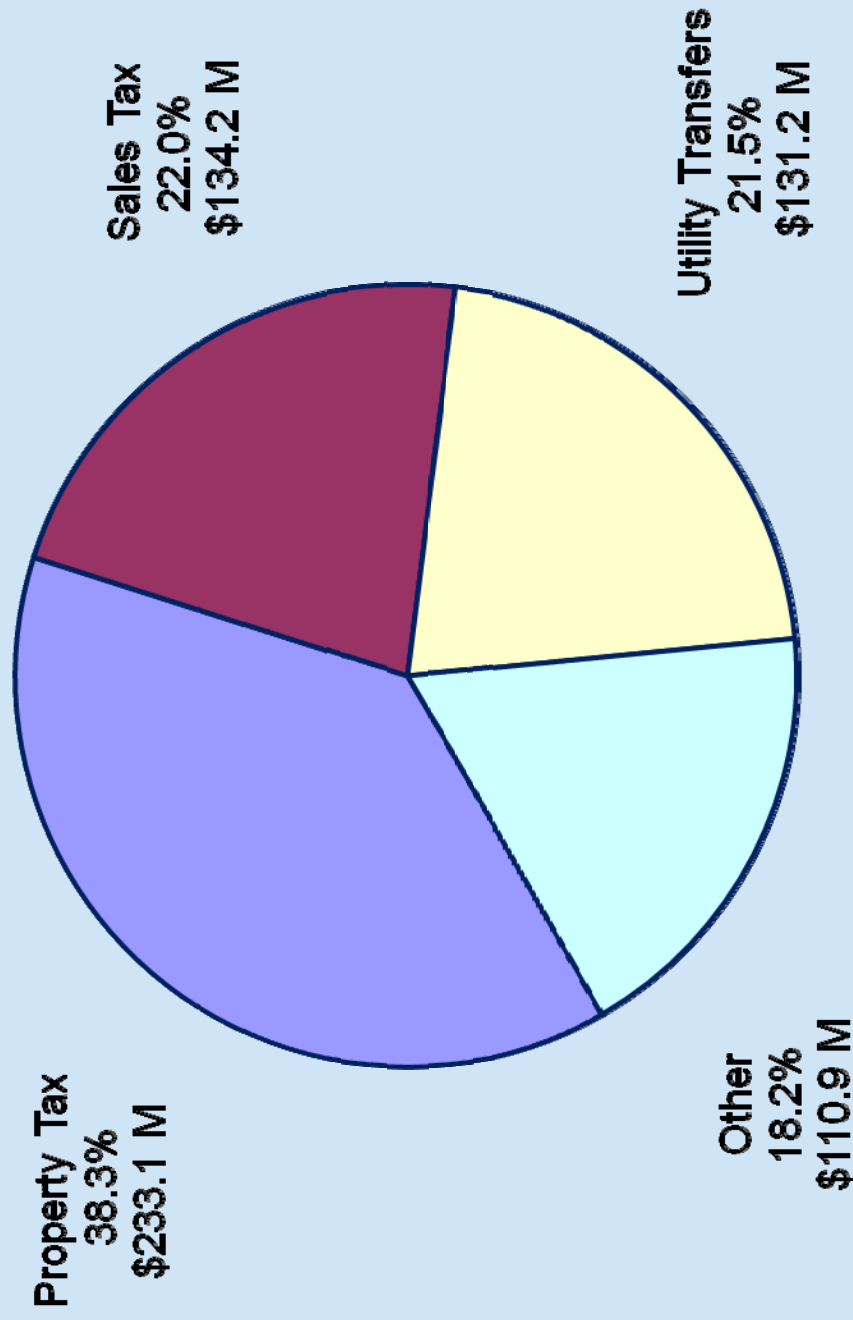


Financial Forecast

General Fund Revenues

General Fund – Sources of Funds

FY 2010 Estimated General Fund Revenue \$609.4 Million



Property Tax

- Projected Assessed Valuation Growth

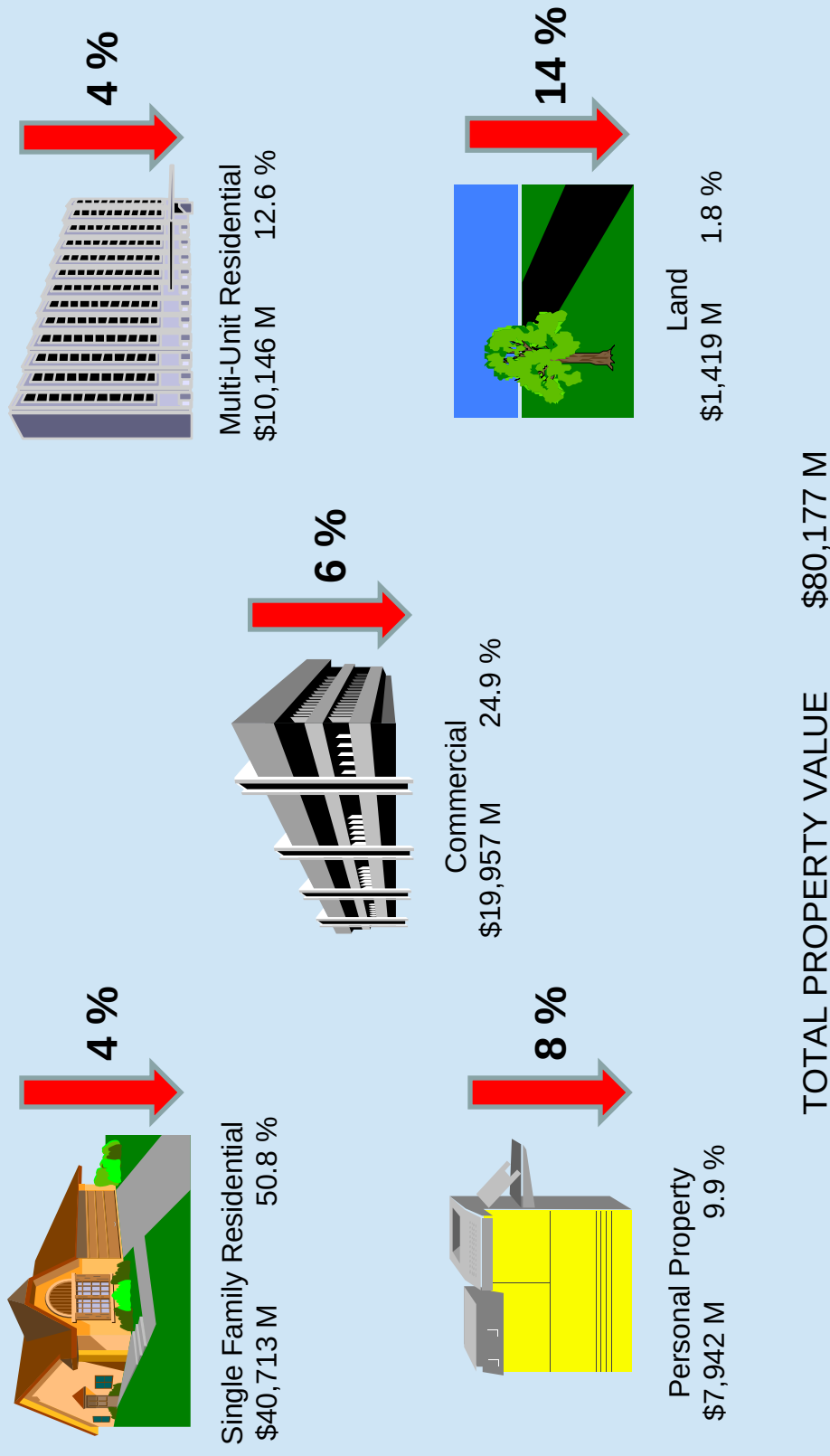
	Growth Rate	Total AV	New Property
FY 2010	4.9%	\$ 80.2 b	\$2.9 b
FY 2011	(5.0%)	\$ 76.2 b	\$1.3 b
FY 2012	0.0%	\$ 76.2 b	\$1.2 b
FY 2013	2.0%	\$ 77.7 b	\$0.9 b
FY 2014	2.0%	\$ 79.3 b	\$1.8 b
FY 2015	2.0%	\$ 80.9 b	\$1.1 b

- Tax Rate Scenarios

Tax Rate*	\$ Change	Scenario
0.4209	(\$16.6) m	no rate change
0.4497	\$ 4.9 m	no overall increase on existing properties
0.4721	\$ 21.6 m	rollback calculation

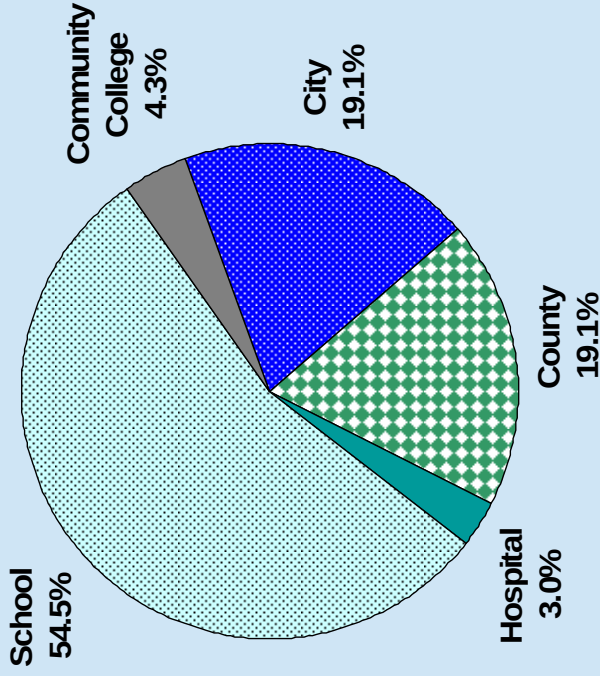
* Rates are estimates based upon estimated changes in assessed property values provided by the Travis County Appraiser's Office.

Tax Roll by Property Type



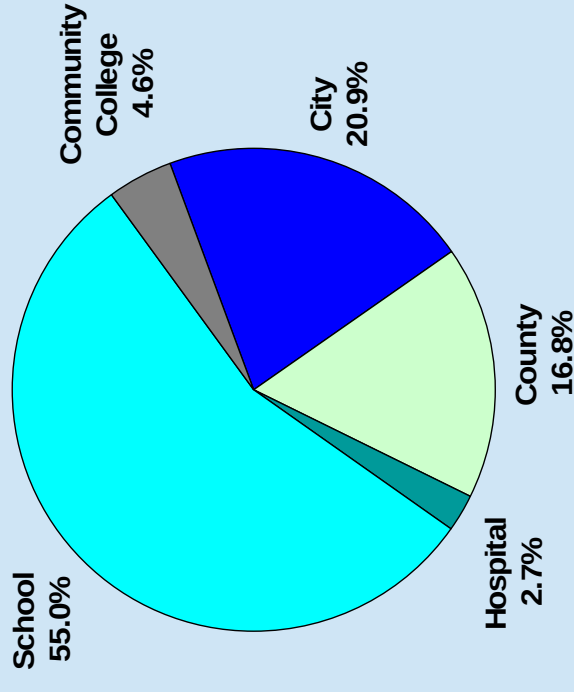
Overlapping Property Tax

TAX RATE



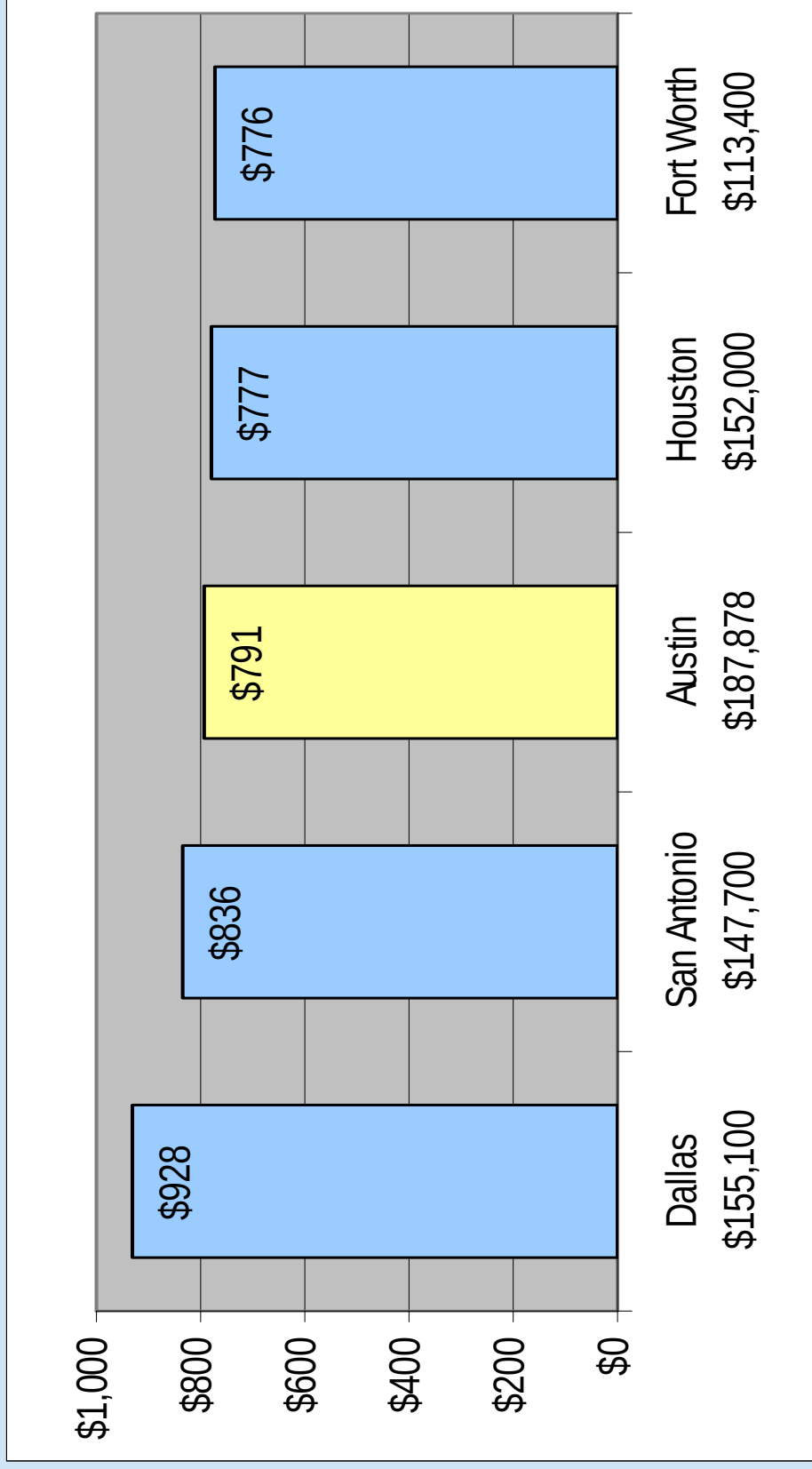
Jurisdiction	Austin	Share
City	0.4209	19.1%
County	0.4215	19.1%
Hospital	0.0674	3.0%
School	1.2020	54.5%
Community College	0.0946	4.3%
Total Tax Rate	2.2064	

TAX BILL \$187,878 HOME



Jurisdiction	Austin	Share
City	\$791	20.9%
County	\$634	16.8%
Hospital	\$101	2.7%
School	\$2,078	55.0%
Community College	\$173	4.6%
Total Tax Bill	\$3,777	

Property Tax Comparison



2009 Median Home Price

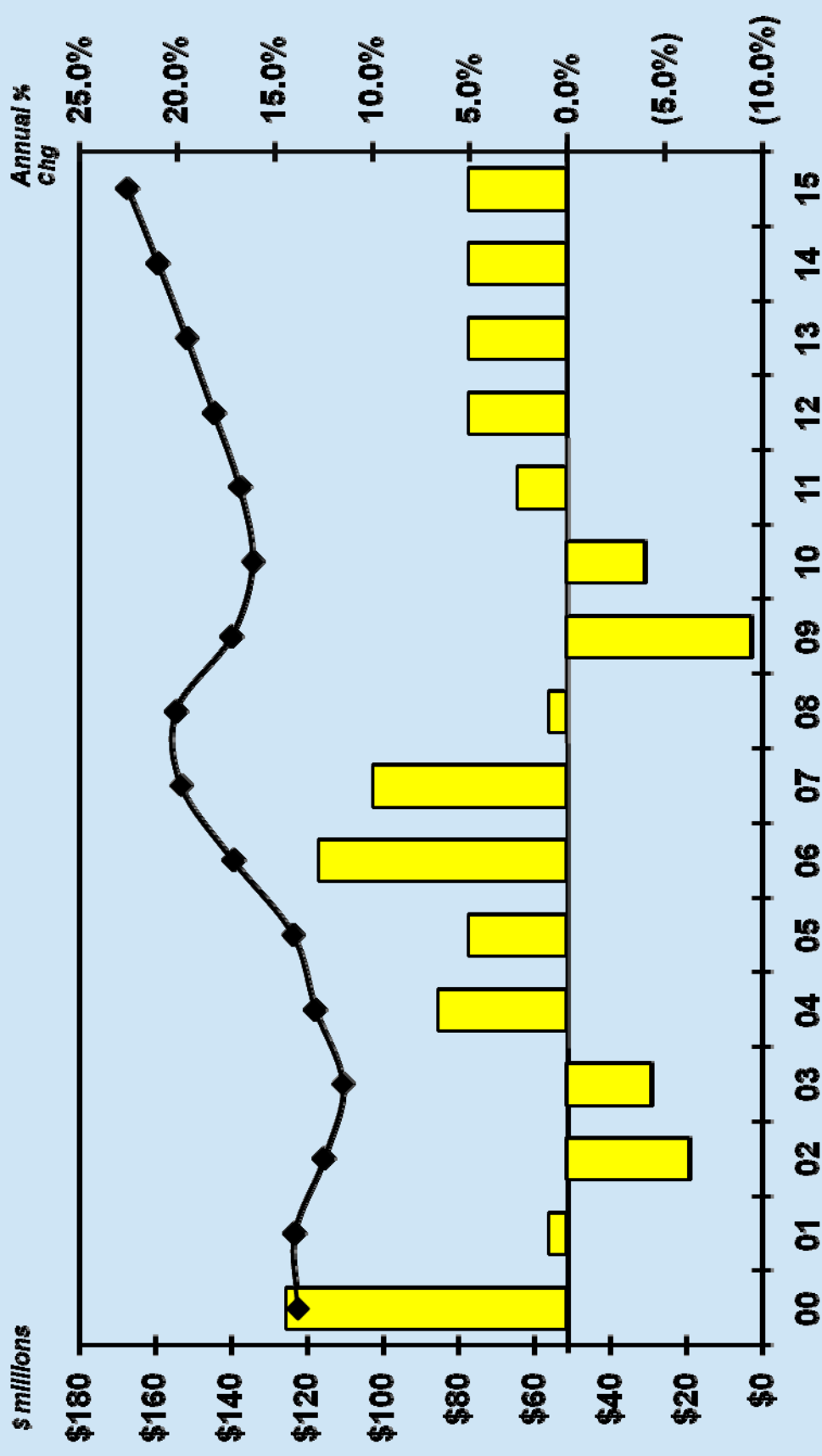
Sales Tax

- Sales Tax Background
 - (9.5%) decline in FY 2009
 - (5.0%) decline assumed in FY 2010 budget
 - +1.3% year to date, (1.3%) exclusive of \$1.5 million audit adjustment
- Projected Sales Tax Growth

	Growth	Total	Change
	Rate	Revenue	
◦ FY 2010	(4.0%)	\$ 134.2 m	\$2.2 m
◦ FY 2011	2.5%	\$ 137.6 m	\$3.4 m
◦ FY 2012	5.0%	\$ 144.4 m	\$6.9 m
◦ FY 2013	5.0%	\$ 151.7 m	\$7.2 m
◦ FY 2014	5.0%	\$ 159.2 m	\$7.6 m
◦ FY 2015	5.0%	\$ 167.2 m	\$8.0 m

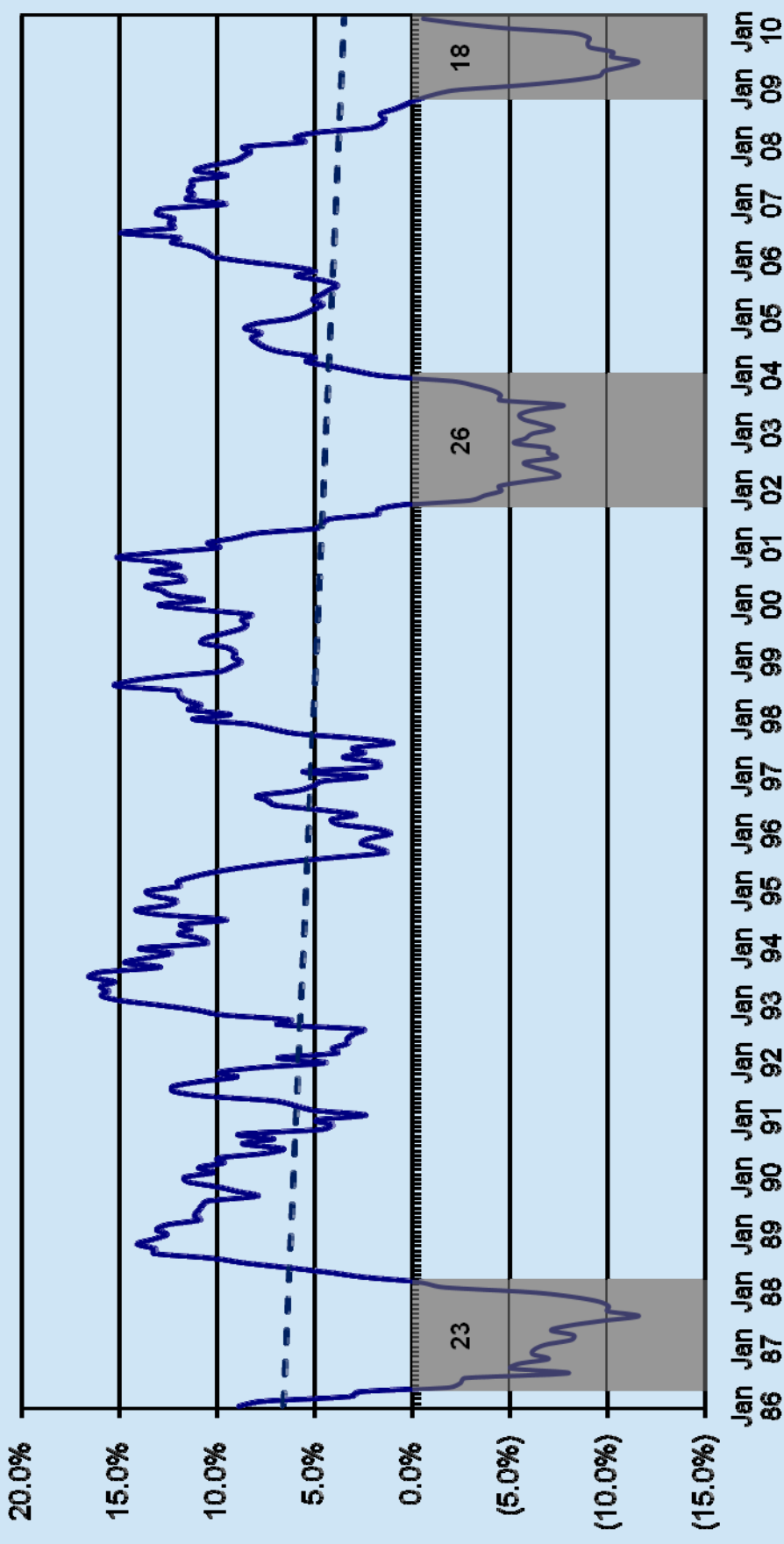
* Each 1% change in sales tax equals approximately \$1.4 million.

Sales Tax



Sales Tax Trend

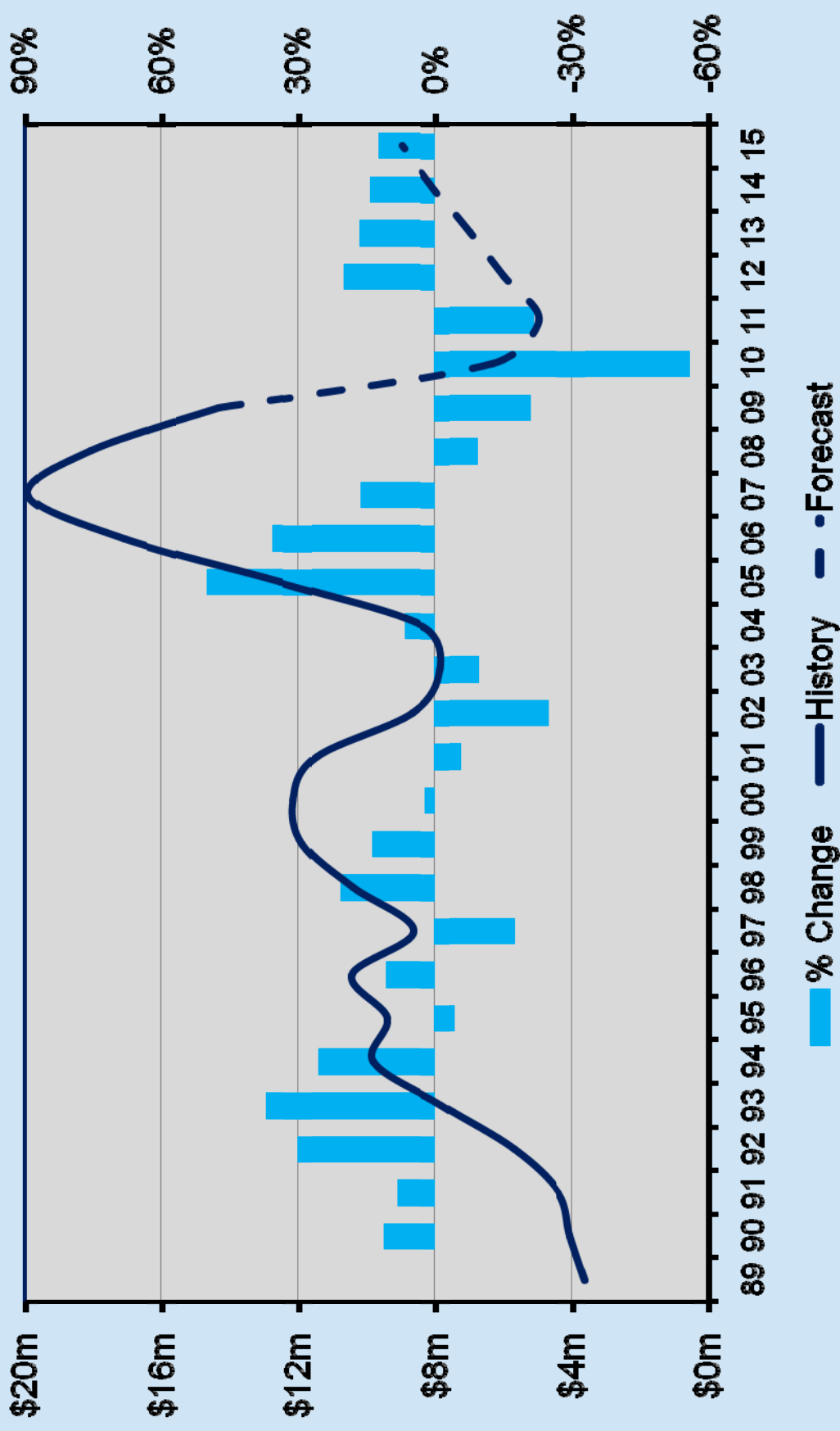
6-month rolling average of monthly changes in sales tax revenue



Development Revenue

- All building permitting categories down, except for residential remodeling projects
 - new land development applications down 39%
 - new residential applications for new construction down about 40%
 - new commercial applications for new construction down 58%
 - single family building permits down 48%
- Continued decline is anticipated in 2010, flattening out in 2011, followed by gradual return to more typical levels

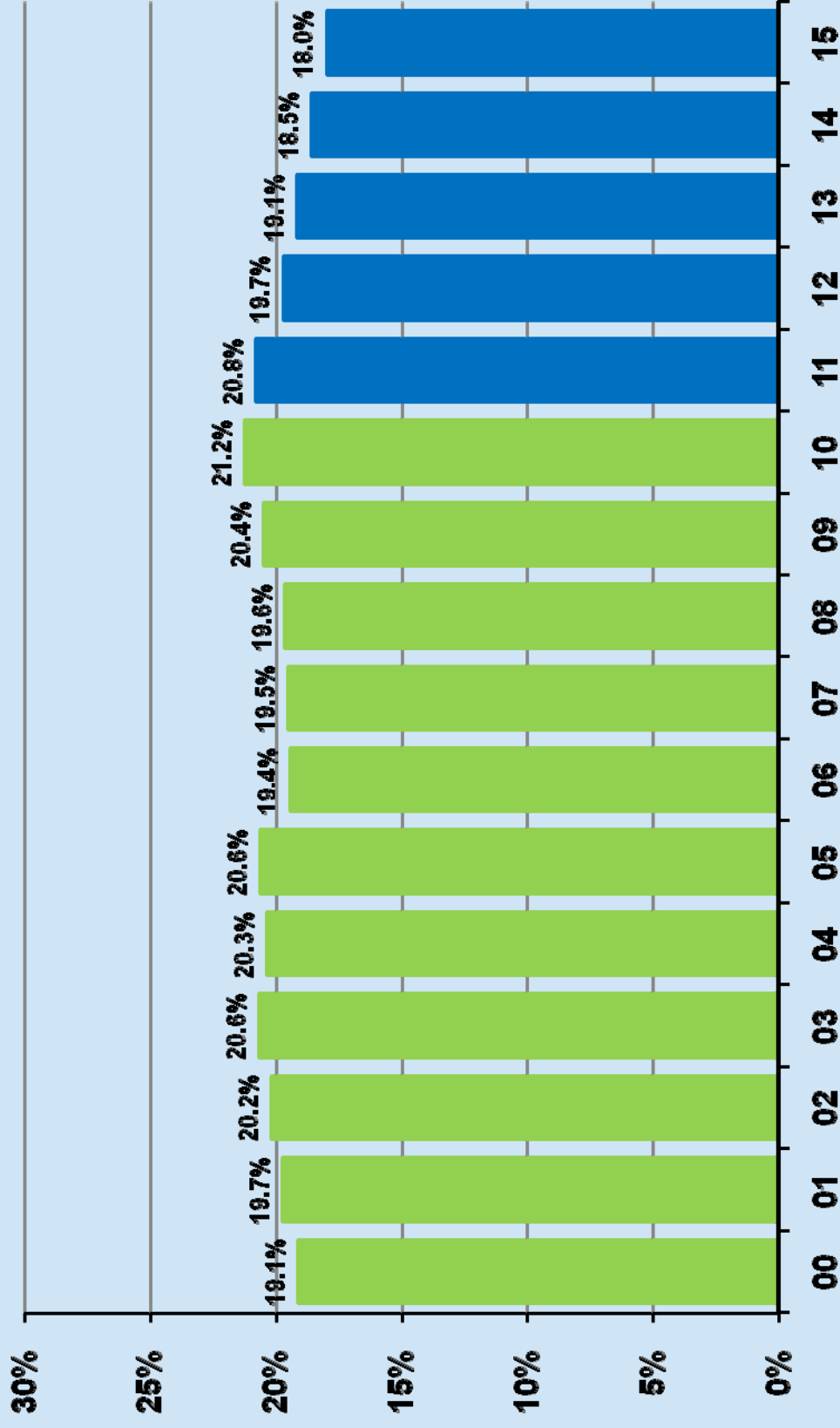
Development Revenue



Utility Transfer

- Stable utility transfer rates regarded positively by rating agencies
 - electric 9.1%
 - water 8.2%
- \$4.5 million increase projected in 2011
 - \$2.0 million Austin Energy
 - \$2.5 million Austin Water Utility
 - approximately 20% of General Fund revenue – consistent with past years
- Future Austin Energy Utility transfers may be affected by changes in the transfer calculation
 - transfer growth rate = base electric revenue growth rate from 2013 – 2015

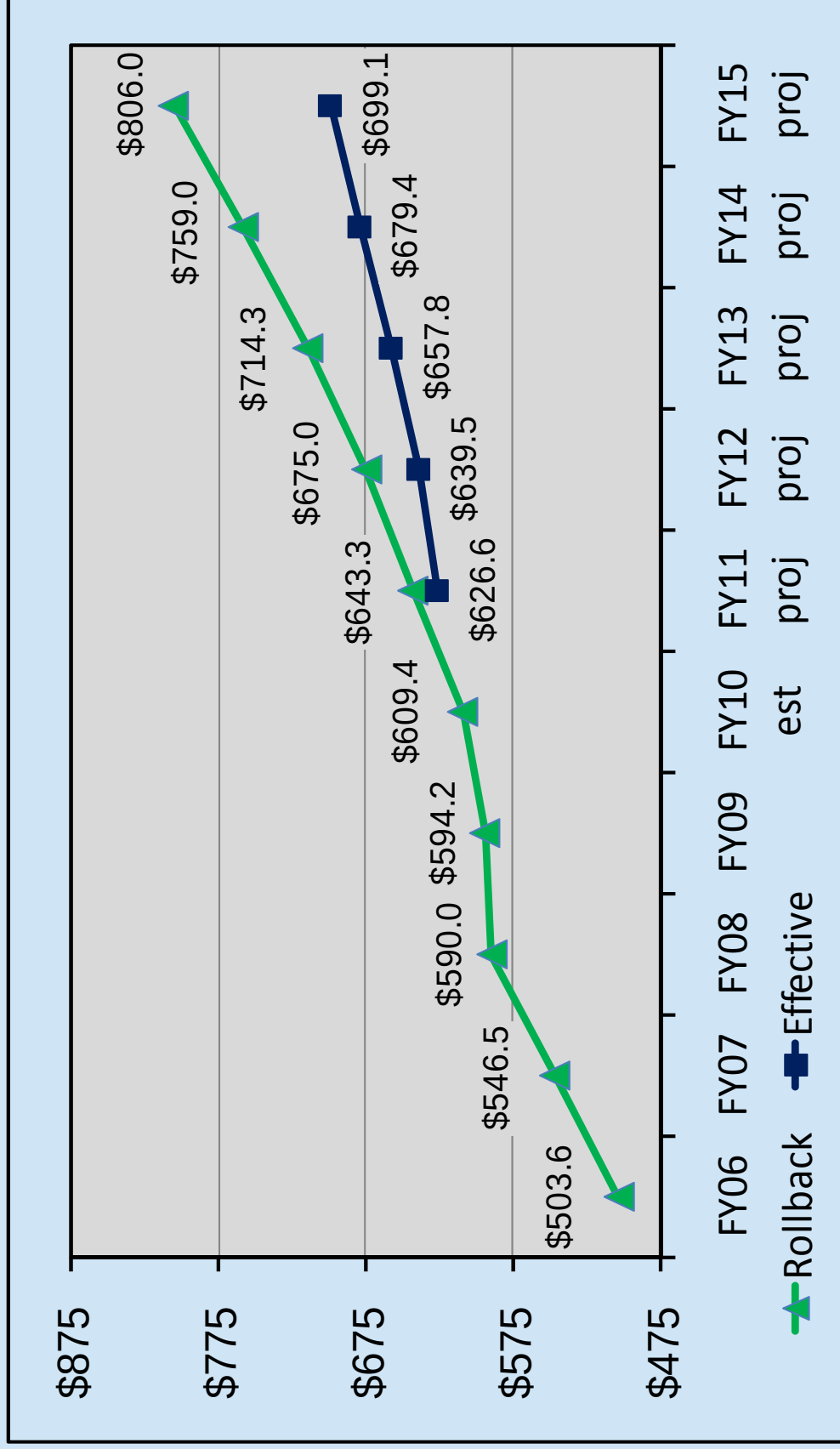
Utility Transfers versus Total General Fund Revenue



Other Revenues

- Franchise fees
 - primarily telecommunications, gas, cable
 - gas franchise fees lower in 2010 due to drop in natural gas prices
 - moderate increases projected beginning in 2011
- Interest earnings
 - have dropped significantly due to lower yields
 - expected to remain low for the duration of 2010 followed by moderate growth beginning in 2011

Revenue Forecast



Revenue Summary

- Economic recovery will result in improved sales tax revenue
- Development revenue will continue to decline significantly from peak before returning to historic norms
- Utility transfers will potentially represent a smaller share of total General Fund revenues in the future
- Drop in AV will potentially result in higher tax rates
 - lower tax rates would necessitate better than anticipated growth in other revenues or reductions in costs or services
- Average annual revenue growth of 6.5% over forecast period – at rollback tax rate
 - 2.9% at effective rate
 - compared to 8.6% annual growth prior to downturn



Financial Forecast

General Fund Conclusions

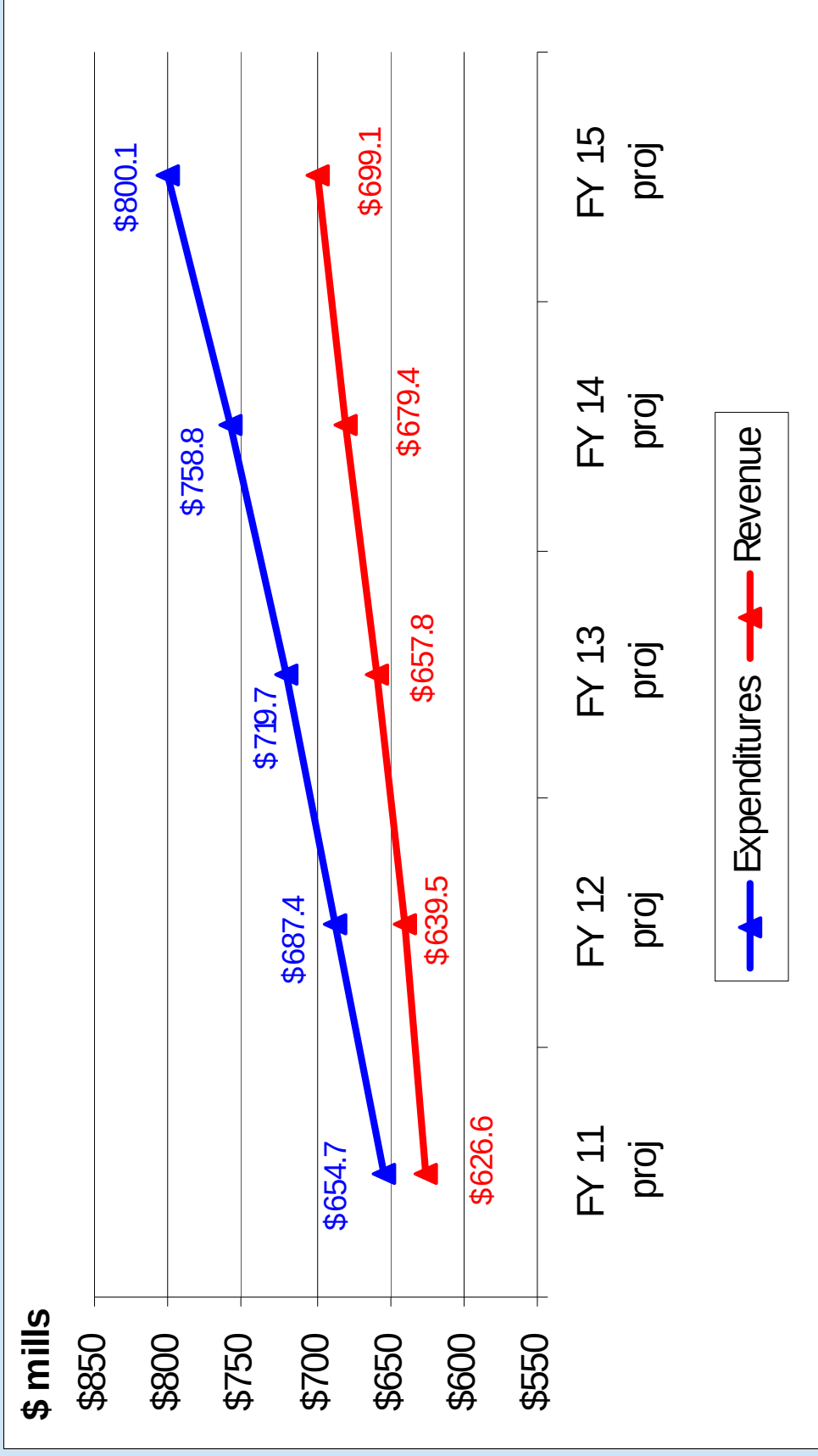
Revenue to Expenditures

Revenue Projections at Rollback



Revenue to Expenditures

Revenue Projections at Effective



Conclusions

- Basic expenditure projections
 - forecast assumes existing programs and service levels maintained
 - forecasted staffing increases limited to annexations, opening of new facilities and previously approved Council policies
 - forecast is not a budget
- Slower overall revenue and expenditure growth projected over forecast horizon than in past years
- Further drop in development revenue anticipated
- Projected budget gaps
 - rollback tax rate: \$11.4 million in FY 2011; gap closes within forecast horizon as economy improves
 - effective tax rate: \$28.1 million in FY 2011 growing to \$101 million by FY 2015

Budget Timeline & Next Steps

November-January	Departmental Business Planning
February-March	Development of Horizon Issues & Forecast
April 21	Presentation of Economic Outlook, General Fund Forecast and Horizon Issues
April 28	Enterprise Fund Forecasts
May-June	Budget Development
Early June	Community Input Forums
July 28	Proposed Budget Presented to City Council
August 4, 18, 25	Budget Work Sessions & Public Hearings
September 13-15	Budget Approval Readings

Questions / Comments



FUND PROJECTIONS

GENERAL FUND

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

REVENUE SUMMARY

The General Fund collects 83% of its funding from four sources: property tax, sales tax, transfers in, and development. Property taxes are a result of the tax rate per \$100 of property valuation. Sales tax collections are 1% of the sale of taxable goods and services in the City of Austin. Transfers into the General Fund are received from the electric and water utilities. Development revenue results from single and multi-family residential and commercial building activity. The remaining 17% is comprised of franchise fees, fines, forfeitures, penalties, licenses, permits, inspections, charges for services and interest.

REVENUE ASSUMPTIONS

- Property tax revenue projections assume the rollback tax rate in all years and valuation decline of 5% in FY 2011 increasing to 2% in FY 2012 – FY 2015.
- Sales tax growth of 2.5% is assumed for FY 2011 followed by an annual 5% increase in the last 4 years of the forecast.
- Utility transfers in FY 2011 and FY 2012 are based on utility revenue trends and transfer rates of 9.1% for the Electric Utility and 8.2% for the Water Utility. In FY 2013 – FY 2015 utility transfer revenue is projected to increase 3% annually.
- Development revenue is projected to decline \$4.9 million in FY 2011, increase \$1.0 million in each of the next two years and be relatively flat for the remainder of the forecast.

EXPENDITURES SUMMARY

Forecast projections show that expenditure requirements will exceed revenue projections. Personnel costs continue to be the main base requirement driving the increase in total expenditures and make up 79% of the total current year General Fund Budget. The three main factors impacting personnel costs are health insurance, public safety contracts and public safety step and longevity.

Other base requirements in the five year forecast period include funding for new or expanded facilities such as Avery Ranch EMS station, Roy Guerrero Colorado River Park, Northwest Recreation Center, Dittmar Recreation Center expansion, the new animal shelter and transitioning to four-person staffing. Finally, the forecast

includes other expenditure increases for obligations such as cost increases for the jail contract and other miscellaneous contracts as well as requirements for transfers out to other funds such as workers' compensation, liability reserve, accrued payroll, Support Services Fund and Communications & Technology Management Fund.

EXPENDITURE ASSUMPTIONS

BASE BUDGET

- Maintain funding to meet current service levels
 - o Public Health & Safety
 - o Parks Programs & Library Services
 - o Permitting, Review & Inspection
 - o Planning & Zoning

BASE INCREASES

- Outside contract increases
- New or expanded facility operations
- Other miscellaneous adjustments to commodities

PERSONNEL INCREASES

- Includes funding for Police, Fire & EMS contracts @ 3% each year
- Includes funding for all other employees 2.5% each year
- Health insurance increase of 10% each year
- Additional 2% supplemental pension funding in FY 2011 – FY 2013

General Fund Projections

General Fund Five Year Forecast

(millions)

	Amended 2009-10	Estimated 2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
BEGINNING BALANCE	0.0	0.0	0.0	(11.4)	(23.9)	(29.2)	(29.0)
REVENUE							
Property Tax	233.1	233.1	254.7	278.1	302.5	332.7	364.2
Sales Tax	134.2	134.2	137.6	144.4	151.7	159.2	167.2
Franchise Fees	33.2	33.2	34.0	34.8	36.1	37.2	38.5
Development Fees	7.5	7.5	8.1	9.1	10.1	10.1	10.7
Other Revenue	70.2	70.2	73.2	73.8	75.5	77.2	79.0
TOTAL REVENUE	478.2	478.2	507.6	540.2	575.8	616.4	659.5
Transfers In	131.2	131.2	135.7	134.8	138.5	142.6	146.5
TOTAL AVAILABLE FUNDS	609.4	609.4	643.3	675.0	714.3	759.0	806.0
REQUIREMENTS							
Administrative Services	11.9	11.7	12.3	12.7	13.0	13.7	14.5
Urban Growth Management	19.6	18.3	21.5	22.2	23.0	24.0	25.1
Public Safety	404.4	396.3	426.4	445.5	466.0	492.7	521.0
Heath & Human Services	38.9	38.2	40.5	41.5	42.1	44.6	47.2
Public Recreation & Culture	61.0	60.8	65.2	67.5	70.0	73.9	78.1
TOTAL DEPARTMENT EXPENDITURES	535.9	525.3	565.9	589.4	614.0	648.9	685.9
TOTAL TRANSFERS OUT	56.8	56.8	58.6	62.4	65.2	68.1	71.1
TOTAL OTHER REQUIREMENTS	22.3	25.5	30.2	35.6	40.5	41.7	43.1
TOTAL REQUIREMENTS	614.9	607.6	654.7	687.4	719.7	758.8	800.1
EXCESS (DEFICIENCY) OF TOTAL AVAILABLE FUNDS							
OVER TOTAL REQUIREMENTS	0.0	1.8	(11.4)	(12.4)	(5.3)	0.2	6.0
ENDING BALANCE	0.0	0.0	(11.4)	(23.9)	(29.2)	(29.0)	(23.0)
EMERGENCY RESERVE FUND	40.0	40.0	40.0	40.0	40.0	40.0	40.0
CONTINGENCY RESERVE FUND	6.0	6.0	6.2	6.5	6.7	7.1	7.5
BUDGET STABILIZATION RESERVE FUND	21.4	31.2	20.8	13.9	9.3	6.2	4.1

