#42
4/15/2004

Financial Forecast

April 2004

City of Austin

Financial and Administrative Services

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 Manager and City Council as part of the budget planning process. The financial forecast is not 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.

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Summary

It is possible that the reality of the national economy is beginning to match the data. Rising investment, improvement in corporate profits, and continued low interest rates have stimulated strong GDP growth over the past twelve months, and there are early indications that the labor market may finally be responding. If interest rates stay low and job growth continues, the U.S. should see GDP growth of 4.1 percent during 2004, a pace consistent with full economic recovery. Growth should move toward the 3 percent range over the next five years, an acceptable level of if it is accompanied by job growth sufficient to drive the unemployment rate below the current 5.7 percent rate.

In Austin, the economy appears to have turned the corner, with job growth and local sales tax revenues both growing after a long decline. Some stabilization of the local production sector, growth in tourism, and improved local sentiment towards both spending and investing should allow growth in MSA jobs to be 1.9 percent annually from 2003 through 2008, while personal income will rise 4.7 percent annually over the same period. These rates reflect a recovering economy and a reduced rate of local population growth, and are independent of any significant economic development initiatives or corporate expansions/reductions.

The National Economy

Rising demand has combined with low interest rates, tax cuts, a weak dollar, and the end of formal hostilities in Iraq to drive GDP (Gross Domestic Product) growth forward. The economy's near-term prospects have brightened as there is early evidence that the job market has turned the corner. Businesses have finally responded to the strong growth in demand and production, adding one-half million jobs during the first quarter. The U.S. economy is now creating just enough jobs to ensure that unemployment and underemployment do not increase and that the expansion is self-sustaining.

GDP Growth (Seasonally Adjusted at Annual Rates)

	1ST QUARTER	*2ND QUARTER*	*3RD QUARTER*	*4TH QUARTER*
2001	-0.2%	-0.6	-1.3	2.0
2002	4.7	1.9	3.4	1.3
2003	2.0	3.1	8.2	4.1

Source: Texas Perspectives, Inc.

Economic Outlook

The National Economy Continues to Expand

GDP rose by 3.1 percent for 2003, on the heels of 2.2 percent growth the previous year. Personal consumption expenditures, investment, and government activity were the basis of growth, as foreign trade on balance was negative. The following provides more detail.

Percentage Point Contributions to GDP Growth

CATEGORIES OF ACTIVITY	*2002*	*2003*
Personal Consumption Expenditures	2.4	2.2
Inventories	0.4	0.0
Residential Investment	0.2	0.4
Nonresidential Investment	-0.8	0.3
Net Exports	-0.7	-0.4
Government	0.7	0.6
TOTAL GDP GROWTH	2.2	3.1

Business Activity Accelerates

As corporate profits have improved over the past six months, business investment has picked up (see chart below), with rising demand being boosted by more tax cuts, another surge in housing activity and mortgage borrowing, and the lower U.S. dollar. Other factors stimulating business activity include tax cutting and a lower value for the dollar. On the tax side, the $100 billion combination of larger tax refunds, lower tax rates, and accelerated depreciation benefits to businesses would add nearly one percentage point to real GDP growth this year if it were entirely spent. Meanwhile, a 15% decline in the trade-weighted value of the dollar since its early 2002 peak has improved the U.S. competitive position.

Change in Business Spending on Equipment and Software (Seasonally Adjusted at Annual Rates)

	1ST QUARTER	*2ND QUARTER*	*3RD QUARTER*	*4TH QUARTER*
2001	-0.4%	-16.4	-12.2	-4.1
2002	-0.2	1.2	3.7	1.7
2003	0.5	8.0	17.6	14.9

Consumer Spending Remains Strong, Driven at Least in Part by Debt

Consumer spending supported the national economy during the slowdown, as shoppers have been willing to take advantage of aggressive pricing, lower interest rates, and available consumer debt to maintain purchasing patterns. The housing and mortgage markets received another strong boost in recent weeks when fixed mortgage rates fell to below 5.5%. Already record home sales, single-family homebuilding and house price growth should post new highs in coming months. This, along with heightened home equity borrowing and cash-out refinancing, will ensure that households will continue to pull large amounts of equity from their homes.

Source: Texas Perspectives, Inc.

Economic Outlook

Households borrowed nearly $700 billion against their homeowners' equity in 2003, and are borrowing at least at the same pace thus far this year.

Personal Consumption Expenditure Growth (Seasonally Adjusted at Annual Rates)

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
2001	0.5%	2.3	1.9	6.2
2002	4.1	2.6	2.0	2.2
2003	2.5	3.3	6.9	3.2

Fortunately, Inflation Remains Largely Under Control

Concerns about inflation have largely evaporated in recent years, although the crisis in the Middle East has caused volatility in energy prices, leading to prices at the pump that have reached ten-year highs. Energy prices are expected to remain elevated for the near future. However, the impact of higher energy costs appears fairly isolated, as overall inflation continues to be moderate (see chart below).

Consumer Price Index Growth (Annual Change)

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
2001	3.4%	3.4	2.7	1.8
2002	1.2	1.3	1.6	2.2
2003	2.9	2.2	2.2	1.9

Monetary and Fiscal Policy Are Aimed Squarely at Stimulus, But Rates Can Only Go Up From Here

While current benchmark interest rates are at their lowest level in forty years, the Fed's bias clearly is toward tightening, as sustained improvement in the job market likely will prompt higher interest rates. Meanwhile, the federal budget deficit will eventually put added pressure on market-based long-term interest rates. Even under optimistic economic assumptions, cumulative budget deficits over the next decade appear headed into the trillions of dollars. Bond investors have yet to incorporate this into their thinking. This will occur as corporate credit demands begin to increase in coming months and bump up against the federal government's own large and expanding credit needs. As a result, even a modest rise in rates will weigh heavily on the vehicle and housing markets, especially since they are both substantially more rate sensitive now in light of the forward-buying that has occurred in recent years.

Source: Texas Perspectives, Inc.

Economic Outlook

The National Forecast Is for Continued Solid Economic Growth for the Balance of 2004, with Growth Moving Toward Historic Trends Over the Next Four Years

The recent past has seen the consumer prop up the economy while business activity has been hesitant. Given a resurgence of investment and the early signs of labor market improvement, the prospects for the balance of 2004 are good, especially as low interest rates are expected to maintain consumer spending at least through the Fall. Overall, the forecast is for GDP growth to be 4.1 percent this year, a pace consistent with economic expansion at this stage of recovery.

As fiscal and monetary stimulus fade in 2005, the job and resulting wage and salary gains should help pick up the slack. While there remain structural issues weighing on the labor market (outsourcing, increasing use of technology, etc.), they should not short-circuit the broader expansion. With a better job market, the next test of the resilience of this expansion will be higher interest rates. Over the next four years, GDP should move toward expansion in the 3.25 percent range annually, as the economy's potential growth of 3.5 to 4 percent per year (based in part on enhanced productivity associated with information technology) is tempered by slower labor force growth.

The Local Economy

The Austin metro area's economy has largely been in a holding pattern for most of the past year or so, with trends generally mirroring those of the nation as a whole – hesitancy on the part of business to either hire or invest causing little job growth, but a stronger than expected housing market helping prop up overall consumer spending. Tourist activity has also shown signs of improvement, and should continue to grow over the next several years.

The national economy remains the key to the short-term outlook for the Austin MSA. In addition to the obvious connection for the bulk of the local tech sector, local consumer confidence is influenced by the overall national situation and outlook. Assuming that U.S. economic growth remains solid, Austin-area job growth should rise within the next few months, finishing the year 1.6 percent ahead of 2003. However, the bulk of the net new jobs will be in the secondary sectors of services, trade, and government, as it may well be some time before local manufacturing and technology employment returns to its peak.

During 2005, overall growth in the Austin region should be slightly more rapid, although expansion likely will not approach recent highs. The forecast is for job growth of 1.8%, which represents a gain of about 11,600 jobs. Tourism may make a greater contribution in the near future, as new infrastructure and a decline in overseas travel makes Austin a more attractive site. On the other hand, the State's budget problems could lead to significant public sector job losses (likely through attrition, consolidation and privatization), which could negatively effect the overall job forecast.

Source: Texas Perspectives, Inc.

Economic Outlook

Aggregate Measures of the Austin Area Economy (Actual and Projected)

	2002	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*
MSA Employment (000s)	658.5	652.2	662.6	674.2	687.6	701.4	716.0
County Population (000s)	843.5	842.8	857.3	877.1	893.1	909.4	925.5
County Personal Income ($bil.)	$28.0	$28.6	$29.7	$31.1	$32.7	$34.3	$36.1

Over the next five years, growth in the Austin region should begin to accelerate, as the forecast is for the Austin MSA job base to expand at a compound annual rate of 1.9 percent from 2003 through 2008, with the bulk of that growth occurring in the latter years of the forecast horizon. Similarly, Travis County personal income is projected to rise 4.7 percent annually over the same period. The national economy remains the single most important determinant of Austin's economic outlook. Other key factors that will help shape the course of the economy include:

- *Some improvement in traditional technology.* While significant job gains in these sectors is unlikely, stronger market prospects will at least help maintain current job levels.
- *Continued redevelopment of the urban core.* Robert Mueller reuse and downtown residential growth are but two of the factors driving the resurgence of Central Austin.
- *Growth in activity related to research & development, clean energy, wireless, new technologies, tourism, and creative industries.* All are areas of comparative advantage where Austin has yet to realize its full potential.
- *Recruitment of new firms to Austin.* A more proactive economic development approach could facilitate Austin reemerging as a site for relocation.

Actual and Projected Austin MSA Employment by Sector (000s)

	2002	2003	2004	2005	2006	2007	2008
Construction	36.5	35.7	35.3	35.8	36.3	36.9	37.5
Education/Health Services	64.7	65.7	67.8	69.5	71.2	73.0	74.8
Financial Activities	38.0	39.4	39.2	39.8	40.4	41.1	41.7
Government	144.8	145.8	148.7	149.4	150.2	150.9	151.7
Information	22.6	20.9	21.2	21.8	22.3	22.9	23.5
Leisure and Hospitality	62.3	63.5	66.4	69.1	71.8	74.7	77.7
Manufacturing	63.5	57.7	58.6	59.5	60.4	61.3	62.2
Natural Resources/Mining	1.7	1.5	1.5	1.5	1.5	1.5	1.5
Other Services	23.9	24.5	25.3	26.2	27.2	28.1	29.1
Prof./Business Services	87.2	85.5	86.3	88.5	90.8	93.3	95.9
Trade/Transport/Utilities	113.3	112.0	112.3	113.2	115.3	117.7	120.2
TOTAL	658.5	652.2	662.6	674.2	687.6	701.4	716.0

Source: Texas Perspectives, Inc.

FUND PROJECTIONS

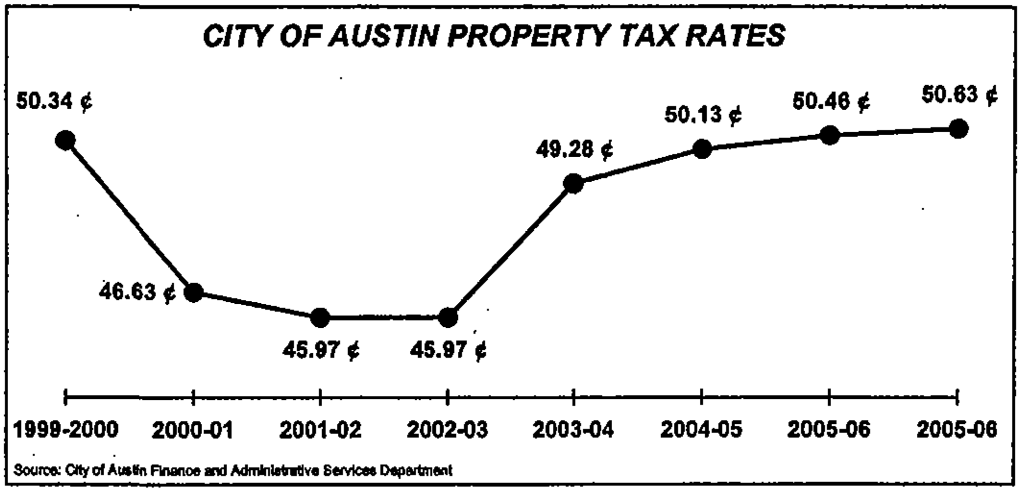
General Fund

Revenue

Property tax revenue accounts for approximately 34% of total General Fund revenue. The financial forecast includes two basic assumptions:

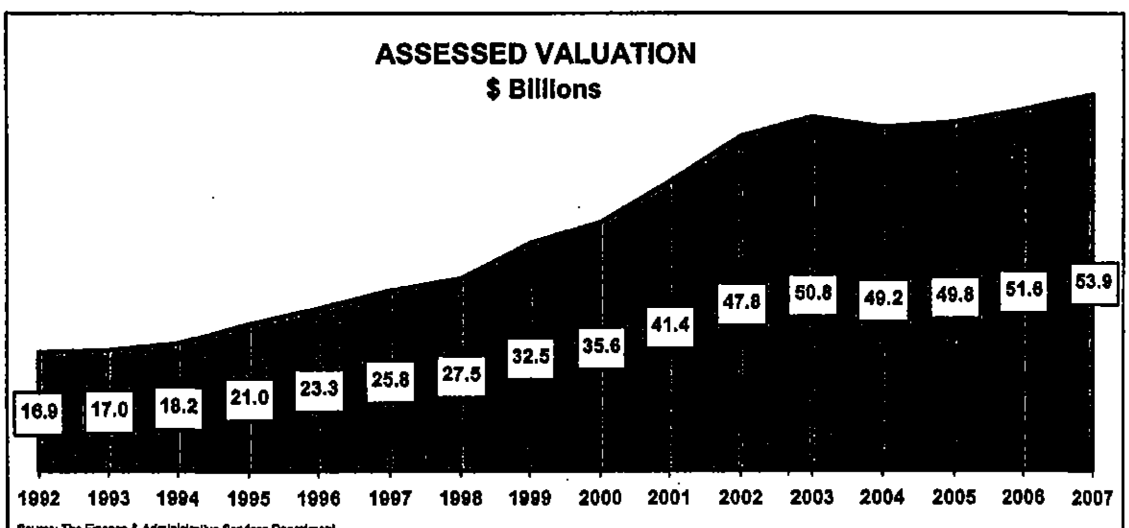
- *Maintain the effective tax rate per $ 100 assessed valuation for all three years.*

	FY2004	FY 2005	FY 2006	FY 2007
Tax Rate	49.28¢	50.13¢	50.46¢	50.63¢



- Based on preliminary information from the Appraisal District, assessed valuations for fiscal 2005 are expected to grow slightly at just over one percent. Assessed valuation in the remaining two years of the forecast assumes a continuation of minor increases as the economy maintains a slow recovery pace.

	FY 2005	FY 2006	FY 2007
Taxable Assessed Valuation (billions)	$ 49.8	$ 51.6	$ 53.9
Percentage Change	1.3%	3.5%	4.5%



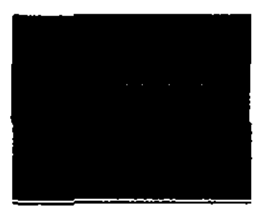
2004-05 CHANGES IN VALUE BY PROPERTY TYPE

Single Family Residential
$1,049 M 4.5 %

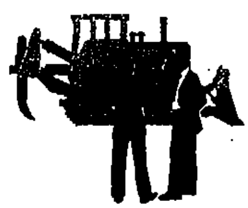
Multi-Unit Residential
($96 M) (1.6 %)

Commercial
($980 M) (8.0 %)

Personal Property
$518 M 8.5 %



Land
$149 M 9.8 %

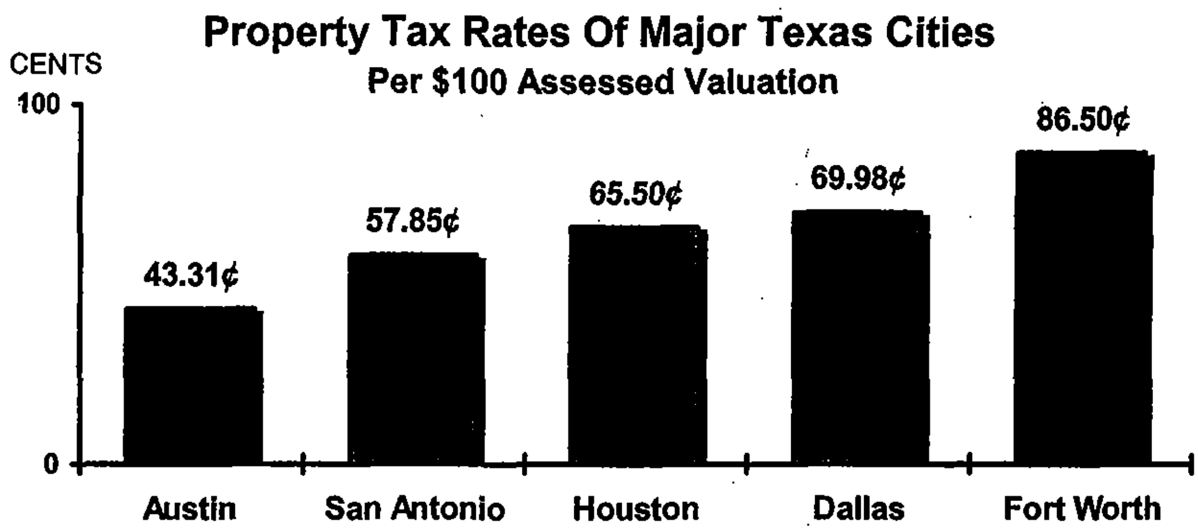


New Construction
$1,475 M NA

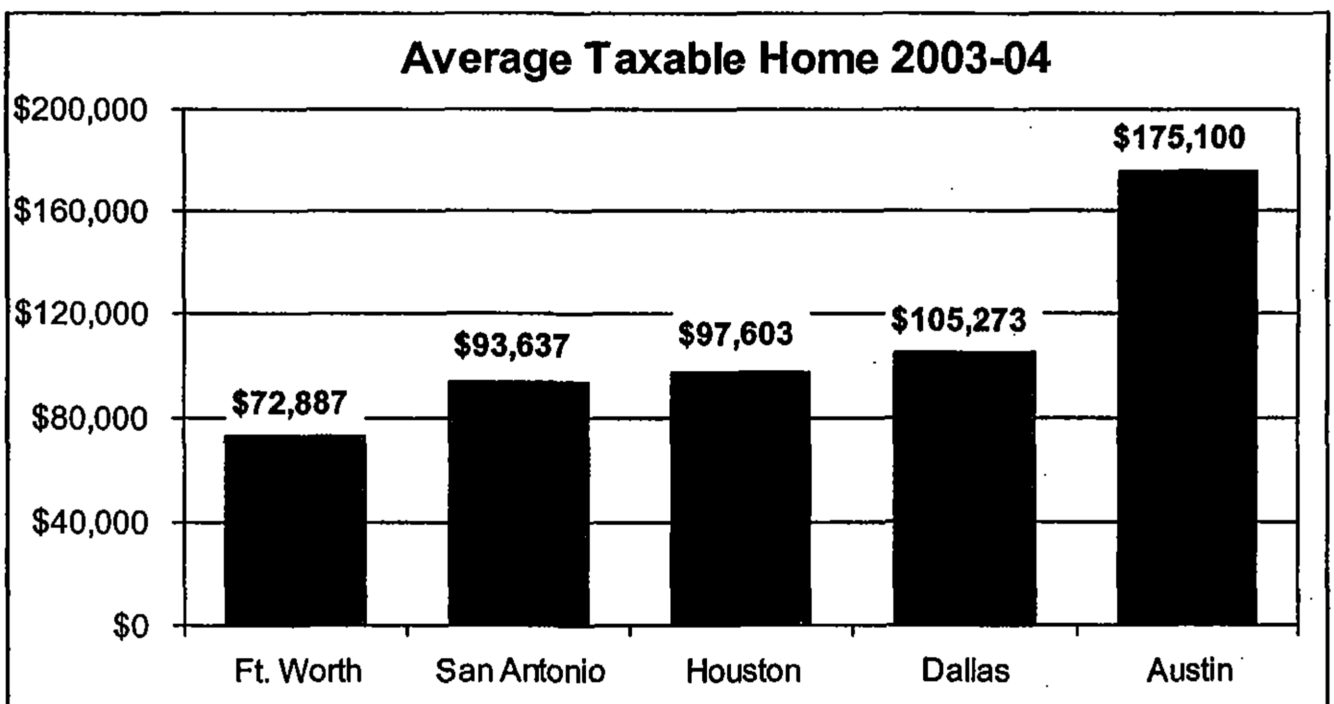
$640 M | TOTAL | **1.3 %**

Property Tax Comparisons

The City of Austin expends approximately $27 million annually for public health care services. This level of expenditure is funded through approximately 5.97¢ of the City's property tax rate. To provide equivalent comparisons to the other major Texas cities, where public health care services are funded through a Hospital District property tax, rather than the city property tax, the City of Austin tax rate has been adjusted in the following comparisons.



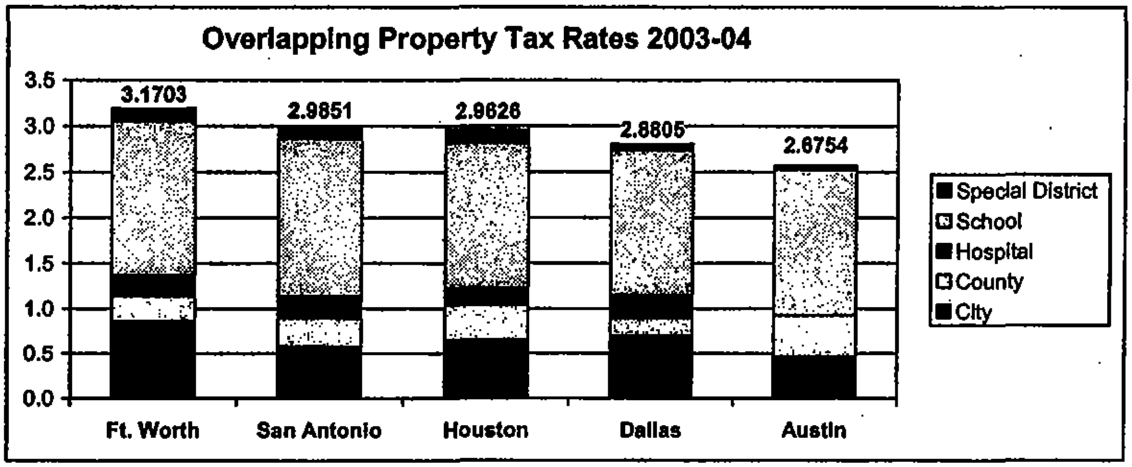
Source: The Finance & Administrative Services Department



Overlapping Property Tax Rates 2003-04

Jurisdiction	Ft. Worth	Share	San Antonio	Share	Houston	Share	Dallas	Share	Austin	Share
City	0.8650	27.3%	0.5785	19.4%	0.6550	22.1%	0.6998	24.3%	0.4331	16.2%
County	0.2726	8.6%	0.3210	10.8%	0.3880	13.1%	0.2039	7.1%	0.4789	17.9%
Hospital	0.2354	7.4%	0.2439	8.2%	0.1902	6.4%	0.2540	8.8%	0.0726	2.7%
School	1.6580	52.3%	1.7220	57.7%	1.5800	53.3%	1.6395	56.9%	1.6137	60.3%
Special District (1)	0.1394	4.4%	0.1198	4.0%	0.1494	5.0%	0.0833	2.9%	0.0771	2.9%
Total Tax Rate	3.1703		2.9851		2.9626		2.8805		2.6754	

(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 2003-04

Jurisdiction	Ft. Worth	Share	San Antonio	Share	Houston	Share	Dallas	Share	Austin	Share
City	$630	25.1%	$542	26.6%	$639	22.1%	$737	25.8%	$758	17.4%
County	$329	13.1%	$326	16.0%	$394	13.6%	$211	7.4%	$733	16.8%
Hospital	$284	11.3%	$248	12.2%	$193	6.7%	$263	9.2%	$133	3.1%
School	$1,098	43.8%	$799	39.2%	$1,500	51.8%	$1,563	54.7%	$2,600	59.7%
Special District (1)	$168	6.7%	$121	6.0%	$171	5.9%	$86	3.0%	$133	3.0%
Total Tax Bill	$2,510		$2,035		$2,898		$2,860		$4,357	

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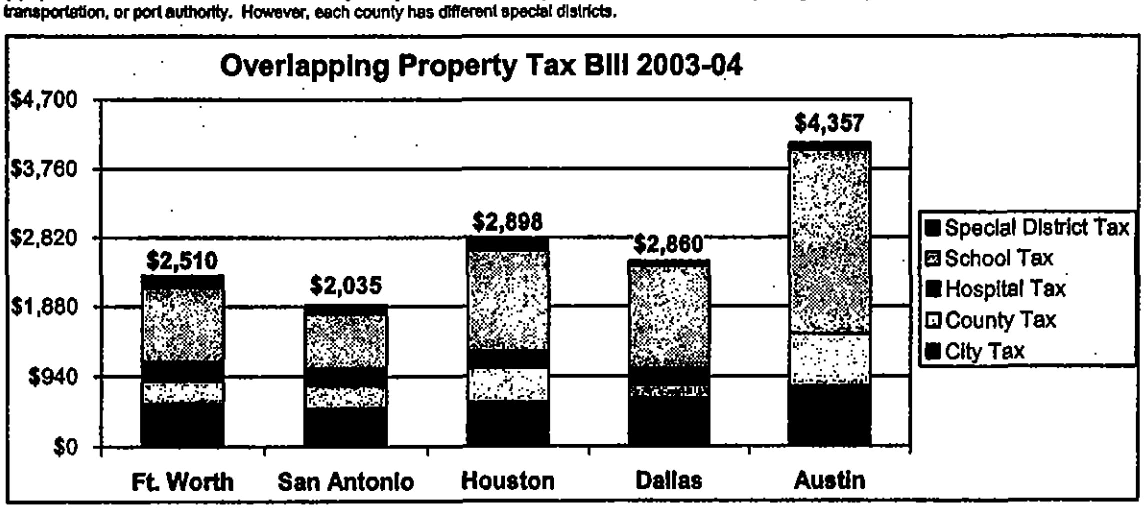

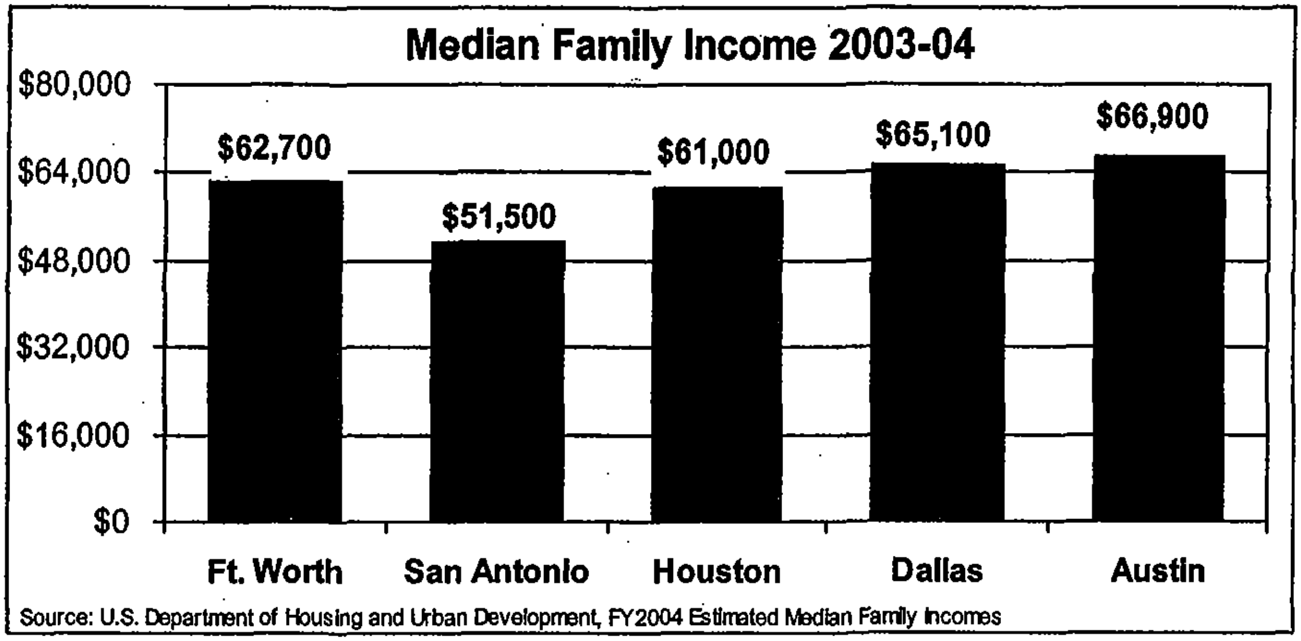

2003-04 Overlapping Property Tax Bill % of Median Income

Jurisdiction	Ft. Worth	Percent	San Antonio	Percent	Houston	Percent	Dallas	Percent	Austin	Percent
City	$630	1.01%	$542	1.05%	$639	1.05%	$737	1.13%	$758	1.13%
County	$329	0.52%	$326	0.63%	$394	0.65%	$211	0.32%	$733	1.10%
Hospital	$284	0.45%	$248	0.48%	$193	0.32%	$263	0.40%	$133	0.20%
School	$1,098	1.75%	$799	1.55%	$1,500	2.46%	$1,563	2.40%	$2,600	3.89%
Special District [1]	$168	0.27%	$121	0.24%	$171	0.28%	$86	0.13%	$133	0.20%
Total Tax Bill	$2,510	4.00%	$2,035	3.95%	$2,898	4.75%	$2,860	4.39%	$4,357	6.51%

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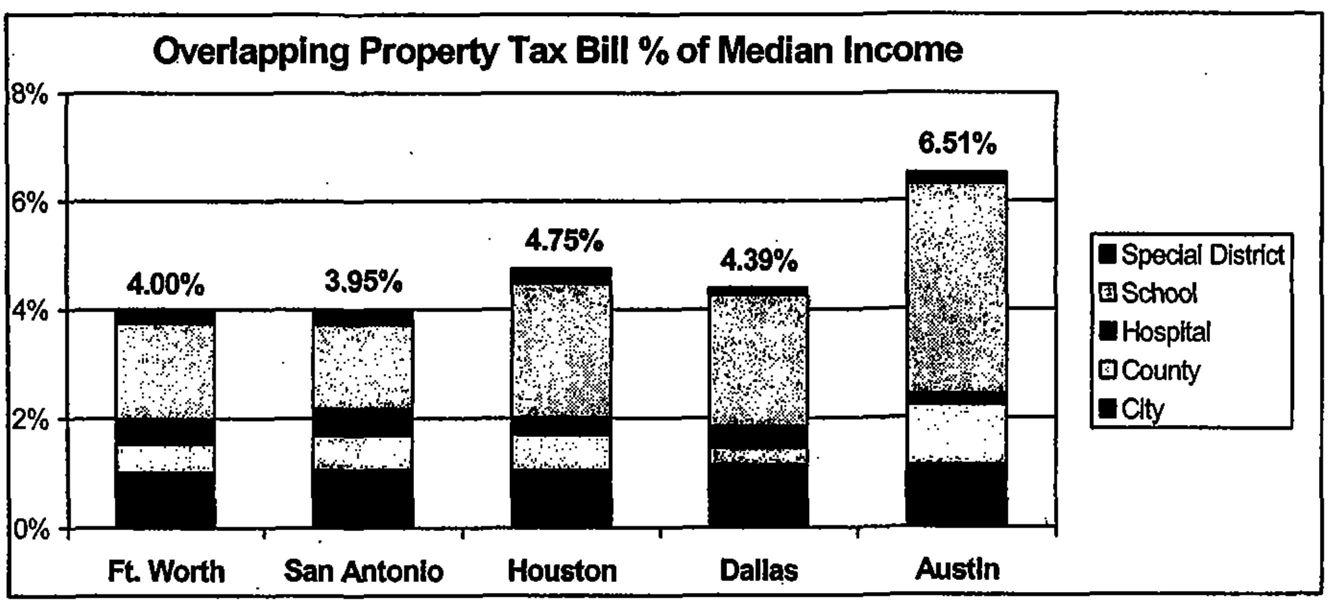
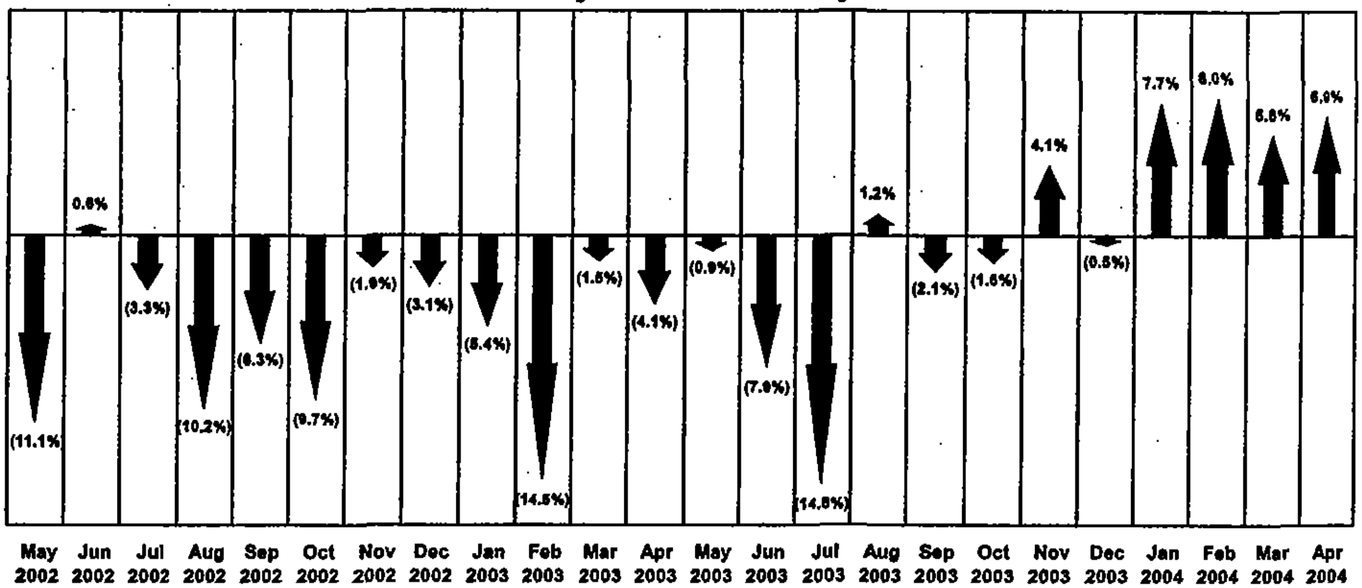


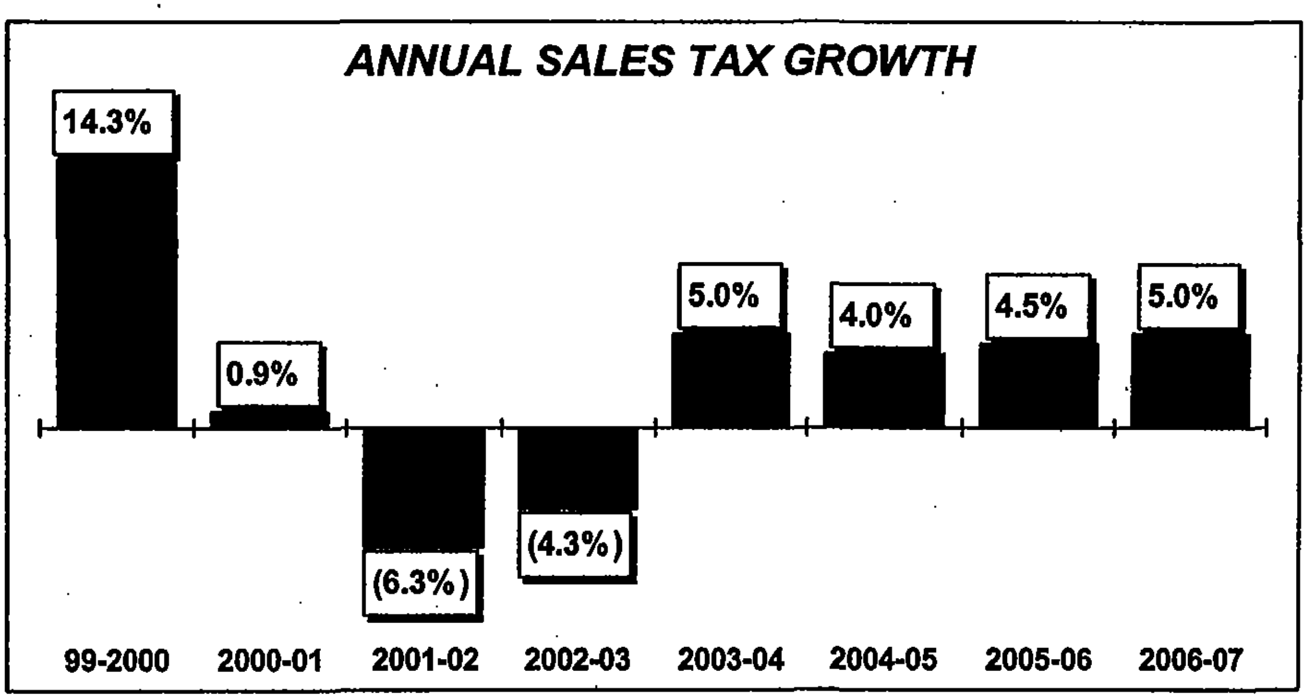
Sales Tax revenue accounts for approximately 24% of total General Fund revenue. Sales tax revenue declined in the past year and a half has exhibited a positive growth trend over the last six months:

Actual Monthly Sales Tax Payment



Source: The Finance and Administrative Services

The estimated 2003-04 is positive for the first time in 2 years. Based on the updated local economic outlook for continuing job and income growth, the forecast projects a slight increase in sales tax revenue over the next three years:



Annual sales tax growth for fiscal years 2000 – 2003 are actual collections, FY 2004 is the current year estimate revision of 5% from the original budget of 2%, and FY 2005 – 2007 are forecast years.

Other Revenue

Utility transfer revenue accounts for approximately 21.2% of total General Fund revenue. The forecast revenue are based on maintaining the current utility transfer rates:

Electric Utility 9.1%
Water Utility 8.2%

- Forecast revenue includes the impact of a comprehensive revenue initiative resulting in an increase in existing and new recommended user fee increases for an annual fiscal impact of $1,130,969.

Below is a summary of revenue for the forecast:

General Fund Forecast of Major Revenue

	2004-05	2005-06	2006-07
Revenue			
Property Tax	$ 162.40	$ 170.61	$ 186.16
Sales Tax	120.62	126.04	132.35
Utility Transfers	94.12	96.39	96.85
Others	94.24	95.40	95.30
Total Revenue	$ 471.38	$ 488.45	$ 510.66

Expenditures

Basic Assumptions
FY 2005 thru FY 2007

- Maintain 2.0 Officers per 1,000 population
- Public Safety personnel cost increases based on current pay structures (i.e. step & longevity; annualized salary impacts)
- Public Safety salary premium
- Maintain existing funding levels for public health services
- Maintain existing funding levels for social services
- Maintain existing service levels such as:
  - Branch libraries remain closed 2 days per week
  - Continuation of reduced Summer Playground and other Parks Programs implemented in FY 2004
- Funding operations and maintenance costs for all new/expanded facilities scheduled to open during forecast period (based on deferred schedule approved in FY 2004
- Pay for Performance for all employees for each year of the forecast
  - FY 05 – 3.5%
  - FY 06 – 3.0%
  - FY 07 – 3.0%
- Health insurance benefits increase 15% each year of the forecast

General Fund Financial Forecast
Major Cost Drivers

	2005	2006	2007
Public Safety	$ 18.31	$ 18.89	$ 15.72
Health Insurance	$ 4.13	$ 4.81	$ 5.53
PFP - non-uniform	$2.22	$2.47	$2.54
New Facilities O&M (non-public safety)	$ 0.85	$ 1.91	$ 0.37
Subtotal Major Cost Driver Increases	*$ 25.52*	*$ 28.08*	*$ 24.16*
Other Estimated Cost Increases	*$2.97*	*($0.84)*	*$2.49*
Total Estimated Cost Increases	**$ 28.49**	**$ 27.23**	**$ 26.64**

General Fund Financial Forecast
Public Safety Cost Drivers

	2005	2006	2007
Police 3% - Pay for Performance	$4,145,181	$3,400,129	$3,468,132
Fire 3% - Pay for Performance	$1,874,802	$2,242,996	$2,287,857
EMS 3% - Pay for Performance	$312,029	$374,961	$382,459
Police 2% - Public Safety Premium	$2,222,307	$2,266,753	$2,312,088
Fire 2% - Public Safety Premium	$1,466,011	$1,495,331	$1,525,238
EMS 2% - Public Safety Premium	$245,072	$249,974	$254,973
Police Step & Long	$1,922,874	$3,504,773	$3,762,901
Fire Step & Long	$380,297	$0	$0
Police Meet & Confer Soft Costs	$1,473,302	$2,541,603	$2,793,681
Addt'l Police Officer Funding	$647,965	$999,008	$1,040,544
Police UHP Grant Reimbursment	($190,201)	($1,024,282)	($1,958,904)
Police Expiring Grant Assistance	$2,334,671	$390,058	$276,579
Police FY 04 Budget Amendment / Other - 1 time	($1,758,700)	$0	$0
EMS Equipment	$63,250	$172,510	$131,450
EMS overtime	$170,264	$0	$0
EMS Pay Equity	$547,000	$547,000	$0
EMS - alternative shift schedule	$340,716	$0	$0
New Facilities Public Safety	$2,118,011	$1,732,541	($561,610)
TOTAL PUBLIC SAFETY	$18,314,851	$18,893,355	$15,715,388

New / Expanded Facilities				
(millions)				
Annual Operating & Maintenance Cost (amounts shown in incremental increase)				
Facility	FY 2005	FY 2006	FY 2007	Forecast Period Cumulative
EMS Stations				
Circle C	$0.00	$1.31	($0.56)	$0.74
Del Valle	0.95	(0.47)	0.00	0.48
Total EMS Stations	$0.95	$0.83	($0.56)	$1.22
Fire Stations				
Circle C	$0.28	$0.14	$0.00	$0.43
Del Valle	0.42	0.14	0.00	0.56
Spicewood Springs	0.47	0.61	0.00	1.08
Total Fire Stations	$1.17	$0.90	$0.00	$2.07
Total Public Safety	**$2.12**	**$1.73**	**($0.56)**	**$3.29**
Health				
Downtown Homeless Shelter	$0.02	$0.04	$0.01	$0.07
Total Health	$0.02	$0.04	$0.01	$0.07
Libraries				
Carver Expansion	$0.04	$0.00	$0.00	$0.04
Spicewood Springs Expansion	0.00	0.09	0.01	0.10
Terrazas Expansion	0.04	0.02	0.00	0.07
Total Libraries	$0.08	$0.12	$0.01	$0.21
Parks & Recreation				
Carver Museum	$0.74	($0.24)	$0.00	$0.50
Metz Recreation Center Expansion	0.00	0.19	(0.04)	0.15
Town Lake Park	0.00	0.79	(0.15)	0.64
Colorado River Park	0.00	0.00	0.40	0.40
Mexican American Cultural Center	0.00	0.81	(0.28)	0.53
Gus Garcia Recreation Center	0.00	0.00	0.19	0.19
Colony Park Recreation Center	0.00	0.00	0.18	0.18
Security & Maintenance for New Facilities	0.00	0.20	0.05	0.00
Total PARD Facilities	$0.74	$1.75	$0.35	$2.60
Total Other Facilities	**$0.85**	**$1.91**	**$0.37**	**$2.87**
Total City-Wide	**$2.97**	**$3.64**	**($0.19)**	**$6.16**

General Fund Financial Forecast
Summary

	2003	2004	2005	2006	2007
Beginning Balance	$ 34.24	$ 29.56	$ 38.15	$ 30.15	$ 25.66
Revenues	$ 455.86	$ 461.11	$ 471.38	$ 488.45	$ 510.66
Expenditures:					
Base Budget - Prior Fiscal Year	$ -	$ -	$ 462.31	$ 471.38	$ 488.44
Cost Drivers	$ -	$ -	$ 28.49	$ 27.23	$ 26.64
Total Expenditures	$ 507.60	$ 499.60	$ 490.80	$ 498.62	$ 515.08
Excess / (Deficit)	*$ (51.74)*	*$ (38.49)*	*$ (19.42)*	*$ (10.17)*	*$ (4.42)*
Required Cost Reductions:					
Departmental Percentage Reduction	$ -	$ -	5.00%	2.76%	1.23%
Reduced Expenditures	$ 31.00	$ 38.49	$ 19.41	$ 10.18	$ 4.41
Total Revised Expenditures	$ 476.60	$ 461.11	$ 471.38	$ 488.44	$ 510.67
Revised Excess / (Deficit)	*$ (20.74)*	*$ -*	*$ (0.00)*	*$ 0.01*	*$ (0.01)*
Ending Balance	$ 13.50	$ 29.56	$ 38.14	$ 30.16	$ 25.65
Critical One-Time Costs: Equipment & Repairs			$ 7.99	$ 4.50	$ 5.04
Adjusted Ending Balance	$ 13.50	$ 29.56	$ 30.15	$ 25.66	$ 20.61

UN-ADJUSTED

	2003	2004	2005	2006	2007
Beginning Balance			$ 38.15	$ 18.73	$ (10.85)
Revenues			$ 471.38	$ 488.45	$ 510.66
Total Revised Expenditures			$ 490.80	$ 518.03	$ 544.67
Excess / (Deficit)			*$ (19.42)*	*$ (29.58)*	*$ (34.01)*
Ending Balance			$ 18.73	$ (10.85)	$ (44.87)

Austin Convention Center

Revenue

Hotel/Motel Bed tax collections account for over 50% of total Convention Center revenue. During FY02, bed and vehicle rental tax receipts declined sharply as a result of economic factors, including the adverse effects of the events of September 11, 2001 on the leisure and travel industry. FY03 saw a slight increase of 1% over FY02 levels. The FY 04 revenue budget was projected to be 8% over FY 03, but current estimates show only a 5% increase.

Both bed tax and vehicle rental tax revenue for FY05 is projected to increase 3% above the FY04 current year estimate. Future annual growth rates for these taxes are projected at 4% for FY06 and 5% for FY07. Bed tax projections are based on an analysis of hospitality industry trends and hotel/motel market data. The recent opening of the Hilton Hotel adjacent to the Convention Center, coupled with our expanded facilities, is expected to have a positive influence on the revenue generated by the Convention Center.

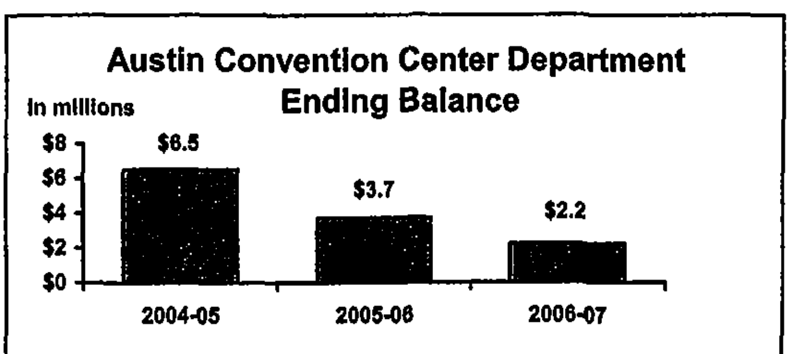
Another major source of revenue is Convention Center facility revenue. FY 04 estimated revenue is being projected at 10.5% below the FY 04 budgeted amount. FY05 facility revenue is projected to increase 3% over the FY04 current year estimate, plus an additional $800,000 from the new parking garage for the Convention Center expansion. A growth rate of 4% is projected in FY 06 and a growth rate of 5% is predicted in FY 07.

Expenditures

The major cost increases for Convention Center expenditures are related to the increased operating costs associated with the new parking garage, which complements the Convention Center expansion. The openings of the expansion and the Hilton Hotel have changed our markets and created the opportunity for increases in Convention Center event business. These additional facilities, however, also present new demands through increased workload levels resulting from larger, more technologically complex and concurrently running events. Our strategies for meeting these new challenges include centralizing facility operations, creating economies of scale among our facilities and streamlining how we provide services. Aggressive pursuit of cost containment and optimized service models has allowed operating expenses in each of the three years of this forecast to be projected at levels below the FY 04 budgeted amount. Additionally, no new FTEs are anticipated for the Convention Center Department during the forecast period.

Other

Throughout the forecast period, the Convention Center will continue to be a self-sufficient operation. The fund balance is projected to remain positive during the entire forecast period.



Austin Convention Center Department Three Year Forecast

(millions)

	Amended 2003-04	2004-05	2005-06	2006-07
BEGINNING BALANCE - Convention Ctr., Venue Fund, Town Lake Park Venue, Palmer Events Ctr. (PEC) & PEC Garage	10.6	9.8	6.5	3.7
REVENUE				
Tax - Hotel/Motel, Rental Car	24.6	24.7	25.6	26.9
Facility - Convention Ctr (CC) & CC Garage Palmer Events Ctr (PEC) & PEC Garage	7.62	7.87	8.19	8.60
Other - Contractor Revenue & Interest	5.97	5.63	5.83	6.10
TOTAL REVENUE	38.2	38.2	39.7	41.6
TOTAL OPERATING REQUIREMENTS	42.2	39.8	40.7	41.3
TOTAL TRANSFERS OUT AND OTHER REQUIREMENTS	1.6	1.7	1.8	1.8
TOTAL REQUIREMENTS	43.8	41.5	42.4	43.1
EXCESS (DEFICIENCY) OF AVAILABLE FUNDS OVER REQUIREMENTS	(5.6)	(3.4)	(2.8)	(1.5)
ENDING BALANCE	5.0	6.5	3.7	2.2
FTEs	224	224	224	224

Austin Water Utility

Over the next three years, the Austin Water Utility will continue to focus on the following goals:

- public health, safety, and fire protection
- conservation and environmental protection
- quality customer service
- growth and service extension
- maintaining a strong infrastructure

Revenue

The Austin Water Utility is projecting a 1.8% average annual growth in base service revenues for all rate classes for both water and wastewater systems resulting from anticipated customer growth and increased usage, over the 3-year financial forecast period. This average annual growth rate generates $4.2 million in additional combined operating revenues per year. To meet the increased demands on the system, aging infrastructure, and the continued compliance with regulatory requirements the forecast includes a combined utility rate increase of 12.8% in fiscal year 2005. The combined rate increase is the result of an increase of 10.5% in the water rate, and a 15.4% rate increase in the wastewater rate. The combined rate increase is anticipated to generate approximately $28.6 million annually. *No further rate increases are projected in the final two years of the 3-year forecast.*

The Utility's projection of all non-rate revenues reflects a slight decrease over the 3-year *forecast period. Projected non-rate revenues decrease by $0.8 million or 9% over the forecast* period. This is primarily due to reduced future interest income resulting from the planned use of the revenue bond reserve fund in FY 2003-04. In order to lower interest costs and further mitigate future rate increases, the $53 million reserve fund balance will be used to defease existing debt once the City receives approval from the Internal Revenue Service. The use of the reserve fund is the most fiscally sound action and results in a long-term benefit for the Utility and its customers.

Expenditures

Over the 3-year financial forecast period, operations and maintenance (O&M) costs for the combined utility system are increasing primarily due to an increase in the treatment volume for water and wastewater, and costs from service extensions and system growth, as well as costs associated with health insurance and pay for performance.

The Utility has continued to implement management initiatives to mitigate cost increases while simultaneously meeting increased demands. The Utility eliminated 40 positions in fiscal year 2004, and has not requested any new positions for the forecast period.

The major cost driver of the Utility is related to required capital improvements. New capital spending of $554.4 million is required during the forecast period, including $141.4 million for regulatory compliance, $81.6 million for economic development, $101.4 million for replacing and repairing aging infrastructure, and $224.7 million for system growth.

Other

The forecast addresses major operating and capital improvement challenges for the Utility, while continuing to meet the City's goal of having the cleanest and safest drinking water, along with protecting the environment.

Austin Water Utility Fund Three Year Forecast

(millions)

	Amended 2003-04	2004-05	2005-06	2006-07
BEGINNING BALANCE	37.15	24.32	24.30	24.48
REVENUE				
Sale of Water	130.78	143.87	146.10	148.66
Sale of Wastewater Service	113.48	133.19	135.05	137.16
Other Revenue	8.89	7.41	8.05	7.62
TOTAL REVENUE	253.14	284.47	289.19	293.45
TOTAL TRANSFERS IN	11.33	11.67	14.43	11.07
TOTAL AVAILABLE FUNDS	264.47	296.14	303.62	304.52
TOTAL OPERATING REQUIREMENTS	117.26	123.58	125.69	128.87
DEBT SERVICE REQUIREMENTS	108.85	112.21	116.90	122.75
TOTAL TRANSFERS / OTHER REQUIREMENTS	50.32	60.38	60.86	52.64
TOTAL REQUIREMENTS	276.42	296.16	303.44	304.25
ENDING BALANCE:	25.20	24.30	24.48	24.74
Water Rate Increase	4.50%	10.50%	0.00%	0.00%
Wastewater Rate Increase	7.50%	15.40%	0.00%	0.00%
Combined Rate Increases	5.90%	12.80%	0.00%	0.00%
Debt Service Coverage Ratio	1.65	1.74	1.73	1.50
FTEs	1,004.85	1,004.85	1,004.85	1,004.85

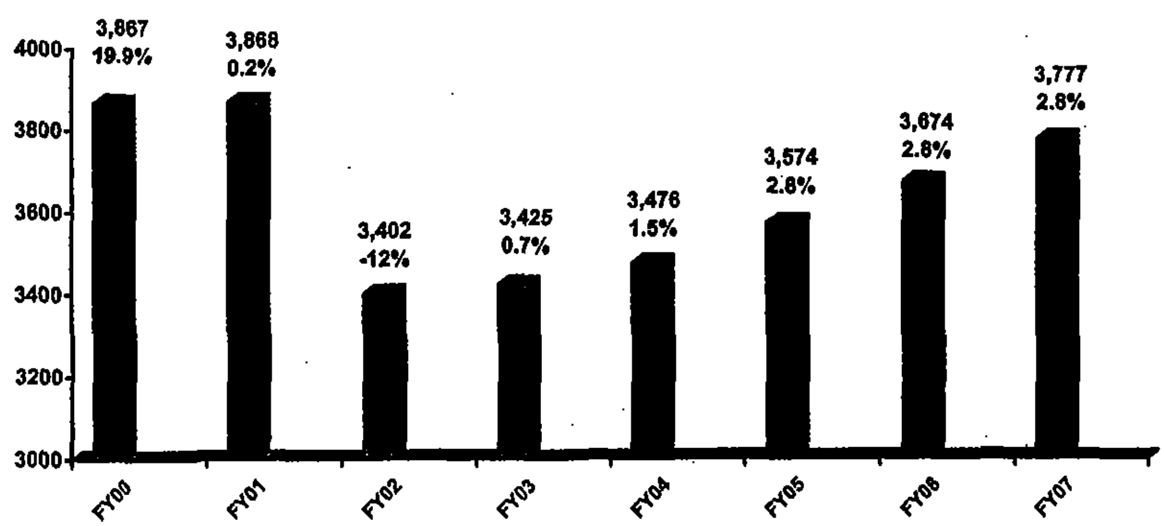
Aviation Department

Revenue

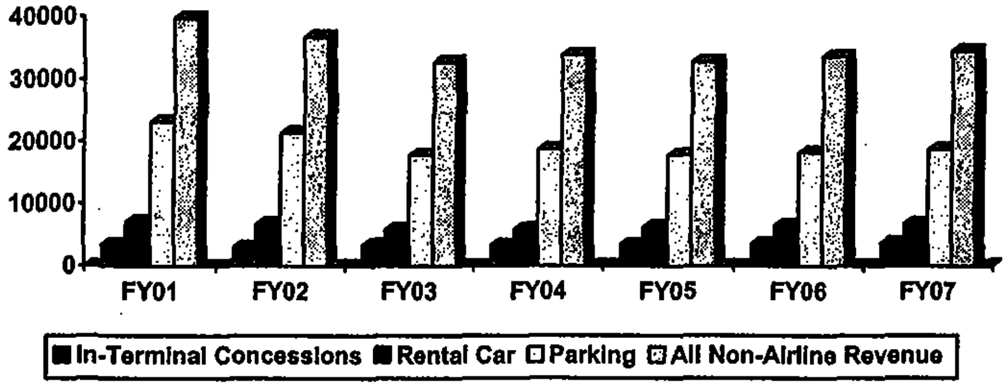
Airline revenue which is made up of landing fees, terminal fees and other direct airline service fees accounts for 47% of total Airport operating revenue. The decline in the economy, the events of September 11, 2001 and the continued threat of terrorism have had a significant negative effect on the travel industry. Enplanement growth in FY 00 was 19.5%, but fell to a growth rate of .02% in FY 2001 and has remained flat since then. A conservative estimated enplanement growth rate of 1.5% is used for FY 04 and a 2.8% rate is used for each year of the forecast period. Based on the projected passenger activity, airline revenue is predicted to grow by a minimal growth rate of 2% in the first two years of the forecast and 4% in the third year.

Over half of the Aviation Department's operating revenue is made up from non-airline revenue such as parking, concessions, rental and other fees. Parking revenue, the main contributor to non-airline revenue, has declined since off-airport parking lots began opening in FY 2002. Parking revenue decreased by 16.6% in FY 2003. It is estimated that parking revenue will decrease by 5% in FY 04 and increase by 3% each of the following years in the forecast period. Overall non-airline revenue is forecasted to decrease by 3% in FY 05. Due to the anticipated continued economic recovery, non-airline revenue is forecasted to grow by 3% in the final two years of the forecast

Enplanements
(000's)



Non Airline Revenue
(000's)



	FY01	FY02	FY03	FY04	FY05	FY06	FY07
In-Terminal Concessions	$3,421	$2,928 -14.41%	$3,307 12.94%	$3,247 -1.81%	$3,361 3.51%	$3,483 3.63%	$3,610 3.65%
Rental Car	$7,120	$6,801 -4.48%	$5,864 -13.78%	$5,894 0.51%	$6,302 6.92%	$6,543 3.82%	$6,793 3.82%
Parking	$23,172	$21,414 -7.6%	$17,857 -16.61%	$18,755 5.03%	$17,835 -4.91%	$18,334 2.80%	$18,848 2.80%
All Non-Airline Revenue	$39,860	$36,819 -7.63%	$32,821 -10.86%	$33,950 3.44%	$32,879 -3.15%	$33,781 2.74%	$34,714 2.76%

Expenditures

Due to the effects of the economy and drastic reductions in the travel industry, the department has been in a constant cost reduction and cost containment mode for the prior three fiscal years. As the slight recovery in the economy and travel industry continues, resulting in anticipated small revenue growth, the department will continue to address critical needs as well as begin to gradually address many deferred needs. The forecast includes cost increases associated with compliance of all security mandates, replacement of aged and worn equipment, increase of basic operating costs, such as repairs, maintenance, supplies, etc. and increases for pay and benefits for employees.

Other

The forecast continues to show the Aviation department operating at positive levels throughout the three-year period. All excess funds are required to be transferred to the Capital Fund to address capital improvement needs. Approximately $19.36 million is estimated to be contributed to the Airport Capital Fund over the three year forecast period.

Airport Fund Three Year Forecast

(millions)

	Amended 2003-04	2004-05	2005-06	2006-07
BEGINNING BALANCE	0	0	0	0
REVENUE				
AIRLINE REVENUE	31.00	30.84	31.04	32.18
NON-AIRLINE REVENUE	33.95	32.88	33.78	34.72
OTHER REVENUE	1.08	0.82	0.85	0.87
TOTAL REVENUE	66.03	64.54	65.67	67.77
TOTAL TRANSFERS IN	7.38	7.31	7.05	7.41
TOTAL AVAILABLE FUNDS	73.41	71.85	72.72	75.18
TOTAL OPERATING REQUIREMENTS	40.64	42.65	44.64	46.65
TOTAL TRANSFERS OUT AND OTHER REQUIREMENTS	25.36	23.72	20.60	22.13
TOTAL REQUIREMENTS	66.00	66.37	65.24	68.78
EXCESS (DEFICIT) OF TOTAL AVAILABLE FUNDS OVER TOTAL REQUIREMENTS	7.41	5.48	7.48	6.40
Contribution To Capital Fund	7.41	5.48	7.48	6.40
ENDING BALANCE	0.00	0.00	0.00	0.00
FTEs	376.75	385.75	385.75	385.75

Community Care Department

Revenue

Medicaid revenue accounts for approximately 14% of total operating revenue of the Community Care department. Medicaid reimbursement is based on Prospective Payment System (PPS) legislation which went into effect January 2003. Under the PPS system, reimbursement rates are based on a provider specific base rate, which is inflated each year with the rate of increase in the Medicare Economic Index (MEI), plus 1.5%. Based on this methodology, Medicaid reimbursement rates are expected to increase approximately 4% each year during the forecast period. Below is a summary of the anticipated reimbursements rates per encounter:

FY 2004	$164
FY 2005	$171
FY 2006	$178
FY 2007	$185

Medicare revenue accounts for approximately 2% of total operating revenue. Like Medicaid, Medicare reimbursement rates are adjusted for the Medicare Economic Index annually, and is anticipated to increase 2.5% or $2 throughout each of the three forecast years. This represents an anticipated rate of $78 in FY 2005.

Total impact for increased reimbursement and increased encounters is projected to be $130,000 for Medicare and $825,000 for Medicaid.

Revenue from the Children's Health Insurance Program (CHIP) and State Grants are projected to remain flat for fiscal year 2005 and the remainder of the forecast period.

Other operating revenue is expected to remain constant throughout the forecast period. Self-pay revenue is expected to generate approximately $53 per encounter throughout the forecast period, which is consistent with the current year.

Expenditures

The main cost drivers for the Community Care Department are pharmaceuticals, costs associated with the Medical Assistance Program, and the impact of pay and benefits for the workforce. Below is a summary of the incremental increase for each of the main cost drivers over the forecast period:

	2005	2006	2007
Pharmaceuticals	423,106	474,000	511,000
MAP Services	1,000,321	770,935	795,397
Employee Pay & Benefits	633,755	737,239	796,793
Total	2,057,182	1,982,174	2,103,190

The forecast also includes the transfer of 10.0 FTEs and associated costs of $824,000 into the department from the 5th floor Austin Women's Hospital Fund. A decrease in the amount of $227,000 is anticipated for the transfer of costs related to People's Clinic and Sickle Cell to the Health and Human Services Department. These two items were inadvertently transferred to Community Care in FY04.

Over the last few fiscal years, the department has been very successful in reducing pharmaceutical costs through free-drugs programs from private pharmaceutical companies. These programs have helped mitigate the impact of continued prescription costs increases; however, the forecast does include increases for both prescription volume and cost of drugs.

Other

The city's clinic system is directly impacted by Federal/State legislative changes to Medicaid and Medicare reimbursements program. The forecast does not include any future potential changes to these programs.

The department is facing increasing demand for services and is currently operating at full capacity. This forecast does not fund expansion of services to meet current and estimated growth in demand. The department is continuing to review service delivery models, efficiencies, and other cost control measures to address the continued high demand for services and cost increases with limited resources.

Community Care Department FQHC Fund Three Year Forecast

(millions)

	Amended 2003-04	2004-05	2005-06	2006-07
BEGINNING BALANCE	2.56	1.72	(0.86)	(4.44)
TOTAL REVENUE	8.82	9.77	10.22	10.70
TOTAL TRANSFERS IN & OTHER FUNDING	39.23	39.23	39.23	39.23
TOTAL AVAILABLE FUNDS	48.04	49.00	49.45	49.93
TOTAL OPERATING EXPENSES	46.66	49.45	51.55	53.67
TOTAL TRANSFERS OUT & OTHER REQUIREMENTS	1.48	2.13	1.48	1.48
TOTAL REQUIREMENTS	48.14	51.58	53.03	55.15
EXCESS (DEFICIT) OF TOTAL AVAILABLE FUNDS OVER REQUIREMENTS	(0.10)	(2.58)	(3.58)	(5.22)
TOTAL ENDING BALANCE	2.46	(0.86)	(4.44)	(9.66)
FTEs	260.98	270.98	270.98	270.98

Solid Waste Services

Solid Waste Services (SWS) provides recycling, refuse collection, yard trimmings collection, brush and bulky trash collection, along with operating a household hazardous waste facility, street sweeping, and operation of a material recovery facility, operation of a landfill for construction and demolition debris, and dead animal collection services.

Revenue

Residential Pay-As-You-Throw and Anti-Litter fees account for approximately 90% of the Solid Waste Department operating revenue. Revenue projections are based on two main assumptions: 1) annual customer growth of 2.4% and 2) no fee increases throughout the forecast period. PAYT rates have not increased since the implementation of the program in fiscal year 1996-97. Fiscal year 2005 will represent the 8th consecutive year without an increase in the PAYT rates.

Expenditures

The major cost drivers for SWS are primarily operational costs due to increased base customer growth, as well as service area expansions resulting from annexations. The forecast increases funding by $450,000 in fiscal year 2005 for Landfill closure, post closure and remediation costs. Also in fiscal year 2005, a transfer of $3.4 million is included for capital improvement projects, e.g. aging facilities and equipment.

The forecast continues the change in the PAYT service delivery model implemented in fiscal year 2004. The operational change, which impacted approximately 20% of the customer base, modified the collection dates. These customers will receive garbage pick up on one day of the week, while recycling and yard trimmings collection will be combined into a different day of the week. While there is no reduction in services received by the customer, the service delivery change results in operational savings through the strategic optimization on deployment of staff and equipment.

The forecast also includes funding to begin to address a growing concern in the rise of illegal dumping, as well as increased security operations at the various facilities.

Other

The SWS ending fund balance is projected to remain in compliance with the City's Financial Policy through fiscal year 2006. While the fund balance in FY 2007 is projected at a positive $3.9 million, the department will continue to review and analyze efficiency/cost reduction opportunities and other operational issues to ensure compliance with the fund balance financial policy.

Solid Waste Services Department Three Year Forecast

(millions)

	Amended 2003-04	2004-05	2005-06	2006-07
BEGINNING BALANCE	6.08	9.82	5.86	5.25
REVENUE				
PAYT	27.71	28.34	28.72	26.10
Anti-Litter	10.09	10.42	10.51	10.62
Recycling	1.05	1.25	1.24	1.25
Other	2.08	2.01	2.10	5.10
TOTAL REVENUE	40.93	42.02	42.57	43.07
TRANSFERS IN				
Transfer from General Fund	0.48	0.48	0.48	0.48
TOTAL AVAILABLE	41.41	42.50	43.05	43.55
TOTAL OPERATING REQUIREMENTS	31.13	33.28	35.34	36.03
TOTAL TRANSFERS OUT AND OTHER REQUIREMENTS	9.31	13.77	9.60	10.16
TOTAL REQUIREMENTS	40.44	47.05	44.94	46.19
EXCESS (DEFICIENCY) OF TOTAL AVAILABLE FUNDS OVER REQUIREMENTS	0.97	(4.56)	(1.89)	(2.64)
ENDING BALANCE				
Restricted for SWS Facilities	0.75	0.00	0.00	0.00
Unrestricted Ending Balance	6.30	5.86	5.25	3.89
TOTAL ENDING BALANCE	7.05	5.86	5.25	3.89
FTEs	366.00	375.00	375.00	375.00

Transportation Fund

The Transportation Fund supports the Street and Bridge Division within the Public Works Department: Street Preventive Maintenance, Street Repair, and Concrete Repair and Construction. The fund also supports the Traffic Markings activity and a portion of the Traffic Signs activity, which are located within the Transportation, Planning and Sustainability Department.

Revenue

Transportation fee revenue accounts for 85% of the total revenue in the Transportation Fund. The transportation fee was approved by the City Council in September 1991 for funding of street repairs and maintenance. Transportation fee revenue is based on minimal annual growth of approximately 1% and no fee increase throughout the forecast period. Other revenue, including utility cut revenue, property sales and interest income are estimated to remain relatively flat throughout the forecast period.

Expenditures

Expenditures throughout the forecast are based on negligible annual growth. Cost increases are due to anticipated increases in basic operating commodities such as asphalt, concrete, etc. The forecast also includes an increase in personnel costs each year related to pay for performance and insurance benefits increases.

Other

One of the City's annual goals is to maintain 70% of the street inventory in fair to excellent condition and to provide preventive maintenance to 10% of the street inventory annually. This goal is being challenged by increased demands and minimal revenue growth. The forecast estimates preventative maintenance at approximately 8% throughout the 3-year period.

Transportation Fund Three Year Forecast

(millions)

	Amended 2003-04	2004-05	2005-06	2006-07
BEGINNING BALANCE	2.44	2.75	1.28	0.98
REVENUE				
Transportation Fee	17.93	18.83	19.02	19.25
Other	2.95	3.58	3.68	3.61
TOTAL AVAILABLE FUNDS	20.88	22.41	22.70	22.86
TOTAL OPERATING EXPENSES	18.63	19.91	18.82	19.26
TOTAL TRANSFERS OUT AND OTHER REQUIREMENTS	3.29	3.98	4.16	4.49
TOTAL REQUIREMENTS	21.92	23.89	22.98	23.75
EXCESS (DEFICIENCY) OF AVAILABLE FUNDS OVER REQUIREMENTS	(1.04)	(1.48)	(0.28)	(0.89)
ENDING BALANCE	1.40	1.27	1.00	0.09
Rate per acre	$18.36	$18.36	$18.36	$18.36
Monthly Residential Fee (single family)	$3.67	$3.67	$3.67	$3.67
% Increase from current rate		0%	0%	0%
FTEs	225.50	227.50	227.50	227.50

Watershed Protection & Development Review (Drainage Utility Fund)

The Drainage Utility fund, managed by the Watershed Protection and Development Review Department, supports flood control, erosion control, water quality management, and drainage infrastructure maintenance activities.

Revenue

The primary Drainage Utility funding source is a monthly drainage fee assessed to City of Austin utility customers. In August 2001, the City Council approved a five-year Cost of Service. The forecast assumes continued implementation of this approved plan. The forecast period covers the final two years of the plan. The increases are intended to provide funding to better meet the Utility's Master Plan for infrastructure and system improvements. The forecast revenues are based on minimal account growth and the impact of the annual rate changes. In fiscal year 2005, residential drainage fees are proposed to increase by $0.44 or 6.98% from $6.30 to $6.74 per unit. This will result in an increase in revenue of $2,057,000. Commercial drainage fees are proposed to increase by $27.51 or 22.85% from $120.41 to $147.92 per acre, resulting in a gross revenue increase of $3,070,000. Below is a summary of the drainage utility rates over the forecast period:

Percentage Increase

	FY 2005 (Year 4)	FY 2006 (Year 5)	FY 2007
Residential	6.98%	6.08%	0.00%
Commercial	22.85%	19.43%	0.00%

Actual Rates

	FY 2005 (Year 4)	FY 2006 (Year 5)	FY 2007
Residential	$ 6.74	$ 7.15	$ 7.15
Commercial	$ 147.92	$ 176.66	$ 176.66

Fiscal year 2005 forecast revenue include anticipated reductions of approximately $300,000 for Commercial account refunds, as well as a reduction of approximately $950,000 for the estimated impact of the recent pond registration initiative that provides a 20% fee discount for customers with well-maintained ponds.

Expenditures

The forecast continues funding of the Master Plan recommended capital improvement projects (CIP). In fiscal year 2005, the transfer to CIP is estimated at $11.2 million, an increase of $1.8 million over the fiscal year 2004 amount. Fiscal year 2006 transfer to CIP is estimated at $13.5 million and at $14 million in fiscal year 2007. The fiscal year 2005 CIP funded projects include priority flood hazard mitigation, creek erosion hazard mitigation and water quality management needs and equipment replacement. The transfer also provides funding for preliminary engineering, design and construction of storm drain/creek flooding projects and water quality controls, the continuation of the Voluntary Home Buyout Program, and investments in new technology for the Flood Early Warning System, floodplain mapping and facility maintenance.

In FY2004-2005, two FTE's are planned for development review and will provide support to the General Permit and Barton Springs Operating Permit activities. An additional FTE will augment the Flood Early Warning System staff to assist in the monitoring and management of flood gauges throughout the city as well as the recently constructed low water crossing barricades.

In the Water Quality Protection activity, the budget includes funding for replacement of water quality monitoring equipment damaged or lost in storm events, increases in laboratory costs and public education activities.

The forecast includes increased funding to continue to meet the maintenance demands and the increasing number of water quality and detention ponds.

Other cost drivers of the Utility are related to employee pay and benefits. In fiscal year 2005, these costs are estimated to increase $570,000.

Other

The City financial policies require the Drainage Utility to maintain a fund balance equivalent to one month of operations. The forecast projects ending balances consistently in excess of this amount.

The Watershed Protection and Development Review Department will continue its mission to reduce the impact of flooding, erosion and water pollution in the community. The activity enhancements included in the forecast support the department's business plan goals of protecting lives, property and the environment and meeting or exceeding all local, state and federal requirements.

Watershed Protection & Development Review Department
Three Year Forecast
(millions)

		Amended 2003-04		2004-05		2005-06		2006-07
BEGINNING BALANCE		4.16		3.67		2.53		3.79
REVENUE								
DRAINAGE FEE								
RESIDENTIAL		21.19		23.24		24.91		25.34
COMMERCIAL		15.69		17.51		21.18		21.49
OTHER		1.92		1.02		1.02		1.02
TOTAL REVENUE		38.80		41.78		47.11		47.85
TOTAL TRANSFERS IN		0.30		0.30		0.30		0.30
TOTAL AVAILABLE FUNDS		39.10		42.08		47.41		48.15
TOTAL OPERATING REQUIREME		26.51		27.42		27.89		29.34
TOTAL TRANSFERS / OTHER RE		14.23		15.80		18.27		18.52
TOTAL REQUIREMENTS		40.74		43.22		46.16		47.86
ENDING BALANCE		2.52		2.53		3.79		4.08
Residential rate per month	$	6.30	$	6.74	$	7.15	$	7.15
% increase from current rate				6.98%		6.08%		0.00%
Commercial rate/month/ERU	$	120.41	$	147.92	$	176.66	$	176.66
% increase from current rate				22.85%		19.43%		0.00%
FTEs		265.25		268.25		270.25		276.25