City of Austin
Draft Policy Budget

Financial and Administrative Services

May 26, 2005

Outline

- Historical Budget Re-cap
- Expenditure Policies – Cost Driver Analysis
- Operational Assessments & Other Key Management Recommendations
- Policy Discussion
  - General Fund
  - Enterprise Fund Rate Considerations

Historical Budget Re-Cap

- Recent Budget "Journey"
  - Economic downturn, impact of 9/11, reduced sales tax revenue
- Focus on multi-year budget & structural balance
  - Cost Containment Strategy
    - Reduced Administrative and Management Costs by $28 million
    - No pay increase for non-civil service employees in 2003 or 2004
    - Eliminated 702 General Fund positions
    - Reduced overtime & temporary positions
    - Reduced travel & cell phone stipends
    - Deferred vehicle acquisitions
    - Implemented 2 year delay of New / Expanded Facilities

Historical Budget Re-Cap

- Focus on multi-year budget & structural balance (con't)
  - Operational Improvements
    - Service Delivery Improvements
      - Customer Service Call Center
      - One Stop Shop
      - Consolidated Code Enforcement
      - Project Management consolidation
    - Innovations Initiative generated 4,000 employee ideas for cost savings and revenue initiative
    - Departmental re-organizations
    - Benchmarking of Human Resource functions
    - IT streamlining

Historical Budget Re-Cap

- Focus on multi-year budget & structural balance (con't)
  - Revenue Strategy
    - Judicious use of "One-Time" Funds
    - Comprehensive Revenue Initiative
    - Maintenance of Utility Transfer rates
    - Effective Tax Rate

Historical Budget Re-Cap

- Financial Forecast History
  - Historical Projected "Gaps"

General Fund Cost Drivers

	2002 Forecast	2003 Forecast	2004 Forecast	2005 Forecast	2006 Forecast	2007 Forecast	2008 Forecast
Projected Revenue	443.0	449.4	444.9	471.4	471.4	491.6	514.0
Base Budget from Prior Year	441.6	470.9	478.0	462.3	449.6	471.4	491.6
Projected Estimated Cost Increases	32.2	46.4	21.5	28.5	26.7	28.5	28.1
Total Projected Expenditures	473.8	517.3	499.5	490.8	476.3	499.9	519.7
Excess / (Deficit)	(30.8)	(67.9)	(54.6)	(19.4)	(4.9)	(8.3)	(5.7)

Expenditure Policies – Cost Driver Analysis

City-Wide

- Pay for Performance for all employees
- Fund Health Insurance Increase
- O&M funding for New/Expanded Facilities based on Revised Schedule

Impact on 2006 Cost Increases: $6.4 million

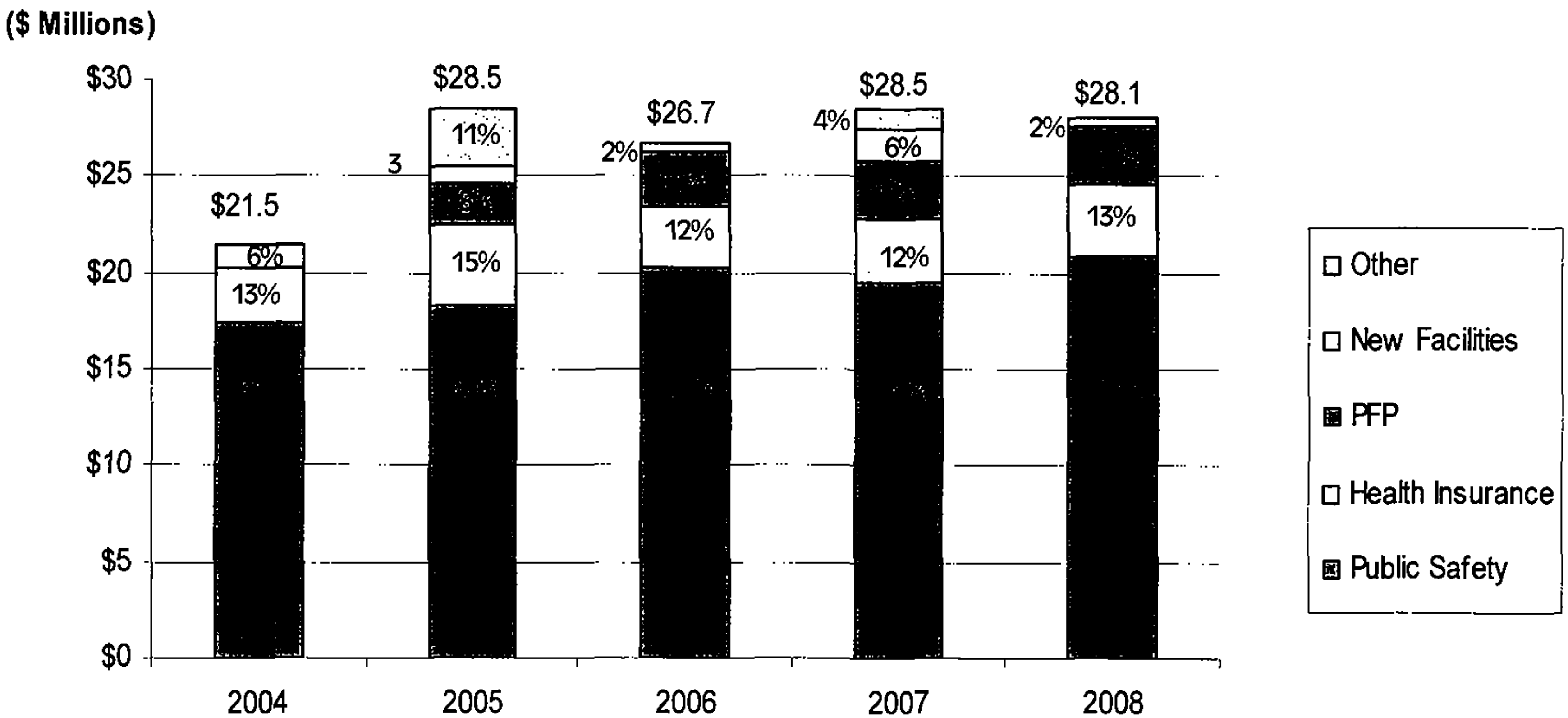
Expenditure Policies – Cost Driver Analysis

Public Safety

- Maintain 2.0 Police Officers per 1,000 population
- Maintain Fire Department Task Force Staffing
- Public Safety Contract and other pay increases (i.e. step & longevity)
- Complete market adjustment pay for Paramedics

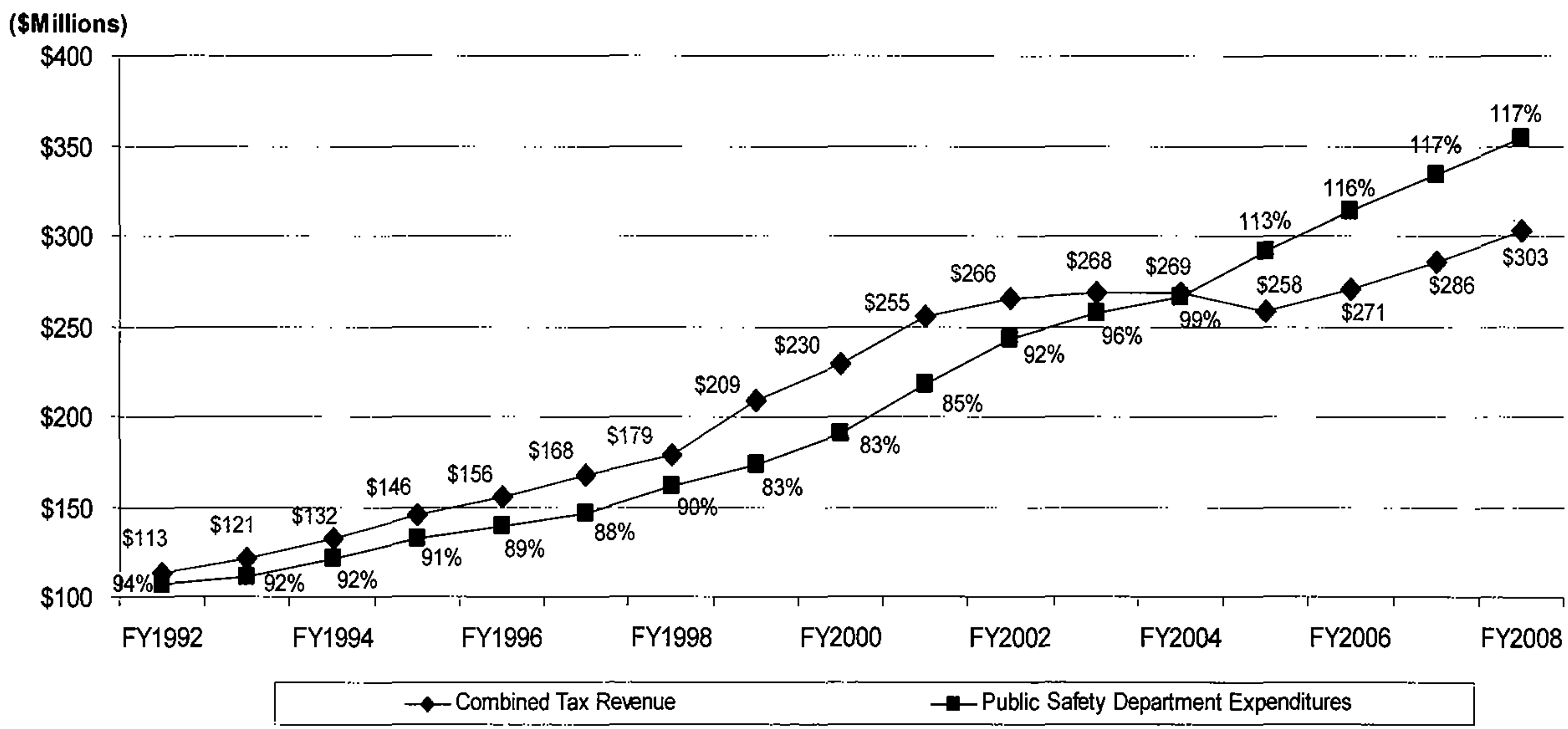
Impact on 2006 Cost Increases: $20.3 million

Cost Driver Analysis
Cost Driver Components



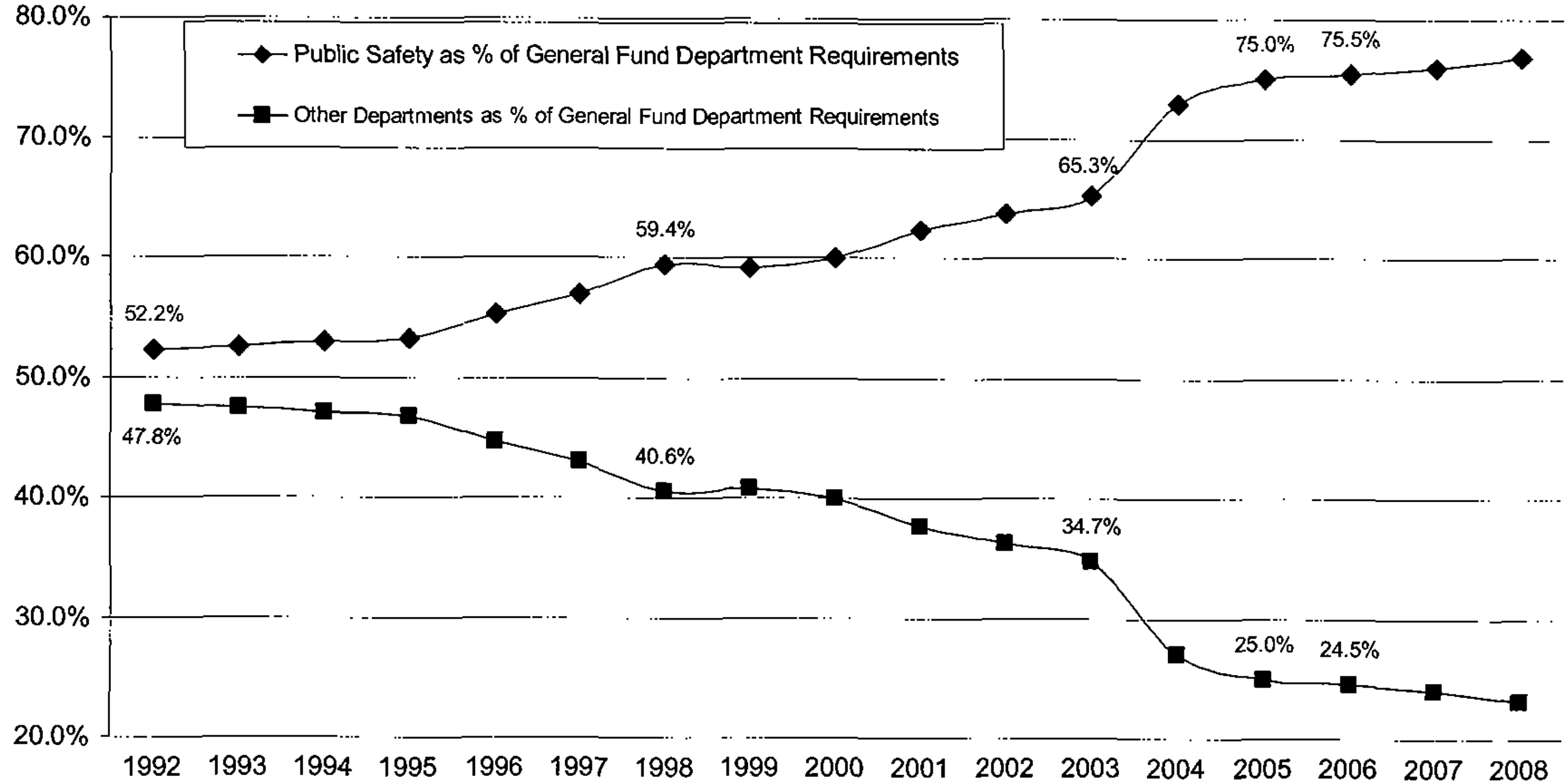
Cost Driver Analysis

Public Safety Department Expenditures as a % of Property and Sales Tax Revenue



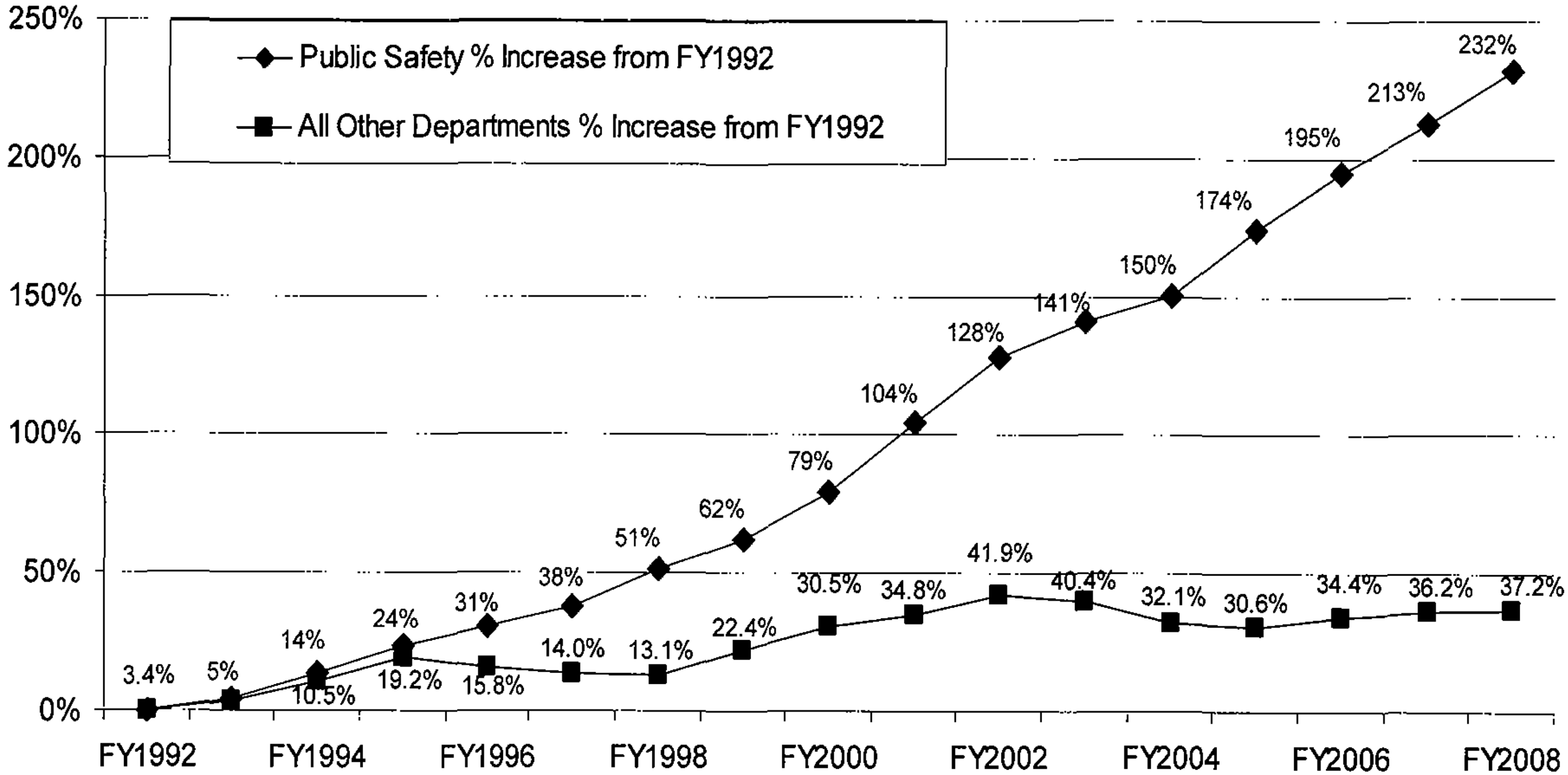
Cost Driver Analysis

General Fund Department Appropriations – Public Safety as a % of the Total



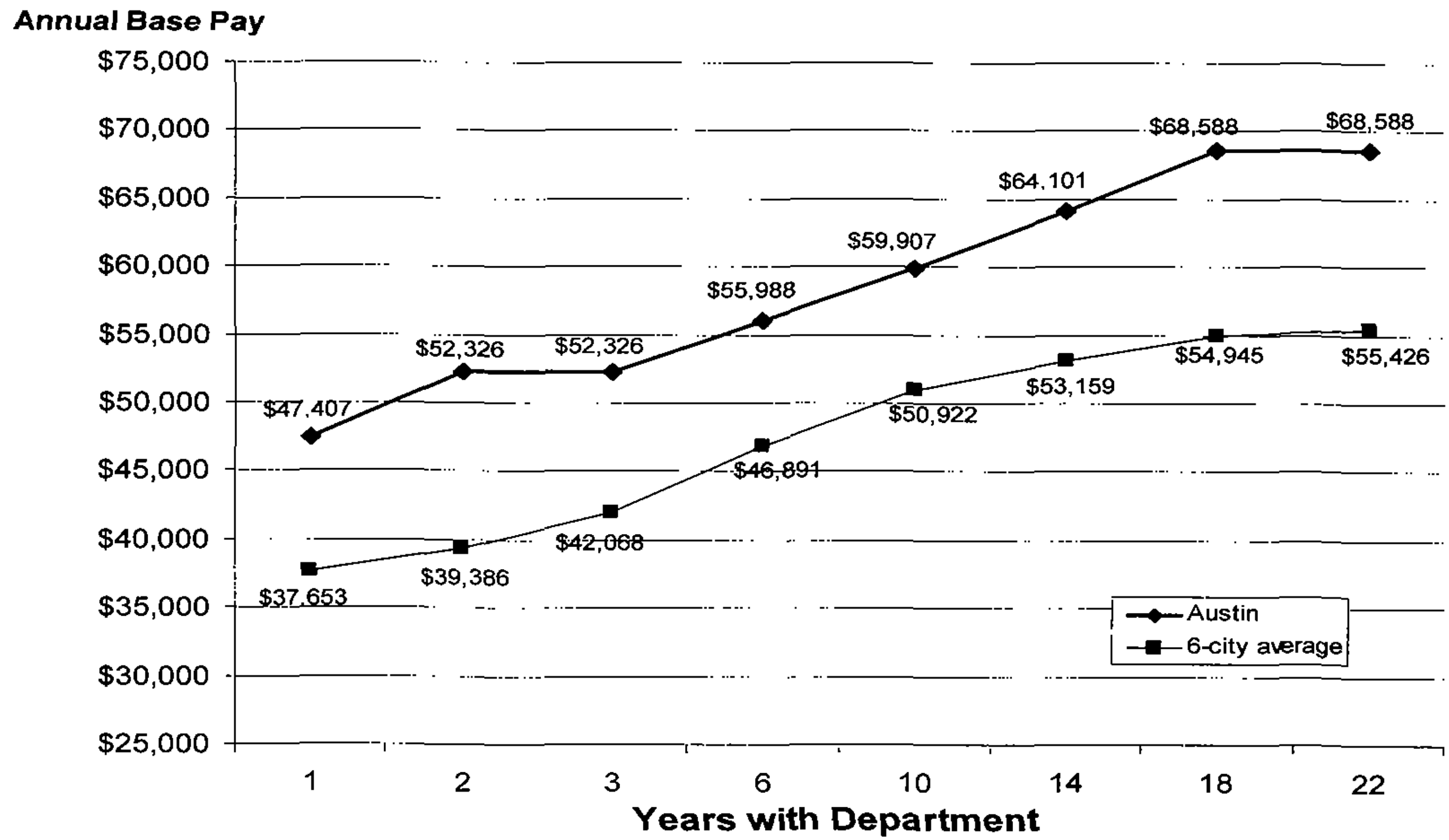
Cost Driver Analysis

Public Safety Department Expenditures Growth Rate



Cost Driver Analysis

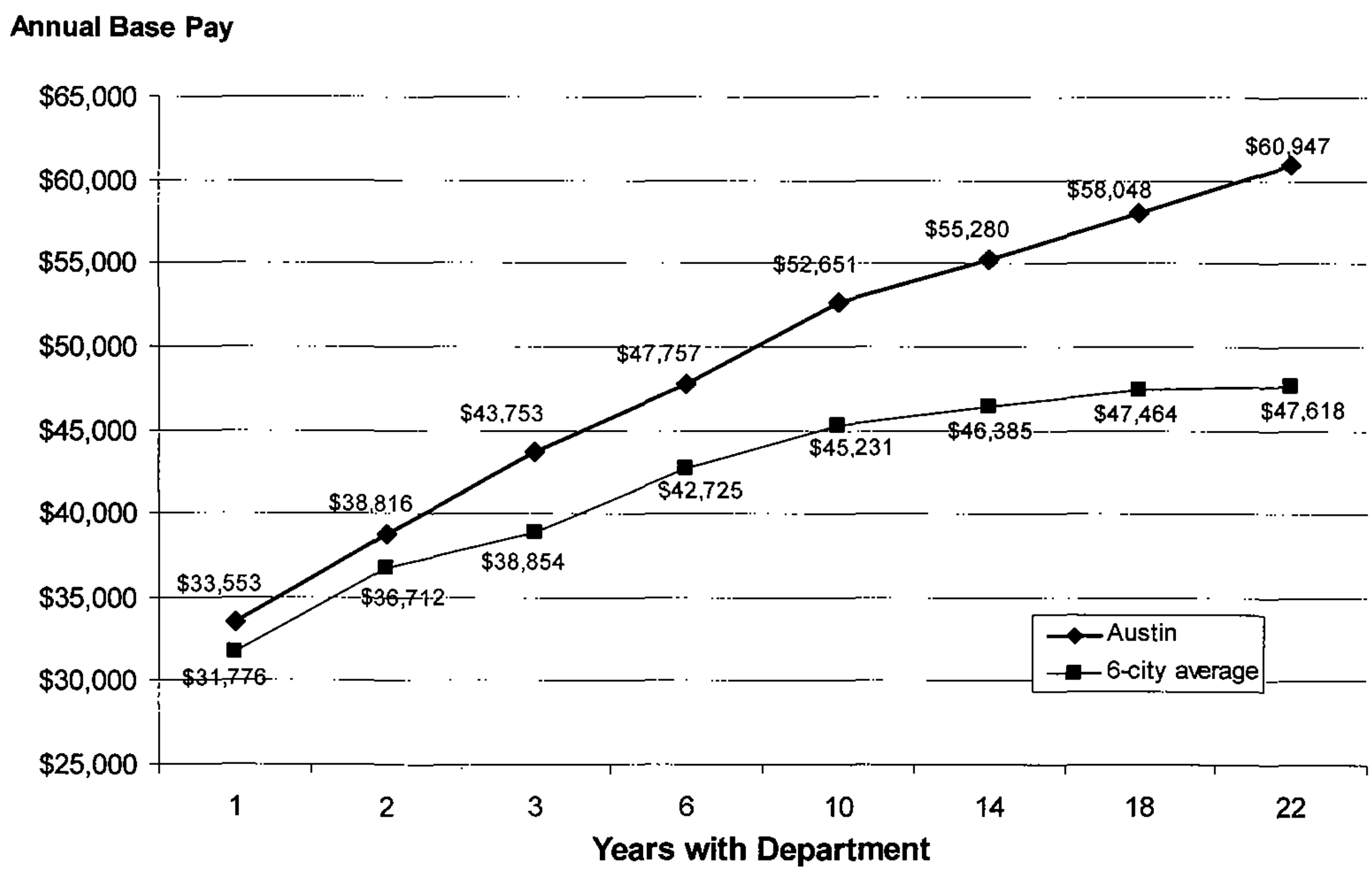
Comparison of Austin Police Officer Salary to Six City Average



Comparison cities: Corpus Christi, Dallas, El Paso, Fort Worth, Houston, San Antonio

Cost Driver Analysis

Comparison of Austin Firefighter Salary to Six City Avg



Comparison cities: Corpus Christi, Dallas, El Paso, Fort Worth, Houston, San Antonio

Expenditure Analysis – Cost Driver Analysis Summary

2006 Cost Drivers	Amount
Public Safety	$20.3 million
Health Insurance	$3.1 million
Pay for Performance	$2.8 million
New Facilities	$0.5 million
Total Cost Drivers	$26.7 million

Impact of Existing Budget Policies

- Implementation of Existing Budget Policies results in ($4.9) million Gap

General Fund Cost Drivers

	2006 Forecast	2007 Forecast	2008 Forecast
Projected Revenue	471.4	491.6	514.0
Base Budget from Prior Year	449.6	471.4	491.6
Projected Cost Increases - Existing Budget Policies	26.7	28.5	28.1
Total Projected Expenditures	476.3	499.9	519.7
Excess / (Deficit) - Existing Budget Policies	(4.9)	(8.3)	(5.7)

Expenditure Analysis – Cost Driver Analysis

- Use of Budget Stabilization Fund for Capital and One-Time Critical Costs
  - Technology Replacement & Upgrades
  - Non – Public Safety Departmental Equipment
  - Vehicle Replacements
  - Public Safety Equipment
  - Stability Pay Enhancement

2006 Capital & One-Time Critical Costs: $16.2 million

Operational Assessments & Key Management Recommendations

- Financial Forecast process – assessment of cumulative budget reductions
  - Current status of organizational health, service delivery and infrastructure
  - Identification of risk & vulnerabilities Departments face in providing services
  - Development of key management recommendations for strategic “add backs”

Operational Assessments & Key Management Recommendations

<u>*Community Services*</u>

- Reduced service hours at Branch Libraries and Austin History Center
- Increased call volume and increased wait time at Municipal Court
- Only 77% of residential zoning reviews are completed within the 7 days, compared to 100% per code mandate
- Residential permit applications increased 28%
- Re-establish goal of 95% of building inspections completed within 24 hours
- Food Establishments are inspected 1.6 times per year on average, below goal of 2.0 times per year
- Communicable Disease Clinic – 75% of patients are seen same day, below 90% goal

Total "add backs" required to address Community Services: $2.3 million

Operational Assessments & Key Management Recommendations

<u>*Infrastructure / Planning*</u>

- 20% of developed parks do not have daily maintenance/servicing
- Increase ROW mowing
- Forestry staff reduced 43% from 2002
- One third of adopted Neighborhood Plans are eligible for updating
- Historic Preservation and Implementation of Urban Design Standards

Total “add backs” required to address Infrastructure / Planning: $680,000

Operational Assessments & Key Management Recommendations

Public Safety

- Fire
  - Enhanced Task Force Staffing
  - Maintain goal to meet Joint Fitness Initiative
- EMS
  - Medic Units operating at levels of over 60% for direct service, while peak acceptable level is 50%
  - Inadequate transition time between calls at urban core stations during peak times
  - Limited front line management capacity due to high Paramedic to District Commander ratio
  - Difficulties in recruiting and retaining paramedics

Total "add backs" required to address Public Safety: $2.1 million

Operational Assessments & Key Management Recomendations

Investment in the Workforce

- Minimum City hourly wage is $10.00
- Market Adjustments for non-civil service workforce last implemented 1998-2000

Total "add backs" required to address Investment in the Workforce: $2.3 million

Operational Assessments & Key Management Recommendations

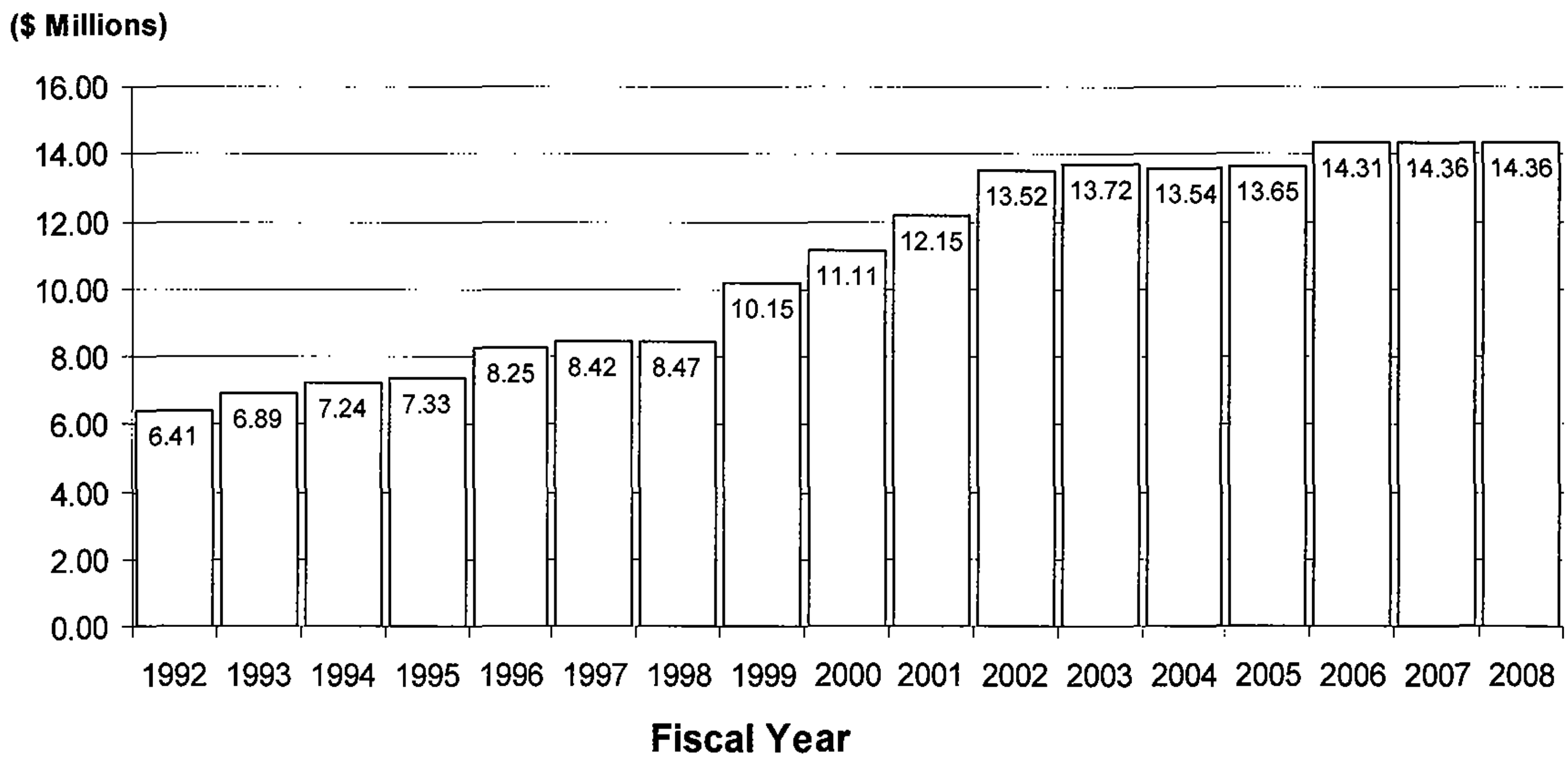
Additional Issue

- Social Service Contracts
  - As part of cost containment strategy city-wide, Social Service Contracts were cut 5% during the FY2003-04 Budget

Total "add backs" required to address Social Service Contracts: $550,000

Operational Assessments & Key Management Recommendations

Social Service Contract Expenditures



Operational Assessments & Key Management Recommendations

2006 "Add Backs"	Amount
Community Services	$2.3 million
Infrastructure/Planning	$0.7 million
Public Safety	$2.1 million
Investment in the Workforce	$2.3 million
Social Service Contracts	$0.6 million
Total "Add Backs"	$8.0 million

Impact of Operational Assessments & Key Management Recommendations

- Implementation of Existing Policies results in ($4.9) million Gap
- Implementation of Key Management Recommendations results in additional ($8.0) million Gap

General Fund Cost Drivers

	2006 Forecast	2007 Forecast	2008 Forecast
Projected Revenue	471.4	491.6	514.0
Base Budget from Prior Year	449.6	471.4	491.6
Projected Cost Increases - Existing Budget Policies	26.7	28.5	28.1
Total Projected Expenditures	476.3	499.9	519.7
Excess / (Deficit) - Existing Budget Policies	(4.9)	(8.3)	(5.7)
Base + Existing Budget Policies	476.3	499.9	519.7
Projected Cost Increases - Mgmt Recommendations	**8.0**	0.7	0.6
Total Projected Expenditures	484.3	500.6	520.3
Excess / (Deficit) - with Mgmt Recommendations	**(12.9)**	(9.0)	(6.3)

Policy Discussion

Policy Discussion

<u>Overview</u>

1) Consideration of Cost Drivers and "Add Backs"

2) Approaches to Balancing the Budget

3) Enterprise Fund Rate Considerations

Policy Discussion

- Expenditure Reductions
  - To cover ($4.9) million gap: 1.2% Departmental reductions

Policy Discussion

- Expenditure Reductions
  - To cover ($12.9) million gap: 3.2% Departmental reductions

Department	**Amount of Reduction** ($ millions)
Municipal Court	(0.3)
NPZD	(0.1)
WPDR	(0.4)
Police	(5.9)
Fire	(3.0)
EMS	(1.1)
Health	(0.6)
PARD	(0.9)
Libraries	(0.6)
Total Reductions	(12.9)

Policy Discussion

1) Consideration of Cost Drivers and "Add Backs"

- Are there any changes to existing policies relative to our cost drivers?
- Are you willing to pursue all, or a portion, of the strategic "add backs", or are you inclined to only include the cost drivers?
- Are there any other critical "add backs" that need to be addressed?

Policy Discussion

2) Approaches to Balancing the Budget

- Four revenue areas:
  - One-Time / Reserves
  - Utility Transfers
  - Revenue Initiative
  - Tax Rate

Policy Discussion

- Current Reserve Policy

General Fund Policy #9

"A General Fund Contingency Reserve Fund of 1% of total budgeted departmental expenditures, but not less than $2,000,000 shall be budgeted annually."

General Fund Policy # 7

"A General Fund Emergency Reserve Fund of at least $15,000,000 shall be budgeted."

General Fund Policy #14

"Excess revenue should be used to fund one-time costs such as capital equipment, maintenance backlogs, implementation of new systems or CIP projects."

General Fund Policy #15

"A General Fund reserve for Budget Stabilization of $33 million shall be budgeted."

Policy Discussion

- Revised Reserve Policy
  - Emergency Reserve from $15 million to $40 million
  - No change to Contingency Reserve – maintain at 1% of Departmental expenditures
  - Revise Budget Stabilization fund policy
    - 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 not to exceed 1/3 of total amount in the reserve, with 2/3 reserved for future years
    - The result in FY 06 is $16.2 million is available for one-time appropriation and $32.8 million would remain in the reserve

Policy Discussion

- Reserve Policy Summary

	Current	*Proposed*
Contingency – 1%	$4.3 m	$4.5 m
Emergency	$15.0 m	$40.0 m
Budget Stabilization	$33.0 m	$48.9 m
Fund balance	$41.1 m	-
Totals	**$93.4 m**	**$93.4 m**

Do you support the proposed Reserve Policy changes?

Policy Discussion

- Utility Rate Transfers
  - Transfer from Austin Energy is 9.1%
  - Transfer from Austin Water Utility is 8.2%

Do you want to maintain our current Utility Rate transfer policies?

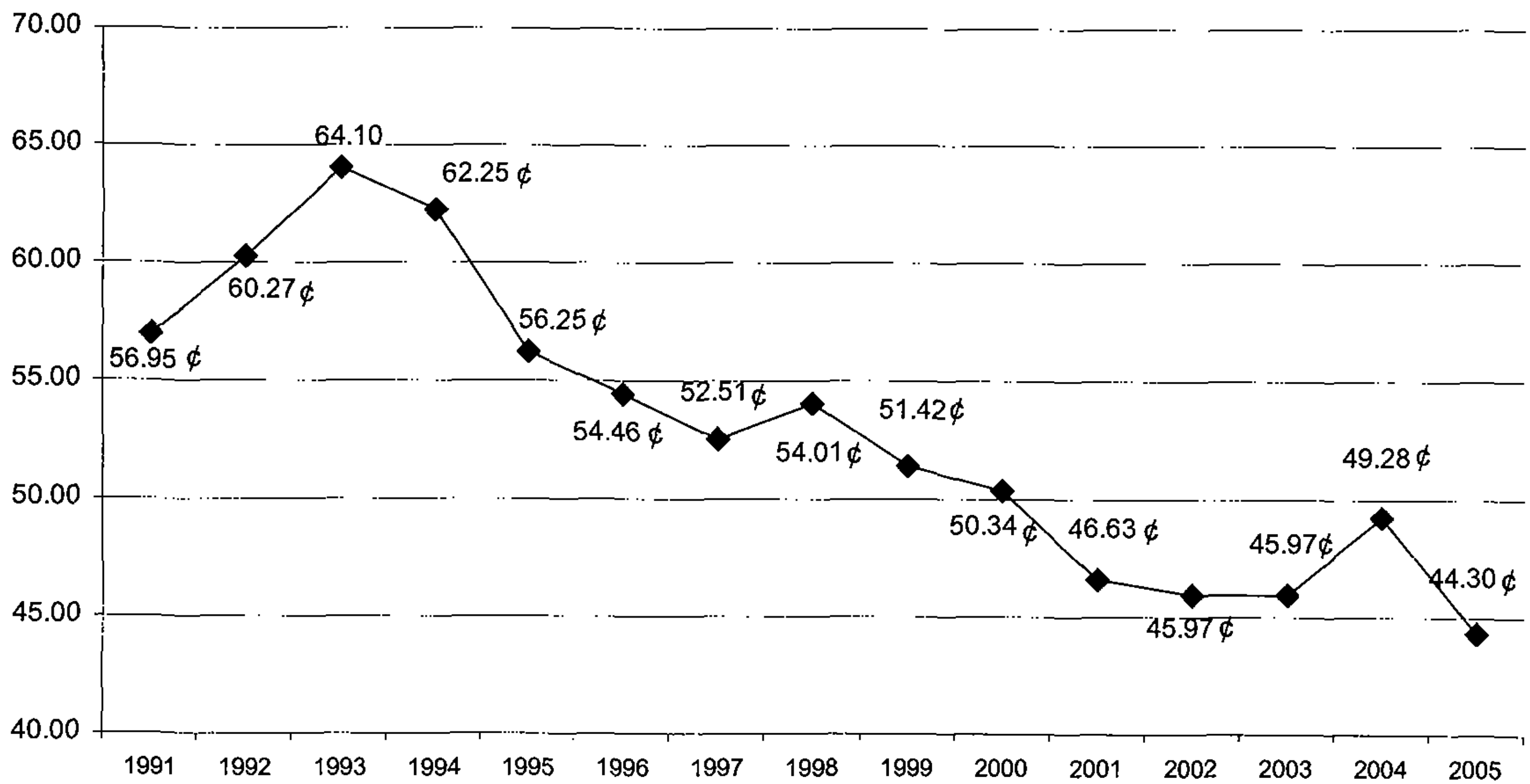
Policy Discussion

- Revenue Initiative
  - Comprehensive Revenue Initiative was completed for FY2003 and FY2005
  - Revenue initiative occurs every two years – next one is set for FY2007

Do you want us to consider an off-year revenue initiative for 2006?

Policy Discussion

- Historical Tax Rates



Policy Discussion

- Tax Rates in FY06 Forecast

Tax Rate	Rate
Effective Rate	42.97 ¢
Hearing Rate	44.25 ¢
Nominal Rate	44.30 ¢
Rollback Rate	44.73 ¢

- At the effective tax rate, average tax bill for homeowners remains at $806
- At the nominal tax rate, average tax bill for homeowners is $831, an increase of $25 over the current average tax bill
- Nominal tax rate generates $6.9 million additional revenue

Policy Discussion

- Tax Rate

Are you willing to have us to consider the nominal tax rate?

Policy Discussion

3) Enterprise Fund Rate Considerations

- Austin Water Utility

Policy Discussion - Enterprise Funds

Austin Water Utility

- Funding shortfalls in FY07 and FY08
  - Increasing system capital requirements and debt service
  - Increasing customer growth
- Rate increase implementation
  - Scenario 1 - 2 Rate increases over 5 years
  - Scenario 2 - Smaller annual rate increases in each of the 5 years

	FY 06	FY 07	FY 08	FY 09	FY 10
Scenario 1 increases	0%	11% to 12%	0%	11% to 12%	0%
Scenario 2 increases	4.2% to 5.2%	4.2% to 5.2%	4.2% to 5.2%	4.2% to 5.2%	4.2% to 5.2%

Policy Discussion - Enterprise Funds

- Austin Water Utility

Which rate implementation plan do you support?

Key Dates

July 28th	City Manager submits Proposed Budget
August 4th	Budget Presentations & Public Hearings
August 18th	Budget Presentations & Public Hearings
August 25th	Budget Presentations & Public Hearings
September 1st	Budget Presentations & Public Hearings
September 12th	Budget Approval Readings
September 13th	Budget Approval Readings
September 14th	Budget Approval Readings