



**Austin City Council
MINUTES**

**WORKSESSION
WEDNESDAY, MAY 15, 2002**

The City Council of Austin, Texas, convened in a regular meeting on Wednesday, May 15, 2002 at Reicher Ranch, 3635 RR 620 South, Cana House, Austin, Texas.

Mayor Garcia called the meeting to order at 10:01 a.m.

1. Discuss budget issues

City Manager Toby Futrell did the introduction for the budget review process. She discussed the objectives of the retreat, which was for Council to give staff direction on how they would like staff to prepare the budget.

John Hockenjos, Texas Perspectives gave Council an economic update. Bill Newman, Public Financial Management, discussed the bond rating agencies' perspectives and the impact transfer of funds from enterprise funds to the general fund could have on the City's bond rating.

John Stephens, Acting Assistant City Manager, explained the governmental accounting and budgeting standards the City is required to follow, which makes the budget as complicated as it is. He also discussed the types of funds that are included in the budget.

Rudy Garza, Budget Director, explained the timeline the City will follow in preparing the budget for next fiscal year.

Vickie Schubert, Acting Finance Director, reviewed the steps taken to date to achieve administrative efficiencies in Human Resources, Payroll, Budgeting and Purchasing. She responded to the Council's question concerning the efficiencies achieved from the City's investment in technology.

Rudy Garza gave the highlight of the Five-Year Forecast -- that projected revenues will fall \$71.8 million short of the projected expenditures.

Mayor Garcia recessed the meeting at 12:18 p.m. for lunch.

Mayor Garcia called the meeting back to order at 1:35 p.m.

Council discussed the following Financial Policy Issues:

1. Should the FY 03 budget be based on appropriating the entire beginning balance amount? Staff's recommendation was that the proposed budget for FY03 should not rely on utilizing the entire beginning balance and should maintain an ending balance that can be used to help balance the FY04 budget so the General Fund can achieve "structural" balance sooner. In FY03, only 50% of the beginning balance should be utilized to fund expenditures in FY 03; the remaining 50% should be maintained in the ending balance for FY03. If Council accepted staff recommendation, it would result in a \$13 M decrease in the projected shortfall of \$71.8 million. Council Member Elect Dunkerely suggested that instead of a flat amount of 50%, Council direct staff to work with a range of 1/3 to 1/2 of the beginning balance, with 1/2 being the maximum amount that could be used.
2. Should "one-time" revenues be limited to only non-recurring expenditures? Staff recommended that to avoid establishing a funding shortfall for future expenditure requirements, "one-time" revenues should not be utilized to fund any portion of a departmental operating expenditure or other recurring expenditure or obligation. These revenues should be used to fund one-time costs such as capital equipment, implementation of new systems, or CIP projects. No dollar amount was assigned to this recommendation.
3. At what level should the transfer from Austin Energy be budgeted? Staff recommended the fiscal year 2002-03 Electric Utility transfer should be increased to the maximum rate of 9.1%, \$2.5 million of additional dollars could be applied to the shortfall.
4. Should the balance in the Hospital Fund be maintained at a certain level as a safeguard against the loss of Disproportionate Share funding? Staff recommended the City maintain a balance of \$33 million in the Hospital Fund as a safeguard against the loss of Disproportionate Share funding to provide for three years of funding of the clinic system and related health care costs. This would result in \$6.5 million that could be applied to the shortfall. Council Member Elect Dunkerely and Council Member Slusher asked if part of this \$6.5 M could be used to leverage a 24-hour clinic that could relieve some of the pressure from the clinics that are filled to capacity. Staff will report on the financial impact of this recommendation.

Council discussed the following Budgetary Policy Issues:

1. Can the proposed budget include a property tax rate increase? Staff recommend that in fiscal year 2003, the current approved nominal property tax rate of .4597 cents should be maintained for operations and an additional .0138 cents be applied to debt service. The increase in property assessed valuations have lowered the actual tax rate required for debt service. Total tax rate in the proposed budget would be at .4735 cents. Council Member Wynn asked that the chart that compared Austin to other cities be amended to show the average cost of housing because Austin has some of the highest property values in Texas. Mayor Garcia asked that the hospital district taxes charged by other cities be added to the chart so one can see the full tax impact on residents in other cities.
2. Can the proposed budget include increases to General Fund fees? Should fee waivers be suspended? Staff recommended the proposed budget include

fee increases to bring fees more into line with cost of service. In addition, new fees may be included for specialized services or programs that are currently being provided at no cost to users. In FY 03, fee waivers should be suspended and by Council direction, the suspension on fee waivers may begin prior to the beginning of FY03. This would result in an additional \$2.3 million of revenue. Mayor Pro Tem Goodman asked for additional analysis of the impact of the fee increases by comparing average income in other cities where these fees are charged. The chart showing \$200,000 of fees waived this fiscal year does not include City co-sponsored events. Staff will provide additional information on the EMS fees that were proposed.

3. Should the City continue its current policy of granting fee waivers and/or incentives for Smart Growth projects? Staff recommended Smart Growth infrastructure investment and waivers should be suspended until Council revisits criteria and goals for their use. Council Member Elect Dunkerely requested an analysis of the impact on property tax and sales tax in conjunction with those fees that were waived to encourage Smart Growth. Also, she suggested Council consider criteria for Smart Growth projects that would encourage projects that would draw the sales tax dollars back to Austin -- like malls and other shopping and entertainment opportunities. Council Member Wynn asked for further analysis of what is budgeted now for Smart Growth fee waivers and whether these fee waivers are really savings or if the developer, who was denied Smart Growth incentives, would simply build somewhere the City does not want the project. The City would not collect these fees anyway. Council asked what the impact would be if the ratio of fees waived compared to the positive impact of the project was altered.
4. In FY 03, can fleet replacement for General Fund and Support Fund departments be reduced? Staff recommended that based on critical needs replacement in the FY 03 proposed budget, the City Manager may reduce the funding for vehicle replacements by at least 50%. This would result in a savings of \$3.9 million for non-public safety vehicles. This could be done for one additional year due to increase preventative maintenance practices that have extended the life of the vehicles. From the vehicle acquisition funds, 20 additional Police patrol units will be purchased. In FY 04, non-public safety vehicles would have to be acquired.
5. Where it proves to result in operational and/or management efficiencies, can departmental or functional consolidation be incorporated in the proposed budget? Staff recommendation was that the proposed budget include departmental or functional consolidations where efficiencies due to consolidation have been identified. Consolidation should be done in such as way as to avoid layoffs. Staff will provide additional information on consolidation efficiencies that have been identified. At a minimum, there could be a \$1.8 million savings.
6. Should outside agencies that are currently funded by the City be held harmless from budget reductions? Should additional funding for existing or new outside agencies be considered? Staff's recommendation was that outside agencies should not be held harmless from budget reductions. Priority for funding for outside agencies should be given to agencies who can "leverage" the City's funding, i.e., agencies that do not depend entirely on

the city for funding, and those that provide the Community Action Network (CAN) designated basic needs. Discussion on this item was delayed until the Council Members who serve on CAN can discuss this with their board. Staff will provide a list of all the social service contracts and the amount of the City's commitment.

7. Can the \$4 million for affordable housing projects be adjusted? Staff recommended funding should return to the fiscal year 2000-01 level of \$1 million; plus an additional \$1 million from the contribution established in Resolution 000907-72. Also, the approximate \$100,000 for the 40% incremental tax revenue should continue. Total FY 03 funding will be \$2.1 million. Housing staff will work with Mayor Pro Tem Goodman and Council Member Alvarez to come back with specific recommendations in regard to potential savings in affordable housing.
8. Should the vacant positions, which are "frozen" as part of the budget reduction hiring freeze, be eliminated next fiscal year? Staff's recommendation was that based on a critical needs assessment, only 50% of the frozen vacant positions should be funded in the fiscal year 2003 budget. The remaining positions will be eliminated. This would result in a \$8.4 million savings.
9. Should the City Manager base budget reductions using the Managing for Results program, i.e., Performance Based Budgeting, instead of reducing expenditures through across the board cuts? The staff recommended the City Manager should utilize the Managing for Results program and data as a key information tool in making budgetary decisions where they do not result in a conflict with policy decisions. Staff will provide additional information on proposed cuts.
10. Can the employee pay and benefits package be adjusted? Staff recommended that as necessary for balancing the budget, the City Manager may include adjustments to reduce the current Pay for Performance pay package. This would save \$3.8 million if there was no pay increase for one year. Mayor Garcia asked for an analysis of how Austin's benefits compared to other cities of similar size in Texas. Council asked for the Human Resources' consultant who reviews the City's benefit package to be invited to the work session next week to report to Council on how Austin compares to other cities.
11. Can the contributions to the ERS be reduced for one year by 1.5%, because the ERS is fully funded, and the other two retirement funds be investigated to see if they are financially sound and could support a similar reduction? Council asked for a report on the soundness of each fund and the recommended balances. An additional savings of \$1.5 million could be achieved by reducing the City's contribution to ERS back to the level it was a year ago.

Of the \$71.8 million shortfall, all of the above would result in a \$50 million savings. The additional \$21.8 million would come from program cuts.

Mayor Pro Tem Goodman asked for an analysis of what each of the proposed reductions would do to programs such as parks, libraries, etc.

The next work session will be held at 505 Barton Springs Road, third floor training room and will be televised, per Council's request.

The motion to adjourn the meeting at 3:43 p.m. was approved on Council Member Griffith's motion, Council Member Alvarez' second by a 7-0 vote.

The minutes from worksession of May 15, 2002 and regular meeting of May 16, 2002 were approved on May 23, 2002, on Council Member Thomas' motion, Mayor Garcia's second by a 7-0 vote.