

Financial Forecast & Presentation

April 2006



City of Austin

Financial and Administrative Services - Budget Office

PRESENTATION



Short-Term Economic Forecast

With a Real Estate Emphasis

City of Austin

Presented by TXP : April 27, 2006

Near-Term Economic Context

National Overview

- U.S. economy continues to expand at solid pace, but concerns remain about sustainability.
- On the upside: business investment, profits, and consumer spending (partially due to historically low interest rates) have contributed to economic growth that is comparable to the late 1990s.
- On the downside: rising prices (especially for energy), sluggish hiring, and tighter monetary policy all suggest that recovery is somewhat fragile.
- Near-term forecast: GDP up 3% this year, with growth in the 2.5-3% range over the next five years.

Near-Term Economic Context

Austin Overview

- All aggregate indicators of the Austin economy are very positive at this point – job growth, tax revenue, retail sales, building activity, etc.
- Virtually every sector is growing, with the exception of manufacturing – should change in the near future.
- In-migration and economic recovery have combined to create record levels of activity – reminiscent of several past booms.
- Real estate and construction are especially hot, and deserve more detailed attention.

Near-Term Economic Context

Real Estate Focus: Single-Family

- Volume of homes sold and median/average prices reached record highs in 2005 – no sign of slowdown this year.
- Months of available inventory (3.8 currently is the lowest in Texas) is dwindling to levels of the late '90s – suggests that demand continues to outstrip supply, and 2006 will therefore see more price increases.
- Underlying fundamentals remain solid – economic growth should help offset any impact associated with higher interest rates.
- Diversity of product continues to increase – both in the aggregate and in different parts of the region.



Near-Term Economic Context

Real Estate Focus: Housing Market Comparisons

	Change in Housing Inventory	Recent Price Trend	Employment Outlook
Atlanta	15%	▲	Strong
Austin	-12%	▲	Very Strong
Chicago	28%	▲	Average
Dallas	0%	▲	Very Strong
Denver	19%	▼	Strong
Detroit	46%	▼	Very Weak
Houston	3%	▲	Very Strong
Las Vegas	24%	▼	Very Strong
Los Angeles	149%	Flat	Weak
Miami	236%	Flat	Weak
Minneapolis	43%	▼	Weak
New York	70%	▼	Weak
Philadelphia	39%	Flat	Weak
Phoenix	282%	▼	Very Strong
Seattle	5%	▲	Very Strong
Washington, DC	230%	Flat	Strong

Near-Term Economic Context

Real Estate Focus: Apartment

- Rents, occupancy, and absorption all set records during 2005.
 - Year-end occupancy at 94.4%, up 1.7% from June.
 - Average rents at \$0.85/sq.ft., up \$0.03 from June.
 - 6,243 units absorbed during 2005.
- At this point, projects under construction are scheduled to deliver 2,820 units during 2006, suggesting that occupancy and rents will both continue to rise.
- Rising interest rates could tilt demand slightly back toward renting, although may not be a discernable impact.



Near-Term Economic Context

Real Estate Focus: Office

- Rents, occupancy, and absorption all set records during 2005.
 - Year-end “direct” occupancy at 85.7%, up 2.6% from June.
 - Total absorption of over 1,058,000 sq. ft during last six months of 2005.
 - Rents rose 4.1% over the same period.
- At year’s end. Class A averages \$23.61, Class B at \$17.82, Class C at \$14.17. CBD has highest rates, at \$25.10 for Class A.
- Inventory of sublease space has fallen to a four-year low of just over 270,000 sq. ft., underscoring the return to more normal market conditions.



Near-Term Economic Context

Real Estate Focus: Retail

- The ten-year trend of retail defying the cyclical pattern of office and industrial continues, with strong rents and occupancy
 - Year-end “direct” occupancy at 93.27%, down slightly.
 - Total absorption of over 1,180,680 sq. ft during last six months of 2005, again slightly down from previous six months.
 - Rents rose \$0.28 over the same period.
- Job and population growth should continue to stimulate development – watch for growth in the middle and outside the “donut.”

Austin Forecast

Near-Term

- Continued growth in the national economy, economic development success, and migration to the region should all contribute to strong growth for the foreseeable future.
- Economic activity begins to replace the impact of low interest rates – no signs of change in the near term.
- Forecast is for MSA job growth this year to be up 3.4% (23,700 jobs). Personal income will rise 8.2%; MSA population will reach 1.45 million.
- Most rapid growth is in sectors related to trade and development, but all sectors projected to have employment rise by at least 2%.

Austin Forecast

Longer-Term – Keys to Future Success

- *Continued migration to the region and downtown.*

Population growth tends to follow the local economic cycle to some degree, the longer-term outlook is for Austin to remain an attractive site for relocation, especially for those whose income is not tied to the local economy. Attraction of people is arguably as important to Austin's economic future (and tax base) as attraction of firms.

- *Maintenance of the current “hard” technology base.*

Given the increasingly competitive environment for semiconductors and other manufactured technology products, the recent announcements of several expansions and relocations bodes well for the future of “hard” technology in Austin.

- *Growth in activity related to research and development and creative industries.*

While the creative sector has hit Austin's economic development radar screen, the business side of the equation has yet to reach its full potential. Meanwhile, activity related to medicine may soon join more traditional areas of R&D where Austin enjoys a concentration of activity.

- *Regionalization of the “local” economy.*

A number of regional events will have an economic impact on Austin, as the Toyota and Washington Mutual locations to San Antonio, ongoing growth of higher education in the area (witness Texas State in Williamson County), and efforts to enhance transportation infrastructure (both rail and highway) will all influence the longer-term outlook.



City of Austin Financial Forecast

April 27th, 2006

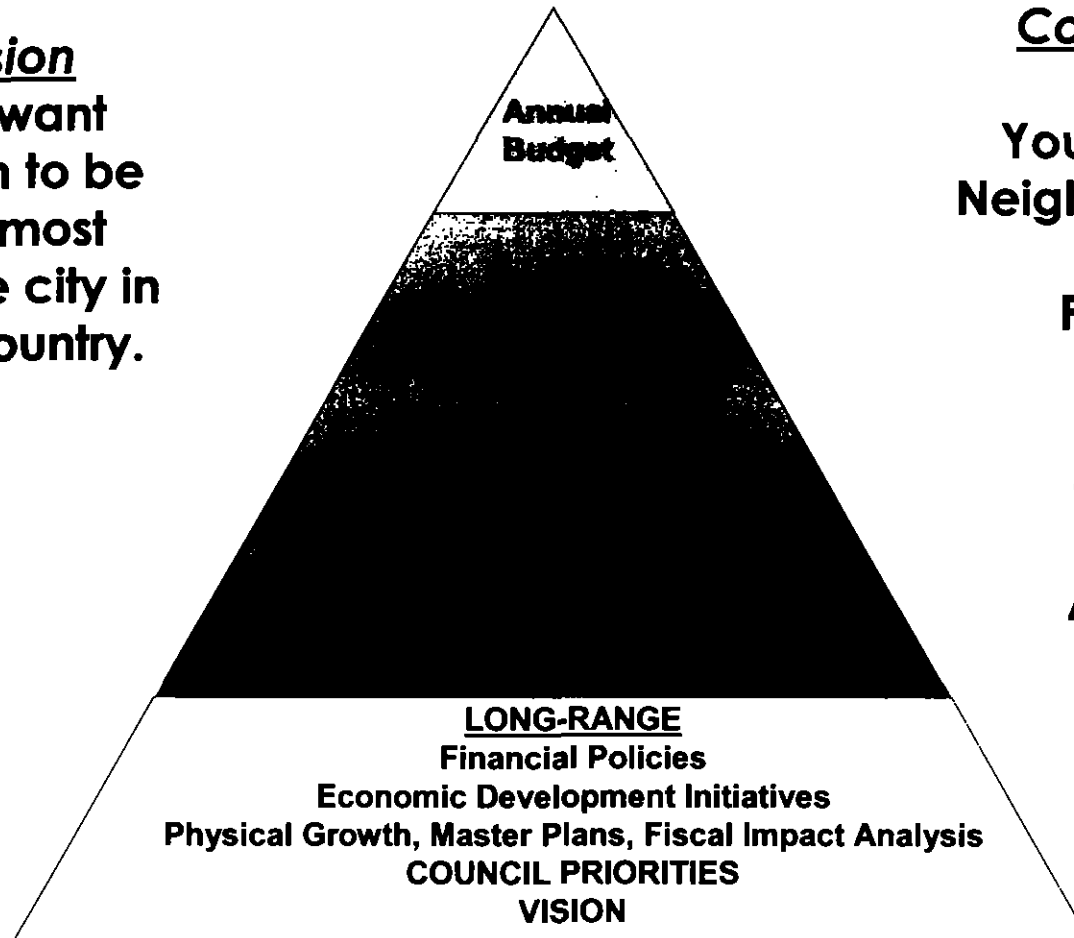
Financial and Administrative Services



Comprehensive Planning

Vision

**We want
Austin to be
the most
livable city in
the country.**



Council Priorities

**Youth, Family and
Neighborhood Vitality**

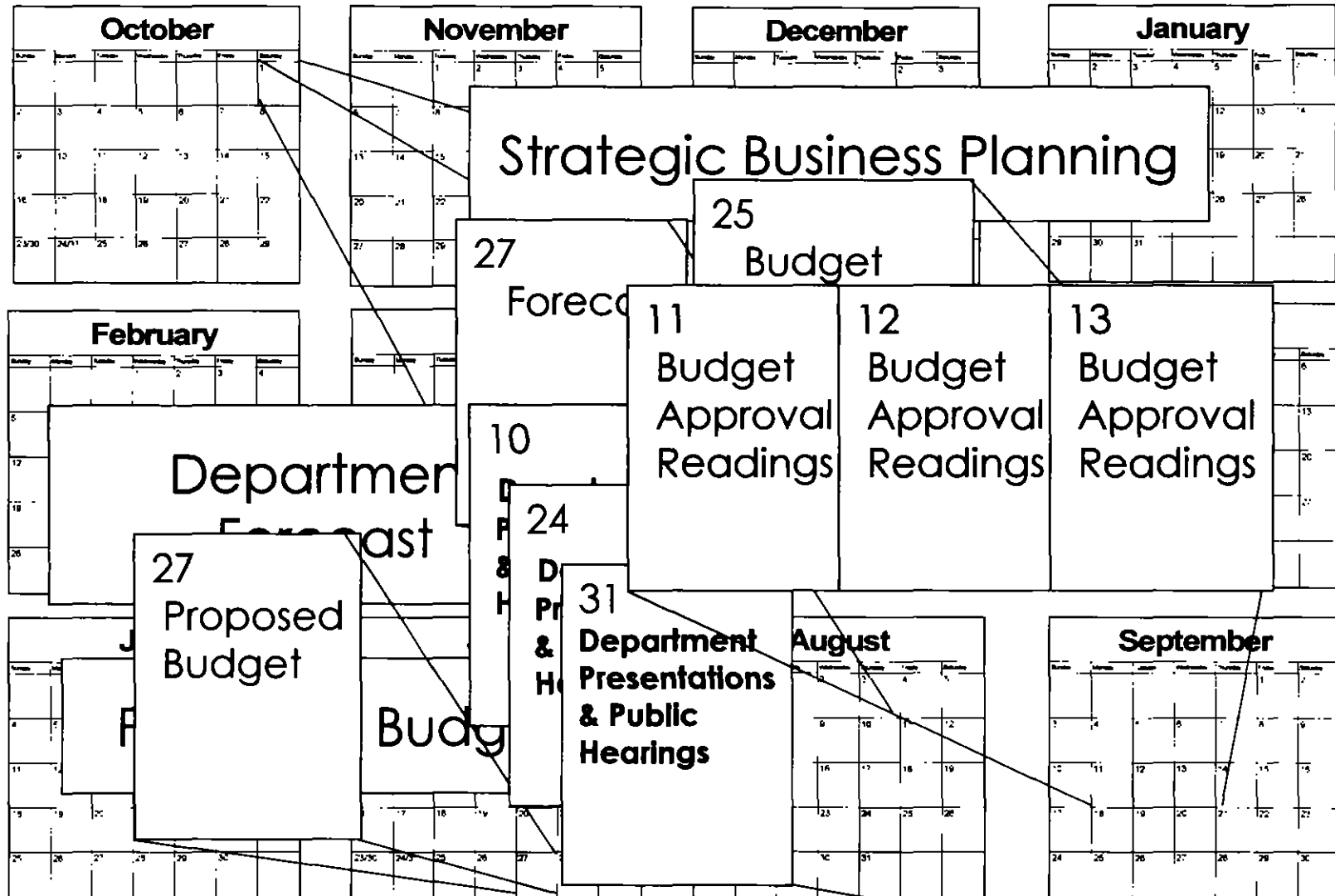
Public Safety

**Sustainable
Community**

Affordability



Budget Timeline





Cautious Optimism

- ▶ Austin economy is in full expansion
- ▶ Sales tax base and property tax base are growing healthily
- ▶ Annual employment growth was 3.9% in 2005
- ▶ Unemployment rate is now 4.3%



Cautious Optimism

But ... environmental factors could impede our recovery

- ▶ Locally: charter amendments
- ▶ State/national: Cuts to CDBG and drops to FEMA eligibility
- ▶ Cost trends: in addition to our significant cost drivers, uncertainty exists about other costs such as fuel / commodity prices



Outline

- ▶ General Fund Summary
 - ▶ Revenue
 - ▶ Expenditures
- ▶ Enterprise Funds



General Fund

General Fund Summary Five Year Forecast FY2006 - FY2011 (\$ millions)

	2006 Amended	2006 Estimate	2007	2008	2009	2010	2011
Revenue	481.6	489.7	519.7	549.8	580.7	616.7	646.1
Base Budget - Prior Fiscal Year	450.4	450.4	481.6	519.7	549.8	580.7	616.7
Cost Drivers	31.1	32.0	40.3	36.7	40.5	46.2	46.7
Total Projected Expenditures	481.6	482.5	521.8	556.4	590.3	626.9	663.4
Excess / Deficit	0.0	7.3	(2.2)	(6.7)	(9.6)	(10.2)	(17.3)

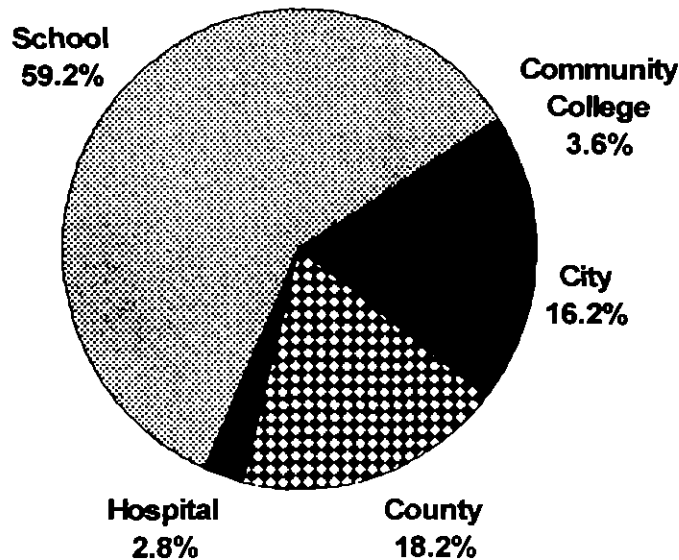


General Fund Revenue



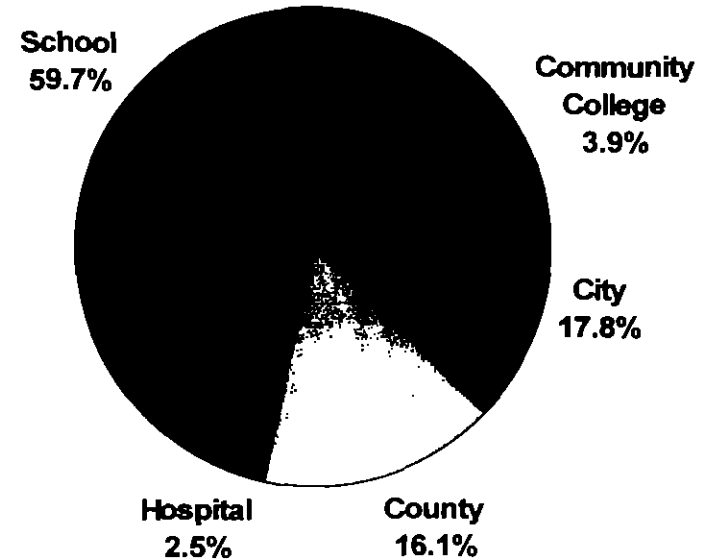
Austin 2005-06 Overlapping Property Tax

TAX RATE



Jurisdiction	Austin	Share
City	0.4430	16.2%
County	0.4993	18.2%
Hospital	0.0779	2.8%
School	1.6230	59.2%
Community College	0.0991	3.6%
Total Tax Rate	2.7423	

TAX BILL \$175,000 HOME



Jurisdiction	Austin	Share
City	\$775	17.8%
County	\$699	16.1%
Hospital	\$109	2.5%
School	\$2,597	59.7%
Community College	\$168	3.9%
Total Tax Bill	\$4,349	



Property Tax

- ▶ 30% of total General Fund revenue

Assumptions

- ▶ Tax Rate: (current year 44.30¢)
 - ▶ FY 2007 40.62¢ — effective tax rate
 - ▶ FY 2008 40.26¢ — effective tax rate + 1.0¢
 - ▶ FY 2009 41.19¢ — effective tax rate + 1.5¢
 - ▶ FY 2010 42.06¢ — effective tax rate + 0.5¢
 - ▶ FY 2011 42.09¢ — effective tax rate
- ▶ Assessed Valuation: (current year \$ 52.4 b)

Growth Rate		Total AV
▶ FY 2007	12.2%	\$ 58.8 b
▶ FY 2008	7.0%	\$ 62.9 b
▶ FY 2009	5.0%	\$ 66.1 b
▶ FY 2010	4.5%	\$ 69.0 b
▶ FY 2011	3.0%	\$ 71.1 b



2006-07 Changes in Assessed Value by Property Type



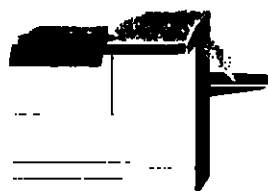
Single Family Residential
\$1,535M 5.9 %



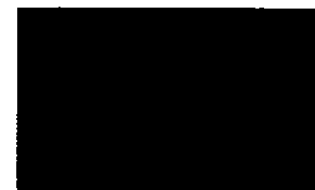
Multi-Unit Residential
\$1,241 M 18.7%



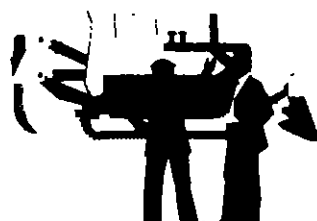
Commercial
\$1,684 M 13.4 %



Personal Property
\$246 M 4.2 %



Land
\$34 M 2.5 %



New Construction
\$1,646 M NA

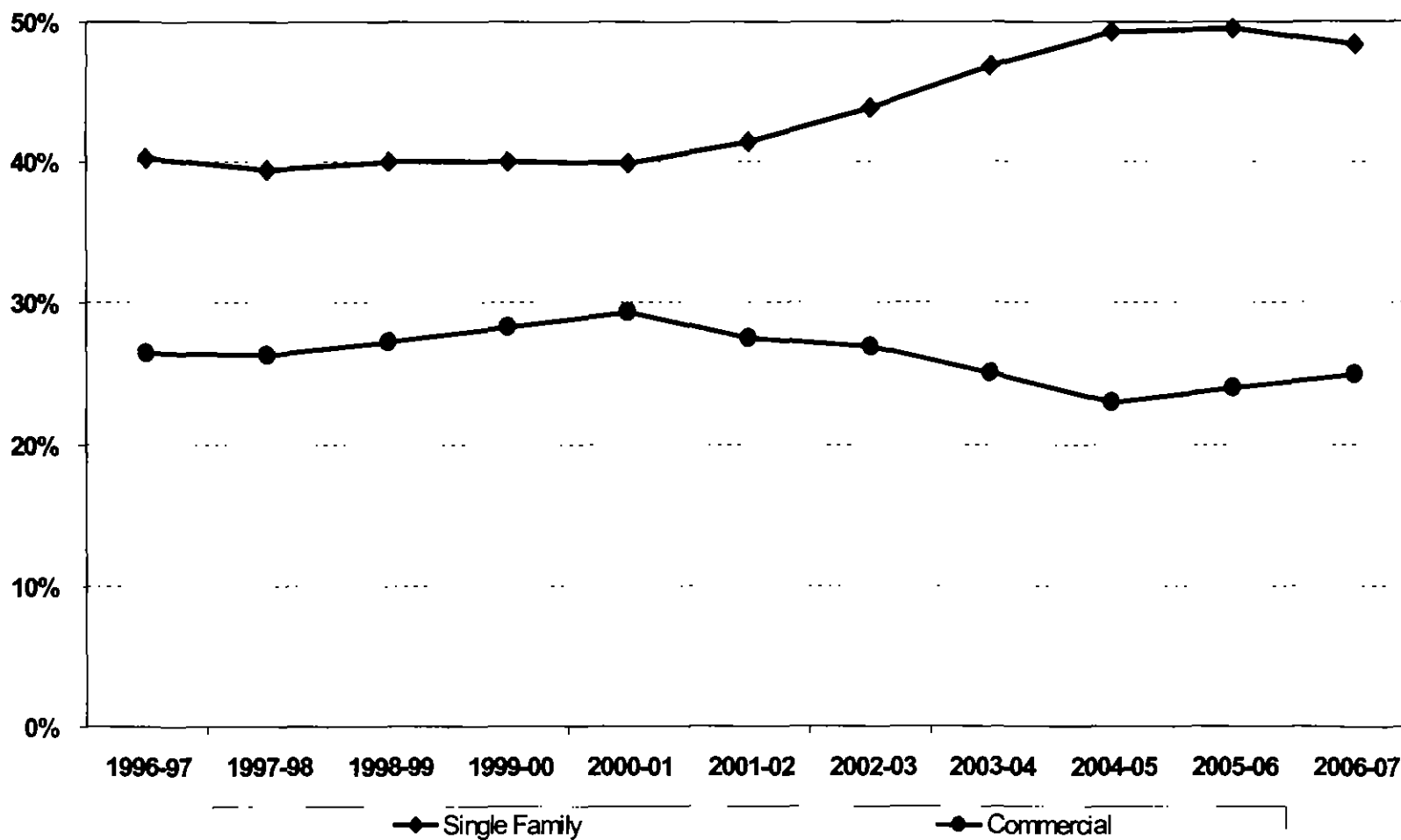
\$6,386 M

TOTAL

12.2 %



Austin Assessed Valuation Historical Comparison





Property Tax Rate Comparison for 2005-06

CENTS

100

86.50¢

74.17¢

64.75¢

57.85¢

44.30¢

0

Fort Worth

Dallas

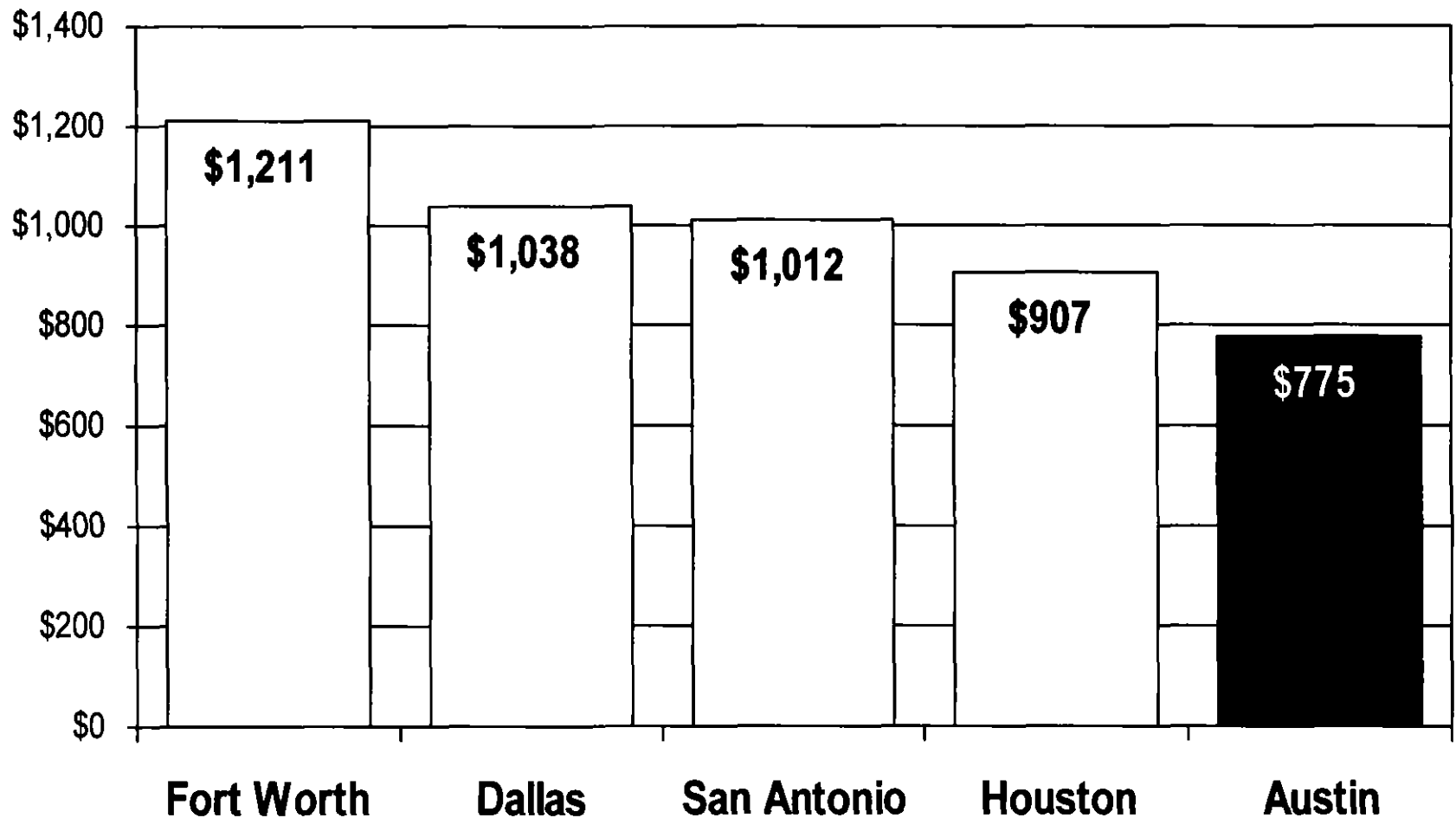
Houston

San Antonio

Austin

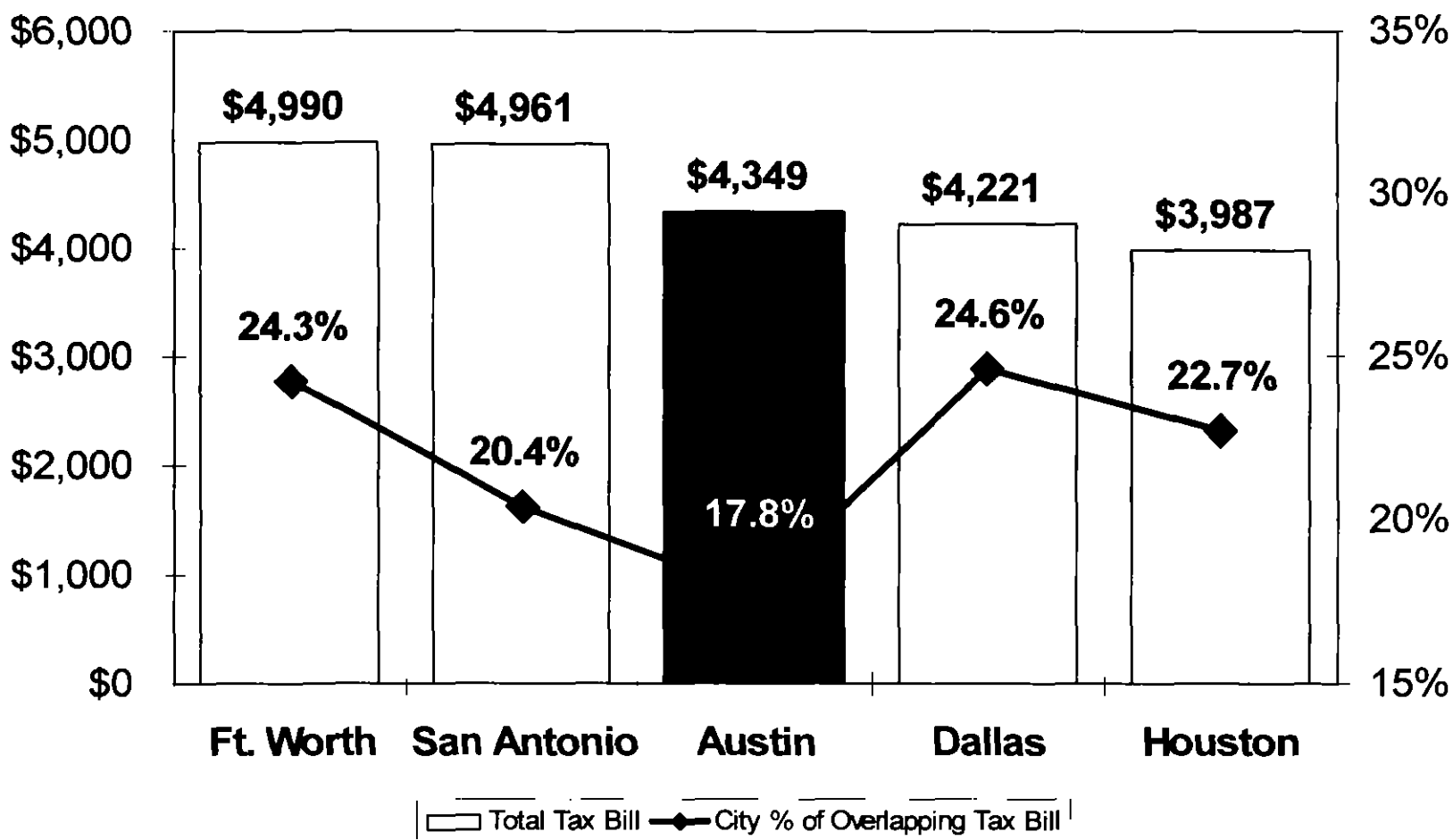


Property Tax Bill – \$175,000 Home Comparison for 2005-06



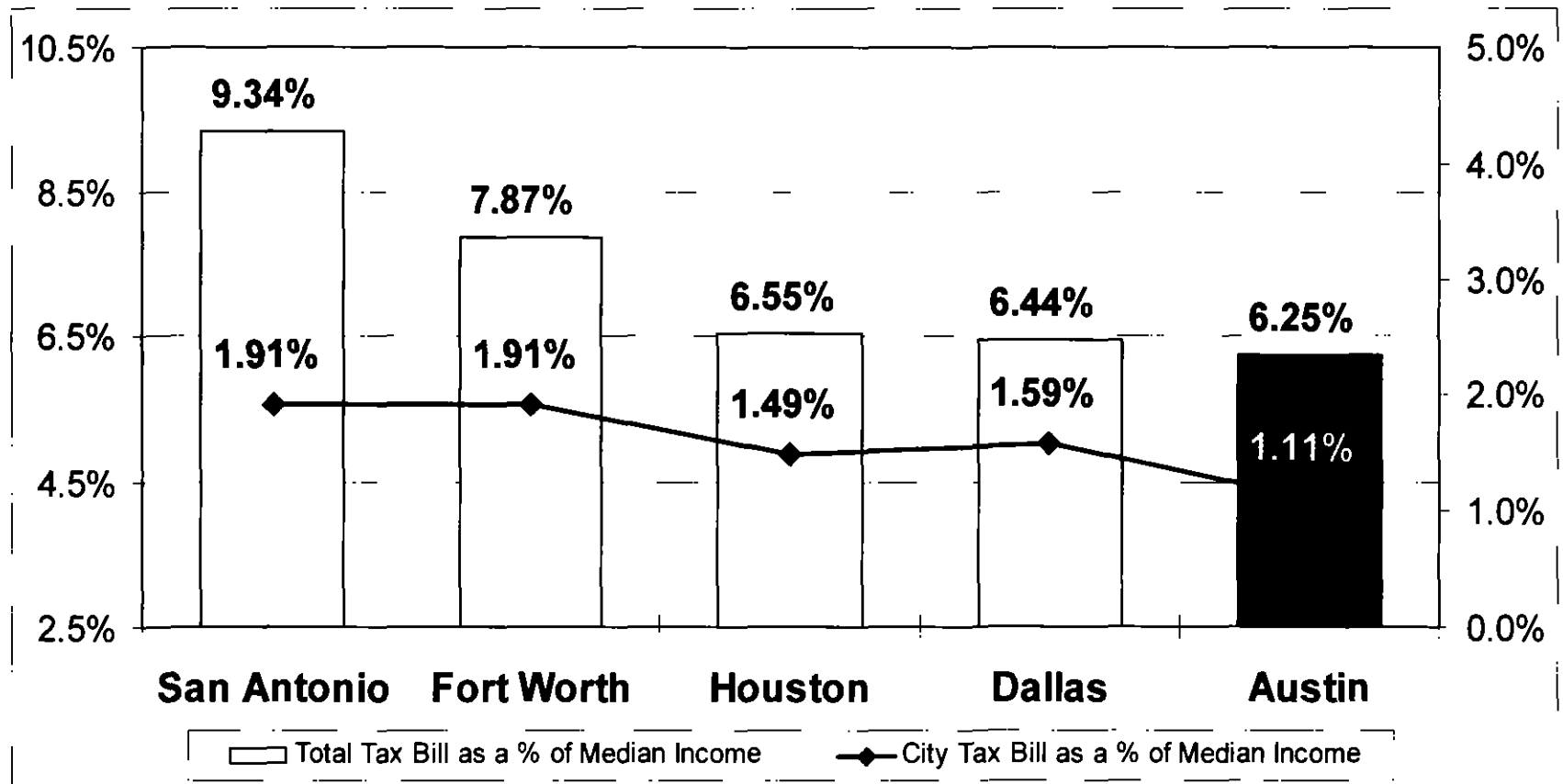


Overlapping Property Tax Bill Comparison for 2005-06





Property Tax Bill As Percentage of Median Income Comparison for 2005-06





Sales Tax

- ▶ 29% of total General Fund revenue

Assumptions

- ▶ Continuation of robust economic recovery
- ▶ Growth rates
 - ▶ FY 2007 10.0%
 - ▶ FY 2008 7.5%
 - ▶ FY 2009 7.0%
 - ▶ FY 2010 6.0%
 - ▶ FY 2011 6.0%



Other Revenue

- ▶ Development Revenue

- ▶ Development permitting and building safety revenue is increasing 26% due to strong local real estate activity

Utility Transfers account for 21% of total General Fund revenues

- ▶ Transfer rates

- ▶ Electric Utility 9.1%
 - ▶ Water Utility 8.2%



General Fund - Forecast Revenues

General Fund Total Forecast Revenue (\$ millions)					
	2007	2008	2009	2010	2011
Property Tax	156.3	164.3	176.4	194.5	203.4
Sales Tax	149.6	160.8	172.1	182.4	193.3
Utility Transfers	106.2	114.4	118.5	122.3	128.1
Others	107.7	110.2	113.7	117.5	121.3
Total Revenue	519.7	549.8	580.7	616.7	646.1
Increase	38.1	30.1	30.9	36.0	29.4



General Fund Expenditures



Forecast Assumptions

Base Budget

- ▶ Maintain funding to meet current service levels:
 - ▶ EMS, Public Health & Social Services
 - ▶ Parks programs & Library services

Cost Drivers

- ▶ Maintain 2.0 Police Officers per 1,000 population
- ▶ Maintain Fire Enhanced Task Force Staffing
- ▶ Fund Public Safety Contracts
- ▶ O&M for new/expanded facilities



Forecast Assumptions

Investment in the Workforce

- ▶ Pay for Performance of 3.5%
 - ▶ "Exceeds" of 1.5% added to base salary
- ▶ Market Adjustments
 - ▶ FY07 Annualized cost of current market studies
 - ▶ Market study program beginning in FY08
- ▶ Continuation of Reward & Recognition
- ▶ Service Incentive Enhancement
- ▶ Health insurance increase of 10% each year
- ▶ Additional 1% retirement contribution
- ▶ Funds the conversion of long-term temporary positions to regular status



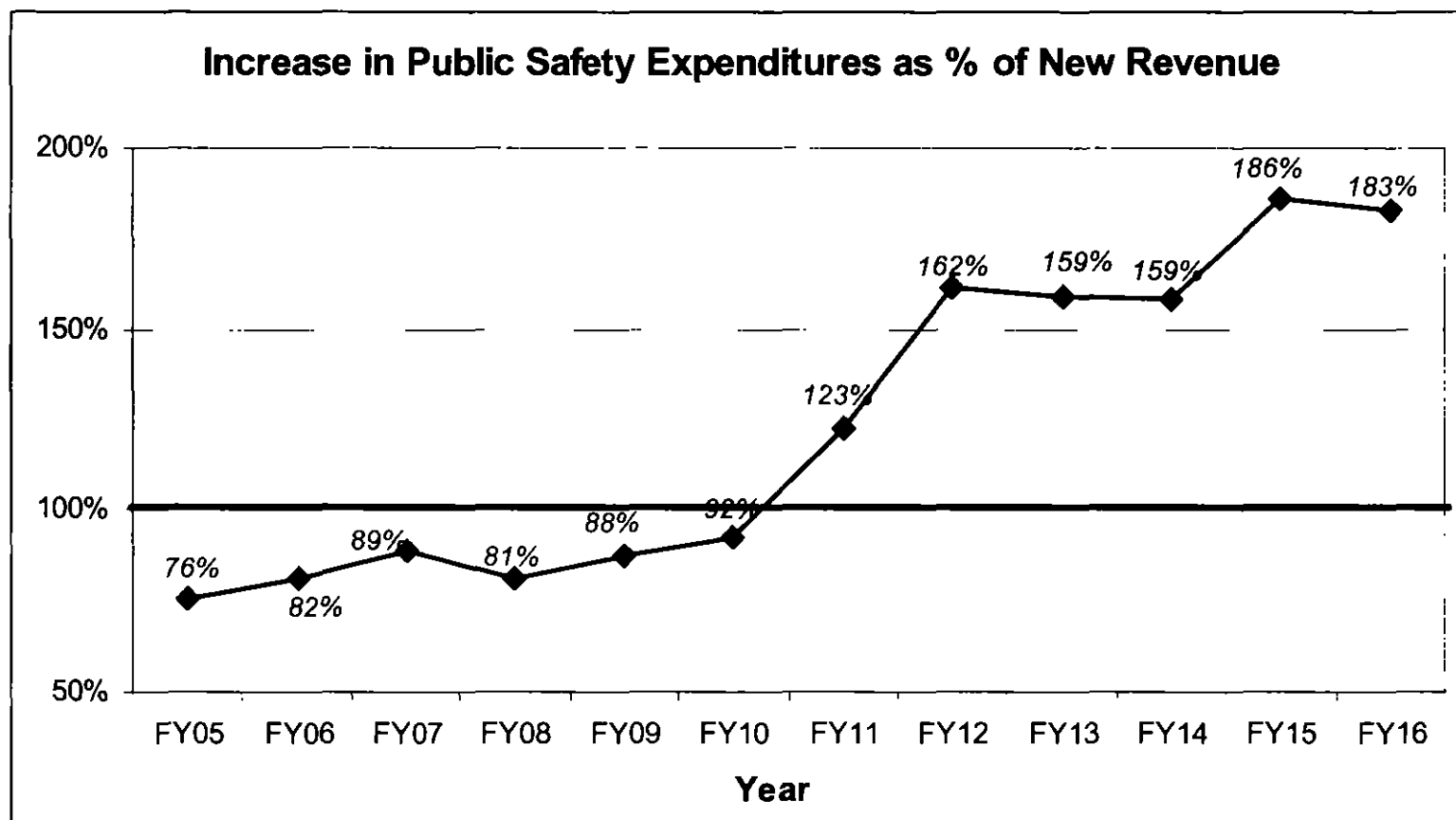
Cost Drivers

General Fund Financial Forecast Major Cost Drivers (\$ millions)

	2007	2008	2009	2010	2011
Public Safety	\$24.0	\$24.1	\$26.9	\$28.3	\$30.4
Health Insurance	\$3.3	\$3.6	\$3.9	\$4.3	\$4.9
PFP - non-uniform	\$3.3	\$3.4	\$3.5	\$3.6	\$3.8
New Facilities O&M (non-public safety)	\$0.9	\$1.3	\$3.0	\$2.6	\$0.2
<i>Subtotal Major Cost Driver Increases</i>	\$31.5	\$32.4	\$37.4	\$38.9	\$39.2
<i>Other Estimated Cost Increases</i>	\$8.8	\$4.3	\$3.1	\$7.3	\$7.4
Total Estimated Cost Increases	\$40.3	\$36.7	\$40.5	\$46.2	\$46.7



Public Safety





General Fund

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Budget Stabilization Reserve Fund

- ▶ 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



Budget Stabilization Reserve Fund

Budget Stabilization Reserve Fund (\$ millions)

	2006 Estimate	2007	2008	2009	2010	2011
Beginning Balance	52.7	40.8	27.2	18.2	12.1	8.1
Transfer In from General Fund Excess Fund Balance	5.8	0.0	0.0	0.0	0.0	0.0
Total Available	58.5	40.8	27.2	18.2	12.1	8.1
Transfer Out to General Fund One-Time Costs	17.7	13.6	9.1	6.1	4.0	2.7
Ending Balance	40.8	27.2	18.2	12.1	8.1	5.4



'One-Time' Critical Costs

Preliminary List for FY07

Vehicle Replacements	\$ 4.1 million
Technology replacement & upgrades	\$ 4.3 million
Service Incentive Enhancement	\$ 2.3 million
1% Retirement Contribution	\$ 1.3 million
Departmental Capital / One-Time	<u>\$ 4.7 million</u>
Total	\$16.7 million

Amount Available from Stabilization Fund ***\$13.6 million***



Strategic Adds

- ▶ City-wide effort to identify “strategic adds” for operational needs
 - ▶ Original requests total over \$23 million
 - ▶ Preliminary list has been scaled back to \$6 million
- ▶ Not included in the forecast, no identified funding



Enterprise Funds



Aviation

- ▶ Following opening of ABIA in 1999, passenger traffic peaked in 2000
- ▶ Traffic fell off sharply after 9/11 and remained flat in 2002 and 2003
- ▶ By 2005, traffic had returned to 2000 levels
- ▶ Estimated 6% increase in 2006 passenger traffic



Aviation

► Revenue

- Passenger activity grows at 2.8% in the forecast period
- Airline revenue projected to increase between 1.6% and 4.7% for the period
- Non-airline revenue projected to increase by 13.8% in FY2007, approximately 3% per year for the period

► Expenditures

- Expenditure projected to increase slightly more than revenue per year
 - Forecast includes cost increases associated with compliance of all security mandates, infrastructure maintenance and personnel costs
- Contribution to capital fund of \$3.4 Million projected in 2007; \$2.4 Million in 2011



Aviation

- ▶ The airline industry is unstable due to high fuel prices and inability to cut other costs
- ▶ ABLA needs to maximize non-airline revenue in order to fund ongoing O&M and provide for capital reserves



Austin Convention Center

- ▶ Expanded center opened in May 2002
 - ▶ number of conventioners has increased about 60%
- ▶ The Hilton Hotel opened during the downturn but has paid its obligations from current revenue



Austin Convention Center

▶ Revenue

- ▶ Bed tax accounts for about 58% of revenues
 - ▶ 2005 collections up 18.6% over 2004
 - ▶ 2006 YTD collections up 24% compared to 2005
- ▶ 2005 Rental car tax revenue up 6.6% over 2004; 2006 YTD up 25% compared to 2005
- ▶ Projecting steady but modest increases in facility rental revenue, contractor revenue, and hotel tax revenue

▶ Expenditures

- ▶ Continued investment in technology infrastructure will enhance marketing efforts
- ▶ Ending balance projected to remain stable at approximately \$15 million



Watershed Protection – Drainage Utility Fund

▶ Revenue

- ▶ No rate increases for the forecast period
- ▶ Forecast based on 2.5% annual customer growth

▶ Expenditures

- ▶ Continuation of infrastructure and system improvement projects from Master Plan
 - ▶ FY07 Transfer to CIP remains at FY06 level of \$16.6 million
 - ▶ Ranges between \$14.6 million and \$16.6 million for remaining years



Solid Waste Services

- ▶ Revenue
 - ▶ The PAYT program has not had a rate increase since its inception in 1997
 - ▶ SWS base revenue is projected to increase by 4%
- ▶ Expenditures
 - ▶ Forecast assumes implementation of single-stream recycling and closure of the FM1812 Landfill
 - ▶ Forecast also assumes continued funding for the Code Compliance Program
 - ▶ Growth in cost drivers (personnel / fuel / commodities) is expected to outstrip growth in base revenue
- ▶ Forecast shows SWS ending balance declining below level needed per financial policy – rate increase may be needed in 2009



Austin Energy

- ▶ AE base rate has not changed since 1994
- ▶ AE has managed with no rate increase but has had financial challenges during this time
 - ▶ Economic downturn affected customer & base revenue growth
 - ▶ Costs related to deregulation implementation
 - ▶ Funding construction and O&M of new Sand Hill Energy Center
 - ▶ Program cost increases for energy efficiency, solar rebates & peak load reductions
 - ▶ Funding improvements to transmission lines



Austin Energy

- ▶ Over forecast period, growth in base revenue with no rate increase is 1.75% annually
- ▶ Growth in cost drivers is expected to exceed base revenue growth
 - ▶ Personnel costs for pay-for-performance, market adjustments & health insurance
 - ▶ Material and commodity costs
 - ▶ Debt service requirements increases related to large capital improvements program
- ▶ Project that a rate increase may be needed in 2010

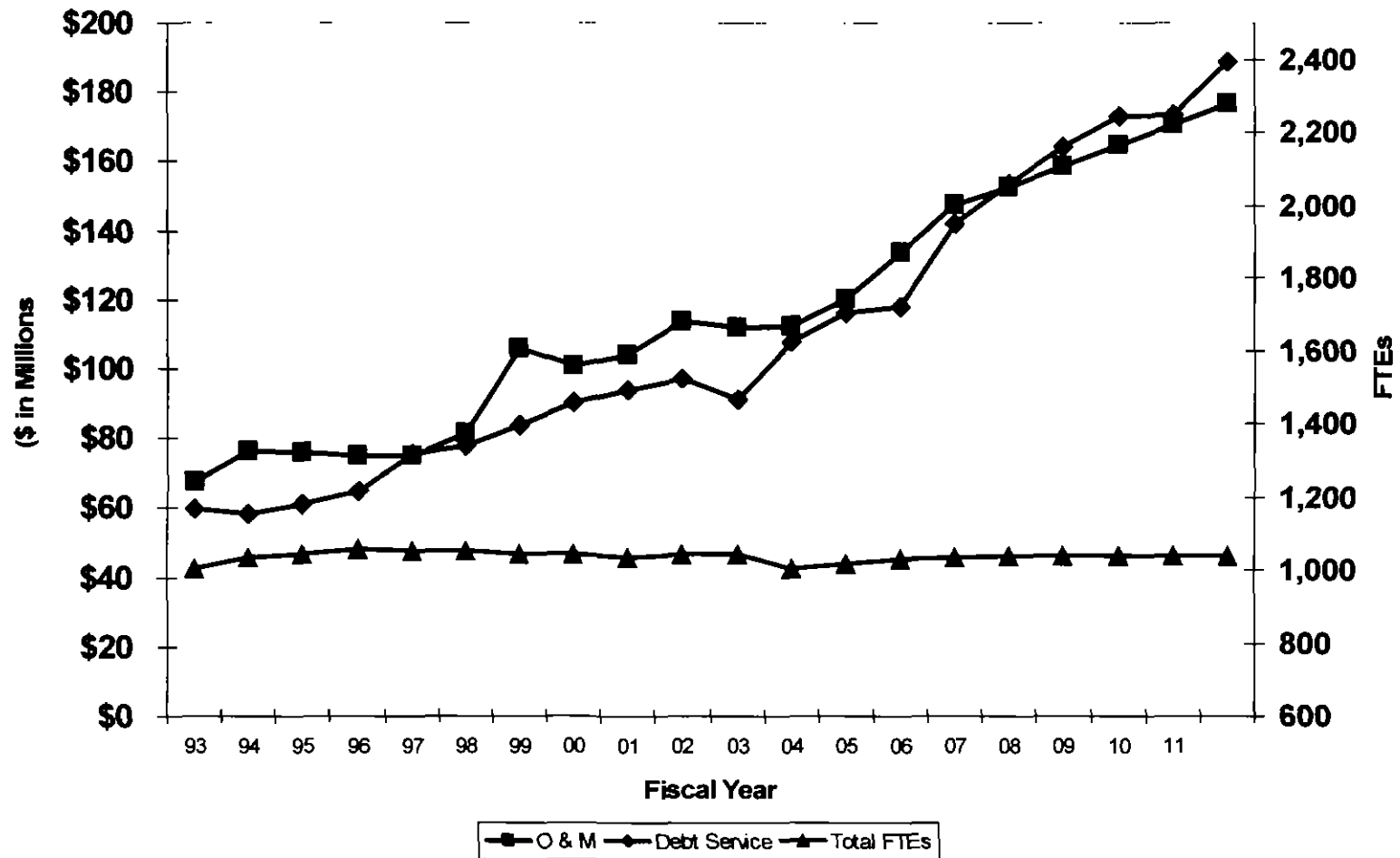


Austin Water Utility

- ▶ AWU continues to experience fiscal stress
- ▶ Forecast projects continued increases in debt service and O & M costs
- ▶ Changes from 2005 to 2006:
 - ▶ Projecting higher increases for contractual and commodity costs
 - ▶ More accurate estimate for ACWP costs
 - ▶ Some projects will be done earlier than estimated last year



Austin Water Utility





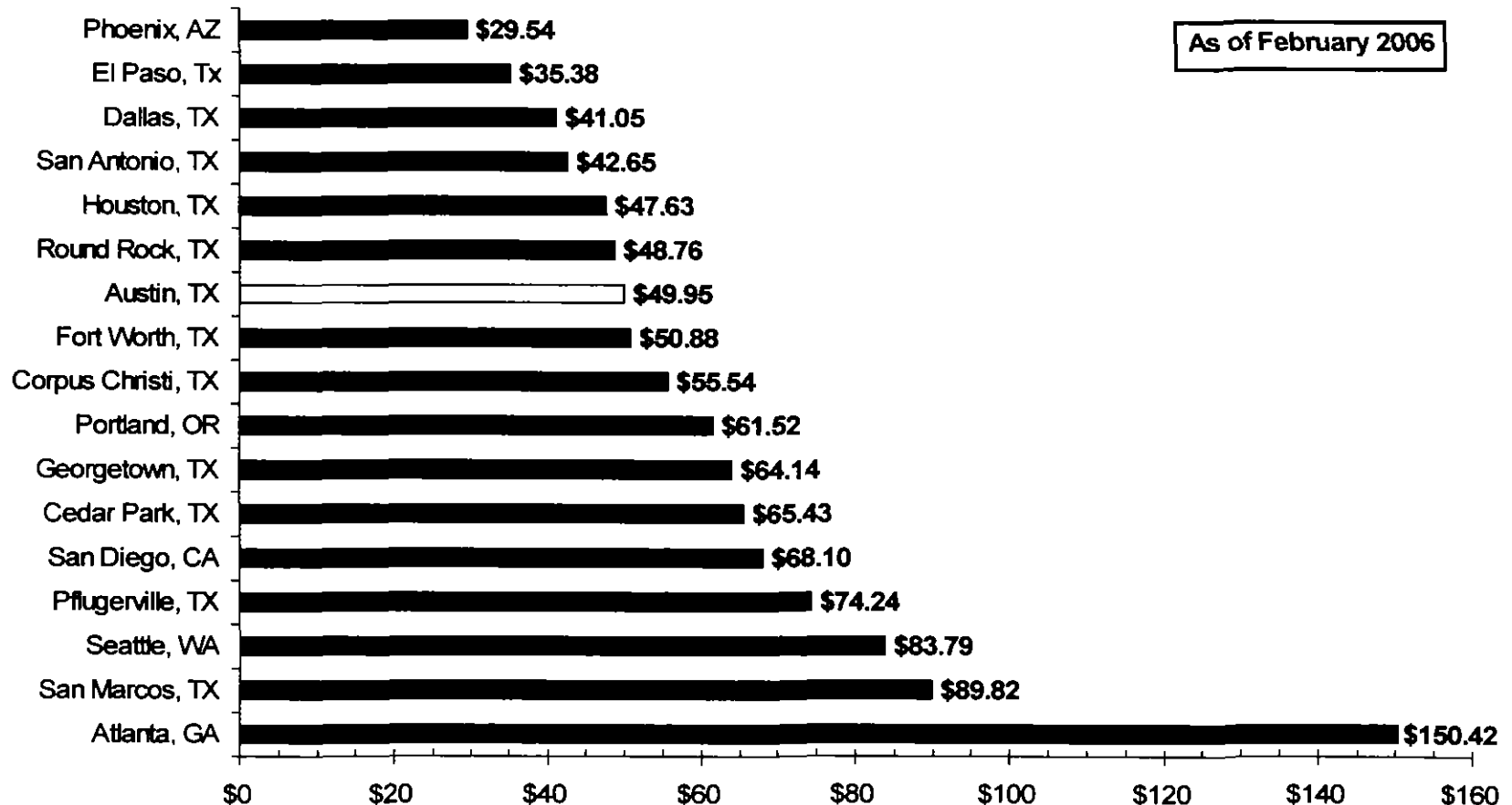
Austin Water Utility

► Combined Rate plan

	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>Total</u>
<u>Original:</u>	5.2%	5.0%	4.8%	5.0%	0.0%	20.0%
<u>Revised:</u>	7.1%	7.2%	6.0%	6.0%	0.0%	26.3%



Austin Water Utility





Key Dates

May 25th

Budget Policy Discussion

July 27th

Proposed Budget Presentation

August

Budget Presentations & Public Hearings

September
11th – 13th

Budget Approval Readings

FORECAST

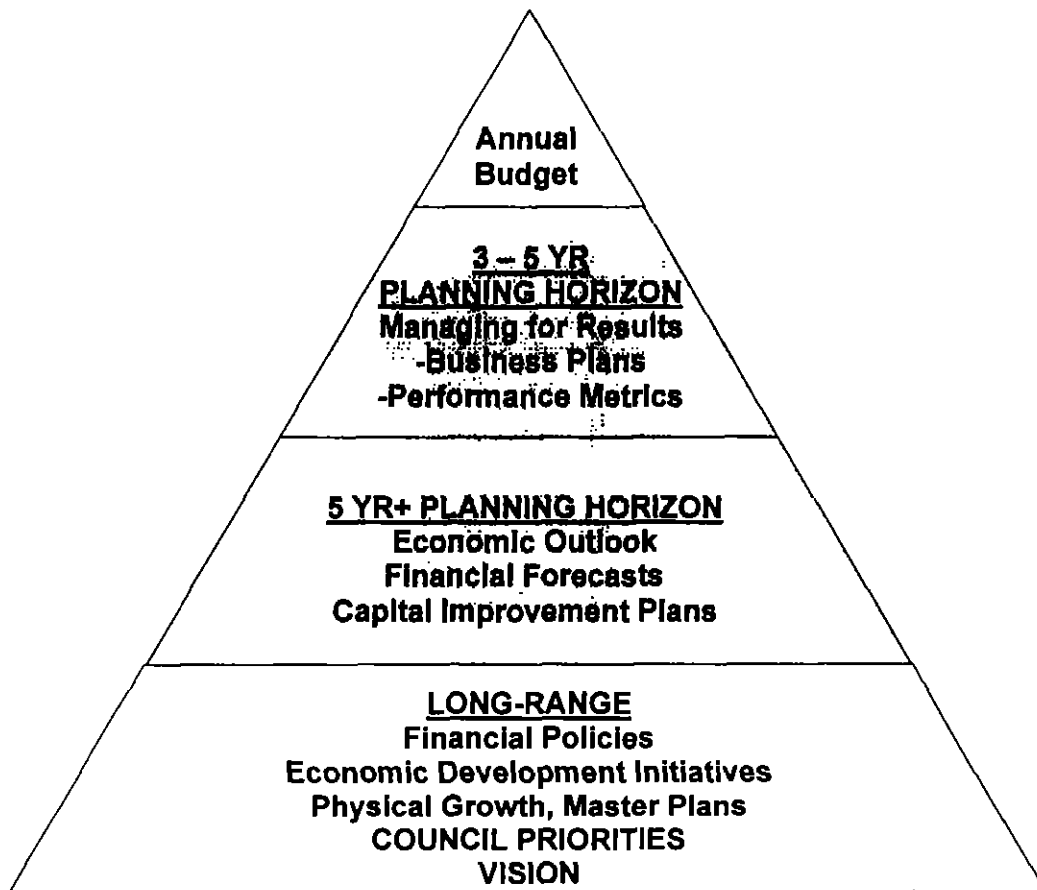
FINANCIAL FORECAST OVERVIEW

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



Vision

We want Austin to be the most livable city in the country.



Council Priorities

Youth, Family and Neighborhood Vitality

Public Safety

Sustainable Community

Affordability

Timeline

OCTOBER 1 – NEW YEAR'S DAY (FISCAL YEAR)

NOVEMBER – JANUARY – STRATEGIC BUSINESS PLANNING

FEBRUARY – MARCH – FINANCIAL FORECAST

APRIL 27 – FINANCIAL FORECAST PRESENTATION

MAY 25 – BUDGET POLICY DISCUSSION

JUNE – JULY – PROPOSED BUDGET

JULY 27 – PROPOSED BUDGET PRESENTATION

AUGUST 10, 24, 31 – DEPARTMENT PRESENTATIONS & PUBLIC HEARINGS

SEPTEMBER 11-13 – BUDGET APPROVAL READINGS

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ECONOMIC OUTLOOK



SUMMARY

While the national economy appears to have "weathered the storm," there could still be a few clouds on the horizon. Business investment, profits, and strong consumer spending (partially as a function of historically low interest rates) have contributed to overall economic growth rates in the past several years that are comparable to the expansion of the late '90s. However, rising commodity prices (especially related to energy), tighter monetary policy, and the relatively low rate of national job creation all suggest that recovery is somewhat fragile, and that aggregate growth going forward is unlikely to match the pace prior to the hurricanes. As a result, the U.S. should see GDP increase 3.0 percent during 2006, a level that reflects a slowdown in consumer activity and higher interest rates and prices. Growth should remain positive over the next five years, but the rate of expansion likely will not match the recent past.

In Austin, the economy has moved solidly into recovery, with tax revenues and local employment continuing to accelerate over the past 12 months. New relocations in the local production sector, continued growth in tourism, a strong real estate market (driven in part by in-migration, population growth, and non-local investors) and continued construction (especially infrastructure-related) generated a much stronger than initially reported level of job growth, with revised figures putting the 2005 MSA employment base at 693.3 thousand, a gain of 3.9 percent from 2004. The continuation of these trends should yield an increase in the overall MSA employment base of 3.4 percent this year and 2.8 percent during 2007, while the longer-term outlook is for job growth to be in 2.5 percent range annually from that point through 2011. Personal income will rise 6.9 percent annually over the same period. These rates are based on a baseline assessment of current market conditions, and are independent of any significant economic development initiatives beyond what is current public knowledge.

THE NATIONAL ECONOMY

The national economy expanded through much of last year at a historically rapid rate (in spite of the fourth quarter dip, which appears to be largely related to the impact of the hurricanes), driven by a combination of business investment and consumer spending. At the same time, profits were strong, with cost-cutting and rising demand both contributing to a solid gain in the bottom line for many firms, a trend that has been enhanced for those engaged in high value-added production by the relatively weak dollar.

GDP GROWTH (SEASONALLY ADJUSTED AT ANNUAL RATES - SAAR)				
	1 ST QUARTER	2 ND QUARTER	3 RD QUARTER	4 TH QUARTER
2003	1.7%	3.7%	7.2%	3.6%
2004	4.3%	3.5%	4.0%	3.3%
2005	3.8%	3.3%	4.1%	1.6%

BUSINESS INVESTMENT CONTINUES AT A RAPID PACE

As corporate profits improved, business investment picked up, as firms began to believe that the recovery is both real and sustainable. The continued growth in investment is something of a second wave, reflecting strong overall demand as opposed to using capital and technology to replace labor force. At this point, if demand continues to be strong, hiring should accelerate in coming months.

CHANGE IN SPENDING ON EQUIPMENT AND SOFTWARE (SAAR)

	1 ST QUARTER	2 ND QUARTER	3 RD QUARTER	4 TH QUARTER
2003	-1.1%	8.4%	14.8%	6.9%
2004	6.9%	15.1%	8.4%	7.2%
2005	7.0%	9.5%	8.0%	4.4%

CONSUMER SPENDING HAS REMAINED STABLE, BUT INTEREST RATES ARE WORRISOME

Consumer spending has been a mainstay of the national economy, as shoppers have been willing to take advantage of aggressive pricing, widely available consumer credit, and low interest rates to maintain purchasing patterns. While higher interest rates could slow spending (especially related to the use of home equity refinancing), improvement in the job market would enhance both confidence and aggregate income. Early signs are that the fourth quarter dip was just that, as more recent data indicates a bounce back in spending (and indebtedness). Growth in this segment of the economy should level in the 2.5 percent range for the coming year.

PERSONAL CONSUMPTION EXPENDITURE GROWTH (SAAR)

	1 ST QUARTER	2 ND QUARTER	3 RD QUARTER	4 TH QUARTER
2003	2.5%	3.6%	5.8%	3.1%
2004	4.7%	1.9%	4.4%	4.3%
2005	3.5%	3.4%	4.1%	1.2%

SIGNS OF MODERATE INFLATION CONTINUE TO EMERGE

The impact of the energy sector has shown up in prices, as supply concerns (whether upstream or downstream, domestic or international) and rising demand have pushed prices higher. In addition, there is also emerging evidence that firms in many industries are beginning to be able to exercise pricing power (albeit at modest level), a variable that has not been in the equation for some time. Fears of rising inflation are the primary justification for the tightening of monetary policy, although concern about attracting foreign capital to U.S. debt is also in the mix.

CPI (ALL ITEMS) YEAR-OVER-YEAR GROWTH (NSAAR)

	1 ST QUARTER	2 ND QUARTER	3 RD QUARTER	4 TH QUARTER
2003	2.9%	2.1%	2.2%	1.9%
2004	1.8%	2.9%	2.7%	3.3%
2005	3.0%	2.9%	3.8%	3.7%

CPI (ALL ITEMS EXCEPT ENERGY) YEAR-OVER-YEAR GROWTH (NSAAR)

	1 ST QUARTER	2 ND QUARTER	3 RD QUARTER	4 TH QUARTER
2003	1.7%	1.5%	1.5%	1.5%
2004	1.7%	2.1%	2.1%	2.3%
2005	2.4%	2.1%	2.1%	2.1%

MONETARY AND FISCAL POLICY REMAIN AT ODDS

Having hit a historic low in 2004, the Fed has subsequently embarked on a pattern of systematically tightening, pushing the federal funds rate from 1.0% to 4.5% at the January meeting. This tightening of monetary policy is based in large part on the perception that inflation is in danger of accelerating, as commodity prices (especially those related to energy) have bounced up sharply in recent months in the wake of the impact of the hurricanes and an overall increase in demand. It remains to be seen if market-based rates will follow in lock-step with the tighter policy, but mortgage rates have on balance moved higher in recent months. Meanwhile, the federal deficit has risen sharply, with little change expected any time soon.

THE NATIONAL FORECAST IS FOR MODERATING ECONOMIC GROWTH FOR THE BALANCE OF 2006, WITH GROWTH MOVING TOWARD HISTORIC TRENDS OVER THE NEXT FIVE YEARS

Rising market-based interest rates are likely to slow growth in real estate and other consumer activity, undermining the main source of economic growth over the past several years. However, solid profits should keep investment at fairly strong levels and should finally stimulate job creation, bolstering income. Assuming core inflation (excluding food and energy) does not surge and the dollar does not plummet, the net effect should be slightly slower growth, with GDP projected to increase 3.0 percent this year. Over the next five years, GDP should move toward expansion in the 2.5 to 3.0 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 moved solidly into expansion, with most measures (especially in light of recent revisions to employment data) growing at a pace that is reminiscent of the performance of the mid-90s. Manufacturing remains something of an outlier, as the total job base in this sector is still over 25,000 positions below the level five years ago. Some improvement is expected this year, as the impact of announced economic development projects should push production job counts higher. In the meantime, low interest rates and continued in-migration have lead to a real estate and construction surge. Signs of development are everywhere in Austin, suggesting that the near-term outlook will be significantly influenced by trends in this area. As a result, special attention is given to the status and outlook for local construction and real estate.

REAL ESTATE FOCUS

The driving factors behind the real estate market in Austin appear deceptively simple; with demand stronger than supply in virtually every segment, prices should stay firm, prompting new development to occur. All other things being equal, demand is a function of household and employment growth, both of which are expected to remain strong for the near future. As a result, we see little change in the overall direction of the Austin real estate market in the next eighteen months, although interest rates may have some impact.

SINGLE-FAMILY HOUSING

A surge in both prices and sales characterized the Austin area single-family home market during 2005, as the Texas A&M Real Estate Research Center reports that the volume of homes sold, average price, and median price have all reached record highs. Perhaps more telling, this high volume of activity has occurred without the market getting out of balance, as the months of available inventory last year averaged 4.4, consistent with a fairly stable markets. Heading into 2006, the trend in this indicator is downward (meaning that inventory is dwindling), which suggests that 2006 should be another year of rising sales and prices.

Early indications from 2006 suggest that, if anything, the local housing market has heated further. According to a March 22 story in the Austin American-Statesman, "The number of existing single-family homes sold in February jumped 15 percent from the previous year as strong job growth continues to bring more buyers to the area. Increased demand is pushing up home prices. In February, the median price rose 7 percent from the year before to \$169,900, according to the Austin Board of Realtors. So far this year, the number of single-family houses sold is up 13 percent, and the median price of \$168,000 is 9 percent higher than during the first two months of 2005. The Austin housing market continues to tighten, with the number of houses placed on the market in February not keeping up with the rate homes are being sold. The number of active listings dropped 11 percent in February from the year before. The average time houses were on the market dropped by 13 percent to just 71 days."

SINGLE-FAMILY HOUSING			
	HOME SALES	MEDIAN PRICE	MONTHS INVENTORY
1997	12,439	\$112,600	6.0
1998	15,583	\$117,900	4.2
1999	18,135	\$126,600	2.8
2000	18,621	\$144,500	2.4
2001	18,392	\$150,600	4.7
2002	18,716	\$154,500	5.6
2003	19,793	\$154,800	6.6
2004	22,567	\$154,100	5.9
2005	26,816	\$161,300	4.4

The following are additional summaries of the status and outlook for certain segments of the industry as provided by Capital Market Research.

RETAIL

Continuing a ten-year trend, the retail market in Austin remains stable and strong through the second half of 2005. However, the December 2005 retail occupancy rate decreased 0.2 percentage points to 93.2%, but the average rental rates for vacant space increased \$0.28 per sq. ft., from \$17.59 in June to \$17.87 in December. Absorption was 1,180,608 square feet for the last six months of 2005, which is slightly below the 1,297,722 sq. ft. added during the same time period. Overall, the Austin retail market continues to defy the downturn that has affected the office and industrial markets, and, based on the number of new centers planned and healthy increases in retail sales, this trend is expected to continue.

APARTMENT

Through the second half of 2005, the apartment market continued to improve, with both rent and occupancy increasing dramatically. The December 2005 citywide occupancy rate continued its climb to 94.4%, increasing by 1.7% points from June 2005. Average rents per sq. ft. increased by \$0.03 since June, to \$0.85 per square foot. Absorption for the year was a record 6,243 units. The continuation of the positive increases in occupancy through December 2005, coupled with an increase in average rents, confirms the strength of the market recovery first recorded by CMR in June 2004. Absorption remains positive, averaging 574 units per month in the second half of 2005, and new job creation was a positive 13,900 through November 2005 when compared to November 2004. There is only one project currently leasing that has unfinished units that are scheduled for delivery over the next 6 months. And, there are only 14 projects under construction with a total of 2,820 units that will be delivered in 2006. Consequently occupancy should continue to increase throughout 2006. Rental rates in all market areas will continue to rise as the occupancy rates increase to 95% and higher.

OFFICE

The December 2005 Austin Office Market Survey showed a strong improvement in the market since June, with increases in rent, occupancy and absorption. Citywide quoted rental rates increased slightly, by an average of \$0.80 per sq. ft. (4.1%) since June, and occupancy, including sublease space, has jumped 3.1% points to 85.0%. Absorption, including sublease space, was 1,058,299 sq. ft. during the last six months of 2005. The occupancy rate for "direct" space increased from 83.1% in June 2005 to 85.7%, and absorption of "direct" lease space was a positive 896,355 sq. ft. The inventory of sublease space has fallen to a four-year low of only 271,473 sq. ft., and this underscores the return to more normal market conditions. Citywide average rental rates increased slightly, with increases reflected in all classes of space. Class "A" space is quoted, on average, at \$23.61 per square foot, Class "B" space is renting for \$17.82, and Class "C" space is renting at \$14.17 per square foot. The CBD market area had the highest average quoted rates at \$22.36 and the highest average rental rate for Class "A" space is \$25.10 in the CBD. Average rents in the suburban market areas continued to increase to \$18.81, up \$0.50 since June.

THE AUSTIN MSA ECONOMIC FORECAST

The national economy is an important driver of the short-term outlook for the Austin MSA, as national and international trends are the determinants of success or failure for an increasing number of locally-based firms. In addition to the obvious connection for the bulk of the local tech manufacturing sector, "soft" technology and professional services are also serving broader and broader markets. Meanwhile local consumer confidence is influenced by the overall national situation and outlook. At the same time, the growing appeal of the region as a site for expansion and relocation (of both people and firms) helps Austin consistently perform "above the line" relative to the U.S. as a whole. Assuming that U.S. economic growth does not sharply falter during the latter half of this year, Austin-area job growth should remain in the current range for much of the year, finishing 2006 with 23,700 net new jobs (approximately 3.4 percent) ahead of last year (measured on an annual year-over-year basis). This improvement will be fairly broad-based; while the bulk of the net new jobs will be in the secondary sectors of services, trade, and government, we expect that every sector of the local economy (including manufacturing and information) should finish the year ahead of 2005.

During 2007, overall growth in the Austin region may slow slightly, although the forecast is for an additional 20,100 net new jobs to be added. On the one hand, recent economic development announcements will lead to job creation over the next several years, which will help bolster the production side of the local economy. On the other hand, rising interest rates could mute growth in consumer spending, both for retail purchases and real estate. Tourism may make a greater contribution in the near future, as new infrastructure and a decline in overseas travel (particularly if the dollar remains weak) makes Austin a more attractive site.

AGGREGATE MEASURES OF THE AUSTIN MSA ECONOMY			
	EMPLOYMENT	PERSONAL INCOME	POPULATION
	(000s)	(millions)	
2005	693.3	\$49,401,706	1,407,498
2006	717.0	\$53,208,867	1,449,949
2007	737.1	\$56,972,622	1,493,681
2008	756.4	\$60,886,449	1,538,732
2009	775.7	\$65,028,801	1,585,141
2010	795.7	\$69,475,781	1,632,950
2011	816.3	\$74,229,589	1,682,201

Over the next five years, growth in the Austin region should remain relatively strong, as the region moves toward a sustainable trend. After several years of essentially no growth during the downturn, the Austin MSA job base should expand at a compound annual rate of 2.6 percent from 2006 through 2011, with a slightly more rapid pace anticipated over the next two years. Similarly, total MSA personal income will rise 6.9 percent annually from 2006 through 2011. The national economy remains an important

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

- *Continued migration to the region and downtown.* While population growth will tend to follow the local economic cycle to some degree, the longer-term outlook is for Austin to remain an attractive site for relocation, especially for those whose income is not tied to the local economy. This trend is reinforced by the surge in downtown residential construction, consistent with overall diversification of the housing stock (including mixed-use and transit-oriented development). Attraction of people is arguably as important to Austin's economic future (and tax base) as attraction of firms and the community will be well served by remaining an attractive destination for those who can afford to live wherever they choose.
- *Maintenance of the current "hard" technology base.* Given the increasingly competitive environment for semiconductors and other manufactured technology products, the recent announcements of several expansions and relocations bodes well for the future of "hard" technology in Austin.
- *Growth in activity related to research and development and creative industries.* While the creative sector has hit Austin's economic development radar screen, the business side of the equation has yet to reach its full potential. Meanwhile, activity related to medicine may soon join more traditional areas of R&D where Austin enjoys a concentration of activity.
- *Regionalization of the "local" economy.* A number of regional events will have an economic impact on Austin, as the Toyota and Washington Mutual locations to San Antonio, ongoing growth of higher education in the area (witness Texas State in Williamson County), and efforts to enhance transportation infrastructure (both rail and highway) will all influence the longer-term outlook.

AUSTIN MSA EMPLOYMENT BY SECTOR (000s)

	2005	2006	2007	2008	2009	2010	2011
Const./Natural Resources	40.1	42.3	43.3	44.2	45.0	46.0	47.0
Education/Health Services	71.6	74.5	76.9	79.2	81.1	83.1	85.2
Financial Activities	40.9	41.7	42.5	43.1	43.8	44.5	45.3
Government	149.9	153.6	156.7	159.9	163.1	166.3	169.6
Information	21.6	22.2	22.8	23.5	24.1	24.8	25.5
Leisure and Hospitality	69.6	71.8	73.9	76.1	78.3	80.5	82.9
Manufacturing	57.2	58.6	60.0	61.0	62.1	63.2	64.3
Other Services	26.8	27.6	28.3	29.1	29.9	30.8	31.6
Prof./Business Services	93.9	97.5	100.4	103.5	106.5	109.8	113.1
Trade/Transport/Utilities	121.7	127.2	132.3	136.9	141.7	146.6	151.8
TOTAL	693.3	717.0	737.1	756.4	775.7	795.7	816.3



FUND PROJECTIONS



GENERAL FUND

- REVENUE
- EXPENDITURES
- ASSUMPTIONS
- PROJECTIONS
- BUDGET STABILIZATION RESERVE

GENERAL FUND

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

Funding for the General Fund is generated through three primary sources. Revenue from property tax generates 30.9% of total revenue. The current approved property tax rate for FY2006 is 44.30 cents per \$100 valuation. Revenue from sales tax generates 27.2%. The third major source is through transfers in from the electric and water utilities for a total of 20.5%. The remaining 21.4% is derived from various sources which include franchise fees, fines, forfeitures, penalties, licenses, permits, inspections, charges for services and interest.

REVENUE SUMMARY

During the forecast period, total General Fund revenue is expected to continue at annual growth rates ranging from 4.8% to 7.9%. The FY 2006-07 revenue forecast is approximately \$38.1 million higher than the current year, an overall increase of 7.9%. Below is a summary of revenue for the forecast period followed by additional information on the major revenue categories.

General Fund Forecast of Major Revenue

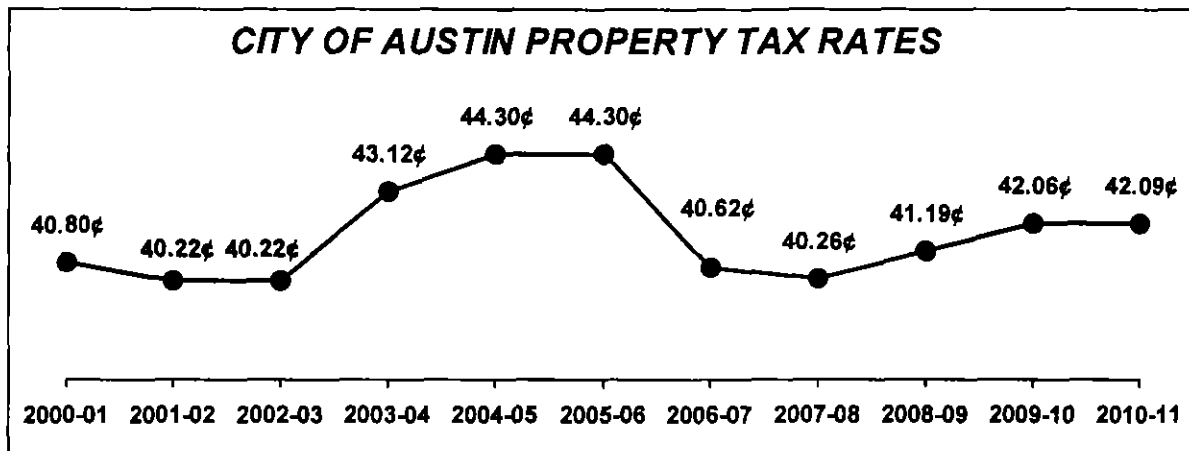
	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue					
Property Tax	\$ 156.3	\$ 164.3	\$ 176.4	\$ 194.5	\$ 203.4
Sales Tax	149.6	160.8	172.1	182.4	193.3
Utility Transfers	106.2	114.4	118.5	122.3	128.1
Others	107.6	110.3	113.7	117.5	121.3
Total Revenue	\$ 519.7	\$ 549.8	\$ 580.7	\$ 616.7	\$ 646.1
Increase from Prior Year	\$ 38.1	\$ 30.1	\$ 30.9	\$ 36.0	\$ 29.4

PROPERTY TAX

Property tax revenue accounts for approximately 30% of total General Fund revenue. The financial forecast includes two basic assumptions:

- Maintain the effective tax rate per \$100 assessed valuation and include additional anticipated debt service and operating and maintenance costs associated with the potential November 2006 bond election.

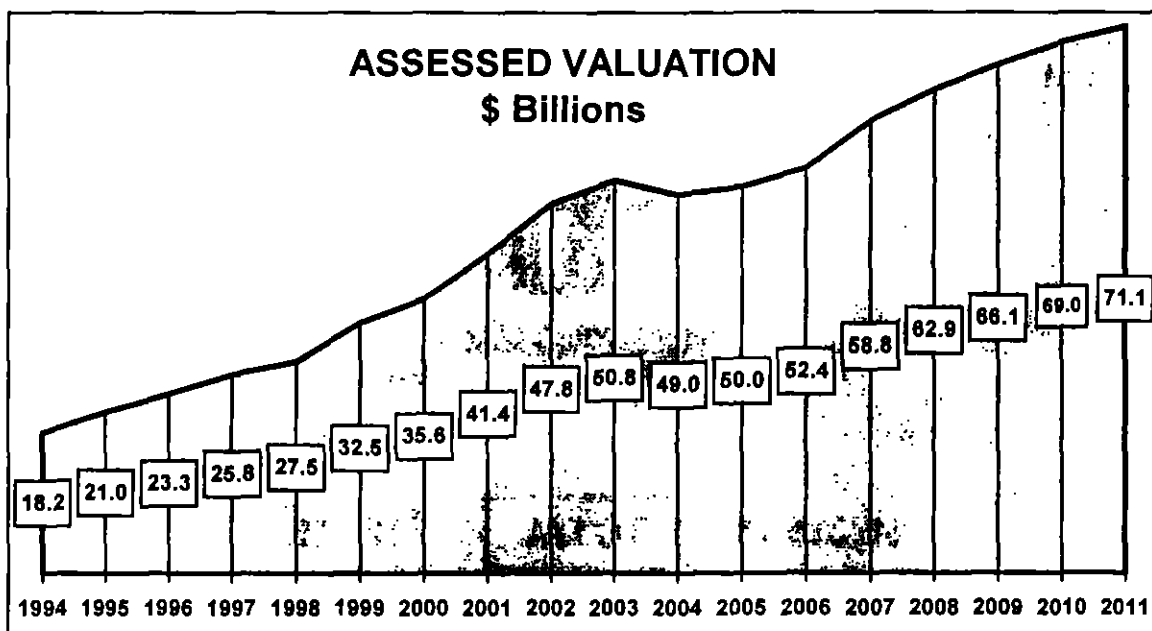
	FY2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Effective Tax		40.62¢	39.26¢	39.69¢	41.56¢	42.09¢
Bond Commitment			1.00¢	1.50¢	0.50¢	
Tax Rate	44.30¢	40.62¢	40.26¢	41.19¢	42.06¢	42.09¢



The Travis County Hospital District was created in 2004-05. For ease of comparison tax rates for fiscal years 2000-01 through 2003-04, have been restated to reflect their estimated value had the hospital district been in existence.

- Based on preliminary information from the Appraisal District, assessed valuations for fiscal 2007 are expected to grow at just over twelve percent. We are projecting continued strong growth in FY08 and FY09, followed by moderate growth toward the end of the forecast period.

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Taxable Assessed Valuation (billions)	\$ 58.8	\$ 62.9	\$ 66.1	\$ 69.0	\$ 71.1
Percentage Change	12.2%	7.0%	5.0%	4.5%	3.0%



2006-07 CHANGES IN VALUE BY PROPERTY TYPE



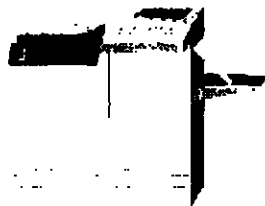
Single Family Residential
\$1,535 M 5.9 %



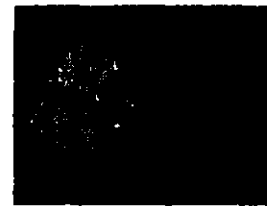
Multi-Unit Residential
\$1,241 M 18.7 %



Commercial
\$1,684 M 13.4 %



Personal Property
\$246 M 4.2 %



Land
\$34 M 2.5 %



New Construction
\$1,646 M NA

\$6,386 M

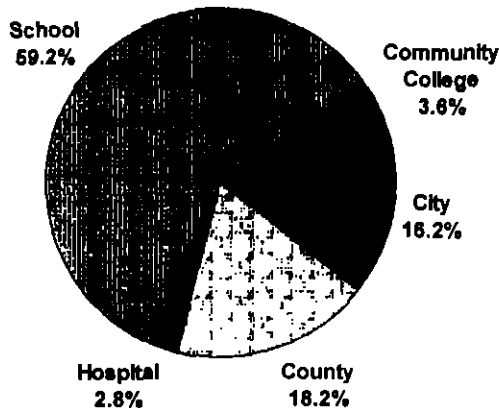
TOTAL

12.2%

PROPERTY TAX COMPARISONS

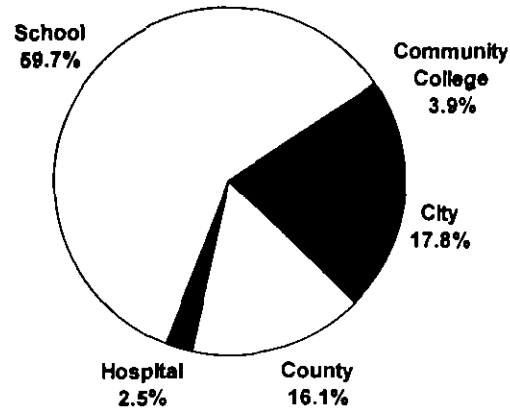
The following section provides comparisons of tax rates and bills for a \$175,000 home, with each taxing jurisdiction's tax exemption applied, and median family income for Austin and the major Texas cities.

TAX RATE



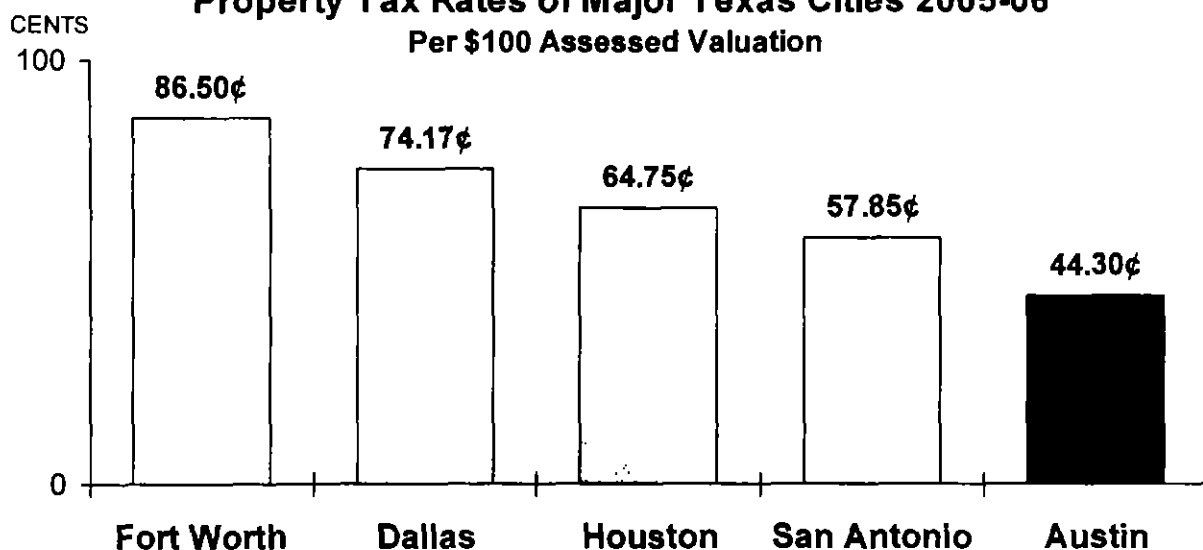
Jurisdiction	Austin	Share
City	0.4430	16.2%
County	0.4993	18.2%
Hospital	0.0779	2.8%
School	1.6230	59.2%
Community College	0.0991	3.6%
Total Tax Rate	2.7423	

TAX BILL \$175,000 HOME



Jurisdiction	Austin	Share
City	\$775	17.8%
County	\$699	16.1%
Hospital	\$109	2.5%
School	\$2,597	59.7%
Community College	\$168	3.9%
Total Tax Bill	\$4,349	

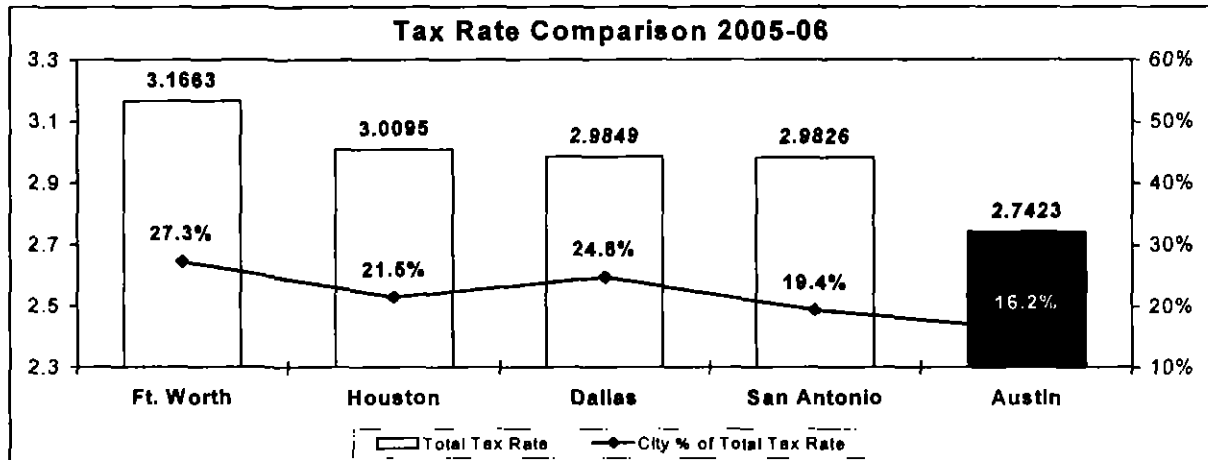
Property Tax Rates of Major Texas Cities 2005-06
Per \$100 Assessed Valuation



Overlapping Property Tax Rates 2005-06

Jurisdiction	Ft. Worth	Share	Houston	Share	Dallas	Share	San Antonio	Share	Austin	Share
City	0.8650	27.3%	0.6475	21.5%	0.7417	24.8%	0.5785	19.4%	0.4430	16.2%
County	0.2725	8.6%	0.3999	13.3%	0.2139	7.2%	0.3185	10.7%	0.4993	18.2%
Hospital	0.2354	7.4%	0.1922	6.4%	0.2540	8.5%	0.2439	8.2%	0.0779	2.8%
School	1.6540	52.2%	1.6200	53.8%	1.6884	56.6%	1.7220	57.7%	1.6230	59.2%
Special District ⁽¹⁾	0.1394	4.4%	0.1500	5.0%	0.0889	2.9%	0.1198	4.0%	0.0991	3.6%
Total Tax Rate	3.1663		3.0095		2.9849		2.9826		2.7423	

(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.

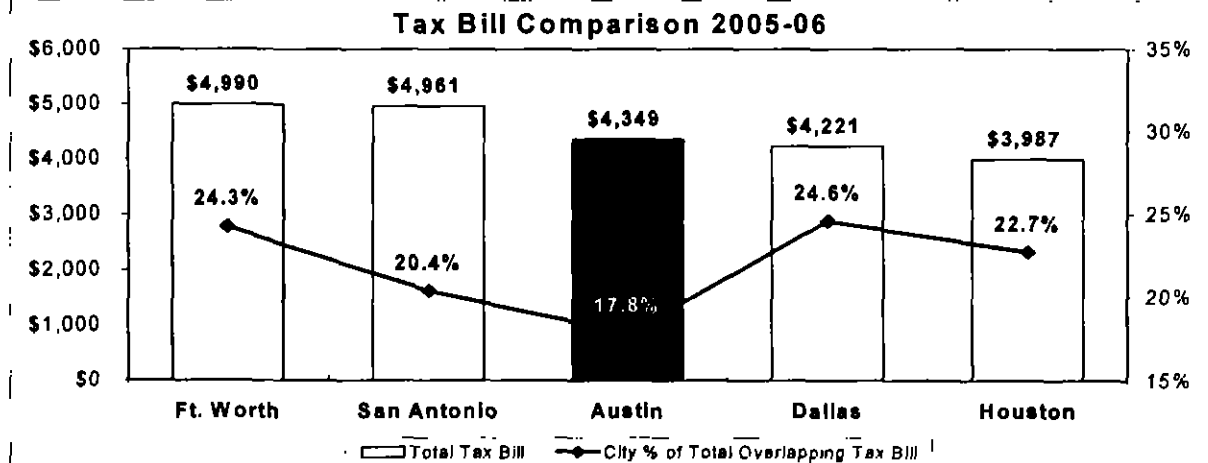


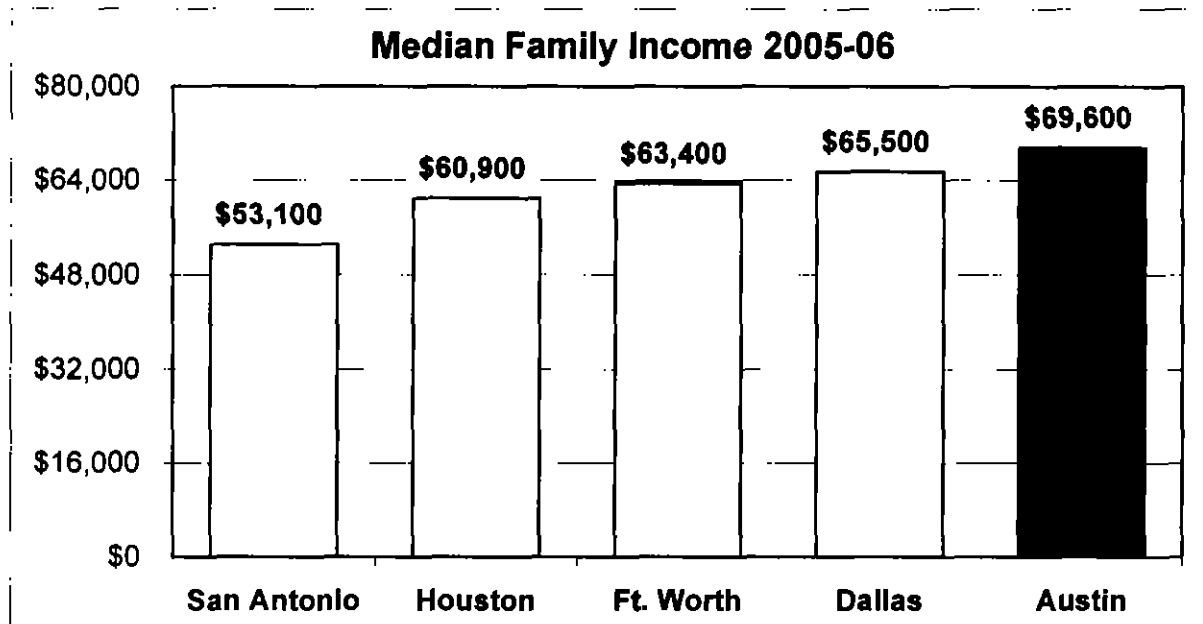
Overlapping Property Tax Bill 2005-06

Jurisdiction	Ft. Worth	Share	San Antonio	Share	Austin	Share	Dallas	Share	Houston	Share
City	\$1,211	24.3%	\$1,012	20.4%	\$775	17.8%	\$1,038	24.6%	\$907	22.7%
County	\$477	9.6%	\$557	11.2%	\$699	16.1%	\$299	7.1%	\$560	14.0%
Hospital	\$412	8.3%	\$427	8.6%	\$109	2.5%	\$356	8.4%	\$269	6.7%
School	\$2,646	53.0%	\$2,755	55.5%	\$2,597	59.7%	\$2,406	57.0%	\$2,025	50.8%
Special District ⁽¹⁾	\$244	4.8%	\$209	4.2%	\$168	3.9%	\$122	2.9%	\$227	5.7%
Total Tax Bill ⁽²⁾	\$4,990		\$4,961		\$4,349		\$4,221		\$3,987	

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

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



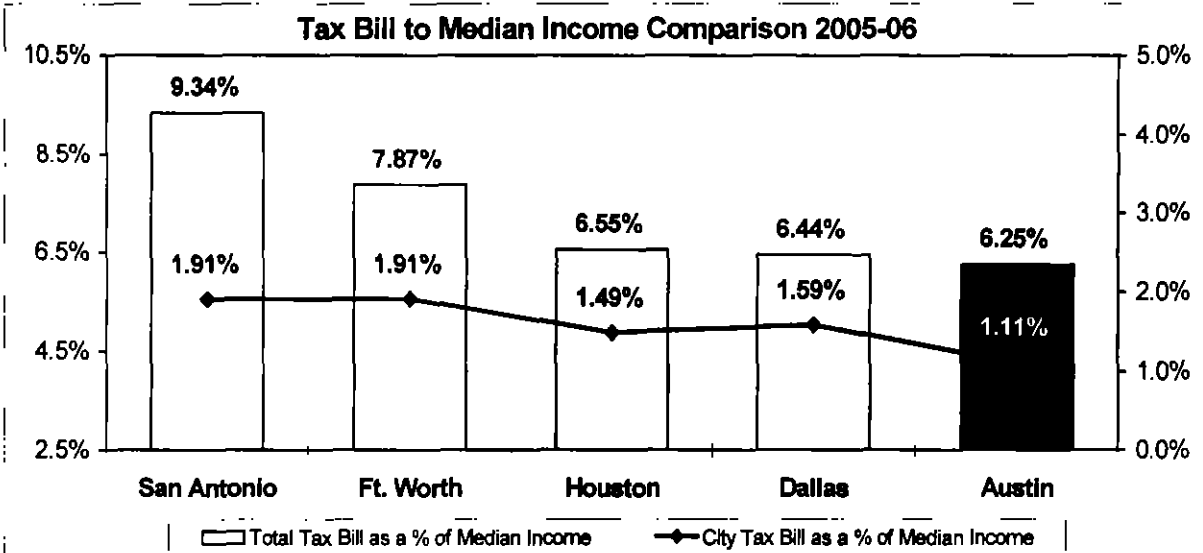


2005-06 Overlapping Property Tax Bill % of Median Income

Jurisdiction	San Antonio	Percent	Ft. Worth	Percent	Houston	Percent	Dallas	Percent	Austin	Percent
City	\$1,012	1.91%	\$1,211	1.91%	\$907	1.49%	\$1,038	1.59%	\$775	1.11%
County	\$557	1.05%	\$477	0.75%	\$560	0.92%	\$299	0.46%	\$699	1.00%
Hospital	\$427	0.80%	\$412	0.65%	\$269	0.44%	\$356	0.54%	\$109	0.16%
School	\$2,755	5.19%	\$2,646	4.17%	\$2,025	3.33%	\$2,406	3.67%	\$2,597	3.73%
Special District ⁽¹⁾	\$209	0.39%	\$244	0.38%	\$227	0.37%	\$122	0.19%	\$168	0.24%
Total Tax Bill ⁽²⁾	\$4,961	9.34%	\$4,990	7.87%	\$3,987	6.55%	\$4,221	6.44%	\$4,349	6.25%

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

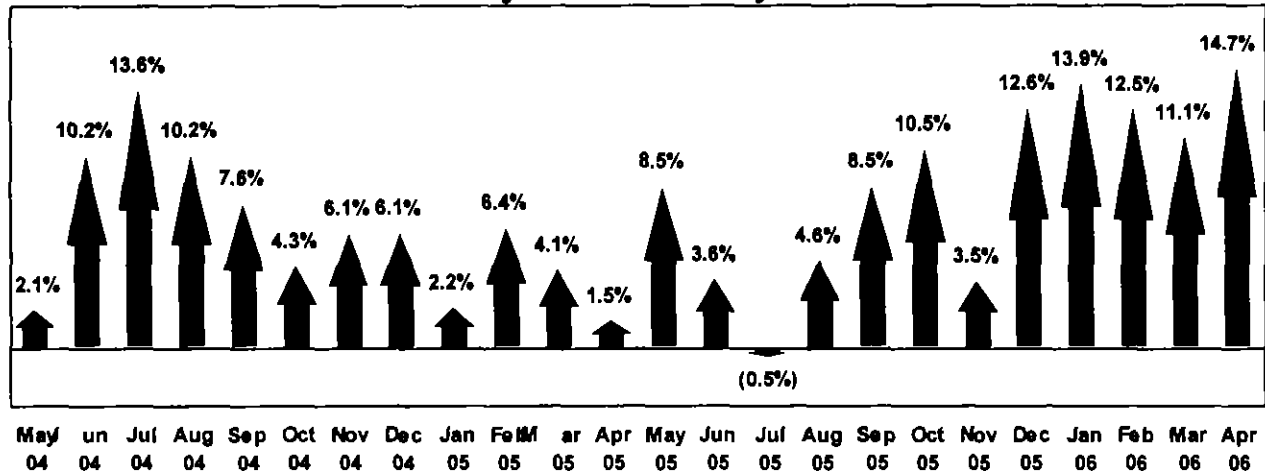
(2) Tax bills are based on a \$175,000 home with each taxing jurisdiction's tax exemption applied.



SALES TAX

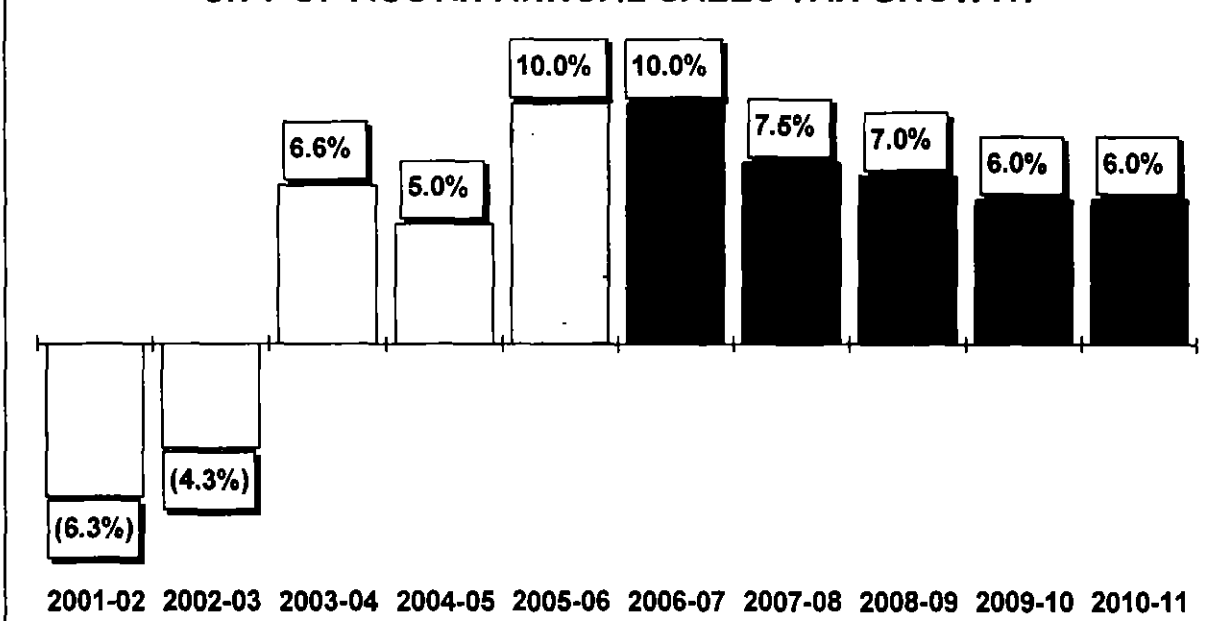
Sales Tax revenue accounts for approximately 28.8% of total General Fund revenue. Sales tax revenue has exhibited a strong growth trend over the last eight months:

Actual Monthly Sales Tax Payment Growth



The 2005-06 sales tax is projected to experience a year strong growth following two years of recovery. Based on the updated local economic outlook of continuing job and income growth, the forecast projects a moderately strong increase in sales tax revenue averaging 7.3% per year.

CITY OF AUSTIN ANNUAL SALES TAX GROWTH



Annual sales tax growth for fiscal years 2002 – 2005 are actual collections. For FY 2006 the estimated growth is 10%, which is 4% above the original budget, and FY 2007 – 2011 are the forecast years.

Fund Projections

OTHER REVENUE

Utility transfer revenue accounts for approximately 21.4% of total General Fund revenue. The forecast revenue is based on maintaining the current utility transfer rates which are consistent with the City's financial policies:

Electric Utility	9.1%
Water Utility	8.2%

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

EXPENDITURES SUMMARY

Projections show that while revenue will to grow at a steady pace, cost drivers over the forecast period continue to exceed that growth. Public safety continues to be the largest driver by far, followed by various other factors such as insurance increases, pay for performance for the non-uniformed work force and the annualized cost of market adjustments implemented in the current year. Additional cost drivers include the impact of new facilities, the conversion of long term temporary positions to regular positions and a market study program beginning in FY 2008.

Basic Assumptions FY 2007 thru FY 2011

Base Budget

- Maintain funding to meet current service levels
 - Public Health & Social Services
 - Parks Programs & Library Services

Cost Drivers

- Maintain 2.0 Police Officers per 1,000 population
- Maintain Fire Enhanced Task Force Staffing
- Fund Public Safety Contracts
- O&M for new/expanded facilities

Investment in the Workforce

- Pay for Performance of 3.5%
 - "Exceeds" of 1.5 % added to base salary
- Market Adjustments
 - FY 07 Annualized cost of current market studies
 - Market study program beginning in FY 08
- Service Incentive Enhancement
- Health insurance increase of 10% each year
- Additional 1% retirement contribution
- Funds the conversion of long-term temporary positions to regular status
- Continues the Awards and Recognition Program

General Fund Projections

General Fund Financial Forecast

Major Cost Drivers

(\$ millions)

	2007	2008	2009	2010	2011
Public Safety	\$24.0	\$24.1	\$26.9	\$28.3	\$30.4
Health Insurance	\$3.3	\$3.6	\$3.9	\$4.3	\$4.9
PFP - non-uniform	\$3.3	\$3.4	\$3.5	\$3.6	\$3.8
New Facilities O&M (non-public safety)	\$0.9	\$1.3	\$3.0	\$2.6	\$0.2
<i>Subtotal Major Cost Driver Increases</i>	\$31.5	\$32.4	\$37.4	\$38.9	\$39.2
<i>Other Estimated Cost Increases</i>	\$8.8	\$4.3	\$3.1	\$7.3	\$7.4
Total Estimated Cost Increases	\$40.3	\$36.7	\$40.5	\$46.2	\$46.7

General Fund Projections

New / Expanded Facilities' Annual Operations and Maintenance Costs (\$ millions)						
	2007	2008	2009	2010	2011	Forecast Period Cumulative
EMS Stations						
Circle C	\$0.4	\$0.0	\$0.0	\$0.0	\$0.0	\$0.4
Del Valle	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.2
Avery Ranch	\$0.0	\$0.0	\$1.1	(\$0.0)	\$0.0	\$1.1
Total EMS Stations	\$0.6	\$0.0	\$1.1	(\$0.0)	\$0.0	\$1.7
Fire Stations						
Spicewood Springs	\$0.3	\$0.0	\$0.0	\$0.0	\$0.0	\$0.3
Avery Ranch	\$0.0	\$0.0	\$1.2	\$0.0	\$0.0	\$1.2
Total Fire Stations	\$0.3	\$0.0	\$1.2	\$0.0	\$0.0	\$1.4
Total Public Safety	\$0.8	\$0.0	\$2.3	(\$0.0)	\$0.0	\$3.1
Libraries						
Spicewood Springs Expansion	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.1
North Village Expansion	\$0.0	\$0.0	\$0.1	\$0.0	\$0.0	\$0.1
Twin Oaks Expansion	\$0.0	\$0.0	\$0.1	\$0.0	\$0.0	\$0.1
Total Libraries	\$0.1	\$0.0	\$0.2	\$0.0	\$0.0	\$0.3
Parks & Recreation						
New Facilities:						
Mexican American Cultural Center	\$0.4	\$0.2	\$0.0	\$0.0	\$0.0	\$0.6
Gus Garcia Recreation Center	\$0.0	\$0.4	\$0.0	\$0.0	\$0.0	\$0.4
Turner Roberts Recreation Ctr (Colony)	\$0.1	\$0.3	\$0.0	\$0.0	\$0.0	\$0.4
Subtotal New Facilities	\$0.4	\$0.9	\$0.0	\$0.0	\$0.0	\$1.4
New Parks:						
Town Lake Park	\$0.3	\$0.3	\$0.0	\$0.0	\$0.0	\$0.6
Colorado River Park	\$0.0	\$0.1	\$0.2	\$0.0	\$0.0	\$0.3
Subtotal New Parks	\$0.3	\$0.4	\$0.2	\$0.0	\$0.0	\$0.8
Total PARD Facilities	\$0.8	\$1.3	\$0.2	\$0.0	\$0.0	\$2.2
Total Other Facilities	\$0.9	\$1.3	\$0.4	\$0.0	\$0.0	\$2.5
Projected Bond Election Impact	\$0.0	\$0.0	\$2.6	\$2.6	\$0.2	\$5.5
Total City-Wide	\$1.7	\$1.3	\$5.3	\$2.6	\$0.2	\$11.1

General Fund Projections

General Fund Financial Forecast Summary (millions)

	2006 Amended	2006 Estimate	2007	2008	2009	2010	2011
Revenue	481.6	489.7	519.7	549.8	580.7	616.7	646.1
Base Budget - Prior Fiscal Year	450.4	450.4	481.6	519.7	549.8	580.7	616.7
Cost Drivers	31.1	32.0	40.3	36.7	40.5	46.2	46.7
Total Projected Expenditures	481.6	482.5	521.8	556.4	590.3	626.9	663.4
Excess / Deficit	0.0	7.3	(2.2)	(6.7)	(9.6)	(10.2)	(17.3)

General Fund Projections

BUDGET STABILIZATION RESERVE

As approved by Council in FY 2006, the financial policies established the Budget Stabilization Reserve Fund. The purpose is to account for and receive any excess revenue received and any appropriations that are unspent in any given fiscal year. Up to one third of the reserve may be appropriated to fund capital or other one-time costs, while the other two-thirds are reserved for budget stabilization in future years.

Budget Stabilization Reserve Fund

(millions)

	2006 Estimate	2007	2008	2009	2010	2011
Beginning Balance	52.7	40.8	27.2	18.2	12.1	8.1
Transfer In from General Fund Excess Fund Balance	5.8	0.0	0.0	0.0	0.0	0.0
Total Available	58.5	40.8	27.2	18.2	12.1	8.1
Transfer Out to General Fund One-Time Costs	17.7	13.6	9.1	6.1	4.0	2.7
Ending Balance	40.8	27.2	18.2	12.1	8.1	5.4

AUSTIN CONVENTION CENTER

The Austin Convention Center operates a downtown Convention Center with 246,097 square feet of exhibit halls, and the Palmer Events Center on Town Lake, a 131,000 square foot multi-use events center. The Convention Center also operates two parking garages.

REVENUE

Hotel/Motel Occupancy Tax collections represent 58% of total combined Convention Center revenue forecasted for FY 2007. Rental car tax collections account for 12%, while facility revenue accounts for 16%.

Below are revenue assumptions included in the FY 2007-11 Financial Forecast:

- FY 2006 Hotel/Motel tax revenue is projected to be \$2.5 million above the budgeted revenue of \$21.5 million, or 11.5% higher
- FY 2007 Hotel/Motel tax revenue is based on 2.5% growth above the FY 2006 estimate; FY 2008 growth is 4%; FY 2009 – FY 2011 growth is 3.5%
- FY 2006 year to date Rental Car Tax Revenue is up 25% compared to the same period in FY 2005
- FY 2007 Rental Car Tax Revenue is projected to grow at 5% with the remaining years at 3% growth
- Facility and parking revenue is projected to increase 3% in FY 2007, 7.5% in FY 2008, and 3% for each of the remaining years

EXPENDITURES

Event operations at the Convention Center and Palmer Events Center, such as staffing, utilities, facility maintenance, and Information Technology-related training and maintenance costs comprise 43% of the department's expenditures. Debt service expenses account for 36% of all expenditures.

Below are expenditure assumptions included in the FY 2007-11 Financial Forecast:

- Funding to continue the effort of promoting increased job knowledge and skills through cross-training efforts
- Three additional personnel will be hired over the 2007-08 fiscal years in order to facilitate the technological needs of the clientele
- Each year includes a 3.8% increase in employee salaries, 10% increase in health insurance costs and a 1% increase in city retirement contributions
- Reductions in one-time expenses such as \$1 million in costs associated with the World Congress on Information Technology (WCIT) and \$1 million in reduced debt service payments due to a previous bond refunding
- Investment in technology infrastructure so Austin Convention Center can maintain its leadership role in the industry

Enterprise Fund Projections**Austin Convention Center Department Five Year Forecast**

(millions)

	Amended 2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
BEGINNING BALANCE - Conv. Ctr., Venue Fund, Town Lake Park Venue, Palmer Events Ctr. (PEC) & PEC Garage	11.1	14.7	16.2	16.9	15.7	15.2
TOTAL AVAILABLE FUNDS	38.3	42.0	43.8	45.3	46.7	48.3
TOTAL OPERATING REQUIREMENTS	38.6	38.8	41.3	44.4	45.4	47.1
TOTAL TRANSFERS OUT	1.1	0.2	0.2	0.2	0.2	0.3
TOTAL OTHER REQUIREMENTS	1.6	1.6	1.7	1.8	1.6	1.6
TOTAL REQUIREMENTS	41.3	40.6	43.2	46.5	47.2	49.0
EXCESS (DEFICIENCY) OF TOTAL AVAILABLE FUNDS OVER TOTAL REQUIREMENTS	(3.0)	1.5	0.7	(1.2)	(0.5)	(0.8)
ENDING BALANCE	8.2	16.2	16.9	15.7	15.2	14.4
FTEs	203.00	205.00	206.00	206.00	206.00	206.00

AUSTIN ENERGY

Austin Energy is the City of Austin's municipally owned and operated electric utility that provides retail and wholesale electric service to customers in Travis and Williamson counties. The service territory includes 206.41 square miles within the city of Austin and 230.65 square miles outside Austin city limits in Travis and Williamson counties.

REVENUE

Austin Energy receives revenue from the provision of electric service to customers in the service territory. There are two main components of that revenue – base revenue and revenue recovered in the fuel rate. Base revenue is a function of number of customers/bills, usage levels (MWh) and price. Power factor revenue is new and will be included in the base revenue beginning FY 2009. This new requirement stems from a standard set by the Electric Reliability Council of Texas regarding the efficient use of electrical power. Fuel revenue collected through the Fuel Adjustment Clause is a pass through of cost to customers and includes no profit for the utility.

Below are revenue assumptions included in the FY 2007-11 Financial Forecast:

- Approximately \$9 million of new power factor revenue is projected in FY 2009 and \$18 million in FY 2010
- The forecast projects 2.3% annual growth in the number of customers and 1.75% annual growth in base revenue (without a rate increase)
- No increase in fuel charge is projected
- It is projected that a base rate increase will be needed in 2010

EXPENDITURES

Projections show that while revenue growth is steady, cost drivers in the forecast continue to exceed that growth. Operations and maintenance costs, such as fuel for power plants, transmission and distribution systems, customer service and billing and conservation program costs comprise 67% of total department expenditures. The other major components are Debt Service, 15%; General Fund transfer, 8%; and Capital Improvements program, 7%.

Below are expenditure assumptions included in the FY 2007-11 Financial Forecast:

- Total non-fuel requirements are projected to increase by 17% by FY 2011
- Debt service is expected to increase by 8.7% over the five years due to the estimated five year Capital Improvements Spending program of \$823 million
- The General Fund Transfer will remain at the 9.1%, the upper limit established by Council

Enterprise Fund Projections**Austin Energy Department Five Year Forecast**

(millions)

	Amended 2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
BEGINNING BALANCE	137.5	132.0	113.3	97.1	62.5	71.9
REVENUE	945.7	1,091.7	1,099.2	1,124.0	1,212.6	1,226.6
TRANSFERS IN	7.5	2.0	1.0	0.0	0.0	0.0
TOTAL AVAILABLE FUNDS	953.2	1,093.7	1,100.2	1,124.0	1,212.6	1,226.6
TOTAL OPERATING REQUIREMENTS	596.6	747.0	757.7	775.5	803.3	814.5
TOTAL TRANSFERS OUT	342.6	350.4	343.4	360.6	382.8	391.3
TOTAL OTHER REQUIREMENTS	13.9	14.2	14.6	15.0	15.3	15.7
TOTAL REQUIREMENTS	953.1	1,111.6	1,115.7	1,151.0	1,201.4	1,221.5
EXCESS (DEFICIENCY) OF TOTAL AVAILABLE FUNDS OVER TOTAL REQUIREMENTS	0.1	(17.9)	(15.5)	(27.0)	11.2	5.1
ENDING BALANCE	137.6	114.1	97.8	70.1	73.7	77.0
FTEs	1,560.50	1,560.50	1,560.50	1,560.50	1,560.50	1,560.50

AUSTIN WATER UTILITY

The purpose of the Austin Water Utility is to effectively manage water resources for the community in order to protect the public health and environment.

REVENUE

The Austin Water Utility provides water and wastewater service to over 190,000 customers within Austin and the surrounding areas. Revenue from the sale of water and wastewater service total over \$300 million annually. Non-rate revenue includes miscellaneous fees and charges and interest income.

Below are revenue assumptions included in the FY 2007-11 Financial Forecast:

- Projected combined rate increases total 26.3% over the forecast period
- Revenue from the sale of water and wastewater service will increase 43.6% over the forecast period from growth and forecasted rate increases
- There are no new fees for utility services
- Over the 5-year financial forecast period, the Utility is projecting a 1.8% average annual growth in base service revenue for all rate classes for both water and wastewater systems
- It is projected that non-rate revenue will increase by \$1.0 million or 15.9% over the forecast period

EXPENDITURES

The major cost drivers of the Utility are related to required capital improvements, on-going debt service, and operations & maintenance expenses. Significant capital improvements are forecasted for growth in the system and replacing aging infrastructure. Approximately 41% of total operating revenue each fiscal year is required for paying principal and interest due on debt. Finally, projected increases in water pumpage and wastewater flows, addition of new facilities, annexations, costs associated with health insurance, pay for performance, power, chemicals and overall inflationary increases in operating costs are increasing combined utility system operations & maintenance costs.

Below are expenditure assumptions included in the FY 2007-11 Financial Forecast:

- Operating requirements are projected to increase by \$37.1 million or 27.8% over the 5-year forecast
- \$14.1 million increase in operating requirements is projected for FY 2007
- New capital spending of \$920.2 million is required during the forecast period
- Annual debt service payments are projected to increase by \$55.3 million or 46.7% over the forecast period

Enterprise Fund Projections

Austin Water Utility Department Five Year Forecast
(millions)

	Amended 2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
BEGINNING BALANCE	14.7	38.7	26.3	26.7	27.2	27.7
REVENUE	294.7	321.2	351.8	381.2	412.4	421.4
TRANSFERS IN	15.4	8.8	12.4	9.6	9.8	10.1
TOTAL AVAILABLE FUNDS	310.1	330.0	364.2	390.8	422.3	431.4
TOTAL OPERATING REQUIREMENTS	122.0	133.0	138.8	142.9	148.2	153.3
TOTAL OTHER REQUIREMENTS	11.7	14.8	14.0	15.7	16.6	17.5
TOTAL DEBT SERVICE	118.4	142.2	153.6	164.5	173.0	173.7
TOTAL TRANSFERS OUT	46.1	52.4	57.4	67.2	83.9	86.4
TOTAL REQUIREMENTS	298.2	342.4	363.8	390.3	421.7	430.9
EXCESS (DEFICIENCY) OF TOTAL AVAILABLE FUNDS OVER TOTAL REQUIREMENTS	11.9	(12.4)	0.4	0.5	0.5	0.5
ENDING BALANCE	26.6	26.3	26.7	27.2	27.7	28.2
FTEs	1033.00	1036.00	1041.00	1041.00	1041.00	1041.00
Combined Rate Increases	5.2%	7.1%	7.2%	6.0%	6.0%	0.0%

AVIATION DEPARTMENT

The mission of the Aviation Department is to provide quality airport facilities and services by focusing on our customers' needs, our employees' work environment, continuously improving our operations, and preparing for the future.

REVENUE

Airline revenue, comprised of landing fees, terminal fees, and other direct airline service fees, accounts for 44% of total Airport operating revenue. Over half of the Aviation Department's operating revenue is comprised of non-airline revenue such as parking, concessions, rentals and other fees.

Below are revenue assumptions included in the FY 2007-11 Financial Forecast:

- FY 2006 passenger enplanement growth is projected to be 6%, which is 3% higher than the original budgeted increase
- FY 2007 — FY 2011 enplanement growth is expected to be 2.8% each year, which is based upon anticipated population growth for the region
- Non-airline revenue is forecasted to increase by 13.8% in FY 2007 and level off at an average of 3.1% increase for each of the remaining four years of the forecast

EXPENDITURES

Operating and maintenance expenses, such as Facilities Management, Security and Operations, Planning and Development, and Support Services, comprise 69% of the department's expenditures. Debt service is the next largest component; it accounts for 25% of all expenditures.

Below are expenditure assumptions included in the FY 2007-11 Financial Forecast:

- For FY 2007, Operating and Maintenance expenses are projected to increase 7.2% due to increases in personnel costs
- In FY 2007, funding to add six custodial services positions and to convert six temporary security and ground transportation controller positions to regular status, in compliance with Transportation Security Administration (TSA) regulations
- For FY 2008-11, annual Operating and Maintenance increases are 5%

Enterprise Fund Projections**Aviation Department Five Year Forecast**
(millions)

	Amended 2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
BEGINNING BALANCE	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL REVENUE	68.6	74.7	76.9	79.7	82.3	85.1
TOTAL TRANSFERS IN	7.1	7.4	7.5	7.5	7.5	7.5
TOTAL AVAILABLE FUNDS	75.7	82.1	84.5	87.2	89.8	92.5
TOTAL OPERATING REQUIREMENTS	45.7	49.0	51.4	54.0	56.7	59.5
TOTAL TRANSFERS OUT	17.7	18.6	18.4	18.3	18.3	18.3
TOTAL OTHER REQUIREMENTS	3.8	3.7	4.1	4.4	4.6	4.9
TOTAL REQUIREMENTS	67.1	71.3	73.9	76.7	79.6	82.7
EXCESS (DEFICIENCY) OF TOTAL AVAILABLE FUNDS OVER TOTAL REQUIREMENTS	8.5	10.8	10.6	10.5	10.2	9.8
Contribution To Capital Fund	8.5	10.8	10.6	10.5	10.2	9.8
ENDING BALANCE	0.0	0.0	0.0	0.0	0.0	0.0
FTEs	328.00	340.00	340.00	340.00	340.00	340.00

SOLID WASTE SERVICES

Solid Waste Services (SWS) provides recycling, refuse collection, yard trimmings collection, brush and bulky trash collection and street sweeping, along with operating a household hazardous waste facility, material recovery facility, landfill for construction and demolition debris, and dead animal collection services. SWS also monitors and responds to zoning, housing and environmental code ordinances, and violations.

REVENUE

Residential Pay-As-You-Throw (PAYT) and Anti-Litter fees account for approximately 92% of the SWS operating revenue.

Below are revenue assumptions included in the FY 2007-11 Financial Forecast:

- Projections show that the fund's ending balance will decline in the early forecast years, a rate increase may be needed in FY 2009;
- PAYT revenue and Anti-Litter revenue are projected to increase approximately 4% annually throughout the forecast period.

EXPENDITURES

Program expenditures, such as PAYT, Anti-Litter, and Code Compliance, make up 78% of total expenditures. Transfers and Other Requirements make up the remaining 22% expenditures.

Below are expenditure assumptions included in the FY 2007-11 Financial Forecast:

- The forecast assumes implementation of Single Stream Recycling and closure of FM 812 Landfill;
- Each year in the forecast includes 3.8% for employee salary increases, 10% for health insurance, and 1% in city retirement contributions;
- New annexations will increase the customer base in the forecast period, and the purchase of additional carts and bins for these customers will cost a total of \$1.2 million;
- Over the forecast period, there will be a net increase of 2 FTEs for growth related to PAYT and Single Stream.

Enterprise Fund Projections

Solid Waste Services Department Five Year Forecast (millions)

	Amended					
	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
BEGINNING BALANCE	10.8	12.7	8.7	5.2	0.8	(2.8)
TOTAL AVAILABLE FUNDS	44.4	48.7	50.6	52.6	56.2	59.9
TOTAL OPERATING REQUIREMENTS	39.2	39.1	39.9	41.4	43.7	46.2
TOTAL TRANSFERS OUT	6.5	8.0	8.7	10.0	10.1	10.2
TOTAL OTHER REQUIREMENTS	4.8	5.5	5.6	5.6	5.9	6.2
TOTAL REQUIREMENTS	50.6	52.7	54.2	57.0	59.8	62.6
EXCESS (DEFICIENCY) OF TOTAL AVAILABLE FUNDS OVER TOTAL REQUIREMENTS	(6.2)	(4.0)	(3.6)	(4.4)	(3.6)	(2.7)
ENDING BALANCE						
Restricted for SWS Facilities	3.3	3.3	3.3	3.4	3.6	3.9
Unrestricted Ending Balance	1.4	5.5	1.8	(2.7)	(6.4)	(9.4)
ENDING BALANCE	4.6	8.7	5.2	0.8	(2.8)	(5.5)
FTEs	413.00	419.00	412.00	415.00	415.00	415.00
SWS FEES						
PAYT						
Residential	\$ 7	\$ 7	\$ 7	\$ 7	\$ 7	\$ 7
Commercial	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25
ANTI-LITTER						
Residential	\$ 2.60	\$ 2.60	\$ 2.60	\$ 2.60	\$ 2.60	\$ 2.60
Commercial	\$ 4.55	\$ 4.55	\$ 4.55	\$ 4.55	\$ 4.55	\$ 4.55

WATERSHED PROTECTION AND DEVELOPMENT REVIEW—DRAINAGE UTILITY FUND

The purpose of the Watershed Protection and Development Review Department is to efficiently and effectively protect lives, property, and the environment by providing comprehensive development review and inspection services and reducing the impact of flooding, erosion, and water pollution.

The Watershed Protection and Development Review Department is funded by both the General Fund and the Drainage Utility Fund, which receives most of its revenue from commercial and residential drainage utility fees. The General Fund provides development review and inspections services, while the Drainage Utility Fund addresses flood control, erosion control and water quality protection.

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 plan and phased fee increases intended to provide funding to meet the Drainage Utility's Watershed Protection Master Plan for infrastructure and system improvements. The FY 2006 Approved Budget included the fifth and final fee increase capping residential fees at \$7.15 and commercial fees at \$176.66.

Below are revenue assumptions included in the FY 2007-11 Financial Forecast:

- The Drainage Fee rate will not change
- FY 2007 combined Drainage Fee revenue is based on residential and commercial customer growth of around 2.5 percent per year
- Development fees associated with environmental reviews and permits is projected to increase at 2 percent annually

EXPENDITURES

The forecast continues funding of the Master Plan recommended Capital Improvement Program (CIP) projects. In FY 2007, the utility transfer to the CIP is projected to remain at the FY 2006 level of \$16.6 million, which comprises 30.7 percent of the department's forecast expenditures. The Infrastructure and Waterway Maintenance program is the next largest component of the Drainage Utility Fund's expenditures. The program provides maintenance services to the

City's drainage infrastructure, repairs erosion damage, and improves the quality of stormwater. Expenditures for the Infrastructure and Waterway Maintenance account for 17.9 percent of all the Drainage Utility Fund's expenditures.

Below are expenditure assumptions included in the FY 2007-11 Financial Forecast:

Enterprise Fund Projections

- Fund priority projects that integrate the Department's three missions as well as projects providing localized flood control, erosion mitigation, creek flood control and water quality improvements
- Increase funding for Urban Watershed Ordinance Local Control Structural Matching Funds associated with the high level of redevelopment activity in the Urban Watersheds
- Invest in equipment replacement, preliminary engineering and design for future projects, and drainage infrastructure and floodplain GIS mapping
- Increase funding for the Water Quality Education Program to expand the program to reach all AISD fifth graders
- Include personnel related increases of 3.8 percent for pay for performance, 10 percent for insurance, and 1 percent each year for retirement contributions

Enterprise Fund Projections

Drainage Utility Fund Five Year Forecast

(millions)

	Amended 2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
BEGINNING BALANCE	5.7	6.1	5.0	4.4	4.7	5.0
TOTAL REVENUE	49.6	52.5	53.5	54.3	54.7	55.8
TRANSFER IN FROM GENERAL FUND	0.3	0.3	0.3	0.3	0.3	0.3
TOTAL AVAILABLE FUNDS	49.9	52.8	53.8	54.6	55.0	56.1
TOTAL OPERATING REQUIREMENTS	27.1	28.3	29.0	29.5	29.6	29.6
TOTAL TRANSFERS OUT	19.2	19.4	18.4	17.5	17.5	18.6
TOTAL OTHER REQUIREMENTS	5.9	6.2	6.9	7.3	7.6	8.0
TOTAL REQUIREMENTS	52.2	53.9	54.3	54.3	54.7	56.2
EXCESS (DEFICIENCY) OF TOTAL AVAILABLE FUNDS OVER TOTAL REQUIREMENTS	(2.3)	(1.1)	(0.5)	0.3	0.3	(0.1)
ENDING BALANCE	3.4	5.0	4.4	4.7	5.0	4.9
FTEs	288.50	287.50	287.50	287.50	287.50	287.50
Drainage Utility Fee						
Residential	7.15	7.15	7.15	7.15	7.15	7.15
Commercial	176.66	176.66	176.66	176.66	176.66	176.66

