



M E M O R A N D U M

TO: Mayor and City Council

FROM: Ed Van Eenoo, Deputy Chief Financial Officer *EV*

DATE: November 14, 2016

SUBJECT: Update on Council Resolution 20160211-015 – Analysis of Potential AISD Service Transfer

Last May, the City Council passed Resolution 20160512-019, which, in response to an earlier memo from the City Manager and report from staff pertaining to a potential transfer of services between the City and the Austin Independent School District (AISD), stated that although the City Manager had identified challenges associated with the potential transfer of services, he had not “analyze[d] how such challenges might be addressed or mitigated” and directed him to “recommend ways in which the Council might best implement a transfer of services with AISD” including consideration of:

- “the impact on City of Austin and AISD budgets and tax rates”;
- “impact to different classes of taxpayers within those jurisdictions”;
- “providing for a way in which there is no detrimental financial impact, if possible, on those over 65 or disabled”;
- “the effect on the other school districts that are within the City and measures for equalizing and disparate impact on taxpayers who are within those districts”; and,
- “tax swap arrangements which both would and would not fall under State law that provides for corresponding adjustments to the effective tax rate under certain circumstances.”

The Resolution further directed that the City Manager “provide an opportunity for Council Members to be involved in this work.” In order to provide Council with opportunity, and to comply with the Resolution’s November 1 reporting deadline, staff scheduled a meeting at which all interested parties could review staff’s most recent analyses and findings and participate in a discussion with regard to a future course of action. This meeting, which was held on October 21st, was attended by the Mayor and several Councilmembers, representatives from a majority of Council offices, the City Manager, and three members of the AISD Board of Trustees, and was facilitated by financial and legal staff from the City and AISD. The materials distributed at this meeting are attached, including the original memo from the City Manager and staff report with respect to this issue.

Over the course of the meeting, staff received requests to analyze several additional prospective fiscal scenarios, to continue to think creatively about ways in which to mitigate the adverse impact to City taxpayers who do not reside with AISD’s jurisdiction, to continue to attempt to identify additional AISD programs that may be eligible for transfer to the City, to more thoroughly investigate the potential for outsourcing transfer-eligible AISD programs, and to provide a list of all programs initially submitted by AISD and reviewed by City legal staff for potential transfer eligibility. This list of programs is attached. Staff are currently engaged in complying with the remaining requests, which will be presented at a follow-up meeting on Friday, December 2 at 11:00 a.m. in the City Hall Boards & Commissions Room.

Attachments

- AISD Tax Swap Update Presentation from October 21, 2016
- Memorandum from Ed Van Eenoo dated April 1, 2016, Response to Council Resolution 20130211-015 - Analysis of Potential AISD Service Transfer
- Memorandum from City Manager Marc Ott dated April 1, 2016, AISD Tax Swap Analysis
- Tax Swap Decision Tree dated October 20, 2016
- List of AISD Programs Considered

Cc: Interim City Manager
Assistant City Managers
Chief of Staff
Interim Chief Financial Officer

Austin Independent School District & City of Austin Prospective Swap of Services and Tax Rate



Agenda

- Introductions (10 minutes)
- Review findings from initial analysis (20 minutes)
- Review finding from revised analysis (20 minutes)
- Review and discuss key issues identified by City Manager Ott (20 minutes)
- Review “decision tree”

Initial Council Resolution

Council Resolution 20160211-015 directed the City Manager to report back to Council on the exploration of potential transfer of services and associated tax rate swap.

Key Legal Parameters

- The activity being transferred to the City must fulfill a legitimate municipal purpose, as opposed to a school district purpose
- The transferring entity must discontinue operating the activity
- The City can only be “held harmless” with respect to its rollback tax rate for those costs funded by the transferring entity with local tax revenue in the previous 12 months

Eligible Programs – Performed by Contracts

GROUP 1: Contracts	Service Type	No. of FTEs	Total AISD Program Cost	AISD Local Tax Funding
GAATRS Radio System	Public Safety		706,678	706,678
Community In Schools	Social Service		866,000	645,000
Family Resource Center	Social Service		500,000	500,000
Austin Partners in Education (APIE)	Soc. Srvc./Ec. Dev.		500,000	500,000
Seedling	Social Service		393,740	393,740
African American Harvest Foundation	Soc. Srvc./Ec. Dev.		343,436	343,436
Austin Learning Academy	Soc. Srvc./Ec. Dev.		187,000	187,000
Safe Place	Social Service		90,675	90,675
Legacy of Giving	Social Service		45,000	45,000
Community Action Network	Social Service		30,000	30,000
Con Mi Madre	Social Service		21,000	21,000
Faith Presbyterian Church	Social Service		20,444	20,444
Student Certifications	Economic Dev.		15,000	15,000
Total			3,718,973	3,497,973

Eligible Programs – Performed by AISD Staff

GROUP 2: Programs Involving AISD Staff	Service Type	No. of FTEs	Total AISD Program Cost	AISD Local Tax Funding
Parent Support Specialists	Social Service	78	3,591,902	1,680,391
AVID	Economic Dev.	34	1,734,721	1,734,721
Graduation/Dropout Specialists	Social Service	17	1,075,931	1,075,931
Project Advance	Economic Dev.	12	815,252	815,252
School to Community Liaisons	Social Service	3	211,665	211,665
Total		144	7,429,472	5,517,962

GROUP 3: Campus Police	Service Type	No. of FTEs	Total AISD Program Cost	AISD Local Tax Funding
Security Officers Districtwide	Public Safety	107	8,963,275	8,963,275
Total		107	8,963,275	8,963,275

Initial Fiscal Analysis

KEY ASSUMPTION: All programs performed by AISD staff would be outsourced to a third party vendor at no additional cost prior to the tax swap.

RATIONALE

- City's labor costs are significantly higher (e.g. wages, retirement, workers compensation, health insurance)
- Avoids civil service and public safety labor negotiations issues
- Avoids challenges in regards to facility space and equipment
- More readily allows for transferred services to be returned to AISD should the school financing system improve

Initial Fiscal Analysis – Scenario 1 Results

Scenario 1: Elimination of ‘Copper Pennies’, Aggregate Taxpayer Savings of \$10.9 Million

Impact to Revenue, Budgets, and Typical Taxpayer

AISD Tax Revenue Impact	\$ (17,970,000)
AISD Budget Impact – Programs Transferred to the City	\$ (7,110,000)
AISD Tax Rate Impact	\$ (0.0190)
Tax Bill Impact to Typical Homeowner	\$ (42.75)
City of Austin Budget Impact	\$ 7,110,000
City of Austin Tax Rate Impact	\$ 0.0066
Tax Bill Impact to Typical Homeowner	\$ 15.53
Net Impact to Area Tax Revenue	\$ (10,860,000)
Tax Bill Impact to Typical Homeowner in COA and AISD	\$ (27.22)
Tax Bill Impact to Typical Homeowner in COA but not in AISD	\$ 15.53

Note: Seniors would pay higher taxes to the City but receive no AISD tax benefit due to the freeze on AISD tax bills for individuals over the age of 65.

Initial Fiscal Analysis – Scenario 2 Results

Scenario 2: Additional AISD Funding of \$10.9 Million, No Aggregate Taxpayer Savings

Impact to Revenue, Budgets, and Typical Taxpayer

AISD Tax Revenue Impact	\$ (17,970,000)
AISD Budget Impact – Programs Transferred to the City	\$ (17,970,000)
AISD Budget Impact – Funding Available for Other AISD Priorities	\$ 10,860,000
Net AISD Budget Impact	\$ (7,110,000)
AISD Tax Rate Impact	\$ (0.0190)
Tax Bill Impact to Typical Homeowner	\$ (42.75)
City of Austin Budget Impact	\$ 17,970,000
City of Austin Tax Rate Impact	\$ 0.0167
Tax Bill Impact to Typical Homeowner	\$ 39.25
Net Impact to Area Tax Revenue	\$ -
Tax Bill Impact to Typical Homeowner in COA and AISD	\$ (3.50)
Tax Bill Impact to Typical Homeowner in COA but not in AISD	\$ 39.25

Note: Seniors would pay higher taxes to the City but receive no AISD tax benefit due to the freeze on AISD tax bills for individuals over the age of 65.

Second Council Resolution

- Council Resolution 20160512-019 directed City Manager to “recommend ways in which Council might best implement a transfer of services with AISD” including consideration of:
 - “the impact on City of Austin and AISD budgets and tax rates”
 - “the impact to different classes of taxpayers within those jurisdictions”
 - “providing for a way in which there is no detrimental financial impact, if possible, on those over 65 or disabled”
 - “the effect on the other school districts that are within the City and measures for equalizing and disparate impact on taxpayers who are within those districts”

Revised Fiscal Analysis

KEY ASSUMPTION: All AISD staff would become City employees as part of the tax swap at a significantly higher cost.

RATIONALE

- AISD was not able to identify third party vendors that could provide the services eligible for transfer to the City
- AISD is not supportive of outsourcing several hundred AISD staff positions

COST IMPLICATIONS

- City Cost for civilian staff estimated at 46% higher
- City cost for sworn staff estimated at 63% higher
- Additional City costs for vehicles and equipment (i.e. computers) likely but not analyzed at this time

Revised Fiscal Analysis – Scenario 3 Results

Scenario 3: Transfer of All Eligible Services, Aggregate Taxpayer Impact of \$8.9 Million

Impact to Revenue, Budgets, and Typical Taxpayer

AISD Tax Revenue Impact	\$ (18,747,555)
AISD Budget Impact – Programs Transferred to the City	\$ (17,414,869)
AISD Uncommitted Budget	\$ 9,963,335
AISD Tax Rate Impact	\$ (0.0190)
Tax Bill Impact to Typical Homeowner	\$ (48.21)
Tax Bill Impact to Typical Senior/Disabled Homeowner	\$ 0
City of Austin Budget Impact	\$ 27,640,872
<i>Costs not recoverable under effective rate calculation</i>	\$ 10,226,003
City of Austin Tax Rate Impact	\$ 0.0227
Tax Bill Impact to Typical Homeowner	\$ 58.14
Tax Bill Impact to Typical Senior/Disabled Homeowner	\$ 37.73
Net Impact to Area Tax Revenue	\$ 8,893,317
Tax Bill Impact to Typical Homeowner in COA and AISD	\$ 9.93
Tax Bill Impact to Typical Homeowner in COA but not in AISD	\$ 58.14
Tax Bill Impact to Typical COA Senior/Disabled Homeowner	\$ 37.73

Note: Seniors would pay higher taxes to the City but receive no AISD tax benefit due to the freeze on AISD tax bills for individuals over the age of 65.

Revised Fiscal Analysis – Scenario 4 Results

Scenario 4: Transfer of All Eligible Contracts and Non-Public Safety Programming,

Aggregate Taxpayer Savings of \$5.7 Million

Impact to Revenue, Budgets, and Typical Taxpayer

AISD Tax Revenue Impact	\$ (18,747,555)
AISD Budget Impact – Programs Transferred to the City	\$ (8,455,174)
AISD Uncommitted Budget	\$ 1,003,640
AISD Tax Rate Impact	\$ (0.0190)
Tax Bill Impact to Typical Homeowner	\$ (48.21)
Tax Bill Impact to Typical Senior/Disabled Homeowner	\$ 0
City of Austin Budget Impact	\$ 13,054,726
<i>Costs not recoverable under effective rate calculation</i>	\$ 4,599,553
<i>Revenue loss associated with \$6,000 increase in senior/disabled homestead exemption*</i>	\$ 970,124
<i>Total additional impact</i>	\$ 5,569,676
City of Austin Tax Rate Impact	\$ 0.0107
Tax Bill Impact to Typical Homeowner	\$ 27.46
Tax Bill Impact to Typical Senior/Disabled Homeowner*	\$ (9.33)
Net Impact to Area Tax Revenue	\$ (5,692,829)
Tax Bill Impact to Typical Homeowner in COA and AISD	\$ (20.75)
Tax Bill Impact to Typical Homeowner in COA but not in AISD	\$ 27.46
Tax Bill Impact to Typical COA Senior/Disabled Homeowner*	\$ (9.33)
Aggregate Impact to COA Senior/Disabled Homeowners*	\$ (36,887)

*Assumes \$6,000 increase in the senior/disabled homestead exemption

“Key Issues to be Resolved”

1. City taxpayers outside of AISD boundaries will pay more
 - No remedy has been identified
2. Senior homesteads would be negatively impacted
 - Can be remedied in the aggregate with an increase in the senior exemption but there will still be individual “winners” and “losers”
3. City of Austin civil service and labor issues & impact to AISD employees, particularly those near retirement
 - No remedy has been identified
4. Higher City labor costs
 - The revised fiscal analysis shows that it is still possible to create an aggregate net benefit for taxpayers even with higher costs

“Key Issues to be Resolved”

5. Higher costs (and the aforementioned increase in the senior exemption) will impact the City’s ability to fund other Council priorities or result in a higher tax rate (most likely in excess of the rollback rate)
 - No remedy has been identified
6. The City is only “held harmless” for program costs incurred by AISD in the previous year and will have to absorb future costs not included in the initial tax swap analysis (e.g. vehicle and equipment replacements)
 - No remedy has been identified
 - This will impact the City’s ability to fund other Council priorities

“Key Issues to be Resolved”

6. Increases the complexity of service delivery and the City lacks expertise in the program areas being transferred
 - No remedy has been identified
7. There will be a detrimental impact to the State recapture system (i.e. less funding will be transferred to “property poor” districts), which could result in legislative action
 - No remedy has been identified
8. Lack of community engagement
 - Community engagement would be conducted after the specifics of the proposal are further developed



Questions/Discussion





M E M O R A N D U M

TO: Mayor and City Council

FROM: Ed Van Eenoo, Deputy Chief Financial Officer *EV*

DATE: April 1, 2016

SUBJECT: Response to Council Resolution 20160211-015 – Analysis of Potential AISD Service Transfer

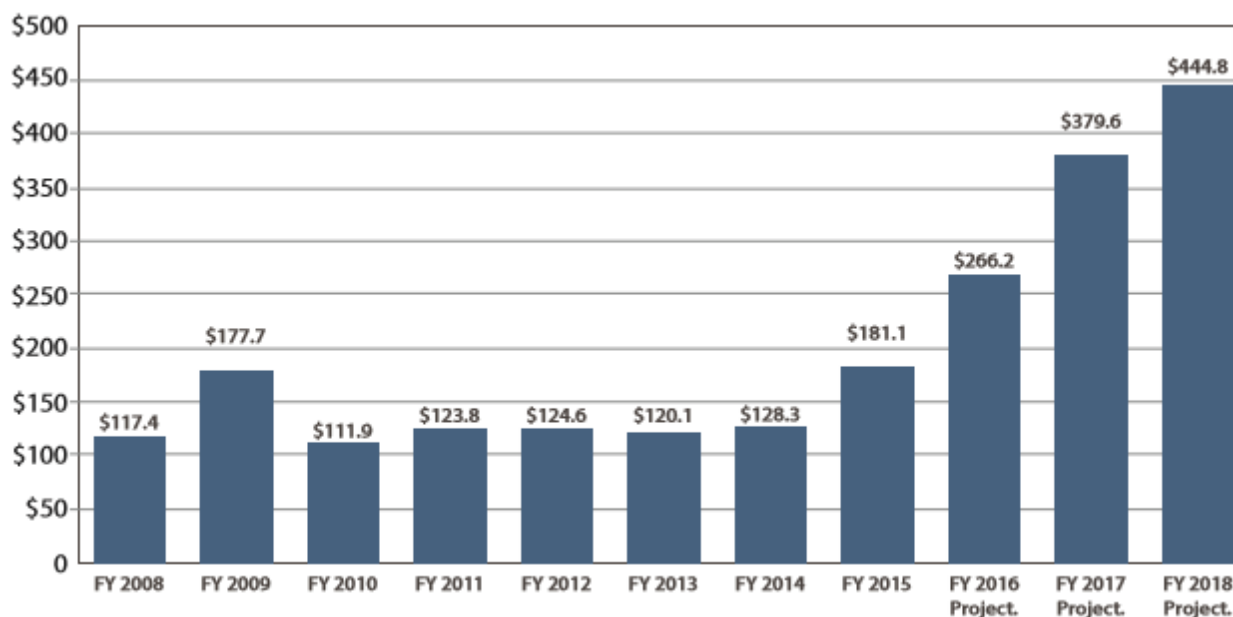
Council Resolution 20160211-015 directed the City Manager to explore a potential transfer of services from local school districts to the City of Austin as a means of better leveraging local tax dollars by avoiding recapture payments that otherwise would be required under the state's school financing model. The resolution included findings stating that a school district that partners with a municipality to exchange financial responsibility for certain programs could then, in turn, lower its tax rate and that a well-crafted plan may not increase overall spending or taxation for property owners who are paying school taxes that are subject to recapture. The resolution specifically called for scrutinizing the legal parameters of such a plan and conducting a comprehensive cost/benefit analysis. The resolution further called for staff to report back to Council no later than April 1, 2016. The primary subject of the analysis below is a potential transfer of services between the City and the Austin Independent School District.

STATE OF TEXAS RECAPTURE MODEL

Chapters 41 and 42 of the Texas Education Code establish a system of school financing whereby a portion of the property tax revenues collected in "property-rich" school districts is "recaptured" by the state for redistribution to "property-poor" districts. Among all Texas school

districts defined as property-rich under Chapter 41, the Austin Independent School District (AISD) is the single largest payer of recapture. In FY 2015, AISD's recapture payment to the state was \$181.1 million, roughly 12% of the state-wide total of \$1.5 billion collected that year. AISD's recapture payment for FY 2016 is projected to grow to \$266.2 million, which represents 23% of AISD's adopted General Fund budget. From FY 2002 to FY 2015, AISD sent the state more than \$1.8 billion in recapture payments. AISD projects that its recapture payments will grow to \$379.6 million in FY 2017 and \$444.8 million in FY 2018 commensurate with the projected continuation of rapidly rising property values.

Historical and Projected Future AISD Recapture Payments (millions)



HOW A SCHOOL DISTRICT'S PROPERTY TAX RATE AFFECTS RECAPTURE

The state uses two formulas in determining how much money each school district gets for maintenance and operations (M&O). The Tier 1 formula determines the amount of "entitlement" funding a district receives to meet the basic educational needs of its students. The Tier 2 formula determines the amount of "enrichment" funding that is available to a district.

State law places a statutory cap on a school district's M&O property tax rate of \$1.17 per \$100 of taxable value. For most school districts, including all Austin-area districts, the state defined "compressed tax rate" is set at \$1 per \$100 of taxable value. If the \$1 tax rate results in less revenue than a district's Tier 1 entitlement, then the state is required to make up the difference. On the other hand, if the \$1 tax rate results in more revenue than a districts Tier 1 entitlement, then the extra funds are subject to the state's recapture system. As previously stated, AISD is the single-largest payer of recapture in the state.

Tier 2 funding is determined by the amount that a district's property tax rate exceeds its compressed rate. The first six pennies levied by a school district above the compressed tax rate are often referred to as "golden" pennies as they are not subject to recapture by the state. The remaining eleven pennies, up to the statutory cap of \$1.17 per \$100 of taxable value, are referred to as "copper" pennies. Similar to a district's compressed tax rate, copper pennies are subject to recapture but at an even greater rate. The first four pennies above a district's compressed rate can be assessed without voter approval. Any tax rate beyond that level can only be assessed pursuant to voter approval.

AISD currently assesses a voter-approved M&O tax rate of \$1.079 per \$100 of taxable value. The last 1.9 pennies of that tax rate (i.e. the copper pennies) is projected to result in the collection of \$18 million in tax revenue from local tax payers in FY 2017. However, because AISD is categorized by the state as a property-rich district, only \$7.1 million of these funds are projected to be retained locally. The remaining \$10.9 million will be recaptured by the state and redistributed to property-poor districts.

RATIONALE FOR EXPLORING A TRANSFER OF SERVICES BETWEEN AISD AND THE CITY OF AUSTIN

Given the highly detrimental impact that the state recapture system has on the amount of AISD tax revenue that remains local, it may prove more cost-efficient from the perspective of local tax-payers if the City of Austin were to take on the funding and delivery of certain AISD programs. The fiscal analysis presented later in this report shows that the potential exists to lower tax bills for a majority of Austin taxpayers while simultaneously increasing the amount of tax revenue available to fund AISD programs. It is important to note that this concept only

holds true for the Austin Independent School District as it is the only school district with a jurisdictional boundary overlapping the City of Austin's that assesses copper pennies on its tax rate.

Another factor to consider prior to making a decision on this matter is the degree to which transferring service costs from AISD to the City will impede the City's ability to fund other community priorities. Texas Tax Code 26.01 (i)-(j) contain provisions related to the calculation of the effective M&O and rollback rates for a taxing unit that has agreed to accept the transfer of a department, function, or activity from another taxing unit. For such a taxing unit, the prior-year tax levy used to calculate the effective M&O rate for that taxing unit is increased by the amount of M&O tax revenue spent by the taxing unit that discontinued the department, function, or activity. This has the practical effect of increasing the effective M&O rate of the accepting taxing unit by an amount sufficient to pay for the level of expenses incurred in the prior year by the taxing entity giving up the department, function, or activity, and the accepting unit's rollback rate is increased proportionally as well. However, the key takeaway here is that if the City's costs of delivering a program that is transferred from AISD are higher than AISD's cost in the prior year, then those additional costs will count against the City's now-slightly-higher rollback level of tax revenue.

There are three important prerequisites to the City making use of this provision of the Tax Code. First, the department, function, or activity being transferred to the City must fulfill a legitimate municipal (i.e. city) purpose, as opposed to a school district purpose or some other non-municipal purpose. Second, the transferring entity, in this case AISD, must discontinue operating that distinct department, function, or activity. This second prerequisite means that the City cannot make use of this provision of the Tax Code by simply funding an AISD program that fulfills a municipal purpose. Instead, the City must fully take ownership of the program and AISD must fully discontinue the program. Finally, the City would be held harmless with respect to its effective M&O and rollback tax rates only for those costs that AISD currently funds with local tax revenue, and not for any services or portions thereof funded through other sources, such as grants or state matching funds.

SUMMARY OF AISD PROGRAMS ELIGIBLE FOR POTENTIAL TRANSFER TO THE CITY OF AUSTIN

Staff from the City's Law Department and Budget Office participated in several meetings with staff from AISD, the Mayor's Office, and state Senator Watson's Office to brainstorm a preliminary list of AISD programs that could potentially be transferred to the City. City legal and budget staff then conducted a further review of those programs to determine the fiscal and legal viability of the City taking over the delivery of those programs. That review resulted in the nineteen candidate programs for potential transfer listed in Attachment C.

The programs have been organized into three groups reflecting increasing degrees of difficulty to implement:

- Group 1 – Contracts

Programs in this group are delivered either via contractual agreements with outside vendors or by AISD staff on an "extra-duty pay" basis. Extra-duty pay is a source of additional income paid to AISD employees for duties performed outside of their primary work assignment. For instance as part of the Graduation/Dropout Specialists program, staff consisting primarily of AISD teachers work with at-risk students to remain in school through graduation. AISD employees working on an extra-duty basis also comprise the majority of employees of the School to Community Liaisons and Behavior Counselor programs. The transfer of these 3 programs to the City could be accomplished without displacing any AISD employees with respect to their primary duties, although it could affect the total annual income of these employees due to a reduction in extra-duty pay opportunities. The remaining 10 programs are contracts with outside vendors which the City could assume with no effect on AISD staff. In total, Group 1 includes thirteen programs with a total local tax funding budget of \$3.5 million.

- Group 2 – Programs Involving AISD Civilian Staff

The programs in this group involve 144 AISD civilian positions. Given that AISD would be required to stop performing these services in order for the City to be held harmless relative to its effective M&O and rollback tax rates, the transfer of these programs would result in the displacement of these employees. This group includes five programs with a total local tax funding budget of \$5.5 million. There are also significant fiscal,

human resource, and potentially logistical issues associated with the City taking ownership of these programs.

- Group 3 – Campus Police

The Campus Police program involves 107 AISD sworn and civilian positions with a local tax funding budget of \$9 million. Given that AISD would be required to stop performing these services in order for the City to be held harmless relative to its effective M&O and rollback tax rates, the transfer of these programs would result in the displacement of these employees. There are also significant legal, fiscal, human resource, operational, and potentially logistical issues associated with the City taking ownership of this program.

Combined, these nineteen programs equate to \$18 million of local tax payer funding. This amount is roughly equivalent to the projected tax revenue that will be collected in FY 2017 from the 1.9 copper pennies on AISDs tax rate that are most severely impacted by the state recapture model.

ADDITIONAL CONSIDERATIONS RELATED TO PROGRAMS INVOLVING AISD STAFF

As stated previously, in order for the transfer of a program from AISD to the City to be accomplished in a manner consistent with the provisions of Texas Tax Code 26.04 (i)-(j), the City must fully take ownership of the program and AISD must fully discontinue the program. The City could take ownership of programs in one of two ways:

- 1) By adding additional positions and ancillary expenses to its budget as needed to successfully deliver the transferred programs; or
- 2) Through AISD outsourcing the programs to be transferred to outside vendors and the City then incorporating the costs of these contracts into its budget.

Option 1 presents significant fiscal and human resource challenges to the City that are described in more detail below. As a result, staff views Option 2 as the more viable option and recommends that any programs transferred from AISD to the City first be outsourced prior to the transfer.

- Fiscal Barriers Associated with Using City Positions to Deliver Transferred AISD Programs:
- Retirement Costs – A significant portion of AISD’s contributions to its employees’ retirement system are paid by the state. AISD’s direct contributions are only 0.55% of base pay. The City’s contribution rates under are currently 18% of base pay for permanent civilian employees and 21% of base pay for sworn police officers.
 - Health Insurance Costs – AISD contributes \$5,602 per employee annually for employee health benefits. The City’s per employee contributions are significantly higher at \$7,050 per employee annually. Furthermore, AISD currently does not offer coverage to temporary employees. Beginning in 2016 the City extended medical coverage to temporary employees that have been with the City more than one year. If temporary employees currently employed with AISD transfer to the City of Austin and their length of service transfers to the City, we would extend coverage to AISD temporaries that have been employed with the school district for more than one year.
 - Temporary Employee Wages – With the adoption of the FY 2016 budget the City Council established a living wage policy of \$13.03 per hour. This wage applies to all City employees with the exception of seasonal positions such as summer lifeguards. The typical AISD pay for temporary employees ranges from \$8.00 to \$10.00 per hour.
 - Permanent Employee Wages – Any positions added to the City’s budget would become part of the City’s job classification and compensation system. AISD does conduct a market analysis, and can share this data with the City; however, though job titles may be the same, the duties that each individual is performing could vary significantly. If there are no comparable job positions in the City’s classification plan, these job positions would have to be created and evaluated for placement in the City’s paygrade structure. This could result in higher wage and benefit costs for the City to staff these positions than AISD is currently paying.
 - Facilities and Equipment – The City could incur additional costs associated with securing workspaces for transferred positions and for equipping these positions with the tools necessary to complete their job functions. To the extent it was deemed desirable to continue to conduct certain programs at AISD facilities, because provision of these

programs would become a City responsibility, it would be incumbent on the City to contract with AISD with respect to use of its facilities.

The key takeaway from these fiscal barriers is that the City would not be held harmless for additional costs relative to its effective M&O tax rate calculation. These additional costs would reduce tax revenue available to meet other Council priorities. Likewise, increased costs would erode the aggregate benefit to taxpayers as the City would need to assess a higher tax rate to balance its budget than if the programs were outsourced in amounts equivalent to existing AISD costs.

➤ Human Resource Barriers Associated with Using City Positions to Deliver Transferred AISD Programs:

- Municipal Civil Service – Under the Municipal Civil Service (MCS) rules, all open positions must be filled through a competitive process; however, the City has the ability to directly appoint employees to positions through an exception approved by the Commission (Rule 4, 4.04.B.2.g). To move AISD employees directly into positions, the City would need to seek this exception. Without prior approval of the MCS Commission, the City could not agree in advance that the current AISD employees would automatically be placed in the new job positions the City creates when it assumes these responsibilities. Absent that approval, the City would use a competitive hiring process in which applications for these jobs are publicly solicited in accordance with hiring procedures for existing City positions.
- Work Schedule – AISD support staff, as well as teachers, are considered full-time when working ten months out of the year while full-time status for City employees is designed around a twelve-month, 2,080-hour-per-year model. Incorporating the transfer of AISD staff would require either realigning the schedules and workload of AISD staff to correspond to the existing City model or creating a new and distinct ten-month, full-time status with the City's human resources structure to accommodate these transferred positions.

In short, any programs involving AISD staff that were transferred would have to be provided by newly created and far more costly City of Austin positions (Option 1). Hundreds of permanent AISD employees would be laid off, but would have the opportunity to apply for the new City positions although there could be no guarantee that they would be re-hired. Were certain current AISD employees to secure City of Austin positions through a competitive hiring process, they would then be incorporated into new retirement, health, and civil service systems, and would likely see their work schedules and many of their prior job functions altered. More detailed information with respect to the transfer of any specific program would require a much more detailed, lengthy, and in-depth analysis. This would require a significant commitment of staff time on the parts of both the City and AISD and it is unlikely that such an analysis could be completed prior to the beginning of AISD's fiscal year on July 1.

Alternatively, AISD could eliminate all positions associated with programs to be transferred and issue a request for proposal (RFP) from third-party vendors (Option 2). Once AISD had successfully contracted with vendors for the provision of these services, they could then be transferred to the City. This outsourcing concept would result in the layoff of hundreds of permanent AISD employees, unless the RFPs were written in such a way that they guaranteed that the contractors would hire the existing AISD employees and maintain their existing AISD benefits, including their retirement plan. It is possible that AISD could find alternative employment for such employees within the school district; however, this might negate some or all of the potential cost savings for AISD.

The fiscal analysis presented below is based upon Option 2, the outsourcing model. The analysis assumes that AISD would contract for these services at the same amount budgeted in fiscal year 2015-16.

ADDITIONAL CONSIDERATIONS RELATED TO AISD CAMPUS POLICE

If the AISD police officers were to become part of the Austin Police Department (APD), they would become part of the bargaining unit represented by the Austin Police Association (APA). That is, APA would become their union representative. Any integration strategy would require bargaining with APA over how the AISD police jobs and the employees currently in those jobs

would be transitioned into APD. Such negotiations are highly complex and unpredictable and it is extremely unlikely that these negotiations could be completed prior to the beginning of the City's fiscal year.

These officers would also become members of the Austin Police Retirement System (APRS). This would obligate the City to contribute an amount equal to 21% of the officers' base pay and annual longevity pay to the APRS. The contribution rate is fixed by state law and cannot be reduced by the City.

Additional legal information pertaining to the integration of AISD police officers has been provided to City Council in a separate memorandum. Furthermore, a memorandum from the Chief of Police outlining concerns associated with the potential transfer of campus police services from AISD to the City is attached.

FISCAL AND TAX INCIDENCE ANALYSIS

Under the State of Texas's recapture system with respect to funding public schools, Austin Independent School District (AISD) contributes an ever-growing percentage of the tax dollars raised through the 1.9 cents of property tax rate known as 'copper pennies'. For fiscal year 2016-17, AISD financial staff project that these 'copper pennies' will generate a total of \$18 million in property tax revenue, of which \$10.9 million will be recaptured by the State and \$7.1 million will be retained by the district. Given these projections, the fiscal and tax incidence analysis below focuses on two broad scenarios. In the first, it is assumed that the City of Austin would take on \$7.1 million of services currently provided by AISD, thereby eliminating the need to levy the 'copper pennies' and reducing the Austin area's total property tax burden by \$10.9 million. The second scenario assumes that the City of Austin would take on \$18 million of services currently provided by AISD. Under this scenario, AISD would again have no need to levy the 'copper pennies', area taxpayers would be held harmless, and the \$10.9 million currently recaptured by the State would instead stay with AISD as additional funding. In each scenario, it is assumed that all programs would be contracted out and that programs currently performed with AISD staff could be contracted out for the same amount budgeted by AISD in fiscal year 2015-16.

The boundaries of AISD and the City of Austin are not coterminous. The total fiscal year 2015-16 taxable value of properties within AISD is \$88.1 billion, the majority of which is within the City of Austin (AISD also encompasses Sunset Valley). The City of Austin’s total fiscal year 2015-16 taxable value is \$110.7 billion. These differences present four primary challenges, which are addressed by the analysis in the following ways:

- First, because their boundaries do not perfectly overlap and they provide differing levels of tax exemption for homesteads, the median taxable value of a home in each of these taxing jurisdictions differs. The City provides a homestead exemption of 6% of assessed value, while AISD provides a state-mandated fixed exemption of \$25,000. For purposes of this analysis, the ‘typical’ homeowner residing in the City of Austin or in AISD is assumed to have a homestead with a fiscal year 2015-16 assessed value of \$250,000. The exemptions specific to each district are then applied to this value to generate accurate taxable values and facilitate meaningful comparison.
- Second, the entities’ differing boundaries mean that City of Austin taxpayers residing in non-AISD school districts would realize no savings from a reduction in AISD’s property tax rate, yet would bear the cost of the increase in the City’s tax rate necessary to assume AISD services. The impact to such taxpayers is specifically included in the analysis.
- Third, beyond differing in overall size, the relative makeup of each entity’s tax base in terms of property classes differs. Therefore, each scenario includes an analysis of the change in tax incidence that would accrue to each of these property classes. The taxable values of each property class in each entity in fiscal year 2015-16 are shown in the tables below.

	AISD		City of Austin	
	Taxable Value	% of Total	Taxable Value	% of Total
Residential	\$44,559,872,812	50.6%	\$50,576,097,543	45.7%
Multi-Family	\$14,945,232,281	17.0%	\$18,362,371,568	16.6%
Land	\$1,403,675,285	1.6%	\$1,736,615,061	1.6%
Commercial	\$22,332,394,625	25.3%	\$29,885,285,035	27.0%
Personal Property	\$4,904,969,035	5.6%	\$10,183,099,951	9.2%
Total	\$88,146,144,038	100%	\$110,743,469,158	100%

- Fourth, in addition to differing homestead exemptions, the two entities also provide very different exemptions to senior homeowners. The City provides an \$80,000 fixed-value exemption. Seniors in AISD receive a \$35,000 fixed-value exemption and then have their taxes frozen at the level of tax paid in the year in which they turned 65. The implications of this difference in senior property tax exemption regimes are discussed following the presentation of the analysis of the two broad scenarios.

Scenario 1: Elimination of ‘Copper Pennies’, Aggregate Taxpayer Savings of \$10.9 Million

Impact to Revenue, Budgets, and Typical Taxpayer

AISD Tax Revenue Impact	\$ (17,970,000)
AISD Budget Impact – Programs Transferred to the City	\$ (7,110,000)
AISD Tax Rate Impact	\$ (0.0190)
Tax Bill Impact to Typical Homeowner	\$ (42.75)
City of Austin Budget Impact	\$ 7,110,000
City of Austin Tax Rate Impact	\$ 0.0066
Tax Bill Impact to Typical Homeowner	\$ 15.53
Net Impact to Area Tax Revenue	\$ (10,860,000)
Tax Bill Impact to Typical Homeowner in COA and AISD	\$ (27.22)
Tax Bill Impact to Typical Homeowner in COA but not in AISD	\$ 15.53

Change in Tax Incidence by Property Class

Property Class	Total Shift in Tax Incidence	% of Total Savings
Residential	\$ (5,837,134)	53.7%
Multi-Family	\$ (1,867,916)	17.2%
Land	\$ (174,667)	1.6%
Commercial	\$ (2,634,108)	24.3%
Personal Property	\$ (346,177)	3.2%
Total	\$ (10,860,000)	100.0%

As the tables above show, the result of the City of Austin assuming the cost of \$7.1 million in services currently provided by AISD would be a tax rate increase of 0.66 cents. This would allow AISD to reduce its tax rate by 1.9 cents—its ‘copper pennies’—and lead to an aggregate savings of \$10.9 million for area taxpayers since these dollars would no longer be retained by the state

through the recapture process. Residential taxpayers would realize a majority of the property tax savings, a total of \$5.8 million. At the level of the individual taxpayer, the typical homeowner residing in both AISD and the City of Austin would realize an annual property tax savings of \$27.22, while the typical homeowner residing in the City of Austin but not in AISD would pay an additional \$15.53 annually in property tax.

Scenario 2: Additional AISD Funding of \$10.9 Million, No Aggregate Taxpayer Savings

Impact to Revenue, Budgets, and Typical Taxpayer

AISD Tax Revenue Impact	\$	(17,970,000)
AISD Budget Impact – Programs Transferred to the City	\$	(17,970,000)
AISD Budget Impact – Funding Available for Other AISD Priorities	\$	10,860,000
Net AISD Budget Impact	\$	(7,110,000)
AISD Tax Rate Impact	\$	(0.0190)
Tax Bill Impact to Typical Homeowner	\$	(42.75)
City of Austin Budget Impact	\$	17,970,000
City of Austin Tax Rate Impact	\$	0.0167
Tax Bill Impact to Typical Homeowner	\$	39.25
Net Impact to Area Tax Revenue	\$	-
Tax Bill Impact to Typical Homeowner in COA and AISD	\$	(3.50)
Tax Bill Impact to Typical Homeowner in COA but not in AISD	\$	39.25

Change in Tax Incidence by Property Class

Property Class	Total Shift in Tax Incidence	% Change in Tax Incidence
Residential	\$ (877,415)	(0.06%)
Multi-Family	\$ (67,216)	(0.01%)
Land	\$ (4,366)	(0.01%)
Commercial	\$ 296,577	0.03%
Personal Property	\$ 656,424	0.26%
Total	\$ 0	0%

As the tables above show, the result of the City of Austin assuming the cost of \$18 million in services currently provided by AISD would be a tax rate increase of 1.67 cents. This would allow AISD to reduce its tax rate by 1.9 cents—its ‘copper pennies’—and retain an additional \$10.9 million. There would be no change to the total property tax collected by both entities.

Residential, multifamily, and land property owners would see a slight reduction in their aggregate tax incidence, while owners of commercial and personal property would experience a slight increase. At the level of the individual taxpayer, the typical homeowner residing in both AISD and the City of Austin would realize an annual property tax savings of \$3.50, while the typical homeowner residing in the City of Austin but not in AISD would pay an additional \$39.25 annually in property tax.

Impact on Senior Homeowners

The impact of any tax swap scenario on homeowners aged 65 or older is complicated by the dramatically different exemptions available to these homeowners with respect to their AISD and City of Austin property tax bills. State law requires a \$10,000 fixed-value exemption for senior homeowners, and AISD adds an additional \$25,000 fixed-value exemption as a local option. More importantly for purposes of this analysis, state law dictates that homeowners' school district property tax bills are capped at the level of tax paid in the year in which the homeowner turns 65 (net of the fixed-value exemptions). The City of Austin, on the other hand, provides an \$80,000 fixed-value exemption by local option. The primary implication of this difference in exemption regimes with respect to a tax swap is that it is likely that the overwhelming majority of senior homeowners would experience an increase in their total property tax bill as a result of any transfer of AISD costs to the City of Austin.

For instance, consider a senior homeowner currently 75 years of age whose home has an assessed value of \$250,000 in fiscal year 2015-16. Assuming 4% annual growth, his home had an assessed value of \$168,891 in fiscal year 2005-06, the year in which he turned 65. Net of exemptions, his property tax bill in that year would have been \$1,930, and, per state law, would have been capped at that level going forward. While his tax bill could decrease in the event his home became less valuable, or the school district's tax rate declined, for the rest of the time he owned that home, his school tax bill could not exceed \$1,930. If there were no such cap, then in fiscal year 2015-16, based on his assessed value of \$250,000, AISD's homestead and senior exemptions totaling \$60,000, and AISD's tax rate of 1.079 cents per \$100 of taxable value, the homeowner would face a tax bill of \$2,284. Assuming the reduction of AISD's tax rate by 1.9

cents—the ‘copper pennies’—this figure would drop by \$36 to \$2,248, but this amount is still far greater than the \$1,930 he would continue to pay as a result of the cap. In short, this homeowner would realize no savings on his AISD property tax bill as a result of the tax rate reduction. This homeowner would, however, pay more in property taxes to the City of Austin, either \$10.24 more under Scenario 1, or \$25.89 more under Scenario 2.

With respect even to the owner of a home valued at \$250,000 who turned 65 in fiscal year 2015-16, he or she would likely end up paying a higher total property tax bill under either Scenario 1 or Scenario 2. Under Scenario 1, growth in assessed value of only 1% in fiscal year 2016-17 would eliminate any net property tax benefit to this homeowner. Once his property value appreciates by 1% or more, the savings from a 1.9-cent reduction in AISD’s tax rate no longer offset the increase in this homeowner’s City property tax bill and his total property tax burden begins to increase. Under Scenario 2, assessed value growth of only 0.4% would eliminate any savings. Especially in light of strong recent growth in assessed value that is forecasted to continue, staff must conclude that substantially all seniors would face an increase in their total property tax bill under any tax swap scenario.

CONCLUSION

Reducing area property tax revenue lost to the state through the recapture system is a self-evidently desirable goal. Initiating a transfer of services from the Austin Independent School District to the City of Austin is a potential means of achieving such a goal, but one which carries with it a host of consequences that may reduce its desirability. Any proposal to move forward with a transfer of services must balance the reduction of AISD recapture payments against the adverse effects of such a transfer on AISD employees, on City of Austin homeowners residing in other school districts, and on substantially all of the City’s seniors, as well as the increased burden incorporating and administering these services will impose on City staff. Moreover, it must be kept in mind that the tax-rate adjustment associated with any transfer of services holds the City harmless only for AISD’s current cost of these services, and occurs only one time. To the extent that the City’s costs to provide transferred programs exceed those of AISDs, the aggregate benefit to area taxpayers begins to erode. Looking ahead to future fiscal years, any

effort to address rising cost drivers or otherwise increase resources expended on transferred programs will have to compete for funding against the entire gamut of City priorities.

cc: City Manager
Assistant City Managers
Chief of Staff
Chief Financial Officer
Deputy Chief Financial Officer

Attachments

Attachment A: Resolution 20160211-015

Attachment B: Texas Tax Code 26.01 (i)-(j)

Attachment C: AISD Programs Eligible for Potential Transfer to the City of Austin

Attachment D: Memorandum from the Chief of Police

Attachment E: Map of AISD and Austin Jurisdictional Boundaries

RESOLUTION NO. 20160211-015

WHEREAS, the success of Austin's schools is critical to the long-term prosperity of the entire Austin community; and

WHEREAS, nine school districts fall within the City of Austin, with Austin Independent School District (AISD) serving the largest number of students and covering the largest area within the city limits; and

WHEREAS, AISD strives to provide a high quality education to every student; and

WHEREAS, as a property rich district, AISD is subject to recapture under the state school financing model, despite the fact that nearly 60% of students qualify for free or reduced lunch; and

WHEREAS, AISD is the single largest payer of recapture in the state and recapture resulted in a loss of \$181 million in tax revenue for AISD in 2015, representing nearly 25% of AISD's total Maintenance and Operations tax collections; and

WHEREAS, under the State's school finance system, the rate of recapture is projected to exceed 63% for any tax revenue collected at a tax rate of \$1.06 and over, and such recapture payments will be sent to the State's General Revenue Fund; and

WHEREAS, currently under the State's school finance system, it is estimated that of the \$17.97 million in tax revenue collected from the 1.9 cents of rate above the \$1.06; AISD retains only \$7.11 million and sends approximately \$10.86 million to the State under recapture; and

WHEREAS, this revenue loss strains AISD's ability to provide the highest quality education for its students; and

WHEREAS, in the next years ahead, AISD will experience steep increases in the required recapture payments and anticipates sending nearly a half billion dollars to the State under recapture laws by FY2019; and

WHEREAS, Resolution 20110217-048 directed the City Manager "to identify potential operational efficiencies and partnership opportunities to help ensure the success of AISD primary and secondary schools citywide"; and

WHEREAS, a legal mechanism exists that permits one government entity (such as a school district) to discontinue a department, function, or activity, and another government entity (such as the City) to assume that department, function, or activity as long as the department, function, or activity serves the purpose of the entity that is assuming the activity; and

WHEREAS, a school district that partners with a municipality to exchange financial responsibility for such programs could then, in turn, lower its tax rate; and

WHEREAS, within a recapture context, such a transfer of services better leverages taxpayer dollars because more of those taxes remain within the taxing jurisdiction to help meet the educational needs of the local community; and

WHEREAS, a well-crafted plan may not increase overall spending or taxation for property owners who are paying school taxes that are subject to recapture; and

WHEREAS, several Austin leaders have been discussing this idea and have expressed strong enthusiasm about working with the City of Austin to explore this concept; **NOW, THEREFORE**,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF AUSTIN:

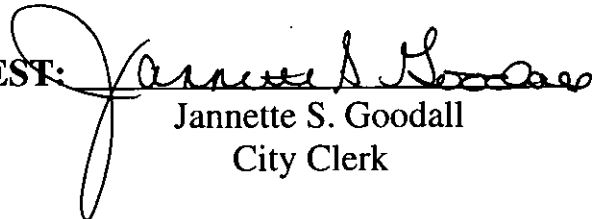
That the City Council directs the City Manager to explore a potential transfer of services as envisioned by Texas Tax Code §26.04(i-j), including scrutinizing the legal parameters of such a plan and conducting a comprehensive cost/benefit analysis.

BE IT FURTHER RESOLVED:

That the City Manager is directed to report back to Council by April 1, 2016.

ADOPTED: February 11, 2016

ATTEST:


Jannette S. Goodall
City Clerk

Attachment B: Texas Tax Code 26.01 (i)-(j)

Sec. 26.04. SUBMISSION OF ROLL TO GOVERNING BODY; EFFECTIVE AND ROLLBACK TAX RATES.

(i) This subsection applies to a taxing unit that has agreed by written contract to transfer a distinct department, function, or activity to another taxing unit and discontinues operating that distinct department, function, or activity if the operation of that department, function, or activity in all or a majority of the territory of the taxing unit is continued by another existing taxing unit or by a new taxing unit. The rollback tax rate of a taxing unit to which this subsection applies in the first tax year in which a budget is adopted that does not allocate revenue to the discontinued department, function, or activity is calculated as otherwise provided by this section, except that last year's levy used to calculate the effective maintenance and operations rate of the unit is reduced by the amount of maintenance and operations tax revenue spent by the taxing unit to operate the department, function, or activity for the 12 months preceding the month in which the calculations required by this chapter are made and in which the unit operated the discontinued department, function, or activity. If the unit did not operate that department, function, or activity for the full 12 months preceding the month in which the calculations required by this chapter are made, the unit shall reduce last year's levy used for calculating the effective maintenance and operations rate of the unit by the amount of the revenue spent in the last full fiscal year in which the unit operated the discontinued department, function, or activity.

(j) This subsection applies to a taxing unit that had agreed by written contract to accept the transfer of a distinct department, function, or activity from another taxing unit and operates a distinct department, function, or activity if the operation of a substantially similar department, function, or activity in all or a majority of the territory of the taxing unit has been discontinued by another taxing unit, including a dissolved taxing unit. The rollback tax rate of a taxing unit to which this subsection applies in the first tax year after the other taxing unit discontinued the substantially similar department, function, or activity in which a budget is adopted that allocates revenue to the department, function, or activity is calculated as otherwise provided by this section, except that last year's levy used to calculate the effective maintenance and operations rate of the unit is increased by the amount of maintenance and operations tax revenue

Attachment B: Texas Tax Code 26.01 (i)-(j)

spent by the taxing unit that discontinued operating the substantially similar department, function, or activity to operate that department, function, or activity for the 12 months preceding the month in which the calculations required by this chapter are made and in which the unit operated the discontinued department, function, or activity. If the unit did not operate the discontinued department, function, or activity for the full 12 months preceding the month in which the calculations required by this chapter are made, the unit may increase last year's levy used to calculate the effective maintenance and operations rate by an amount not to exceed the amount of property tax revenue spent by the discontinuing unit to operate the discontinued department, function, or activity in the last full fiscal year in which the discontinuing unit operated the department, function, or activity.

Attachment C: AISD Programs Eligible for Potential Transfer to the City of Austin

GROUP 1: Contracts	Service Type	No. of FTEs	Total AISD Program Cost	AISD Local Tax Funding
GAATRS Radio System	Public Safety		706,678	706,678
Community In Schools	Social Service		866,000	645,000
Family Resource Center	Social Service		500,000	500,000
Austin Partners in Education (APIE)	Soc. Svc./Ec. Dev.		500,000	500,000
Seedling	Social Service		393,740	393,740
African American Harvest Foundation	Soc. Svc./Ec. Dev.		343,436	343,436
Austin Learning Academy	Soc. Svc./Ec. Dev.		187,000	187,000
Safe Place	Social Service		90,675	90,675
Legacy of Giving	Social Service		45,000	45,000
Community Action Network	Social Service		30,000	30,000
Con Mi Madre	Social Service		21,000	21,000
Faith Presbyterian Church	Social Service		20,444	20,444
Student Certifications	Economic Dev.		15,000	15,000
Total			3,718,973	3,497,973

GROUP 2: Programs Involving AISD Staff	Service Type	No. of FTEs	Total AISD Program Cost	AISD Local Tax Funding
Parent Support Specialists	Social Service	78	3,591,902	1,680,391
AVID	Economic Dev.	34	1,734,721	1,734,721
Graduation/Dropout Specialists	Social Service	17	1,075,931	1,075,931
Project Advance	Economic Dev.	12	815,252	815,252
School to Community Liaisons	Social Service	3	211,665	211,665
Total		144	7,429,472	5,517,962

GROUP 3: Campus Police	Service Type	No. of FTEs	Total AISD Program Cost	AISD Local Tax Funding
Security Officers Districtwide	Public Safety	107	8,963,275	8,963,275
Total		107	8,963,275	8,963,275

Advancement Via Individual Determination (AVID): AVID is a global nonprofit organization dedicated to closing the achievement gap by preparing all students for college and other postsecondary opportunities. Students are placed in a college prep academic program and are provided a support system to help them achieve in these classes.

African American Harvest Foundation (AAYHF): AAYHF provides a variety of resources to underserved, at-risk youth and their families in the Greater Austin area. The program helps to transition and support youth and their families who are in crisis towards an end goal of self-sufficiency.

Austin Learning Academy: AISD contracts with the Austin Learning Academy to provide educational and social service support in the form of early childhood development classes and child care services for parenting students attending Eastside Memorial, Lanier, LBJ, Reagan, and Travis high schools. ALA staff positions are utilized at each campus to meet the ratio requirements mandated by Texas Child Care Licensing. The provision of campus-based child care for teen parents improves academic success and positively impacts school attendance.

Austin Partners in Education (APIE): Focusing on Austin ISD's schools located in under-resourced communities and serving predominantly economically disadvantaged students, Austin Partners in Education delivers innovative, volunteer-driven academic and mentoring programs. In the 2014-15 school year, APIE served 3,300 students through the following programs: Elementary Reading Classroom Coaching and Compañeros en Lectura, Middle School Math Classroom Coaching, College Readiness (9th-12th grade) and Case Management, and Mentoring.

Community Action Network (CAN) : CAN is a partnership of governmental, non-profit, private and faith-based organizations which leverage mutual resources to collectively improve social, health, educational and economic opportunities in our community. CAN does not provide direct social services to clients; it brings collective action and attention to important community issues such as affordability and the suburbanization of poverty that impact school enrollment.

Community In Schools: Community In Schools partners with local businesses, social service agencies, health care providers and volunteers to provide support services to students. These services include individual counseling and support, group counseling, crisis intervention, basic needs assistance, mentoring, tutoring, leadership development, or school supplies.

Con Mi MADRE, Mothers and Daughters Raising Expectations: Con Mi Madre is an organization that focuses on strengthening the mother-daughter bond while providing support and educational opportunities for both daughters and mothers.

Faith Presbyterian Church: The partnership between AISD and Faith Presbyterian Church provides expanded child care services and resources to parenting students at a reduced cost to the District. The lease agreement between the District and Faith Presbyterian Church allows the Travis Child Development Center and Teen Parent Program to meet the child care needs of

Attachment C: AISD Programs Eligible for Potential Transfer to the City of Austin

Travis students as well as parenting teens enrolled in neighboring high schools and middle schools.

Family Resource Center: The primary goal of the Austin ISD Family Resource Centers is to help stabilize the families of AISD so students can be in school and ready to learn. Families and community members from any school may receive assistance and support from the Family Resource Centers. Support may include direct services, counseling, referrals and application assistance, and adult/parenting education opportunities through the FRC Adult/Parent Academies. Families can receive support with housing, employment, access to healthcare, social connections, and education.

Greater Austin/Travis County Regional Radio System (GATRRS): The purpose of the Greater Austin/Travis County Regional Radio System (GATRRS) is to improve the ability of public safety and public service agencies to communicate and cooperate with each other, to allow direct access to, and exchange, of data. The GATRRS is a partnership agreement between the City of Austin, Travis County, Austin Independent School District, and the University of Texas at Austin.

Graduation/Dropout Specialists: The main function of this program is to work with at-risk students to remain in school through graduation. Other essential functions include home visits and working with students and parents to improve student's attendance, behavior, and grades.

Legacy of Giving: The Legacy of Giving implements a five-step approach – learn, internalize, advocate, act, and reflect – to create empathy and understanding as the foundation for philanthropic engagement. The program provides opportunities for civic engagement and youth leadership.

Parent Support Specialists: Parent Support Specialists develop and promote family-friendly schools, facilitate and promote parent education, conduct communications and outreach, and develop parent leaders/PTA.

Project Advance: Specialists are at each AISD comprehensive high school and the central location in each building for these resources is the College & Career Center. Students receive post-secondary advising and work on college applications, financial aid, dual credit, and other milestones related to the college-going process. Advance specialists coordinate application drives, guest speakers, classroom presentations, parent information sessions, and campus visits. All scholarship information, job opportunities, and post-secondary support are coordinated by our Advance specialists. Currently, this program is the key component for the DTC70 initiative, a regional effort with the Austin Chamber of Commerce to increase direct-to-college enrollment to 70% for the class of 2016.

Safe Place: Safe Place's Expect Respect Program provides school-based support groups and counseling, youth leadership activities, and educational programs in school and community settings. Support Groups and Counseling serve middle and high school students who have

experienced violence or abuse in their homes or communities, or are involved in abusive peer or dating relationships.

School to Community Liaisons (SCL): The primary role of the SCL is to identify and assist students, families, and school systems in overcoming barriers that interfere with learning through the use of assessment, counseling, consultation, and coordination of school and community resources. The SCL utilizes knowledge of human behavior, social, emotional, and community systems to guide service delivery.

Security Officers Districtwide: Austin Independent School District's (AISD) Police Department is a recognized law enforcement agency established to create a safe and secure environment for our future leaders to learn, grow, and succeed inside and outside of the classroom. The Department provides general law enforcement, security, and safety services at AISD and is divided into five bureaus, including: Administrative Services, Emergency Management, Life Safety Systems, Special Operations, and Uniform Services.

Seedling Foundation: Seedling program provides students who have incarcerated parents with a long-term, positive relationship with a trained adult mentor, in hopes they may be better able to navigate the challenge experienced during the period of family separation and maintain a positive attitude and connect to school so they may have a clearer understanding of the critical need of education to achieve their long-term goals.

Student Certifications: One of the goals of a Career and Technical Education (CTE) program is to give students the ability to gain industry recognized credentials while still in high school. Student certifications are available in all CTE cluster areas.



Austin Police Department

*City of Austin: Founded by Congress, Republic of Texas, 1839
P.O. Box 689001, Austin, Texas 78768-9001 Telephone (512) 974-5000
www.cityofaustin.org/police*

MEMORANDUM

TO: Rey Arellano, *Assistant City Manager*
FROM: Art Acevedo, *Chief of Police*
DATE: April 1, 2016
SUBJECT: APD Absorption of AISD PD

The purpose of this memorandum is to list some of the operational concerns that the Austin Police Department has regarding the discussion on the absorption of AISD Police Department into the Austin Police Department. The concerns include, but are not limited to, the following:

- Disparate pay and benefits
- Disparate retirement benefits (TMRS vs. Police Retirement System)
- The differences in job duties (having to reevaluate the jobs currently performed by AISD to make them more compatible to those of an APD officer)
- Differences in training (Austin Police officers must attend and successfully complete the APD Academy, while AISD officers may have attended various academies throughout the State of Texas. Examples of these are the UTPD Academy, the Central Texas CAPCOG, and the East Texas Police Academy, to name a few.)
- Differences in hiring standards (There is one current AISD officer who was terminated from APD who would be ineligible for rehiring.)
- Compatibility of equipment and technology (DMAV, body cameras if already outfitted, may not be compatible with APD systems)
- Cost differential in purchasing APD issued firearms and duty equipment for AISD officers
- Costs associated with the conversion of AISD police vehicles to match APD vehicles (paint, equipment, etc.)

Should the outsourcing to a private security company to provide services within AISD be considered, the Austin Police Department has the following concerns. These concerns include, but are not limited to:

- Security officers not being licensed peace officers certified by TCOLE (Texas Commission on Law Enforcement), thus not having the same training, rules, and regulations as peace officers
- Inability to communicate between the schools, APD Dispatch, and responding officers via radio as AISD officers currently do, due to FCC regulations

- Little to no oversight in the initial or continued training of security officers due to varied private security standards between TCOLE and DPS
- APD workload will continue to increase, with officers having to respond for duties related to law enforcement since security officers will not be licensed peace officers and certified by TCOLE

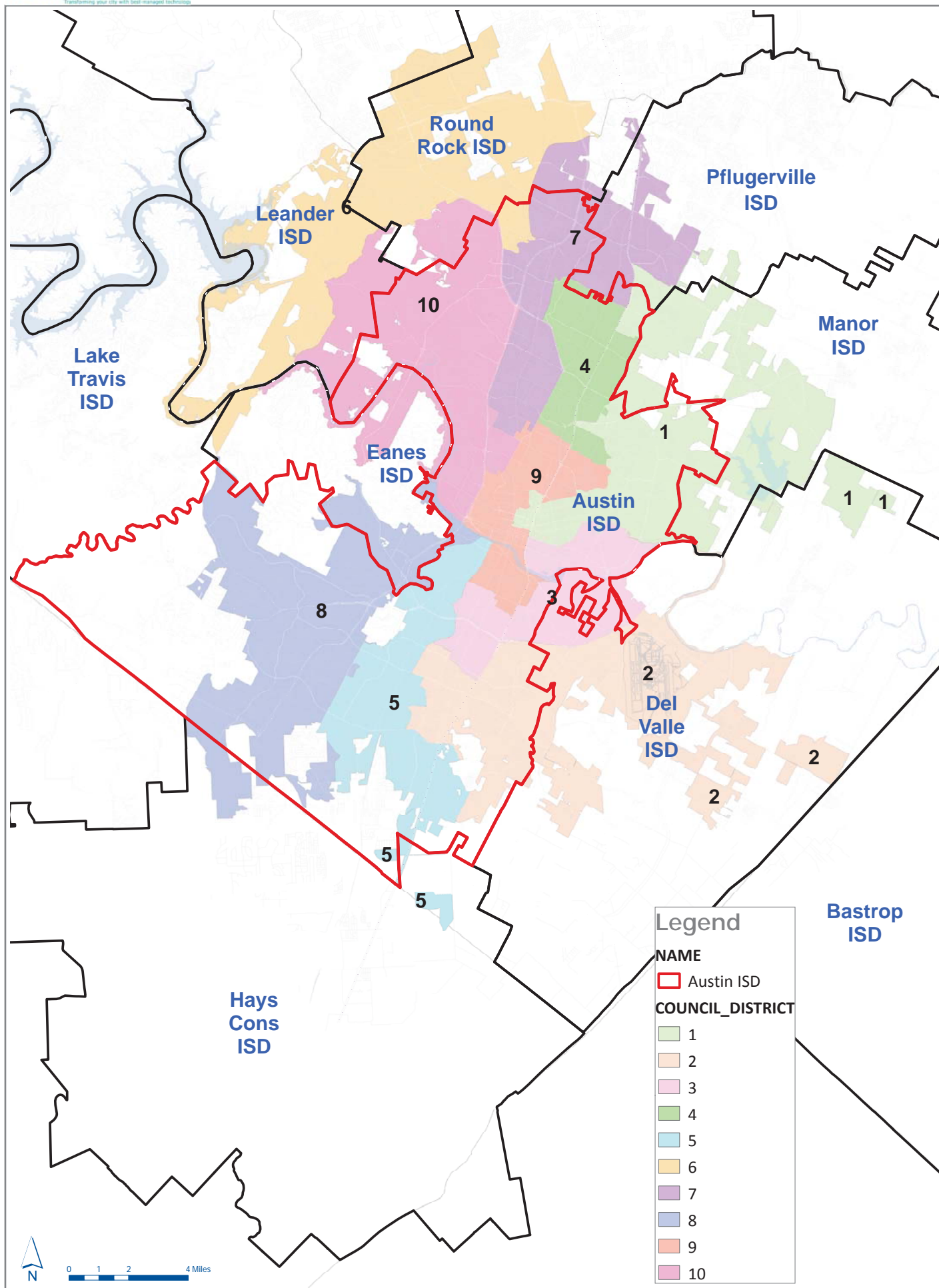
The third, and most important component to this plan, concerns the negative impact that it would have to those in the community we serve. Following is a list of potential negative impacts:

- AISD officers operate almost exclusively under the Education Code. Having to expand the current curriculum to meet the requirements of the Education Code would lengthen our cadet training curriculum from 8 months to 9 months in order to properly train APD officers.
- Our critically low community engagement time would decrease even more due to having to staff the schools. Our community has already spoken out, wanting more engagement time with officers on patrol.
- Reducing one of the best deterrents, officer presence, from the neighborhoods would negatively impact property crime statistics, leading to more negative interaction with our community.
- The negative publicity when an APD officer has to use any type of force on a student, particularly if it is captured on video. This has the capability of going viral in a matter of seconds. (Example: A Bastrop County police officer used a Taser on a student last year, resulting in a viral video; Bastrop created a school district police department this year.)
- Negative reaction from parents when they learn that their children are attending a school that is no longer patrolled by AISD, but instead by APD (very different mindsets in traditional policing versus school-based policing)
- APD would not handle administrative issues such as tardiness, courier services, etc.
- Potential inability to recruit officers to work in the schools on a full time basis (not every current AISD officer will meet the requirements to become an APD officer)
- As with the Public Safety and Emergency Management (PSEM) consolidation, AISD officers will not retain their ranks, which could result in contractual issues and lawsuits

Sincerely,



Art Acevedo, Chief
Austin Police Department



City of Austin/AISD Boundry Comparison

Produced by the Communications and Technology Management Department - GIS Data Services
 Date: 4/1/2016
 Project Number: M_1553528



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M E M O R A N D U M

TO: Mayor and City Council

FROM: Marc A. Ott, City Manager 

DATE: April 1, 2016

SUBJECT: AISD Tax Swap Analysis

The attached memorandum provides a fiscal cost/benefit analysis of a potential swap of services between the Austin Independent School District (AISD) and the City. A separate memorandum from the Law Department outlining the legal mechanics of such a swap will also be provided. The fundamental question under consideration is whether the City, through its taxing authority, can take on responsibility for the delivery of certain AISD services, and in so doing avoid the highly detrimental impact that the state recapture system has on local tax revenue? Viewed in the aggregate, the short and simple answer to this important question is an emphatic “yes.” The analysis identifies the possibility of reducing AISD’s recapture payment by nearly \$11 million and lowering the local tax burden and/or increasing funding for AISD priorities by an equivalent amount. However, while the short answer is “yes,” the complete answer is far more complex, especially when looking at the disparate impact such a swap would have on different classes of City residents and stakeholders, when assessing the logistical challenges it would create for both AISD and the City, and when considering the more qualitative question of whether the City is prepared to expand its mission and its realm of responsibility to encompass functions so closely tied to education. Although the potential aggregate financial benefit to our local taxpayers and to the City’s largest school district requires that we give a swap of services careful consideration, I feel it is my duty to highlight a

number of key issues that significantly complicate the question of whether such swap would ultimately represent a net benefit to our City and its many stakeholders.

1. The school district and the City do not share common jurisdictional boundaries, resulting in “winners” and “losers” with regard to tax burden. Taxpayers living within both the City and school district’s boundaries would pay less; those living within the City’s boundary but outside the school district’s boundary would pay more.
2. Senior homesteads would be negatively impacted by any swap of services due to the dramatic differences in tax exemptions offered to these individuals by the two jurisdictions. The City offers a fixed homestead exemption of \$80,000 to individuals over the age of 65. AISD offers a smaller exemption of \$35,000 but the tax bills of these individuals are “frozen” in perpetuity at the level of taxes paid in the year in which they turned 65.
3. There are myriad human resource challenges that would need to be addressed, not the least being the displacement of hundreds of existing AISD employees. It is possible that these employees could regain employment with the City, outside vendors, and/or in other positions at the school district but that is not guaranteed.
4. The City’s personnel costs are generally higher than that of the school districts, which would erode some of the benefit of doing a service swap if AISD employees were transitioned to the City. For example, the City’s contribution rate to its civilian retirement system is 18% of base pay whereas the school district’s contribution rate is only 0.55% (due to the fact that the state funds a large portion of the school district’s retirement system costs). The City’s contribution to employee health benefits is likewise higher than that of the school district, as are the hourly wages paid to our employees under the recently established living wage of \$13.03 per hour.

5. While the City would be “held harmless” relative to its rollback level of taxing authority for the existing level of AISD expenditures, any additional costs incurred by the City would compete with other City funding needs and/or result in higher taxes. Likewise, any future increases in the cost of swapped services could potentially impede the City’s ability to fund other programs and/or result in higher taxes.
6. The City taking on functions that are traditional school functions and which in many cases will continue to be delivered on school campuses will likely add complexity to the delivery of those services. For example, AISD can be expected to want a role in determining how the City goes about providing services, including input with respect to personnel decisions, contract awards, curriculum, and performance standards. It is also important to consider whether the City has sufficient expertise in the service areas being transferred and whether those services align with the City Council’s priorities and mission.
7. Given that the intent of this concept is to circumvent the state’s school financing system, there is a risk of legislative action against the City and the school district in the upcoming legislative session.
8. Finally, a transfer of programs from AISD to the City not only has implications for local taxpayers but perhaps even greater implications to the many thousands of students and parents that rely on these services. I would strongly recommend that Council launch a community engagement process, soliciting input both from AISD and City stakeholders, prior to taking an action of this significance.

Many of these issues will be explored in much greater detail in the forthcoming analysis from our budgetary and legal staff. Given the significance of this decision I felt it important to summarize the above challenges. I look forward to continuing to work with you on the development of innovative solutions aimed at improving our City, our local school districts, and the lives of our many stakeholders.

TAX SWAP DECISION TREE

- **Is AISD's intent to lower its tax rate sufficient to offset the tax bill increase that would result from the City increasing its tax rate?**
 - The City Council has indicated a desire for any tax swap between the City and AISD to be tax beneficial or at least tax neutral to Austin tax payers in aggregate.
- **Is outsourcing AISD services and jobs prior to the tax swap a viable option?**
 - The City believes outsourcing is the most workable solution for the following reasons:
 - Higher City costs for employee retirement and health insurance (and likely wages) would erode the tax benefits of doing a tax swap;
 - Avoids multitude civil service issues related to the City hiring new employees; and
 - Readily allows for the services to be swapped back to AISD should the State's school financing situation improve.
 - AISD does not believe outsourcing is a viable option due to:
 - Detrimental impact on workforce; and
 - Lack of outside entities that are both qualified and willing to take on the various programs.
- **Is a tax swap still financially viable if all AISD programs and staff are transferred to the City?**
 - AISD to provide additional data in regards to employee classifications and pay scales
 - City to rerun fiscal model and tax analysis to reflect higher costs including more detailed analysis of impact on seniors
- **What remedies exist for seniors negatively impacted by the tax swap?**
 - Analyze amount of senior exemption increase necessary to offset the negative impact on seniors resulting from a tax swap (in aggregate).

- What is the amount of revenue loss to the City from increasing the exemption? How much would the City need to increase its tax rate to offset the revenue loss?

BRIEFING TO CITY COUNCIL AND AISD WORKING GROUP (October 21)

If both Council and the School Board indicate a desire to proceed...

- **Public/Employee Engagement Team**
 - Parents, students, AISD employees, tax payers, seniors
- **Public Safety Consolidation Team**
 - Union issues
 - Rank issues
 - Operational/training issues
 - Retirement system issues
- **Civilian Employee Transition Team**
 - Classification/pay issues
 - Civil service issues
 - Retirement system issues
- **Outreach team to other school districts**
 - What can the City do to support other districts?
 - Equity of City support for AISD versus support for other school districts?

OTHER OPTIONS IF THE ABOVE HURDLES PROVE INSURMMOUNTABLE...

- **Is a tax swap only for services that are currently delivered via contract a viable option?**
 - The current AISD contracts eligible for a tax swap only total \$3.5 million.

- AISD's believes the tax swap would need to be significant, preferably at least \$18 million, in order to warrant the potential political backlash from the State legislature.
- **Can the City simply fund AISD programs that fulfill a municipal purpose without using the tax swap provisions of State law?**
 - Yes. This avoids most of the challenges associated with the tax swap and would only limit the City's ability to fund other priorities if the City was A) at or near the rollback rate and B) was not willing to exceed the rollback rate in order to fund other priorities. If the voters successfully petitioned a rollback election, and if the election were successful, the only consequence would be that the transfer of services would not occur.
 - Using this approach, seniors, at least in aggregate could be held harmless by increasing the senior exemption.
 - There would still appear to be no remedy for tax payers living outside AISD's boundaries.

AISD/City of Austin Potential Partnership

PROGRAM	PROGRAM COST	MUNICIPAL PURPOSE	DESCRIPTION
SOCIAL/WRAPAROUND SERVICES			
PROGRAMS W/ AISD STAFF			
21 ST Century Afterschool Cycle 7 Program	\$950,000.00 annually provides funding for 23 campuses	After School	<p>5-year grant ending July 31, 2016. Provided programming for ten campuses during the period of 2011-2016. The ten schools losing programming are: Eastside Memorial, Dobie, Martin, Mendez, Brown, Hart, Langford, Pickle, Rodriguez and Widen.</p> <p>These two programs are not paid with local tax dollars. ACE 21st Century Cycle 7 is a federal grant that requires a sustainability plan. Currently the City has funded two years of Cycle 6 schools through the Prime Time Program (City funded).</p> <p>AISD needs help with the sustainability for Cycle 6 and Cycle 7 schools. Need clarification on whether the city currently provides support for 23 campuses and provides the district with \$950k in reimbursement, or provides the \$520k recently funded.</p> <p>Cycle 7 funding ends July 2016.</p>
Prime Time		After School	<p>Prime Time is the largest free afterschool program in the city of Austin. Austin Prime Time is funded by a grant from the city of Austin and managed by AISD School Family and Community Education Department. Prime Time spans 25 elementary and middle school campuses throughout the Austin area.</p>
Graduation (Drop-out Prevention) Coaches Funded by Campuses	\$786,990.06	Economic Development	<p>Main function is to work with at-risk students to remain in school through graduation. Essential functions include home visits, and working with students and parents to improve student's attendance behavior and grades.</p>

AISD/City of Austin Potential Partnership

PROGRAM	PROGRAM COST	MUNICIPAL PURPOSE	DESCRIPTION
School to Community Liaisons	\$176,019.51	Economic Development (dropout prevention)	Primary role of the SCL is to identify and assist students, families, and school systems in overcoming barriers that interfere with learning through the use of assessment, counseling, consultation, and coordination of school and community resources. The SCL utilizes knowledge of human behavior, social, emotional, and community systems to guide service delivery.
Behavior Counselors	\$299,405.57	City of Austin	This position requires the ability to work with diverse student populations and develop options and strategies to assist students with disabilities and teachers throughout the district. Responsible for assisting schools in managing the behavior of students receiving special education services, supporting campus staff in crisis situations, and providing in-home and/or parent training.
½ time Parent Support Specialists (includes benefits)	\$1,100,000.00 (total cost of full-time PPS is \$2,200,000.00)	City of Austin	PSS develop and promote Family-friendly schools, facilitate and promote parent education, conduct communications and outreach and develop parent leaders/PTA.
Project Advance	\$779,773.00	To be determined (Economic Development?)	Focuses on providing successful college and career preparation for all students.
TOTAL PROGRAMS W/STAFF	\$4,092,188.14		

AISD/City of Austin Potential Partnership

PROGRAM	PROGRAM COST	MUNICIPAL PURPOSE	DESCRIPTION
PROGRAMS BY CONTRACT			
Family Resource Centers	\$500,000.00	Economic Development	Promote family self-sufficiency; remove barriers to school engagement, guilds parent/family strengths.
Communities in Schools	\$710,000.00	Economic Development (dropout prevention)	Support services to students, including individual counseling and support, group counseling, crisis intervention, basic needs assistance, mentoring, tutoring, leadership development, etc.
Safe Place	\$90,675.00	HHS	Safe Place's Expect Respect Program provides school-based support groups and counseling, youth leadership activities, and educational programs in school and community settings. Support Groups and Counseling serve middle and high school students who have experienced violence or abuse in their homes or communities, or are involved in abusive peer or dating relationships
Legacy of Giving	\$45,000.00	To be determined (HHS; public leadership?)	Civic engagement and training young leaders

AISD/City of Austin Potential Partnership

PROGRAM	PROGRAM COST	MUNICIPAL PURPOSE	DESCRIPTION
Seedling	\$393,740.00	HHS	Seedling program provides students, who have incarcerated parents with a long-term, positive relationship with a trained adult mentor, in hopes they may be better able to: (1) navigate the challenge experienced during the period of family separation; and (2) maintain a positive attitude and connect to school so they may have a clearer understanding of the critical need of education to achieve their long-term goals.
Austin Learning Academy	\$187,000.00	HHS	AISD contracts with ALA for child care
Faith Presbyterian Church	\$20,444.00	HHS?	Rent for Day Care at Travis HS to provide care for students' children.
African American Harvest Foundation	\$343,436.00	HHS	Provides resources to under served, at-risk youth and their families in the Greater Austin area. Transition youth and their families who are in crisis into an end goal of self-sufficiency.
Con Mi Madre	\$6,000.00	HHS	
Austin Partners In Education (APIE)	\$500,000.00	Economic Development	Austin Partners in Education (APIE) was created in 1983 as a joint of AISD and the Austin Chamber of Commerce known as Adopt-A-School.

AISD/City of Austin Potential Partnership

PROGRAM	PROGRAM COST	MUNICIPAL PURPOSE	DESCRIPTION
Community Action Network (CAN)	\$30,000.00		Community Action Network (CAN) is a partnership of governmental, non-profit, private and faith-based organizations which leverage mutual resources to collectively improve social, health, educational and economic opportunities in our community. CAN does not provide direct social services to clients; it brings collective action and attention to important community issues such as affordability and the suburbanization of poverty that impact school enrollment
TOTAL OUTSIDE CONTRACTS	\$2,826,295.00		

HYBRID PROGRAMS – STAFF & CONTRACT			
AVID	<p>\$1,885,156.00, which includes:</p> <p>\$100,000 - Average annual cost for contract with AVID</p> <p>\$200,000 – cost of temporary tutors</p> <p>\$300,000 – 400,000 – cost of professional development</p> <p>\$_____ - college field trips</p>	Economic Development	Helps underachieving students with academic potential prepare for entrance into colleges and universities. Students are placed in a college prep academic program, and are provided a support system to help them achieve in these classes.

TOTAL SOCIAL SERVICES	\$8,803,639.14
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AISD/City of Austin Potential Partnership

PROGRAM	PROGRAM COST	MUNICIPAL PURPOSE	DESCRIPTION
OTHER POSSIBLE COSTS			
Student Certifications	\$150,000.00	Economic Development	One of the goals of a CTE program is to give students the ability to gain industry recognized credentials while still in high school. Student certifications are available in all CTE cluster areas.
Practicums/ Internships		Economic Development	Students in Career Preparation and Practicum Learning Experiences are able to participate in relevant “real world” experiences at a variety of local businesses, such as, veterinarian clinics, hospitals, nursing care facilities, AISD elementary and middle schools, hotels, resorts, restaurants, construction contractors and correctional
Full Day Pre-K Subsidy	\$7,174,077.00		The AISD prekindergarten program served 5,470 students in 2013-14 at 70 of our 83 elementary campuses and four early childhood sites. Ninety-two percent of students in the program were from low-income households. Fifty-six percent were English-language learners and 50% qualified for the program based on both language and income, students in prekindergarten learn complex skills including problem-solving, verbal expression, language fluency, self-regulation and writing. Learning these skills in a developmentally appropriate, quality program yields lifelong benefits in academic achievement, behavior and education progression and attainment.

AISD/City of Austin Potential Partnership

PROGRAM	PROGRAM COST	MUNICIPAL PURPOSE	DESCRIPTION
PUBLIC SAFETY			
Central Police Dept.	\$4,246,232.00	City of Austin	Operations cost plus salaries for 61 employees to include officers (excluding SROs, communications officers, alarm technicians, and civilian employees of the department).
School Resource Officers (SROs)	\$3,961,676.00	City of Austin	
Night Patrolman	\$108,748.00	City of Austin	Responsible for all calls for service at all district locations. In 2013, between the hours of 2200 and 0700, the night officers responded to 5,256 calls.
GAATRS Radio	\$483,611.00	City of Austin	Used by campuses, transportation, service center, central administration, and policy department. Approximately 1200 radios disbursed across district.
Security/Alarm expenses	\$254,331.00	City of Austin	
TOTAL PUBLIC SAFETY	\$9,054,598.00		

AISD/City of Austin Potential Partnership

PROGRAM	PROGRAM COST	MUNICIPAL PURPOSE	DESCRIPTION
HEALTH/MENTAL HEALTH			
Student Health Services	<p>\$5,641,678.00 (District)</p> <p>\$500,000.00 (in kind)</p>	Central Health**; City of Austin	<p>AISD contracts with Seton Healthcare Family to provide student health services.</p> <p>The Seton Healthcare Family contracts with the Austin Independent School District (AISD) for the provision of student health services. SHS staffs, including Registered Nurses and School Health Assistants, Clinical Managers, and the Director and Medical Director, are employees of Seton Healthcare Family/Dell Children's Medical Center. The Quality Improvement Consultant is contracted with Seton Healthcare Family. Each campus has a Registered Nurse who functions as the leader and coordinator of the student health services team. The District contact for SHS is the AISD Assistant Director of Comprehensive Health</p>
TOTAL HEALTH/MENTAL HEALTH SERVICES	\$6,141,678.00		

**The purpose of Central Health is the provision of medical and hospital care to indigent residents of Travis County, a responsibility that was previously shared by Travis County and the City of Austin prior to Central Health's creation.

AISD/City of Austin Potential Partnership

PROGRAM	PROGRAM COST	MUNICIPAL PURPOSE	DESCRIPTION
CRIMINAL JUSTICE			
Truancy Master	\$97,411.00	Travis County	Funds support the District's portion of the truancy court project at Fulmore, Martin, Mendez, and Pearce middle schools, in collaboration with Travis County. Funds support the district's portion of the truancy court project in Fulmore, Martin, Mendez, and Pearce middle schools, in collaboration with Travis County, as approved by the Board annually. The project includes the salaries for a Judge and probation officers. The total project costs are about \$490,000. Travis County pays for the rest. This program began in 2002.
TOTAL CRIMINAL JUSTICE	\$97,411.00		

UTILITIES			
Water, wastewater, sanitation	\$5,739,094.00		
Electricity	\$16,871,514.00		
Gas & other fuels	\$1,263,483.00		
TOTAL UTILITIES*	\$23,874,091.00		

*actual FY14-15 costs