City Council Budget Work Session Transcript – 04/27/2016

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>> Good morning, my name is Delia Garza, councilmember district 2 I'm going to be in charge until mayor pro tem gets here. She's running late and mayor Steve Adler and councilmember Casar are on city business so I'm calling the Austin city council budget session to order, we are at 301 -- >> Thank you, councilmember Garza. We appreciate as always to meet with you to meet with you and brief with you on the city's economic outcass for the next five years. Of course in doing that it reflects the beginning of our budget development process for the next budget cycle. That is 2017. Over this period, over the next several weeks including today we're going to try to accomplish several things. One of them is certainly to focus on and try to enhance your understanding relative to built-in cost drivers that underlie the 2016 budget and then focus on, you know, how those cost drivers over the next five years compare to what we expect to see in terms of revenue growth over that five-year period. In addition we want to focus on your policy initiatives and priorities as they exist today and may be reflected in 2017 and beyond. There is one thing at the outset that I want to emphasize and that is that what we're providing today is a forecast and not a budget. This is not a budget. This is a forecast, and so as we have thought about our presentation to you last year at this time and even prior to

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your tenure as councilmembers, we recognize that in some aspects the way we presented the forecast felt a little bit like a budget simply because of how Numbers centric it has been so we are in the course of this period, this forecast, are going to attempt to elevate our presentation and our conversation with you and keep it at the policy level. You'll see that reflected in the presentation today and subsequently when the departments come before you rather than being budget centric, per Se, they will characterize their representative businesses from a policy standpoint and giving you a sense of what the important policy issues are in regard to respective departments. As you can see we have our esteemed financial experts in front today. We have our chief financial officer, Elaine hart, deputy cfo ed van eenoo and the ever present at this time of the year John who will provide the economic forecast. We do want this obviously to be interactive with you so we're looking to hear what you have to say and what your reactions are in regard to the information that we're going to present to you today. So, councilmember Garza, if it's okay with you, I will ask our cfo Elaine hart to get us started this morning. >> Thank you, city manager. Good morning, councilmembers. We're pleased today to be here to present to you our financial forecast for the fiscal year 2017-2021. As the city manager indicated

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we'll be talking today about what's going on in the local economy, what our outlook is, what the expected financial position for the city and many of its large funds are for the next five years. We'll touch on some estimates of some known cost drivers and revenue streams. And, again, th will be a real opportunity as we kick off our budget season for the council to talk about their policy priorities. We will be presenting a suggested list from staff to start the conversation today at the end of the presentation we'll have a period of time for feedback on issues the council may want to rearrange, change, add, those kinds of things. But we're looking towards -- over the next month having a number of policy work sessions with the council. The forecast is just the starting point for our conversation about the budget. It is our planning tool and just the initial starting place where we begin preparing the manager's proposed budget. It is considered a best practice by the government finance officers association, and it is in compliance with our adopted city financial policies, which require five-year financial forecasts being prepared annually, projecting revenues and expenses for all operating funds, and it says this forecast shall be used as a planning tool in developing the following years' operating budget. So in line with talking about kicking off the budget and the budget season, we have a graphic that shows some fools going across our -- foot balls

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going across our time line and I think the real futbol season will have kicked off. Today is our beginning point. Prior to today we have completed a citizens survey that is a random survey, statistically valid, that solicits feedback about how satisfied our citizens are with city services. And that has been delivered to the council previously in February. Today we'll do the forecast presentation, again, followed by five weeks of work sessions. They are scheduled to be all-day work sessions, I believe they start at 9:00 to 4:30. And on this table here I'll talk about this table for a bit, anywhere you see yellow surrendered by Orange that looks like a little sunshine, those are dates currently scheduled council meeting dates and they were on your adopted council schedule. So if we need additional dates we'll need council action to add those days. But you can see across the time line that once we start getting past the forecast, that's when our public engagement process starts. And we as a city are still committed, very committed, to making our budget as transparent and assemble to the public as we can -- accessible to the public as we can. Tonight actually we will have a telephone town hall meeting. It starts at 7:00 P.M. There will be random phone calls to land lines as well as cell phones to encourage people to participate. It will be televised on atxn and really is an opportunity for people to call in and talk about their budget concerns.

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Excuse me. We've also got a new interactive budget simulator that's online that we will be -- that is online currently. You can go to the website. It is at www.austintexas.gov -- dollarsand cents. I took it yet. It has an opportunity for a citizen to put in their estimated assessed valuation. It will automatically calculate their city projected tax bill and then you can go through and exercise where you can pick different service levels for different kinds of services. You can increase -- indicate you would like to increase their funding or decrease their funding by 5% to 10%. And then at the end of your selections, it asks demographic information and at the very finish of it it will recalculate your tax -- proposed tax bill based on the selections that you made. So we hope that people will enjoy this. It builds upon our award-winning budget in a box budget simulator that we've had in previous years, and it also is in addition to the budget basics video that we'll explain -- will explain what is in the and I's budget and the services we provide and that sort of thing. So I hope that folks will take advantage of those opportunities to provide feedback. Budget staff will also be attending many community meetings. If councilmembers want to have district meetings we'll be there to support those. And we'll have iPads for those that don't have computers, we'll have iPads that they can participate in the budget similarities there at the meetings -- simulators there with the assistance of staff. Part of our public engagement includes the departments presenting and discussing

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forecasts and budget with their boards and commissions and their stakeholder groups. And as we complete that process, towards the end of July, there will be a public engagement report out to council, a written report in early August. August is really full of all of our meetings with the public hearings, setting the maximum tax rate and utility rate hearings and that sort of thing, and then I do want to point out that the budget readings for the budget adoption are September 12-14. And so that would give you an overview of our entire budget season. This morning we'll turn right over to John hockenyos with the economic outlook. Then we'll go over what we call the five-year forecast which ed will present the highlights for the general fund and I'll talk about the enterprise funds then we'll present the suggested policy issues and give you a chance for feedback and then conclude with any questions. So without any further ado, Jon hockenyos with Texas perspectives. Red is on. >> Red is on. I'm trying to drive the bus here as well. >> There you go. >> Thanks. All right. Obviously we're going to auk a little about the economic outlook, first of all, members of council, Mr. Manager, thanks again for having me back do this. It's something I actually very much enjoy every year. I was getting a hard time from senior staff about my accessing free clip art on the internet. That picture of the Austin skyline is a little dated, and so it probably is an indication if nothing else of how fast things are moving around here. I don't know when it was actually put up but it certainly isn't current. Anyway, the way I typically present this is to start talking about some things going on at the national level

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and to some degree globally, although not as much globally but to the extent it influences the national economy as a context setting for our overall conversation about our regional economy and specifically how it drills down into the city of Austin. And that's increasingly important, I think, as so much of our economy is at least in some way, shape or form tied to national and global trends. We increasingly have firms who either -- either based here in Austin, have a significant presence in Austin, whose markets for their goods and services are well beyond the local economy. Again, we'll talk a little about the national picture, drill into the local picture about I'll cut to the chase in the aggregate the Numbers remain astonishingly good. It's hard for me, as an economist, to believe that we can experience -- continue to experience the patterns of sustained overall growth that we are sustaining and yet the Numbers keep coming back with just more on top of more on top of more. We'll talk through all that a little bit and talk through at the end some of the implications of all that. There are numerous charts and graphs in this presentation. I promise you there are no equations. It's too early in the morning for that and I'm happy obviously at any time to take questions or amplify further anything I presented here to help council think about all of these issues. So at the national level, one of the things that's interesting that's going on, while the performance of the national economy has been pretty strong for the last three or four years there are some signs that the rate of growth has begun to abate just a little bit. There are in particular I will show you some charts on some -- what economists consider to be leading indicators of the economy that are showing signs of slowing down. I think when the first quarter gvp number is reported it will probably be less than 1%, and I think that some of that may have an influence on the fed's deliberations on monetary policy. There is right now based on the most recent survey of economists, people believe there's about a three

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quarter percent chance the feds will raise interest rates not today but at June meeting. I don't actually think they will. I think you're beginning to see information filtering into popular media that suggests as they are paying far more attention than I am, not a move to recession but slowdown in the overall growth rate so we'll see how that all translates. There has been a little bit of a pickup in overall job growth and is some sign of improving wages but not enough really to have a substantial effect on inflation. Inflation typically occurs from two broad forces, either there are commodity shocks, there are issues around things such as the price of oil, or there's what economists call demand push inflation which comes from rapidly rising wages and people bidding up the price of goods of services. Neither of those are the case. In fact when we show you the inflation chart if you include food and energy we are essentially in a no inflation environment right now. So, again, that will have an impact on the fed's policy decisions. One of the weaknesses that manifests itself in these indicators that we talk about here is the global economy right now is not that strong and I lot of that is tied to -- and a lot is tied to falling demand, in part tied to the overall supply of oil as well. So lots of information there in kind of a condensed period. Bottom line, still growing at the U.S. Level, perhaps not as rapidly as we have in the recent past. So this is one of the leading indicators we talk about. This is what's called the purchasing manager's index and it's really a measure of industrial activity. The benchmark line there is an index value of 50. Below 50 is considered to be a point in which the economy is moving toward contraction rather than expansion. That very substantial dip back in 2009 obviously was the big recession. So you see the overall pattern here is pretty decent track on what happens on the national economy, and you can see that

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the trend over the last 18 months or so has beensome somewhat downward. This is again factory orders, another window into the production side of the U.S. Economy, again, the massive dip is the recession starting in 2008. Again, the trend, fairly negative. Bounced up a little bit at the end of last year, but not super positive. This is a more -- a compressed window on gdp, the way the commerce department does this is they do what's called seasonally adjusted annual rates and so it's sort of an annualized measure once a quarter. You see it's fairly sluggish for the last couple quarters of 2015. The expectation is the first quarter of 2016 will be even lower than that 2015 fourth quarter number that you see up there on the screen. And then this is really -- this is spending by all of us. So what's called personal consumption expenditures, that's really spending by all of us for things that aren't going to be used to promote further economic activity. It's depending upon two-thirds of the economy and, again, you see some slowness there. Not negative. It's growing. But not as rapidly as it did several years ago. And then, finally, in terms of overall national indicators, this is investment in things that have nothing to do with houses. So it could be plant. It could be equipment. It could be software. It could be anything used to actually make further goods and services in the economy. Again, measured the way the commerce department typically does it, and you see how relatively flat this is. This is an indicator that a lot of economists pay attention to as a leading indicator of the economy. So putting it all together, well, and I'm sorry, one more piece here. This is inflation and one of the things that economists do when they don't like the way something is going, they redefine it. So if we think inflation Numbers are artificially low,

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which the blue line would indicate inflation in 2015 was actually negative, we just take food and energy out of it. And then you see it's still expanding in the sort of 2% to 2.5% range, not particularly rapid inflation, even if you take the influence of oil out of the equation. I remember ridley the days -- I'm old enough to remember the days of hyper inflation in 1970s and 18% interest rates in the wake of that. We're nothing close to that at this stage of the game. Overall it's interesting, and this is an interesting context slide. The tan bars are growth in U.S. Employment in the sort of 2% range there really for the last nine quarters or so is what that chart. The blue bars are growth in Austin's employment over that same period. And this is at the metropolitan statistically area level, the five-county area, including the folks in hays county, bastrop, Williamson county, based on the non-ag wage and salary survey, literally they call employers, say you're in thus and so industry, how many folks are working for you? This is extraordinary growth. The Texas workforce commission revises this series every year and for the last five or six years it's been revised upwards. It's hard to imagine any other community that has consistently grown at the level in the aggregate that the Austin metro area has for the last four or five years. Again, this is a nine quarter window but this pattern has been there for the last four or five years or so so I show you this, again, as part of context. While we're talking about being influenced by the national economy we are nonetheless performing at a rate that arguably is twice as rapid as growth overall in the U.S. And there's not any real reason to think it's going to be significantly knocked down any time in the near future. So per all of that, you know,

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I continue to say I think we are the strongest -- >> Can I interrupt you? >> Gallo: May I ask a question on that point? Are there any statistics -- it really wouldn't be statistics but analysis that shows what of our growth is impacted from the national level? So is the struggles with growth -- is there anything that you can show us that -- where is that impact going to be seen in our growth? >> The answer is there isn't really a formal analysis that says 41.7% of Austin's economy is tied to the nation. I do think it's certainly part of my thinking about the overall forecast for our -- you know, our growth on into the future, I'll show you that in a little bit. I do think it pulls us down to some degree. Some of that is judgment on my part as opposed to an actual mathematical model. Right, tell stories with Numbers in them, right? >> Gallo: Thank you. >> You're welcome. >> Houston: I have a quick one on the same slide, 14. If you just took the standard metropolitan statistical area out and just looked at Austin, how would Austin -- >> Slower. >> Houston: Because people are moving outside so I can see where that would be increased but what about Austin? >> That's a great question. And the answer is -- is that the data for the city of Austin itself is not on -- on the employment side shot as timely as it is for the msa but we will show you a chart in a little while looking at population and retail sales with the city of Austin as a percentage of the overall msa which is more timely information we have. And the answer is the outlying areas are growing more rapidly than the city of Austin is, which is I think what you would surmise. And there are a range of reasons for that. Some of them having to do with the movement of households. There's an old adage about retail and consumer services following rooftops and some of

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it also having to do with some of our outlying communities having been aggressive with corporate relocations and expansions. >> Zimmerman: Thank you, I had exactly the same question. Thank you, councilmember Houston, for bringing that up because I was thinking exactly that when she asked the question. The reason it's so incredibly important is because if we consider this large area, the counties you mentioned, we could be talking about other city councils, county governments, private employers that could be driving the statistics we're looking at and not Austin itself. So what typically happens with this kind of stuff as soon as this comes out there's a press release saying how great Austin city management is when in fact it might be driven by the surrendering areas. That's why the question is so important. >> Yeah. Okay. And, again, just so we're clear I'll say it again. The metropolitan areas actually is five counties and the city of Austin is not -- and you guys know this, is not commensurate with the boundaries of Travis county. So by most measures, the city of Austin is approximately half of the overall metropolitan area. Anyway so this slide has a number of bullet points which essentially say things are going great in the aggregate here. That's really what it comes down to. There's not a lot of difference in this slide, in these bullet points from what I talked about last year. The trends are relatively similar. There are a couple specific things I will show you. There was a fairly negative story in the paper not too long ago about venture capital. I think if you look at venture capital and pull back a little bit you'll see it is relatively positive. One of the things that's been very interesting is to see the incredible rise in tourism related activity both in the area but specifically in the city of Austin. We were actually able to get pretty good data on that, and that's interesting. It is contributing to what is, I think, a turnaround of a long-run trend I will show you

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shortly. And then is it news to anybody that housing markets are tight here in, I mean, I think that's probably not a particularly deep insight on my part. We will, again, just show you some statistics that sort of amplify all that before we get into the projection side of this. One of the questions in the past has been growth in the public sector versus the private sector in terms of jobs. And for our purposes, public sector obviously not other includes municipal government, for example, it also would include Texas state university, it would include the university of Texas, it would include public institutions of higher learning as well as other state of Texas activity. And so the blue bars are the private sector side of the economy. Again, in this region, the tan bars are the public sector side. And so you had a bit of a county cyclical effect there in the recession period of 8-9 where the public sector was continuing to grow when the private sector has not and that obviously has been substantially reversed for the last five years. You can see how rapid private side job growth has been. This is a table -- I apologize, this is probably not easily to absorb, you know, as a slide. It's just information showing breakdown by major segment of the economy where the growth has been. If you look over there on the right side it will show you change over the last five years and then change over the last year. And you see that the heaviest growth really has been on what we would call the consumer side of the economy, and the professional services, business services, to some degree, certainly on the trade side, educational health services, leisure and hospitality, and some of that is tracked to an extraordinary level of in migration. People are moving here. I know, again, that's a big insightful piece of information. Now we're starting to talk a little bit about specifics to the city of Austin. This is the city of Austin

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sales tax, which is somewhat of a proxy for consumer spending presented on a calendar year basis. This is data actually from the controller's office rather than from the folks to my left. And shown on a 12-month change basis. We do that so you take out seasonal considerations in the equation. And what you see is solid growth for the last four or five years, but probably not quite as rapid as overall growth in the economy would indicate. Per your question, councilmember. I think and we'll show you more in this same vein in a second. So, again, it's quite positive but it has not been extraordinary by any stretch of the imagination. On the -- I'm sorry. >> Garza: Councilmember pool has a question. >> Pool: Do you want to offer up some theories on why that might be? I've got one. >> I do. I've got a slide coming that has -- that we'll talk about two of them. >> Pool: Okay. I'm thinking there was debt that was acquired during the recession, the banks made it very difficult for loans in order to help with that. >> Mm-hmm. >> Pool: And so if the consumer spending is falling off it could be because they're trying to pay off debt they acquired during the recession. >> You know, that's an interesting -- may I speak to that point just for a second? >> Pool: Please. >> Yeah. It's an -- oh, I'm on. It's an interesting thing. We actually did some polling trying to look independent of this conversation trying to look at the implications of falling oil prices. In theory since we don't have a substantial energy sector here in Austin, falling oil prices, by extension lower gas prices are good for our business, all of us as individual consumers. Every time we fill our vehicles up. And what we've found consistently both in this region and elsewhere in the state was people had said, you know what I'm going to do with the savings from cheaper gas? Pay down my credit card. Which was an interesting -- >> Pool: Good decision. >> Interesting decision. So the implications of that are some of the short-term

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gain to the economy of that increased spending doesn't happen. Medium or longer term obviously it's good but short-term it has a depressive effect which was interesting. I'll come back to that in a second. I think there's a couple other thoughts on that too. >> Garza: I have a question, sorry, dumb question. It's on the 18, slide 18. So when -- so from -- the 2013, 5.5, it went up 5.5% from 2012. >> Correct. >> Garza: So then the 2014, it -- if we're measuring from 2012 to 2014, that would be about 14% up? >> You'd have to do the compounding, but yeah. So it's the measure from the previous year every year. >> Garza: Got it, thanks. >> [Off mic] >> That's right. So I mentioned tourism earlier and one of the things that is really -- this is, again, city of Austin hotel occupancy, 77 plus percent for 2015. The line of demarcation for occupancy between,. >> Zimmerman: We need to find more ways to get heads in questions, gee, we need to build more rooms from the industry's point of view is about two-thirds on an annual basis, 65%, 66%. Been an extraordinary expansion of capacity in Austin in the city of Austin, and yet our occupancy level has nonetheless skyrocketed and so if you're a hotellier, what this data tells you is there's more demand than supply in place to fill it. It's an exceptionally high level of visitation. And then this is hotel revenue. Hotel revenue has doubled. Again, in the city of Austin, not hotel tax revenue, but hotel revenue has doubled over the last five years. More than doubled over the last five years. >> And maybe that rob related to the festivals and f1 and everything. I know that the cost of rooms

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goes up considerably. They surge price the hotel rooms during the festivals. >> Certainly that's got to be a big piece of it. >> Pool: Yeah, thanks. >> Yep. Councilmember Houston councilmember? >> Garza: Councilmember Houston. >> Houston: Does that include the counts for short-term rentals? >> Yes, it would if they're paying their taxes as this information comings from the state and the state's information is driven by tax records. >> Houston: Okay. So if they're paying they're taxes they're included? >> That's correct. >> Houston: Thanks. >> So then I mentioned venture capital investment. You saw a negative headline about the first quarter and really it's been fairly stable the last four or five years. I would expect it will continue to be fairly stable this year. This is interesting information. $700 million in 2015 sets against over 2 billion invested in venture capital in Austin, 1999-2001. This is a healthy level of venture investment. 2 billion was not. Lots of let's fund my great idea dot com. Anyway I thought context on this might be a little bit helpful. And then here you have a chart on demand for commercial office space. The red triangles are vacancy rates, and then the bars are completions, and then also absorption. So, again, you've seen a tremendous amount of construction. You've seen a tremendous amount of absorption and the vacancy rate continues to go down. Again, putting structure on what we all negotiation which is there's lots of demand across all segments of real estate in this community. On the housing side, this is, again, from the multiple listing service, this just shows essentially the relationship between single family housing permitted and multi-family units permitted. So this is a unit count as opposed to a structure count. And you've seen over the last several years an increasing

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emphasis on multi-family. We talked about this last year so I did not put it in this year's deck, but we aren't building housing units fast enough based on the math. The math shows us that demand for housing is far in excess of the level of supply we're adding and that we're getting pretty close to working through our available stock. Again, we can pull all that if you want. We went over it to some degree last year. Nothing has changed in the last 12 months or so. Home sales across the region actually have to some degree leveled out. These are individual single-family homes. Some of this is about the domestics of the -- dynamics of the real estate market, little harder to qualify than it once was, you've got to have a little more of a down payment, underwriting standards are different and quite frankly the rental product is a little more diversified. I think all of us may know someone who in the past might have bought but now choose to relevant. It's interesting to see how it's leveled out. This of course -- I think this is fairly controversial number. This comes from the Texas A&M real estate center. They pull data from the multiple listing service. This is from a broader region, looking at median home prices, not average, median. There is quite a bit of debate about this. You can certainly hit zillow or red fin or some of the other sites who will come up with different Numbers. I think the point is it was flat for a long time and now it's rising. I'm not prepared to tell you what the absolute accurate number for any given geographic area is but rather than the median price is obviously rising which, again, I don't think is particularly news-worthy. This is the months of available housing inventory and this is, again, making that point about supply and demand. The line of demarcation here, six to 6.5 months of available supply when you move from being a seller's market to a

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buyer's market. At two months, it's a seller's market for sure. And it has been two months for some period of time. So the overall projection on the economy is that -- councilmember, back to your question. I do think the rate of growth were I am reducing the forecast a little bit because of concerns about the national economy. It is hard for me to project for job growth in the wake of four or five years of job growth and yet year after year we seem to continue to perform at that level so I'm reducing it a little bit because of the national stuff, but the level of immigration here is so strong and if you look back at that table about our relative shares by sector, we're heavily concentrated on the consumer side, if you will. Business professionals services side, our tourism sector continues to be very, very strong. So in terms of aggregate job growth it's hard to see much more than a sort of incremental reduction in the rate as opposed to a substantial drop in the rate. And I'll show you the chart on that. There's the forecast. The blue is the history, and the tan, the projections. It's exceptional. I've never really quite seen growth at this level in any other community I've worked at, any data I've looked in. You just don't see this level. Particularly what is now the -- we are now the 11th largest city in the country. I don't know off the top of my head what the msa rank is, but for a community of this size, normally you run into what economists call the law of large Numbers, which is it's hard to stack rapid growth on top of a big base, and so it's exceptional. So then the next thing we talk a little bit about is sales tax. And one of the things we have always looked at, just as an interesting connection, is to

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look at the relationship between growth in sales tax in the city of Austin and our overall employment growth level. Again, this is at the msa level. And so it's been interesting to see that there is obviously a pretty tight correlation between the two. And that correlation continues to be there, although it's not obviously perfect, it's still -- it's a pretty substantial relationship. So that's one of the things we obviously pay some attention to. Second thing we pay some attention to -- I'm sorry. >> Sorry. >> Zimmerman: Go back to your -- yeah, the prior slide, page 29. So I'm sure there's reasons for why you're doing this, but it's a little bit frustrating we keep bouncing back and forth between msa and then go to Austin and then sometimes on the same slide we MIX msa and Austin. >> Right. >> Zimmerman: Why wouldn't this thing show, you know, the msa? We have different cities in the five-county area multiply why wouldn't we say city sales tax msa versus msa growth? It frustrates me a little bit. Why would we do this? >> My charge is to try to provide an external forecast of the city of Austin's sales tax. As opposed to the msa. The aggregate of all the cities in the msa's -- excuse me, I can say this, the aggregate of all the cities in the msa's sales tax forecast. So what I have been looking for over time are things that can help me develop those projections. You're right, it is a little bit a fruit salad. It is a little bit of mixing apples and Oranges but the overall economic performance of the region obviously does have an effect on the sales tax performance of the city of Austin. And so if I had better data, more timely data on the city of Austin's employment base, I would look at that, but that data is only real as of right now through about third quarter, second quarter, actually, of last year. And so we have more realtime information on the region than

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we do on the city specifically. >> Zimmerman: But this goes all the way back to 2003. >> Yeah. >> Zimmerman: So the timeliness argument. >> Speaker5: It's more -- again, I think I wanted -- the purpose of showing you this chart is to say that there is a relationship between the two and that there has been through history. >> Zimmerman: I'm sure there is but, again, if we're trying to figure out cause and effect of what we do as a city and how it affects the city, right, because we're responsible for the city, we're not responsible for the msa. >> I understand. >> Zimmerman: We can't do anything about the msa. We only make policy for the city so I'm trying to understand the relationship between what we do as a city and what happens to the city. >> Right. >> Zimmerman: City and city. >> Right. >> Zimmerman: So is there a way we can redo these and do city and city and msa and msa? >> Sure. I have more slides behind this that may speak to some of what you're asking about. And then obviously I can come back and provide whatever information is helpful. All right. So that -- so one just talking about this relationship. Second thing, sadly we don't have data on this at the local level but it's clearly a factor is the rising role of ecommerce in the equation. This is national data. And so ecommerce in the fourth quarter of 2015 was 8.6% of overall national retail activity as measured by the commerce department. You see a rising trend. This is obviously important because of course we don't realize sales tax revenue off of ecommerce activity. I think it's safe to say there's plenty of ecommerce going on in Austin, Texas. This is something that, again, per councilmember Houston's question, we were able to pull city of Austin as a share of msa sales tax and share of population. The bottom -- darker circles there are city of Austin as the share of the population of the metropolitan area. The white circles are share of

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sales tax. And you see what has been a downward trend up until the last three or four years. The city's share of the overall msa sales tax revenue and yet that trend has reversed at least a little bit. My hypothesis is that actually there are two factors in that, one we do tax building materials in Texas and so as you've had a surge in construction here, you may see some benefit of that, but I think a lot of that is related to the surge in tourism so I think that has had the effect of bouncing the city's share up a little bit relative to the overall trend. >> Garza: Councilmember Gallo. >> Gallo: So a third one also be possibly that the people moving out of Austin and the population we're losing is still come into Austin to purchase goods? Do we have a component of that you think? >> I think we've had that component for a long time, and I do think -- and this is entirely anecdotal, I do think we are increasingly inclined to shop close to where we work as opposed to to just where we live, particularly for those of us who are doing white collar jobs. I think there is more and more of that going on, and that would amplify the point that if we were living in, say, Williamson county and working in the city of Austin we may do a little shopping in the city of Austin even over the course of the workweek as opposed to just doing our shopping on the weekends. >> Gallo: Is there a way to get that sales tax information broken down into categories? , Building materials, groceries -- >> Yeah the controller's office reports that. It is, again, driven by -- it's about -- it's about typically nine months behind, but, yeah you have -- you absolutely can get that information broken down from the controller's office. >> Gallo: All right. Thank you. >> And so thinking about the outlook for sales tax, if you looked at the traditional relationship between city of

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Austin's sales tax and the overall growth in metropolitan area employment it's historically been two to three times. So if msa employment grew at 3%, historically city sales tax would be 6%-9%. I think there are a number of factors, some of which I just touched on that make that relationship probably not as tight as it once was or not as strong -- that's the wrong word. The relationship is still there but I think the factor, multiplier is not as great as it once was. I think certainly the ecommerce piece of it, the growth of communities outside of the city of Austin, the growth of employment outside the city of Austin, growth of retail capacity outs the city of Austin, I think all of that suggests it's probably more like a 1.5 times relationship. And so that leads me to a projection of sales tax growth for the city of Austin that's more in the 6.5% range for the next couple years as opposed to 8% to 9% which it might have been given that relationship five to seven years ago. So that is the sort of overall -- my sort of overview what the city sales tax revenue is likely to look like. I do this mostly, I think, as an external point, an external set of eyes going through a different process than they go through so I would take what I say as simply another piece of information, thinking about what they're going to say. I will also say about that, I learned this from the then city manager of San Antonio a long time ago who said to me whatever you think is right give me a policy projection that's 80% of that. Because he said if I'm wrong on the down side people aren't happy. If I'm wrong on the up side people are really unhappy. I thought that was pretty sage advice and I sort of remembered it.

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So one other thing that I think is interesting to talk about, and I will just talk about this for a second, is that as we are talking about the story of overall growth, there's a conversation going on across this community that the Numbers back up, which is that -- and I alluded to it on a slide earlier but I did not discuss it, is that our divisions as a community have widened quite a bit. Our poverty rate is higher in 2014 than it was in 2009. Our poverty by race and ethnicity has gotten worse. The gaps have gotten worse over the last five years. So there's a broad conversation going on, which I won't weigh into, about people people left behind, but the reason why I bring this up to y'all in thinking about this today, is that one of the key issues for so many communities that struggle with these stubborn levels of people who remain hard to employ is that there isn't much demand. There isn't much need for workers in many places. We in Austin need workers who -- so a big part of the overall problem is not in place here. There is demand of workers -- for workers of all different kinds in Austin. The issue is capacity and access. And so there a number of programs out there -- I'm not a program specialist. But there are a number of people thinking hard about how to create additional capacity and additional access for traditionally hard to employ populations, for people who have been in poverty for some time, people who have had an experience of the criminal justice system and something near and dear to my heart personally, people with special needs. And so as we think about economic development, I just wanted to bring this, I guess, to your attention as a council. I'm not suggesting you do anything in particular out of this, except to say that as we are at this place as a city, where we're experiencing all this growth, if we can think about encouraging better

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capacity and better access, hopefully over time, we can begin to rebalance some of these what are unfortunately kind of daunting Numbers with that I'll stop. >> Garza: Anybody have any questions? Councilmember pool. >> Pool: Thank you so much. I always enjoy the forecasts. On your last slide there I'll just mention that an initiative that council just passed in the last month was the fair hiring policy, which is to support, people coming out of prison, increasing their chances of a job by delaying the criminal background check so they can at least get into the final pool where they might have exactly the talents and the skills that an employer needs but the employer may decide if he or she sees that check mark on criminal status, wouldn't talk to that particular employee so -- as a potential employee so we're working in a number of different areas to try to attack that very thing and also we're working on increasing minimum wages in the areas that we can address. I would like to see that more widely adopted throughout the city, and I think there's a national effort to raise the minimum wage to $15 an hour. Is that correct? >> There is. >> Pool: So that will not shift the balances, but it will help to start slowing, I think, the gap. >> Mm-hmm. >> Pool: Because especially in Austin we're growing so fast. >> Yeah. >> Pool: But thank you for the presentation. >> Thank you. >> Pool: It's pretty interesting. >> Okay. Thank you.

[10:08:14 AM]

>> Garza: Does anybody else have any questions? I think Mr. Van eenoo is going to present next. >> Good morning, ed van even negotiation we're going to be for instancing from Mr. Hockenyos' outlook for our fiscal forecast for our organization, which is obviously tied on the revenue side to what we're seeing in the economy. I'm going to start with -- we really have three sections to this presentation. I'm going to start with this discussion of citywide cost drivers about these are things that affect all of our city departments, general fund departments and enterprise departments alike. Following that discussion of citywide cost drivers I'll go into quite a bit more detail on the city's general fund and Elaine will come and provide highlights for our enterprise operations. I'm looking at the citywide cost drivers. This first list, bulleted list of items are fiscal year 17 increases associated with items that were approved in fiscal year 2016. So in this category, you can look at citywide salary market study for civilian employees. Council approved that in fiscal year 2016 but there was only two months of funding associated with it. That market analysis will go into effect August of this fiscal year so there was two months of funding in fiscal year '16 so of course those wage adjustments need to be annualized in 2017. There's an additional ten months of funding for that throughout our forecast. The next item is we had a number of staff positions council approved in fiscal year '16 and I believe all of them were delayed to some degree or another. The majority of civilian positions were funded for nine

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months and that additional three months of funding needs to be added to the budget for fiscal year 2017. Likewise in public safety we had sworn police officers, sworn firefighters and sworn paramedics added to the fiscal year '16 budget, all need to be -- in the partial year funding all need to be annualized in the fiscal year 2017. Final item is living wage increase and insurance providing for temporary employees. Those provisions went into effect January 1. Those are done on a calendar year basis, we need to annualize those costs an additional three months of funding in fiscal year 2017. Other escalators related to the fiscal year 2017 budget that's going to be affecting all of our departments, one being employee wages. At this early stage in our budgetary process we're anticipating pay increases in the range of 2%-4% for civilian staff, backups historical trends and -- based upon historical trends. I think it's important to note this isn't a recommendation but based upon historical trends we would anticipate next fiscal year seeing 2%-4% increases. For sworn personnel we have a contract in place for 2017 so we know they'll be receiving a 2% increase then with similarly in the out years of our forecast we're anticipating increases in the range of 2-4%. In regards to health insurance, we're going to talk a little bit more about health insurance in a few slides but we're forecasting a 12% increase in fiscal year 2017. Again a very conservative and early estimate. We're of course hopeful we'll be able to drive that number down before we get to a budget recommendation to the city council. But driving that number down most likely will require some plan design changes and so, again, we think that's a conservative estimate at 12%.

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In the out years we're projecting 8% growth. Communications and technology management and support service allocations so these are our centralized services, ctm, our it service support, support services are all the functions from hours to financial services -- human resources to financial services, mayor and only to the city clerk. All those support functions are allocated out based on a cost allocation plan. For communications and technology management we're projecting 10% increase in fiscal year 2017 and support services 7.5% increase. These are early estimates. We won't have finalized Numbers until further into the budget process but we've been seeing increases in our communications and technology management area of about ten -- little bit more than 10% annually and I have a slide to show you some of those trends. Finally, in regards to fleet maintenance, we're projecting 3% growth. Primarily due to increases in fleet size that we're projecting. >> Gallo: I see higher increases for the next fiscal year and lower increases for the years after. Could you help us understand why you would forecast or foresee a lower increase in future budget years? >> Some of that has to do with -- just with, you know -- we talked a lot about the ctm increase and maybe when I get to that slide you'll see -- we have seen double digit increases in communications and technology management but we've also seen increases in the 6% range. So, you know, some of that is based upon the fact that what we're forecasting is for base cost drivers here so we're not necessarily forecasting major

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new system upgrades or enhancements that we still think need to be discussed as a point of policy discussion with the city council, and so if things like the human capital management system, if the city council were to endorse the city moving forward with the implementation of that significant expenditure for a new human capital management system, these increases in the out years would be higher, but we're not presuming at this early stage in the forecast that that will happen. So the 5% increase would be more reflective of just kind of a standard built-in cost drivers and then they could go higher than that depending upon decisions that are made in the budget recommendation. >> Gallo: And

I wasn't just focusing on just specifically that, but on every single one of those increases in health insurance it's 12% for this next fiscal year but drops to eight in out years so each one of those lines showed a higher percentage projected for this fiscal year versus the out years. >> Sure. >> Gallo: I was curious. I mean, it's not just that one. It's all of them are looking that way. Just curious why that's -- >> Well, I think in two slides you'll see some information on the health insurance that may help answer some of that. Do I think the ctm one in particular is one where we could really possibly see increases higher than 5%. So, I mean, if the council, you know, wanted us to be a little bit more conservative in our forecast and project something higher than 5%, I think that is an area, again, you'll see a slide on it, not in the next couple slides but general fund discussion you'll see a slide showing what we've been seeing in our ctm expenditures but, again, there's so much uncertainty at this early stage in the forecast, a lot of decisions still need to be made in regards to some major ctm investments that we think probably need to happen in the city. But that is the point of one of the policy discussions we're recommending with the city council -- is a policy

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discussion about our it needs. We also have a discussion we'd like to have with the city regarding employee benefits so the outcomes of those policy discussions certainly could steer these Numbers one direction or the other. >> Gallo: Maybe I didn't ask my question correctly. So why -- so why when I look at this list, not just cti but look at this whole list on this page where the out years are projected at a certain percentage, why are we looking at so much mover of an increase percentage for this budget year? Is there going to be reasons that you talk about that? Why it's going up over what you see in the out years, in the future out years? >> I think the health insurance and ctm I think we'll talk about those things. The support services on cost allocation is -- you know, it's a lot of -- some of these are also driven by the ending balances that we're experiencing so they can bounce around depending upon that. So for fiscal year '17 we have better data and can dial into a number. For the out years we're projecting it more upon a historical trend. So the historical trends is what we've been seeing is maybe more along the lines of a 5% increase but in fiscal year '17 based on more timely data that we have because we're halfway through fiscal year 2016 we're projecting a 7.5% increase in that area. >> Gallo: Sorry for all the questions. Will we have some documentation somewhere that shows in this current year's budget what the increase was in each of those categories for the prior year? >> We would have that in our -- in our fiscal year 2016 budget in the financial summaries you could see what the increases were from fiscal year 2015 to 2016 for sure. >> Gallo: So we could access that there. >> Absolutely. >> Casar:. >> Gallo: With what was actually passed and approved as part of this year's current budget? >> Yes. >> Gallo: What the increase

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was from the previous year? >> Yes. >> Gallo: Tell me again where we would see that. >> That's in the budget documents, so in the financial summary section of the budget document for all these major funds you'll see prior year expenditures, fiscal year 2015 budget amounts and fiscal year 2016 budget amounts so you can see the changes over time. >> Gallo: Thank you. >> Garza: Councilmember pool had a question. >> Pool: I wanted to reiterate, especially for folks who are watching that the intent of the forecast is simply to lay out the major cost drivers and not to dig into the actual budget Numbers. Is that right? That was what was in the city manager's cover memo to us all. >> That's correct. >> Pool: So I'm sure all the detail will be available to us at a later time. This is giving us the broadbrush first sweep at what we're looking at for fiscal '17. >> In terms of wages looking at the historical wage increases we've seen the Orange line is depicting increases for our public safety employees, the blue line is depicting increases, annual increases for our civilian employees. We put a purple line in there which is simply a five-year combined average of the two. So over the last five years the combined annual average increase has been 2.4%. That 2.4% is what we're utilizing to drive out the Numbers in this forecast, but, again, that's not a recommendation at this stage. It's within that window of 2%-4%, where we think we'll likely be for our budget registration, but the five year history has been 2.4%. >> In regards to our health insurance and other wellness programs this includes not only our medical insurance but also our death, vision, employee assistance programs. You can see the blue bars there show the city's contribution per employee to our employee benefits fund.

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The lighter blue line that bobs up and down there is the annual percentage changes. We've seen annual year over year increases anywhere from 0 percent to a high of 12% last year. We are forecasting an additional 12% for fy '15 but, again, without reiterating all those points I made it's an early estimate, we think it's a conservative estimate and we'd hope by the time we deliver budget recommendations to council we can find strategies to drive that percentage increase down but we always want to be conservative at the early stage. The compound annual growth rate has been 7.1% so there you see the dynamic on one of the items you were talking about why are we projecting 12% for next fiscal year and 8 percent in the out years. Well, 7.1% has been our annual average so 8% seems conservative but where we sit now with our knowledge of our current employee benefits fund and claims status and the experience we've been seeing, we think 12% is a more -- you know, safer estimate for fiscal year '17, again, with the hope of driving it down. It's one example of -- and I think you'll see similar information from ctm later. Again, those are citywide cost drivers, affect all of our funds. We wanted to present them collectively so we're not talking about them over and over again as we're going through all of our enterprise operations but needless to say all of our enterprise operations are affected by what happens with employee benefits costs, what happens with employee wages, what happens with our support service allocations. Moving on to details about the city's general fund, the pie chart on the left shows the fiscal year 2016 uses of funds. $912.8 million was the amended budget approved by council, roughly 69% of that budget goes to fund public safety services, police, fire, emergency medical services. 21% is allocated to what we

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collectively call community services being parks and recreation, the animal shelter, health and human services and neighborhood housing and community development. The remaining roughly 10% of the city's budget is for all other activities, including municipal court, planning and zoning and development services. It also includes our transfers and other requirements in that category. Over on the right you can see that the general fund is primarily a service fund. It's driven by personnel costs in a much larger fashion than what you'll see for some of our enterprise operations like Austin energy and Austin water, the aviation department, where they have much more substantial capital components to their budget, in the general fund 74% of our costs are for the people that deliver the services provided through the general fund. This provides a more granular look at some of those cost drivers I highlighted as citywide cost drivers specific to the general fund. We are projecting significant increases in what we call our built-in cost drivers and a lot of these cost drivers are associated with decisions that the city council made as part of the fiscal year 2016 budget approval or based on other action that's the council has taken. This first slide talks about incremental increases that we're forecasting for fiscal year '17 for items that have already been approved by council. The largest of those being the contracts that have been approved for police, fire and emergency medical services. Those contracts include 2% wage increases for roughly

3500 sworn personnel. There's also provisions for staff and longest pay, total of $10 million increase in fiscal year '17 is projected for those contracts. As you well know, the new central library will be opening as part of the fiscal year 2016 budget council approved partial funding for that library, 48 positions and

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all 48 of those positions were significantly delayed to the later part of fiscal year 2016 so as you start looking at fiscal year '17 budget, the positions remain but the costs haven't been annualized so we need to annualize those costs and we did have a discussion with council last year that the 48 positions wasn't the total staffing compliment >> That there be additional physicians brought forward in '17, so you can see here the additional positions. So the combination of adding those 48 positions added by council last year and the 11 additional positions needed to operate the library is $4.3 million. >> Councilmember Poole has a question. >> Pool: The fact that we were able to start hiring firefighters be reflected in the increase in the -- in that first line, the police, fire and ems? >> I think I'd like to -- we have a couple slides on fire that we talk a little bit about what's happening in the fire department and our ability to hire positions and things of that nature, so I think we're going to probably address that question in a few slides. >> Pool: Thanks. >> The next item on here is, again I talked about the -- I talked in the city wide cost drivers the annualization of the civilian fund markets, the additional 10 months of funding in fiscal year '17 comes at a cost of $4.1 million. So it's kind of a theme here. There was a lot of things approved in the fiscal year '16 budget that had deferred cost. There was per shall funding and -- partial funding and the costs are coming to full bear answer in the fiscal year '17 budget. In regards to ems, council approved transitioning adding 15 positions in fiscal year '16, that was the captains for need

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ING. There was an additional 52 positions to fully implement the 42 hour workweek that council approved last year. That's three and a half million dollars. The 50 officers council approved in fiscal year '16 were only funded for six months. This 2.2 the annualizing those officers to full-year cost. Same story for the civilians, 98 civilian positions, council approved in the general fund, but all of those positions were delayed at least three months, some delayed even further, so annualizing those costs comes at a price of $1.5 million. During fiscal year, this wasn't approved as council as part of the budget, but a midyear (one moment, please, for change in (one moment, please, for change in changed it from 40% to the housing. The shady hollow fire station was one of the council items that was approved. Those costs were delayed until four months, I think the final four months of fiscal year '16 is when that station'soi G to come on line, annualizing that is $1.3 million. And the final item had to do with the living wage, and so when we approved the living wage of 1303, we had an initial estimate, but now that it's actually in place and operating and we're seeing who it applies to and who it doesn't apply to, we're projecting a need of an additional $700,000, calling it a true-up, because our initial estimates were just that, estimates. But now we have a half a year of data under our belt and we're able to really see what the cost of the living wage program is -- has be. So those are all things that council approved as part of the $29.1 million. The list doesn't stop there as terms of standard built-in cost drivers. >> Councilmember troxclair? >> Troxclair: Sorry, I didn't

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know. I understand that this is an additional 700,000. Do you remember what the estimate was that we did budget for, the direct item? >> I think it was 1.4 million. Don't write that down, I can follow-up with you, but it was in the low one point something million dollars was our initial estimate and it's ended up being quite a bit higher than that. [Lapse in audio] Does not apply to them but that's another thing council may want to discuss because there's been some implementation issues of people doing different pays doing the same job. So on this next list, again, this just starts reiterating some of the -- but putting Numbers to them specific to the general fund, the insurance increase of 12%, again conservative, hopefully it will be lower, but at 12% it would be an additional $10.1 million to fund our insurance program. Again, that's not just medical insurance, dental, visual, employee assistance. The projected civilian wage increase, we're using 2.4% here, but again I can't it rate enough, that's not our recommendation. We think it will be in the range of 2 to 4% we needed to put in a number and the number we chose to put in was based upon the five-year average. Increase in fire overtime, we have a couple slides on this following this, but we have seen this fiscal year, we've talked about this in our first quarter financial report, we have seen a significant increase in fire overtime in the current year. This related to the number of vacancies that the department is seeing. And other factors, so in the fiscal year two thousands 17 budget, we are forecasting a

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need for an additional $3.1 million in fire overtime. And, again, I'll hit more on that in the next couple slides. Oops, sorry. The final items on the list, fleet maintenance and fuel cost 1.3 million. We're proposing a million dollars increase in the transfer to the cip for facility maintenance. This is consistent with a new financial policy that council approved last year that basically we have a lot of deferred facility maintenance needs throughout the city. We talked about a new financial policy that would have us begin addressing those deferred facility maintenance needs, and so this would be an additional $1 million towards that policy that council endorsed last year. The 311 call center is just another one of our allocations, another one of our shared service allocations, we're projecting a $500,000 increase in the general fund share of that, and then finally we had the removal of some one-time items in our -- in our budget, so $700,000 decrease related to some equipment items that were in our fiscal '16 budget that were one-time. Largely related to new positions, when we add new positions we have to add one-time costs, computers, vehicles, so we're backing those out. The grand total based upon the budget as it currently is, without any funding for new council initiatives or other priorities increases of $56.6 million. Very substantial projected increases in our fy '17 budget, just, again, based upon the current budget structure that is in place. Councilmem ber troxclair. >> Troxclair: Is that because you are expecting the price of gas to go up? >> No, that's really being driven -- that's really being driven by 3% increase based upon anticipated

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growth in the city's fleet, so as we add -- and, of course, growth in the cost of parts and supplies associated with it, but it's not being driven by the fuel costs. >> Troxclair: Thanks. So one of the areas that kind of stood out to us on this list has to do with the fire overtime. We think it's a significant issue and something we want to spend a little bit of time talking to the city council about. So, you know, one aspect of what drives fire overtime is the use of four-person staffing on all fire apparatus and the need to backfill those -- any vacant seats. So if there's a fire shift that is supposed to have four people on it and there's only three people due to vacations or sick leave, then that fourth seat is backfilled on an overtime base it's. It's not too much of an issue when the fire department is operating around 30 or 40 vacancies, they don't have to run too many overtime shifts. When the vacancies get up in the neighborhood of 90 or 100 vacancies, almost every use of leave necessitates an overtime shift in order to fill that seat. We'll get into it in a little bit here, but right now we have a significant number of vacant positions in the fire department. Also our contract that council recently approved with the fire department includes a provision that allows productive time -- or allows leave time to be counted as productive time, so that has a significant impact -- [lapse in audio] -- In terms of a 40-hour workweek. And if an employee took 20 hours of vacation during that workweek, but then came into work an extra shift, that would still trigger overtime, even though they maybe only worked 20 hours, plus that extra shift, that's less than 40, but since the vacation leave is counted as productive time, it actually triggers an overtime. For the couple years where we did not have a contract with the fire association,

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that's not how things were working, but under the new contract, leave time is counted as productive time and it's had a major impact on overtime expenditures in the fire department. The department of justice review process has also slowed the hiring process down a bit, but we do have some cadet ab cad mys planned. We have academies planned for August of 2016 and October of 2016. We'll have 40 positions in each of those academies. On the next slide, you'll see that begins to address some of the vacancy issues in the fire department, but it doesn't -- it doesn't fully address them. The Numbers down there in the red table are -- are somewhat staggering. You can see back in September of 2014, this was a year where we did not have a contract with the fire association. They were running 92 vacancies at the end of that fiscal year, they had 92 vacancies, and you can see their budgeted overtime of 5.6 million versus their actually expenditures of 5.4 million, they essentially were within their budget for overtime. As you move on to September '15, you've seen a significant increase in the number of vacant positions, it grew from 92 to 135 positions. But we also had -- the contract was in place for part of that year, and you can see the impact that those two factors had on overtime. The actual overtime rose from 5.4 million to nearly $12 million. And then in 2016, that's the fiscal year we're currently in, these are just projections, but based upon current attrition rates and hiring status, we're projecting we'll end fiscal year 2016 with 129 vacant positions, but this will be the first full fiscal year under the new contract with the fire association, and you can see the continued growth in overtime that we're projecting, $14.9 million. So in order to keep pace with the increase in overtime, we're -- we've

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included in this forecast an additional $3.1 million to address this issue. Councilmem ber Houston? >> Houston: Mr. Van, the folks -- I call him Mr. Van, so I just decided to use that name. Help me understand again how the contract treats leave as productive time. Explain that to me again. I think I got lost in that. >> The fire department's scheduling process is pretty complex. So to make it simpler, if you think of it if you were a 40-hour workweek employee, if that employee works 45 hours, they would get five hours of overtime. Now, normally, if you had a -- if you took 20 hours of leave that week, right. >> Houston: This is personal leave. >> Personal leave or vacation leave, but if you were not working for 20 hours, that means you actually did work for 20 hours. But then if you came in and worked an additional five hours, that would not trigger overtime normally because the employee actually worked 25 hours that week. They didn't work more than 40 hours in a week. The provision in the contract with the fire association counts that leave time as productive time. So, in other words, it counts their leave time as if they had worked. And so, you know, that same scenario in this case applied to the fire department would be you took 20 hours of leave, you worked 20 hours and then you worked an extra shift, you're now triggering overtime for that extra shift, even though you didn't work more than 40 hours in the week. So that's how the contract has had a significant impact on overtime relative to the period of time when we didn't have a contract in place. >> Houston: Okay. Thank you. >> If that's -- >> Houston: Yeah, I'll ponder it. >> Okay. Councilmem ber pool? >> Pool: I'll take a stab at it, too. If we were to fill all the

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vacancies and thus reduce our overtime cost, would that then be offset -- or how much would it be offset for the new costs for health insurance and benefits and retirement? >> Well, we do -- so if you look at the column there where we say $6.2 million is our -- is our budget for 2016 and our overtime expenditure forecast is $14.9 million, so there's more than an $8 million swing between those two, so you could maybe ask why are we only saying we think to add $3 million in overtime overtime -- [lapse in audio] -- When they're vacant. So as those vacancies grow, we do get savings from the vacant positions, but the savings isn't enough to completely cover the overtime expenditures of filling those seats. >> Pool: Thanks. >> Mayor Pro Tem: I don't see any further question, so if you would continue. I just want to apologize to my colleagues for joining you late, as maybe councilmember Garza mentioned, I was part of a panel that the downtown alliance sponsored this morning. Thanks. >> I think another point that maybe to speak to some of what councilmember pool was bringing up, is that this is an issue that exists when there's a large number of vacancies in the fire department. If we can drive those vacancies down, then the issue will go away. If we can get the vacancies down to, again, in the range of 30 to 40, we would anticipate the overtime requirements being substantially lower. And so here's a chart that shows the vacancies overtime. And essentially any time that the graph is on an upward slope is a time where just through regular attrition, people retiring, people moving on to other job opportunities, you see growth in the number of vacancies. And then the very steep declines are when a cadet academy graduates, so it's

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like a very rapid ebb and flow. You don't see like a steady treadmill of positions coming and being filled. The positions leave over a period of time, and then as cadets graduate the academy, it drops rapidly. So you can see at the beginning of fiscal year 2016, the fiscal year we're in, we had just under 80 vacant positions as a result of retirements and attrition. That has grown over time. It's currently in excess of 100 positions. You can see the period there on your slide, that first redbox where shady hollow will come online. So initially when shadily hollow comes on line, we won't have the cadets trained to operate that station, so that station will be run on overtime shifts. So you'll see an increase in the number of overtime seats that need do be filled. We project further growth just through attrition, that door peeking out at a little more than 140 positions at one point in time in fiscal year '17 before we see a rapid drop of class 119. We see a rapid drop right on the heels of 119 graduating, we anticipate another 40 cadets to graduate class 120. Then we start the cycle back up again. You can see the onion creek station that's poised to open in 2018 will increase the number of vacant seats that need to be filled. It's really not until late in fissial year '18 with the graduation of classes 122 and 123 that we think the number of vacant positions in the fire department is going to be back down to a little bit more manageable level of about 40 positions. So really probably for the next two fiscal years, you're going to continue to see these overtime -- these elevated overtime rates in the fire department. All right. Moving on to communications and technology management, we've already had quite a bit of conversation on this. This is showing the

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five-year trends in the citywide costs associated with our communication and technology management department. This isn't only the communication and technology management department, it's also our wireless fund that puts equipment in our police cruisers and other public safety apparatus, and also our ctac, our emergency call center. So these are the all-in costs. Back in fiscal year '13, that was about $65 million. It's grown to $88 million in the current fiscal year. And we're projecting it to reach $94 million in fiscal year '17. The compound annual growth rates have been about 11%. We are forecasting 10% in our current budget. We forecasted 5% in the outyears. So councilmember Gallo's point and some of the conversations that we've had, that's probably not aggressive enough. I would just answer you in that way. We could easily be sidewayed to project 10% growth in the outyears based upon the history, but that 10% growth would imply that we're going to be funding a number of new projects. So when you look at the 11% growth over the last four years, that includes, you know, doing the digital vehicular video in the police department, includes our starting down the path of doing body cameras, it includes upgrades to the mobile data computers, to our permitting system. So these are some of the important technology investments that we've made over the last four years that got us to an 11% annual growth rate. If we kind of, you know, hold the line and remain -- [lapse in audio] -- But the reason I say we could easily be swayed to increase our projections there is that's probably not realistic. There's significant technology needs in order for us to keep pace with the rapidly changing technology world. There's going to need to be additional investments in technology. Again, it's kind of the

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focal point of one of the policy discussions we want to have with the city council. We want to talk about the changing technology environment, our need for additional investments in those areas and to get your feedback. And depending upon that feedback, we may well need to revise those estimates as we move forward in the budget process. So this is a graph that we started doing a couple years ago. I think it's kind of interesting. The light green bar shows for the previous four fiscal years the -- what we forecasted. You know, in April of those years, what did we forecast the increase in the general fund budget was going to be, and you can see it's typically been in the low $40 million range for fiscal year 2016, we actually forecast $51.9 million. And then we contrast that with the green bars to the budget that was ultimately approved by the city council. And so, you know, universally, the budget's universally been higher every single year from what we initially forecast by the time, you know, the city council is done looking at the budget and addressing various priorities that you may have in regards to the budget. It's typically ends up higher. You know, I think that's notable because, again, we're forecasting, based upon all those cost drivers we're seeing a lot of costs from the fiscal year '16 budget that were deferred to fiscal year '17, we're projecting or forecasting the highest increase in the general fund budget of $56.6 million. That's the highest we've ever forecasted of an increase and again the historical trend has been that the budgeted usually ends somewhat higher than what we initially forecast as we get into conversations with council about funding a variety of priorities. I now want to also highlight that what we forecasted so far is just our built-in cost drivers. We're not trying to make assumptions at this early stage about which council priorities will be funded and which won't, but we wanted to highlight to you

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that there are a number of council priorities that are currently swirling out there that the forecast we don't have -- we don't have funding in that $56.6 million for any of these initiatives. I just put them here in terms of potential dollar impact. In regards to the general homestead exemption, we're currently at 6%. There was a lot of discussion from council last year, there's a lot of discussion about getting to 20% as quickly as possible, perhaps over a four-year period. So we just put out a number here that we anticipate for every 5% increase in the general homestead exemption, that would result in a reduction of revenue of $9.1 million. There are a variety of resolutions that have been passed over the years in regards to how much we fund and how much we set aside for health and human services as well as social service contracts. There's resolution talking about built-in increases for inflation, for population growth, increases beyond those two factors. And so in our review of those various resolutions pertaining to funding in these areas, we forecast an additional $8.3 million would be required to keep us on track with the intent that council had expressed in those various resolutions. The Zucker report, there's an additional $1.1 million of funding needed to fully implement the outcomes of the Zucker report. $300,000 is what we project will be needed for marketing and outreach efforts, and enforcement efforts for the fair chance hiring process that we talked a little bit about. And then we have a number of items, council resolutions that have been passed where we're in the progress of doing the analysis on those, so there's resolutions about looking into the transfer policies from the two utilities to the general fund. That could have substantial financial implications for the general fund. There's a resolution out there asking staff to look into identifying funding sources as part of the fy '17 budget for additional

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fire stations and staffing. Same story for the sobriety center, an assessment tool to address racial disparity and addressing food access issues. All things that are currently in progress, we're currently doing the analysis based upon resolutions that council have passed and all of which we would anticipate would come to a dollar amount. $18.8 million plus potentially much higher than that to address all these priorities. The other thing that's not in our forecast is any of the funding requests that our departments may ultimately bring forward. Those are still in the development process. As the city manager mentioned, we're kind of changing up the forecast process a little bit this year. We're going to be throughout may and into June explicitly teeing up -- [lapse in audio] -- For the benefit of those policy discussions, we'd be looking to finalize a list of funding requests from our general fund departments. You know, just to give you some context, though, historically, I think, last year we saw more than $48 million of funding requests from our various departments, including 330 new positions, and traditionally, a very small percent of those funding requests ultimately get added to the budget. Last year it was about $11 million a total of 98 new positions. There's never enough money to address all of the needs and demands and expectations, but you can rest assured that there are going to be a lot of funding requests identified by our general fund departments. We anticipate that report coming out in the early part of June I'm going to move on now and talk about our revenues. This is the same slide I started expenditures with just showing the sources of funds as opposed to the uses of fund. We have a $912.8 million for fiscal year '16, a little bit more than 40% coming from our property tax revenue. The next biggest slice being sales tax just shy of 24%. The utilities is now the smallest portion at 16%.

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The utility transfers, and then all of our other revenues, various fees and fines and charges for services comprise almost 19% of general fund revenues. I'm going to go through each of those categories now in a little bit more detail. First property tax. Of course, property tax is driven by the combination of property values and the tax rate, and so this graph shows you a pretty lengthy history of the valuation growth in the city of Austin and it's been nothing short of astounding. Everybody knows about how well the Austin economy has done. You can see our tax base was at the early part of the millennium, $47.8 billion in 2001-2002, that has far more than doubled by 2016 to $110.7 million, and then the line graph above that shows where the tax rate's been. Typically in years where the tax base is fairly stagnant, so, you know, you look at that period between, say, 2008 when it was 76.8 billion, to 2011, where it was 79.2 billion, that's not a lot of growth in the tax base. Typically during those periods, the tax rate is going up in order for us to keep our general fund in balance. And then during pirds like the -- periods like the last few years where the property values are growing rapidly, we don't need as much of a tax rate to balance the budget, and so that's why you've seen the tax rate come down in the last several years. In regards to -- was there a question. Councilmem ber Gallo. >> Gallo: So I appreciate the chart on 52, but do we have a chart that actually shows what the tax bill has done. >> Not in this presentation, but we can certainly provide that for you. >> Gallo: I think that's really important. The affect on affordability is the person's tax bill. The appreciation of the property and the reduction -- or what we do with the tax rate makes the tax bill happen, but I would really like to see our history of where the tax

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bill increases and decreases in tax bill. If we could do that, that would be great. >> I think our -- I don't want to jump ahead too far, but when we get to the point of this presentation where we're talking about our policy discussions, the very first policy discussion we would like to have with the city council pertains to employee-paying benefits -- I'm sorry, that is on day one, too, but also on day one is a discussion about property tax rate, utility rates and their impact on affordability. >> Gallo: Thank you. >> And you're going to see all that information on may 4th. >> Gallo: I think it's helpful as we talk about affordability, we have the ability as a council to address that by making sure that our tax bills for our citizens do not go up, and also that our utility bills don't go up. And so having that historical information on both of those would, I think, be real important. >> We'll have that for you on may 4th. >> Gallo: Perfect. Thank you. >> So this next one just shows the composition of the tax roll, $110.7 million total and how it's divided out. I just hit some big Numbers here, single family and multifamily, that's your residential component combined are 62% of the tax roll. Commercial is 27% and it's been growing very rapidly, and I've got some data on the next slide to show you that. Personal property is essentially the stuff that's inside those commercial businesses, both equipment and inventory. That's 9%. So kind of at a very high level, you look at residential being about 62% of your tax role and commercial valuations being roughly 36%. That's the sum of the personal property in the commercial, because, again, most of that personal property is associated with the commercial component of the tax roll. We have met with Travis central -- [lapse in audio] Audio] -- Continuation of this estimated growth and our property values. Last fiscal year, we saw 12.2% growth in our overall

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tax base. Tcad is projecting 13.9% growth for fiscal year 2017, and I would just say they typically are conservative. By the time we get to certification, every single year it's actually been higher than what they initially estimated. For various reasons, we anticipate their forecast to be a little bit clearer to the mark than they have been in the past, but again I anticipate the certified role will be north of 13.9% growth. From a revenue standpoint, for a municipality, the more important value is additional construction value. In regards to existing value, it's just a matter of the tax rate, as councilmember Gallo was talking about, our existing value could go up rapidly and that just adjusts your effect at this time rate and the rollback rate. New construction is really just new money from a property tax revenue calculation basis, and fiscal year 2016, we had $2.9 billion of new construction, which is just an extraordinarily high number. Tcad is not projecting quite as rapid growth for fiscal year seven, -- 17. All the Numbers over on the right-hand side of this table show two different revenue scenarios. The effective tax rate scenario, which, you know, largely, there's some vai garries to the calculation, but primarily the effective tax rate calculation is designed to give you the same amount of revenue for operations and maintenance in the current year as you had in the next year. That's why the Numbers don't really move around too much. They bounce around a little bit based on what's happening with our debt service amounts. The rollback rate is designed to give you eighth%

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more. So so you can see if we were at the rollback calculations, you can get quite a bit of additional revenue. Again, this isra -- a forecast, no recommendations will even be brought to council before late July, but this gives you an idea of what we might expect in terms of property tax revenue growth. I did want to talk a little bit about some of the bullets, particularly the second one, to bring your attention to the truly astounding growth that we've seen, not only this year but also last year in our commercial properties. Industrial sector growth of 33%, commercial growth of 20.5%. Multifamily is also growing rapidly. But even in the residential arena, 10-point 7% growth. You know, the cap is 10% growth, so that's under state law that your taxable value can't grow more than 10% in any given year. The reason we're at 10-point 7% quite honestly is because most homes are probably going to be valued at 10% but then there's also new construction that drives you up north of the 10% mark. I think it's important for council and the community to start understanding that 80% of homesteads in the city are now in excess of the capped amount. And the average excess is $45,000. The reason that's important is even when this booming real estate market slows down in valuations may be flattening out, even if they're flat, homeowners are going to continue to see 10% growth in their taxable values for years to come because they're all well north of the cap. 80%. >> Wow. >> Are north of the cap. Councilmem ber Gallo? >> Gallo: So the figures that you showed for industrial multifamily growth, is that the combination of the increase in value plus the new -- >> It is. >> Gallo: Okay. >> It is. But it's mostly the new -- I mean, it's mostly the increase in the value. You know, the total roll is

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$110 million, and we're projecting in its entirety 2.4 billion from new construction, not all of which is commercial. So the bulk of those 20, 30% increases is just growth in existing values. >> Gallo: Okay. Thank you. >> Mayor Pro Tem: Thanks for asking that question, councilmember Gallo. We've had so many discussions about valuation of properties, I really wanted to understand that value, too. How much of that growth was increased valuations versus new. Would you mind saying that again, what you think that breaks down for the industrial and commercial? >> I don't know that we have granular enough data. These are forecast from tcad. We should be able to get it from them because they've already put their notices out. We would need to know of that $2.4 billion how much is from residential and commercial, but we can do that. We can do that analysis -- [lapse in audio] -- discussion, but the majority of it is going to be just from existing values. Existing properties that are on the ground now, are growing in value very, very rapidly. >> Mayor Pro Tem: Thank you. >> And tcad, I should mention and give some credit to tcad, they requested several years ago a significant increase in their budget so they could really hone in on evaluations. They have a much larger litigation budget so they're able to more firmly stand behind their values. They're taking more and more challenges to court and winning, and so I think they've just done a great job of addressing some of the concerns throughout the community about the valuation of commercial property. This is the second year in a wrote where we're seen commercial and industrial property valuations growing in excess of 20%. Moving on to sales tax, you know, just shows you a long history. We have had many, many, many, many months consecutive now of sales tax growth, as high as 15% back in August of 2015.

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In the fiscal year 2016 budget, the council asked staff to increase our sales tax estimate. We Ar at 5.7% budgeted increase for fiscal year '16. We're a little bit below that, we're watching closely, a little concerned about, for the most part we're kind of right on trend, but we're a little bit below it. We're at 5.4% through our April payment from the comp troller, and, again, we budge letted 5.7%. Looking ahead, you can maybe recall that John was projecting 6.5% growth next year. If you look at our 10-year compound annual growth rate includes the huge recession era period 2008 and 2009. So we feel pretty comfortable with forecasting out 5.1% into the future. That's what this table shows, based upon that 10-year compound annual growth rate but also informed by the analysis where he's projecting 6.5% growth next year and he's indicated to me he's not seeing a slow-down on the horizon. We think 5.1% is a reasonable amount. I don't know in my world it might not be low enough to really kind of get ne -- me eagerly saying it's a conservative estimate, but it's a reasonable estimate based on what we've been seeing in the economy over the last several years. This is just a slide we show every year to show the transfers from our two utilities. The blue bars on here being the transfer from the energy utility. The red portion being the transfer from the water you tellty. Kind of the story's been over the last couple decades the percent of the total general fund revenues that are coming from the utility transfer has dropped. It's dropped significantly and it's projected to continue to drop. It was 24% back in fiscal

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year '97. We're currently at 16, E we're projecting it's going to -- even though those transfers are projected to grow over the next 10 years as a percent of general fund revenues we think it's going to continue to decline by fiscal year '21. Just as a note of comparison if you were to look at San Antonio and their electric utility, their transfer comprises 30% of San Antonio's general fund revenues. Councilmem ber Garza has a question for you. >> Garza: On slide 57, is that the total revenue from sales tax or would the 5.7 growth is? >> The 215.7 million for fy '16 is the revenue amount that we're projecting to get, which is five-point 7% higher than what we actually got the prior year. So I can get a calculator and figure that out, but it probably was 200 -- I'd have to get my calculator. >> Garza: So the net from 2016 to 2017 would be the 226 minus the 215, is that -- >> Yeah -- no, the 215.7 million is our projected revenue -- or our budgeted revenue for '16. And in '17, we're projecting an $11.1 million increase which should equate to 5.1% growth. >> Garza: And so going back to slide 44, the projected general fund cost drivers, you had the total general fund cost increases with the 56.6, that assumes the fy projected number of 215.7 -- [lapse in audio] --

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>> All right. Where are we? Just going to get us caught up real quick. Okay. So this is just a table that shows those utility transfers, we take those percents and graphics and put them into dollar amounts. You can't see it on this table anymore, you can see it on the graph, but for the last five years Austin energy transfer has been fixed at $105 million. We're projecting the first increase in a long time in that transfer in fiscal year '17 projecting it to grow to $108 million, and then you can see the increases both for energy and water over the five hive -- five-year period. Again while the dollar amounts are projected to increase, as a percent of the general fund revenue, we think it's going to continue to decline. Moving on to development revenue, in terms of $912 million general budget, this is about $30 million, it's not insignificant, but it's nowhere near as the sales tax, but it's really important for us to keep an eye on because it's extremely volatile. This is a revenue source that historically has swung up or down in a very short period of time by $10 million. That can become a real challenge when this development activity slows down and we start to see these Numbers come down, that could be a really budgetary challenge because history independent cats when it -- indicates when it comes down, it comes down rapidly. As a result of those concerns, staff and development services department have worked with a consultant to do some projections. And based upon that research and that work, they're projected continued 2% growth over the five-year forecast horizon. I would just caution council that that's very susceptible to fluctuate -- fluctuate -- fluctuations in the economy. For the current fiscal year, we are projecting $33.3

million, which for the third or fourth year in a row will be an all-time high, and we're projecting a new all-time high for fiscal

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year of '17 of $38.2 million of development revenue. This isn't only due to development activity, this also has to do with development services department moving their cost of services closer in alignment with the cost of delivering those services. They're still below full cost of services but they have been ratcheting their fees up closer to cost of service over the years. Councilmem ber Gallo, did you have a question? >> Gallo: Yes, thank you. So does their analysis take into consideration the fee waiver component that's becoming more and more of a conversation with affordable -- the long-term affordable housing, do you know? I mean, it's hard for them to project, except for the projects that have already been approved that will have that as a component. >> This analysis is not taking into any account of fee waiver that might be associated with future projects. >> Gallo: How would we get that information? Because I think a a council policy considers moving more in that direction, I think the impact to their budget is an impact to their budget. >> Right. I can certainly talk to staff and planning about how we might estimate that. I mean, my gut's telling me that's going to be a real challenge to estimate because, you know, is hard for us to -- it's hard for us to anticipate what kind of actions council might take in regards to waiving fees associated for affordable housing with future development probabilities. If Rodney has anything to add, he's -- >> Sure. Sorry to catch you right as you were walking in the door. The question was with the budget projections from your department, how can we push into that conversation the potential revenue loss from fee waivers that are part of the affordable housing policy, particularly as we move in the direction of the 100% waivers? >> Thank you. >> Director for developer

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services department. And the graph above shows simply the revenue projections. It doesn't take into account the fee waivers. Those are captured by another line item within the department, and I think your question is how can we begin to capture that. >> Gallo: Well, I think as we talk about the revenue projections, if it's not capture a potential loss in those revenue projections, then how can we pull that into the picture, particularly as we continue to talk about council policy and doing affordable that's tied to fee waiver. >> What we've done is we've analyzed the fee waivers, we've gone back five years to compute how much fee waivers are granted on an annual basis and we will work with neighborhood housing to try to project what could be in the pipeline in terms of fee waivers, and from an accounting standpoint we would issue a conhave a revenue account against those revenues based on fee waivers into the future. We know of course several large projects that are in the pipeline with regard to fee waivers and those are spread out over a 20-year period, pilot knob comes to mind and several other projects that are in the pipeline for fee waiver potential so we can certainly add that into the forecast interlocal. The revenue projection here is simply the total revenue projection, but it doesn't include of course the fee waivers. On an annual basis, right now we're averaging approximately $1 million in fee waivers. >> Gallo: And do you foresee with kind of the movement in the direction to encourage that -- for long-term affordable housing, do you have a sense that that will go up? >> It really just depends on the number of projects in the pipeline. I think you saw Jon hockenyos earlier present the number of residential units that are being developed in Austin.

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And we anticipate that we're going to at least stay the same, if not continue to increase the number of residential units and I think it really just depends on the development community's willingness to join into the smart housing program and take advantage of some of the policies that are there. But like you said, I think what helps us most is that we already are talking to some of those development projects that are considering smart housing waivers. And so we can certainly forecast those into the Numbers. >> Gallo: Okay. Thank you. >> Tovo: Since you're here, I do have a quick question. On page 49, Mr. Van eenoo highlighted there are unaddressed development services request from the Zucker report and those are indicated as outstanding council policy initiative and that just raises eye question for me -- a question for me about whether the cost of development services was done in diet, I think, is that when our last cost of service was done? >> There were two, one in 12 and the other recent one was in 2015. >> Tovo: I had forgotten about the 2015. So okay I thought we were still operating off of the earlier cost of service in terms of the fees. >> We are. >> Tovo: In terms of where those fees are set. >> Yes, we are. As ed had mentioned that we're continuing to update those costs of service studies. We're doing that this summer -- or this year, actually, and so we will be proposing fee increases to bring that 2012 cost of service study in alignment with today's cost of service. >> Tovo: Thank you. Currently our fees set to match the 2012 cost of service study but you have done another cost of service study in 2015 and plan to bring forward a recommendation to increase fees? >> Yes. >> Tovo: Accordingly? Will they be at the hundred% mark? >> Yes, I'm sorry about that. What we did, we did the review

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of fees in two phases. The first phase was in 2012, and that was majority of our fees. The second phase was completed in 2015, and that was probably about 25% of the remaining fees that hadn't been addressed in 2012. And it's those phase one fees, which were about 75% of our fees, that date back to 2012 cost. And so we are in the process of updating that phase one analysis, as well as phase two, because of course that will be one year old and so, yes, the intent is to bring those up to 100% cost of service. >> Tovo: So the 75% of the fees that were studied in 2012 will be the -- the suggestion will be to bring those up to 100% cost of service in 2016 costs in our next budget, in the budget that we're adopting this fall? >> Yes, councilmember. >> Tovo: Great. Thank you. I appreciate that. And then I guess I would ask, too, will the -- with regard to the Zucker report, unaddressed development services request, will you be considering those within the fee -- potential fee increases informal. >> Yes, councilmember. We've talked to the budget office since December, not only about the fees, but of course anticipated additional budget requests. And we've asked them about the potential to include those new upcoming amounts in the fee study. >> Tovo: Great. >> They've given us an affirmative answer of yes. >> Tovo: Thank you. >> This is just a final slide on revenues and it's kind of -- shows you those other sources of revenues, charges for services, franchise fees, fines and penalties. The bottom line of this slide is we're not projecting a whole bunch of growth in those areas. This is everything from the

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fees charged by emergency medical services and parks and recreation department for registration and entrance fees, franchise fees of course are assessed for our telecommunications, good, cable firms, for the use of the city's right-of-way, and then fines and penalties, everything from traffic fines to library fines are included if that category. Typically we don't see a whole bunch of growth in these areas. Sometimes as the population gets larger we see increases, but fairly flat revenue projections. For these other revenue categories. This next one kind of gets to what councilmember Garza was talking about, we're trying to just bring things together. The green bars show our projected brokerage growth in general fund expenditures, so for fiscal year '17 we're forecasting a budget of $969 million, again, based on that $56.6 million of built-in cost drivers not funding nor any new initiatives. The Orange and red bars show the two questions our projected revenues at effective rate and projected revenues aterol back tax rate and essentially what this slide shows is you we are projecting a structurally sound, balanced budget over the forecast horizon, albeit at tax rates above the effective tax rate. I just have a few other slides we wanted to show you. This is not something we've done in previous forecasts but I think it's an important consideration for this forecast. It has to do with our general fund reserves. Traditionally these reserves have been an important source of fudged for 1--- funding for one-time capital equipment type items and other one-time priorities the city council may have. Our reserves are in good shape we are at and projecting to remain at our 12% reserve policy level but we're projecting to be right at 12% reserve policy levels. So you can look on this graph in 2014, our total reserves were at 19.7%, 2015, ended the

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year at 17.3%, and fiscal year '16 we're projecting they'll end at 12.9% and fiscal year '17 we're currently forecasting them to be right at 12%. The reasons for why our reserves have been declining over time is really I think told in this slide, where the funding that goes into our reserves is really there's two components, there's our general fund departments, who don't fully expend their budget allocation that council approves. That's what's shown in the purple portion of these bar charts over on the left. Then revenues coming in stronger than what we conservatively forecasted or projected in the budget. That's the green portion of these bars. You can see for the last several years we've seen significant general fund surpluses as a result of general fund departmental savings or revenues coming in above our estimates. In the last couple budget cycles, 2015 and 2016 in particular we have not been as conservative on our revenues as we quite frankly would like to be. Our sales tax estimate is 5.7%. That's much higher than where staff -- we would recommend, say, 3% as being a conservative estimate. If we estimate at 3% and we end the seven, that extra 4% is almost $10 million of surplus revenue that flows into our reserves and gives us funding for 1-time capital needs if if you're budgeting 5.7 and end at six or you're just hoping to get to that 5.7%, you're not going to see any surplus revenues at the end of the year that's going to flow into our general fund stabilization reserves, that's going to give us source of funding for 1-time needs. That's what you've seen and also as the expenditure pressures have green, our departmental budgets have become tighter and tighter and tighter. We're not seeing significant savings at the end of year of our general fund departments. We really had to squeeze those departments in order to try to fit all of the funding priorities into the budget so we're not seeing anything near

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the level of savings. You know, I think we'll probably end this year somewhere in the range of 99 to 99.5% of our general fund budget expended. With that -- what that really means practically is there's very little wiggle room for these general fund departments. Over on the right you can see what we've utilized those funds for. Different things. The purple portions of those bar charts are expenditures we've made on vehicles, the green portions are for, like, equipment and capital equipment that our operating departments need. So for emergency medical services this might be heart rate monitors. It could be stretchers, things of that nature, or those departmental one-time items. You can also see in 2013 that dark blue bar, that's $10 million that council chose to take out of our reserves to fund affordable housing in the wake of the -- that bond proposition not passing in 2012. So those are the types of things we've used those funds for in the past, and then, you know, you look at the fiscal year '17 forecast and we are just not fratsing that there's going to be -- fratsing that there's going to be -- forecasting that there's going to be very much in figure available out of this fund. That's a very different story than we don't have any reserves. Going back to the previous slide we're projecting 12% reserve levels. That's

$122 million of reserves when you apply it to our budget. So we have healthy reserves. We have reserves that are going to be viewed favorably by the rating agencies. But what we don't have is reserves in excess of that amount that can help relieve some of the budgetary pressures in fiscal year '17. So the consequences of that I try to lay out here, our aggregate reserves are very healthy, at 12% but we're projecting very limited funding will be available from our stabilization reserves to meet those one-time funding needs. You may recall from last year's budget cycle we were looking at that source of funding a lot to address a number of council priorities.

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I think you're going to certainly see an increased use of debt in this budget for vehicle acquisitions and replacements. And probably not for fiscal year '17 but as you look out to fiscal year '18 and beyond you may actually start seeing a need to transfer money from the general fund operating budget to our reserves in order to maintain that 12% reserve goal that council has established in its financial policies. I mean, if you think about your general fund budget, if your general fund budget grows related to built-in cost drivers by $50 million what your -- your reserves need to grow by $6 million to maintain everything at 12%. So, you know, I think some of the future budgets it's going to be a challenge to next year's budget, challenge to future budgets, largely driven by the fact that we haven't been quite as conservative maybe as we have in years past and that makes the subsequent budgets a little more challenging. >> Tovo: Councilmember Zimmerman. >> Zimmerman: Okay. I need you to back up, if you could, to page 64. And take a mental note of maybe fiscal years '14 and '15. I'm looking at these bars and I'm seeing for '14, if I read this right, 45 million of additional revenue plus expenditures, that means money we didn't spend that we thought we would, right. >> True. >> Zimmerman: Now go back to page 48. And my head is blowing up here that in both these fiscal years we spent millions more than we took in. In 2015 -- or do I not read this right, that we ended up spending 14 million than we took in. >> No, that's not what that says. >> Zimmerman: What do these mean then? >> The light green bars are showing for each of those fears, in April, kind of the same period we're in right now, it shows we forecasted what the growth would be and the dark green bars shows what the actual growth was.

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I just drill down on -- >> Zimmerman: I'm sorry, where does it say April? This says forecast versus approved budget. Where does it say that's only three April? >> If you look down at the bottom, the light green bars are forecast relative to the prior year, and dark green approved -- >> Zimmerman: I still don't see. Why isn't it the whole fiscal year? It doesn't say it's not the fiscal year. >> Tovo: Councilmember, he's saying -- what we're doing today is the forecast budget and so -- >> Zimmerman: Then I'm still -- >> Tovo: He starts comparing the forecast to the budget that actually gets adopted. >> That's right. >> Tovo: Does that make sense? >> Zimmerman: No, it doesn't. >> Tovo: Mr. Van eenoo, do you want to give it another shot? >> Zimmerman: How do I end up back on page 64 with what appear to be very large Numbers from additional revenue and money we didn't spend which means that there's fiscal conservatism, we're not spending the money we plan plus we're getting in more money than we expected. That paints a fiscally conservative picture, right? We're not spending as much as we thought and bringing in more than we thought we would. That's fiscally conservative. The other one, page 48, is the opposite. We're ahead of where we thought we would be. We budgeted at one point but then we're millions ahead of where we thought we would be. So we're not conservative here, right? We're spending more than we thought we would. >> Again, this is not a budget versus actual slide. >> Zimmerman: Okay. >> This is what we've forecasted six months before the budget was approved versus what the council actually approved six months -- >> Zimmerman: So what is the point of the information? The information -- >> Tovo: Let's let Mr. Van eenoo finish his explanation and then you'll have an opportunity to ask additional questions. >> If you go back to the previous one because I think that seems to be causing a lot of confusion. So the point of this slide is simply to show council -- typically when city staff does a forecast, we do our forecast

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based upon built in in cost drivers and the light green shows what we've forecasted the growth and built-in drivers to be for the previous five years. The dark green shows what council ultimately adopted, the built-in cost drivers plus additional funding initiatives and every year over the last five years what council has ultimately adopted has been something beyond just those built-in cost drivers, beyond what staff forecast back in April. That's all this is intended to say. That's not to say that the council that -- budget that council approved in 2015, which had $54 million of total cost increases relative to the previous budget, that's not to say that it wasn't fiscally conservative about it may -- we may have ended up at 7% growth. It's just to say that the budget the council adopted in 2015 was much higher than what staff initially forecast back in April. That's all the purpose of this slide is. >> Tovo: Councilmember Zimmerman, did you want to ask a follow-up? I mean, this is basically showing change, kind of the evolution -- >> Zimmerman: I'm sorry this goes back to the complaint I had earlier when I had msa data mixed with city data. I'm, like, why are we doing that? One motivation for doing that is to paint a particular picture of what we want the data to look like, and that's why we're picking one data from an Austin area and a different from an msa. It just -- I'm struggleling to trust the data I'm looking at to make sense of it. >> Might I make a comment? In this particular slide you're comparing the forecast to a prior year budget and you're comparing an approved budget to a prior year budget. On the slide on page 64 you're look at actual results, and so the results for fiscal '14, my recollection is we had a surplus beyond what we expected at the time that council adopted the budget of about 15 million. It was 10-15000000 extra.

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So that's showing in that year fiscal '14 that actually excess went into the reserves and that was over and above what we expected in September when the council adopted the budget. So these are based on actual history, the prior slide was based on budget to forecast or budget to budget, not actual data. >> Zimmerman: Okay. Did I miss the budget to actual for the entire fiscal year? I mean, instead of just stopping and -- in the middle of the fiscal year, what is the fiscal year to fiscal year? Budget versus actual? Did I miss that in here? >> That is not in here. >> Zimmerman: It's not in here. So what I have is something that's like a snapshot? The middle of a fiscal year which leaves me kind of knowing nothing. And what would tell me something is how did we do for the overall fiscal year? Here's what we budgeted, here's what we spent. That meaningful data is not here. And some data that I'm struggling to understand that has any significance, that data is included. That's why I'm confused. >> Well, I think I'm hearing a request for information that isn't provided in this presentation which we'd be happy to provide. In effect this is a snapshot. We're pausing and providing council with a forecast and that's what's intended today. But if you want that kind of information, I'm sure the staff can generate that. >> We can. I guess I have to retract a little bit what I said because it really is -- you're just asking for, councilmember, really is the left-hand side of this slide. Going back to any fiscal year 2015 example on the previous slide all we're showing is that the budgets council approved was I believe on that previous slide it was $14 million and what staff initially forecast. What this slide is showing despite council approving a budget much higher than staff's forecast it was still conservative, the fiscal 2015 actuals ended with $20 million revenue in excess of what we budgeted and that purple bar looks to be about 3 million or

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$4 million of savings on the departmental side. I think these slides are trying to show completely different information. >> Tovo: If I may, councilmember, so I think Mr. Van eenoo what you were saying is if you look at the 48 -- page 48 and compare -- and compare the adopted budget to the information in the left-hand chart here you'll see adopted budget what versus what was spent. >> That's right yeah. >> Tovo: And I think, councilmember Zimmerman, you were saying it would be helpful to see that together and I think the city manager said that that was a very reasonable request. And -- yeah. I think 48 is just to give us a sense that here we are during the forecast budget but understand that in all of these previous years there's been considerable change from the forecast budget to what actually got adopted and that change was always an increase, just so, you know, we're setting expectations -- we're understanding what the history has been in moving from a forecast to an actual adopted budget. Did you have additional thoughts? Councilmember troxclair. >> Troxclair: And maybe the missing piece in what councilmember Zimmerman is trying to get to is the tax rate. I mean, between those two bars, between what the staff is recommending -- or forecasting or -- forecasting that we adopt and what council ultimately adopts later in the year, the council increases the tax rate or makes other changes in the budget in order to increase the total amount of revenue that we have to spend. And fast forward to the end of the year, to the reserves that we had, well, yeah we ended up coming in -- you know, we ended up saving a little bit -- little bit under that -- the tax rate that we adopted. So in one -- the only reason that we saved money, that this

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slide can be shown that we were saving money, is because we increased the amount of revenues from the staff forecast to begin with. So I don't know if that helps. Maybe not. Okay. I have a couple other questions. So on -- back on the reserves issue, do we need -- I mean, is -- I understand that you're saying that 12% is still from a ratings perspective a good number to have in our reserves. But there are other consequences that maybe may come from not having additional money over that. >> Sure. >> Troxclair: Considering we have seen such a steep decline in that percentage from, you know, almost 20% to projections this year and in coming years of 12%, that combined with the fact that we heard from Jon hockenyos that although Austin has continued to exceed expectations so far, he can't imagine that it's going to continue forever into the future. There is going to be a point where we come -- where we come down. And it seems like in those years that's when you really need the excess of that 12%, right? That's when you depend on the Rainey day fund to cover some of the necessary expenses. So should we be concerned and should it be a priority of ours to try to increase the level of our reserves in order to be prudent in preparing for the inevitable future? >> I think it would -- you can certainly say it would be prudent. Just to clarify, the new financial policies that this council endorsed as part of the 2016 budget sets a goal of 6% as our minimum reserve, that's the minimum -- emergency reserve and says it won't be below 6% because we need to have that in case

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there's a huge emergency we need to address but then it establishes a goal beyond of that 12%, formally establishes our goal is to keep overall reserves at 12%. Yes, it would be more prudent. It would be nice to have our reserves at that 19% level that they were in 2014 so when we see a year of 5% sales tax decline as opposed to 5% growth we have greater capacity to adjust to that -- to that circumstance. I mean, I think 12% is a good baseline for us to have, but, you know, I know our goal would be for us not to drop down below 12% even in difficult times. Your policy envisioned a circumstance where you might need or choose to do that because it establishes the 12% as a goal, not a hard line, but I certainly think it would behoove us if we can try to avoid ever going below 12% because it really is one of the focal points the rating agencies hone in on, how are your reserves doing? As a matter of comparison, look at aid, who everybody knows is having real financial challenges and has had to dig deeply into the reserves over the last several fears even after having done that their reserves are still at 23, 24%. Even today after several years of digging into them. So, you know, those reserves are really important when you're having difficult "Financial times." >> Troxclair: If we don't have any accusing above that 12% in our reserves, when we do hit that year, when we don't outperform our expectations and we have to make the decision of whether or not -- I mean, I guess we would have to make a decision -- the council will have to make the decision whether or not to dip into those reserves and if you go below that 12% then it's going to affect our ratings? Probably? >> It could. That's one of several factors that they look at. It's not the only factor they look at. They look at the overall economy, they look at your financial management. I think some of the other options that council would

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have is looking at revenue streams that they could increase, that you have control over, like the property tax rate fees, making sure that they're based on cost of service. But certainly any time you get into a situation where there's a decline, you have to look at your ongoing costs and see where you can contain those costs or reduce costs, reduce programs. We've been known to respond by freezing vacant positions in the past. If there's an immediate need to save money. So there are a number of tools that we have on the cost side as well before we would recommend dipping into the reserves, I think. >> Troxclair: So I hear you saying that you don't recommend that we go below 12%, but I guess as our conservative financial staff, do you recommend that we try to increase the level of reserves that we have above 12% in the years that we have the ability -- probably the best ability to do so because of the unprecedented amount of revenue that's coming in? >> I think that would be ideal. I don't think that, given the forecast that we've shown you, that we're in a position to do that this year. >> I think we are saying, though, that we would be more comfortable with the conservative posture that we've had for the past few fiscal years and as ed indicated earlier on in the presentation we've moved away from that in terms of things like sales tax and some other areas. We've been become more liberal in our projections in regard to those and certainly that's enabled, you know, the council to do more things, but I even think in those earlier conversations the cautionary tale was the kind of impacts we're talking about today. So in terms of your question, you know, increasing our reserves, yes. You know, we're only suggesting that we would be more comfortable going back to our more conservativeconserve fiscal posture

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>> Troxclair: One more question. On the sales tax, this forecast assumes a 5.1% increase in sales tax but you've said -- and I know that that is another thing that is important to be conservative with but then you made a comment that maybe that number is not as conservative as you would like it to be. Is that -- I mean, is that the appropriate number for us to use? I don't know. All these things kind of together are making me nervous that we're not adequately preparing for when times are going to be more difficult. >> Right. And we had several years of the forecast where we would just forecast 3% growth because we just felt that was a conservative posture. Quite frankly it wasn't really based upon detailed analysis. Just 3% was a nice, low, conservative number can and we would much rear project 3% and have it end up at

eight than project ten and have it end at eight. One is good news and one is bad news it it's very difficult to adjust to. So 3% had been our standard benchmark. You know, we have seen historical growth well beyond 3%. Again, even inclusive of the big recession, we've seen a ten year compound annual growth rate of 5.1%. So from that perspective, given that there's that huge recession during that ten-yeared and we've still seen 5.1 persist annual growth I think you can see that seems reasonably conservative that in the future we would realize 5.1% growth. But, you know, I don't know that forecasting at the average is my definition of conservative. I'd say somewhere below the average would be certainly more conservative and, again, in the past we've projected 3% growth that almost always ended up getting bumped up as we went through the budget cycle in conversations with city council. Last year I believe we were forecasting 5% growth and in conversations with council, as you were lacking for ways to fund additional initiatives that got pushed up to 5.7% and now we're struggling to actually match that number. It's going to be close but

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we're a little bit behind it right now. Also I know another thing that was less conservative is, you know, when you look at last year's budget, there were a lot of things added to last year's budget where the costs were kind of deferred until next fiscal year. That allows council to put more things into the budget but it's less conservative, creates more challenges in regards to your subsequent budget. So I like the manager's, you know, advice, to the extent we can return to more budget conservative budgetary practices that kind of then the chips will fall where they may in regard to reserves level but to the extent you're more conservative that does create a little bit more stable foundation for your budget structure. >> Troxclair: So why, if -- if using -- knowing the average is important but that a conservative estimate would be below the 5.1% average, why aren't we using a number that's below the 5.1% average? >> We are going to have a policy discussion with the city council on may 4 about our tax rates and sales taxes and I think it's a great policy discussion to have. This body kind of has to set its risk tolerance. 3% sales tax would be a less risky proposition but it has implications for what the body can fund. 5% is less conservative but I couldn't stand up here and say it's unreasonable, but, you know, if you start getting up around 10% I probably would be shaking my hands and screaming but, you know, 5% based on the history, based on the history we have from our economists I don't think is unreasonable but it certainly is not as conservative as 3. >> Troxclair: I was trying to understand. It seems like y'all do try to do a good job of giving us conservative estimates so I think I'm -- I must be missing something as to why we're -- why the recommendation or the forecast today is not use a conservative estimate but I won't harp on it anymore. >> Tovo: I think it's in response to council direction from last year? Is that right? >> Last year -- it's not just last year's council. The previous several councils

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have pushed us further out on sales tax effort. The conversation has been we think you're being too conservative, you should be more aggressive. For the most part that pushing out has been accurate. We have always ended the year with sales tax revenues beyond even where council directed us to go, but, you know, that then results in a graph like this where we don't have as much surplus at the end of the year if we -- again, if we projected 5.7% for this year and end the year at 5.7%, that's a zero revenue going into our reserves. >> Troxclair: The excess revenue, if we have additional revenue from our sales tax based on our projection asks that go into the reserve fund? >> Mm-hmm. Yeah. Any revenues beyond what we budgeted goes into our reserves and any expenditures below what council authorize go in the reserves at the end of the year to be reappropriated per council's direction. >> Tovo: So I think it's time, councilmember Zimmerman, I see you have an additional question on this and I'll recognize you in just a second but we're 20 minutes out from our end time today and I think we need to take stock of our plan. It looks to me like we're about three quarters of the way through your presentation. We have about 22 more slides is that right or did you plan on doing enterprise funds next week? >> No, the enterprise funds we needed to get through this week if you'd like to hear that. I do think it's important, though, that council have the opportunity to see the policy topics that staff feel are important to be discussed over may and June and see if there's further direction from council about policy topics you would like to have. >> Tovo: Okay. Ideally we would get through the next 22 pages here today in the -- that gives you about a minute a page. So I think when -- councilmember Zimmerman, why don't you go ahead and ask your question and then I would suggest we let the staff go through and try to save our questions to the end. I know that we have a committee meeting that four of us have to attend at 2:00 and I actually have meetings scheduled between this and what and I don't know what everyone else's schedule is like so we might be able to

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push it beyond noon but I don't think we should push it much beyond noon since we're scheduled. Anyway, why don't you think about that and, councilmember Zimmerman, you can ask your question. >> Zimmerman: I have something quick I wanted to maybe talk to councilmember troxclair. I think I know where she's going on this. If you think about sales tax versus property tax, the reason there would be less reliance on sales tax is that allows city staff budget to go shift more of a burden on sales tax and the reason for that if you don't pay your sales tax you get a lien put on your house and you can lose your property. You have to pay. You have no choice. When it comes to seals, if there's an economic recession, you have some choice to pay less sealses because -- sales taxes because you can buy less stuff so you have some control over sales tax spending but I can't save anything on property taxes, have to be paid. So the bonus there for the city, they know this property taxes have to be paid so they can low-ball the sales taxes. Then when the sales taxes come in above what was anticipated, oh, it looks like free money. >> Troxclair: On the -- >> Tovo: Councilmember troxclair. >> Troxclair: I guess on the scheduling issue, I don't know when the appropriate time is to have the manager chime in but I thought there was a memo dish kind of cleared -- I cleared my schedule for the rest of the afternoon earlier this week after we got a memo from the manager I thought suggesting we would have -- that he recommended that we set aside full days for our budget briefings. >> Tovo: Including today? Because that certainly didn't make its way through to the committee scheduling, which starts again at 2:00. >> Troxclair: I wasn't sure and then we asked -- my office asked the mayor's office yesterday and they recommended that I do that. So I didn't know that y'all have a committee schedule and that's fine. Mr. Van eenoo. >> The budget and forecast calendar the council approved had today as a half day and all the meetings in may and

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June as being full days. So -- >> Tovo: Yeah. I think we should stick as close to the allocated time because likely our staff -- city staff who are here as well have other commitments throughout the day as well since they also planned to end at noontime. So, again, I think we can maybe -- if our financial staff can we can push a little bit beyond 12:00 but I wouldn't suggest much beyond 12:10, 12:15 unless there's a huge will from council to do that. Mr. Van eenoo or Ms. Hart. >> We'll stitch investigators now. Just a reminder to council that the current year budget is $3.5 billion for the entire city. We have covered the general fund, which represents about one quarter of the city's budget. We're going to switch investigators now and talk about our -- gears now and talk about nine enterprise funds. These funds actually operate similar to a private business and our three largest are Austin energy, Austin water, and our aviation operations. Austin energy is about 33% of the total city budget, and water is about 12%. I want to remind that you Austin is unique among cities because we do, unlike other cities, we own our own electric utility, we have our aviation operation as well as a convention center. And so on this slide you can see that there are a variety of services that are provided by our enterprise funds, and their budgets range for fiscal year '16 from $20 million all the way up to $1.4 billion. And from 117 employees to a workforce of 1600. And just by way of rumored before I get into -- reminder before I get into Austin energy, if you took the fuel budget out of Austin energy, their budget would be about the same size as the general fund. And so because we're talking

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about a wider scope of services here than the general fund, these slides, next slides, will be at a much higher level. I won't be going into lots of Numbers and details. They'll be less graphs but I'll try and work through these because you certainly have the information there ed has talked about the citywide cost drivers. Just, again, to note that those will affect all of these enterprise funds. In addition there will be some baseline cost drivers for department-specific costs such as new facilities coming online out at the airport would be an example of that. Any escalation in some of their contracts, as well as their usage of vehicles -- the vehicle fleet and any replacements that they need to make. >> Mayor pro tem, can I just ask just a quick question. >> Tovo: Sure. >> Gallo: Not necessarily to be answered today because I know we're on a short time frame but I would like to have you help me understand what an enterprise department's purpose is from the standpoint of producing revenue to pay their expenses. Just understanding a little bit better why they are set up as enterprise departments and how that affects their budgeting for expenses versus the revenues that come in and, once again, that may be already part of the expanded workshop discussions, but if it's not, I'd like for that to be added to that. >> Okay. >> Gallo: Don't need to talk about it today because I know we're short on time but I would love to understand how they operate differently perfect the other departments. >> Okay. We certainly can do that. Each of these slides will have the -- just for frame of reference it will have the current year budget for that enterprise at the top and their workforce complement. And just on each of them also we will say what their purpose is, and so Austin energy certainly their purpose is to provide retail electric service. They have over 450,000

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customers and serve in a 437 square mile area. Austin energy is financially sound, and their financial indicators are improving with their debt service coverage on their bonds at three times, which exceeds their current policy target of two times debt service coverage. Their payment or funding for their capital program debt to equity ratio is in the-50% range so they're right at about 50% cash, 50% debt, which is a good indicator, and they are forecasting fully funding their emergency and contingency reserves in 2017. Their forecast is indicating that they will comply with their 2% affordability goal or metric and they're trending towards the additional metric of being in the lower 50% of all utilities. Their key forecast assumptions, they are -- their forecast is based on the current proposed rate structure and rates. They're showing that their power costs are going to be stable over the time period, although they are projecting that they will add new renewable energy supply contracts. They're currently at 23% of their supply is renewables with a goal of 55% by 2025. They have reserves called the rate stabilization reserve that will remain out of compliance with policy. With respect to their forecasts, some of the risk that they face are additional regulatory pressures, power market uncertainty is determined by cost and availability, and then certainly some needs to modernize the requirements. The five-year capital improvement spending plan is at about 1.2 billion. That's not an unusually high

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number. It's a -- trending about a stable level. And of that, again, about 40% of that will be funded through cash and about 60%, excuse me, through issuance of debt and that is in compliance with their financial policy. Their projects are emphasizing replacement and rehabilitation of their wires, assets, to improve reliability and to increase customer demand. Their forecast does not include the new gas -- a new gas plant that has been delayed beyond the five-year forecast period. They are forecasting rate reductions that will certainly benefit the electric customers, but will lower their operating margin, which is their revenue less expenses from operations. Their baseline decrease for the' 17 budget is $50 million, and that is due to a significant reduction in their power supply costs. Their current power supply adjustment by way of reference is the lowest rate that it has been since 2004. Over the forecast period, they are forecasting systemwide base revenue -- base rate increases of an average of 1% annually. Moving on to Austin water, they provide treated water and wastewater service to customers within Austin and portions of Travis and Williamson county. They have a 544 square mile service area. Following the easing of the drought conditions and much work that the Austin water utility has done over the last two or three years, they are -- have achieved financial stability. They are forecasting improvement in their financial

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metrics, strengthening their debt service coverage to exceed 1.5 -- the 1.5 times policy level, and that is increasing from a low of 1.25 times that they hit in fiscal 2014. They're forecasting that their reserves will continue to increase to policy levels, and they have stabilized by some refundings last year and this year their debt service requirements have been stabilized at about 200 million per year. They have been at a 40% of their budget has been debt service, and so over time that percentage will reduce as they've kept -- able to keep their debt payments level at the 200 million per year. Key financial -- key forecast assumptions, they have not changed their residential average usage. The residential customer average usage, their forecast is based on the 5800 gallons for water and 4,000 gallons for wastewater service. Per month. And just, again, their rate projections over the forecasts are highly dependent on meeting their financial metrics for both their debt service coverage and their cash reserves. Risk to their forecast, certainly we've seen from the drought weather extremes cause issues with their budget. Their five-year capital program is about $884 million. It's down from a high five or six years ago of 1.4 billion for the five-year plan so they've seen over time a significant reduction in their capital program as they finished the clean water program and the completion water treatment complaint four. Their capital projects are driven by replacement and rehabilitation of current

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water and wastewater treatment plants. Their cash funding is currently at 36% and they expect to increase it by 10% up to the 46% by the end of the forecast, with a goal of 50% cash and 50% debt. They will be assessing their staffing needs to be able to continue to meet with the significant system growth that they've seen, and increase customer demands. Their customer -- total customer number over the last ten years has increased by almost 200,000 customers. Their miles of pipeline has gone from about 5,000 miles to 6,600 miles, while they've seen minimal staffing increases over that time frame and have delayed staffing plans the last two years to be able to shore up their financials. Their systemwide rate increases are expected to be in the 2-3% range annually over the forecast, which is significantly lower than the prior five years, which has been in the 4-5% range. So you're seeing rate relief for their utility customers on the horizon. Our third-largest enterprise fund is the aviation fund, which operates the

Austin Bergstrom international airport and provides travelers a safe, clean, friendly, efficient, and sustainable airport. This is really a jewel for the city of Austin. They cover a five-county area, over 4,000 square miles of service to the customer base. They now have over 50 U.S. And Texas nonstop service destinations. Key forecast assumptions, certainly tourism, as John said, is growing -- is a growing element of our economy. And it certainly affects the

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airport assumptions. They've seen phenomenal passenger growth, reaching all-time highs year after year. And in fiscal 2017, expect to reach almost 13 million annual passengers. They are projecting 4% passenger traffic growth annually throughout the forecast. And they are addressing their expansion with major new and expanded facilities coming online in the forecast. With respect to passenger growth, this past month, March, they have seen 74 months of increased passenger traffic over the last 75 months. So it's a real positive story. To meet that level of demand, certainly the airport master plan comes into play, and they have a significantly larger capital spending plan than they have had in years past. It's at $812 million. It includes completion of the nine-gate expansion, an expansion of the apron where the carriers park their aircraft overnight, and many other airport improvements to shore up their customer service. They've got a new parking garage, and a centralized baggage handling system in this capital plan. Unlike the two utilities, they are heavily debt-funded for their capital program at 92% of debt as the primary source for the capital plan. They are looking at their staffing needs to be able to staff the facility expansions and address their growing customer service demand in this forecast. With respect to their revenues, 45% of their revenues comes from the airlines and their contracts with the airlines.

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Basically, they are a leasing facility. The airlines lease space from the airport. And 55% of their revenue comes from non-airlines. They're forecasting a 10% annual growth in the airline revenue, that's the terminal rent and the landing fees, and 5% annual growth in the non-airline revenues, a substantial portion of which comes from parking. And while they are expecting these increases in growth of their revenue base, they are constantly looking at their cost per emplaned passenger and expect that to stay in the mid-range as they continue to compete regionally for passengers. >> Tovo: Councilmember troxclair. >> Troxclair: Is this our only time to ask about these enterprise funds, or is this an overview and we're going to go back at some point? >> This is an overview, but unlike last year, we are not planning to have the enterprise funds do individual departmental presentations. We are scheduling the five work sessions on policy discussions. But certainly we can -- we've already kicked off the written q&a. And we're open to your ideas on how you want to structure the policy work sessions. That include additional information about the enterprise funds. >> Troxclair: Or could I just ask a couple of questions while you're here? >> Tovo: Sure. >> Troxclair: Can you remind me when the expansions, the nine-gate expansion is separate from the south terminal, right? >> Yes. >> Troxclair: And can you remind me when those will be? >> We anticipate the south terminal will be open somewhere between January and March of

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'17. Nine-gate expansion is the end of '18, beginning of '19. >> Troxclair: So the south terminal will be first. >> Yes. >> Troxclair: And the tsa -- I've just noticed the security lines have exponentially grown within the past -- it seems like several months. Is that -- how is that going to be addressed? Is that -- is -- how does tsa tie into our funding? Is that funded through the federal government, or how does the amount of security lines and things like that operate? Just because the -- last couple times, it's been a long time in the security lines. >> Tsa is funded on a federal basis. The airport really has no role in determining what the staffing is going to be for tsa. We obviously work with them and cooperate with them, but they make those determinations. The staff -- the lines at airports, that's a nationwide issue. Congress has put a cap on the number of tsa agents that they will allow. But they've put more demands on what those tsa agents should be doing. For example, after the Brussels bombings recently, now tsa is moving some of their agents throughout the terminal and taking them off the security lines themselves. So the staffing that they did have is actually spread thinner than it was just a couple of months ago. So yeah, on a nationwide basis, you're seeing longer lines at airports. >> Troxclair: So when people are frustrated in those lines, and they see that some -- there's only two lines open when there's five lines available, that's just based on the number of tsa staff that the federal government is giving us, not necessarily something that the airport has an impact on. >> That's right. >> Troxclair: Okay. Even -- although we communicate with them, and they're well aware of our passage Numbers and our growing demand. >> Yes. >> Troxclair: Thanks. >> Tovo: So why don't we continue, and I would thank you for mentioning that the budget q&a is open.

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That's a great place to ask real specific questions, and maybe as a council we can think about whether we need to have an additional day of q&a for the departments. >> I didn't know Joe was sitting behind me. >> Tovo: I think we're going to have trouble finishing if we do ask specific questions of the departments that we have left. So I think if we're going to keep on our plan, we probably just need to hear the presentation. >> I don't know when we're going to talk about the work sessions, but it does seem like those departments, it might be good to have at least a little bit of future discussion. >> Tovo: Maybe we can talk about that on the message board, because I think there may be interest in scheduling something like that. >> Our Austin convention center is the next enterprise fund we're covering, and they are financially healthy, but they are heavily reliant on the hotel industry and occupancy tax. They get 62% of their funding from the hotel occupancy tax. However, we're seeing positive growth in the hot tax, as they call it, the hotel occupancy tax. And you've seen some slides already earlier today. We're looking at a 5% average annual growth in the hot, and 3% average growth in the remaining revenue for the convention center. Risks to their forecast are competition for exhibit space, which is currently limited by the existing facility that they manage. Their five-year capital plan is $24 million. And it does exclude an expansion plan. And they will be looking at their staffing needs to meet their growing customer base. This is a slide that I won't cover. I'll just leave it for your information. It talks about the occupancy rate and the breakdown of how the hotel taxes occupancy for the city. For Austin resource recovery, this enterprise provides

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curshside trash collection, recycling, street sweeping services throughout the city. They are financially stable. And they have limited volatility in their revenue stream and annual operating expenses, so, you know, they're fairly -- they're not too difficult to predict in terms of their revenue, because they have, in general, a fixed base of customers and a set rate schedule. So they're more -- less difficult to forecast. They do have a fund balance that is currently below their policy target of 30 days. And they -- expect to restore that reserve by fiscal 2019. Key forecast assumptions and ones that we have scheduled, as a suggested topic for policy discussion, is the zero waste plan, and being able to make further progress towards meeting the diversion goal of 50% by 2018. The discussion will surround the next investment, which would be be -- expansion of the current organics collection pilot program to a citywide program.

There is some discussion about the period of time to phase in that implementation, whether it be three years or five years. Five years is what the department is recommending. Their advisory commission is recommending three years. And then we'll also talk about some additional staffing needs and equipment needs that they would need to be able to roll out that program on a citywide basis. Risks to their forecast are certainly, they have a large vehicle fleet. And so risks include the fuel cost volatility that might occur over the five years. Their five-year capital spending plan is about $50 million. 35 million of that is related to their regular business with

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additional vehicle and car acquisitions, fleet technology upgrades for gps service, public space, public waste receptacles, and construction of a storming a -- storage or maintenance facility space at their landfill site. Forecasting a $15 million investment in equipment would be needed to expand the organics program to citywide, and that is a preliminary estimate. They also will be assessing staffing needs to meet their increased customer demand that is driven by population growth. Systemwide rate increases or fee increases for Austin resource recovery, their curbside collection rate is expected to increase from five to 10% annually. And the residential clean community fee, the portion that goes to Austin resource recovery is forecast at 3% annually. Austin code department, the enterprise provides enforcement of the city's code, licensing, registration and monitoring of short-term rental programs. They are financially stable. They also have limited volatility in their revenue stream and their annual operating expenses. One of their key assumptions is assessing staffing needs to address the growing workload for their case inspections and their enforcement programs. Risk to their forecast are being able to adjust their current programs to address needed enhancements, and balancing enforcement and compliance. They are also funded by the clean community fee, which is projected to increase about 85 cents for fiscal 2017, and an average of 1 to 2% annual thereafter in the forecast. Our public works enterprise maintains the city's aging infrastructure, the streets, the

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sidewalks, and trails. It manages the capital improvement project delivery and provides safe routes to school programs. This enterprise is also financially sound, but they are experiencing an increase in service-level demand. Key forecast assumptions are improving and maintaining the overall condition of the city's roads and sidewalks in a satisfactory manner condition or better. They have a goal of preventive maintenance on 10%. They're also -- their assumption also includes delivering quality capital improvement project management consistent with baseline scope schedule and estimated costs. And then also, providing the guard coverage at the school crossings. Risks to their forecast, there's limited remaining bond funds for improvements for these infrastructure systems. And they also have a large fleet which is subject to fuel cost volatility. Their five-year capital plan is about $68 million, which focuses on construction and rehabilitation of city streets and sidewalks. Again, they expect that the transportation bond funds that are currently available will be expended by fiscal 2018. They're also assessing their staffing needs as many of the other enterprise funds are, and projecting systemwide increases in the transportation user fee of 5 to 15% in 2017 with minimal increases thereafter in the forecast. The child safety fund revenue is expected to increase an average of 1% annually. They receive revenues from fines, which are limited by state law.

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And the fine levels have not been increased since the mid-1980s. As a result, the need for increased general fund support of about 3 to 5% annually will be required. Austin transportation maintains a safe and efficient transportation system, and they are focusing on a key initiative facing the city now, which is the year of mobility. As everyone knows, the pace of population and economic growth here in Austin has outpaced our city and transportation partners' ability to meet Austin's mobility needs. They are working with forecast assumptions, working towards a goal of resident satisfaction with traffic signal timing of 44%. They're not there yet. And a goal of 30% for traffic flow on major city streets. They are continuing many of their citywide program initiatives and expansions, and a risk to their forecast also is limited remaining bond funding. Their five-year capital plan is about $15 million. It focuses on traffic signal and parking meter installations, corridor improvements, and traffic management programs. Again, they expect that their transportation bonds will be expended by fiscal 2018. They are also, as many of our enterprise departments are, assessing staffing needs to meet growing demands. Their systemwide increase for their portion of the transportation user fee is projected at 4 to 7% for fiscal '17 with minimal increases in the outer years of the forecast. Obviously, their forecast may change subject to being able to be awarded -- if we are awarded

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the smart cities grant. They're also projecting parking meter revenue growth of 2.5% annually. Our watershed department -- watershed protection enterprise protects the lives, property, and environment of Austin -- in Austin by reducing the impact of flooding, erosion, and water pollution. Excuse me. They are also financially St stable. They are funded primarily by the drainage utility fee. Their key forecast assumptions are continuing to address the impacts of the major floods that we experienced here in 2013 and '15, meeting their ongoing implementation plan of their 2001 drainage master plan. The total cost of that original plan was over $2 billion. And then just having significant challenges in keeping up with the maintenance of a very aging drainage system here in Austin is a risk to their forecast. Their five-year capital plan is at $349 million. The major projects include the floodplain buyouts, upper onion, and the waller creek district program. Cash is their primary funding source. And they cash fund their program at 81%. They also are assessing staffing needs to be able to address the deferred maintenance on their infrastructure and keep pace with growing drainage improvement needs. They are forecasting a systemwide increase of the drainage user fee of 2 to 3% annually. And that is currently based on the amount and percentage of impervious cover. That was a change that was made last year. And one of their key policy decisions is whether to continue a discount program that they put in place last year for residential single family

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customers who could see a significant increase up to two times increase in their drainage fee as a result of the change in the methodology. And then they have two key reports that they expect out before budget recommendations or budget decisions are made that they wanted to emphasize. The flood mitigation task force report is anticipated out next month. And there's a drainage system audit by the city auditor that is expected by the end of the fiscal year. And that concludes the enterprise fund section. And I'd like to go very quickly into the policy sessions that staff would like to propose, a range of policy initiatives to be discussed by the council. We have five all-day Wednesday work sessions planned that are already on the schedule. These are a new addition to focus more on the policy level rather than down in the detailed Numbers prior to budget to get -- better understand council's priorities and goals before we formulate the manager's proposed budget. We've targeted two in this slide two or more topics per work session. You can see that some of these may require more discussion than others, just based on the topic. These are, again, our suggestions. We are very open to anything that you would like to add. We will have brief presentations at the beginning to lay the groundwork for the policy questions and the policy topic. And then we'll have staff available to respond to questions or answer -- or provide additional information. We expect to provide background material on the Friday prior to the Wednesday work session. And to allow you to have time to

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preview it before the Wednesday work session. But again, right now we just have about ten topics on the proposal. We'd really love to hear your feedback about these topics, whether we got it right, whether you want some other topics, and what your thoughts are on the new approach that we've got. >> Tovo: Thank you. What is the best way to submit those suggestions, Ms. Hart? I just submitted mine directly to the city manager for consideration, but how would you like us to funnel those on? >> You can email me or ed. You can send a budget question. You can use the message board if you want to interact with each other. You can see us in the hallway. However you want to get -- a phone call. >> Tovo: Thank you. So we'll send those suggestions on to Ms. Hart, Mr. Van eenoo, and if it's a conversation we should have with council, we'll put it on the message board. Thank you very much for taking us through the rest of that presentation. I appreciate, too, the way that each of these sections highlights the policy where there are policies we need to discuss related to the different departments that you've highlighted some of those for us. That's really useful. Any last thoughts on comments? City manager. >> Yeah, just before we close out today, I normally do this at the outset, but I certainly want to thank Elaine hart and van eenoo and the entire budget and finance team, and thank all of you. I want to thank all of the department heads that are already working hard in regard to the budget development process for 2017. I want to thank my executive team as well. They begin their work long before we approve for the forecast. So, my appreciation and commendations to you all. Thank you very much. >> Thank you. >> Tovo: All right.

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Thank you all very much. We stand adjourned at 12:20.