#59
4/28/2005

Financial Forecast

April 2005

City of Austin

Financial and Administrative Services - Budget Office

FINANCIAL FORECAST OVERVIEW

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

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ECONOMIC OUTLOOK

Summary

While the national economy (as measured by GDP) continues to expand at a fairly rapid pace, there could be clouds on the horizon. Business investment, profits, and strong consumer spending (partially as a function of historically low interest rates) have contributed to overall economic growth rates in the past several years that are comparable to the expansion of the late '90s. However, rising commodity prices (especially related to energy), tighter monetary policy, and the relatively low rate of job creation all suggest that recovery is somewhat fragile, and that aggregate growth going forward is unlikely to match the current pace. As a result, the U.S. should see GDP increase 3.2 percent during 2005, a pace that reflects a slowdown in consumer activity and a slight uptick in inflation. Growth should remain positive over the next five years, but the rate of expansion likely will not match the recent past.

In Austin, the economy has moved solidly into recovery, with tax revenues and local employment accelerating over the past 12 months. Some stabilization of the local production sector, continued growth in tourism, a relatively strong real estate market (driven in part by in-migration and population growth) and continued construction (especially infrastructure-related) should yield an increase in the overall MSA employment base of 2.5 percent this year and 2.4 percent during 2006, while the longer-term outlook is for job growth to be in 2.2 percent range annually from 2007 through 2010. Personal income will rise 5.2 percent annually over the same period. These rates are based on a baseline assessment of current market conditions, and are independent of any significant economic development initiatives beyond what is current public knowledge.

The National Economy

The national economy continues to expand at a historically rapid rate, driven by a combination of business investment and consumer spending. At the same time, profits have also been strong, with cost-cutting and rising demand both contributing to a solid gain in the bottom line for many firms, a trend that has been enhanced for those engaged in high value-added production by the relatively weak dollar.

GDP Growth (Seasonally Adjusted at Annual Rates - SAAR)

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
2002	3.4%	2.4%	2.6%	0.7%
2003	1.9%	4.1%	7.4%	4.2%
2004	4.5%	3.3%	4.0%	3.8%

Business Investment Continues at a Rapid Pace

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

CHANGE IN SPENDING ON EQUIPMENT AND SOFTWARE (SAAR)

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
2002	-6.3%	-4.5	4.6	-2.0
2003	4.5	11.0	21.7	12.0
2004	8.0	14.2	17.5	18.0

Consumer Spending Has Remained Stable, But Interest Rates are Worrisome

Consumer spending has been a mainstay of the national economy, as shoppers have been willing to take advantage of aggressive pricing, widely available consumer credit, and low interest rates to maintain purchasing patterns. While higher interest rates could slow spending (especially related to the use of home equity refinancing), improvement in the job market would enhance both confidence and aggregate income.

PERSONAL CONSUMPTION EXPENDITURE GROWTH (SAAR)

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
2002	1.8	2.8	2.9	2.5
2003	2.7	3.9	5.0	3.6
2004	4.1	1.6	5.1	4.2

Signs of Inflation Emerge

While the official CPI data has yet to reflect an uptick in prices, there are signs that inflation may be on the rise. Energy prices are the obvious leading indicator, but there is also emerging anecdotal evidence that firms in many industries are beginning to be able to exercise pricing power, a variable that has not been in the equation for some time. Fears of rising inflation are the primary justification for the tightening of monetary policy.

Monetary and Fiscal Policy Are Somewhat at Odds

Having hit a historic low in May 2004, the Fed has subsequently raised interest rates seven times, pushing the federal funds rate from 1.0% to 2.75% at its most recent meeting. This tightening of monetary policy is based in large part on the perception that inflation may soon accelerate, as commodity prices (especially those related to energy) have bounced up sharply in recent months and there are signs that firms in some industries are beginning to exercise pricing power. It remains to be seen if market-based rates will follow in lock-step with the tighter policy, as mortgage rates (as an example) have not risen as dramatically. Meanwhile, the federal deficit has risen sharply, with little change expected any time soon.

The National Forecast Is for Moderating Economic Growth for the Balance of 2005, with Growth Moving Toward Historic Trends Over the Next Five Years

Rising interest rates are likely to slow growth in real estate and other consumer activity, undermining the main source of economic growth over the past several years. However, solid profits should keep investment at fairly strong levels and should finally stimulate job creation, bolstering income. Assuming inflation does not surge and the dollar does not plummet, the net effect should be slightly slower growth, with GDP projected to increase 3.2 percent this year. Over the next five years, GDP should move toward expansion in the 2.5 to 3.0 percent range annually, as the economy's potential growth of 3.5 to 4 percent per year (based in part on enhanced productivity associated with information technology) is tempered by slower labor force growth.

Source: Texas Perspectives, Inc.

The Local Economy

The Austin metro area's economy has bounced off the bottom, although the rate of expansion (especially when measured by job growth) is somewhat slower than in past recoveries. Much of this apparent sluggishness is attributable to the changing nature of the economy, as a variety of structural factors lead to what appears to be a permanent reduction in the level of labor force input required to produce a dollar of output. In the meantime, low interest rates and continued in-migration have lead to a real estate and construction surge, which has in turn helped drive sales tax revenue upward.

The national economy is a key to the short-term outlook for the Austin MSA, as national and international trends are the determinants of success or failure for an increasing number of locally-based firms. In addition to the obvious connection for the bulk of the local tech manufacturing sector, "soft" technology and professional services are also serving broader and broader markets local consumer confidence is influenced by the overall national situation and outlook. Moreover, venture capital investment has had a significant impact on Austin in recent years; as the national economy investment climate improves, locally-controlled venture funds may well provide additional stimulus. Assuming that U.S. economic growth does not sharply falter during the latter half of this year, Austin-area job growth should remain in the current range for much of the year, finishing 2005 with 17,400 net new jobs (approximately 2.5%) ahead of last year (measured on an annual year-over-year basis). This improvement will be fairly broad-based; while the bulk of the net new jobs will be in the secondary sectors of services, trade, and government, we expect that every sector of the local economy (including manufacturing and information) should finish the year ahead of 2004.

During 2006, overall growth in the Austin region may slow slightly, although the forecast is for an additional 16,200 net new jobs to be added. On the one hand, recent economic development announcements will actually lead to job creation next year, which will help bolster the production side of the local economy. On the other hand, rising interest rates could mute growth in consumer spending, both for retail purchases and real estate. Tourism may make a greater contribution in the near future, as new infrastructure and a decline in overseas travel (particularly if the dollar remains weak) makes Austin a more attractive site.

AGGREGATE MEASURES OF THE AUSTIN AREA ECONOMY

	2004	2005	2006	2007	2008	2009	2010
MSA Employment (000s)	666.1	683.5	699.7	716.2	732.8	749.8	767.2
County Population (000s)	879.3	899.7	919.5	939.7	960.4	980.5	1,001.0
County Personal Income (bil.)	$32.9	$34.9	$36.8	$38.8	$40.9	$43.1	$45.4

Source: Texas Perspectives, Inc.

Economic Outlook

Over the next five years, growth in the Austin region should remain relatively strong, as the region moves toward a sustainable trend in the wake of the downturn. After several years of essentially no growth during the downturn, the Austin MSA job base should expand at a compound annual rate of 2.3 percent from 2005 through 2010, with a slightly more rapid pace anticipated over the next two years. Similarly, Travis County personal income will rise 5.2 percent annually from 2005 through 2010. The national economy remains the single most important determinant of Austin's economic outlook. Other key factors that will help shape the course of the economy include:

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

AUSTIN MSA EMPLOYMENT BY SECTOR (000S)

	2004	2005	2006	2007	2008	2009	2010
Const./Natural Resources	37.7	38.6	39.5	40.4	41.2	42.0	42.9
Education/Health Services	68.0	69.7	71.4	73.2	75.1	76.9	78.8
Financial Activities	40.0	40.2	40.5	41.0	41.6	42.3	43.0
Government	145.5	147.7	149.2	150.7	152.2	153.7	155.2
Information	20.4	20.8	21.3	21.8	22.4	22.9	23.4
Leisure and Hospitality	67.1	70.2	73.2	76.1	79.2	82.3	85.6
Manufacturing	57.1	58.0	59.4	60.8	61.9	63.0	64.1
Other Services	26.2	27.1	28.1	29.1	30.2	31.3	32.4
Prof./Business Services	88.8	92.8	96.0	98.9	101.9	104.9	108.1
Trade/Transport/Utilities	115.3	118.4	121.1	124.1	127.2	130.4	133.7
TOTAL	666.1	683.5	699.7	716.2	732.8	749.8	767.2

Source: Texas Perspectives, Inc.

FUND PROJECTIONS

General Fund

Revenue Summary

During the forecast period, total General Fund revenue is expected to continue at annual growth rates ranging from 4.3% to 4.8%. The FY2005-06 revenue forecast is approximately $21.75 million higher than the current year, an overall increase of 4.8%. The rate of revenue growth is forecast to be slightly lower in each of the following fiscal years, 4.3% in FY2006-07 and 4.6% in FY2007-08. Below is a summary of revenue for the forecast period followed by additional information on the major revenue categories.

General Fund Forecast of Major Revenue

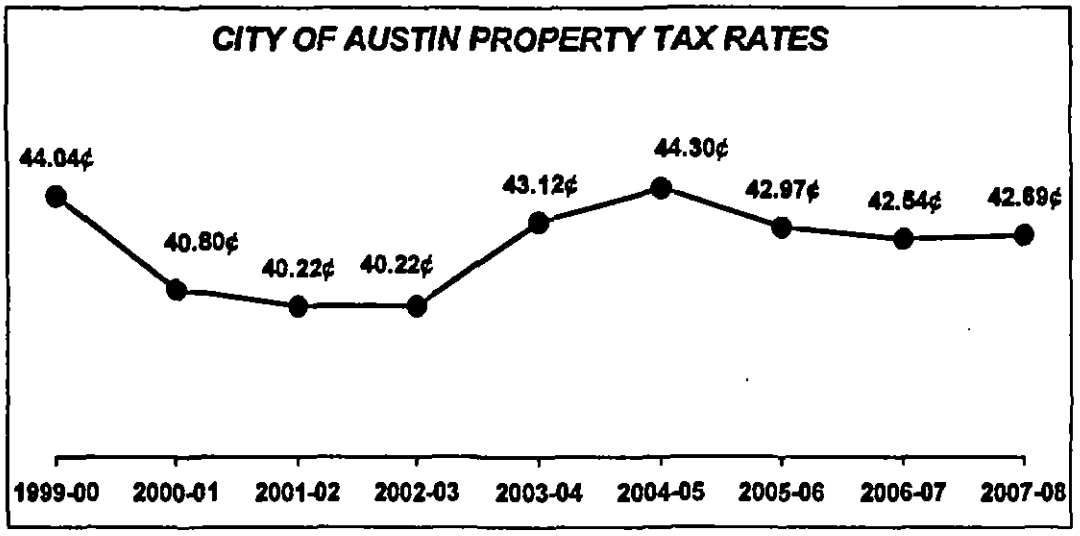
	2005-06	2006-07	2007-08
Revenue			
Property Tax	$ 140.84	$ 148.52	$ 157.13
Sales Tax	131.18	139.05	147.39
Utility Transfers	97.13	98.68	103.18
Others	102.21	105.33	106.30
Total Revenue	$ 471.36	$ 491.58	$ 514.00
Increase from Prior Year	$ 21.76	$ 20.22	$ 22.42

Property Tax

Property tax revenue accounts for approximately 30.3% of total General Fund revenue. The financial forecast includes two basic assumptions:

- Maintain the effective tax rate per $ 100 assessed valuation for all three years.

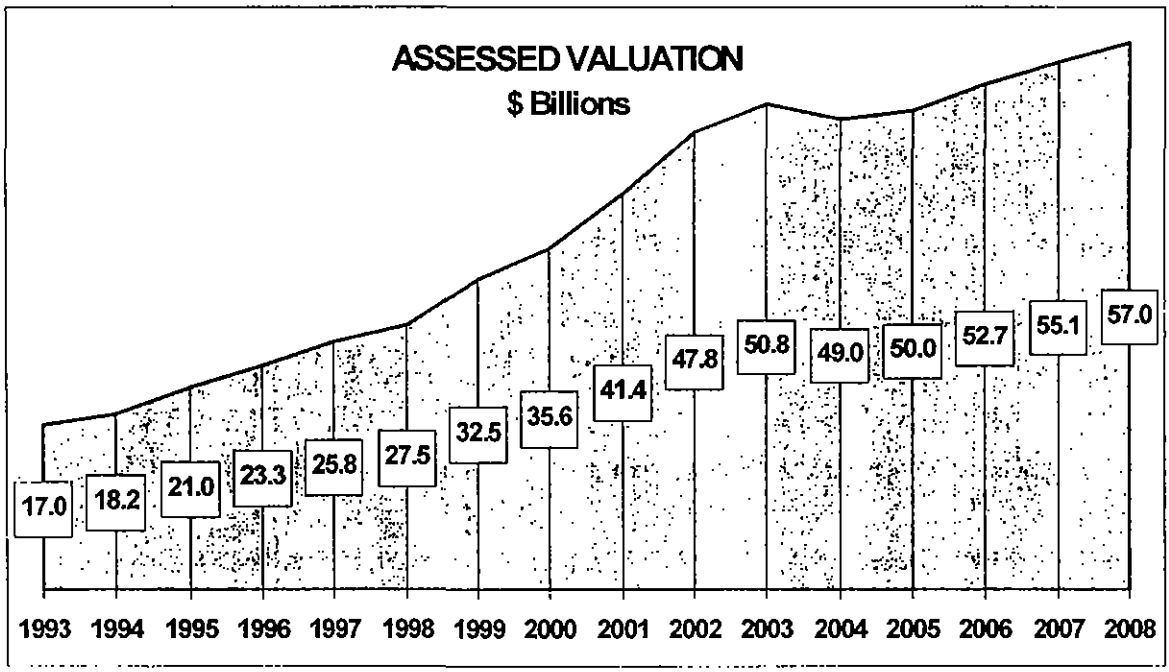
	FY2005	FY 2006	FY 2007	FY 2008
Tax Rate	44.30¢	42.97¢	42.54¢	42.69¢



For ease of comparison tax rates for fiscal years 1999-2000 through 2003-04, have been restated to reflect their estimated value had the hospital district been in existence.

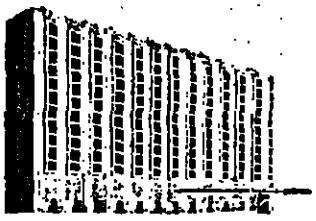
- Based on preliminary information from the Appraisal District, assessed valuations for fiscal 2006 are expected to grow at just over five percent. Assessed valuation in the remaining two years of the forecast assumes slightly lower growth, as the economy maintains a slow recovery pace.

	FY 2006	FY 2007	FY 2008
Taxable Assessed Valuation (billions)	$ 52.7	$ 55.1	$ 57.0
Percentage Change	5.4%	4.5%	3.4%



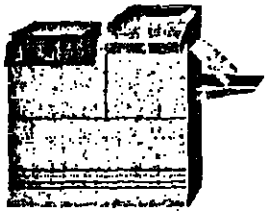
2005-06 CHANGES IN VALUE BY PROPERTY TYPE

Single Family Residential
$713 M 2.9 %

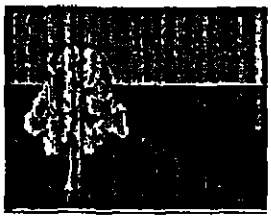


Multi-Unit Residential
$378 M 6.1 %

Commercial
$491 M 4.3 %



Personal Property
$203 M 3.3 %



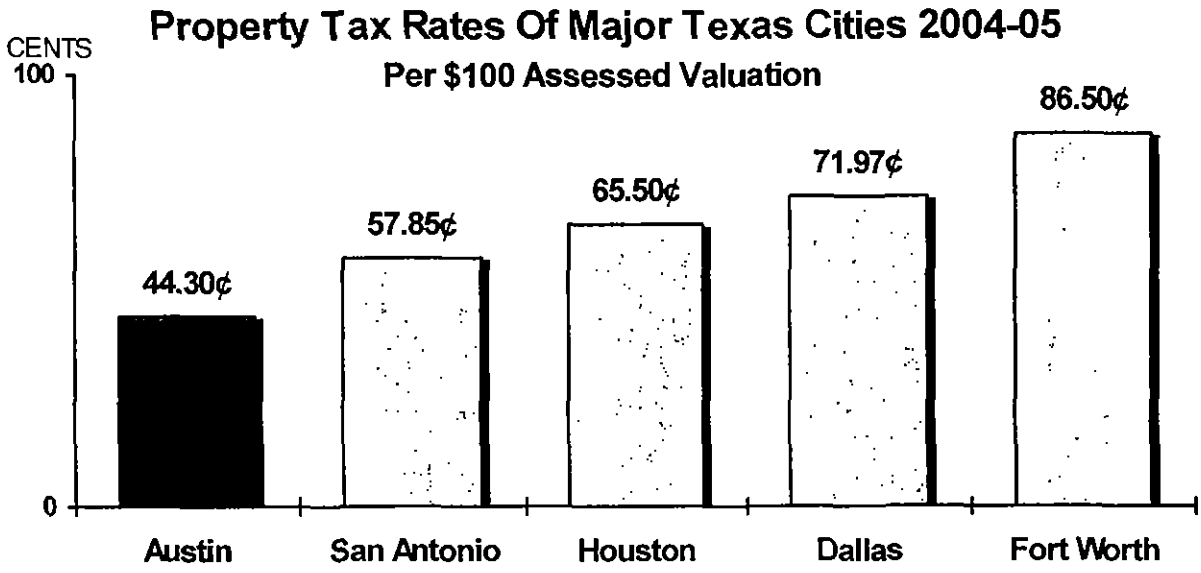
Land
($128 M) (8.4 %)

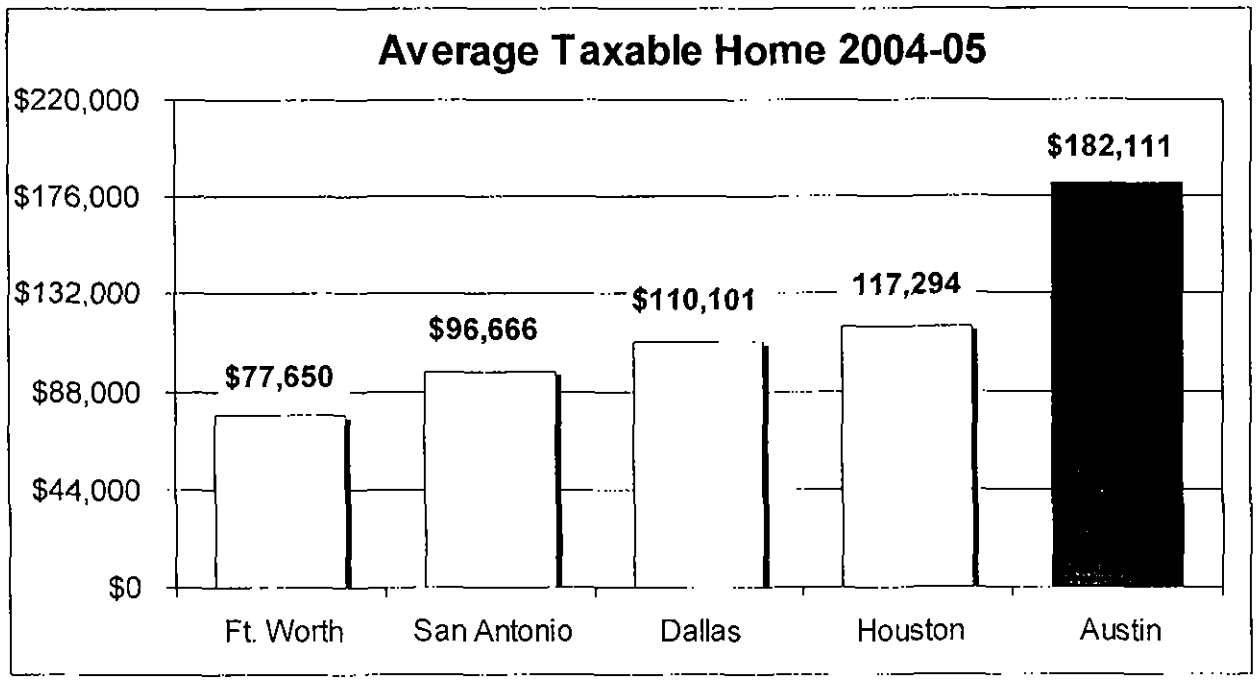
New Construction
$1,062 M NA

$2,719 M TOTAL **5.4 %**

Property Tax Comparisons

The following section provides comparisons of tax rates and bills, home values and median family income for the major Texas cities. In 2004-05 the City of Austin transferred $30.6 million in public health care services expenditures to the new voter approved Travis County Hospital District. This level of expenditure resulted in a one-time 6.35¢ reduction in the City's approved property tax rate of 50.65¢ to an amended tax rate of 44.30¢. This rate is now more readily comparable to the other major Texas cities, since now all have a hospital district.

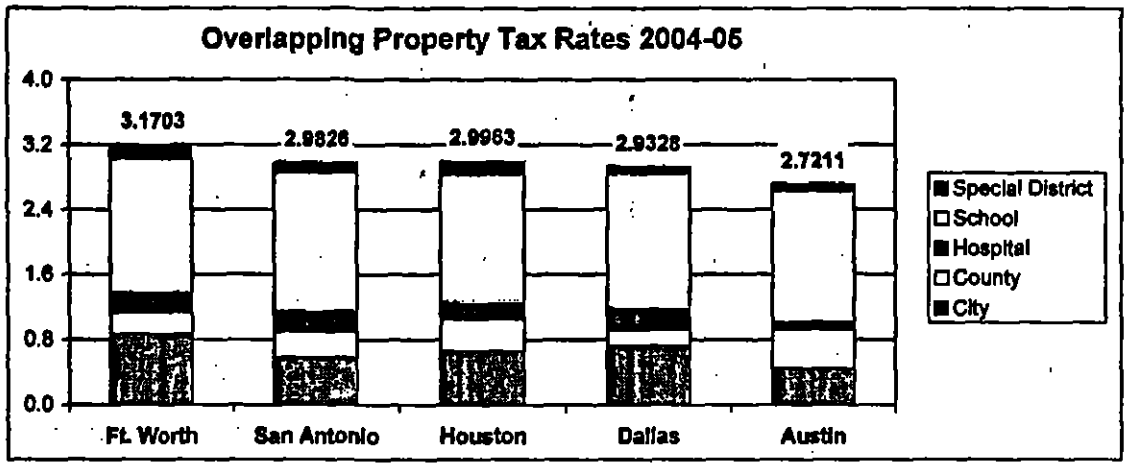




Overlapping Property Tax Rates 2004-05

Jurisdiction	Ft. Worth	Share	San Antonio	Share	Houston	Share	Dallas	Share	Austin	Share
City	0.8650	27.3%	0.5785	19.4%	0.6550	21.9%	0.7197	24.5%	0.4430	16.3%
County	0.2725	8.6%	0.3185	10.7%	0.3999	13.3%	0.2039	7.0%	0.4872	17.9%
Hospital	0.2354	7.4%	0.2439	8.2%	0.1902	6.3%	0.2540	8.7%	0.0779	2.9%
School	1.6580	52.3%	1.7220	57.7%	1.5990	53.4%	1.6694	56.9%	1.6230	59.8%
Special District [1]	0.1394	4.4%	0.1198	4.0%	0.1522	5.1%	0.0858	2.9%	0.0900	3.3%
Total Tax Rate	3.1703		2.9826		2.9963		2.9328		2.7211	

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



Overlapping Property Tax Bill 2004-05

Jurisdiction	Ft. Worth	Share	San Antonio	Share	Houston	Share	Dallas	Share	Austin	Share
City	$672	25.1%	$559	26.8%	$768	22.1%	$792	25.8%	$807	17.5%
County	$344	12.9%	$334	16.0%	$465	13.3%	$219	7.1%	$771	16.8%
Hospital	$297	11.1%	$256	12.3%	$221	6.3%	$273	8.9%	$123	2.7%
School	$1,185	44.3%	$811	38.9%	$1,839	52.8%	$1,690	55.1%	$2,740	59.5%
Special District [1]	$176	6.6%	$125	6.0%	$191	5.5%	$92	3.0%	$162	3.5%
Total Tax Bill	$2,675		$2,085		$3,484		$3,066		$4,603	

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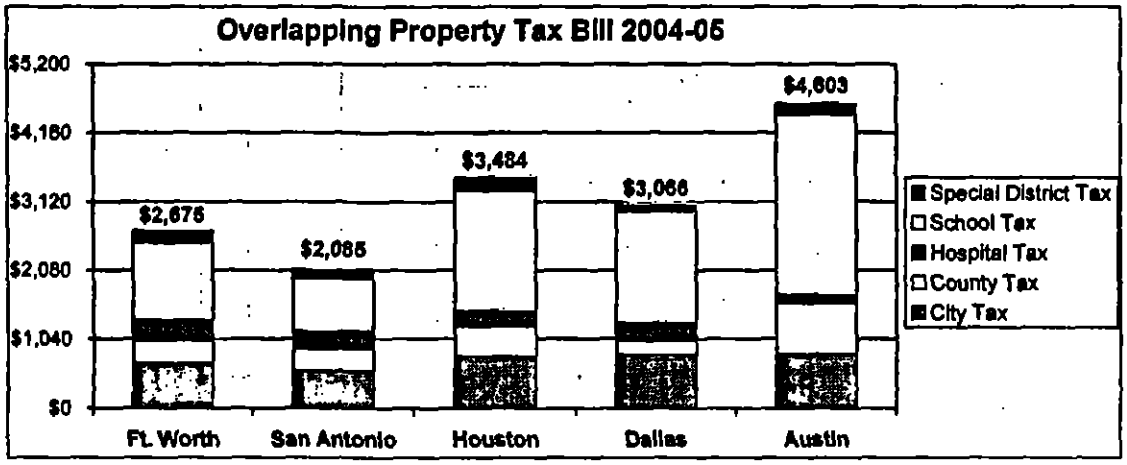

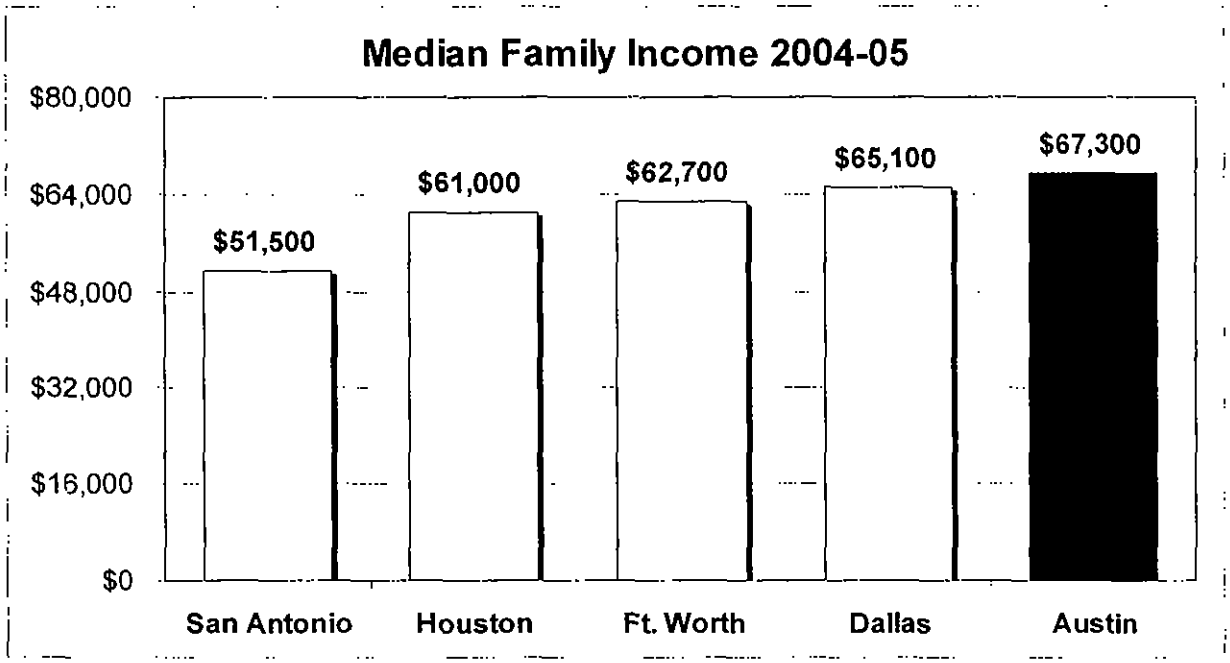

2004-05 Overlapping Property Tax Bill % of Median Income

Jurisdiction	Ft. Worth	Percent	San Antonio	Percent	Houston	Percent	Dallas	Percent	Austin	Percent
City	$672	1.07%	$559	1.09%	$768	1.26%	$792	1.22%	$807	1.20%
County	$344	0.55%	$334	0.65%	$465	0.76%	$219	0.34%	$771	1.15%
Hospital	$297	0.47%	$256	0.50%	$221	0.36%	$273	0.42%	$123	0.18%
School	$1,185	1.89%	$811	1.57%	$1,839	3.01%	$1,690	2.60%	$2,740	4.07%
Special District (1)	$176	0.28%	$125	0.24%	$191	0.31%	$92	0.14%	$162	0.24%
Total Tax Bill	$2,675	4.27%	$2,085	4.05%	$3,484	5.71%	$3,066	4.71%	$4,603	6.84%

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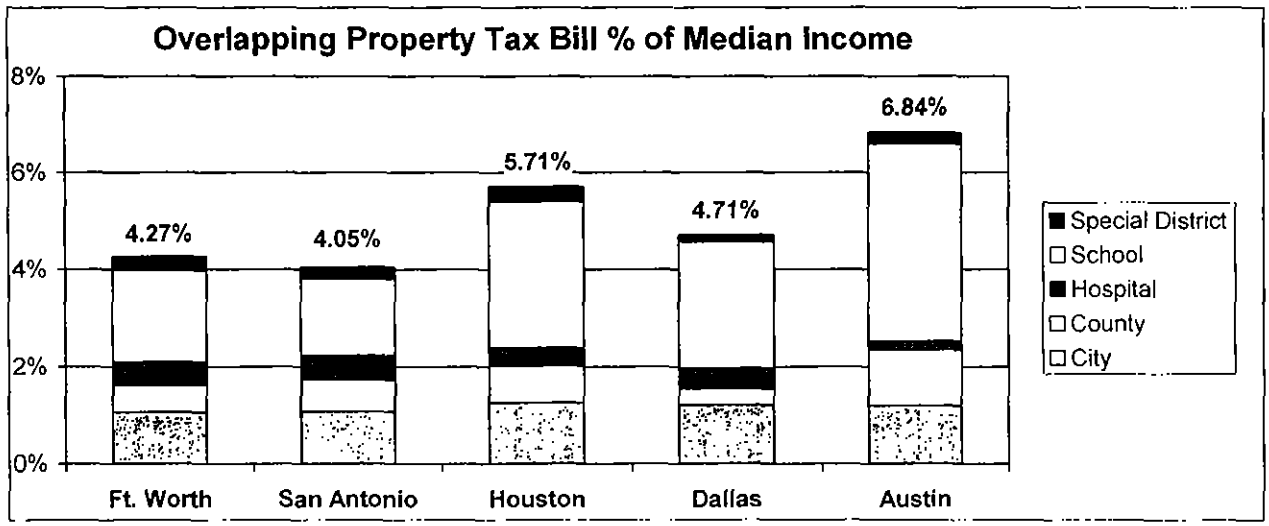
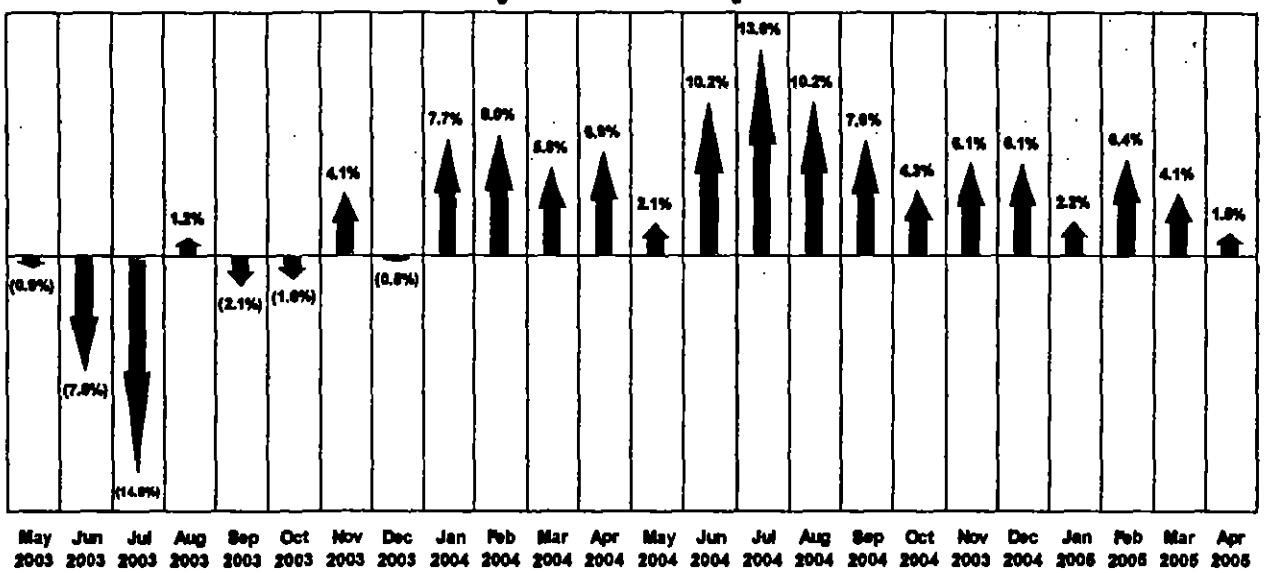


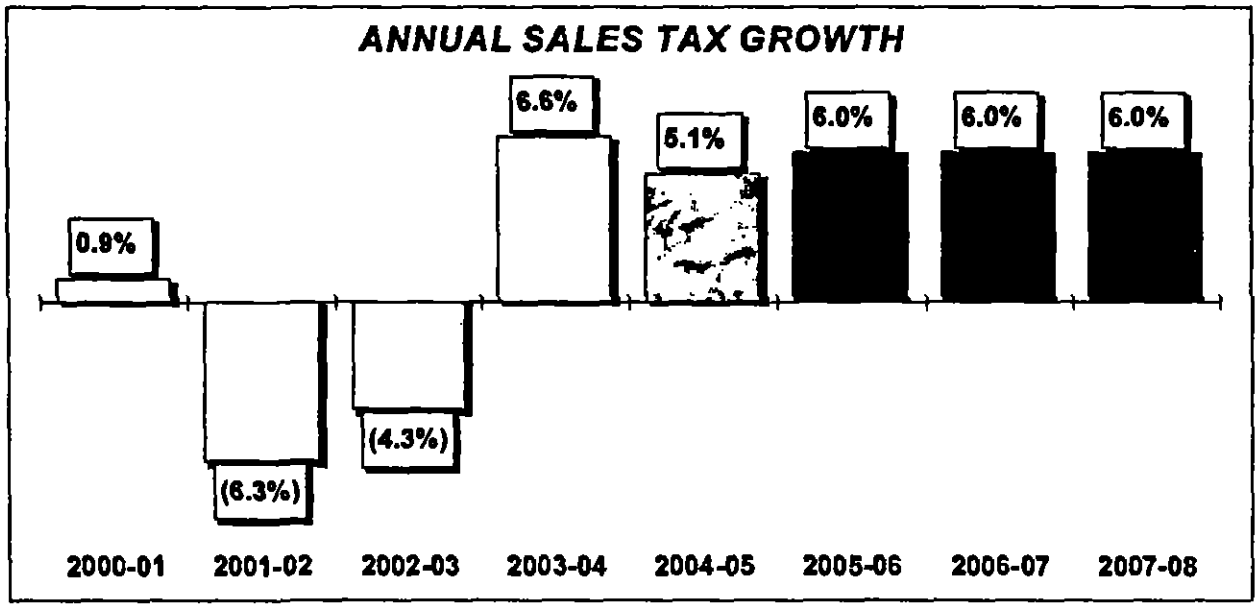
Sales Tax

Sales Tax revenue accounts for approximately 27.5% of total FY 2005 General Fund revenue. Sales tax revenue has exhibited a positive growth trend over the last sixteen months:

Actual Monthly Sales Tax Payment Growth



The 2004-05 sales tax is projected to experience a second year of positive growth recovery following two years of negative growth. Based on the updated local economic outlook for continuing job and income growth, the forecast projects a moderate increase in sales tax revenue of 6% per year.



Annual sales tax growth for fiscal years 2001 – 2004 are actual collections. For FY 2005 the estimated growth is 5.1%, the amount included in the original budget, and FY 2006 – 2008 are the forecast years.

Other Revenue

Utility transfer revenue accounts for approximately 21.1% of total General Fund revenue. The forecast revenue is based on maintaining the current utility transfer rates which are consistent with the City's financial policies:

Electric Utility	9.1%
Water Utility	8.2%

Because of slight upward trends in utility revenues, continuation of these percentages results in slight increases in utility transfers each year of the forecast period.

Expenditures

Projections show that while revenue growth is healthy, cost drivers over the forecast period continue to exceed that growth. Public safety continues to be the largest driver by far, followed by insurance increases and pay for performance for the non-uniformed work force. New facilities also continue to be a cost driver.

In addition to these basic cost drivers, there are a few discretionary items that have been built into the forecast assumptions. These include items such as civilian market and Living Wage adjustments, expanded hours at libraries and the expansion of the customer service call center.

Finally, the forecast assumes the continuation of the practice of using fund balance to fund critical capital and one-time costs. During the budget process a change to our financial policies as they relate to fund balance will be proposed that will increase our emergency reserve and allow for appropriation of a portion of our budget stabilization reserve for capital and other one-time expenditures.

Basic Assumptions
FY 2006 thru FY 2008

- Maintain 2.0 Police Officers per 1,000 population
- Public Safety Contract and other pay increases (i.e. step & longevity)
- Maintain existing funding levels for public health services and social services
- Maintain existing funding levels for Parks programs
- Funding operations and maintenance costs for all new/expanded facilities scheduled to open during forecast period
- Pay for Performance of 3.5% for all employees for each year of the forecast
- Health insurance increase of 10% each year of the forecast

Key Management Recommendations

- Increase Living Wage from $10.00 to $10.81 per hour
- Market Adjustments for non-civil service workforce
- Restore branch libraries and Austin History Center Hours
- Enhance key Public Safety services
    - EMS alternative shifts
    - EMS safety and recruiting staff
    - EMS peak load unit
    - Fire Wellness Initiative
    - Enhanced Fire Task Force Staffing
    - Police Constant Staffing funds
    - Strategic Public Safety civilian support staff, primarily in Police and Fire
- Enhance key non-Public Safety services
    - Right-of-Way and Parks maintenance & mowing staff
    - Forestry staff
    - Food and Building Inspectors
    - Communicable Disease Prevention Staff
    - Animal Control and Cruelty Officers
    - Planning staff, including Historic Preservation

General Fund Financial Forecast Cost Drivers
(millions)

	2006	2007	2008
Public Safety	$22.21	$19.97	$21.09
Health Insurance	$3.10	$3.41	$3.75
PFP - non-uniform	$2.83	$2.94	$3.04
New Facilities O&M (non-public safety)	$0.57	$1.67	$0.48
Subtotal Major Cost Driver Increases	$28.72	$27.98	$28.37
Other Estimated Cost Increases	$5.47	$1.22	$0.33
Total Estimated Cost Increases	**$34.19**	**$29.20**	**$28.70**

General Fund Financial Forecast Public Safety Major Cost Drivers

	2006	2007	2008
Public Safety Pay for Performance & Public Safety Contract Pay	$11,082,982	$11,626,498	$12,008,371
Police Step & Long	$3,452,071	$3,526,984	$2,816,058
Fire Step & Long	$509,543	$460,159	$506,175
Police Meet & Confer Soft Costs	$1,955,487	$2,793,681	$3,923,787
Addt'l Police Officer Funding	$1,720,201	$2,368,464	$368,816
Police UHP Grant Reimbursement	($1,820,866)	($1,831,591)	$1,324,068
Police Expiring Grants Staff FY 06 = 2.0 ftes	$103,574	$0	$0
Police Civilian staff - FY 06 = 12.0 ftes	$437,052	$104,674	$0
Police Overtime - Constant Staffing	$500,000	$125,000	$125,000
Police Temp Staffing	$200,000	$0	$0
Police One Time Costs Backout	($1,074,100)	$0	$0
Police Civil Personnel, Contractual & Commodity Savings	($1,340,000)	$0	$0
Fire One Time Costs Backout	($23,000)	$0	$0
Fire Overtime - Enhanced Task Force	$400,000	$0	$0
Fire Wellness Center	$129,516	$0	$0
Fire Skills Training	$100,000	$0	$0
Fire Civilian staff - FY 06 = 2.0 ftes	$90,967	$0	$0
Fire Restore 6 Firefighter Positions	$291,915	$40,330	$43,294
GO Debt Fire	$249,870	$20,128	$0
EMS One Time Costs Backout	($54,376)	$0	($118,600)
EMS Call Back Overtime	$200,000	$0	$0
EMS Zone Decompression	$1,225,115	$0	$0
EMS District Commanders - 2.0 ftes	$263,202	$0	$0
EMS - Alternative Shift Schedule - 4.0 ftes	$236,376	$63,928	$0
EMS Peak Load Unit - FY 06 = 6.0 ftes	$493,489	($650)	$0
EMS Safety Package - FY 06 = 2.0 ftes. FY 07 = 2.0 ftes	$97,587	$97,631	$0
EMS Recruiting Package - FY 06 = 1.0 fte	$119,502	$0	$0
EMS Pediatric Training	$0	$100,000	$0
New Facilities Public Safety	$2,662,196	$473,974	$93,616
TOTAL PUBLIC SAFETY	**$22,208,303**	**$19,969,210**	**$21,090,685**

New Facility Annual Operations and Maintenance Costs
(amount in millions of incremental increase)

	FY 2006	FY 2007	FY 2008	Forecast Period Cumulative
EMS Stations				
Circle C	0.48	0.31	0.00	0.79
Del Valle	0.89	(0.00)	0.00	0.89
Total EMS Stations	**$1.37**	**$0.31**	**$0.00**	**$1.68**
Fire Stations				
Circle C	0.14	0.00	0.00	0.14
Del Valle	0.14	0.00	0.00	0.14
Spicewood Springs	1.00	0.16	0.09	1.25
Total Fire Stations	**$1.28**	**$0.16**	**$0.09**	**$1.53**
Total Public Safety	**$2.65**	**$0.47**	**$0.09**	**$3.21**
Libraries				
Spicewood Springs Expansion	0.01	0.09	0.00	0.10
Terrazas Expansion	0.02	0.00	0.00	0.02
North Village Expansion	0.00	0.00	0.08	0.08
Twin Oaks Expansion	0.00	0.00	0.05	0.05
Total Libraries	**$0.03**	**$0.09**	**$0.13**	**$0.25**
Parks & Recreation				
New Facilites:				
Carver Museum	0.04	0.00	0.00	0.04
Metz Recreation Center Expansion	0.10	0.06	0.00	0.16
Mexican American Cultural Center	0.00	0.53	0.00	0.53
Gus Garcia Recreation Center	0.00	0.08	0.29	0.37
Colony Park Recreation Center	0.08	0.29	0.00	0.37
Subtotal New Facilities	**$0.22**	**$0.96**	**$0.29**	**$1.47**
New Parks:				
Town Lake Park	0.13	0.45	0.00	0.58
Colorado River Park	0.00	0.17	0.06	0.23
Harris Branch, Scofield & Riata Park	0.04	0.00	0.00	0.04
Colony Park	0.15	0.00	0.00	0.15
Subtotal New Parks	**$0.32**	**$0.62**	**$0.06**	**$1.00**
Total Parks and Recreation	**$0.54**	**$1.58**	**$0.35**	**$2.47**
Total Other Facilities	**$0.57**	**$1.67**	**$0.48**	**$2.72**
Total City-Wide	**$3.22**	**$2.14**	**$0.57**	**$5.93**

General Fund Financial Forecast Summary (millions)

	2004 Amended	2005 Amended	2006	2007	2008
Beginning Balance	29.6	43.4	49.0	33.6	22.9
Revenue	461.1	449.6	471.4	491.6	514.0
Expenditures:					
Base Budget - Prior Fiscal Year			449.6	471.4	491.6
Cost Drivers			34.2	29.2	28.7
Total Expenditures	462.4	449.6	483.8	500.6	520.3
Excess/(Deficit)	*(1.3)*	*0.0*	*(12.4)*	*(9.0)*	*(6.3)*
Required Cost Reductions:					
Departmental Percentage Reduction			3.03%	2.10%	1.41%
Reduced Expenditures			12.4	9.0	6.3
Total Revised Expenditures			471.4	491.6	514.0
Revised Excess / Deficit			*0.0*	*0.0*	*0.0*
Ending Balance	28.3	43.4	49.0	33.6	22.9
One-Time Critical Capital	0.0	15.6	15.4	10.8	10.1
Adjusted Ending Balance	28.3	27.8	33.6	22.9	12.8

Un-Adjusted

	2004 Amended	2005 Amended	2006	2007	2008
Beginning Balance			49.0	21.2	(11.0)
Revenues			471.4	491.6	514.0
Total Revised Expenditures			483.8	513.0	541.7
Excess / (Deficit)			(12.4)	(21.4)	(27.7)
Ending Balance			36.6	(0.2)	(38.7)
One-Time Critical Capital			15.4	10.8	10.1
Adjusted Ending Balance			21.2	(11.0)	(48.7)

Austin Convention Center

Revenue

Hotel/Motel Bed tax collections account for over half of total Convention Center revenue. During FY02, bed and vehicle rental tax receipts declined sharply as a result of economic factors, including the adverse effects of the events of September 11, 2001 on the leisure and travel industry. Bed tax revenue in FY03 was slightly higher than FY02 levels and FY04 collections were approximately the same as FY03 receipts. FY05 bed tax collections are higher than expected, and estimates are projected to be approximately $1.5 million, or 5.8% above budget.

Bed tax revenue for FY06 is projected to increase 5% above the FY05 current year estimate. FY07 and FY08 growth rates are projected at 4% above FY06 and FY07. Bed tax projections are based on an analysis of hospitality industry trends and hotel/motel market data. Vehicle rental tax revenue for FY06 is projected to increase 3% above the FY05 current year estimate with future annual growth rates projected at 5% above FY06 for FY07 and 3% above FY07 for FY08. The opening of the headquarters hotel, coupled with expanded facilities and a new parking garage, is expected to continue to have a positive influence on the revenue generated by the Convention Center in future years. Facility revenue is projected to increase 3% during the forecast period. An anticipated bond swap will enable the Department to realize approximately $2.0 million of additional revenue in FY05. An additional $14.6 million is projected to be received over the next 7 years; $4.8 million of the total will be received in FY06-FY08.

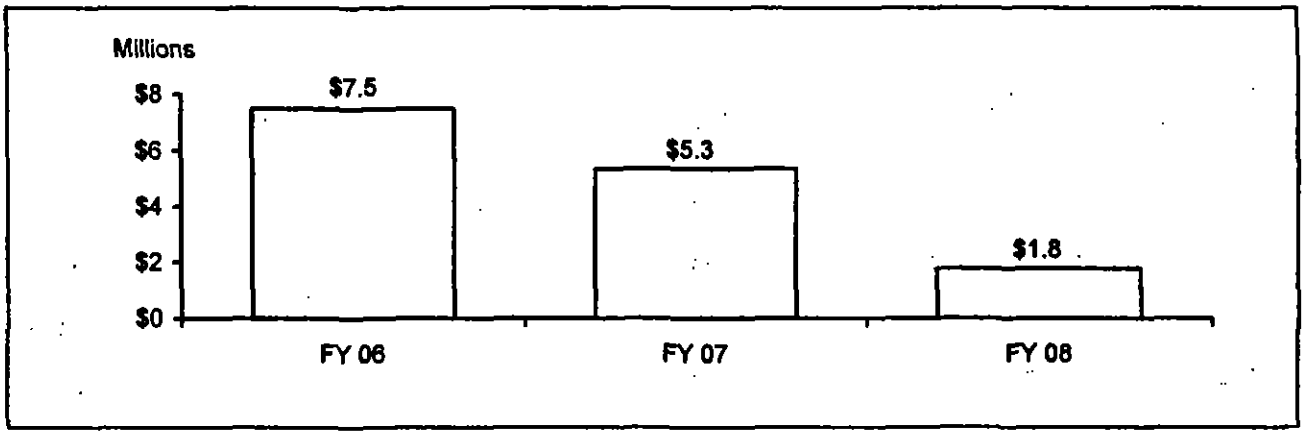
Expenditures

Opening of the expansion and headquarters hotel has changed the Convention Center's markets and created the opportunity for increases in business. These additional facilities, however, also present new demands through increased workload levels resulting from larger, more technologically complex and concurrently running events. Numerous improvements related to centralization of functions and work process innovations have been implemented over the past few years. The focus in the upcoming year will be to emphasize results-oriented work patterns, strengthen communication efforts throughout the organization, and increase knowledge and expertise at the managerial level. It is important to protect valuable facility assets, and investments in facility maintenance will be necessary. Investments in technology infrastructure are also needed so that the Convention Center may continue to be an industry leader in technology capabilities. Two new FTEs for the technology area are anticipated during the forecast period.

Other

Throughout the forecast period, the Convention Center will continue to be a self-sufficient operation. The fund balance is projected to remain positive during the entire forecast period.

Austin Convention Center Department
Ending Balance



Austin Convention Center Department Three Year Forecast

(millions)

	Amended 2004-05	2005-06	2006-07	2007-08
BEGINNING BALANCE - Convention Ctr., Venue Fund, Town Lake Park Venue, Palmer Events Ctr. (PEC) & PEC Garage	10.55	10.55	7 48	5.34
REVENUE/TRANSFERS IN				
Tax - Hotel/Motel, Rental Car	23.17	25.38	26.44	27.44
Facility - Convention Ctr (CC) & CC Garage Palmer Events Ctr (PEC) & PEC Garag	6.70	6.90	7.37	7.60
Other - Contractor Revenue & Interest	5.56	6 76	6.91	7.06
TOTAL REVENUE/TRANSFERS IN	35.43	39.04	40.72	42.10
TOTAL OPERATING REQUIREMENTS	20.79	22 64	21.89	23.23
TOTAL TRANSFERS OUT	18.32	17.89	19.37	20.80
TOTAL OTHER REQUIREMENTS	1.54	1.58	1.60	1.65
TOTAL REQUIREMENTS	40.65	42.11	42 86	45.68
EXCESS (DEFICIENCY) OF AVAILABLE FUNDS OVER REQUIREMENTS	(5.22)	(3.07)	(2.14)	(3.58)
ENDING BALANCE	5.33	7.48	5.34	1.76
FTEs	202	204	204	204

Austin Water Utility

Over the next three years, the Austin Water Utility will continue to focus on the following goals:

- public health, safety, and fire protection
- conservation and environmental protection
- quality customer service
- growth and service extension
- maintaining a strong infrastructure

Revenue

The Austin Water Utility is projecting a 1.8% average annual growth in base service revenues for all rate classes for both water and wastewater systems, over the 3-year financial forecast period. This average annual growth rate generates only $5.0 million in additional combined operating revenues per year, resulting in a $22.5 million funding gap in FY2006-07 and $41.2 million funding gap in FY2007-08. In order to close this funding gap, the Utility is forecasting combined system-wide rate increase of 13.7% over the three year forecast period. The Utility proposes to use smaller incremental rate increases each year to distribute this increase over time. The forecast uses a rate increase of 4.2% in FY 2005-06, 4.5% in FY 2006-07 and 5.0% in FY 2007-08. These rate increases generate an average additional $27.2 million in revenue per year. This proposal differs from that presented in prior years which showed larger, less frequent increases. Size and timing of rate increases will be one of the policy budget issues presented in May.

Expenditures

Over the 3-year financial forecast period, operations and maintenance (O&M) costs for the combined utility system are increasing primarily due to an increase in the treatment volume for water and wastewater, costs associated with health insurance, pay for performance, facility additions and annexations, and overall inflationary increases.

Over the next three years, annual operating requirements for the Utility are projected to increase by $15.5 million from $121.5 million in FY 2004-05 to $137.0 million by FY 2007-08. The cumulative increase in operating costs of 12.8% over a 3-year period is reasonable considering system growth and inflationary factors.

The major cost drivers of the Utility are related to required capital improvements, on-going debt service, and operations & maintenance expenses. New capital spending of $549.9 million is required during the forecast period for water and wastewater system improvements of aging infrastructure, service extensions, and capacity expansions. Additionally, approximately 40% of total operating revenue billed each fiscal year is required for paying principal and interest due on the existing $1.4 billion debt. Finally, projected increases in water pumpage and wastewater flows, costs associated with health insurance, pay for performance, addition of new facilities, annexations, and overall inflationary increases in operating costs are increasing combined utility system operations & maintenance costs. These cost drivers are necessitating the forecasted rate increase.

Austin Water Utility Fund Three Year Forecast

(millions)

	Amended 2004-2005	2005-06	2006-07	2007-08
BEGINNING BALANCE	25.12	15.98	29.46	31.13
REVENUE				
SALE OF WATER	142.53	147.20	154.83	166.43
SALE OF WASTEWATER SERVICE	132.93	142.22	153.97	164.75
OTHER REVENUE	7.51	7.50	7.58	7 77
TOTAL REVENUE	282.97	296.92	316.38	338.95
TOTAL TRANSFERS IN	10.75	15.08	10.61	9.71
TOTAL AVAILABLE FUNDS	293.72	312.00	326.99	348 66
TOTAL OPERATING REQUIREMENTS	121.48	126.10	131.44	137 01
DEBT SERVICE REQUIREMENTS	116.39	119.18	137.90	151.33
TOTAL TRANSFERS / OTHER REQUIREMENTS	59.07	53.24	55.98	66 03
TOTAL REQUIREMENTS	296.94	298.52	325.32	354 37
ENDING BALANCE:	21.90	29.46	31.13	25.42
Water Rate Increase	9.20%	2.10%	3.10%	5.30%
Wastewater Rate Increase	14.70%	6.60%	5.90%	4.80%
Combined Rate Increases	11.80%	4.20%	4.50%	5.00%
Debt Service Coverage Ratio	1.66	1.78	1.56	1.52
FTEs	1,019.85	1.019.85	1,019.85	1,019.85

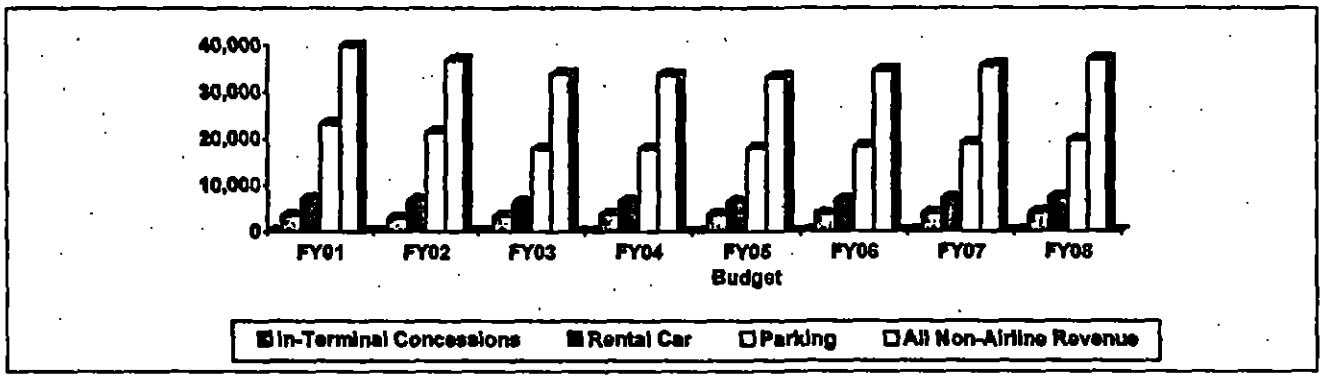
Aviation Department

Revenue

Airline revenue, comprised of landing fees, terminal fees and other direct airline service fees, accounts for 48% of total Airport operating revenue. In the past few years, the economic decline, the events of September 11 and the continued threat of terrorism have had a significant negative effect on the travel industry. Enplanement growth in FY00 was 19.5%, but fell to a growth rate of .02% in FY01 and has remained flat since. However, signs of economic improvement prompt an estimated 3% enplanement growth rate for FY05 and a 2.8% rate for the forecast period of FY06-FY08. Based on the projected passenger activity, airline revenue is expected to grow by a minimal growth rate of .82% in FY06, by 3.8% in FY07 and by 3.4% in FY08.

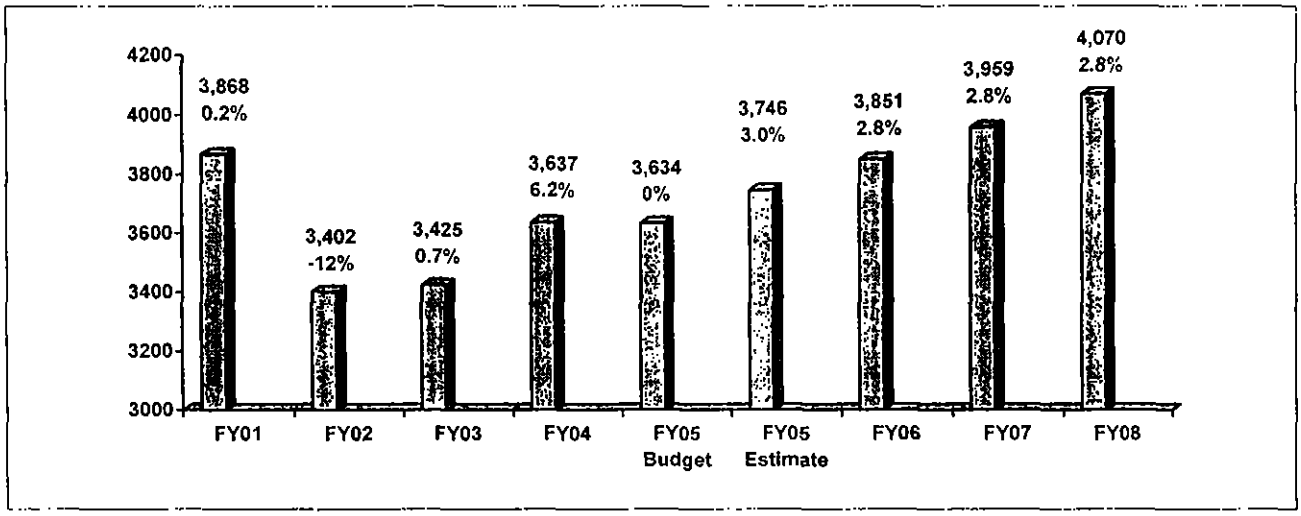
Over half of the Aviation Department's operating revenue is comprised of non-airline revenue such as parking, concessions, rentals and other fees. Parking revenue, the main contributor to non-airline revenue, began a downward trend in FY02 when off-airport parking lots began operation. Parking revenue decreased by 16.6% in FY03 and remained flat for FY04. In FY05, the off-airport lots began paying 4% of their gross revenue instead of an occupied space fee resulting in an anticipated 2% increase in FY06 and a 3.8% increase for each of the last 2 years of the forecast period for parking revenue. Overall non-airline revenue is forecasted to increase by 4.6% in FY06 and level to a 3.3% increase for each of the final two years of the forecast.

Non Airline Revenue
(000's)



	FY01	FY02	FY03	FY04	FY05 Budget	FY06F	Y07	FY08
In-Terminal Concessions	$3,421	$2,928 -14.41%	$3,307 12.94%	$3,669 10.95%	$3,526 -3.90%	$3,725 5.64%	$3,867 3.81%	$4,016 3.85%
Rental Car	$7,120	$6,801 -4.48%	$6,187 -9.03%	$6,492 4.93%	$6,371 -1.86%	$6,736 5.73%	$6,994 3.83%	$7,262 3.83%
Parking	$23,172	$21,414 -7.6%	$17,857 -16.61%	$17,881 .13%	$17,895 .08%	$18,275 2.12%	$18,975 3.83%	$19,702 3.83%
All Non-Airline Revenue	$39,860	$36,819 -7.63%	$33,796 -8.21%	$33,636 -.47%	$33,031 -1.80%	$34,551 4.6%	$35,699 3.3%	$36,890 3.3%

Enplanements
(000's)



Expenditures

Due to the effects of the economy and drastic reductions in the travel industry, the department has been in a constant cost reduction and cost containment mode for the prior three fiscal years. As the slight recovery in the economy and travel industry continues, resulting in anticipated small revenue growth, the department continues to address critical needs as well as those needs that had been deferred throughout the prior years. Operating and maintenance expenses are projected to increase at an average annual rate of 5%, with the exception of FY06, which assumes a 7.1% increase, or approximately $3.1 million over the approved FY05 operating budget. The forecast includes cost increases associated with compliance of all security mandates, replacement of aged and worn equipment, increase of basic operating costs, such as repairs, maintenance, supplies, etc. and increases for pay and benefits for employees. This includes 8 new FTEs, of which five are required for the operation and maintenance of the new Explosive Detection System (EDS). In addition, a .75 FTE is being converted to a 1.0 FTE. Revenue bond debt service savings of approximately $17 million over the 3 year period is due to a bond defeasance in 2000, a bond refunding in 2003, and the increase of the Passenger Facility Charge collection rate from $3.00 to $4.50 in 2004 which increases the offset to debt service requirements.

Other

The forecast continues to show the Aviation department operating at positive levels throughout the three-year period. All excess funds are required to be transferred to the Capital Fund to address capital improvement needs. Approximately $16.9 million is estimated to be contributed to the Airport Capital Fund over the three year forecast period.

Airport Fund Three Year Forecast

(millions)

	Amended 2004-05	2005-06	2006-07	2007-08
BEGINNING BALANCE	0	0	0	0
REVENUE				
AIRLINE REVENUE	31.17	31.43	32.63	33.75
NON-AIRLINE REVENUE	33.03	34.55	35.70	36.89
OTHER REVENUE	0.61	0.79	0.80	0.82
TOTAL REVENUE	64.81	66.77	69.13	71.46
TOTAL TRANSFERS IN	7.33	7.06	7.43	7.49
TOTAL AVAILABLE FUNDS	72.14	73.83	76.56	78.95
TOTAL OPERATING REQUIREMENTS	43.08	46.15	48.46	50.88
TOTAL TRANSFERS OUT AND OTHER REQUIREMENTS	24.63	20.99	22.74	23.22
TOTAL REQUIREMENTS	67.71	67.14	71.20	74.10
EXCESS (DEFICIT) OF TOTAL AVAILABLE FUNDS OVER TOTAL REQUIREMENTS	4.43	6.69	5.36	4.85
Contribution To Capital Fund	4.43	6.69	5.36	4.85
ENDING BALANCE	0.00	0.00	0.00	0.00
FTEs	371.75	380.00	380.00	380.00

Solid Waste Services

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

Revenue

Residential Pay-As-You-Throw (PAYT) and Anti-Litter fees account for approximately 92% of the Solid Waste Services Department's operating revenue. Revenue projections are based on three main assumptions: 1) annual base-customer growth of 1.27% for both residential and commercial PAYT and Anti-Litter customers, 2) an additional 945 customers due to annexations, and 3) no fee increases throughout the forecast period.

The base PAYT residential rate is $7.00 per customer per month and increases depending on cart size. The base PAYT commercial rate is $25.00 per customer per month and increases depending on cart size and pick-up frequency. PAYT rates have not increased since the implementation of the program in fiscal year 1996-97.

The Anti-Litter residential rate is $2.60 per customer per month. The Anti-Litter commercial rate is $4.55 per customer per month.

Expenditures

The major cost drivers for SWS are primarily operational costs due to increased base-customer growth, as well as service area expansions resulting from the annexation of Springfield and Walnut Creek. The additional 945 new annexation customers will require the purchase of additional carts and bins and will increase disposal costs. The costs associated with customer growth is approximately $0.15 million in Fiscal Year 2006.

The forecast assumes that SWS will implement a new Cart Management software system in coordination with the Communications and Technology Management department. The new system will allow SWS personnel to locate and monitor the maintenance and delivery of trash carts.

SWS forecasts an increase in the level of service in the Code Compliance Program. This forecast adds a total of 7 new inspectors and program coordinators in order to reduce the time it takes to process complaints in the Zoning, Housing, and Property Abatement sections of the Code Compliance Program.

This forecast includes 1 Division Manager in the PAYT Program to supervise the activities, a Hazardous Waste Technician to handle the steadily increasing volume of household recyclable materials, an Accounting Technician to handle the increased workload due to processing fees caused by extra garbage bags, and an Administrative Associate to provide administrative support to the Human Resources Division and act as the primary staff for the front desk at the department's administrative building. The addition of these positions will cause an increase of approximately $0.6 million in Fiscal Year 2006.

Other significant cost drivers for SWS are Health Insurance and Pay For Performance Increases. These costs combined account for approximately $0.8 million in Fiscal Year 2006, and increase to approximately $0.9 million in Fiscal Year 2008.

Other

The SWS ending fund balance is projected to remain in compliance with the City's Financial Policy through fiscal year 2006. While the fund balance in FY 2008 is projected at a negative $3.1 million, the department will continue to review and analyze efficiency/cost reduction opportunities and other operational issues to ensure compliance with the fund balance financial policy.

SWS has two major projects that are being researched within the department. The projects include the implementation of "All In One Recycling" and contracting out the operations at the FM 812 Type IV landfill. "All In One Recycling" will provide significant long-term savings to the department through improved collection efficiencies using automated collection, and it is anticipated that the proposed contract for the FM 812 Type IV landfill will eradicate the current landfill operational deficit. Funding for these two projects is not included in this forecast.

Solid Waste Services Department Three Year Forecast

(millions)

	Amended 2004-05	2005-06	2006-07	2007-08
BEGINNING BALANCE	10.44	11.55	7.77	2.56
REVENUE				
PAYT	28.34	28.86	29.42	30.67
Anti-Litter	10.42	10.70	10.87	11.03
Recycling	1.25	1.26	1.28	1.29
Other	2.23	2.33	2.35	2.38
TOTAL REVENUE	42.24	43.15	43.91	45.37
TRANSFERS IN				
TOTAL	0.97	0.97	0.97	0.97
TOTAL AVAILABLE FUNDS	43.21	44.12	44.88	46.34
TOTAL OPERATING REQUIREMENTS	34.81	36.46	37.36	38.14
TOTAL TRANSFERS OUT AND OTHER REQUIREMENTS	12.40	11.94	13.23	14.39
UNREALIZED EXPENDITURE SAVINGS	0.00	(0 50)	(0 50)	(0 50)
TOTAL REQUIREMENTS	47 21	47.90	50.09	52.03
EXCESS (DEFICIENCY) OF TOTAL AVAILABLE FUNDS OVER REQUIREMENTS	(4.00)	(3.78)	(5 21)	(5.69)
ENDING BALANCE	6.43	7.77	2.56	(3.13)
FTEs	413 00	424.00	428.00	439 00

Transportation Fund

The Transportation Fund supports the Street and Bridge Division within the Public Works Department: Street Preventive Maintenance, Street Repair, Concrete Repair and Construction and Transportation Enhancement. The fund also supports the Traffic Controls program which includes the Traffic Markings, Traffic Signs and Traffic Signals activities.

Revenue

Transportation fee revenue accounts for approximately 70% of the total revenue in the Transportation Fund. The transportation fee was approved by the City Council in September 1991 for funding of street repairs and maintenance. Transportation fee revenue is based on minimal annual growth of approximately 1% and no fee increase throughout the forecast period.

Expenditures

Operating expenditures throughout the forecast are based on negligible annual growth. Cost increases are due to anticipated increases in basic operating commodities such as asphalt, concrete, etc. The forecast also includes an increase in personnel costs each year related to pay for performance and insurance benefits increases. In FY 07, the proposed forecast includes 7 new FTEs for the Transportation Enhancement and Traffic Controls programs.

One of the City's annual goals is to maintain 70% of the street inventory in fair to excellent condition and to provide preventive maintenance to 10% of the street inventory annually. This goal is being challenged by the increase in program demands such as sidewalk maintenance, bridge and right-of-way erosion repair, and increased spot maintenance with FY 05 at 8% and potentially lower levels over the forecast period.

Other

The forecast also includes increases in debt service that may be modified through the budget process. There are no rate increases shown in the forecast period for this fund. The negative balance shown in the forecast for FY 07 and FY 08 will be eliminated through the budget process each year, with fund expenditures prioritized and brought in line with available revenues.

Transportation Fund Three Year Forecast

(millions)

	Amended 2004-05	2005-06	2006-07	2007-08
BEGINNING BALANCE	3.38	2.57	0.71	(2.39)
REVENUE				
Transportation User Fee	19.10	19.93	20.18	20.49
Other	6.04	9.44	6.84	6.83
TOTAL REVENUE	25.14	29.37	27.02	27.32
TRANSFERS IN				
Transfer from General Fund	3.67	3.67	3.67	3.67
TOTAL AVAILABLE FUNDS	28.81	33.04	30.69	30.99
TOTAL OPERATING EXPENSES	24.88	26.11	27.16	27 99
TOTAL TRANSFERS OUT AND OTHER REQUIREMENTS	5.79	8.79	6.63	7.10
TOTAL REQUIREMENTS	30 67	34.90	33.79	35.09
EXCESS (DEFICIENCY) OF TOTAL AVAILABLE FUNDS OVER TOTAL REQUIREMENTS	(1.86)	(1.86)	(3.10)	(4.09)
ENDING BALANCE	1.52	0.71	(2.39)	(6.49)
Rate per acre	$18.36	$18.36	$18.36	$18.36
Monthly Residential Fee (single family)	$3.67	$3.67	$3.67	$3.67
% Increase from current rate	0%	0%	0%	0%
FTEs	342.00	342.00	349.00	350.00

Watershed Protection & Development Review (Drainage Utility Fund)

The Drainage Utility fund, managed by the Watershed Protection and Development Review Department, supports the Department's missions of flood control, erosion control, and water quality.

Revenue

The primary Drainage Utility funding source is a monthly drainage fee assessed to City of Austin utility customers. In August 2001, the City Council approved a five-year Cost of Service model. The forecast assumes continued implementation of this approved plan. The forecast period covers the final year of the plan. The fee increases are intended to provide funding to better meet the Utility's Master Plan for infrastructure and system improvements. The forecast revenues are based on minimal account growth and the impact of the annual rate changes. In FY 2006, residential drainage fees are proposed to increase $0.41 or 6.08% from $6.74 to $7.15 per unit. This will result in an increase in revenue of $1,407,128. Commercial drainage fees are proposed to increase by $28.74 or 19.43% from $147.92 to $176.66 per acre. This will result in an increase in revenue of $3,622,212. Commercial revenue, however, includes a reduction of approximately $950,000 due to a 20% fee discount for customers with well-maintained ponds. The net revenue increase due to growth, fee increase and discounts is $6.1 million.

The commercial and residential drainage fees will remain at the same level in FY 2007 and FY 2008. The forecast revenue increases in FY 2007 and FY 2008 result from minimal account growth. Below is a summary of the drainage utility increases and rates over the forecast period:

	Percentage Increase		
	FY2006	FY2007	FY2008
Residential	6.08%	0.00%	0.00%
Commercial	19.43%	0.00%	0.00%

	Actual Rates		
	FY2006	FY2007	FY2008
Residential	$7.15	$7.15	$7.15
Commercial	$176.66	$176.66	$176.66

Expenditures

The forecast continues funding of the Master Plan recommended capital improvement projects (CIP). In FY 2006, the transfer to CIP is estimated at $13.0 million, an increase of $1.3 million over the FY 2005 amended amount. The CIP transfer is also estimated at $15.5 million in FY 2007 and $18.0 million in FY 2008. The FY 2006 projects include priority projects that integrate the Department's three missions as well as projects providing localized flood control, erosion mitigation, and water quality improvements. The CIP transfer also supports equipment replacement, preliminary engineering and design for future projects, and drainage infrastructure and floodplain GIS mapping.

There are currently over 1,800 known erosion sites in Austin that threaten property and safety of residents in structures impacted by creek erosion. In FY 2006, the department projects some increases in operating costs to handle an increased number of erosion sites.

The department also projects some increases in operating costs for its Creek Erosion Mitigation and Flood Hazard Mitigation programs, to develop project design solutions and sponsor project implementation for needs identified in the Master Plan.

The forecast also includes funding to maintain and provide quality control on GIS infrastructure data collection. Other cost drivers are related to employee pay and benefits. In fiscal year 2006 these costs are estimated at $767,950.

Other

The City financial policies require the Drainage Utility to maintain a fund balance equivalent to one month of operations. The forecast projects ending balances in excess of this amount.

The Watershed Protection and Development Review Department will continue its mission to reduce the impact of flooding, erosion, and water pollution in the community. The items included in the forecast allow the Department to implement the Master Plan and to respond to citizen expectations. The forecast expenditures support the Department's business plan goals of protecting lives, property, and the environment from the impact of flooding, erosion, water pollution, and meeting state and federal regulatory requirements.

Drainage Fund Three Year Forecast

(millions)

	Amended 2004-2005	2005-06	2006-07	2007-08
BEGINNING BALANCE	4.42	5.67	7.32	7.05
TOTAL REVENUE	43.45	50.17	51.08	51.62
TOTAL TRANSFERS IN	0.30	0.30	0.30	0.30
TOTAL AVAILABLE FUNDS	43.75	50.47	51.38	51.92
TOTAL OPERATING REQUIREMENTS	27.39	30.53	31.00	31.60
TOTAL TRANSFERS/OTHER REQ	16.86	18.29	20.65	23.16
TOTAL REQUIREMENTS	44.25	48.82	51.65	54.76
ENDING BALANCE	3.92	7.32	7.05	4.21
Residential rate per month	6.74	7.15	7.15	7.15
% increase from current rate		6.08%	0%	0%
Commercial rate/month/ERU	147.92	176.66	176.66	176.66
% increase from current rate		19.43%	0%	0%
FTEs	268.25	268.25	268.25	268.25