

# **Jurisdictional Tax Rate Forecast: FY13 – FY17**

**Presentation to the Audit & Finance Committee**

**June 27, 2012**

# City of Austin

## ➤ Base Forecast

- Net tax rate increase of 1.8 cents per \$100 of assessed value in FY13; 4.1-cent increase by FY17
- Includes base O&M cost drivers and scheduled issuance of \$251 million in debt from 2006 and 2010 bond programs

## ➤ Projected Bond Election Scenarios

- Ongoing discussion regarding possibility of November 2012 bond election
- Up to \$385 million in debt capacity by holding debt-service rate constant at 12 cents

## ➤ Urban Rail

- Not anticipated to appear on 2012 ballot; Will be reconsidered for future bond election
- Estimated City contribution of \$275 million in capital costs for Phase I
- Not included in rate projections

# City of Austin: Bond Package Comparison

- **\$385 million Scenario**
  - Hold debt-service rate constant at 12 cents
- **\$575 million Scenario**
  - Increase debt-service rate by approximately 1.5 cents by FY15

	<b>\$385M Scenario</b>	<b>\$575M Scenario</b>
<b>Affordable Housing</b>	\$65,000,000	\$100,500,000
<b>City Facilities</b>	\$76,100,000	\$98,800,000
<b>Parks &amp; Open Space</b>	\$104,500,000	\$150,000,000
<b>Transportation/ Mobility</b>	\$139,400,000	\$208,700,000
<b>Community-Based Projects</b>	\$0	\$17,000,000
<b>TOTAL</b>	<b>\$385,000,000</b>	<b>\$575,000,000</b>

# Travis County

## ➤ Base Forecast

- Net tax rate increase in FY13 of 1 cent per \$100 of assessed value; 3.7 cent increase by FY17
- Base forecast assumes increases in O&M and issuing \$608 million of debt over the forecast period including COs, 2005 and 2011 Voter Approved Bonds, pass-through financing road bonds, and issuances for downtown buildings

# AISSD

## ➤ Base Forecast

- Assumes O&M rate of 108 cents remains at nominal levels through the forecast period and debt-service rate decreases from 16 cents in FY13 to 11.6 cents in FY17
- Includes issuing \$100 million in debt in January 2013 and \$129.3 million in August 2014

## ➤ Projected 2013 Tax Rate Election Scenario

- 5-cent increase in O&M tax rate projected beginning in FY14

## ➤ Projected 2013 Bond Election Scenario

- \$350 - \$500 million in voter-approved debt issued in FY15 – FY20; would require an eventual 2-cent increase in debt-service rate above base projections, **which is fairly equal to the current level**

# AISD's Need for Tax Ratification Election and Bond

## ➤ Tax Ratification Election (TRE)

- Possible mitigation of future state cuts that would result in another RIF and potential teacher layoffs
- Maintain 3% compensation increase for all employees that was approved in FY2013 which is being funded from district reserves
- Restore \$5 million State cut to maintain full day Pre-k which is currently being funded with reserves

## ➤ Bond Election

- Citizens' Bond Advisory Committee has convened to develop recommendation to the Board on the Scope of Work for the potential bond
- Groundwork for a May 2013 election commenced in January 2012

# AISD Maintenance & Operations Tax Rate

\$1.00 = Compressed rate

0.04 = Golden pennies

- no voter approval required
- not subject to recapture

0.02 = Silver Pennies

- voter approval required
- not subject to recapture

0.11 = Copper pennies

- voter approval required
- subject to recapture

---

\$1.17

Max. Rate Allowed

# ACC

## ➤ Base Forecast

- ACC tax rate expected to remain at current nominal rate of 9.5 cents
- O&M rate is currently capped at 9 cents; ACC has no plans to ask voters to raise it during the forecast period

## ➤ Projected 2014 Bond Election Scenario

- Potential \$600 million bond election in November 2014 would add 2.5 cents to the debt-service rate.
- Will provide for renovation and expansion of instructional campuses
- Final prioritization still in development, but initial priorities include Rio Grande and Highland Mall campuses

# Central Health

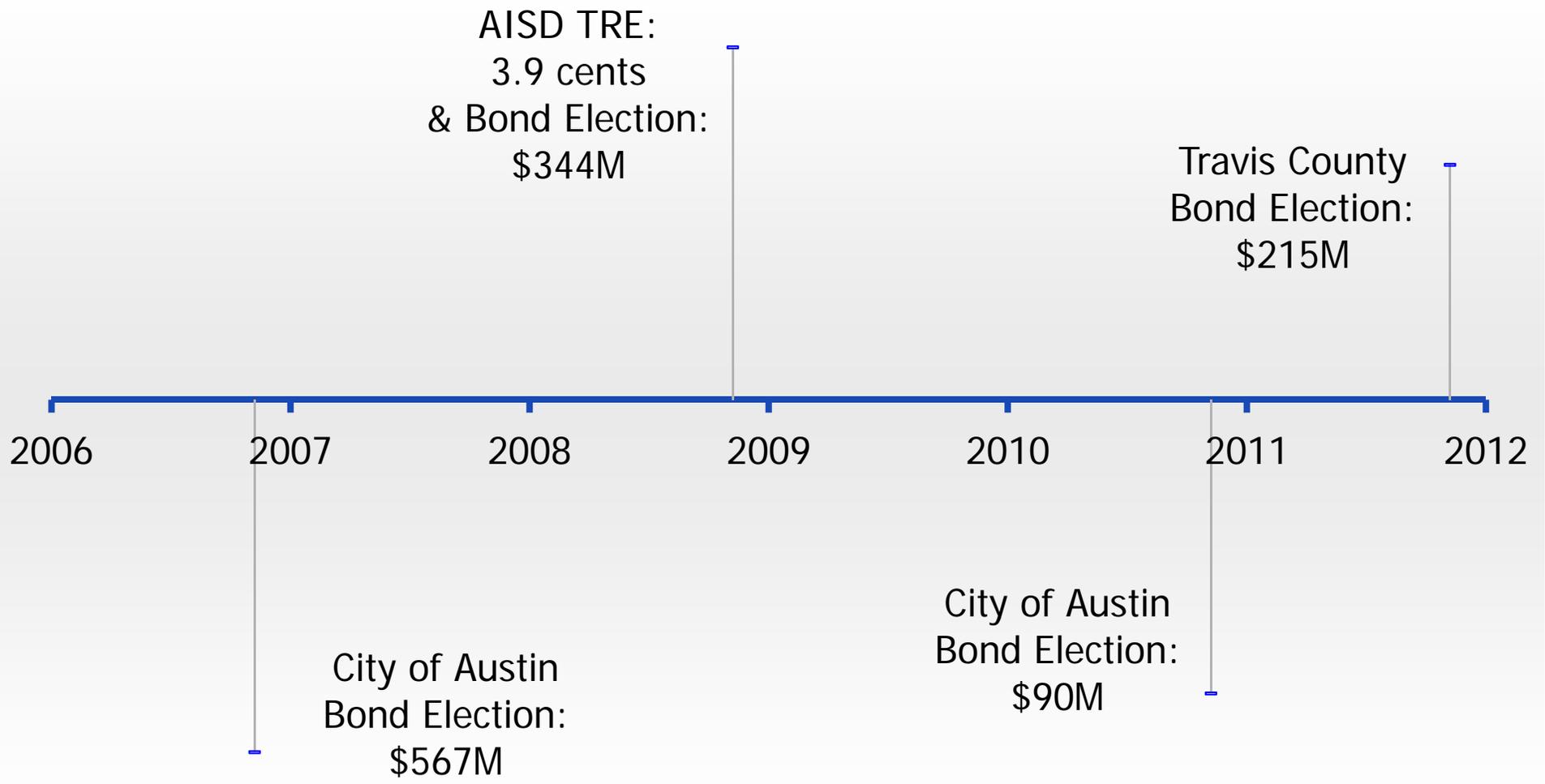
## ➤ Base Forecast

- Assumes maintaining the nominal rate of 7.89 cents per \$100 of assessed value throughout the forecast period

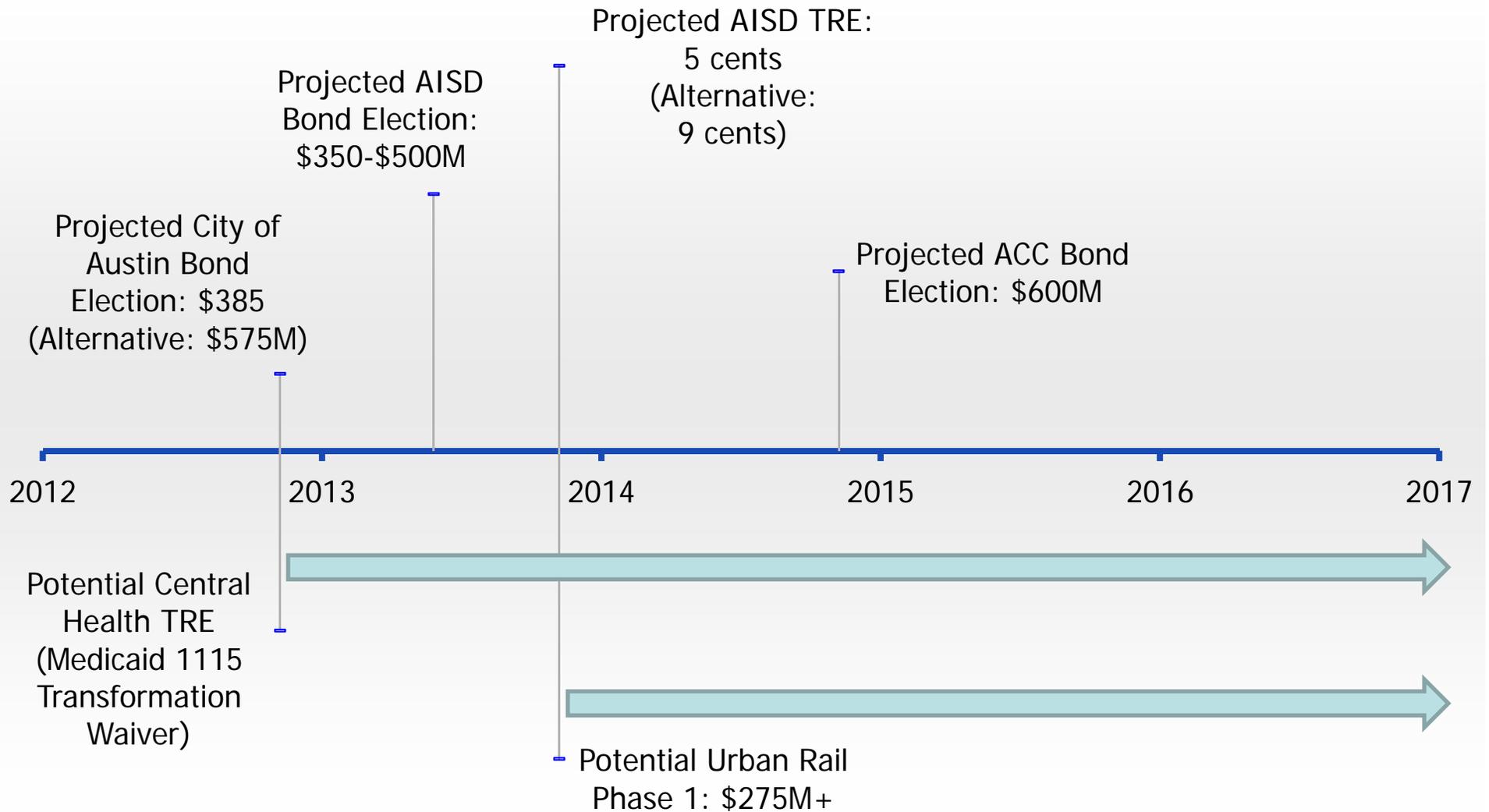
## ➤ 1115 Medicaid Transformation Waiver

- Intended to transform the delivery of healthcare and will provide federal funding for projects that improve care delivery and lower cost
- Central Health is working to estimate the amount of federal revenue from the waiver and the costs of implementing innovative projects that comply with the waiver and other needed changes to the healthcare delivery system
- Total costs of the project and sources from which it will be funded have not been determined
- Could require a tax election at some point during the forecast period
- Not included in rate projections

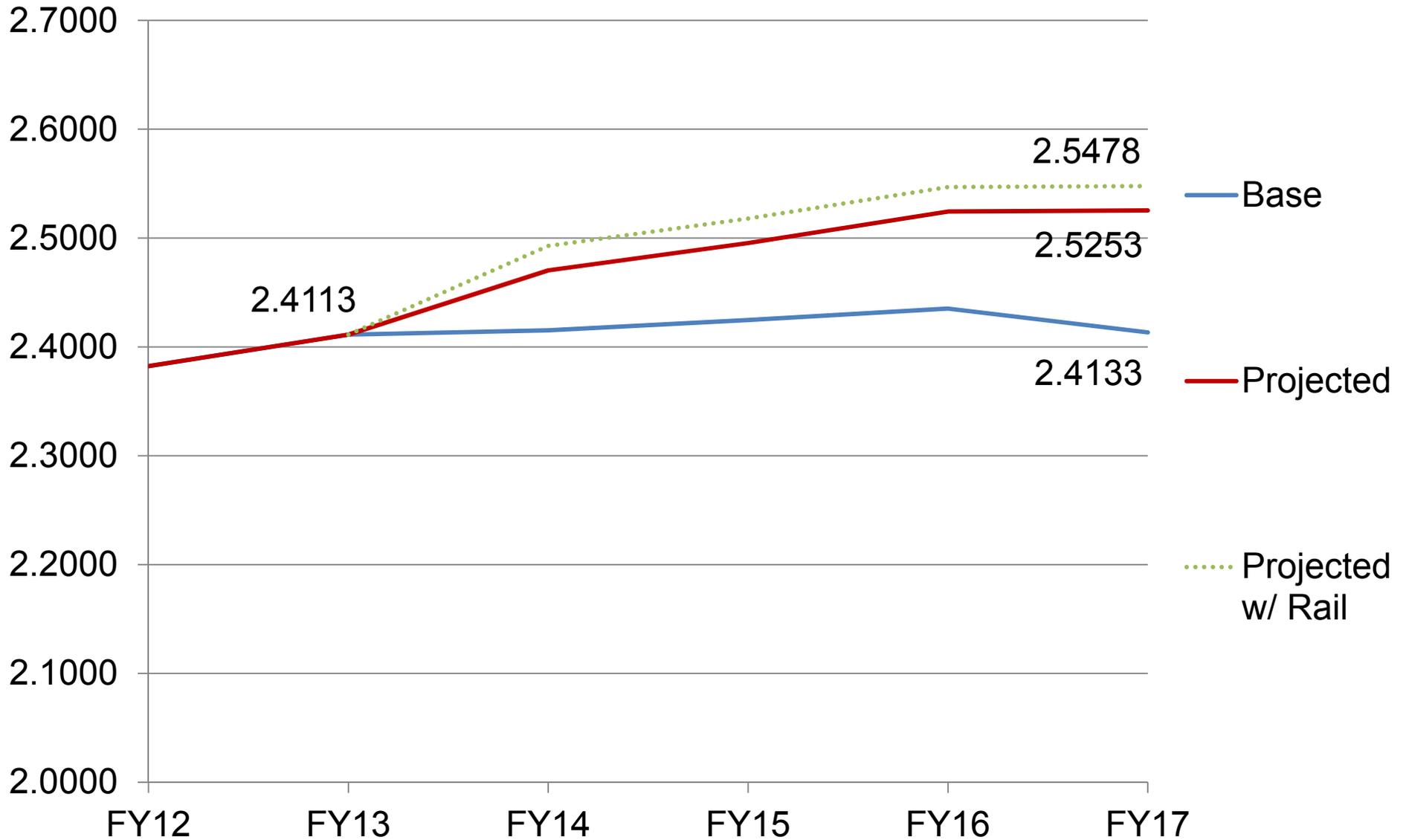
# Timeline of Recent Jurisdictional Tax Elections



# Projected Timeline of Jurisdictional Tax Elections



# Combined Tax Rate Forecast: FY13 – FY17



# Impact of Projected Scenario to Typical Homeowner

	FY12	FY13	FY14	FY15	FY16	FY17	CAGR
<b>City of Austin</b>	\$962	\$999	\$1,055	\$1,105	\$1,161	\$1,214	4.8%
<b>Travis County</b>	\$777	\$793	\$817	\$845	\$886	\$940	3.9%
<b>AISSD</b>	\$2,298	\$2,298	\$2,461	\$2,549	\$2,641	\$2,657	2.9%
<b>ACC</b>	\$185	\$185	\$191	\$218	\$235	\$264	7.4%
<b>Central Health</b>	\$126	\$126	\$130	\$134	\$138	\$142	2.4%
<b>TOTAL PROPERTY TAX</b>	\$4,348	\$4,402	\$4,654	\$4,851	\$5,061	\$5,218	3.7%
<b>City of Austin Utilities/Fees</b>	\$2,489	\$2,674	\$2,786	\$2,900	\$3,002	\$3,076	4.3%
<b>GRAND TOTAL</b>	\$6,837	\$7,076	\$7,440	\$7,751	\$8,063	\$8,294	3.9%

Projected bills based on AV net of homestead exemption for \$200,000 home appreciating 3% annually beginning FY14; 1,000 Kwh average monthly electric usage; 7,727 gallons average monthly water usage; 4,699 gallons average monthly wastewater usage; and 64-gallon trash cart.

# Impact of Alternative Election Scenarios

- **City of Austin: Alternative Bond Election Scenario**
  - Assumes \$575M package approved in November 2012
  - Would require cumulative increase of 1.5 cents in debt-service rate by FY15
  - Estimated increase of \$21 annually in FY14, \$34 by FY17
  
- **AISSD: Alternative Tax Election Scenario**
  - Assumes 9-cent increase approved in November 2013
  - Additional \$82 annually in FY14, additional \$90 by FY17

# Conclusion

**QUESTIONS**

**???**

# City of Austin – Utilities/Fees Forecast

	FY12	FY13	FY14	FY15	F16	FY17	CAGR
<b>Austin Energy</b>	\$1,151	\$1,230	\$1,261	\$1,300	\$1,326	\$1,352	3.3%
<b>Austin Water Utility</b>	\$872	\$938	\$976	\$1,017	\$1,059	\$1,080	4.4%
<b>Austin Resource Recovery</b>	\$225	\$237	\$258	\$280	\$303	\$324	7.6%
<b>Transportation User Fee</b>	\$87	\$96	\$106	\$111	\$114	\$117	5.9%
<b>Drainage Utility Fee</b>	\$93	\$100	\$112	\$119	\$127	\$130	7.0%
<b>Clean Community Fee</b>	\$60	\$73	\$73	\$73	\$73	\$73	4.1%
<b>TOTAL</b>	\$2,489	\$2,674	\$2,786	\$2,900	\$3,002	\$3,076	4.6%

# AISD: Impact of State Cuts and Federal Revenue Losses

- State revenue loss of \$35.6 million in FY2011-12
- Additional loss of \$26.4 million in FY2012-13 for a total of \$62 million loss in State funding
- Loss of over \$60 million in Federal ARRA funding in FY2012, loss of \$13.8 million in FY2013 Edujobs funding
- Outyear challenges will get worse with legislative actions taken under SB 1 which eliminates Additional State Aid For Tax Relief (ASATR) by 2018, which translates into a revenue losses of \$150 million for AISD

# AISSD Austerity Planning: FY10, FY11 and FY2012

➤ FY2010 Budget Reductions	\$14.6M
➤ FY2011 Budget Reductions	\$13.1M
➤ <u>FY2012 Budget Reductions</u>	<u>\$39.7M</u>
Total	\$67.4M

- FY2010 eliminated 18 central office positions which saved just over \$700k.
- FY2010 central office hiring freeze saved district over \$1.5M.
- FY2011 reductions included the elimination of 117 central office positions that saved the district an estimated \$5M.
- FY2012 implemented a Reduction in Force which eliminated 1,153 positions in addition to increasing employee health contributions, obtaining fixed pricing for fuel, implementing a 4 day/10 hour work week, restructuring transportation, and various other programmatic reductions to programs like athletics, summer school and Turnaround initiatives.

# AISD Budget Challenges

- AISD has implemented and exhausted several budget balancing solutions and savings options to address previous budget shortfalls, including a recent “Reduction in Force” which eliminated 1,153 positions.
- Escalating costs to maintain “same services” budget requires increases of \$11.1 million for energy, fuel, healthcare costs, new school start-ups and enrollment growth.
- Staff compensation has been frozen for the last two years, exacerbating already low teaching salaries (when FICA is excluded, teacher salaries are 11.3% behind Texas Urban peers and 3.6% behind Local peers.
- Need to consider funding for maintaining and expanding Strategic Priorities.
- Under the State’s formula system, AISD can only generate additional revenue from enrollment/attendance increases or a tax rate increase.

# AISD: Simple View of State's Funding Formula

- The majority of money each school district is entitled to every year is determined by two “layered” systems:
  1. Formulas in the Foundation School Program
  2. “Target Revenue” system implemented in 2006 when school district M&O rates were compressed
- Essentially freezes all districts at their 2005-06 funding levels and also froze all of the inequities that already existed in the system and made them more apparent.
  - Increased costs are borne by the district (unless the formulas increase)
  - The benefit of increased values goes to the state budget (less GR needed to fund the existing formulas)
- Formula based on outdated weights and indexes that haven't been updated in over 20 years

# AISD: The Impact of Recapture aka “Robin Hood”

- RECAPTURE, also known as Robin Hood or Chapter 41 is a function of Chapter 41 of the Texas Education Code which equalizes wealth for educational spending. provision is intended to “recapture” local tax dollars from “property-rich” districts and redistribute the funds to “property-poor” districts.
- Under this law, golden pennies represent the six cents that property-rich school districts like AISD are allowed to retain in revenue above the one-dollar tax that is assessed on all taxable property values.
- Any revenue collected on property taxes above these six cents is subject to recapture by the state.
- In other words, nearly 45% of the revenue generated beyond the six cents is sent to the state to redistribute to property-poor school districts. Approximately 18% of all local tax revenue collected by AISD is sent to the State under this system.
- In FY 2012, AISD will submit \$135.2 million to the state for redistribution and is the largest single payee in the State out of 1,300+ school districts.

# AISD: M&O Tax Ratification Elections (TRE)

- For 25 years, school districts were only required to hold rollback elections if the Board-adopted tax rate exceeded the calculated rollback tax rate. The district's calculated rollback rate typically represented a small increase as it is intended to maintain existing revenue levels.
- May 2006, the Texas Legislature passed House Bill 1 (HB 1), creating a target revenue system for funding school districts and adjusting the tax rate calculation process, as well. The state requires districts to compress maintenance tax rates at 1.00 and gives them the option of approving up to four cents of additional tax.
- To increase local property tax rates further, school boards need to adopt a higher rate and then submit the rate for voter approval at a tax ratification election (TRE).
- Failure to pass a TRE leaves school districts with the same tax rate as the prior year, not a slightly higher rate as was the case with the former rollback process.
- AISD successfully passed a TRE in 2008 to increase its tax rate by 3.9 cents.

# AISD Recent Election History

Year	Purpose	Authority
1996	School facility renovations, new schools & technology	\$369,475,000
2002	Health & Safety needs	\$49,294,368
2004	School facilities for new schools, performing arts ctr., safety, buses	\$519,526,616
2008	Tax ratification election	Increased tax rate 3.9 cents
2008	School facilities needs to relieve overcrowding, critical renovations expansion and technology	\$343,717,819
<u>Future Considerations:</u>		
2013	Tax Ratification Election to support compensation and offset State revenue losses (FY2012-13)	Possible 5 to 9 (max) cent increase. Max generates \$35M for AISD, despite collecting \$50M
2013	Bond Election for public school facilities needs and expansion	\$350-\$500M