

## City Council Budget Work Session Transcript – 04/24/2014

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>> >>> >> >>> >> >>> >> >>> >> >>> mayor good morning.

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I'm -- >> Mayor Leffingwell: Good morning, I'm austin mayor lee leffingwell. I'll call this special budget meeting of the austin city council to order on thursday, april 24th at 9:05 a.M. We're meeting in the board and commissions room, austin city hall, 301 west second street, austin, texas. Before we begin, first it's basically a two-part forecast. There's a five-year financial forecast on the economic outlook which focuses on the city, the state and the nation. And then we'll follow that with the city's financial forecast. I'll ask you to hold your questions and we'll take a break after mr. Hockenyos' presentation and go through the city's forecast and please hold your questions and we'll ask the questions at the end. So mr. Hockenyos, the floor is yours, or whoever. >> Not yet. >> City manager, did you want to say a word first? >> I think I will, thank you, mayor. You already made part of my speech anyway. So I appreciate that, the help with that. Good morning, councilmembers. It's our pleasure to be here again with you as we are on an annual basis to lay out, as the mayor described, our economic forecast and five-year financial forecast. That is for years 2015 through 19. As I've said on previous occasions, this marks the beginning of the budget development process that we undertake with the council. And in fact, the entire community. I want to take a few minutes, as I always do, to acknowledge a tremendous staff, financial staff and others. And you see them sitting in front of you this morning. Our chief financial officer, elaine hart, deputy cfo ed

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vanino and budget officer. He wears a couple of hats. You know him in that regard. Kim springer, who is here and of course provides leadership with respect to our capital program. And of course the very famous john hockenyos, who is always here and has much of the foundation for the economic forecast. And given us a pretty solid foundation as we go forward to carry out the budget development process and offer council a recommendation in a couple of months from now. I think you are aware, certainly the staff is, that back in january I put before them some pretty challenging parameters for this upcoming

budget process, particularly in light of growing concerns in the community about the cost of government and its overall impact on affordability. The departments were by me instructed to develop a expenditure and development forecast with regards to keeping the property tax rate flat. I can tell you they have done a very good job in that regard, and that in combination with some benefit that we're experiencing in terms of property value has not only enabled us to look at keeping property tax rate flat, but to do better than that. So we are now committed and confident about our ability to bring in a budget for the next year with a reduction in the tax rate. And I trust that that's very good news, but I certainly want to underscore the efforts of the financial team in front of you and the executive team and departments and all of their staff for their very keen focus on the expenditure

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side as we ready ourselves for this forecast as well as the revenue side as we readied ourselves for this forecast. We're optimistic based on all that we've learned and the forecast that you're going to hear today. Notwithstanding that obviously we do have some challenges, particularly with respect to the water department. I don't think that that comes as a surprise to anyone here, but we have been focused on that as well. And as we continue to develop our budget, we are relatively confident that we're going to be able to deploy some strategies that be impactful in terms of water rates and our hope also is to be impactful in a good way with respect to the water department, two very important factors relative to their overall financial condition. So we think we have a very good story to tell you today. And I'm happy, mayor, with your permission to our financial staff to tell you the rest of the story. Phrasers. >>> Good morning, mayor pro tem, councilmembers, mayor. We're pleased to be here this morning to give you our five-year financial forecast and outlook for fiscal years 2015 through 19. This will be the first of two council work sessions on our financial forecast. Today's work session, our agenda will include, as we've said, an economic outlook presented by john hockenyos, followed by our financial forecast overview, which will cover the overall forecast highlights. Our general fund and thin focus on enterprise departments and their rate projections. There will be highlights of our five-year capital spending program and following the presentation there will be time for questions and answers as

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well as for the council to have some discussion and input. This is a real opportunity for the council early in our process for you to let us know what your priorities and your issues are before we progress with our budget development. The second work session in addition to this one is a full-day work session. It's scheduled currently for may eighth. This will be providing another opportunity for council to dive deeper, have a additional discussion and input on their priorities and focus again on the overview, any questions that you may have following up on this presentation on the overview as well as go into the individual fund forecast and programs. As I said, it is a full work session scheduled currently from 10 to 4:30. We have planned a question and answer format for this, rather than individual department presentations and departmental staff will be available for the work session. Following the presentation today we will be delivering to your offices our financial forecast report. It's a report that we produce every year, however, this year we have expanded it to include additional detail on the individual fund

forecast and this report will be the basis for you forming your questions and answers and any additional things that you would like to discuss on -- at the may eighth work session. In addition, the presentation we're making today as well as this report will be posted on the city's website today, and there is a link on the slide at the end of the slide deck. This forecast is the kickoff, the official

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kickoff for our fy '15 budget process. It includes a number of council work sessions where the council can give us guidance on what they would like to see in the budget. In addition, we'll be presenting the manager's proposed budget on JULY 31st. There's a work session to set the maximum tax rate on august 13th. Our budget adoption is scheduled for mid september, september eighth through the 10th. And as always every year we have a budget question and answer process and that has approximate already begun. We've actually gotten a couple of questions in already. We also are committed to transparency and engaging our community in this process. So our public communication and engagement process will kick off in may and june with board and commission meetings, the departments discussing their forecast and proposed budgets with their boards and commissions. We'll begin ask the departments to schedule meetings with their stakeholder groups, in addition to their boards and commissions. Then there are eight public hearings where the members of the community can come speak on the budget tax rates and utility rates. And those public hearings will be in august. We actually do the budget development during the months of may through july in addition to that. As always our budget process is based on data-driven reports and information that is provided early in the process. We began providing council and the public information for the basis for this budget development in november of last year with our annual citizens' survey. Followed that up with an annual performance report for the year ended 2013 where we report over 120 measures across city

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departments and how we measured up against those measures. Again, we're providing the forecast and economic outlook today as well as the detailed report. In may we'll be providing our five-year detailed capital spending plan. And following that we'll have the proposed budget. And then in early august we'll actually publish a summary report of the feedback we got during our public engagement. To move into some highlights of the forecast, as the manager said he gave us some challenges early on and placed some limits on how we would craft the forecast and moving into budget development. We were successful in addressing these and there was a lot of work done by many people across the city in the departments. And as a result we are forecasting a .7 cents tax rate decrease for '15. 15 in this forecast. As well we have -- to the extent possible we have limited utility rate increases to those only necessary to maintain their financial stability and meet financial policies as much as possible. Our emphasis was on maintaining affordability for our community. Unlike prior years we had no unmet services demand process this year. In lieu of that we had a process that we're called critical priorities that are to be addressed during budget development. And those are priorities that are so critical that we will reallocate or repurpose other budget monies to meet those needs. And that work will be done in may and june before proposing the final budget.

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In addition, we've done a lot of work on our long-term vacancies over the last few months and as a result of that work we are in a position where we can either eliminate or repurpose 27 positions across the city for a potential savings of \$1.8 million. As I said, we have balanced general fund forecast throughout the five-year period. The '15 forecast is balanced with a .7 cents decrease in the property tax rate. This does not provide any funding for new programs or service enhancements, however it does provide 59 new police officers to meet service level demands. There is a net increase in the disprize departments of 19.75 new positions, but in general the number of new positions has been limited in other funds. As the manager mentioned, we do have some significant financial stress on our austin -- on our water utility currently and they are projecting rate increases in each year of the forecast to address continued revenue shortfalls resulting from a trend of lower water usage that results from the prolonged drought as well as conservation efforts. And then there are moderate increases to rates projected for the other enterprise funds that are really designed to keep pace with some of our built-in cost drivers for healthcare costs and fleet fuel increases and other costs. As we've done for several years, we always provide a summary slide that includes all our major rate and fee

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increases and compares the current year to the forecast year. This includes the projected increase for all of our enterprise funds combined with the property tax bill based on a median taxable home. So that you can see the impact of city government on a typical residential ratepayer. And you'll note that the combined increase of the enterprise and the tax bill is 4.3 percent increase, increasing from \$314.44 to \$327.82, which is an increase of \$13.38 per month. I will note that this table does not include the tax bills of our overlapping jurisdictions, travis county, the school districts, the healthcare district and austin community college. With that I'll turn the presentation over to john hockenyos for our economic outlook. >> All right. Thanks very much and thank you once again to council for having me here this morning. I think this may be the last time we do this, at least in this format. It's nice at least from my point of view to kind governor out on a high note because as you heard from the city manager the news is pretty good all up and down the line. Let's talk a little bit here about the national economy to start with. It was actually fairly stable during 2013, although the recently -- recent revisions to some of the numbers suggest it might have been a little bit slower than initially reported. It's having. We've now pretty much replaced all the jobs that were lost during the recession, although the quality of jobs I would say overall has declined a little bit. And the job growth pace nationally is also back to about what it was sort of in the 1.7, 1.8 annual rate. But we've had some expansion

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of the labor force. That often times happen when councilmember martinez begin to come -- when economies begin to come back. People who have technically removed themselves from the labor force jump back in. You have a situationally where the quality of jobs overall has declined a little bit and labor

force expansion means unemployment remains relatively high across the country. That's a little bit worrisome on a median and long-term basis. In the meantime one of the signs I look for is you were seeing companies out there resuming net investment growth. What that means is they're putting money into plants and equipment, into the sort of things they need to expand their own operations. And that's a good sign because it means they're feeling good about demand for their product or their services. So that has rippled on through most of the production sectors of the national economy are also expanding at this point. Core inflation, which is what economists like to talk about when they're concerned about volume activity in things like food and energy is pretty stable. I think at this point inflation is not a major concern for most companies or most policymakers. That's important because it means while the fed is feeling very, very nervous about interest rates and really at some level would like to see them rise just a little bit, they're going to -- they acknowledge fact that slack remains in the economy and as long as inflation stays fairly low they're going to keep monetary policy pretty accommodating. In english that means interest rates are going to stay fairly low, certainly on the policy side of the equation. So really the bottom line is that economic fundamentals across the country have picked up a little bit. Have improved some. And as a result we think that you will see growth over 2014 accelerate. There are also a couple of technical factors. One was last year we had the impact defacto of lots of higher federal tax rates that were all lumped in last year between the expiration of the bush tax cuts, the surcharges associated with the affordable care act, etcetera, etcetera. That's all washed through the economy at this point.

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Second thing was we had lots of bad weather across the country this past winter and that depressed a little bit of activity at the time. Again, that activity will logically be pushed further into the year pumping growth up as we go forward. So overall we're not skyrocketing on a national basis, but things are generally headed in the right direction and the numbers kind of bear that out. This is the chart we always show on annual gdp growth. For those of you who are technical nerds, the bureau of economic analysis has just released a new time series on how we can manage the economy. They have a series on growth output as w if you want to torture your students with that at some point you can. But gdp remains the standard measure of the economy and you can see it's positive, but not moving at a particularly accelerated pace. Bouncing around in the high one's to lee two's in the last two or three years. This is personal expenditures again. Just to remind you all, this is the spending we all do as consumers. Economists also call this final demand. You can see it's been fairly stable in the wake of the recession from several years ago. This is total investment growth. This includes spending by companies that also includes people doing things like building houses. This is nonresidential and residential. It's positive. It was knee nor mustily negative -- enormously negative leading up to and into the recession. This is one of the better leading indicators out there. It bounced back sharply. It's now moving along in the five to six percent range. Here's the total employment graph. Again, you can see the fairly clear pattern there of the recession, the recovery. Again, all of the jobs have been replaced, approximately eight million jobs, but median household income nationally has gone down and I view that as a sign that the wages being paid are not quite what they once were. Here's the consumer price index. Actually had a year of deflation which scares the

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be Jesus out of people in 2009. Again, 1.9 percent means it's essentially a non-factor in the equation. And then the one that I just sort of show because I find it interesting and somewhat amusing all the time, consumer confidence. The top bar is the -- what is called the west south central region from the bureau of labor, statistics. That's us, Arkansas, Oklahoma, Louisiana and us in Texas. And you can see we consistently outperform the nation as a whole. As the gaps start to get wider, among other things, when oil prices are high, which tends to make people feel fairly optimistic. So again a little downward revision in GDP. It's expected to pick up over the course of 2014. As I said, most economists are running the three is the magic number play book on this. And then again I did this last year and I wanted to do it again because CBO was unusually optimistic last year I thought given their fairly measured historical tone and they're fairly optimistic again. You can read what it says there. Although they do caveat it at the end. They say things are basically headed in the right direction. We feel optimistic about the next three to five years. Having said that we have some capacity we could use and that we could perhaps grow even faster. I just think it's interesting when they get a little more enthusiastic than they historically have been. So that's the big picture. That's where we are as a nation. I can't find any reason to say that the Austin area is not the strongest regional economy in the country. You might find a wide spot in the road. Maybe somewhere in Alabama had the circus come through and they had a higher growth rate than we did. But certainly among the major metro areas we are I think as strong as anybody out there. All the aggregate indicators show growth really accelerating over the past 12 months. I was dead wrong in my forecast last year. I was too low. I said we would be somewhere in the upper three's. The actual number came in at four and a half percent.

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The vast majority of that is coming from the private sector, which I actually view as a positive thing. Every single segment of our local economy is experiencing job growth, so everything from manufacturing to construction to all different kinds of services and consumer spending, everybody is adding jobs. It's actually interesting. The actual level of consumer spending has slowed a little bit. It remains above long-term trends, but it's a little bit slower than it once was. I think there are some factors in the equation, not the least which of is online spending that is contributing to that. And we are not seeing quite the level of local venture capital investment that we've seen in the past. Certainly I'm not talking about the crazy boom of the late '90's, but even in recent years I think some of that has to do with the transition in our technology sector. As we are moving away from building things and doing more with social media and services and all that, it's challenging for VC guys to figure out how exactly am I going to invest in that company that's leveraging a social media platform? What exactly are their venture capital needs? I think that will change in part as we see what I hope is a surge of growth around our emerging medical sector here. I think as we see the new medical school come online and we begin to see the effects of the intellectual capital there rolling out into devices and other products, I think you might see that change some. But I think there's a real issue out there and I'm harping on this a little bit is capital is figuring out how to invest in things that don't involve much in the way of heart collateral. That

part of the process. I might say for rest of my life tourism remains a growing element of the local economy. I think I must have said that for five or six years in a row. Personal anecdote, I actually rented my house for the first year for south-by. I'm not complaining. I'm happy about the process. It's a record year for hotel revenue and also occupancy is at an extremely high level. This last on point is important.

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The housing market is getting tighter and tighter. I know that is no surprise to anybody, but it reflects a combination of strong demand, which we all see everyday, but it also reflects diminished supply. I think I'll comment that the few years ago we talked about the possibility that austin might have a lot shortage a couple of years down the road. Well, that day is here and there's a fair amount of information out there that suggests that sort of econ 101 applies when you have hot demand, constrained supply, prices tending to up. So we'll come back to that here as we talk about this. I think it's interesting for this group to be thinking about all that. One of the things I've done the last couple of years is since I understand that there is this thing called social media, although I'm not entirely sure how it works, but I've asked people who do know how it works to tap into it for me and tell me what's going on with the conversation around the austin economy. And they did and came back and said there's one word, growth, growth, growth, growth, and growth. All the way through. So that's just a little capture of the cloud there talking about it. And down below it is the demographics of who is talking about it and the different platforms they're using. Apparently guys talk about the economy, almost 70% of the conversation is being done by guys. And you see the different platforms there to the left. But the person who did this for me said -- she said I've never seen a topic that has such a mono tone out there right now, which is growth, growth, growth and growth. Again, that's just a window into what the community is talking about around our economy. I thought it might be interesting for you all to see that. This is a chart of our total employment. You see we were not immune to the recession, but you see the tremendous amount of growth in 2013. That's the amount of growth we had in the safe boom. I would add this is a more sustainable level of growth in part because it's diffused more evenly across different sectors of the economy and is not based on a housing boom.

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But it's exceptionally rapid pace. And here it is broken down, public sector versus private. The blue bars are the private sector and that's exceptionally rapid growth. That kind of growth cannot be sustained without substantial in migration, which is what we are experiencing. You can't grow jobs that fast unless you have new bodies to fill them. And so if we're going to keep this up, and that's debatable whether that's desirable or not at this pace, you will have to have lots and lots more people continue to move here. At least so far that hasn't been a problem. Some might say that is the problem. This is a more extended look at growth among the major sectors of the economy. What we've done here is show it to you on an annual basis from 2012 to 2013 and then on a five-year change basis. And give you both percentage change and absolute numbers. Again, you can see that all segments are possible over the last year. Over the last five years we still have some negatives there on the production side of the economy, manufacturing. And there's a few mining jobs lumped in with those construction, the majority

of which are construction jobs. You see the tilt, and this is to some degree structural change, towards the bottom, business services, leisure and hospitality, healthcare activity, etcetera. That again is partly related to the changing structure of our economy and also to fact that we have had enormous population growth. We have to have jobs in place to service the needs of people when they show up in this part of the world. This is city of austin sales tax. I put this up because it's not the official numbers, but a proxy for retail demand, although not a perfect one in the city of austin. You see it drop down in 2013 and this is data from the texas comptroller's office.

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So -- I do think -- I'll come back to this again. I do think we're seeing the effects of online beginning to manifest themselves a little more strongly. I also think the old real estate adage about retail follows rooftops has become the case and we've seen a fair amount of new retail development outside the city of austin in the austin metro area which is siphoning off some of the growth or the activity that we historically have had. I don't have this number off the top of my head, but in theory the level of population and jobs in retail activity in a given geography ought to all be roughly comparable particularly as a metropolitan area gets to a certain size. Historically it wasn't the case. Most of the retail activity in the austin metro area took place inside the city of austin. There's a long-term trend away from that. At some point it should reach equilibrium. I haven't checked to see if we're there, but I think we'll get fairly close. What that means is we will no longer as a city get a disproportionate share of retail activity from the metro area. If you can go shopping close to where you live in williamson county you will probably do it as opposed to having to drive into the city to go shopping. This is the venture capital. You see it dips down a little bit. We talked a little bit about that so I won't belabor that. Hotel occupancy is exceptionally high within the city. 75%. It's going to be interesting with all the new product coming to see if the levels can be maintained. Most of the time 70 percent is kind of a benchmark. If you're up above 70% people think it's time to start building additional capacity. We'll see what happens when all of these courthouse thousands of in -- you will a of these thousands of new hotel rooms come online whether that number dips below 70%. And this is the revenue associated with it. Again, extremely positive over the last five or six

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years. Housing, in the metropolitan area home sales last year basically got back to the boom level in 2006. A little over a little over 2,000, and you see the study rise there. And home sales volume as prices have increased, the volume has gone up. It's on the order of getting close to nine billion dollars' worth of home sales across the metropolitan area. That's not surprising. The median price according to texas a&m's research center last year has jumped up to \$222,000 or so. The most recent monthly numbers are around 230. It was interesting in lane's previous presentation, the median home value for tax purposes in austin is about 193,000. That's not surprising. There should be a gap between market values and taxable values, although ideally there wouldn't be one. But it's not surprising that there is. But I'll show you some data in a minute that shows the median value in austin is 368,000. It was sort of an interesting question in which data source is right. Clearly it's gone up here, but what's interesting about



that median home price value is it's get against right now according to hud, housing department and urban development, median household income of \$73,000. 73,000 is approximately what you need to afford a price of about 222,000. It's actually a little bit more than you need to afford it. So I'll jump past. This is the months of available inventory. Obviously you see it's very, very tight. I will skip ahead a couple because I want to come back. So the a&m does a housing affordability index and I apologize for the highly detailed explanation of what it is when I ran over it before everyone went, dude, you will have to clarify exactly what that says. What they basically do is look at the relationship between median incomes,

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median home values, cost of financing, taxes, insurance, all that, and say is it a relatively affordable or relatively unaffordable market? What's interesting to me is that clearly affordability is going in the wrong direction. But it's still shows as relatively affordable. That flies in the face of a lot of the anecdotes we hear. We all know the stories of crazy bidding wars on houses and people struggling to pay their taxes, let alone their mortgage. So this is an interesting sort of data driven context to those anecdotes that every one of us hear on a daily basis to see this. So let me hear you some data from a different source. This is from the group called red fin. Red fin is a network -- it's basically a real estate brokerage, but they emphasize sort of real estate related research. This is their population growth for some of these different markets. What's interesting about it for austin is the red bars are in-migration. And we are in-migrating at the same level as denver. We're in-migrating faster than seattle. And those are two areas that are much, much larger than we are. So while our overall population growth is lower, our in-migration is substantial, which is interesting for what we talked about earlier that you need people coming to town to fill these jobs or create these jobs. Interesting. Second piece is recent housing supply and demand. What you're seeing there is again sales have grown and inventory has dropped down markedly. Which is not surprising. Again, that's consistent with the a&m data as well. This is the one that's interesting. This shows relative affordability as they define it for a range of markets across the united states based on sort of different income profiles by occupation up there along the tonight. So they show all of these

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markets as basically being unaffordable, but for them the median price of a house is \$368,000 as compared to texas a&m in our market as compared to texas a&m listing our median price of 230,000. So a&m's figures include all kinds of owner occupied housing, condos, townhomes, single-family homes, everything you can think of. A&m's data source is the austin board of realtors. I think red fin's is supposedly coming from mls data. We have some apples and oranges here. But I think it's interesting in a couple of levels. One, I think there's no question that there are affordability issues for plenty of people in this part of the world. But in context of looking at this we're probably not that much worse off than a lot of other markets are. I think that's important for us to be thinking about, not that we shouldn't be worrying about affordability, but to see it in a bigger context, to see what's happening elsewhere along the way. The second thing jermaine to this and I'll jump on through some of these here, is that I want to

go back to this notion of housing supply. This is building units permitted broken down by single-family and multi-family across the metropolitan area. The multi-family being that although active color and single-family being the blue. You see the shift obviously towards multi-family there over the last couple of years, but then this is interesting, msa units is permitted as a share of net population gain. You see it was unusually high during the boom, although even back in 2000 it was close to 50%. When we get to the bust and even prebust, that number dropped way down and we are just now coming out of it across the metropolitan area. So it speaks to the issue of supply. You have somewhat constrained supply and there's a lot of reasons why this was the case. You have strong demand. My recollection is tight supply, strong demand yields

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price increases and that's what we're getting. So all of that is kind of context of the conversation. I will say to anybody I can't see anything out there that really suggests we have anything on the horizon that will slow us down in 2014. I can't help myself. I can't project continual four and a half percent job growth but there's no reason to think things aren't going to continue to be good. So I'm saying we're looking at an overall net job creation of a little under 33,000 jobs. The vast majority of which will continue to come from the private sector really for the next couple of years. Personal income should continue to expand in a six to seven percent range overall which is what it has been doing. Again, I think in a lot of ways, I think that austin relative to its pure communities is a high value proposition. A couple of things I mean by that. One is we've had tremendous success in the last three to five years recruiting companies to austin. It's because when companies evaluate austin they see -- particularly in the right sectors. Most of what they're looking for in terms of the fundamentals at a price that's pretty attractive relative to the other markets. That's a high value proposition for companies. For individuals a lot of it depends on where you're coming from. Certainly if you're coming from the bay area and san francisco and new york city, the housing market is cheap. If you're coming from other areas it's not very cheap. But still overall the cost of being in austin for the amenities and life-style that's here is pretty attractive. Most of the time to get the amenities and life-style you would have to be living somewhere like the bay area, somewhere like new york and boston and you would be paying a lot more. None of that is to say we should rest on our laurels. It's to noseay that overall the problems we're facing here compared to most communities in the country are good problems to have.

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That's the economy. Let me jump ahead here. This is the employment growth forecast. Slow down in growth rates, but no fundamental change. That's personal income. That's the technical title on it. Detailed bisector and you can obviously ask me about any of these. And a little bit on sales tax. We've looked at this relationship for some time for sales tax and employment growth. It still holds. It's not as tight as it once was even though I think it's a pretty useful thing to take a look at. E-commerce now is up to seven percent of national retail sales. You have to think that was in the fourth of 2013. You have to think in austin it's close to double digits in this time of the game. That trend marches nicely upward. I think here in thinking about sales tax and you will hear far more about this than other folks than me.

You had a situation where at least for a while you had rising property values associated with the boom and created relatively easy home equity credit and if you had access to home equity you could spend it. Home equity is a lot harder to come by than it used to be. You've seen recent job growth recently jump up more than sales tax. I think that's because of some of the factors we've talked about. Some of the other factors to consider there, I've listed out some of them. We've mentioned the internet, so I think really I would say if it were up to me, I would project city of austin sales tax growth for the next couple of fiscal years in the six percent range, probably in the high six's. I'm tempered by fiscal 2013, which was a little bit slower. So I would be -- that's where I would put it if I were doing policy work. I remember former city

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manager alex bursenio, who taught me when I was younger and more enthusiastic that policy reflections should not reflect your best guess, but be about 80% of your best guess. He said if I'm wrong on the low side I'm fine. If I'm wrong on the high side I'm looking for a job. So I got it, I got it, manager, I got it. So anyway, I would be a little bit more conservative on the policy side. And I think that's my report. >> Mayor Leffingwell: We'll pause and get ready to take a few questions, I guess. I think obviously this is a very good report for the city of austin. >> Yeah. . >> Mayor Leffingwell: And I think the thing that troubles me a little bit is the sales tax revenue. As you know, the city of austin is dependent to a pretty big extent on sales tax revenue and some entities, for example, capital metro, is totally dependent. You're still projecting a six percent growth rate, which is good. Is that 80% of what you really expect? >> No. That's the 100% number. >> What about the big factor that you alluded to was kind of depressing sales tax growth and that's online sales? Is there anything in the works to remedy -- that really has the potential it seems to me to make big changes in this. I know more and more people, myself included, it's so easy to shop online that and it's very attractive to save eight and a half% on whatever your purchase is. So number one, are there any remedies that you might see on the horizon and do you regard that as a major threat or just a nuisance? >> I would regard it as a major threat over time because, mayor, you're right.

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It's not only -- really what happens in a lot of ways. What used to happen is the shipping cost was equivalent to the sales tax, but it showed up at your front door. You didn't actually have to get in your car and drive somewhere to go pick something up. Now with the rise of things like amazon prime where shipping is free if you pay a flat annual fee, my wife says to me all the time let's buy everything we can through that because we don't have to go anywhere and get anything and the shipping doesn't count. If you buy owe on owe you can -- you can buy a car in theory and have no shipping costs associated with it. I think it's a major threat. I think at some point in the relatively near future cities will have to get together and I'm sure these conversations are happening. And press policymakers at cities to say we need a resolution to this. Because you're right, most cities rely heavily on sales tax. Not just in texas, but in other parts of the country as well. This is the threat everywhere. I would say probably to a greater extent here because we're such a digitally literary community, but it's a threat everywhere. I don't know.

I'm not privy to those conversations, but I have to think they're going on. >> Pretty much dependent on a solution to state government or perhaps even a higher level. >> I think it's going to ultimately take a federal solution would be my guess. >> All right. >> Mayor? >> Mayor pro tem. >> Cole: You talked about growth, growth, growth as ramon mow tone and that we are experiencing the strongest regional economy in the country. Now, not everybody in our city thinks that the growth is a positive thing. So can you give us some indication of what we might experience after this growth or what would be the boomerang effect of that? >> I think that again what the aggregate figures here mask something that is going

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on, and of course everyone knows this, that the gap between the have's and have not's is widening. It's widening everywhere in the country. It's widening here. You can see that if you break the income figures down by different sectors. People at the low end aren't experiencing the benefits of this boom. I don't think there's any question about that. The question becomes really is there a point -- business cycles are business cycles. Things will go up and things will go down. Is there any reason to think that we will have some time in the median or longer term a significant downturn in austin. Absent some sort of collapse nationally which I can't forecast, I don't really see why we would. So I'm not sure there would be a boomerang, but I do think there would continue to be -- there continues to be a widening gap. I don't know exactly how that is solved? If I knew the answer I would tell you. >> I'm glad you pointed out the almost two austin problems that we're experiencing. >> Maybe three. >> Cole: Why do you say three? >> Because I think that there are people who are struggling inside the city of austin who may have already bought their home, but their income is fairly stagnant. And what you've seen outside the city of austin, you've seen the suburbanization of poverty going on. So I think maybe there's three. And we could cut it however many different ways we want to. >> Cole: So when you talk about the suburbanization of poverty, I find that very interesting, are you saying that when we talk about the median income you told us that that has remained rather constant. >> Relatively flat, right. That's for the entire metropolitan area. >> Cole: So does that tell us anything about the three austins, the median income? >> Only inferentially. You want to use medians

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rather than averages. Because if you use the average you will see it rising because we've had a big bounce-up in very high income people and that brings the overall average up. The median of course is the midpoint. So the fact that it's fairly stable probably infers that some folks are getting poorer, some folks are getting richer and the balance is -- the midpoint remains somewhat in the middle. I'm not sure it's that helpful except that if folks at the lower end were doing better the median income would be rising. >> Cole: Okay. When we talk about two or three austins in those gaps, despite the growth and the economic prosperity, can we look at any particular industries that are doing better with providing income? >> That's a real -- an area that needs to be focused on. One of the things we need to see, for example, coming out of the new medical school. I did some of the work evaluating with what the implications of that will be. The majority of jobs associated with the medical school actually will not

require a college degree. And so there are going to be some opportunities there. I've had some conversations and I valley to write up a scope of work to look at conversations with folks here in the economic development department to look at the logistics and distribution industry. And see if there are opportunities in that sector where austin could grow. Again creating jobs for folks that pay pretty well that don't necessarily require higher education or advanced degrees. So I think that that's part of our challenge as a community is to identify those sectors where there is the opportunity for some pretty decent wages and try to fit them to the skill sets and the capacity of people who obviously need the help. Those are two examples. >> Cole: When we look at economic incentive agreements we look at the hard to employ and ask the question whether this particular company is going to engage in actively recruiting that sector. Do you look at as part of your forecast the community

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colleges and what they will add to that just like you looked at the medical schools in terms of bringing people up to a skill level where they can earn more dollars? >> Community colleges are an integral part of that. Clearly they're heavily engaged in the training programs. The work that capital idea does, for example, obviously to work with community colleges and other folks as well. So it's got to be part of identifying the assets that can -- there's two pieces to the equation. We have to find the industries that can employ people can a skill set that need help and we've got to make sure that skill set fits the needs of those industries. Obviously it's a bringing together of those two different things. And so yes, I do think so. I do think that's part of -- all of that is part of the ongoing conversation here about trying to do everything we can to create better jobs for folks sort of at the lower end of the spectrum. >> You provided a list of the austin area economy, detailed austin employment forecast and particular sectors. Can you tell me any of those that are particularly suited for the hard to employ or for providing -- >> those are fairly -- there's a classification system called the niasc system, which is a way that the government categorizes industries. These are the big bucket. Within those buckets, for example, there's one about education and healthcare services. The stuff associated with the medical school would fall into that. Stuff associated with logistics and distribution would fall into trade transportation and utilities. They are subsegments of these big broad buckets that we're talking about. Much of the companies that have been recruited to austin are in the manufacturing sector, although not all obviously. So again, this is just -- that's the standard government classification approach. >> So we're still looking at manufacturing as leading the

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pack in terms of hiring people that don't necessarily have a high school diploma? >> I wouldn't think so. Not in terms of aggregate numbers, no. >> That's spread across a number of industries? >> Again, I think it's going yes. I think there are particularly areas that we can focus on and make an effort. But I don't think manufacturing will be the leader. >> Cole: You talked about our hotel occupancy tax and once we reach 70% most people think it's time to build. We're building a lot of hotels in austin. Do you have any idea what that number is? Are you concerned that we're overbuilding? >> Yeah, I am concerned. But you know, on the other hand I'm not the guy who is responsibility for committing the hundreds of

millions of dollars in capital on that. So we'll see. We'll see if hoteliers and the financing guys behind them have assessed the market correctly and see if that translates. I do -- I think that -- I think once all those rooms hit that are in the pipeline, actually hit the market, I think the number goes well down below 70%. I think that's a little bit of a data lag. But again, one of the things from the point of view of this body is that one of the nice things about people coming and paying lodging taxes for every dollar they spend, you get a disproportionate share as a city in comparison to lots of other activity. >> Cole: Okay. Thank you, mayor. >> Mayor Leffingwell: Just a quick follow-up. Obviously these hoteliers have had somebody just like you to tell them whether to build the hotel. So obviously somebody disagrees with you out there. >> Up I i hope so. >> You would probably tell them the same thing if they paid you. >> It just depends on the price. >> Martinez: John, I appreciate the conversation with the mayor pro tem, but it leads me to a conversation -- a broader conversation that is happening across the country and that actually happened here in austin over the last two years. And I agree, I think we have

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an issue with trying to fill all of these positions that potentially are going to be created over the next couple of years. For me, though, and for many folks in this town, it's not just about creating jocks -- creating jobs, it's about the wage gap. We have the conversation here. It is now a national conversation to raise the minimum wage. So when we talk about things like affordability and suburbanizing poverty, that to me is at the heart of that conversation. And I realize that there is a tipping point. You don't want to stifle the economy that is that growth, but at the same time if you don't push the conversation to where the lowest wage earner is not seeing an increase, that income gap continues to widen. I wanted to get your thoughts on that. >> I'm not an expert. I've read a lot of the literature on this. What I think I believe is that raising the minimum wage has nothing but fundamentally a positive effect on the economy. The only caveat -- this is again just my belief having read a lot of different studies. The only caveat that troubles me a little on that is the issue for teenaged employees. Because it is -- I do think it's challenging sometimes if the minimum wage extends down to 15, 16-year-olds. I think you could have a chilling effect on employing very, very young people. That's just my personal opinion. >> Martinez: And I appreciate that. I share those sentiments and I agree in the teen years when we talk about things like internships and getting experience at a young age you have to be mindful while we certainly want to increase the minimum wage, what I think the conversation is focused on is adults that are trying to provide for their families or trying to start a family. That's where I think the minimum wage increase really has that positive effect. It can have a negative effect for young folks seeking summer employment. We're at an all time high for unemployed teenagers during the summer months as

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opposed to previous years. I think that's another strong point that we need to consider here in austin because the vital experience that you receive as a teenager, whether it's a lifeguard, whether it's -- I sacked groceries and worked in the produce department. That creates that discipline, that work ethic as you become an adult. I think we need to be mindful of that as well as we talk about raising that minimum wage to \$10 or \$11 an hour. >> Agreed. >> Martinez: Thanks, john. >> Riley: John, thanks so

much for the presentation. As always, very interesting. I want to ask a couple of questions, starting with slide 36 about the msa building units permitted. When we look at the chart which goes back to 2000 we see historically there was generally a pattern of having a large blue bar representing single-family and then a smaller brown segment on top of that representing multi-family. As recently as 2011 multi-family was always a small increment on top of a large single-family bar. For the last two years we've seen something very different. We've seen multi-family significantly exceeding single-family in terms of new building units permitted. And so I wanted to ask about that. Is that -- if we look -- if we extend it back further than 2000, would we see anything like that. And is -- what does this -- is there any significance to this? Is this -- does this reflect a national pattern? Does it reflect something changing in our local preferences? What's that about. >> The answer to your first question if you went back in history you would see it was largely single-family for

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sure. Second, while you've had massive investment in multi-family residential housing coming from institutional investors, who have looked up and seen several factors, one, lots of people can't qualify for home ownership anymore. The equity requirements, the down payment requirements have been substantially raised in the wake of the bust. Two, they look up and see the population growth in austin, they see the type of population it is. Three, they see the job growth. And four, they get the message that for most jurisdictions here in the austin area not justin, but other places, people are saying it's desirable to be denser and more urban. And so pension -- money guys are like everybody else. They add up three or four factors and say we will commit \$300 million to austin. And I think you've seen a lot of that in the last couple of years. So it's part of an overall consumer preference trend that probably is heightened here in austin by the fact that we have a disproportionate share of that type of demographic moving in and already here. We have a strong job growth and we have public policy that says this is one of the preferred approaches. >> Riley: So looking ahead do you have any basis for expecting that pattern to continue or change. Is it just a two year aberration? >> I think it's going to moderate a little bit because I think austin has been the flavor de jour for investment for probably the last 24 months. At some point we anticipate that won't anymore. But I do think that everything I see here, unless we get a substantial change in the demographics of our community, and the demographics of people moving here, substantial change in policy direction, I do think we will -- you will see an historic -- we will not return to historic levels of single-family versus multi-family housing. I don't think it will be as access certified as it is, but I think it will be permanently tilted more towards multi-family. >> Okay. That's interesting.

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It raises some questions about the implications for our economy and in that regard I would note -- I notice in your slide about the e-commerce. You mentioned that people are turning to e-commerce in part to avoid driving to pick up things. Considering both that and the increasing preference for multi-family in more urban cities to me it raises some questions about impacts on vehicles -- vehicle miles traveled per capita. Which has significant implications and has generated a lot of discussion elsewhere. For years now portland has talked about the green dividend it sees from having significantly fewer

vehicle miles traveled per capita than the national average and it amounts just in transportation costs alone, they halt it at over a billion dollars a year and then you add in the cost of travel time, that's another \$1.5 billion or so per year. A significant portion of which winds up getting funneled back into the local economy. Dollars that would have been funneled back into the city. Portland attributes their fairly high number of local businesses, local restaurants and so on, to this green dividend that they achieved simply by having significant lower -- significantly lower vehicle miles traveled per capita than the national average. Given these trends that we're seeing that might well -- it potentially has very significant implications for the local economy. So I just -- I know we didn't get into the geographic distribution of housing or vehicle miles traveled in this presentation, but it seems like that might be worth looking at in the future because of the potential implications for the economy. Is that something that you

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think might be an area that warrants some scrutiny? >> Certainly by me or anybody else, yeah. I mean, I think clearly that there are -- that the transportation technology is evolving rapidly, as you know. All of this stuff sort of comes together. We have big things to think about and it will all have implications for the economy and everything else we do. So for sure. Obviously we need to pay attention to that. >> Mayor Leffingwell: I think there's one major difference between austin and portland, though. They are able by their state law structure to restrict their growth. And we're not. We're basically wide open, unlimited expansion. >> Riley: Yet the interesting thing is we're still -- we are seeing a very significant increase in the share of new units that are going into multi-family. And presumably in the city, as opposed to -- >> right down the street. >> Riley: As opposed to sprawl, which is what you would expect if we did have similar controls to portland. Even though we don't have the same controls we're still seeing a similar pattern of an increasing preference for multi-family housing in the city which would likely have lower vehicle miles traveled per capita than sprawl. >> Mayor Leffingwell: That's true for the last three years there's been a change, a reversal, an urban centric growth pattern which we didn't see for the rest of the preceding decade. It remains to be seen whether that will continue. Councilmember tovo. >> Tovo: Thank you. This is a very interesting discussion. I have a quick follow-up about the building unit and the multi-family versus single-family. Slide on 36. Do you have a sense on how that breaks down for ownership versus rental? I heard you talk about -- >> I'm sorry. I interrupted you. I didn't mean to. My guess is the vast majority of it is rental. But that's based on me

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looking at what's being -- just me observation. I mean, I don't have data on that. I don't know whether that data is available or not. I could check and see. >> Tovo: I think that would be interesting. I think I heard you say one factor in the shift has to do with loans, the difficulty of families getting loans. And I wonder if you could speak to that. >> Well, it's -- there was a period and we're all familiar with it, sort of in the 2005-2007 range, where if somebody once said if you could fog a mirror you could get a loan. And what's happened is that now lending institutions, both for good prudent reasons, also because regulators have forced them to do this, have gone back to standards and saying no, we would actually



like to see a 20% down payment. We would like to see your credit score and we're not really as interested in subprime lending although there has been a little bit of relaxation on that. But part of what's happened is that many people -- many people can't qualify and many people, even if they can, have said, do you know what? Maybe I don't even actually want to go through the process of buying a piece of property for a variety of reasons, maybe I want more flexibility. And the market has responded. The quality of rental units, sort of the amenity packages in many cases associated with rental units, has gotten better and better in much of this new development. And so what you are seeing is people making decisions as they've made for years. And for example, in places like new york where many, many, many people with substantial incomes don't actually own the home they live in, choose to rent. >> Tovo: Thank you, that's very interesting. As if some might not be able to qualify and for others it's a life-style choice. It also makes me wonder about the type of housing that is being built within multi-family housing because so much of it tends to be aimed at singles and empty nesters and not towards families and certainly families with children are looking also for

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multi-family housing based on the trends that you're talking about. So they may not find product that is suitable for their needs or they may not find it in areas where they're close to their jobs and close to the other kinds of services they might need. >> This is anecdotal, but I don't think much of the investment-based decisions around multi-family housing have been aimed at trying to create three-bedroom apartments for a family with two or three children. I think the vast majority of it has been singles, empty nesters, maybe one child, sort of urban living kinds of people. At least the traditional stereotype for urban living. >> Tovo: Right. And it's certainly something we've talked about before on the council and the council prior to my coming on here talked about it, but it seems like that trend would be a challenge for a city like austin that wants to remain pretty vibrant and have all kinds of family units. Thank you. >> Thank you. >> Mayor Leffingwell: Councilmember morrison. >> Morrison: Thank you. A couple of questions. In terms of the issue about e-commerce, I actually got your quote when you say -- when you showed the chart you said it's nicely -- it's going nicely upwards. That sounded sort of judgmental, but based on your further comments it sounds like you don't necessarily think that's good for the city of austin. >> I nicely was more a description of the smoothness of the trend upward as opposed to me saying it's a good thing. >> Morrison: Good. Because there's one other element of the consequences of that that I imagine that we're going to look at. It's not only might our sales tax be impacted, but it will impact our local businesses which really have a lot to do with our economy. The foundation of our economy and the character. >> You know, it's an interesting thing. Yes, although I know several small local businesses who I -- me and five other guys might be their walk-in

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traffic who are selling the be Jesus out of stuff online themselves. So the flip side is let someone take their interesting local thing they've created here and leverage what has become what I think is this extraordinary brand. If it's made in austin, it's super cool. So it's an interesting -- >> Morrison: So they evolve into the modern world. >> Yeah. A friend of mine is kind of a guy about my age. He sells golf

equipment and he just an historic austin guy. He said 80% of my sales are online. >> Morrison: Also, I heard another impact and that was if you're looking at, for instance, a record store, that the taxing impact on inventory is significantly different because they're being taxed at \$12 per cd that they're carrying versus one dollar for amazon and for producing the same concept. >> Right. >> Morrison: Is there anything in the works to fix that? >> I don't know, to be honest with you. I hope so. I think this is going to come -- again, I'll say it again. I think cities will have to join together and say we have to fix this. >> Morrison: We also have the amazon texas situation. And there was some kind of resolve there. Let's see. In the median when you're talking about the median price of homes you mentioned that we actually got two estimates. One was the 220 and one was the 330. Which one do you believe? >> The 220. >> Morrison: How do we get to the 330? >> I think it's a limited data set. And again, it's not a local group. They're pulling information from mls. Part of the reason I believe that again is harkening back to what elaine told you earlier is that the median taxable value of a home is 193,000. That's a credible spread to me between the market value and the taxable value, almost double is not in my mind. >> Morrison: Right. I heard at a housing forum at u.T.'S opportunity forum

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recently that I think it was liz mueller who had the data that over 14 percent of the people that don't owe anything on their houses can't meet the affordability line even just paying their taxes. So their taxes make it unaffordable for that. >> I'm sure that's true. >> That's pretty stunning to me. >> Yeah. >> Morrison: I think in the affordability indexes you were talking about that include the cost of taxes and the mortgages. >> It does. >> Morrison: And then the last question I have, there have been good questions about wage gap and growing income disparity. And I'm wondering -- I think that's probably a concern to a lot of us on the council. I wonder are there ways that we could do a deeper dive into understanding the income gap? Because when we talk about all the growing hotels and that brings tourism dollars, it also brings a whole bunch of very low wage jobs. And to somehow maybe do a deeper dive and understand some of the other impacts it will help us in our conversation. >> The answer is yes, although it's not easy. I don't think secondary data sources are going to be very helpful in this and that's the stuff that's free or reasonably free. So you would end up inevitably doing a fair amount of primary research which is you would really have to go out and talk to a lot of people and structure it appropriately. And I do think that you would illuminate what you probably -- illuminate what you probably already know. It's good to have data to back up the decisions that you're making, so for example, my question would be on an expensive hotel, who do they employ? Do they employ adults looking for full time jobs or do they employ people who are part time students, people who are musicians? I don't know the answer to that. But that would be

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interesting to see who are the people filling these jobs and why are they filling them? Is it because it's a job that fits with the rest of their life-style or is it because it's the best job they can get. I don't know the answer to that. [One moment, please, for change in captioners] >> to try to create more jobs for folks without advanced degrees or four-year degrees that pay higher wages. >> Right, and acc is an amazing

partner in the region for this. They work with those companies that are coming in to get training programs and all. Okay, well, I think it's an interesting question that bears some more thought about how we can understand a little better. >> Mayor leffingwell: Council member spelman. >> Spelman: I'm going to ask a question. I think I know what you're going to say but I have to ask it anyway because it's been sitting on the table like the elephant in the living room. If one thought that our population growth was unsustainably high and caused a lot of problems not only for the city government but the city as a whole, in particular transportation, in particular housing prices, we said this is just too high and we've decided we wanted to do something to ease it off a little bit, do we have any control over it? >> No. I don't think so. I mean, I have lived here for a long time. I've seen people try to do that, and I've never seen it done successfully. So -- I mean, yes, can you find ways to do it? Sure, you could make it impossible to build a house in the city of austin or something like that.

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But I don't really -- I don't really think so. Or, let me say it another way, I think efforts to do that oftentimes have unintended consequences. Is that what you thought I was going to say? >> Spelman: That's exactly what I thought you were going to say. Let me ask you the next level of the question just to fill it out. What unintended consequences can you imagine? Have we seen before? >> You've seen -- you've seen, for example, the capacity to recruit companies to austin shut down for several years. You've seen the perception that austin is no longer a place where new companies, new ideas, sort of new development are welcome. And, you know, I -- the analogy I sort of like is that an economy is an ecosystem. When it stagnates it dies. So you have to have a certain level of dynamism in the equation, and so to me the best thing to do is not to say we're going to try to scale growth back. It's to say we're going to try to deal with some of the unpleasant -- we're going to try to maximize the benefits partially to help deal with some of the unpleasant consequences. >> Spelman: Some people will say that in trying to deal with those unpleasant consequences what we are doing perhaps inadvertently is stimulating further growth. For example, creating a good business climate where the city of austin is easy to work with, that's just encouraging more people to show up with more jobs and thereby encouraging more cars on i-35. Do you have a comment on that? >> Back to what I said, which is that you cannot -- you cannot, in my opinion, by fiat find a way to constrain -- to sort of strike that perfect balance where there's just enough going on that prosperity is at the level people want but not too much so that there are unintended consequences. You know, I don't -- I don't know that I've ever seen a situation where that's worked. >> And if we adopt the proposition that if we don't build it they won't come, they're going to come anyway and then we haven't built it for them. >> Correct. >> Spelman: I just needed to get that on the table

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because I know a bunch of people are going to be giving me a hard time about, why don't you tell john shut down growth and we'll solve our problems. I have another question I need to ask you about and then I'll let us go forward and this is about housing issues. You've got pretty good information on medium home values and housing inventories. And I've got a couple questions on that and then I want

to talk about rentals, but the housing prices were pretty stagnant for four-year period before the lehman brothers recession. It increased about 20,000 bucks in 2012, and \$20,000 in 2013, it will probably increase in 2014 by some amount, somewhere in that neighborhood. >> Comparable. >> Spelman: What concerns me especially, though, is the relationship between that graph and the available housing inventory graph. >> Yeah, right. >> Spelman: So we've got, 6 months, 4 months, 2.6 months -- >> that's the annual fee. The current fee is closer to two months. >> Spelman: So we're getting tighter and tighter in the market. The prices are just starting to edge up faster and faster, and if this is the tightest market we got, what's to prevent the number from going up more than 20,000 bucks in the next year? >> Nothing. >> Spelman: So it might reasonably do that? >> Yes. >> In your experience have you seen other cities that have actually seen that kind of an exponential increase? >> No, but that doesn't mean that it couldn't happen. I mean, I haven't gone and -- certainly in some of the california markets you would think you'd see something comparable. I haven't pulled the data to look at it, but that's one of the key messages here, I'll stay it again, demand is high, prices rise. >> Spelman: Since we don't have control over demand we really need to do something about supply, otherwise prices will just go up. >> Yep. >> Spelman: The only exemplar I can think of close on point to san jose where they saw a dramatic

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increase in price in the 1980s, AND SIMILAR Circumstances might be happening here. To some extent, as council member riley was suggesting, we have a larger increase in a number of multi-family units relative to single-family units. That seems to be picking up the slack, and no information here about vacancy rates or rents. Could you talk about that? >> I actually didn't pull it this year because I thought the presentation would be too long if I did. I can put that information and send it over to you. What I imagine, and what I remember is vacancy rates are very, very low and rents have gone up. But I don't have the data at my fingertips. Multi- multi- family is 95% right now. >> Spelman: If we're talking about 95%, then roughly we're talking about a mirror of the single-family housing inventory happening in the rental market. >> Yes. >> Spelman: And a rough mirror of medium home prices happening in the rental market in terms of rents. >> I would think so. >> Spelman: We might be seeing the same thing happen to housing prices as we see happening to rents, which is a fairly sharp increase because the inventories and vacancy rates are both very, very low. >> Correct. >> We can't do anything about demand so we have to do something about supply. >> Correct. >> Spelman: Do we have access from secondary sources about location of any of this stuff? >> Yeah, I think so. I mean, I think that there is certainly, from permits and all that, that actually the city itself has that information. Do we not? >> Spelman: So we could get it on maybe mls category or maybe neighborhood or -- >> I think actually talk to ryan or anybody else on the gis shop and they can probably pull that for you. >> Spelman: And certainly we'd get it for city versus outlying areas? >> Certainly for the city, for sure. >> Spelman: Sounds like it might be extremely useful to see whether or not the city is worse or whether the city is just a little bit looser than it looks like on the region. Thanks. >> Thank you. >> Mayor leffingwell: I did see in the paper this morning that williamson county home prices went up over 10% this year. So can we move on to the next part -- >> tovo: Can I ask one last question?

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We've run through a lot of the questions and answers we've had today but I want to get back to -- I want to ask it again and make sure you answer it so I know I understood the answers from before. A lot of people ask when we're out in the community, if austin is such a strong economy and we're doing so well, and as you've shown, you know, sales tax is strong, why is it that our gap is widening? And I think I heard a few reasons that you've cited, housing costs increasing. I would assume part of it is we just are not keeping up, as we discussed, but could you sort of summarize for us what you think -- and I think it also sounds like some of the jobs that are -- the job growth we're experiencing aren't necessarily jobs for -- for our lower income individuals. Would you say that those factors are, you know -- co-exist with equal weight or is one of them driving it and are there any other factors that aren't included in that list of wages keeping up, housing costs increasing, the jobs that are created not matching the skill set of the people who need them. >> There are skill factors under that. Housing costs are increasing in part because you have people moving here who are coming from areas where they were able to sell their home for substantially more money and bring that money here and for tax reasons, if nothing else, they need to reinvest it so they're willing to pay premiums. You have -- even with the slight rise you have historically low interest rates and when you have relatively low interest rates you end up with a bounce up in housing values. You have a number of people who have chosen to purchase housing, not only single-family here, it's not their primary residence. So that's a general trend. Austin has become this destination, sort of a tourism, a second home destination, whatever you want to call it, you have lots of money in town that isn't money that was earned

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in austin. So that's part of the -- sort of the inflationary factor, if you will, associated with that. And then you have, you know, this sort of fundamental change in the structure of the economy, kind of the ability to access, process and sort of use knowledge is kind of the big yardstick to some degree in how much you're going to get paid. If you can do that, you're probably in pretty good position to function in the modern economy, and so you have an opportunity to get a relatively high-wage job. In a town like austin we're creating lots of low-wage jobs to serve all this activity, but those are folks who aren't going to get paid very much because quite frankly, those jobs are relatively low skill, and the skills sort of match the wages, or the wages match the skills, I should say. So notify it's a -- it's a challenge to find that space in between where you don't have to have that advanced education, which is a proxy for some of that stuff, and yet you can create enough value in your job to justify being paid a wage that allows you to, you know, function pretty well. >> Tovo: What would you say that -- I think you may have cited a dollar amount earlier, but what would you say those wage -- or those salary -- what is that middle in terms of -- >> one income or two? >> Tovo: Well, if you have it, why don't we hear both. >> Well, I mean, I would say that at least 20 bucks an hour is sort of the ballpark figure it's going to take to make it. You can make it on 20 bucks an hour, just off the top of my head. If you're a single person living in a relatively inexpensive apartment. If you're a couple -- I've been thinking about this a lot in terms of who's going to have employer sponsored health insurance in the future, for example, and I think that jobs that pay -- nonpublic sector jobs that pay north of 50 to \$60,000 will continue to have employer sponsored health insurance. I think much below that they would not. And so I think that's a reasonable ballpark as to kind

of what it takes. You could ask a thousand people and you'd get a

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thousand different answers, but I think that that's not too far off what we're talking about. >> So focusing job creation efforts, if we were trying to focus on how to -- how to try to mitigate this growing gap between the haves and have-nots, focusing on job creation in that range would probably be our best plan of attack. >> It would have been one of the things you'd want to do. I wouldn't want to do that to the exclusion of everything else, so we can be dynamic. But I think that should be a focus, as it should be for any community that's had the success we've had. >> Tovo: Thank you. >> Mayor Ieffingwell: Thank you, for a very optimistic report. We appreciate it. And we'll go to part 2. >> Thank you, mayor, and good morning, members of council. Ed ban I don't know, deputy cfo, and I'll walk you through the general fund forecast with a focus on fiscal year '15 but looking at fiscal years 2016 through 2019, I wanted to give you a perspective on our long-term outcome. The cliff notes is simple, much like our local economy the general fund is in exceptionally strong health. We're forecasting we'll be able to maintain service levels that are -- at our current exceptionally high levels of quality and we project we can do that at a lower tax rate. Are there any questions? [Laughter] but yeah, there are a lot of details behind all that and I think there's some interesting things to talk about in the details. So I got about 20 slides here to give you the -- what you would expect, a longer version of that story. But that is the story. First in terms of our general fund revenue, a couple things I want to point out to you on this slide starting with that bar chart over on the right, shows you the growth and property tax, as a share of total fund revenue over the last decade or so. You can see it used to be about 30%. We've grown to 40% over time

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and seen a pretty quick rise in that, but you get to the far right-hand side of that graph and you can see we're projecting we're going to level out. And I think keeping that at around 40% is really a good news story for the city. When you look at that pie chart and you see 41% of our revenues coming from property taxes and another 17, 17% coming from -- 18% coming from utility transfers, you have -- it's coming from stable predictable sources which we like to see. It's that red pie in there, the sales tax that, you know, you're going to see the slides that I always show you, how volatile that sort of revenue can be, and it really creates a challenge for those cities and cap metro where they're very reliant on sales taxes when the economy fluctuates and those revenues fluctuate, it creates a significant budgetary challenge. We like to see this pie chart the way it's currently structured. Another take away from this slide if you've been watching this overtime, that utility transfer's slice of the pie, 17.6%. This is the first time I've presented this and the first time in the city's history that the utility transfer is the smallest piece of the big four categories, it's the first year that the utility transfer is now the smallest piece of the general revenue pie, that's a long-term trend. It's been declining over time and it's anticipated it will continue to decline as a percent of total revenue into the future. The fin take away is we're projecting \$841 million of total fund revenue, in 2015. That's the amount of revenue we need to balance the budget. 30 million more than what we're estimating to end the year in fiscal 2014 but there's a note there that fiscal 2014 is already \$11 million ahead of what we had projected in the budget. We brought

forward a budget at \$800 million that was balanced with 800 million of revenue, but, you know, continued strong development revenues and sales tax revenues, we're here about six months into the year to say we think we'll finish the year at about \$11 million ahead of that

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pace and then we'd have another \$30 million above that in 2015. So I'll take you through each of those four revenue categories starting with property tax revenues. Our forecast projects a reduction in our tax rate from its current level of 50.27 cents per \$100 of taxable value, a reduction of 0.7 cents down to 49.7 cents. That's based upon information, average growth information provided by the appraisal districts, very strong in fiscal year 2015, we're projecting that at 8.4%. That's not certified. I would expect by the time we get to the certified roll we'll be generally a little bit higher than that. The appraisal districts generally like to be conservative coming out of the gates but based on the appraisal notices that they've sent out and based upon historical evidence of how the appeal process works its way through, they are - they are projecting 8.4% growth in 2015. Looking into the out years, you know, there's a lot of cranes up in the skyline right now. Those are not going away overnight. Projecting continued strong growth in fiscal year '16 of just under 7% and as you get a little further away from today we start to get more conservative with our projections and bring them down to the neighborhood of 5%, which is in line with what historical trend have been. You also pick up on this slide while we're projecting a tax rate reduction for 2015, in 2016 and beyond we are projecting a need for slight increases in the tax rate in order to maintain a balanced budget overtime. It took me about five years to finally figure this out but I have learned that we are not going to get through this slide without the mayor asking about effective rates and roll-back rates so I thought I'd cut to the chase this year and put them right on the slide. Our effective rate is 47.15. If we were to choose -- >> mayor leffingwell: That down. >> If we were to choose the effective rate it would result in a 22-point oh reduction

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\$22.7 million, a budget gap of that. If we go to the roll back calculation that's a tax rate of 50.1, and additional revenue of \$5 million. Of course we are not the only taxing entity in town. We are joined in that distinction by the school district, the hospital district, the county and the community college. The numbers over on the left show the existing tax rates for a homeowner within the -- within the city of austin boundaries that, you know -- that overlaps with all the different jurisdictions. For fiscal year 2014 the overlapping tax rate is \$2.46 per \$100 of taxable value, and again about 50 cents of that comes from the city. The biggest piece comes from the school district. Over on the right we take those tax rates and apply it to the median taxable valued home in fiscal year '14, so the actual median taxable home for fy '14 of \$185,000, take into account the various homestead exemptions that some of the jurisdictions offer and we drive out a tax bill of \$4,138. So kind of what your typical homeowner living in a median valued home of \$185,000 could expect to pay in the city of austin for that overlapping basket of governmental goods and services. Of course elaine mentioned that for fiscal year '15 we're projecting an increase in that median value to a little more than \$193,000, but we don't have information from the other jurisdictions yet about what they're planning on doing, what their tax rate. So for purposes of this

analysis we're just showing it to you in terms of what it is today in 2014. We'd like to look at that over time, and that's what this bar chart shows you going from fiscal year 2008 to fiscal year '14. We've seen an increase in the cost of that governmental baskets of goods and services from a little more than \$3,000 back in fiscal year '08 to its current level of \$4,138. I think the real interesting thing we've done in recent years in tracking is that line chart that shows how

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does that compare to growth in median family incomes. And so we take the cost -- we take that cost of the overlapping basket of governmental goods and services as a percentage of median family incomes, and that's increased from 4.4% back in '08 to 5.5% overtime and then of course we always kind of benchmark how we're doing against other large texas cities, so this is how it looks. We've been no.2 in this data series since we've been tracking it. We've not seen any switching of places as we've been tracking it over time. Austin has steadily been no.2, san antonio has steadily been the highest, and again what this graph is showing is what is the percentage of median family incomes that go to pay for the overlapping basket of governmental goods and services in these different jurisdictions. This is a pure dollar analysis, and I always like to remind people here that this makes no assessment as to the quality or the quantity of the basket of governmental goods and services. So just because san antonio is the highest, they may well have the highest level and quantity of services. And so we're not making that assessment about how these different baskets of governmental goods and services look. This is just a pure dollar analysis, and again, I think the take-away is that the relative positions of the cities have not changed over the last five or six years. This sales tax chart, we really like to look at. Maybe I'll leave it up here for a while because it wasn't too long ago that everything was a downward facing red arrow and now we have everything is an upward facing blue arrow. The top row of arrows shows total sales tax collections and how they changed in any month relative to the prior year. It includes a bunch of audited adjustments the state comptroller makes from time to time. It's not quite as good an indicator as the second series which just shows the changes in the current period collections. I think that's the best

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overall gauge of the long-term health of the economy and you can see up there we have, I think, 18 consecutive months of growth and collections, with the most recent period received data in april reflecting 9.3% growth. As part of fy '14 '14, we budgeted 4%. We're at 6.1% growth for the year so in line with what mr. Hokenyos was saying, projecting 6% growth not only this year but into the future. We think this is a real important slide because really all it's showing you is how volatile sales tax revenues can be, and it is a concern, and it's something we need to track over time. We need to be cognizant over time that, you know, you can see very significant swings in the 6 month rolling average from as high as 15% up to as much as more than duct digit, 10-plus percent down, so that creates significant challenges for us when we're in those downward trends and our expenditures continue to grow, but our second largest source of revenue is declining. It does create significant budgetary challenges. So I always want to be cognizant of the volatility of this revenue and not get too overly aggressive how we prepare for the future and not building a budget that relies on continued growth in that 5 or 6% range because history



indicates it's not sustainable. This is a different look on the sales tax data. The blue wavy line here shows the actual dollar amounts now. So the previous one was looking at percentage growth. The blue wavy line here shows the actual -- wavy line shows the dollar growth overtime. Back in 1995 we were at about \$95 million. In fiscal year '14 we're projecting to end the year at \$185 million. So we've seen strong growth in our sales tax revenues but it's ebb and flow. It's not steady. It's up and down and up and

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down. There's big swings here. Even though the scale on here I don't think is quite reflected, from a peak to a trough can be as much as 14 1/2, \$15 million swing, so when you go from a 2008 level of revenue to a 2009 level of revenue and it's a 14 1/2 million reduction, again, it creates significant budgetary challenges. So we continue to just urge caution in regards to how aggressively we project our sales tax revenues as a means of balancing our budget. We're not doing detailed statistical analysis here, but we are trying to kind of bracket within a reasonable kind of high trend line. The purple dotted versus a low trend line, or bracketing that growth pattern and looking at it relative to what we're forecasting, and you can see that we are forecasting that we're going to continue for a little while at the high end of that trend line but certainly not exceeding it. You know, at some point in time, and it's really just the million-dollar question as to when, when are we going to come down a little bit more to the median of that trend. So in terms of sales tax, we're showing you two sets of numbers. One is what we actually included in the forecast over on the left, you see that we're projecting 5.2% growth for fiscal year '14. So that's kind of in between what we budgeted, 14%, and what we've seen here today, is 6.1%. We're trying to maintain a conservative posture but recognize the fact obviously sales are doing very well. We're projecting 5.2% for '14, further growth in fiscal year '15. We didn't pay John to say what he said. I did not know he was going to say what he said. I knew that 6% was his forecast about I didn't know he felt 80% of his number was a good policy indicator. He may have said that to help me out. But that's 4.8, which is close to 5% which is what we're projecting for fy '15. As you get further away from today I think it's prudent

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to get more conservative in your estimate. So we're projecting 4% growth in '16 and 3% in the out years. We did show you what a more conservative look would be, and so really the only difference between the conservative column and what we're forecasting is 3% growth in '15 as opposed to 5, and 3% growth in '16 as opposed to 4. I think the difference of being more conservative versus what we're forecasting would be a \$3.7 million revenue reduction in fy '15 and that would grow to about a \$5.7 million revenue reduction in '16 if there was a desire to take a more conservative posture than what staff is currently forecasting. I just mention there on the bottom, put it in italics is this conservative forecasting position we've taken over time has served us well. Not every municipality by a long shot is aaa rated. The conservative forecasting position we've taken certainly helps us out with our rating agencies and is viewed very favorably by them. Talk a little about the utility transfer and how that's dropped, not the gross revenue but as a percent of overall revenue. It's dropped. We're projecting only \$1.1 million of additional revenue from our utility transfer in 2015. This will be the fourth consecutive year that the ae

transfer is pegged at \$105 million. Back in 2012 council elected to change the calculation method for how we determine that transfer, and at that time that the calculation was changed we also established a floor of \$105 million. The new calculation model has yet to result in a transfer that's in excess of 105 million. So the floor has been where we're at for the last four years. 2016 we were projecting, though, that the revenues will now start to grow in advance of the cap and we'll start to experience growth in that revenue source once again. Particularly out in '17, '18 and '19 you can see anywhere from 6.3 million to

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\$9.1 million annually of additional growth is expected. This really shows what I was talking about earlier, that the utility transfer has declined over time. It's now the smallest piece of the big four revenue categories in the general fund it's 17.6%. That's down from a high of 24% back in the late '90s, and again we're projecting that that will continue to slide a little bit in future years, even as -- even as revenue goes start to grow again as a percent of overall revenues we see that declining to 16.8% by fiscal year '19. Everything I just said about sales tax, take that and multiply it by 2 for development revenue. It's a very volatile source of revenues. Not nearly as large of a dollar amount so sales tax are about \$185 million from and from a peak to valley you might expect to see 10 to \$15 million swing. Development revenue now are over \$20 million, but from peak to valley you can see a \$10 million swing. So even though it's not nearly as large a revenue source as sales tax, the fluctuations, the raw dollar amount of the fluctuations can be just as substantial and it's something we need to watch very closely and you can see in our forecast we are now projecting never -- not projecting never ending rapid growth. We're projecting at some point in time multi-family will get built out and the hotels that you're seeing are going to get built out and demands will start to level out with supply and you'll start to see the cranes come down and development activity will slow down. I will mark on this slide that fiscal year 2013 was our all-time high for development revenue at a little over \$22 million. We are projecting to set a new all-time high in fiscal year '14 at 23-point -- I'm sorry, in fiscal year '15 at \$23.2 million and then we are projecting a slight decline in fiscal year '15, so we're forecasting right now \$21.2 million of revenue for fiscal year '15, and

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while that's a \$2 million decline from what we think we're going to end the year in '14, it still would be the third highest level of development revenue the city has ever seen. So we're going to see that rapid growth and permit -- in permit activity for a little while but by the end we think we'll come down to more sustainable levels in the range of 14 to \$15 million a year. There's not a whole lot of interest to talk about in the other revenues because for the most part they're flat. These are things from, you know, the fees that ems charges to parks and recs and health and human service fees, our franchise agreements, fines and penalties, traffic fines, parking violations. There is a little bit of movement here projected for fy '15 but not a lot for the most part. We're looking at flat budget estimates, if anything, actually in charges for services a slight decline. There's been some changes in medicaid billing that's going to affect ems. We don't know exactly how it will affect them but we're taking a conservative posture in that there

could be reductions in revenue from that source. And the franchise fees, a very small reduction is projected as a result of some changes in our franchise agreement we have with the pedernales electric cooperative. For fines and penalties we're predicting those flat which is not uncommon. We saw reduction in that category for a while as traffic fines were dropping, but those have come back up and we're projecting we're going to maintain flat revenues in that category for fiscal year '15. Overall our revenues are projected to demonstrate strong growth, again, \$30 million -- really what I think I'd like to say, \$11 million of additional revenues already forecast in fy '14 from what we budgeted. That's the \$811 million versus what's not shown on the graph, the 8 million we budgeted in '14. Another \$30 million on top of that for fy '15 so a

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total of 40 million from '14 to '15. Overtime we're projecting \$42 million a year, that's the average of the groa from '16 -- growth from 16, 17, 18, 19, \$40 million a year of revenue growth in each of those out years. Moving on to expenditures, our forecast again is a balanced budget, so \$840 million of revenue we're forecasting. That's needed to balance out a base budget forecast of \$840.6 million for the general fund. As you're well aware the largest sources of the general fund pay for police, fire and ems services. The next largest piece of the pie goes to what we collectively call our community services, that's parks and recreation, library, health & human services and animal services. They collectively get about 20% in general fund revenue, and then the remaining 10% goes to fund planning and development review. , Our municipal court and transfers and other requirements, to the economic incentive reserve fund. Our big picture expenditure assumptions that drives that increase in the general fund for fy '15, first of all, that we will be maintaining all of our existing programs and service levels at -- where they currently are. We're not projecting any enhancements to services. We're also not projecting any degradation to service. We're not projecting new programs in this forecast. It's what we like to call a base projection. Public safety continues to be a high priority for the city, of course. We are projecting a need for 59 new officers in fy 2015 to keep pace with the growing city and growing service demands. Over the whole five years we're projecting a total of 187 new officers. 36 firefighters, these are not new positions. They were funded several years ago by a federal saver grant. They've expired so they're ready to transition to becoming a general fund cost

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so that's an impact in fiscal year '15. Looking a little further down the road we're projecting in fy '16 that we'll I'm sorry, '17, we'll add 17 firefighters for the opening of the onion creek fire station and we have two community health officers that will be fully funded by central health. Looking a little further down the road we're very excited about the grand opening of our new central library, which is planned for november of 2016, so when you look into the out years of our forecast, beginning in fy '16 and continuing into '17 and '18 we'll be staffing up to run that library. We're forecasting a need of 68 -- a little over 68 positions to operate and maintain that facility at the high level of service that we want to provide. Elaine mentioned this earlier. We've included in the forecast a 3 1/2% wage increase for civilian staff. Also last year council approved a \$750 per employee flat amount to employee pay. That was

implemented last year midyear, so it didn't start into april. So last year it was really a \$375 amount. That needs to be annualized to \$750 in fiscal year '15. Also we've really struggled in some of our classifications, it and some of our austin energy specific classifications we've struggled to maintain the employees we need to provide service. So we'll be implementing a market study for those classifications of positions to increase their pay to be more competitive in the market, the local labor market. Per contracts we have 1% increases in fy '15 for police and ems employees, and although we currently don't have a contract with our sworn fire personnel, we have included in the forecast a placeholder of 1% wage increase for that sworn public safety group of

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employees as well. We have continued to see good experience in regards to our health insurance costs. We certainly are below industry standards, and at least in recent years our health care costs, the city's contributions to the employee benefit fund have been less than 8% that we're forecasting for fy '15. We would hope by the time we bring the budget to council, that we may be below 8% again, but where we stand in april we just don't have enough experience yet to really get more aggressive on that number, but we certainly will have more experience, more data by the time we deliver the budget to council on july 31, and we're projecting 10% growth in this cost center in the out years of the forecast, fiscal year 2016 through 2019. We're projecting a 10% annual increase in workers' compensation, and vehicle maintenance and fuel cost as well. Are projected to increase collectively 10%. This is a new slide. We always like to try to add something new that you haven't seen before, and one of the things I wanted to look at on this slide is what's our starting point been at the time of the financial forecast of the last several years? That's what the lighter green bars show, so you can see in 2011 we were forecasting an increase of 39.8 million in 2012 and 2013 that was 43.7 and \$45.4 million respectively. 42.7 million in '14 and here we are in '15 with a projected increase of 40.6 million. So kind of shows you the history and kind of the rationale behind what I often say that kind of just the cost of doing business is normal. The cost of just continuing to run the libraries at their existing level of hours, continuing to maintain current levels of service in our police, fire and ems lines of business, continuing to run rec centers after existing - at existing hours of operation. It's \$40 million a year, give or take, but about \$40 million of growth per year is the cost of doing business of normal in the

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general fund. The darker green bar, compare that to where we actually end the year, fiscal year '11 and '12 were comparatively lean years in the economy and revenue-wise so we were looking to tighten our belts and try to cut costs in order to get our budget back into balance. The economy was stronger in 2013 and '14 and so you can see in both of those years we actually added to the budget relative to what we initially had forecasted, and the jury is still out in 2015 on whether or not -- where we'll end relative to the 40.6. But you can take away from here we don't usually end way off. Maybe 3 or \$4 million up or down from where we forecast is where we've been landing the budget, so to speak. Putting expenditures and revenues together, this chart just simply shows that we are projecting there will be sufficient revenues not only in '15 but in all years of the forecast to balance our budget, and I just have

to remind folks what a dramatic contrast this picture is compared to where we were in 2010, you know, which I think that was a year where we were forecasting no employee pay increases. We were forecasting a \$30 million budget deficit, even at the maximum tax rate allowed under state law, in contrast to this forecast where we are -- we're able to award all of our employees with a wage increase that will help improve our competitiveness in the labor market. We're forecasting seven-tenths of a penny reduction in the tax rate and forecasting a balanced budget not only in the upcoming year but in all five years of the forecast. We did overlay that with the red line that shows that we are projecting a need for some tax rate increases, though, in the out years in order to keep the budget in balance. So that -- that ends the general fund overview and I think we'll just go right on into the overview of our capital highlights next. >> Good morning, I'm kim springer, deputy budget

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officer. Before I dig down into some details about particular projects in the capital program I wanted to give you a high-level overview of our anticipated spending over the next five years. So this table gives you a look at a split between our go bond prosecution and basically everything else, between our enterprise and our other funding sources not associated with voter approved bond program. The first one with the go bonds we're anticipating \$276 million in spending over the next five years, and then the second line is about \$3.3 billion between our enterprise and other funding sources for a variety of projects. And then from here I'm going to delve into more program details about the bond programs and then from there go into details about the enterprise and other category. So this -- this bar chart gives you good look at our most recent and active bond programs. We have the 2016, 2010, 2012 and 2013. Overall we have just under \$472 million remaining to spend amongst those four programs, and for each of these lines you can see there's the blue represents expenditures that have occurred. The red is encumbrances means amounts obligated to contracts and agreements, and the green are funds that simply -- they haven't been encumbered but they are allocated amongst various programs and projects. Now, all of this data is through the close of the second quarter of fy '14. And as a reminder the 2006 and -- were competence I have bond programs and the 2010 and 2013 were of course more specific related to transportation and affordable housing respectively. So the 2006 bond program, we're close to wrapping that one up. Over the next -- between now and the next five years we have just over \$123 million we're

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projecting to spend, and in fy '15 we're expecting about \$47.2 million. And reach substantial completion by fy '16. The vast majority of that remaining spending is associated with the new central library. As you can see in the spending highlights we're expecting about 47.2 million, approximately 37 of it is associated with the new central library. And we'll also see continued expenditures related to bartholomew pool and various parks and recreation trails. The 2010 bond prosecuting is program is nearing completion. We expect that to be substantially complete in fy '16 and there's about \$18 million remaining to be spent and about 6.6 of that would be spent in fy '15. Some of the highlights in fy '15 were street reconstruction. You'll see significant work on colorado from 3rd to 7th street as well as

residential and collector streets. From the pedestrian and bike ways category, the much anticipated lady bird lake boardwalk will be complete at the close of fy '14 and from there we'll continue to do work on various ada sidewalk and ramp improvements as well as the mopac bicycle branch. And finally the mobility enhancements includes things like rail crossing safety measures and local area traffic management work. For the 2012 bond program, the voters authorized \$306.6 million in funding for various projects and programs. At this point we have just under \$266 million of that remaining to be spent over the next five years and we're expecting substantial completion of the program in fy 18th. Right now \$137.7 million has been appropriated of that 306, and we're anticipating around 85, \$86 million in additional appropriation fy '15. And this is a quick reminder, the reason why we don't appropriate all of the

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authorization, all at the very beginning, is because we want to appropriate it in accordance with timing of projects and programs and what is necessary. Fy '15 spending highlights, a memo went out yesterday, I believe, with regard to the north lamar and burnet corridor improvements. They recently completed preliminary engineering work and they'll continue moving forward on that program -- in that project in fy '15. Other street reconstruction work, you'll see work on rio grande, additional work on colorado from 7th to 10th street and as well as 3rd street. The austin studios project will be under way. Just this past week you approved the agreement between the city and austin film society to move that very positive exciting partnership between the two -- between us to move forward on that. With the onion creek fire station, I had mentioned we'll be adding firefighters for that within the forecast period and we anticipate about \$2.5 million in spending, associated with the design of that station next year. From other public safety facilities included in the 2012 bond program you'll see significant spending in this next fiscal year. The amount of patrol stations, facility for apd. Expansions for ems stations, work on driveways at fire stations as well as land acquisition and design efforts for a new substation for apd in the northwest area of town. One other item to note is with health & human services, we'll see work -- significant work move forward with the renovation and expansion of the women and children's shelter as well as infrastructure work betty dunkerley campus. The 2013 bond program is of course our most recent voter approved program. 65 million of the affordable housing. The first installments of appropriation for that program was approved by

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council this past january, and what the neighborhood housing and community development department continues to work on its commitment for its mental -- home ownership, go home repair, occupational barrier program. You'll also recall that we made several commitments to tax credit applications. We expect decisions on those applications to occur in july at which point the agreements would move forward and you'd see funding move at that point. We also just recently struck agreements with various organizations to carry out the go home repair program, and within the next couple weeks even you'll -- we'll be executing those and moving forward with a request of funding from those organizations to begin work. So you will remember the first slide gave you the break-out of the go bond programs and

then your very large enterprise and other category. This gives you a much better breakdown of that enterprise and other category. As you can see, austin energy leads the pack with just over \$1.3 billion in spending anticipated over the next five years, followed closely by water utility. The next slides are going to dig into some of these departments and then some other highlights of very specific projects. So with austin energy, again, \$1.3 billion in spending over the next five years. In fy '15 they have a number of projects and programs in the works. For example, upgrades to various systems of the decker power plant, energy center, transmissions upgrades of the salem walk substation, dark sky streetlight upgrades, telecommunication upgrades for poles to accommodate high-speed network. Community projects and getting under way now very early in the process is the steps necessary for

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construction of a new riverside drive campus. Several of their business units are located in leased space on barton springs road. They need to make arrangements for relocating those units to a new campus on riverside. With the water utility, they're estimating around \$825 million in spending related to all their various projects, and as we've noted, they are dealing with some financial difficulties, and one of the methods they've used to help deal with that is a cost cane. Strategy to -- containment strategy to reduce both operating capital costs. This five-year spending plan has actually been reduced by almost \$150 million relative to where it was previously. It's been due to a combination of significant reductions overall, but also spending related to water treatment plant 4 as that project comes to a close. But as I move forward, fy '15 they'll continue their commitment for replacement and -- of -- throughout the water and wastewater system, including the horizontal things like pipes and valves like treated plants, pump stations and also growth of the reclaimed water system. The -- probably the most -- one of the most exciting components of the capital program in the coming years is in our aviation department. You'll see here they're expecting a \$553 million in in spending the next five years, these are the projects. The east enfield project will include lower level for customs and public level checkpoints. Over 55,000 square feet of new terminal space, new support for airline -- airport, airlines and tsa operations, and expect substantial completion in 2015. The terminal gate expansion is expected to be completed in 2017 and includes over 70,000 square feet of new terminal concourse space, 7

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or more new loading bridges, about 12,000 square feet of new concession space, international gate capabilities, new restrooms, additional office space and technology enhancement. So their exciting things going on out at the airport. And the picture -- the rendering on the slide, the -- it's kind of hard to see but the light blue area next to the surround section, that is the east enfield area and the pink reddish color area is where the terminal gate expansion would take place. I'll highlight some of our various other departments. Austin resource recovery is expecting to spend about \$1.3 million this next year on its renamed fracture ring hub, an exciting project, a combination of research and production type facilities that look for and produce products from a waste stream. It is also support businesses that use those recyclables for manufacturing. Technology management department will continue work on the gators systems, which is the greater often regional county radio replacement project. Say that three

times. They estimate completion in 2018. Fy '15 spending is up 5.3 million. It has three main components related to its microwave network, radio repeaters and dispatch consoles, very technical things but all very important and replacement is required because of scheduled end of life parts that are becoming unavailable and not repairable between 2012 and 2019. The convention center is going to be making improvements to its south side of its site. They'll improve outdoor venue space for clients and patrons. It's in study now and design and construction is expected to begin in 2015. The economic development

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department, as we're all very well aware, they're continuing to coordinate all of the infrastructure work related to seaholm redevelopment project and watershed protection, the lower waller creek tunnel project is expected to come on-line in components throughout the year, but reach completion at the end of 2014, and will continue the work between the city and the waller creek conservancy for the redevelopment of the area over the coming years. So with that, that finance the capital section. I can pass it back to elaine. >> Thank you, kim. This is the last section of our presentation and I'll jump fairly quickly through all of our enterprise departments. Start with austin energy. They had some good news. Last year they actually have fallen their rate increase as well as other positive performance. They ended the year with net income, which was unlike the prior year where they had a net loss but the rate increase actually did improve their financial health substantially. And that's coupled with the debt restructuring that they had in november of '12 where that created some savings for '13, '14 and '15. They are projecting that their electric sales will increase at a combined annual growth of 1.2%. That is slightly down from the prior year and continues a trend that electric utilities are seeing across the country as energy efficiency components are implemented by their customers. It's a continued trend of slower growth in their electric sales forms they're projecting no base rate increase for fiscal '15 but they are projecting base rate increases in fiscal '16

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and '18 of 1.9% to cover their base cost drivers as well as meet their financial policies. These rate increases will keep them within their goal of having their base rate increases stay within that 2% goal and the bottom 50% of texas utility compared to other texas utility rates. One of the things that you will see in their revenue is a portion that's recoverable revenue, and those are pass-through costs for their power supply, their community benefits, as well as their regulatory costs. Those are pass-through costs with no profit added. There is a significant increase expected in one of the components of that, which is for the texas transmission construction program, which brings the wind energy in from the west texas area to the more populated areas. We continue to see increased costs statewide for that, and they're passed through to us, seeing an increase from the current level of 95 million to 148 million over five years, and these -- these are similar costs that are shared across the state to all -- to all utility customers. Their fiscal '15 impact to their typical residential customer, which would be the result of increases in their recoverable cost increases is about \$1.69 per month. With respect to their expenditure forecast, they're proposing -- forecasting no fte increases in '15 but about 10 new ftes in each year of the



remaining four years of the forecast. There -- as I said, their debt service of about

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120 million in '15 is a slight decrease of 17 million due to a 2012 debt restructuring that we -- a bond sale that we did then to help their financial position. Their cash funding of their capital projects, their five-year program was over a billion dollars. They are investing about 90 million of their own cash in fy '15 for that capital program, and that is increasing over the forecast to about 120 million. They are maintaining their approved transfer policy, which is 12% of nonfuel revenue, with a floor of \$105 million. And as ed mentioned, this transfer will remain at 105 million in '15, and the increases in the forecasts are primarily due to their -- their forecasted rate increases as well as some customer growth. With their improved financial health throughout this forecast period, they will begin replenishing their cash reserves in '15 with a goal of having fully funded reserves just beyond the forecast period in 2020. I'll move on to our water utility, and it certainly is an enterprise fund that most of us are most concerned about. They actually -- excuse me. They had a positive year-end balance of nearly \$60 million, which is in compliance with their policies, but their continued revenue declines are putting pressure on their financial health, not only their cash balances but also their debt service coverage levels that are required for compliance in our bond ordinances. And so they are proposing in this forecast rate increases and cost containment efforts to mitigate the level of

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rate increases throughout this forecast. Their current-year efforts will continue into next year. They've got cost containment on 5% of their non-personnel costs, and in addition to that, as kim mentioned, they've looked at a scales-back capital -- scaled-back capital program while still meeting their infrastructure needs. Their capital program of about 800 million over five years is much lower than in years past where during the construction water treatment plant 4, their program actually was larger than the austin energy program, over a billion dollars. This forecasting assumes that they will remain in stage 2 water restrictions throughout -- throughout the period, which will keep their water sales at a depressed level. They are forecasting for '15 a combined rate increase of 9% as well as annual average -- an annual average increa 4.2% over the total period. This is just the starting point for their rate increase. As you know, we've got a joint committee that is looking at their rates and their rate structure, much like they did a couple years ago. We did some revamping of rates, increasing their fixed portion. So we will use their work in developing the duct. We'll continue to work -- the budget. We'll continue to work with the water utility to see where we can ease the financial pressures for them and that may include reductions in charges from other -- from other departments. But we're going to look at all opportunities to get their rate increase to a lower level. So we've got a lot of work to do between now and when

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we do the proposed budget. But we're all pulling -- pulling together for them. It is of concern to us. This forecast rate increase for '15 is a \$4.84 per month increase for the residential customer, and it would be

about \$17.30 over the five -- five years. One of the things they've done in cost containment, as you, you know, last year they forecasted a five-year staffing plan in their forecast. With this cost containment effort they are deferring implementation of that five-year staffing plan by one year, which is a cost reduction in '15 of about \$4 million. For the water utility they have large fixed costs. For chemicals, electricity and debt service. Debt service actually is about 40% of their total operating revenue, and they will see increases in that of about 20 million over the forecast from a total of 214 million to 234 million. This forecast maintains their approved council transfer policy at 8.2% of their gross revenues. And the general fund transfer for water is forecast at 39 million in '15, and increases over the forecast to almost \$50 million. Their water revenue stability reserve, which was created in '13 targets a funding level by policy of 120 days of budgeted operating requirements, that reserve be set aside within

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five years. This is collected from the customers as a volumetric surcharge and is forecast to increase from 15 cents to 19 cents in fiscal '15, and that's a per-gallon charge. They have not reached their goal yet, but the projected balance in the reserve is about 19 million at the end of fiscal '15. We'll be going to aviation. They're a good news story, they reached over 10 million in passenger traffic last year. By the end of the year they've had consistent growth, passenger growth higher than the industry average with about 7% in the prior year and they're experiencing about 7% in the current year. They are taking a conservative approach in their forecast and are only projecting about a 4% employment growth rate. They did add three new airlines last year and added -- and they will be adding new concessionaires out at the airport, but they ended the current -- the prior year with about \$25 million in ending balance, and all of that money was transferred to their capital fund. Their primary revenue sources are parking fees, terminal rental, landing fees and concessionaire revenues. They're projected to increase by about 11 million in '15, and most of their cost increases are passed on through their rates to their -- to the airlines.

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They also have a large capital program. Their forecast includes an increase -- an estimate of 5% increase in their operating expenses. They are projecting adding 17 new positions in fiscal '15 for cost of \$1.5 million, and these new staff positions are necessary to provide staffing for the expansions that kim mentioned out at the airport, but subsequent to '15 they're not proposing forecasting any additional staffing at the airport. They will see, because of their sizable capital program at 500 million over the next five years, they will see a sizable increase in their debt service requirements as the debt is issued to pay for those expansions. Their current requirements in '15 -- fiscal '15 are close to 20 million and we'll see it grow to about 45 million by the end of the forecast. And then they are projecting an additional transfer to their capital funds of about 25 million in '15. By the end of the forecast period that will come down to about \$18 million. I've just got a few more of these enterprise funds. Austin resource recovery ended the fiscal '13 year with a positive ending balance of about 14 million. It's lower than in the prior years as they've been using that ending balance to keep their rate increases lower and continue to afford their programs. They are forecasting no program -- new programs in '15. They're focusing on implementing

the current programs that they've already launched. They are forecasting no new positions for '15, but seven

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additional throughout the remainder of the forecast. There is a slight increase in their debt service for their gas vehicles of about \$400,000, and those transfers for debt service are declining over the year -- over the latter part of the forecast as the debt is paid off, and they are decreasing their transfer, their cash funding of their capital program by almost a million dollars in '15. They are proposing an increase in their rates this year. Their combined cart fee for the 64-gallon customer, they're forecasting an increase of \$1.75 per month in '15. That would increase from about \$19.75 to \$21.50, and an additional increase in fy '16 of about \$3.45. The clean community fee funds both the austin resource recovery, antilitter programs as well as the code compliance. Our code compliance fund ended '13 with a \$1.5 million ending balance, and they are forecasting no additional staff positions in '15, but throughout the forecast they're projecting to add 16 new inspectors for the increased workload for their case -- case investigation programs. They are forecasting over the forecast an increase in revenues of about 4.6 million due to their population growth and rate increase. The clean community fee is expected to increase for austin resource recovery, \$1.20 per month in fiscal

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'15. For code there is no increase related to code for the clean community fee in '15, but they will see an increase of 55 cents per month over the remainder of the forecast. Our transportation fund ended '13 with about a \$12 million ending balance. They are also forecasting to add positions. Their positions will be ACTUALLY TRANSFERS OF FTEs From the public works department for a variety of programs within the transportation department, for bicycle program planning, traffic engineering, street banner program, and other -- other staff needs. Their operating expenses are expected to increase by 4 to 5% per year in the outer years of the forecast, and those are basically driven by their cost drivers. The transportation user fee is a primary source of revenue for this fund, and they are forecasting a 45-cent increase per month in fiscal '15 for residents. It's an increase from the current 7.7.80 to \$8.25. And of this 45 cents, 18 cents is related to funding the transportation programs, and the remaining 27 cents is related to funding public works. And this rate increase is designed to cover their base cost drivers. Our drainage fee ended fiscal -- in fiscal '13 was about 7.5 million in their ending balance. They are also forecasting no new ftes in fiscal '15, but 11 new positions throughout the remainder of the

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forecast. There will be an increase of about \$400,000, which annualizes the operational cost of waller creek tunnel, which is coming on-line, and an additional \$200,000 increase will be for flood awareness advertising, which will be conducted in the summer and the fall. Their cip transfer, which is a pay as you go program, they will increase by \$2 million to bring it to a level of \$24.4 million. This is part of their ongoing long-term plan to increase the cash funding of their capital programs, which are funded by the

drainage user fee. And their goal for cash funding their program is to get to \$30 million per year. Their primary source of revenue for their capital program as well as their operations is the drainage user fee, and they are forecasting a 60-cent per month increase for residents in fiscal '15, from \$9.20 to \$9.80, which is a 6.5% rate increase. And then they're also projecting increases -- that it will increase to about \$11.65 by fiscal '19, which is about 27% increase over the entire five-year period. Our convention center continues to enjoy the increase in tourism and ended fiscal '13 with a balance of about \$34 million. They are forecasting no new positions throughout the forecast, but they are seeing increases in their requirements by about 14 million in '15 and an additional increase of 20 million by the end of the

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forecast. Their capital program will -- there will be a -- about a \$15 million transfer for their capital program in '15, and that's for their building improvements as well as facility development. Hotel/motel tax collections provide about 60% of their total revenue, and as you saw John's presentation, the hotel occupancy is at all-time levels, so they've seen a healthy increase in this revenue source. They're expecting a 6.9% increase in fiscal '15 to a level of about \$79 million, and that includes the hotel collections, the rental car collections as well as some parking and contractor revenue for their fund. Their revenue forecast for the remainder of the forecast is an increase of \$18 million to a level of 90 \$90 million by the end of the forecast. And that concludes our session on our enterprise funds. I just want to go briefly over our budget timeline and then next steps in the budget process. As I said, we will have an all-day budget work session set aside on May 8 for you have to ask staff -- have departmental staff available. Any questions that you may have about our financial detail forecast report that you'll get this afternoon. Then in May and June we'll have our board and commissions of public engagement May through July -- the manager and staff will be developing the proposed budget. July 31 will be the presentation of the manager's proposed budget, and then we will have departmental budget presentations will be published a week after the proposed presentation on

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August 7 we've got various work sessions scheduled throughout August, and then adoption of the budget in September. And I just want to thank you for your attention. I know this is a long presentation. We try and keep it short but it seems like every year there's more we want to tell you. It is an exciting story, and we're pleased to deliver a good report to you. We're here to take any questions that you have. I do want to echo the manager's thanks to my staff, all the department DIRECTORS, THE ACMs AND The manager for all their support throughout this process. Our budget process is extensive, and it takes a village to do it, to use someone else's words, but I do thank everyone for their part in it as well as the council, their attention, their time and their interest in all of the issues that affect our city. Mayor, I'll turn the meeting back over to you -- >> Mayor Leffingwell: It takes a village, and it takes a lot of time, a lot more for you than it does for us. I appreciate it. There's a couple of things, this is a list of things that maybe I'll want more information on May 8. First I would note -- this is not a question, just a statement. I would note that I appreciate very much the reduction in the proposal for -- a reduction of the tax rate. I would note, however, that it's still about a 5.1% tax increase, and I would like to know probably on May

8, how does that relate to the cost of living? I know a lot of that can be justified with just normal inflationary pressures, but I'd like a comparison on that. Second thing is on the chart on page 48, it shows the tax bills for -- from all the different -- five different

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entities, and I would like to -- obviously I think there are a total of seven independent school districts in the city of austin, some of them significant in size. I would just like to have a feel, is aisd representative or is it -- are there any big differences between other school districts? And then I want to -- I want to ask some questions on may 8 about the transfers. I think we've done a good job in setting a 12% on the nonfuel revenue. That's a big change, and I know that will take place over time. The -- there are still lots of other costs, and I want to know, in addition to that 12%, I want to know about -- I'm going to ask about transfers to other city functions that are -- that don't have anything to do with the austin utility, austin energy utility and don't have a potential return on investment by austin energy. Same thing for the water utility. I know there are perhaps even more items on the water utility budget that don't have a direct relationship to the delivery of their services and don't have, to me at least, a visible tie, and I don't know what they all are. I'll just give you a couple of examples. The biolands division, a significant portion, as I understand it, and I don't know how much. Water quality protection land debt service, which has nothing to do with the water utility. Substantial -- I understand about -- it looks on a chart I have about \$4 million a year for green choice, and the sustainability fund, which I right now don't see a connection to the water utility for that. So I'm going to be wanting to know about those and any others that you might find. And finally back to austin

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energy, we still need to do part 2 because we have a new portion of the rate increase that's going to go into effect next may in this budget cycle, and I asked this question, I think, during the last council meeting, that we did not have a plan in place to figure out what that's going to be. So obviously it could change from what's in your forecast, and I think we need to have a feel for what that's going to be. You don't have to answer that right now but I hope on may 8 we'll have more information in all those areas. Council member martinez? >> Martinez: Thank you, mayor. I appreciate those points. Those are certainly areas I want to look into as well. I just want to make a general overall comment. And thank you all for the work you've done. I really appreciate that you took council's directive last year during the budget session to heart, because what you've done with this year's budget is exactly what council voted on last year, in many ways by eliminating vacancies, by not having such a conservative sales tax growth number. You know, I see those things moving, and that's what we did last year to balance the budget and lower the tax rate. So here we are a year later with the same opportunities. So I just want to note that and reflect that I really appreciate you taking to heart last year's work together that we did and incorporating it in this year's budget proposal. The one thing that stood out that I can't remember is the -- on the ae revenue side of 66 million, what was the projected revenue for this past year? >> That's a net income number. That's an income statement number, not a budget number.

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>> Martinez: I see. >> It's a piece of it, but I can't get to the summary. I just don't know the number off the top of my head. If you had asked me three years ago I would have. [Laughter] when I was over at austin energy. >> Martinez: That's fine. And the reason I ask for that -- and we don't have to have that today. You know, we went through a very difficult rate case. We were scraping and fighting for every penny for things like customer assistance program, and in the end we were told we can't even add another million dollars to cap because of projected income and projected debt and here we are with \$66 million in net income, just one year later. >> We -- for the '13 budget we were at 5 million. That's what we had planned on. They came in at 66 million, which is -- it is a budget number. To correct that. I will say that one of the most significant things we did subsequent to the rates was the debt restructuring, and that provided quite a bit of relief to them. >> Martinez: So even at \$17 million, we were still 30-plus million off? >> Of the \$61 million difference between the amended and the estimate, where they ended the year, \$40 million was the result of savings in debt service, so the primary savings came in november-december time frame subsequent to your rate -- your rate decisions, and it was really to give them some relief, some additional relief because of the delay, because the two-phase rate increase.

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>> Martinez: Understood. >> And I can pull our year-end report. We'll discuss all of the differences between actual and budget, if you'd like for me to. >> Martinez: And then the other kind of notable from last year's budget conversation that seems to have made its way back in, is code compliance seeking 16 additional ftes, and clearly stating for me that there's an expected increase in workload when last year there was a request for 19 ftes and the budget document showed a decrease in workload. So I'm definitely going to pay attention to that. I'm not saying that today we don't need these 16 ftes but we went through this conversation last year, and the projections for inspections that were needed in the budget documents were lower than the previous year. So I'm anticipating they'll be significantly higher this year to justify that. The ftes. On the transportation fund, one of the things that came to mind, and I have council member riley just sitting here, and I assume that there's some statutory hindrances to this, but I wanted to ask is there any way to eliminate the transportation user fee and add a fee to your local inspection charge for your vehicle to create the revenue stream, if you will, for the transportation department. Instead of going from a per household, go to a per vehicle at inspection, I think would generate significantly more revenue and be directly tied to folks that are using vehicles in our community. Is that -- is there a statutory hindrance to doing something like that? >> I don't know. We'll have to -- >> martinez: Ms. Kennard is saying yes. I know there are state laws about emissions charges a few years ago -- >> yes, council member, the

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current state law does not allow for that type of fee, not that it hasn't been tried before to add that. As you know, the counties also have a state transportation fee that they can check mark, but there is --

charge, but there is no authority for cities to do that, and you may remember that our transportation fee is not regulated by state law. >> Martinez: Right. >> We're about to lose our quorum. Can I ask you guys to submit your other questions for -- through the budget process next time to staff? >> Absolutely. >> Spelman: One very brief question. >> Cole: Council member spelman. >> Spelman: I want to be sure I'm crosswalking properly between the general fund transportation and your memo of two days ago. Two days ago you suggested that the budget benchmark that we had talked about a few months ago that would keep the general fund increase -- change consistent with the change in total income I'm going to say of austin residents would be 41.6 million. That was the increase, which would keep us exactly at the same percentage of total city of austin income. And my understanding is that the increase that we have here, at least penciled in, is 40.6 million, which is just a little bit less than the increase in income. >> That's right. >> So that means that at least we're projecting here we're going to be taking -- for the first time in quite a while, a smaller percentage of people's income in terms of paying for the general fund than last year. >> I think that's accurate, yeah. >> Spelman: Thank you for doing that. That is really, really good news. I very much appreciate your being able to bring in a budget like this. I have one very brief comment, and that is in part because the general fund -- most of the action in this entire budget is going to be the enterprise fund, not the general fund and I penciled in what's going on with the major rate and fee changes, and 82.4% of the total increase for a typical

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residential payer will be in the general fund, not the enterprise fund. We'll be talking about those enterprise funds, why -- what's going on in the enterprise fund and why the rate increases. >> To follow up on that, talking about the water utility. >> Spelman: The biggest increase is austin resource recovery, so we might end up talking about trash pickup and the costs associated with that too. >> Cole: Without objection this meeting of the austin city council is adjourning.