# City Council Budget Work Session Transcript –04/22/2015

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>> Mayor Adler: Are you ready? All right. ISS like a meeting? Do I announce a quorum? A quorum is present if our special called city council meeting for the purpose of kicking off the budget process. Today is April 22nd, 2015. We are in the Austin city council board and commiio room. The time is 9:45, 301 west second street, Austin, Texas. This is the budget work session. There are a few members off the dais. A couple of them -- they've all checked in. A couple of them will be getting here just as quickly as they can, but they've ed. So best as I can understand from what I've seen and read, there's going to be massive quantities information that will be given to us today. Several of the different people that have watched this process before, participated in this here is to take in the information as best we can. My understding is that as we go through the day we'll be getting more and more context for the information that we'reetting. We of course as council can interrupt anybody that we want to in order to be able to ask questions to make sure we're understanding what's happening. My suggestion would be a U're considering that to think of two things. The first is there's massive

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amounts of information we're going to get today. Going to be a long day. We need to G throu there will be a breakt's required at some point this afternoon, consistent with the conversations yesterday, because we're going to be going up, sharing the manager to the session. So we have a lot in a short period of time. So first thing is remember we have a lot of information coming in and little time. And the second ishat I think context will ultimately answer a lot of the questions that we have. And again, as a group, there's a process that I T out in terms of how we get from here to the, but control ochede and an I want to have more time org1 additional sessions or want to, you know, help design what we're going through, we have the ability to do that. So without -- kathie?ú >> Tovo: Mayor, could you clarify the schedule for the day? Are we breaking at lunchtime? Are we planning to break for lunch? And then my next question would be it sounded like we're going to break during the period of timehere you and councilmember Gallo and the manager have anothercommment or are we continuing through that period? Just so we can -- and you can check back in, but it would just be good to have a sense of the day. >> Mayor Adler: We would have -- depending on how many people we would have. At that point I guess there would be a six-member quorum. We would be gone I Abo an hour. So we would leave here at 2:45 and we would probably be back -- our timehere is going to be real limited to availability. I would think we would beback by 4:00. So we could either break at that point or -- I would say depending on the schedule, if we'reoing through ickly and there's an opportunity to break and us to come back, then we could if not we'll turn it over to

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you guys and you guys can receive the balance of the information and just keep working through it. I would anticipate that we'll break forwere you thinking something? >> [Inaudible]. >> Mayor Adler: Okay. But I think that the intent is to break for lunch today. But again, let's see how we're moving through it. I think I most important to make sure that we actually get through all this today so that we're not gearing back up the presentation.nager, did you want to pick us off. >> Certaly, mayor. I appreciate that introduction. It sets a good frame for the presentation and the conversation that's going to Su today. Good morning, councilmembers. It is as alwaysur pleasure andx privilege to offer the financial forecast and economic outlook for the next five years. To council and of course to the general public, who I hope are paying attention this morning. I certainly understand that this is for all of you, excepting for one, your first opportunity to participate in the budget development process. We do view this occasion as the official kickoff of the budget development process both for the council and the general public. I want to emphasize that this is a forecast and an economic outlook and it is not -- it is not in the budget recommendation for fy 2015-16. It is a forecast. So you are as the mayor indicated, going to receive a lot of information today and because we're talking about budgets you are going to see lots of Numbers in all of that. And so in terms of the economic outlook you were going to have the benefit of looking at a lot of Numbers

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in regard to Mr. Hockey enoughs' best estimate on what the forecast looks like. And he does that for us every year. Does a very good job at that and is part of foundation upon this we stand as we make decisions relative to the formation of our budget recommendation. I also want to acknowledge that leading up to today there has already been a great of wkhat has been done by the staff. These are people tt are behind the scenes working very hard and working long hours to get us prepared for today. And they're going to continue with that work ethic becauset's, frankly, required all the way through budget adoption. But these are the people that -- that are unseen, that sit and work behind the S THA you see sitting in front of you today. There are lots of other people to acknowledge as part of this process, certainly theeparent heads, and their seir financial staff in particular. The assistant city managers in my office T provide their leadership insofar as as in many areas, but also in this area and I want to acknowledge them and thank them for the hard work and long hours that they've put in already. The folks that you see hitting in front of you are going to do much of the presentation, this first part of then terms of the economiclook and theforecast. Mayor, you were talking about this afternoon. Ordinarilyast we've withust thisirst part when we've kicked off the budget ocess, but later this afternoon you will hear presentations from our enterprise operations.

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The presentation will be -- we'll start with our cfo, Elaine hart,ho a know. Elaine is going to then pass on to Lela fireside who will talk about some of the legal parameters surrounding how we go through this process. Job hockenyos will speak and thinned van eenoo will talk -- then ed van eenoo will talk about the forecast and as far as the actual operating budget and other funds are concerned. So Elaine, if you're ready,. >> Zimmerman: Thank you, Mr. Mayor. In the interest of notupti becau we have a staggering amount of information to go through, I just want to make a quick comment at the beginning. I represent district 6, which is measurably the most fiscally conservative in our city and my concern in the information is H presented. I wanoe you to the first bullet point. It says the property tax rate in 1516 nd long-term financial stability. Now, I could make that more factually correct and more providing meant to our -- poignant to our readers by saying higher property tax bills in fiscal year 2015 to 16. And it's this kind of presentation of infmaat bhers me. I've been long enough here to know I get facts presented to me in a certain way that can be misleading because the fact here, it talks about thencas seven dollars and five cents per month. The tax bills are increasing but the bullet is loweproperty tax rate. And this kind of stuff permeates all the information I get. I have to be skeptical about the hundreds and hundreds of pages that are going to follow because the very first bullet point kind of distracts me and miss leads me. Lower tax rate. No. There's a higher property

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tax bill. >> Councilmember, we appreciate your persptive, but in the course of the presentation there is an opportunity for the staff to respond and to expla that bullet point and any others get get stated. >> Alain!! Chief financial officer. The first section of the book, as councilmember Zimmerman said, is the financial forecast report. It's a detailed report that what we're going to go over first is behind the tab that says forecast presentation. So that's the presentation wel this morning.ú the manager said we'vegot several things planned today, the first part of the day will be oveiend getting some context for wh we're going to see in the forecast and then we're going to get more information from our lamarest enterprise funds, austinustin water utility, and the aviation department this afternoon. In addition to that, we'll have breaks during the breaks for council Q a a. Mindful of your time schedule. But as the mayor said, we do have an additional day set up for questions and answers or additional presentations. And that is another all day work session that is planned for may 6th.

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If you turn to that tab, forecast presentation, this is really the agenda for today is on the left. It's on slide two. The plan today -- aga for that second day in may is rely for additional presentations should the council desire them, Q and a on specific things that you would like to ask us and we'll have all the departments available for responses to your questions. An our hope is that we'llhave the homestead exemption analysis completed by that point. We are expecting information from Travis county appraisal district today, and that has been our hold U on making much progress on that in addition to the work load here with the forecast. I think they're sending the tax notices out end of this week or early next week. So hopefully once we get that information we can start crunching those Numbers pretty quick and our hope is that we get them to you on that may 6th date prior to the may 12th deadline that you've given us. >> As the manager says this is really the kickoff to a fairly long process that we call budget development. This slide actually kind of walks you through the -- as be doing. Is our first publitionf any loo rward for the next five years of what the financial picture lookseost of the major funds of the city. So this begins our public discussion both with the council and the public. It is traditional that we do thist this of yr,o we're continug that. The month O typically we'veon work session with the

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council.'ll certainly begin our staho prs. At includes all of the city's boards and commissions. That will includeur public engagement process that I think ed has talked to allof Y about with your town hall meetings and our budget in a box exercise that we'lloing out into the community too those. We also deliver a number ofs T the councildu w--in this time you've already received the performance report a week or so ago which is ak back at last year and what our performae measures were then. And certainly we've got the forecast information today. In may we'll broviding our five-year capitent program called the cip. So that's a look forward for L departments of WHA they're going to be spending for the capital programs and how wenten to finance those.ine we'll continue our stakeholder engagement and meeting with the boards and commissis. Typically by that time departments are giving their boards and commissions9 an idea of what they're planning to ask in their proposed budget. We do have a state deadlin for the homestead -- for a decision on the hestead exemption that regulatory deadline is June 30th, but practically for us to be able to pull together for the council a proposed budget, we need hopefully to have that decision made by June 4th so that we have time to make whatever changes to the budget or reductnst we would T be able to afford that. So those a des come up I junefor council's break in July. The month of July is really one for staff. We're preparing our two

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volume budget document. We're finalizing the Numbers. We're dotting the I's, we're crossing the T's. We're making sure that all the transfers balance and that the tax rate calculations are accurate. And even last year as we had already sent the document to the printer we got an updated assessed valuation number so we pulled the document back from printer and redid volume I sections so that you could have better information. So the month of July is very itical for us and we do get timely information from the appraisal district,ut sometimes it is right there down to the wire when we're getting our last assessedg1o@'@ valuation number. But the intent is to get you the best information that we can. The release and presentation of the manager's proposed budget, his recommended budget to council, is on July 30th. And that's the point at which becomes your budget. As council you may change it, amend it, reduce it, add to it. It is your document at that point. So generally from that point on you will have your budget hearings, your required tax rate hearings, your public meetings, and discussionsof the budget culminating in the budget readings in the of dates that are critical. Lela will cover these in more detail. You have to adopt a maximum tax rate early in August. That date F this year is August 6th. And then we do have again work session planned for departments to present proposed budgets and that sort of thing. So it is a busy schedule. I just wanted to touch again on what is a forecast.

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It is a planning document. It's a place to start the discussion. For us internally as staff as well as for the public and the council.it's look forward for the next five years on that horizon where we might see the financial position of the city and its major funds. It's based on assumptions that are not set in concrete. They're based on tradition, trends, analysis and those kind of this. But really is a planning document. It is not a budget. It is not that detailed. And so again it begins a much longer, more rigorous process of budget development. It's going to highlight for you in the report, we highlight some of the initial funding requests that are not in this forecast so that you can see the kind of service demands that we're trying to meet and the resources that the departments have said they will be needing. Again, they are not in the forecast. They are not in a proposed budget yet. That's the work that staff does with the manager in crafting his recommended budget. These are our best estimates at this time. They will be C E summer.hy we do a forecast? Well,hen you look arediat Y finaianalysis,ou're going to wt to wit the economic outlook. What do you expect the ecyo? Because it has act on our financial picture. Also you want to get feedback from T counonce they've seen the forecast what additional liu want to provides? What are your initial reactions to that sohat we can take that into account as well as the community input ioraming our

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proposed budget? -Yr forts St practice recognize by the government finance officers association. It's highly recommended that you do a five-year forecast so that you anticipate what's coming down the pike. And then we will fine tune those forecasts to come up with our proposed budget. So with that I'll turn the presentation over to Lela fireside, our assistant city attorney, to cover some of th legal framework related to budget adoption and budget development. >> Mayor Adler: Before pass, just one second with respect to timing and the calendar. I guess we could all go to the bulletin board and weigh in if we thought it was appropriate. But given our group and this is fst time going through, it might make sense to earmark an aitl day or two. I'm concerned that just one day coming back in may to go throughhe departments to ask questions may not be enough andmite harder for us to find a day if we haven't designated one as an optional day. Be coming in later with respect to the homestead exemption, it mighte good also toonf88 be able to block Sime. It wouldn't be time that we would have to use, but if we find ourselves in the first or second week of may trying to find a day that fits with everybody, it's going to be a harder thing to do. >> We'll do that. >> Mayor Adler: I'm sorry, thank you. >> Morning, council, Nager. My name is Lela fireside. I am an assistant city attorney in the law department. And adopting the budget and the tax rate areart legal P rmentshatloteure thatthe city is in compliance

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with the various laws that apply to our financial matters. Adopting the budget and the tax is one of the most important, if not the most importt thing that you will do and that we all do as a city. It sets our economic priorities and everybody in the city is impacted by this action. So we take it very seriously and work very hard at it. There is a basic legal framework in the tax code, the state taxod the local government code. The process is set out with the dates by which you have to conduct certain activities, providing notice, setting rates and hearings, listening to everybody who comes and speaks about the budget at those hearings. And then gng through a formal process for adopting bothhe get and the tax rate. There are also a lot of laws pply to the funds that things that I do is answer a lot of questions in the budget process. Can we do this with this Ty O Mey. Can we set this fee and use it forspo some ofhe types ngs THA I andha ior with the folks who work with M to get you answers. So know that that is a resource for you. It's also important that you know that besides the state law and then there are federal tax laws and other things that apply to all sorts of funds that we have, there are provisions in our city code and in our city charter that lay out requirements for funds. So sometimes you will come up with an idea and it may be fine as long as you're willing to change certain provisions in our city code so you just need to be mindful that there might be

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steps to get to where you want to get to. Timing is everything. You will hear -- you know, it's fine to add extra dates, but you should know that starting pretty much in November we start looking at the calendar to figure out what next year's calendar is going to look like and what the dates are going to be. For the tax rate adoption process there are notices that have to be sent out and the range of dates when you send those out is set out in state law. There are hearings that are required and then the adoption process is very formal. Also the budget process has its own set of notice, hearings and adoption process. They don't match. And so we work to make sure that all of those requirements are met in your calendar. And so just know that if some of these things pop up and you're wondering why on the timing, the idea is that we're meeting all of those requirements. They start with the tax appraisers certifying the tax rolls. And so that's a very important process and our folks work very closely with the appraisal office. We do not appraise the property, we don't set the values, but we need that information to trigger all of the other statutory requirements. We publish our roll back and effective rates. And you may see these in the publications about the budget or you may see these in the state law and just generally the -- in broad terms the effective rate is the tax rate that would bring in the same funds as last year's from the properties that were taxed both in last year and this year. So that's generally that framework. And there is literally a mathematical calculation in the state law. The rollback rate is about

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eight percent higher than last year's operation and maintenance costs. And it includes payment on our debt. So you need to know about that. And those are terms that you will see. And hopefully this will be a little bit of a reference for you on that. Also if you want to find out more information about this, the state comptroller has information on his website. If the tax rate that is needed to fund the budget is higher than the effective rate, the city has to adopt a rate to trigger the notice and hearing requirements. And so one of the things that you will see on your calendar is the date to adopt the maximum proposed tax rate. We usually do that by resolution. You should also know that each of these actions are required by law to be what they call a role call vote. So unlike the other votes that you will take, you will have the city clerk who will actually have you state your name for the record and how you're voting. And then you have to follow the process or there's a -- right now an option for citizens to sue and bring you back to the effective rate. Then you will be dealing with the exemptions -- >> Mayor Adler: Hold on one moment. Ms. Troxclair? >> Troxclair: I want to point out one quick clarification. When we're talking about the effective tax rate, there is confusion a lot of times about whether or not that includes new growth. Can you just clarify again the way you stated it, the properties is taxed in both years. So new properties that have come online since last year, aka, new growth, is not included in our effective -- in our calculations of the effective tax rate. >> That's right. New construction is pulled out so even at the effective tax rate the city can generate

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additional revenue but it's designed to generate the same amount of revenue from properties on the tax roll both last year and new year. With new construction typically the effective rate drives the revenue. >> Mayor Adler: Both new properties and new improvements put on previously taxed dirt. >> That's right. Annexations and -- >> Troxclair: So when we're talking about effort, we're not talking about operating under the same amount of money we had last year, we're talking about the same amount of money for the existing properties plus properties from new growth. >> That's right. >> Troxclair: Thank you. >> You will be asked to look at the exemptions. You all are looking at the homestead exemption. There are also historic exemptions, veterans, disabled. You will see a list of them. If you look at last year's tax adoption, you will see that information in there. And those are found in our state tax laws chapter 11. And generally those are adopted with budget, although there are some like the homestead exemption where there's a calendar for when you have to set that. >> Pool: Mayor? I was looking back on the previous slide, if you could switch back to it, and that third pullet, if the tax rate is more than the effective rate, which it sounds like the eight percent -- and I don't know if that's the rollback or specifically which rate that is referring to. Then we have to go with that rate in order to trigger the notification and hearing process. It doesn't mean that in the end we would necessarily adopt that rate. >> That's correct. So usually it's the -- in previous years, and this is not universal, but in the years that I

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have been here, council goes pretty close to the rollback rate. So not quite the maximum before triggering a possible right to challenge it. But close up to that. And then there are discussions and then the final rate can be lower than that. But it can't be higher. So we recommend that you start off at a higher rate and whittle it down to your priorities and your commitments to the voters. And then rather than starting off at a very low number and finding out that there's something that you want to do and there's no way to fund it. >> Pool: And that gives us a really good sense of the spectrum of -- the range that we're working with so that we can move it downward. Okay. Thanks. >> Yes. And the budget office provides a lot of information about what different rates will generate so that you have dollars to work with. >> Pool: Thank you. >> So just so you know, also the state law does set out who is your budget officer, and last time I said this the manager kind of looked at me and laughed, but in the state law the manager is tasked with both the responsibility and the obligation to put forward the budget. And this is reelected also in -- reflected also in our city charter. There are a list of requirements that have to be met for putting forward the budget. And then -- and he obviously has staff that does that. He's not there with his calculator, but that's the process and that's how that works in a council-manager form of government. Also again if you're looking for the requirements in state law for how the process

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works, you will find them in the local government code for the notice, the hearing and the voting requirements. All of these votes, as I've said, are going to be record votes, which means that the clerk will ask for your names and read that in. And there are actually -- when you get to the final adoption process, there are three votes that you ultimately will end up taking. They're broken up a little bit for the budget, but you adopt the budget, and in our case we do the capital budget, the operating budget and the fees and fines and some other matters as we go through it. And then once the budget is adopted, then you have to ratify if in fact that budget will require more taxes than the prior year. There's another vote. And then once you have done both of those things, then you adopt the tax rate that will generate the revenue for that budget. And again that's a third vote. So just be aware as you go through it, and I will be providing you with guidance and somewhat not scripts as far as laying out every single thing, but to the extent that there are legal requirements for the way that those motions are required to be framed and the votes are required to be taken, I will be giving you the -- mayor, the guidance on that. Then you will see how that process works. So I just wanted to make all of that information clear for you and if you have any questions, obviously you're welcome to ask them here, but also feel free. This is the forecast and this is the beginning of the process of seeing all these Numbers and thinking through the different pieces and I'm sure getting phone calls from constituents. So feel free to inquire of us and we will produce the information to give you the legal

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framework to help you make your policy decisions. And I think that's it for me. And so next we'll turn it over to Mr. Hockenyos. >> Welcome back. >> Thank you, Mr. Mayor. All right. Every year I struggle with turning on the mic. It's me and self-service gas. I struggle with both of those. Mr. Mayor, members of council, thank you very much for having me. I always consider this a bit of an honor and a privilege to be part of this initial effort to frame the conversation around the budget. So I'm here to talk about big picture things. I'm here to talk about what's going on in the national economy, how that translates here to our local economy in the Austin region. And in general how that translates into the outlook for our economy. That is a part of the overall context setting obviously for the conversations you're going to have today and on into the future. At the end of this also traditionally staff has asked me to provide an external forecast, an external look if you will at sales tax revenues. This is not the official sales tax forecast, but because sales tax is so intertwined with the performance of the economy or at least more so than perhaps some of the other revenue streams that the city collects, they've asked me to provide an external look. So it's input into the forecasting process based on a little economic modeling that is I think helpful to staff as they are deriving their own sales tax forecast. I'll say it again, my forecast in sales tax is not the official forecast, it's input into the forecast. So I will go through the presentation. I always promise this every single time you see me, there will be no equations in this presentation. There are a number of charts and graphs along the way. And again, the goal here really is context and to sort of give you all a sense at least based on the analysis of the information that I've pulled together the context in which you all are having these budget deliberations. So with that we'll start with the national

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outlook. It is interesting, I would say gdp this past year has been a little bit slower than was originally anticipated. I'll show you a slide about that along the way. It's continued to expand in the two percent range. That's a little slower than people first thought. There are some good signs. One of the things we pay attention to is what are businesses doing in terms of investing in plant and equipment. That's not nonresidential investment. That's been pretty solid and that usually indicates that companies are feeling pretty good about their business prospects. That's a pretty decent leading indicator. And as a result production has improved in most sectors of the economy nationally. That's the good news. The bad news has been across the country as a whole job growth has been, my word for it, is somewhat tepid. We have replaced all the jobs that we lost during the recession from 2008 to 2010, 2011, depending on how you define it, but a lot of the replacement jobs are not paying the same wages that were among the jobs that were lost. And the rate of expansion is a little lower than you would typically expect at this point in the economic recovery. Again, this is across the country. Now, some of this is about structural change in the economy. We're all familiar with companies doing more with feature people, substituting technology for other people. Substituting technology for employing folks. But it is still something that we should be paying attention to not only I think across the country, but also here in Austin. One of the things that is important from a policy perspective, particularly when you're talking about national policy around interest rates, monetary policy, is what's happening with inflation. Inflation right now is fairly low. The aggregate Numbers are pretty low and particularly as we move into this year the impact of lower oil prices is helping to drive overall inflation down. For parts of Texas that's a challenge. For Austin, Texas that's a good thing because most of us -- most of

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our economy has very little to do directly with oil and gas. We realized the benefits of lower prices at the pump without some of the consequences of reduction in oil related activity. So inflation is relatively low. And with that the federal reserve bank I think, and this is my interpretation of it, is leaning towards raising interest rates, but there's a lot of pressure to not move too far or too fast. Some of that is because inflation is relatively low. And so there's little sign of rising prices, which often times triggers an increase in interest rates. And some of that also frankly is concerned at least historically about being seen as influencing national elections. The fed is often times hesitant to make big policy changes as you get closer to a national election for fear of being accused of influencing it one way or the other. So we think it's likely that there will be little change on the policy side over the next 18 months or so in the national economy. We do think the economic fundamentals overall are continuing to improve a little bit. So some pictures to illustrate that, this is gdp, gross domestic product growth. This is the standard measure of the national economy. And you can see the recession there obviously in 2008-2009, and it's really been fairly stable since then, in the low two range. And then this next one is personal consumption expenditures. This is all of us going to the grocery store, to the dry cleaner, out to eat. Our spending as consumers, this accounts for about two-thirds of the overall national economy. And again, you can see the recessionnary pattern, fairly stable growth subsequent to the recession over the last five years. This is the one I mentioned about nonresidential investment growth. This is again spending by companies. Typically on plant and equipment. In some cases information technology. Things they use to produce whatever their company produces. And you can see it's pretty solid. Growth in this in the six to seven percent range is pretty good, particularly again in a recession you see how

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sharply it declined as everybody was completely uncertain about what was going to happen in 2008 and 2009. Then this is total employment growth. Again, this is nationally. You see substantial losses. A lot of these charts reinforce the same picture that we have recovered from the recession as a nation, but that our recovery is a little bit slower than it might otherwise could be. And typically in the wake of that substantial a recession you would see employment growth north of two percent. So the fact that it's been consistently below that I think is something -- is worry some for what I mentioned a little bit earlier. And then this is the consumer price index. I've done all these on a -- on an annual base to give you some historical context on this. Economists are great about officially nine months, 12 months, two years after the fact telling -- revising history. So we ultimately finally came to the conclusion we did actually have a little deflation in 2009, but it took us about four years after the fact to definitively state that. I would submit that for planning purposes most firms right now are not too concerned about raising prices as they are thinking ahead. So I would think this is not a huge factor in terms of thinking about the economic forecast. So the outlook overall again, gdp I think will continue to hover in the range we have talked about. There really isn't a lot to change. Again, gdp being the overall national measure of the economy. It measures the value of the output of the goods and services of our nation. Production side of the economy is trending upward per what we said. One of the things that's also beginning to happen is the tightness of lending standards, particularly on the commercial side has eased up a little bit as financial institutions are becoming a little more comfortable that the recovery is real across the country. So that has made access to credit a little bit easier, particularly for small business in recent years. So I think the forecast

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is really more of the same growth in that two and a half to three percent range and then the longer term outlook there as provided by the congressional budget office, also known as cbo, is that they think generally over the next three to five years things will sort of stay on this same track. You can see there kind of the things that they think are the major factors in the equation. So big picture, bottom line, national economy fairly stable, solid growth, fairly consistent with where we have been in the past. In the recent past. Thousand it translate to Austin? I think by most measures of the economy we are not the strongest if not the strongest metro economy in the nation, at least on an aggregate basis. One of the things that of course is what most regional guys look pretty carefully at is overall job growth. As measured by the employer survey. I'll take a quick second here. There are a couple of different ways that the Texas workforce commission measures employment on a regular basis. They survey employers every month and they say what industry are you in and how many people do you employ? That's done at the metropolitan area level. They also call people at home and they say hey, do you have a job and are you actively psyching one? Owe seeking one? So sometimes you will see different measures reflecting different surveys. As measured by the employer's survey you had what has to be considered exceptionally strong growth for the third year in a row, 2014, 36,000 net new jobs added in the Austin area. And the Austin area of course is defined as five counties, Williamson, Travis, hays, Caldwell and bastrop county. That's the standard definition put forward by the census bureau for our region. And that's where most measures of the economy are calculated at for the five county. >> So, again, it's interesting, and I'll show you a picture in this. The private sector accounted for almost the entire volume of that

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net new growth, very, very small job growth on the public sector side. That's a real reversal from what we saw during the recession. During the recession we had actually two to 3% job growth on the government side, now we're seeing very, very slow growth and much more rapid growth on the private side. You have both economic growth and of course I know in a piece of captain obvious nervous you have strong population growth here as well. You put the two together and you get relatively rapid increases in overall consumer spending. We'll also -- the news was just reported that in the first quarter of venture capital has been among its highest levels really since the dot com bubble burst. For all of 2014 it's back to trend, you know, so, again, I think that's an indication that people are feeling fairly confident about their prospects. I will show you a chart again just in the context setting. Our technology sector here is obviously strong, but we've really transitioned away from making technology-related things and now we are doing more technology-related services. So we're moving away from what's called hard tech toward what's called soft tech, which is interesting. Tourism continues to be an exceptionally rapidly growing element of the local economy. You know, in terms of bringing money from outside the area, that's a great thing, in terms of a local guy trying to find a parking place, you know, it kind of zincs, at least for me -- stinks, a guy for me who lives close to town so I have a mixed view but it's obviously helpful in terms of bringing outside money into the region so that's a positive thing. Again, something the mayor talked about in his recent speech on the state of our city, housing markets are continuing to tighten and we have -- it's a function of very strong demand, and we are diminishing our excess supply of housing in the city. I'll show you some charts on that as well. So here's total employment. We may always measure this on a

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12-month change basis, so 2014 is the annual average for 2014 versus the annual average for 2013. That way we don't have to do seasonal adjustments for anything like that. The trend is relatively clear. You know, as the -- for those of you in -- councilmember tovo you've heard me say this before I I apologize in advance, but in economics school, you know, the school house rock version of the local economy is pretty good, where 3 is the magic number. If you can sustain 3% job growth you're doing extremely well, 3% interest rates, 3% unemployment, you know, it would all be great. We're well above that and we have been for some time. When you get up above that on a consistent basis, you begin to experience the challenges of tightening capacity, and that's certainly where we are right now. And so I'm -- some of you may be old enough to remember school house directly. Some of you may not be. So that's total employment. This is the same information showing you the private sector, overall private sector job growth versus public sector. Public sector here of course includes not only lo local governments but obviously the state of Texas and the university of Texas as well, higher education is also included in the public employment figures by the workforce commission. And so the burnt Orange, if you will, is the public sector, and the blue is the private sector. You can see the really substantial growth on the private sector side of our regional economy the last four years or so. Fairly compelling. And this is just information that is sort of breaking it down by broad sector of the economy. We've shown just to give you some frame of reference, 2009, 2013, 2014, it is useful, I think, to note that every sector of the economy grew from 2013 to 2014, even manufacturing. But much of the growth really is on the services and the consumer

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side of the economy as opposed to to on the production side of the economy. It's unfortunate that they lump together construction and natural resources. Those are sort of an odd combination of things to put together. And so, again, most of that is construction-related. There are very few actual natural resource related jobs in the Austin metropolitan area. This is city of Austin sales tax and, again, we use this to some degree as a proxy for consumer spending. This is done an a calendar year basis and it is done on a 12-month change basis. It is not consistent with the city's internal data. It's close, but, again, this is on a calendar year rather than a fiscal year so it's January to January rather than October to October. It's put up here again to illustrate trends and, again, you can see pretty solid consumer spending going on. This is venture capital. I mentioned first quarter you may have seen the news story on this, it was approximately $270 million in venture capital invested in the Austin area in the first quarter. Just came out in the last day or two. That suggests, if that pace keeps up, we might be actually up above trend. There was a time from 1999 to 2001, when over $2 billion in venture capital by these measures was inject understood the Austin economy, which is a tremendous amount of migrated idea dot com that sort of went nowhere along the way. So this is, again-- this is an important measure and I think it's encouraging that companies here -- that not only are companies here adding workers but people here are generating ideas and are attracting start-up funding. That's a sign of a dynamic process going on that I think is fairly encouraging. This is what I mentioned a little bit earlier. This is a breakdown and I'm happy to provide you the exact definition by industries of hard tech versus soft tech. In simple terms hard tech is

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things, physical products you can put your hands on. Soft tech is services. For these purposes software is included in soft tech. That's kind of an in between but for these purposes it's included there. You can see the changes over time. We used to be all about making things on the technology side and increasingly we're about providing services and encapsulating information for people this, again, this is just a contextual slide, if you will. Non-residential vacancy rates, this is both commercial and industrial properties. Again, you see particularly on the officer side you -- office side you see vacancy rates going down -- sorry, it's not industrial, it's office and retail. Excuse me for that. Again, what you're seeing here is the consequences of strong growth, as these rates get tighter and tighter over time, it's an indication that things are going reasonably well overall. Hotel occupancy, in general when hotel occupancy gets up about 65% it will tend to trigger construction. We've had that. It's somewhat -- I wonder if we really can absorb all the new hotels being built but I'm not an expert in the hotel industry so I wouldn't pretend to give you a rendition on that. But a 75% occupancy rate and this is particular to the city of Austin. This is not the Austin area. This is the city of Austin hotel occupancy rate is quite high. And that's part of the reason why people are building so many hotel rooms here. And then this is overall hotel revenue in the city of Austin. This is data provided by the governor's office of economic development. And so, again, you can see a real rise in that over the last four or five years as our tourism sector has grown so sharply. This is data from Texas A&M's real estate research center. You may be familiar with that. A&M maintains a fairly robust

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real estate center. I believe it's actually funded by realtors across the state of Texas. I think part of their dues go to pay for that so it's a pretty good resource along the way for folks. I just grabbed one piece of information here I thought was interesting. Again, this is in our local multiple listing service, which is what mls stands for. We have about two and a half months supply of available housing inventory as of 2014. The March figure is actually 2.2. Again, I saw the paper reported at six and a half months is considered to be a balancing point. We used to think it was six. It's clearly a sellers' market at this stage of the game. No question about it. So housing -- >> Mayor Adler: Just one second. >> Yes, sir. >> Tovo: Did you say these are houses for sale or are they also including rental units? >> It is houses available for sale. >> Tovo: Thank you. >> Although I would think rental units would follow the same pattern, yeah. So this is building units permitted, again, in the multiple listing service area. You see that we have come out of the recession and are permitting more units and the MIX has changed a little bit. We are doing much more multi-family we've done in the past as opposed to a more traditional emphasis on single family homes. That's a whole long conversation in and of itself. I just wanted to give you this as a frame of reference. Then the next slide I think in particular is interesting. This is city of Austin, coa is the acronym I'm using here for city of Austin new units permitted minus our net new households as a city. The purpose of this is saying are we squeezing our housing supply? Well, if you look at that chart, the only time we are adding more units than households was during the recession. And so in 2010, according to the consensus, we as a city had a little under 30,000 vacant housing units, which represented about anisettes capacity of about 8.3%, if you add this up,

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we've knocked off about half of that. And so, again, as we think through, one of the reasons why our housing markets so challenging it's in part because we had a real constraint on supply and we're clearly absorbing our housing faster at least than we're putting it up. So, again, this gives you some context on that overall conversation. And then this one also was interesting. This was -- came out of an internal conversation. I apologize for the fact it may be a little bit real challenging. Are we the only ones experiencing that? I said let me go investigate. The answer is we are part of a broader issue facing fast growing urban areas that are somewhat comparable to us. We have a list that we use typically as sort of our peer communities, for example, Columbus and Nashville are on that because that you remember university towns, they're state capitals, they're approximately our size. We tend to keep the major areas of Texas on it because as texans we kind of want to see how we're doing in comparison to our peers, and then we have Portland historically Austin has always compared itself to Portland, Oregon, at least in a lot of ways and Seattle and several California markets. So that is calculated by the national association of realtors. It's essentially a measure of the capacity of a family in that community that has the median income to buy the median value of a house. The lower the number, the less affordable the housing market is. And so what we've done there is give you the -- that assessment of housing affordability in 2012, after the recession, in 2014, which of course is the most current data available on an annual basis, see the change. A negative number there means that the housing market is becoming less affordable. We are becoming less affordable. You know, some would argue that may not fully capture it.

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So is everybody else in this peer set becoming less affordable. Part of the reason is because all of these communities are experiencing job growth. Most of them at a relatively rapid pace. There are a few that are not growing quite as rapidly. And so I think it's just interesting to see ourselves in context with this peer set. You can debate whether or not it's exactly the right group or not, but this is an issue that other communities are facing, not just Austin, Texas. Again, that's why we provided this information. So the forecasts, you know, I can't tell you that anything is substantial -- anything substantial is going to change. I do think you are going to see slightly slower job growth here than you've seen in the past. I think some of that is, I think, really as much as anything against measuring an elevated -- against an elevated base. It's hard to sustain high levels of growth year after year after year, as the base you're measuring against grows. And we've had unusually high growth. So I'm projecting the overall employment growth will be a little bit slower but relatively consistent with what it has been in the recent past. The vast majority of that is going to stay, obviously, on the private sector side and I think is going to continue to be in the sectors that have done reasonably well. And so the last slide is my opinion, but relative to our peer communities, I think we remain a relatively high value proposition. Yes, it's much more expensive to live here than it has been in the past. This is my 30th question living here and I'm stunned some days how expensive it is. On the other hand, relative to some of our other peer communities, San Jose as an example has a housing affordability index half of ours, meaning it's almost twice as expensive as we are. Relative to our peer group our John opportunities here and relative cost of living stack up pretty well. Does that mean we shouldn't be

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paying attention? Of course not. It just means that in context we are, I think, performing relatively well compared to our peer set. So that's -- here's some charts. This shows you our overall employment forecast for the next couple of years. This, again, provides the detail by the same industrial sector breakdowns and this takes it on out for five years, including total employment on out, again. And then this, I'll talk a little about sales tax. One of the questions is how does sales tax compare to other measures of the economy. It is interesting. It is a historical comparison plotting growth and employment versus growth in the city of Austin sales tax. You see the correlation is pretty decent. It's not perfect, but it's pretty decent. That's logical. It would make sense that as we grow our employment base is presumably -- people's capacity to spend grows along with that. You would see rises in sales tax commensurate with that. It's reasonably close. But there's some things that have challenged us a little bit. This is one of them. One of the things that was shocking a number of years back was to discover the city of Austin's share of sales tax revenue as part of our metropolitan area versus our share of population. And you can see those lines are beginning to come together. There's an old adage in real estate that retail follows rooftops. As you begin to get increasing population growth outside the city of Austin in the metropolitan area, you are of course seeing retailers building capacity to serve that. And so at some point I don't know if these two will ever fully converge, but that trend, our share of taxable retail sales of the metropolitan area, has been steadily trending down, reflecting that. Now there's some thought increasingly where we shop is not only a function of where we live but in some cases it's also a function of where we work. So there may be some variables

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in there. Again, I think this is something worth paying attention to. Then the other thing of course worth paying attention do is our capacity to hit Amazon and get free shipping and have anything we want sent to us by this time tomorrow. So the consensus department -- actually the commerce division of the consensus bureau tracks ecommerce as a share of national retail sales. The point here is it's a steadily increasing trend. I remember vividly having this conversation with my wife and buying a tramp lien on Amazon because I could have it shipped to me free in two days and it was simple and it was easy. I felt guilty about it because I wasn't, you know, buying it in the city of Austin, but on the other hand the price was pretty compelling. I'm guessing I'm not alone in that. I'm guessing lots of people have done that over the years. And so, again, as a public body, thinking about sales tax revenue coming in, it's important to bear this in mind. So my external look at the sales tax forecast is as follows. I mentioned a couple things there about -- that sales tax tends to attract job growth. History suggested that the rates of sales tax expansion tend to be about three times of that job growth, you know, a couple of different things going on here. I think that the translation now is closer to a two times relationship because of all the factors delineated there. My external projection would put city of Austin sales tax revenues for fiscal year 2015-2016 in the 6 to 7% range, probably closer to 7% range. Policy projections will be more conservative than that. As everybody is taught it's better to err on the under side rather than the over side. Absent that I would suggest you continuing to look at stuff at about a 7% range on the sales tax side. Yes? I'm finished, by the way. That's my last slide >> I just have a quick question on page park sales tax and employment growth, which side is jobs and which side is sales

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tax? >> That's a really good question. Jobs are on the left side, and sales tax is on the right. I'm sorry about that. That's poor labeling on my part. >> Gallo: So do you -- as we talk about the projection for 15 and '16, it's interesting to me that we had such a substantial increase in' 12 and decrease in '2013 and increase again in '14 -- >> What do you think that is? I'm going to guess some of that was the timing of had -- some of it may have to do with construction. We tax building materials in the city of Austin. So I'm guessing that may be some of it. Some of the sales tax data, the control -- there are challenges. Companies challenge their sales tax audits, their sales tax assessments periodically and sometimes you will have things that audit -- there's contention and it takes a while for the information to be reported. So that may be a small piece of it. And then the other piece may be having to do with tourism, you know, that tourism may be a piece of the equation. I don't really know is the answer. I'm hypothesizing. >> Kitchen: I'm trying to task my memory. When did the legislation go into effect that online purchases had to say sales tax? >> They don't. >> Gallo: They still don't? >> They don't, no. >> No I don't think so. >> Gallo: So if they have a location in Texas -- >> Yeah, that's right. That's right. >> Gallo: That possibly could have -- >> That could have been -- >> Gallo: Do you remember when that came? >> I think that was the lats session. Actually you would know this better than I do. >> I think that passed last session. I don't think that would have contributed 2013. I don't know. It would have gone into effect in 2014 maybe. >> It should have gone the other

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way because there's no sales tax. >> Pool: Mr. Hockenyos, I always find your presentations really informative. >> Thank you. >> Pool: And fascinating and in a way kind of inspiring. You have a mention on one of the slides about a 6 to 7% increase in wages. >> Personal income. >> Pool: Personal income. So I'm curious. There's been wage stagnation I guess is a shorthand for it in the Austin area and I don't think we've been hit maybe as hard at other metropolitan areas, but so the -- and at the same time, our interest rates on your standard forms of savings have been beyond neg lithable. >> Right. So a couple of questions. First where would that uptick in personal income come from? Are they households where people are gotten better paying jobs? >> It's an aggregate number so reflects in part population growth as well. So it's not a per capita or per household number. It's the aggregate. >> Pool: It's the universal. >> It's the universal number, that's right. >> Pool: All right. >> The second piece of it, which you sort of implied, is that the wage component of it is relatively stagnant. >> Pool: Yeah. >> But other components of it, proprietiers income, dividends, that kinds of things are not for many people, did I have dinning not so much. But lots of people in the Austin area, not the majority but lots of people in the Austin area have income that comes from non-wage sources. >> Pool: Okay. >> So it's the combination of some job growth, some population growth. It's not a per capita or per household number. >> Pool: All right. So a question spinning off of that and then another question after that. Do you have any visual mapping that you could provide us to show us where the wages -- the wage changes have occurred based

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on where people reside? And is that one of those -- the demarcation line is east Austin versus west Austin or is it more broadly dispersed? The economic disparity question. >> Yeah. The data on that -- the answer is yes, but it's pretty dated data. In general the more timely information is presented at a more aggregated level so oftentimes you can't really drill into breaking it down by neighborhood or by region of the community until well after the fact. And so I'm thinking through the various data sets, and I'm not sure you could get much better than the 2010 data at the block -- 2010 consensus, which is pretty dated. Now, there is certainly data -- the -- they do a wage -- sort of an occupational wage survey every other may and the next one is due to be done this may. The Texas workforce commission does it. So the most recent data we have, fairly comprehensive done by occupation on average and median wages was done in may of 2013. So we will have -- now, they'll do it -- it will be dated may of 2015, probably released toward the end of the year. The workforce commission does do average wages by industry for the region as a whole as part of the nonag wage and salary survey, and then they also do a quarterly consensus of employment and wages done at the county level by industry, and that's actually based on tax records. That lags about nine months. I'm sorry, this is probably more detail than you want. So I think the answer to your question is it comes back to by the time you get the data you want, it's sufficiently dated. It probably doesn't help you as much as you want it to. >> Pool: That's what we love about economics, right, is this. >> Right. >> Pool: So the last question I have, given wage stagnation and the chart that you have here that shows consumer spending has

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spiked, and the fact that people are not making any appreciable interest on the standard, if conservative forms of savings, where is that money coming from and is that a portent of Austin being hit more hard -- or not being able to weather the next recession, which we know it's out there, we just don't obviously know when it will be. >> Right. >> Pool: I will not call this a bubble, but I watch these trend lines carefully too, and we've weathered three of them in the 2000s. >> Mm-hmm. >> Pool: So you know it's out there. So how long that -- the confluence of all of those different things going on -- what sort of an impact do you think that will have on the city's ability to weather? Because we've done a fairly good job of weathering recessions over time. >> I'm trying to unpack that question because there's a lot of different things put into it. I think first of all increasingly we find people in Austin who come to Austin with money. You know, increasingly you find people here who have come -- either have made their money elsewhere or have -- they have second or third homes here. So that's part of the process that I think is relatively new in the last five years or so. Second of all, I think you have lots of people here who have income that comes from non-wage sources, whether that's a proprietarier's income, income from rental properties they hold. They have other sources of income that don't show up on their w-2s so I think that's a piece of the equation. In terms of our ability to weather recessions we've been hit by recessions but we've always been less affected by other places, in part because this continues to be the place and at least I think it will be for the foreseeable future, this is a strong pull, if you will, of the modern economy. The places that get killed in recessions, as much as anywhere else, are the old economy

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cities, where production moves off shore, because it no longer makes sense to make balance bearings this that community financially. We continue to be a place that's a pillar of the modern economy and particularly a place where new ideas are developed into businesses. And so I think as that -- if we can continue to do that, the indications are we are continuing to do that, I think that buffers us to some degree. Clearly we were affected by the 2008 recession. The charts sort of show that, but not at the same level. So as a city, our ability to do that, that's to some degree up to you, to everybody in this room other than me really, is to thinking about what priorities are and how things are funded and sort of what measures need to be taken to ensure that you have core services adequately prepared for. I'm not the expert at that. >> Pool: I think it might also help as we have our discussions on the dais to put special focus and emphasis on living wages. >> Yeah. >> Pool: And diversity of jobs that everyone in the community can take advantage of because the folks you're talking about that are coming here with the either off the balance sheet income or non-wage income are not necessarily the ones that -- that are benefiting from the increases in our economy here. >> There's no question about that, and there's no question that I think economic development focus is shifting toward how do we find a way to pay decent wages to people who may not have advanced degrees and how do we find good, sustainable jobs for people so that they're not scraping by paycheck to paycheck or struggling to make ends meet. Based on everything I've seen and been involved with, that's becoming an economic development focus. >> Pool: Thank you.

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>> Mayor Adler: Ms. Gallo. >> Gallo: You know, one of the concerns that those of us that have been in the real estate business have at this point, and so would certainly urge very cautious, careful spending, is so much of our tax basis right now has been based on really out of control rapid appreciation. And much more so than the three decades that I've seen, and that has been somewhat of a buffer and protection for us in down economies in this community because as we have not rapidly appreciated but we've had gradual appreciation as the economy fail and those property values fail, it was not as substantial as we saw on both the east and west coast. >> That's right. >> Gallo: Where they had always had the rapid appreciation. So there's really a concern that I think those of us in real estate have at this point, that if we suffer another -- when we go through a downturn economy, that the -- the level to which property values may fall will be more substantial than we've ever seen in the past. And because such a large portion of our city's income depends on that, it just -- you know, it's just kind of a word of caution as we talk about spending, we're in a great time now, but this is really a good concern, and I think the board of realtors article in the business journal really speaks to that. >> I agree with that. And I also would say that's one of the reasons why we pay -- for lots of reasons, but one of the considerations around the possibility of rising interest rates. If interest rates rise, that will obviously contribute to a devaluing of properties, which, you know, is helpful if you're in the same home that you've been in for a while and your tax burden is eased but of course it has implications per your comments. >> Mayor Adler: Okay. Thank you. >> Thank you, Mr. Mayor. Thank you, council.

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>> Mayor Adler: Council, they're going to go ahead and get us boxed lunches and bring them into the -- is that okay? >> Thank you. The next section will be covering the all funds overview. It's exactly what I said, it's the all funds. So we'll go through a series of slides that cover some citywide cost drivers and things of the like. If you'll go back in your memory to the overview we had, the orientation for the council back in January, we showed you this slide and talked to you about how the city's financial structure works. I'm not going to go through this in its entirety, but, again, in our budgeting world, we look at the governmental funds, which are really the general government funds, the again fund, the debt

service fund, the capital projects that are general obligation bond funded, as well as some special revenue funds. We also look at our proprietary funds, our enterprise funds, which are really those that capture the activities that are user -- services are provided and paid for by user charges or fees, as well as our internal service funds, which are where city departments provide services to other city departments or other agencies. So really in our forecasting and our budgeting, those groups are the funds that we include in our documents. So we're going to focus today primarily on the general fund and the enterprise funds. Again, going back to the orientation, for the current fiscal year, 2015 budget we have an approved budget of three and a half $000 million.

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Of that the largest funds that are in our city budget are the general fund, which is where we pay for public safety, health, libraries and parks. And beyond that, the other two large funds are Austin energy at 36% of the budget and Austin water utility at 13% of the budget. So today the rest of today, our focus is going to be on the general fund, Austin energy, Austin water, and the aviation fund, which represents about 4% of the total budget. Rather than -- when we prepare these slides, there are certain slides that talk about individual funds. And rather than repeat some of these cost drivers, we're providing an overview of the citywide cost drivers up front. So these cost drivers affect all of the funds that we'll be talking about, and so we don't have to repeat these over and over and over again. Our employee base really continues to be one of our most valued city resources. Those are the folks that are line crews out with Austin energy restoring power to those who have an outage, they're our police officers, firefighters, folks providing direct services to our citizens and our customers. We're recommending a 3% -- not recommending. We are fratsing -- forecasting, we're not at the recommendation stage. We are forecasting for all of the funds a 3% wage increase for their civilian staff, we're also including in this forecast a market study for civilian staff as well, beginning midway -- at the midpoint of fiscal year '16. We -- based on current studies, about 30% of our civilian jobs

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are currently under market rates. We also have a 1% increase for our Austin police department and emergency medical services staff, sworn staff, that are under their contracts. And we also have a three and a half percent wage increase placeholder for the sworn fire personnel, they currently have no contract but we have include that placeholder in our forecast per the council's direction. We also provide insurance for our employee base, as well as employees can pay for dependent coverage. We're expecting a 13% increase in our health costs overall for fiscal' 16. 14% in '17 and 8% in the out years. This particular year we've had a benefit from the drop in the fuel prices, so our fleet, our vehicle fleet, which affects all of our utilities, as well as our public safety departments, will see a 50% reduction in their fuel costs. We expect this is a 1-time gain for them, but it's a much needed relief in their forecast. And then we'll see -- we expect to see 3% annual increases in the out years. So that has been built into this forecast. With respect to the internal service funds, especially the support services fund, which is the administrative support, that's the council offices, the clerk, the financial services department are built into that. We're expecting a 6.4% increase in fiscal' 16 and 8% in' 17 and 6% in the out years. Most of their department are -- most of the departments in support services are 90% personnel. So to the extent that you have

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cost drivers with projected wage increases and health benefit increases, those are the increases that are driving the overall increase in these cost allocations because of the percentage that they have that is personnel driven. >> Quick question. When you say out years, can you tell us what you're referring to? >> Sure. This is a five-year forecast so in most cases we'll give you the percentage increase forecast for the first year. The second year. And the out years would be the last three years in the five-year forecast. So we use that term consistently throughout our slides. That's a good question. >> Troxclair: Thank you. >> And, please, if there's something like that that hinders understanding of what -- we have our own speak over here and our own language, and we do have new folks who don't know all that. Okay. >> Kitchen: I'm sorry. >> Yes. >> Kitchen: If you don't mind going back to the previous slide, and I apologize if I missed a discussion of this, but I'm curious about the increases in the health insurance. I'm curious about the' 13, '14 and the eight. Can you give us an idea of what the thinking is for those particular forecasts? >> Sure. In the past, this time of year we've generally seen a 10% increase forecast. We've had some recent experience that has driven up our costs so we're at this point forecasting higher increases the first couple of years and then expecting that over time we'll go back to a lower level. It's typical in the out years of our forecast to have lower estimates than the early years. Certainly, our history has been we have a higher forecast than we come in and recommended budget, and we'll work with our human resources department to start honing that down between now and when the proposal is

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recommended. Ed, do you have anything to add to that? >> I would only add certainly for fiscal year '16 we're able to dial our Numbers in a little more tightly. They'll get more tight as we get closer to proposing a budget in July, but we still have Numbers this year and our experience has been significantly higher throughout the course of this fiscal year and even late last fiscal year we had a number of very large claims, driving up our experience, which gets flowed into the actuarial models. With the data we have right now we would forecast the immediate for an additional 13% and the city's contribution to the employees benefits fund to meet all the actuarial requirements for reserve levels and to keep the fund structurally sound and balanced. Then they forecast that out, out into the future. So the 14% in fiscal year '17 is largely based upon those same set of assumptions. As you get further out, it gets a little bit harder to predict what's going to actually happen and so those are really looked at maybe more along the lines of just what our historical trends have been, what industry trends reason, which has been more in I will say the last two years we've done well, came in here at a forecast of 10% just as a place holder and by the time we were done with our budget process it came in more along 4 or 5%. We were able to refine the Numbers based upon those years having better than typical experience. We -- you know, it's still early, still have a few months to go but we really are not expecting that to happen this year. Again, we've just had a significant ramp up in the experience, in the amount of payments, claims and the payments we've been having. So it's hard for -- from where I'm sitting right now to not see double digit increases despite the fact we've had a number of successes with our wellness programs and trying to get people to get those fitness checks and to get things before they could become bigger problems. But, you know, it's an industry

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dilemma really. The Numbers we're seeing here aren't tremendously out of line with what other large cities are seeing either, you know, big increases in health insurance, not only this year but also into the future. We have hr staff here who could probably give you more details. >> Kitchen: Whatever the appropriate time is, and I'm not sure how much drill down we should be doing today, but I'd like to understand the time line for the actuarial analysis and when we might have -- like, I have questions about the acquarterly analysis. I'm not sure when you do that. So that would be one of my questions. Is it okay if I ask another -- just a question or two? >> Tovo: Sure. I think the mayor in his opening comments suggest what had might be the most effective path is to. >> Kitchen: Okay. >> Tovo: -- Kind of proceed through the information. We have so very much to do. I know there are a couple other councilmembers that have questions. Maybe it would be appropriate after we finish this piece to ask general questions and move on. I can't remember if the mayor mentioned this but we also have the budget question and answer process, which is really a fabulous way of asking those kinds of details questions because then it gets presented back in a formal manner that the public can access to mil milled. >> Kitchen: Okay. >> Tovo: Staff would you say for that level of questions that's either better to handle later in the day or at a different presentation or through the q&a process? >> I would say for that level of questions, getting into the actuarial Numbers and valuations it would probably be best through the q&a question or, you know, running it through a committee or something like that. >> Kitchen: Just -- can you just tell me the time line then? When would y'all do the actuarial analysis for the health insurance? That's all -- we don't have to get into detail. I just want to know the time line. >> Mark Washington, human resources director. So the actuarial projections are based on year to date claims that we have so far but also looking at the trends for 2014.

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So as ed mentioned, these are Numbers based on the early costs that we have through the end of 2014. As we get more experience, we'll get updated projections on claims utilization. >> Kitchen: So when is the actuarial analysis done? >> We continue to refresh. We ask for the end of 2014, we'll get early projections in January, then we'll get more data in the next month or so for the -- a refined projection from the actuaries. We don't have a scheduled time every year that they produce. It's upon request as we need to begin making projections and assumptions into the budget. >> Kitchen: Okay. We can talk about it later. I'm still not quite understanding. I'm looking for a report we can look at and I just don't know when that would be available. >> So an actuarial audit is different than a projections, a forecasting. >> Kitchen: I understand that. >> There are reports on the audit of the performance of the fund, which is something separate. >> Kitchen: Okay. I'll submit some questions. >> Okay. >> Tovo: Councilmember Gallo and councilmember pool and then -- okay, actually councilmember Gallo is going to do hers through Q. Sounds great. Councilmember pool, did you have something. >> Pool: Is that there is due to maybe the aging of city Austin employment cohort? >> Mark Washington. So part of it is the graying of our workforce. We have a lot of retirees on our health plan so it's not just employees. [Laughter] >> That's an industry term. >> Pool: Right? I was going to let that go about. >> Industry term. The other part, as ed mentioned we've got a lot of high claims experience. We had a lot of premature births that have cost millions of dollars that were unpredictable. We've also had a lot of

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utilization of specialty drugs. Now there's some treatments for, like, hepatitis C where an employee could spend over $100,000 or the plan could experience $100,000, but that is almost a lifetime cure, avoids over half a million dollars in lifetime costs. Those new emerging drugs do cost the plan. And there are other factors. So there are a variety of factors that have cost. What has been an anomaly for us to see the trend at this high a level. But hopefully, as ed said earlier, as rerefine the Numbers and create more awareness around some of the issues hopefully we start to see the trend going down. >> Tovo: Okay. Councilmember Gallo has re-entered the queue. >> Gallo: Thank you. >> Tovo: Then councilmember troxclair. >> Gallo: Just because it seems so appropriate. I know there are companies whose purpose is to step in and evaluate claims, particularly for self-insured organizations. Do we work with someone that does that as part of our process? >> Yes, we do have an audit review of the performance of our fund and I'll let tommy tucker over the plan explain. >> We employ towers Watson to do -- every other year we do claims audits, on both our medical and pharmacy claims. So every second year. >> Gallo: So if you're doing an audit that far out, if they find areas that were discrepancies or overcharging, does that give you the ability at that point to go back and get those adjusted? >> We can go back and get adjustments for all of the ones that were identified in the sample of the claims. Then we can go back and get adjustments. In fact, there is provisions in our contract with united health care that will hold the city harmless to any incorrect

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payments [indiscernible] >> Gallo: When you say sample, so what percentage of the claims are evaluated when that process happens? >> 10%. >> Gallo: 10%? So is it also a process -- it's sounding like we have really large claims that we've been faced with over the last couple of years. Does that automatically trigger -- is there something in the process that would automatically trigger an evaluation of those claims? >> There are very substantial medical reviews that occur at the time large claims occur, and we have a stop loss policy in place set at $500,000, and so some of these claims have been in the millions, and so, certainly, the insurance carriers as well as are -- with a fine-tooth comb going through these individual claims. And so there are a lot of eyes on those claims when they're identified. We work -- we classify large claims as $75,000 and above, then of course the catastrophic ones above half a million we have some financial protection on those. >> Tovo: Councilmember troxclair. >> Troxclair: I was just going to mention to councilmember kitchen that we had a -- more of -- little bit more detailed discussion about this in our health and human services committee because we were talking about autism benefits and things. So yeah, just didn't know if you had -- if that would be helpful. >> Kitchen: Yeah, that was helpful. And I appreciated that conversation. I'm just in the -- I need to see -- well, actually, as I remember, what we said in that committee is we wanted to see the assumptions that were made, and that's what's in an actuarial report, and that's what I'm asking for. And, yes, thank you for reminding me about that.

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>> Tovo: Great, okay. Thanks. >> The next two slides will cover what we expect to see in terms of changes in staffing, in our departments. This first slide is the general fund. And typically we include new staff or new projected positions for new facilities that are opening. And so you'll see 48 positions listed as an increase, expected for the library. That is in preparation for the opening of the new library. This is a partial request, and then the subsequent request will come the next year. In addition, you've got 82 new officers projected currently for the police. Those are not related to new facilities. However, given the size of our police force and the need to is add positions to keep up with workload, we've included these positions in the forecast because of the amount of funding that is required so that we get a better picture of what our -- a better look at what the proposed budget might look like. Without the 82 position it's would be a significantly smaller number and so this gives us a better looksee of what's more realistic in terms of a budget. We're actually moving nc -- nhcd is the neighborhood housing community development department. We'll be -- will be transferred into the general fund this year. So that's showing that there were no positions in the 15 general fund budget but we'll transfer those positions in. There's a negative on the nchd fund, so it's a -- it's really a transfer. It's not new positions but this accounts for all of the movement of positions, and so the total

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for the forecast -- the forecast for the general fund is 159 positions. With respect to the enterprise and internal service funds, the total is 68 positions, and you'll see increases of about 15 positions for the Austin resource recovery department, 36 positions for aviation, nine for Austin code, 16 for the convention center. You can see the negative for the housing department coming through and so on and so on. And we'll have individual slides that talk about what these specific changes are for later in this presentation. So I'll go through those a little bit later. But this is just a summary of the changes for you to look at. >> Gallo: Just before you get off these two charts, I was wondering if you might come back to us with this for our next meeting but instead of the amended 2015, if we could see what was actually the 2015 budget Numbers? >> We can certainly provide those. I don't know that there were significant Numbers added though. >> Gallo: When it said amended I was curious how that changed from the budget that was approved. >> I can't think of any off the top of my head. Those would be any positions that were approved by city council, you know, during council meetings after the budget was adopted. Again, I can't think of any off the top of my head so it may be exactly the same. >> Gallo: If you could check on that and see. The other question, does this include positions that were funded by the budget that have not been occupied? >> Yes. These are the authorized positions. >> Gallo: So is there a way for us to get at this point -- and I know it's just a snapshot because it's an ever revolving door. Would there be a way for us to get information to show how many vacant positions are part of

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each of these? >> We certainly can, and we've got some slides beyond this that show you some vacancy information. >> Gallo: Okay, thank you. >> If that doesn't answer the question, we can certainly get it. >> I was just told there's only been two positions added since the budget was adopted they're in the animal shelter related to the contract we have with Travis county to provide animal control services to them. So it's something they're paying for, but it did take council action to add those two animal services position. >> Mayor Adler: Ms. Garza. >> Garza: I don't know if this was in a memo or how our office was informed of a general direction to cut all departments by 5% for the upcoming discussion of the homestead exemption and how some departments have specifically already identified positions that will be cut. How does that fit into these Numbers? >> It they're not in this. The homestead exemption work has not been completed. >> Garza: Okay. >> We were asked by council to come up with service-level reproduction reductions as an option for meeting the need for homestead exemption as well other revenue options that we might offer for council to consider. >> Garza: Okay. >> In general we've looked at what the departments have provided and the direction was a 5% reduction, not necessarily to identify specific positions because we don't want employees worried about their jobs but to identify functions or, you know, five positions valued at X dollars. You know, as I mentioned, our internal service funds are primarily 85 to 90% people. So when you ask them to cut their budget back by 5%, there's no way to meet that target without eliminating positions. How that's worked in the past is

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we look first to eliminate vacant positions, to the extent that we can. But ultimately it's really a menu for the council that we're trying to come up with at this point, and, yes, we did ask all the departments to do that work for you, that you asked for. >> Garza: Because I heard from a department that they were specifically -- they were specifically -- there were specific positions slated for cuts, and they were filled positions. So I'm just wondering how that office fits in here. They reached out to me because they were concerned about losing their jobs. >> Sure. >> Well, if I may, I think the bottom line is that we are creating a menu to account for what we believe would be the impact of the 20% homestead exemption, and I think in a previous presentation, when we talked about that, I think you heard Mr. Van eenoo indicate I think the number was around $36 million, and so it is a menu. It is one of the tools among other things that we'll look at to talk about how that might be absorbed, either that amount, if council's inclination policy decision was to try to accomplish the whole 20% in one year or something less than that. It is simply a tool that we use. I think cfo was indicating it's not -- it's not an unusual tool. We've used it in the past. Certainly during the first part of the great recession, as they say, you know, we had significant reductions that, you know, we had to -- we had to -- we had to make, and so we did call on staff, on some percentage basis then, I suspect, just like now, to develop those, you know, reduction scenarios for us. You know, I'm not saying that they all or which ones we're

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going -- were going to actually be realized in terms of the budget recommendation we would make. So it always -- that kind of request, kind of reverberates throughout the organization. If you think of the organization in terms of having an anxiety gauge, and over here is high, when you make that kind of request it swings way over here and naturally, you know, people start to wonder, even though, you know, at that point it's speculative whether the combinations for their department, for them individually. I think that's probably what drove some of the conversations or the inquiry to your office or any other offices, council offices. But it is just a part of the process that we're going through. We spent time talking with the employees. I mean, you know, we -- you know, we subsequently sent out a memo talking about all of that stuff and the creation of the menu, but we didn't want to just do that because there was no compassion in that because we recognize the anxiety it would have generated. We actually held meeting with all of the department to kind of talk about it and the reasons behind it, you know, as a tool for purposes of, you know, working to -- you know, to be responsive to that issue, which we understand y'all are going to take up as a matter of policy in the course of this budget development process. And to make sure that they, you know, understood, one, it wasn't anything new. We had done that before in the past and that there were going to be a lot of conversation and deliberation by this body collectively before final decisions were made. So that's what it is. >> Mayor Adler: As we go through the budget process we'll learn more and I certainly don't want to cause any needless anxiety for anybody, especially an employee base that's doing incredible things for this city. As a general rule -- and I'll

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learn as I go through the budget process, by starting out every budget process, knowing what 5% cut locks like, as we're setting priority and things, might be a useful tool regardless of what we were -- regardless of what we were -- regardless of what we were looking at spending differently or changing priorities that I think would be a useful piece of information to have just on an ongoing budget process. Ms. Kitchen. >> Kitchen: I just wanted to -- I think I heard you that we're talking about a menu and looking at other things. Other than cutting employees. Now, I know that's a big part of the budget, but I think one of the things that's of interest to me and perhaps other councilmembers is to dig deep and look at how else we're spending so that our menu is not just relying on X number of cuts, because I think there's a concern, of course, in the counsel about employees, and I don't want the public to misunderstand we're talking about cutting positions. So I'm just hoping and I think I heard you say you guys were doing this and I want to make sure that we be creative in looking at how we're spending money in other ways and so that our range of options are broad and creative and look pretty deep. >> Well, I think that's a good point and we always try to be very creative in developing a range of options for purposes of shaping our final budget recommendation. We are -- you know, acutely aware and committed to the employees as we work throughout the -- you know, the great -- as we were throughout the great regulation and one of the things that we were proud of and I think the previous council was real proud of, unlike most cities in America, we went

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through that period having not laid off an single employee and so we have not even in the course of what we're doing now. Lost our commitment to that, bu but, you know, again, you know, $36 million, this is on top of some other cost drivers that you're going to hear about. So when you think about that magnitude, I mean, it is -- it is a worthwhile -- let me call it an exercise we're going through to create this menu. We have not been preare scribed in our instructions to the departments how to do that, because we believe our business executives who head up these departments are in the best position to tell us how to -- how to accomplish those reductions. While still being mindful of their departmental vision, mission, and goals and objectives and we give them that latitude and prerogative to do that and summer not specific direction about cutting jobs and positions and so on. The menu will be a function collectively of their best thinking, respectively. >> Kitchen: To follow up, I believe also that I think I heard you say, I think our resolution we passed talked about over -- I'm trying to remember, specified different years, right? Not necessarily all at once. >> That's right, absolutely it did. With a data of -- date of may 12th if I recollect right and our hope is to provide the information require that. >> And we talked about phasing it over one year, three years and four years. >> That's correct. >> But in terms of developing a menu, do it in the larger context. >> A struggle. >> Tovo: I appreciate the discussion, because it is -- it is something that I've heard from multiple people who have asked me an ask about it and

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these weren't staff, they were members of the community, an organization this big when I discussion starts it eventually trickles out to the communitiure community. It would be helpful to get a copy of the memo you mentioned that was sent to the staff and so we can articulate better what the different departments have been asked to do and certainly when we have that discussion about the property tax, the menu of options, I'll can looking closely at that information. It concerns me. 5% is a very big cut. But as you pointed out, $36 million is as well. It's larger than our library budget. So I understand that if you're both looking at phased options and options that would achieve that in one year, there are no easy resolutions to that. >> Mayor Adler: Mr. Zimmerman. >> Zimmerman: She was first. >> Mayor Adler: She's spoken before. I don't know if you have. >> Zimmerman: I have a comment about cost drivers. I don't think most of our non-city employees in the city are getting 3% a year wage increases. I think a sensible way to handle this would be to look at the wage increase rate, the median wage increase that the rest of Austin has seen and make that part of the projected pay raise. In other words, if the city as a whole, not including city government employees is getting 1.3% .8%, whatever it might be, that that would be the projected cost driver. In other words, let's keep increases in city staff consistent with the increase of non-city staff. Or the decrease. If our median wage is declining, then the city wage should be declining. I'd like to see that track. You know, that's what I would do if I were writing this, I would

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say, let's make the wage increases 'the city employees consistent with the people who aren't city employees. >> Are some of the salary increases we have dictated by contracts that were in. >> For contracts. >> With sworn ems and sworn police. We currently have accounts with those two groups, but not with anyone else. This is an assumption at this point, a forecast, not a recommendation or proposal at this point. Clearly other options for the number could be. >> Mayor Adler: Ms. Garza good. >> I don't want to instill any fear in job reductions, but I did receive specific questions and I asked specific follow-ups and fact one of the messages, ris, I don't know what they were talking about. >> Mayor Adler: Reduction in force. >> Garza: So I googled it and they were given specific instructions to ris people. But thank you for the clarification. >> It's just a menu and all things we'll look at when we have this discussion. >> Mayor Adler: Anything else? Thank you. >> The next slide is a trend line based on our forecast. The forecast of additional staff froze 0 over the next -- rose city over the next five years. It's a fairly steady increase and driven by a number of factors. Especially their ability to meet customer growth for the airport. As well as maintaining our workforce for the police department and there are two years over which we're going to add the new staff -- staff for

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the new central library as well. >> Pool: I have a question. >> Mayor Adler: Yes, Ms. Pool. . >> Pool: It's predicated on growth and population. For a while we were talking about a ratio and that went away and mostly assuring we had sufficient deployment in the community that the community was looking for. Is that same concept also used in our staffing of our other -- there's tremendous expectation in the community for paved roads and working traffic lights and sidewalks and that all requires the city to come forth with staff do the work or plan the work or the money in order to pay for the materials. So is there -- when we look at how fast Austin is growing, is there some kind of -- how do we -- how do we measure how fast our budget increases go up in order to be able to preserve -- to provide the services that are desired and expected? By the people who live here. >> The only -- you know, again, this is a financial forecast, if you flip through the pages you'll see part of this forecast is what our general fund departments are has brought forward as their initial funding request. The intent is to forecast what is it going to cost us, not only this year, but mountain future, to largely do business as usual. To keep the lines open, the hours that the council has previously authorize them to be open and maintain the park acreage we have under our control in so the forecast on the general fund is focused on operations as Normal, but then, of course, there's going to be a bunch about. >> Of requests from departments for additional resources pertaining to the things you talked about. The only exception, from our

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standpoint, the operations as Normal, if counsel approved the annexation of an area, then we'll do that review and might add staff as part of a forecast to actually serve that newly annexed area, if council approves the construction of a new facility, we'll forecast the staffing needed to operate that -- to operate that library. But -- and then the third component would be in regard to our control staffing. As long as I've been here, we've had as part of our forecast process to identify police officers needed to keep up with growing service demands and call volumes in order to maintain their performance goals. But that's the only general fund department we've traditionally done that with, other departments they go through this funding request process and that's a big part of what takes us from a forecast and just getting this information on the table to a budget proposal is doing the public engagement and hearing from council and doing all of that worken reviewing all of these funding requests and ultimately coming up with a recommendation and passing it over to council. So it's not in the forecast Numbers you're looking at, but it's also not lost in the process. >> Pool: And we'll be able to hear from the community for the budget preparation, right? >> Yes, ma'am. >> The initial funding requests are in the forecast report, the number are pages for that. >> Mayor Adler: Ms. Houston. >> Houston: Thank you so much. Can I ask you to pull your mic up so I can hear you. It's hard to hear you. This is a follow-up to councilmember pool's question, if we project forecasting based for some departments based upon the growth of the city, it seems like the infrastructure had need

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to be considered because we can continue to grow and have some things already in the forecast, but without having streets and bridges and the other kinds of infrastructure that are going to be imperative if we're going to continue to be a growing dense city, it seems to me that would be part of the forecast. I understand you to say that will come through another process. But I think it would help me understand how much money we're talking about at that point in time. If we had the other growth factors included in the forecast. Because I don't know how we can continue to grow and just have the police and fire and ems when we don't have streets and bridges and electrical and all of that kind of stuff. Make sense? >> It does, and Kim better springer is here and she's going to cover the capital improvement portion of the discussion, that's the last piece of our presentation today and if that doesn't provide the information you're looking for let us know at that time. >> If I can add one things, I forgot to mention in terms of the forecast, the way we handle enterprise departments is a little different. For general fund departments that's the discussion I was just having because you have nine general fund departments and they're all funded through the same revenue sources so there needs to be a process of reviewing all of these different demands and weighing them against property tax rates and tax bills and those sorts of things. It's a little different for the enterprise departments where you look on the staffing Numbers on the previous slides and you see some increases beyond what I talked about for our enterprise departments and Elaine has slides on these, so I won't go through all of them. 15 positions in obvious resource recovery, we have a lot more people in the city and they're picking up a lot more trash bins than they used to have to be responsible for and projecting for an additional 15 positions. We forecast those additional 15

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positions because there's not that dynamic, what ISES policy? There are revenues available 0 fund these things that councilmember pool was talking about. There's a policy discussion where we want to put the scarce general fund resources more so than the enterprise departments that are funded a bit more like silos. >> Mayor Adler: Mr. Zimmerman. >> Zimmerman: Based on those comments it would be a good time to ask: Why is the housing community development being moved from enterprise into the general fund? >> There are currently 100% funded by the general fund. The local funding, not talk can about the council bill kg funds and the hud grants. But $2.5 million to $3 million, currently from the general fund, they're set up as a non-general fund department and transfer in the money from this fund to the other fund and feel it's a more transparent representation, they're a -- >> Zimmerman: Why wasn't that done from day one. Why were they funded by the general fund? Part of the information problem, things aren't clear. >> There's a history to everything at one time they were a general fund department. Years back and at some point, they were set up as a stand-aalone and funded by a contract called the sustainability fund. There's a history, but that fund no longer exists and as soon as that fund was dissolved and their funding went back to being from the general fund, it now makes sense to bring them back into the general fund fund. >> Zimmerman: Okay, length follow that up. This is very, very important. This is very important. Chap years ago or decades ago, a council can be sold on an idea: Oh, we create this department! You're not going have to pay for it. There's no liability. Next thing, years and years later, it creeps back in and

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starts showing up on some other ledger sheet somewhere. Right? And if it had been presented that way, 10 or 15 years ago, the decision could have been different. Maybe the bureaucracy won't have been created. >> A lot of times, those changes come from the policymakers and a lot of time staff region to go what the policymakers are decided. >> Mayor Adler: Ms. Houston. >> Houston: Councilmember Zimmerman, we weren't where when that decision was made and so I think the staff is now trying to offer us the best option we have at this point. And so I don't think we need to berate them because someone back in the day made a different decision. That's just my contribution. >> Zimmerman: All right, the comments offered in the thing not repeating the same mistakes over and over, tomorrow we're going to be asked to hand over $25 million of money to a housing department that's underneath the housing authority of the city of Austin. A company underneath a company with no elected representation. $25 million. And it says, oh, don't worry, there's no liability. To the city. There's no liability to the taxpayers and I look at this and think, what's that going to look five or 10 years from now when nobody is here, we're gone and we'll be having this conversation again and there's a big line item showing up on some budget sheet. Where did that come from? Oh, that was 10-15 years ago. Trying to stop being in that pattern. >> It will be a lot easier when we get into the specifics of that and to figure that out. Ready to proceed. >> Tovo: I'm going to ask my drill down question here. On the support services fund, and I've forgotten whether it was in a list or earlier in the topic, but it shows a little

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increase. Does that contemplate the increased staffing for the council that we approved recently or is that -- would that be in addition to what is here? In other words, does your forecast contemplate that increased level of staffing continuing or not? >> It -- it does not. We do not -- we highlight that near the end of the forecast, as outstanding issues, the direction that the council passed was to fund it through the remainder of '15 and you wanted to discuss it further as part of the '16 budget process. We do definitely have it on our list of outstanding issues that need to be figured out. >> Tovo: That was. That's a good message why I should have waited for that question, because you'll get to it later. Thanks. >> Mayor Adler: Thanks. >> There are a lot of factors that affect the vacancy rate and the percentage of positions vacant at any one time and we've got graphics that will demonstrate that. As new positions are added to each year's budget. At the beginning of the year, they're all vacant. And the vacancy rate goes up. At the beginning of the year to coincide with the addition of the new positions our turnout rate, how fast people turn in and out of a job, or retirements or I found a different job, that will affect it and it actually affects the turnout rate by department as -- the turnure turnover rate, and they have the opportunity to move from one department to the next. The amount of time it requires to recruit a position, interview it, actually hire the position can range anywhere from two to three months, if it's a relatively easy position to

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fill. The type of position being recruited sometimes it's difficult. Some of our information technology positions have been most challenging lately and we're trying to address the market study. The markets for those positions. They're highly competitive and sometimes we have to go out multiple times to recruit to actually get the positions filled. Sometimes departments have determined that vacant position is going to do a different type of work, they're reassigning functions within the department. And that the title on the position is not appropriate for the new work that they anticipating about done. So they may ask for a reclassification to a different job title. That takes time for that paperwork to get done. And whether we're filling the job internally, versus -- meaning with city employees, versus whether we go outside for an external candidate can affect the amount of time it takes to fill the position. Graphically, I think you can see here we've got from November of 2013 to April 2015, gives you a couple-year view of the vacancy rate. And I just wanted to explain we start at a fairly high vacancy rate city wide, is the blue. And the civilian workforce is the red and I'll focus on the assistivian if you don't mind. On the civilian, if you don't mind. The 11% you saw in November of '13 was a high of it was, you know, affected by the positions that were added in that 14 budget. So those positions started being filled. Also in January of '14, the manager's office directed departments to work on getting their vacant positions filled because he was going to do a rigorous review occurring the

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budget process. And they would be losing some of those positions. And so we changed some of our processes internally, and that brought that vacancy rate down as well. And during that process, about 240 positions that had been long-term vacancy, 19 were actually eliminated in the '15 budget. And eight were re-purposed during the budget development process. So we continue today to do that rigorous review you off the long-term vacancies as we do the budget development and make a recommendation to the council to look toward either re-purposing or eliminating positions. And in '15, you can see a spike, a jump up. That was the addition of positions, about 193 in the '15 budget. Again, we started filling those positions and it remains fairly flat. Just as a reminder, just because a position is vacant doesn't mean there's automatically a budget savings resulting from that vacant position. Often, our departments are hiring temporary staff to back-fill to keep the work done, to be able to serve customers and may hire contract staff or have staff work overtime to get the work done and meet the customers' needs. >> We budget for vacancy savings when we develop our budget. So there's an amount that's a negative expenditure that we count on in balancing our budgets. And our current vacancy rate is about 7.4% and you can see there a comparison to other cities and we fair present low compared to some of the other cities.

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I'm going to move into a discussion of some of our specific funds now. And again, we'll cover some of the enterprise funds in more detail in afternoon. We are -- >> Sorry, I just want to -- so because the there has been such a wide variation of the vacancy rate over the past year so-so, in the comparison of Austin with other cities, the 7.4% looks like it was -- it's of April 4th shall, are the other cities as of April 4th too. >> The comparisons to the other cities is dated, that was from some work we did prior fiscal year. And so we're going to be updating the Numbers as we go forward in the budget process so this is actually manual work, getting on the phone, and there's not something that we update and you, but the Austin Numbers are current, the other Numbers are from our most recent survey, but six to eight months old. >> Okay. I understand it's difficult for you to get that information and it's fluctuating all the time, but because the percentages fluctuate based on the time of year and the budget cycle and if we're going to be comparing those percentages, it would be helpful if they were all a comparison at the same time. >> Moving on to the general fund, we do forecast a balanced general fund forecast for that fund. For '16, there is a .27 cent decrease if the property tax rate. In the property tax rate. As ed mentioned earlier, we've not included funding for new

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programs. Or the initial funding needs or funding requests by the departments, all though they're in your reports. For the council initiatives like the homestead exceptions exemptions and when we bring back the homestead exemption, we have to redo the general fund, how the impact of those options on the general fund. This represents a $7.05 per month increase in the median -- in the tax bill for the median home. The tax rate is actually going down because we've had assessed valuation growth that we're anticipating in this. But we are anticipating tax rate increases in the out-years, so those are the years, three, four, five, to be able to maintain a balanced general fund budget. >> Again, existing programs and service levels are maintained. We've talked about moving the housing department into the general fund and why we're doing that. And we're going to be splitting the planning and development review department into two departments. Talk a little bit more about the public safety positions. As you know, our public safety is consistent when our customers -- when our citizens are surveyed, public safety is always their top priority and this forecast does include 82 new police officers, to increase -- to be able to increase the amount of proactive engagement time that the officers have on the streets with our citizens. The entire forecast, the five-year forecast, for new officers is 410 new officers. In addition, we have forecast 16 new firefighters for the planned opening of the onion creek fire

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station planned for June of 2017. Likewise, we've got 12 new emergency medical staff for the onion creek station as well. And we talked about having a placeholder on the cost driver slide for the potential for the fire contract and that amounts to $4.2 million that's being reserved for those contract negotiations. We talked about adding staff for the new library, the total staff being added over the two-year period for the new central library coming online in November of '16 is about 68 positions and the other enough item is related to funding for the tax dash tax increment reinvestment zone for the lone star rail. Our estimate -- our forecast for the impact for fiscal '16 is $4.8 million and over the five-year forecast, there would be a cumulative transfer to a separate fund for the benefit of lone star rail of $48.9 million. In addition, we do have to come back to council for approval for a budget amendment of about $2.1 million. This current fiscal year, in order to be able to provide the funding as required under the interlocal agreement between the city and lone star rail as it was approved December 11th of 2014. These are the first times that council has seen these Numbers. We projected $1.3 million in December, but that was prior to doing the work we needed to do with the Travis county appraisal district on this tirz, the

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reinvestment zone, this would be a new funding request for the city that has not been in the budget in prior years. >> Tovo: Councilmember kitchen. >> Kitchen: A quick question. On the 82 new police officer, is there a formula or approach you use in projecting that number? >> I wouldn't call it a formula anymore. There did use to be -- >> Kitchen: Approach would be a better word. >> There used to be a formula and now there's definitely an approach in my mind, and impressively detailed approach that the police department looking at call volume and the types of calls and the number of officers that respond and how long it takes to clear the calls. They may have three officers to respond to a domestic violence call and two clear and the third person stays for longer and they're taking that into account and projecting out based upon anticipated growth or realized growth in that workload and projecting out their service needs and taking into account, you know, a big part of policing is the responding to calls and responding to emergency calls and doing that work and equally big part of it is the proactive work. And that's what Elaine talked about this. This proactive engagement time, the neighborhood style of police, what you might consider walking the beat. Being out in the community is an important aspect what they're looking at and trying to make sure they're officers aren't running call to call to call and writing report and so they take all of that into work and break it down into a whole different array of staffing areas. And landed at this number. And the number for fiscal year 16 they came up withs with a little bit higher than that.

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The Numbers bounced around when they did their work over the five years of forecast. Us budget people like budget stuff to be noise and flat and we made the recommendation we tried to level it out. That's where we took the 410 they're identifying over the five years and divide I by five to come up a with a level approach to funding and the last thing I'd say, this is about the patrol officers, the emergency responders, this isn't did investigators and detectives. Those -- those have been submitted, call takers and all of the other staffing needs that the police department might have, those have been submitted through this funding request process. Those are articulated in our financial forecast report. The 82 here is strictly the patrol officers. Needs of the department. Projected needs of the department. >> Back on page 43, the number here under the general fund staffing, top line, police. 2529.25. Does that include the civilian workforces that doing administrative work? >> It does. >> Zimmerman: What's the break down on that. Between the uniformed and sworn and non-sworn. >> I believe the sworn is in the 2,000 to 2100 range and the civilian five to 2600 range. >> I have questions about -- did you want to go to the line items before we get to the overlapping property tax or questions under. >> Mayor Adler: I think better if question asked and then if we have questions.

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>> I built to ask a question on the transfer to the lone star rail. Could I get information how that transfer works? >> Sure can. The council in December of '13 approved an interlocal agreement between the city and lone star rail and that provided for establishment of a transportation tirz, a tax increment reinvestment zone, which is similar it a tif, which is a tax increments financing zone. But created under a different chapter. Created under the transportation code, not the tax code. And the intent at the time was to -- and we did, in fact, set the increment rate at zero, and then there were specific guidelines that the lone star rail was supposed to accomplish before we would increase the percentage. Last December, a year after the initial adoption of the interlocal agreement, there were amendments approved by council that increased the increment rate from zero to 50%, extended one of the deadlines for lone star rail's to-do list by a year and a half. And so that triggered the need for us to do the work with the appraisal district, to identify all the property that was in the zone, make sure that it was calculated correctly, so that we could then apply the increment rate to it. That work was not done in December and so we had an estimate of about a million three in funding at that time. And some of the things that lone

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star had to do was to make sure that Travis county and some of the other surrounding areas adopted similar time funding arrangements with them. By a certain deadline, I think it was 2020. And some things like that. So they had some assignments to do. We've now since December, finished the work with Travis county appraisal district and we have better estimates now. The interlocal calls for the city of Austin to set aside the money in a reinvestment zone fund on the behalf of lone star rail district to be held by the city controlled by the city until they meet these other requirements. Hour, it does require a -- however, it does require a budget amendment it make the transfer from the general fund to remove the revenue from the general fund to put it in the separate fund to be held on their behalf. My recollection is that it would have to be held -- Greg, you might have to help me on this. Three or four years before any of the funds would be released to lone star. They still have their to-do list to complete. Here -- you know, at this point, Travis county has not been -- their discussion, they've not been favorable toward approving what lone star is asking for. And those things. >> So they're in negotiations, surrounding jurisdictions to agree to an interlocal with them to provide this funding. So because of the amendment to the interlocal agreement last December to actually set an increment rate, which now have Numbers and we have to make these revenue transfers to that

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separate fund, although we will control it, and at some point, in lone star rail district, on the deadline, if they're not achieved the hurdles we set up in the interlocal agreement, the money returns to the general fund. But it is -- you know, for '16, it's the equivalent of about half a cent on the tax rate. If that gives you some -- some frame of reference reference for what it would be. A lot of times when looking at Numbers in general fund, for expenditures, that's measure we use, is how much of the tax rate would it be? It's just the number that -- just a measure that we look at. >> Mayor Adler: Ms. Tovo. >> Tovo: This is the item I wanted to ask about. I was concerned when this came before us in December and the staff did not recommend changing that increment. But the council on a narrow margin pass it had any way to move forward with it. And I'm frankly kind of staggered by the Numbers. I think this is even higher than I anticipated. And what it would basically mean, as I understand it, we would be here in the next several months committing to move $2.1 million from our general fund into this fund and then in next year's budget, the one we're starting to consider today, we would have to transfer $4.8 million. So we'll not have access to that money, as you said, it's a real -- I mean, it's large enough we can quantify what the tax implications are. Half a cent on the tax property valuation and I think it's a very significant issue for this council to consider the implications of that decision. Yeah? >> If I could add. I didn't mention what the

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funding was for. It's for the -- it's to accumulate money to provide for the future operation and maintenance of the rail line which has not been constructed yet. >> Tovo: And would -- >> O&m costs for infrastructure that doesn't currently exist. >> Tovo: And I understand they would have to come up with funding for -- is it $2 billion worth of capital expenditures before they can move forward? >> That's -- that's my recollection. What they're trying to do is replace the union pacific line so they can have full access to the union pacific line and so that -- that replacement and then reconstruction of what they need to do for a commuter line would be over $2 billion. They need to have a commitment for o&m operation and maintenance funding in order to approach the federal government for assistance in funding the construction of the line. And the -- they've broken the line into three segments. North of Austin segment, the central Texas segment and then the San marcos to San Antonio segment. And our o&m costs was to be one-third of the total system. >> Was that infrastructure cost about right? >> Yes finance department.as part of the interlocal, there's a criteria, project criteria and that lone star would get a deal with union pacific, that owns the railroad, to get access to that right-of-way and also to move the railroad estimate we'd seen from lone star in the

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billion range and also to construct the lone star, and then construct the commuter rail along the mopac line, but they would need to secure capital funding for that entire project. >> Tovo: I guess I have two questions. One would be what's the right forum for talking about it? And clearly today is not that right forum. But I do think as a council, I agree with the general precept, not going back and reanalyzing past decisions or every past decision, but this clearly is one that's a very current decision that I think this council needs to consider again when it passed in December, it did so on a small emergencien, a 4-3 vote and it's a very significant financial investment that's going to have to come out of this year's budget and next year's budget. And so I think we need to talk about it as part of this council. My question to staff would be what would happen, given the fact that that interlocal has been executed and this amendment from December has been executed. What would happen if this council did not vote affirmatively to either make that 1 -- commit that $2.1 million skip for the $4.8 million expenditure for next year. What happens to that agreement? >> There's a condition of the amendment that the last council brought forward to take the increment from zero percent to 50%. Again, a year after the original zero percent had been put in place. A condition was to go to the legislature and get in essence, a fix to their legislation, enabling legislation that would treat their tax -- their transit infrastructure zone like we treat all of the tifs in regard how we calculate the tax rate. It's a wonky change to the tax code that they indicated they

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would pursue. It's a bill they would pursue, not the city, to get a fix. And if that fix occurred, that would then trigger a budget amendment coming back here so this council will have an opportunity via that budget action to have a vote on the issue and at that time, we can go through the different I guess permutations what that would look loo. Working with legal staff. Typically all contracts we sign, interlocals, there's an provision about appropriations being in place for the contracts to be -- >> Mayor Adler: Move forward. >> I I think it's early to analyze all of the legal risks associated. But you definitely as this process goes forward and the legislative process goes forward, we'll have a better sense of it. And if you want us to tee up an executive session for you to talk through some of that, we can do that. >> Tovo: Sure, thank you. >> Mayor Adler: Mr. Zimmerman, sorry, [inaudible] >> Houston: Thank you very much thank you for the information, where is that bill in the legislative process at this point? >> I don't know, I think we'll have to get in the government relations office and get you a status of any bill that that lone star is working on. That's, obviously, a bill we're not involved in crafting. >> Houston: Would you find that out for us, please? >> Mayor Adler: I don't think it's set for -- I don't think it's been set for committee. Mr. Zimmerman. >> Zimmerman: That was the first half of my question. Thank you very much councilmember Houston, I was curious about that. And the second part, it's interesting that came up in December, a month after the urban rail project failed pretty spectacularly especially in my area and so I agree with mayor pro tem comments we should have a chance to look at it.

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The voters had a say on rail and they rejected it soundly. So I think there's public reason for us to look at that again. But the other question, maybe for the council, and this might be a good time to bring it up. If a referendum were to be brought up -- this is for legal too -- would the interlocal agreement be rescinded through a referendum. The voters say we don't like this decision to give the money to lone star rail. >> We don't have a legal mechanism for having that type of referendum set out in our chart in state law, that's not necessarily an election we're authorized to have. >> Zimmerman: That raises another kind of -- you see how it looks like maybe the city is being evasive. Well, we'll lose the election of the voters so let's fund rail in a way the voters don't have a say. It raises the spectre when you say there's nothing that the voters can do to stop the transfer of money to remain. >> And I guess I would say the way that the voters can have an impact on this is through voting for the council that looks at these things and evaluates it through this as I said, incredibly important process of adopting the budget.

>>> Thank you, please continue. >> Renteria: I do support the lone star rail. I believe it's an important part of our solution to travel back and forth from Georgetown to San Antonio and I think it could be very discussful. But -- very successful. But I don't see it now where they're ready -- they're still working on a lot of issues and

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they are looking at what happened to our urban rail vote, but it shouldn't be confused -- this has nothing to do with the urban rail. This is more of, you know, inter-county agreement that we're going to look at, you know, the future and how we're going to want to traffic back and forth between cities. But I know that right now, they're not in -- at that point where this fund we'll be able to use. That is what concerns me. We're taking $2.1 million and then plus and setting it aside. It's going to sit there and that's where my concern is. Why are we taking money out, while we're cutting, looking at providing -- you know, homestead exemption where we're looking at having it do some serious cuts while we're having this kind of money set there in the budget of the lone star rail. That's the only reason. >> As I looked at the calendar, I wasn't seeing lots of opportunities for us as a group to be able to pull those up and discuss them. Which is why I asked if we could just gather together some -- even tentatively sometime in may for us to be able to have those kind of conversations. Further comment it. I want to agree with my colleague, which is why I supported the interlocal with an increment set at zero, I think it's a good prospects for the city to contemplate and could be good for our regional transportation system. It's the financial commitment at this time with the needs that

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really concerns me. >> Mayor Adler: Please continue. >> Go through this really, really fast. You'll get a deeper discussion of these three in particular this afternoon. Austin energy has no base rate of increase proposed for '16. They are continuing to meet their 2% affordability goal over the five-year forecast period. Austin water continues to have challenges as it relates to the continued drought and the decrease in the water usage. And so as a result, you'll see in their forecast, they're deferring a staffing plan they created a couple years ago. This will be the second year they're defer can the need for the additional staffing. Our aviation department has significant expansion going on right now. You've seen the capital program purchases coming through. The construction account contracts. These are to meet the continued growth out at the airport and as a result, their forecast, you'll see 36 new positions forecast for '16. And a total of 60 new positions over the five years to keep pace with the growing customer demands. I'm going to run through the rest of our enterprise funds. These are the funds that get their source of funding from user fees, for services. Our Austin code department forecasting nine new positions in fiscal '16th and 25 over the forecast to keep pace with the growing caseload. Austin resource recovery is projecting 15 new positions due to the growing customer base and population increase, more trash bins to pick up. 97 additional positions over the forecast period and 54 of those are to implement the new organic collection program.

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Austin transportation department, you know we have new transportation initiatives we're trying to implement. There are -- they're forecasting 22 new positions for '16 for those, and then a need for $4.9 million for development of a mobility safety plan. Our convention center continues to be successful with the increase in the hotel usage you've seen and the increase in the conventions that are provided at the convention center. We're expecting a 9.5% growth in the hotel occupancy tax which is one of the funding sources for the convention center. We expect that kind of growth for the next fiscal year. They're projecting 16 new positions for next year. To keep pace with the increase in their use of their facilities. Public works, a little bit different story. They're projecting or forecasting a net reduction of 14 vacant positions because. >> The decline in the amount of workload they have for capital project management. As you'll see when Kim does the capital project section of the report, you'll see our bond program over the next few years, are finishing out so this workload is actually going down. The watershed protection department, will forecast $400,000 increase in their transfer to their cip. This is to -- to bring that total to $25 million. It's part of a long-range plan they've had in place a number of years. Their target is 30% -- sorry, $30 million annually as a transfer to achieve their Mr. For watershed protection. They're -- their master plan. And not projecting any new positions for next fiscal year and the council is aware they

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have a new rate structure that's currently under development. Switch gears back to the general fund and this slide really is the -- the next few slides are some we typically do for general fund. Those are overlapping tax rate slides. They're showing the relative portion of the -- tax rate and the tax bill that the city of Austin represents. And the overlapping tax includes the city, the county, central health, the school district. We actually use Austin independent school district for this analysis and then Austin community college. And the -- I want to make a note on the right-hand side, we've got the tax bill, the median home value that we used there was $202,000 and $254,000. It does change every year so I did want to mention -- mention that. >> But you can see the city, both for the tax rate and as well as the tax bill, were in the 20 to 22% of the total. So we're certainly not by far the largest when -- when the citizens get their tax bill, they see the totals. They don't look at the fact that the city is 20% of it. They're focusing on the bottom line. My tax bill is -- for '15 is 4.3 -- $4,300 for the median home. This slide we've done a number of years, it's historic am. We cover 2008 to 2015, and it's really time to get out a measure of -- somewhat of a measure of affordability, looking at the overlapping tax bill and how it

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changes over time and also showing that what percentage that overlapping tax bill represents of the median family income and to the extent -- which is the line graph. And to the extent it becomes a larger increase, we're actually taking more money out the pocket of our citizens for that growth in the tax bill. And so we -- we've tracked this, I think, two or three years now, so this is something that we do focus on. Also, looking at the overall median tax bill, how do we compare to the other cities in Texas. It's just another long-range look at how we compare and San Antonio, top line, Austin is the blue line. And they're all relatively all of them increasing. It's similar graphs for Austin, Dallas. Fort Worth, and Houston are the bottom two graphs. So that is really there just for your information. And then another slide, and this, I think it is my last slide, really, is a look at what is -- what is the total impact of just the -- not just the attach bill, but the tax bill and the typical usage of our enterprise fund departments. What would be the typical -- the impact on a typical residential ratepayer taxpayer. And this shows that comparing the '15 to the projected or the forecasted '16, the increase would be about $18.53 per month. Which is about a 6% increase. And I will tell you anecdotically, last year in '15

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when we were here this time last year, a year the '15 forecast was $327.82. And if you look at the 2015 monthly rate, it's less than what we forecast. There's that discussion and that work that the manager does during our budget development in listening to the citizens and listening to the feedback from council. This is the forecast, it is not the budget. And typically, there are reductions. Because we are concerned with affordability, we've heard that. But many of these increases are due to our departments trying to meet the ever-growing demand of our population and you'll hear more of that, I think, this afternoon from Austin energy, Austin water. And the aviation department. With that, I can take questions. We can move into -- >> Mayor Adler: Let me ask a question. If I could. I'm looking back at page 54. The overlapping property tax. And it seems to me that if I compare the city to the county -- our tax rate is about 5% more than the county's tax rate. We're pretty close. We're only 5% more. But when I look at the actual taxes, that homeowners pay to the city, as opposed to what homeowners pay to the county, it looks to me that people in -- that live here are paying 30% more in actual taxes.. >> They have an exception we don't have. They have a property tax exemption that we don't have. >> Mayor Adler: Is that the property tax exemption that we're looking at here? >> Yes. >> Mayor Adler: So as I look at it then, even though our tax rates are comparable, the actual impact on homeowners in the city is more than 30% greater than what it is in Travis county.

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So let me ask you this question. You know, Mr. Zimmerman made a good point earlier, in that he said there's a difference between tax rates and taxes. We can say that we're lowering our tax rate, but if at the end of the day we're actually raising taxes, it seems as if most people are much more concerned about the taxes they're paying than whatever the tax rate is. Had he want to know what their taxes are. >> That's why we show both of these on the same page, Mary, so you can see the impact of both of those. >> Mayor Adler: It seems to me that as I look at this chart on page 54 that shows what the dramatic tax saving -- actual tax savings is for a homeowner with respect to a property tax exemption, that you could actually do the reverse of what we had been talking about earlier. You could actually raise the rate and still lower people's taxes on their homes. Is that right? >> To the extent you don't push over the roll-back calculation, yes, sir. >> Mayor Adler: How that plays with the roll-back we'll have to figure out here. On a theoretical basis, we could actually raise the rate, but end up lowering the taxes on residential property. Is that right? >> Mm-hmm. >> Mayor Adler: And that would be because raising the homestead exemption provides us, as a council, a unique tool to impact the relative burden of property taxes on residential property and on, say, commercial and industrial property. Is that right? >> That's right. >> Mayor Adler: Okay. So over the course of the last yeah, there were a lot of people that were suggesting that over time there's become a greater imbalance between what residential people pay for

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property taxes and what commercial and industrial people pay, but we don't have split roles. We don't have tools where we can adjust that balance, except this one tool that the city has. By passing a homeowners' exemption, even keeping it revenue neutral, by raising the tax rate but effectively lowering taxes on homes, we have the ability -- and it's the only tool that I'm aware of that we have -- to be able to adjust the disproportionate burden on residential property owners. Is that the only tool that you're aware of? >> There are a few other exemptions, over 65 and disability might get some of what you're talking about, but this is a much larger exemption, this is by far the predominant tool you would have to accomplish what you're talking about. >> Mayor Adler: It would be the most substantial and meaningful tool. >> Absolutely. >> Mayor Adler: Great, thank you. Ms. Tovo. >> Tovo: We'll have an opportunity to talk about this more. The other piece of that, though, for those renting residential properties, the owners of those properties would have their taxes increased and they would not be able to get that homestead exemption and likely would pass on that cost to renters so those are some of the concerns we'll have to weigh and balance when we have that discussion. But with regard to the point that the mayor mentioned about conversations going on out in the community about residential versus commercial rates, I just wanted to remind the council that our staff, in response to a resolution passed last June, our staff are working with a consultant -- have hired a consultant to look at residential and commercial -- well, to look specifically at commercial property values to see whether there is evidence of a disparity for commercial property tax valuations compared to residential property tax valuations. The anecdote alend suggests there are but we'd need to compile actual data to be able to do anything about it. The intent was to then look at that here in the next month or so as soon as it's available and determine whether the city of Austin has a good case to file a

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challenge petition with the Travis county appraisal district to ask for a more serious consideration of commercial valuations in this area. Some of which are multi-family properties and the previous council talked about that and wanted to steer away from an impact on renters -- within the commercial category so it would be looking at other forms of commercial properties rather than multi-family. >> Mayor Adler: And to that end -- and I've tried generally speaking to stay away from making policy arguments during this so we wouldn't go down that path but only because there were several comments that were being made with reference to the homeowners' exemption, I felt the need to weigh in. And I look forward to that debate because I'll take issue with the suggestion that it actually results in an increase in pass-through to renters. The Numbers we ran -- and I'm anxious to see when the Numbers come back when staff looks at it, but it looked to us if this was something phase understand over four years, that the pass-through, if it was made 100% direct pass. Through to to the median 2-bedroom unit in Austin, which is about $1,200, the pass-through, if it was passed through, and I don't think it would, but if it was, it would be about $2 a month. And I just don't think that rent would go up from $1,200 a month to $1,202 a month to catch that point I think there are other things we can and I think we will be doing as a council to provide relief to tenants with respect to, in part, the fee that's on the utility bills for detention that's not being handled, I think, equitably right now between renters and homeowners that provide a much greater relief on a monthly basis than that $2 would be even if it were passed through, and I don't think that it would be passed through. But I recognize these are all

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conversations for us to have later on when we start debating those -- the policy. >> Mayor, I just wanted to add in reference to that work, my discussion with Ann Morgan, the acing city attorney, is she has planned for an executive session with the council the end of April or first part of may. So that work is being completed, and you should get a full briefing in executive session soon. >> Mayor Adler: Great. Thank you. Thank you very much. Are there further questions for this part of the program? >> Then we're going to have the ed show. >> Mayor Adler: All right. I'll take the ed show. By the way, everyone who has not grabbed their lunch yet, now would be the time at some point here, it's your pleasure to go grab a bag and eat. Ms. Troxclair. >> Troxclair: Have y'all had a chance to have lunch? Are you okay? >> I as going to ask does that include me? No. I've got my energy bars. I can go for an hour or two on those. >> Mayor Adler: I think we have enough lunches that it would. >> I just can't talk and eat. >> Mayor Adler: We probably have several hours' worth of presentations still to go. >> We can probably come up with another ten minutes' worth of questions for Ms. Hart if you want to try to eat real quick? >> You wanting to eat? >> No, I'm good. I'm good. I'm ready to go. >> Troxclair: I'm trying to help him. [Laughter] >> Troxclair: I don't want him to starve. >> I just want to get my presentation in when you all aren't hungry. >> I was counting 17 slides and I was counting them down so now I'm, like, okay he's got his whatever many. We're here at your dispose Al. We're glad to be here. Thank you. >> Troxclair: The good news I'm a lot happier when I'm well fed so you won't have an angry council asking questions about your presentation. [Laughter] >> Mayor Adler: Thank you. >> All right, well, thank you, mayor, council, my name is ed,

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deputy chief officer for the city. Councilmember Zimmerman just left, hopefully he can here me, I wanted to correct myself, I mentioned I thought the police staffing was 2,000 to 2100 sworn positions. Police chief corrected me says it's 1,846 but he would very much like to have 2,100. [Laughter] >> I did want to mention too on -- Elaine mentioned a little bit on this previous slide going back to one of hers about the rates and how last year when we were forecasting this, we were forecasting a monthly rate and tax bill impact of about -- or cost of about $327 per month, and by the time we were done it was $309 and that's kind of standard operating procedure for financial staff in regards to a financial forecast. We want our projections to be conservative and so we use conservative assumptions. For us conservative means that we toned forecast and project high on the expenditure side, tend to forecast and project high on the rate side and tend to forecast and project low on the revenue side. It's not an unusual result by the time we get closer to actually proposing a budget the Numbers get refined and, you know, some of those rates may come down. I'm going to be focusing my discussion, going a little bit more deeply into the city's general fund. That's our second largest fund as you may remember if the bubble chart. It's about 22% of the city's overall budget of three naval billion dollars, it gets its revenues from property taxes, sales tax predominantly and utility transfers. It's the fund that goes to support those core municipal purposes a lot of people think about, police, fire, parks and recs, libraries. This is why we again our fund for the general fund. About 42% comes from property taxes. That of course -- that property tax revenue as we've been talking about is a combination of the tax rates that the city

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chooses and the values that Travis county appraisal district establishes for the different parcels. 23% of our revenues come from sales taxes. We get 16% from our utility transfers. That's, like -- that's now the smallest of the big four categories. It's always -- for a long, long time it had been the third largest piece but it's now the smallest and 18% is everything else. I'll talk further on about what all those other things are. You can see that over the last decade or so, the portion of our revenues, as the utility transfers have become a smaller and smaller portion of our overall revenues, sales tax is also declined. We've seen our property tax increase. You know, when you talk about a pie chart it has to add up to 100% so some pieces are getting smaller, another piece had a to be getting larger. That's growing from just under 30% to current level of 42%. In terms of the dollars in 2015 that's the fiscal year we're currently in, city council approved a general operating budget of $854 million. We always propose a budget balanced, so our revenue projections were also $854 million. As John indicated things are going well in the city. The economy is going well, and our revenues are coming in stronger than what we forecasted as part of the budget. Again, that conservative posture that we like to maintain so the sales tax dollars are coming in stronger than we included in the budget, development revenues, which we had included in the budget at an all-time high, that's what we had budgeted, are coming in higher than an all time high. They are really, really strong right now. So we're projecting for this fiscal year where we sit right now $864 million of revenue, so $10 million more than we had planned for. As we look ahead to fiscal 2016 base on the a whole bunch of assumptions I'll get into we are projecting $906 million of revenue for 2016. That's revenue. We're dialing that revenue in

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based upon a tax rate that we feel will be needed in order to keep our budget balanced vis-a-vis our projected cost increases and I'll talk about that as we get into this. So I'm cue going to go through these in order. The largest piece of revenue is property taxes. I have a couple of slides that get into more details on property taxes. Again, the revenue that we derive through property taxation is comprised of two components, the values, new construction, and existing property values that are rising combined with the tax rate we're projecting. Our initial indications from Travis county appraisal district and also working with Williamson county appraisal district 9% growth in our tax base in fiscal year 2016. Elaine mentioned that we are forecasting a slight decline in the tax rate to 4782 in fy16 and with those assumptions we would drive out $385.5 million of revenue. Again, at the time of the forecast this was really our balancing mechanism. We want to forecast for y'all a balanced budget so given the built-in cost drivers we're looking at and the property value growth and all the other assumptions about revenues we're making, that's the tax rate we're forecasting in order to keep our budget in balance. Not only for fiscal year '16 but also for fiscal years 17, 18, 19, 20. We are projecting continued strong growth as there seems to be no end in site for the level of development activity we're seeing. There will be an end but I'm not sure we can see it yet. We're forecasting 7% growth in our tax base and 17 -- in 1517, 18, and 5% in 19, 20. As mentioned the slight decline in the tax rate is not the same thing as a slight decline in your tax bill weapon we are forecasting as a net result of that tax rate and growing property values a $7.05 monthly

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impact to the owner of a median valued home due to those significantly rising property values. Elaine mentioned $202 in change is what the median valued home was established by tcad at in fiscal year' 15. Our current indications are that we're going to be at $222,000 in fiscal year '16 so significant increase in that median valued home. And I always like to say this. This is not the same as median sales price. This is not the same as market value. This is median taxable value, the important number when it comes to your tax bill. >> Mayor? >> Mayor Adler: Yes. >> Houston: May I ask a question right quick? When we're talking about property taxes and -- are we thinking about the fact that Austin has become so expensive to live that people who are buying houses are now not buying them in the city, so we're become more of a renter community? If that trend continues to go forward, that people are not buying the kinds of homes, they're moving outside to buy them, will that have an impact on your projections? Or your forecasting? >> Well, you know, that trend plays out over time, if people are -- start choosing more and more to leave the city or if they're moving to this area they choose to move outside of the city, over time that trend would certainly impact your projected av growth. Yes, it would. >> Houston: But is that something that y'all look at when you're doing your forecast how many homeowners versus home renters because we're now like 55% renters and I think that trend is going to continue to be because people can't afford to live here and buy a house. >> We are implicitly looking at it, although we are projecting growth for all five years, growth in the tax base in all five years. Not that that dynamic is not occurring, not that people aren't leaving but there are more dollars and more construction and increases in value projected for the next

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five years. You can see the percents up there, 9%, seven, 7, 5, 5 is what we're projecting. It's really hard to say what's going to happen in '19 and '20. I think the 9% growth for 2016, that's a little higher than what Travis county appraisal district is actually projecting, but we think it's going to be 9% if not higher. Travis county appraisal district tends to be very conservative so in our effort to give you what we feel is the best forecast we can at this point we're projecting a little more depressive growth in 2016 than the appraisal district currently. We won't get a certified tax bill so these Numbers won't really become firm until late July. It's one of the last pieces of critical data we get before delivering a budget proposal to the city council. July 25 is the deadline for them certifying their tax roll. Then at that point in time we can really dial in the tax rate necessary to support the budget. >> What is the tax rate? [Off mic] >> Seven, 7. >> I'm sorry if I missed this in the beginning. I don't mean to keep bringing this up because I know we're going to have this, but this is based on the current property tax rate that the city has? This is not accounting for any possible homestead exemption? >> That's correct. >> Garza: Okay. >> Mm-hmm. Just a little bit more on the tax rate, there's really two components to the tax rate, a piece that supports our operations and maintenance at the day to day activities of the city's general fund departments and then there's a debt component. That's the -- you can see there that our debt service requirements from the various voter-approved general obligation outstanding bonds we have is $117 million annually so we need a tax rate of just under 11 cents at our current av projections in order to support that debt service. That's just two components of the overall tax rate of 4782.

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>> Pool: I have a quick question. Ed, on the debt service, has there been a range over time or has council tried to keep the debt service number through the bond elections and stuff below 11 cents? Or has it fluctuated like down to 8 cents or maybe up to 13, for example. >> Certainly not been down to 8 cents since I can think. It's generally been heading down so in other words our debt service while it's been growing, it's been growing more slowly than the valuation growth. >> Pool: That would rate -- that would be because of low interest rates currently. Is that correct? >> Well, low interest rates certainly help keep that debt service amount down, yes, ma'am. >> Pool: Right, okay. >> Mayor Adler: Okay. >> Move on to our second largest piece of that revenue pie, sales tax revenues and -- this is an 18-month look at our month over month sales tax. So when you see -- I'll pick a month. When you see June of 2014 was + 21.1% that means that June of 2014 was 21.1% higher than June of 2013. So it's an annual month or overlook -- month over month look at what's happening with your sales tax revenues. It's a real volatile source of revenue and this is just one slide that shows that, even in a long-term up economy like we've been in, it's still -- it still varies dramatically from a -1.3% back in December 2013 to that huge 21% number in June of 2014. 17 of our last 18 months have been positive, though, so we are growing very strongly. I will say, too, for the data geeks among you, there's a lot of noise in this data. There are annual adjustments made by the state comptrollers to these Numbers so when you see a 21.1% number in June, while I don't know this for sure, I would strongly suspect that there was a -- an adjustment made in our favor as they go through their own audit processes to make sure all the

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different businesses are paying the right sales tax dollars and those dollars are getting remitted to the right agencies. So there are those adjustments that occur from time to time. Last thing I wanted to mention on this slide is that when we were crafting the 2015 budget the police city council approved we were attributing a 5% increase in. >> Something that goes on in the comptroller's office, what other factors go into the volatility of sales tax collection? Other than just people deciding to shop in June instead of July? >> Yeah. You know, when you look at a slide like this, some of it is this whole month over month dynamics. So, for example, when you look at June 2014 with plus 21%, the June 2015 number, can might even be flat because relative to this huge spike we saw? June of 2014, June to 2015 may be disparate that's still a big number or it may be a small percentage growth, extremely unlikely it would be another 21% number, right? That would be 21% on top of 21%. Some of it is a dynamic of the data we're dealing with. There's definitely a component of its that the result of the adjustments, that negative number back in December, again, I can almost guarantee you there was probably an audit finding in our disfavor that drove the number down. So those are I think the two predominant aspects of it and it's just volatile. It is hard to track. I mean, sometimes there doesn't seem to be a logic to it. >> Troxclair: So but you said that the percentage is a percentage change based on the same month in the previous year?

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>> That's right. >> Troxclair: So December -- well, we'll say November of 2013 11% that just means that we collected 11% more than we did November 2012? >> That's right. >> Troxclair: People were shopping for Christmas, I guess. >> Mm-hmm but they're shopping for Christmas in November of 2012 as well as. >> Troxclair: More in 2013. >> They're shopping more or things were just more expensive. >> Troxclair: Right, okay. >> Renteria: Does that include the hotel sales tax? >> No. Well hotel sales tax or occupancy tax? Doesn't include the occupancy tax. That's a different revenue. >> Renteria: Okay. >> This is just another look at that volatility of sales tax. This is taking a 20-plus year perspective at our sales tax returns and this is an effort to try to smooth out the fluctuation some. We actually take a six month rolling average over the last 20 years to smooth out some of the big spikes. You can still see there's big spikes. It bounces around a lot and it's something we all need to be cognizant of and careful of to not craft a budget projection based on Rosie because there's real consequences when there's a downturn in the economy and you can clearly see some of the dips back in 2001, 2002, during the tech bubble bust and a steep dip in 2008 on the heels of the housing blip. The other thing I'd point out is just the deepness of the recession we just came out of, quote-unquote, great recession and the fact that the recovery, while it's been sustained and welcome news, it's not been nearly as strong as the recovery following previous economic downturns. Another slide of sales tax looking at the Numbers for the next five years we do two columns here. The first kind of blue category is forecasts. Those are the Numbers you're actually seeing flow through our

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projections. We wanted to present you with a more conservative look too just so you can kind of see the magnitude, if you wanted to be more conservative on sales tax projections, the magnitude of the shift. But looking at 2015, that's the fiscal year we're currently in. I mentioned we budgeted 5%. Year to date we're at 6.7% weapon we like to be on the conservative side so we're projecting 5.8% growth in fiscal year 2015. So we're projecting that we're going to keep growing. We're just concerned that we might not be able to keep growing at that 6.7% clip. We're projecting additional 5% growth in 2016. I just would highlight for you that, you know, that's relative to Jon hockenyos and his forecasts that he thinks something in the 6 to 7% range is what he's forecasting from his economic modeling that he does, but of course from a policy setting perspective, we would certainly recommend to stay on the conservative side of that six to 7% range. It's a lot easier to adjust the budget upwards than it is to adjust it downwards. Then you can see the projections for the later years of the forecast. >> Pool: Real quick question for you. >> Yes, ma'am. >> Pool: If I can. On your slide 62 where you show six and a half% increase in sales tax collections, is that number the one that is comparable to the6 to 7% consumer spending number that was on hockenyos' -- >> You're talking about the part I have squared, circled on the bottom? >> Pool: Yeah. >> That 6.7 -- >> Pool: Actual sales dollars. >> Year to date in fiscal year '15 over and above what we got in fiscal year '14. >> Pool: Got you, thanks. >> So, in other words, we are currently tracking right on what Jon is forecasting. And I just wanted to mention we put in italics there at the bottom that this whole concept of conservative forecasting is really viewed favorably by the rating agencies whenever we have

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those bond rating calls get our aaa ratings maintained, one of the things they always talk about is the conservative posture that the city council maintains in regard to our sales tax projections, our reserve requirements and levels, that's all viewed me positively by the three rating agencies. Last slide taking a long-term perspective, this is looking at the actual dollar fluctuations. You can again see that volatility and, you know, the volatility is real, that, you know, we're actually talking about revenues declining from one year to the next, which is a real challenge, you know, when you're dealing with contracts and wage increases and health insurance increases, don't give a hoot whether or not the economy is doing well, you know, when those things keep increasing it's a real challenge when you see the economy cycle down and five to 10 to $15 million drop in sales tax revenue. It's a real challenge. Again, the value of taking a conservative posture in regards to our sales tax estimates. You can see the blue is the actual long-term trend. The red is what we're forecasting. The. Dotted line is one of our favorite acronyms, cager, compound annual growth rate for the last 24 hours has been 4.4%. You can see we're forecasting in a manner consistent with what the long-term trends would indicate are sustainable. It would be a significant concern if those red triangles were above thepurple dotted line. Traditionally our third largest source of sue, utility transfer, is now down to the smallest of the big four categories. There's two components to the overall utility transfer, transfer from Austin energy and Austin water. You can see there the calculation models. The Austin energy model is established at 12% of the three-year average of non-fuel revenue. Fuel expenses for that utility are in the neighborhood of half

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a billion dollars a year, so that gets taken out of the equation and it's 12% of the three year average of the remaining revenue. Water utilities, little more straightforward, 8.2% of the three-year average of their overall revenue. You can see in fiscal year 2016 for Austin energy we're projecting it to be flat at $105 million. That will be the fifth consecutive year the Austin energy transfer has been fixed at $105 million nap was part of the previous council's policy on the Austin energy transfer, when they went to the 12% of the three-year average of non-fuel revenue they also established a floor of $105 million because the change in that calculation would have dropped the transfer amount back when they adopted it in and they didn't want to create that huge impact to the general fund so they said we'll change the calculation model but establish a floor of $105 million. We've been at that floor four years and projecting that will continue in 2016 for the fifth year. And then in 2017 we'll start to see increases in that transfer again. This slide just shows the long-term history of the energy and water transfer, the bars, blue bars, are the component of the transfer from Austin energy. Red bars are the portion of the transfer from Austin water. The green line is the% percent of the total revenue represented by those transfers. You can see it's been declining back in 1997 it was 24% of our revenues, now down to 16.6% and projecting it to continue to decline over the forecast period to 15% of our total general fund revenues by fiscal year '20. I would mention just for context if you just go hour and a half down the road to San Antonio, their utility transfer represents 3% of their general fund revenues were 30% of their general fund revenues. The final kind of big category we like to talk about. General fund, is other revenues.

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Development view technically part of that other revenue but I like to highlight it because much like sales tax it's very volatile and even though the entire amount you look at sales tax revenue it's about 2000 millions, property tax is 350 or so $000,000, development revenue comparatively is not a huge amount of revenue, $28.2 million but it is so volatile that it really is something to keep your eye on very closely and to watch and maintain a conservative posture on. You can see on this graphic, the blue line is the revenue line, the bars are the percent change, you know, but we reached -- at the time an all time high of little over $19 million of development revenue back in fiscal year 2007 and by 2010 we were down to about $11 million. So, you know, over a three year span, you know, you experience a $8 million decline in that revenue source, which is significant implications for, you know, maintaining operations in the general fund. You can see we've been in a long-term and very rapid winning stream streak, so to speak in regards to development revenue. We have for the last three years set new all-time highs. We are forecasting this year that we will be at another all-time high level of development revenue. We're projecting $28.2 million. Where is that thing going to start curving down again is a difficult question to answer, but in doing a lot of close work with planning and development revenue, Ryan Robinson, conversations they've had with the development community and a little bit of just gut feel in there, that we're projecting for the next three years we're going to stay at that very, very high level before we start to see it slow down. Just keep in mind when we say we start to see it slow down even by fiscal year '20 we're still projecting development-related activity revenue at a level that previously would have been an -- all-time high. This is another source hard to

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project, very volatile, something we watch very closely and highlight to council. Looking at what's driving that, this is just a five-year trend of cumulative permitting. We break it out by quarter. So you can see that in -- I'll focus on quarter four over there on the right. That's kind of the year-end results that in 2012 we had permitting activity far I don't know what we experienced in 2011, got even stronger in 2013. In 2014 we saw a bit of a dip but not much, still at really unprecedented levels of almost 10,000 residential building permitted units. And then the red bars over on the left side of the graph, quarter one, quarter two shows you how we're tracking year to date in fiscal year 2015 about stronger than 2014. Not quite as strong as that huge year in 2013 but, again, still very, very strong building permit activity and development revenue. >> Gallo: May I ask a question? Do you have the ability to track this by district or by area of Austin? I would just be curious as we look at downtown what -- how much of a percentage the downtown development is compared to other areas of town. >> I'm going to have to check than. I do not know the answer, if we have the ability to do that or not. We can check with the planning department to see if they do. >> Gallo: Okay, thank you. >> All right so just closing out the revenue discussion, this is kind of like the everything else. We have charges for services, we have franchise fees, we have fines, fees -- or fines and penalties, charges for services are anything from -- if, you know, you need to utilize emergency medical services and the ambulance comes to your house and the fees that they charge to you registering for a parks program or entrance fee to

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the pool or late fines at the library, health and human services food handler permits, those are all things, charges you're paying for a specific service. By the way development revenue is one of those charges for services as well. I like to highlight it separately because it's so volatile and significant, but, you know, that revenue aside, we're projecting half a million dollar increase in those other charges from 57.8 to 58.3. Not a lot of movement in those types of things. We don't typically see a lot of adjustments in, for example, the fee to go into to a pool or join a rec program. They do get adjusted from time to time but that's not usually a source of revenue that grows much year to year. Franchise fees are assessed to various companies, primarily telecommunications, gas, cable firms for their use of the city's right-of-way, we're projecting a half million dollar increase in that revenue source in fiscal year 2016, and fines and penalties projecting to remain flat at $16.8 million, traffic confines, library fines. >> Mayor Adler: Good. >> Renteria: Where is the hotel tax and sales tax in this revenue chart? >> They are not general fund revenues so you will see -- if you get into the -- >> Renteria: Revenue? >> If you get into the report, front part of this binder we gave you, there's a detailed report. One of those sections will be for the convention customer and the convention center you'll hear about occupancy hotel taxes, what they're projecting because all those hotel occupancy taxes go to fund convention center activities. >> Renteria: Including short-term rental homes and staff, that revenue also goes to -- >> The short-term rentals is the -- that's done through the code compliance department and planning and review department both have a piece of that.

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>> Renteria: Okay. >> The hotel occupancy tax paid from those short-term rentals go to the hotel occupancy tax fund, not the general fund. I'm going to move on to the expenditure side of our budget. And this is taking a look at our current general fund budget. There's a whole bunch of acronyms on there I'll ask everybody to not panic about all those acronyms. On the next page there's a definition of them all but you just can't fit it in if you spell out parks and recreation department. So kind of like on the revenue side, I like to look at this as kind of four big categories of spending in the general fund. You can see 68%, little more than 6% goes to pay for our public safety departments, Austin police department, fire department, and ems. Next largest piece, little over 20% of our general fund budget is spent on our community service departments, library, parks and recreation, animal shelter, health and human services and, again, neighborhood housing and community development coming into the general fund this year but it really doesn't change anything because they already were funded give the general fund. The other departments, municipal court, planning zoning department, development services department, that's 6% of the budget. Then we have 4% that's remoted to transfers and other requirements. Some of the biggest pieces of that 4% are the transfer we do to our economic incentive reserve fund every year in compliance with chapter 380 agreement. We have a transfer to the capital improvements program for a variety of things, and then we do support through cost sharing model the economic development department. Those would be the three -- kind of three biggest transfers in that purple slice of the pie. Elaine mentioned personnel. It is the biggest part of our budget so when we're tasked with going out there trying to find service reductions, trying to find budget reductions to be

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used to offset any revenue loss that may did you from a homestead exemption it's hard to do that in any real way without getting into personnel. This slide is even a little misleading because, you know, from a department perspective, they don't have that other expenses really, those economic incentive reserve fund transfers, cip transfers, economic development support. That's all done at the fund level. If you really look at the fire department's budget it's going to be maybe 90, 92% staffing costs. To task them with cutting 5% of their budget from the remaining eight is impossible. They will not be able to come up with 5% reductions without having significant implications to staff and that's going to be true of most of our departments. You think about general fund departments, what they do, it's people and it's services. Little bit different story for water utility or electric utility where they have major infrastructure cost but for the general fund departments it's really all about people. I wanted to go back real quick and so you can see the forecast increase in the budget is, you know, roughly $52 million. I have a slide on those cost drivers to talk about what's driving that. $854 million is our current general fund budget, we're forecasting that to increase to $906 million in 2016, again, I have two slides to talk about what's driving those cost increases but if you look at it by department, both in terms of dollars and percents, here's where the change is occurring. It shouldn't be a big shock that Austin police department is our largest department. Just for standard cost drivers Elaine outlined, wage increases, health insurance increases alone they're going to have the largest dollar increase. That's why we like to look at that time in terms of percent. Apd we're projecting 5.4% increase in their budget. And I'm going to focus mostly on the percents as I walk you through the slide. Library, 12% increase because of all the standard cost drivers, wages, health insurance,

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et cetera, we're also opening a new central library and adding 48 positions to relatively a smaller department so it's a big percentage increase for them. The fire department at 2.6% that's because we don't currently have a contract with them, and so while we are including in our forecast projections a placeholder for us eventually ultimately getting a contract with them, at this time it's being done, again, at what we call the fund level. So that 2.6% increase there reflects the fact that we don't have a contract and no wage increase. As soon as we get a contract with them and know what number to actually put into AFD's forecast for that contract that, 2.6% would come up. Ems, the 4%, standard cost drivers. The next two are conveniently located next to each other. The planning and zoning department and development services department. We're presenting them cojointly because they previously have been the planning development and review department. In the '15 budget they were still one. We are still working on the details of that split so it's hard for us to talk about those departments individually at this time. We certainly will do that in the budget but at this time we're presenting them jointly. Eight and a half percent increase in that combined department and three and a half percent in pard. The reason there's a shift, the urban forestry program that's happening, we're moving it from the parks department to the planning and zoning department so that's why, you know -- would you expect the percents to be in the 4 to 5% range just for the standard cost drivers and so that's why I'm trying to describe variances from that norm. Municipal court 5.9% increase. The animal shelters is a department that we have continued to struggle with as they have moved into a new facility and they've seen their animal intake increase. And they are operating under a councilman date of -- council mandate of a no kill policy, achieving a 90% live outcome rate and keep the health

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and care of the animals up to the standards required. And so we are -- we have included in their forecast additional funds for hourly staff and overtime costs. They just have continued to struggle to meet the needs of that operation with their resources. So I think it's about $400,000. That's a very small operation, though, so for a $400,000 increase in temporary budget, overtime wages it comes out to a large percent. Our health and human services department, that 1.9% increase is lower than what you might see in the other departments. That's being driven by the custodial costs as part of this budget, the custodial costs related to providing those conference services at our different neighborhood centers is being shifted to the building services department. It's not a reduction in service, just a shift of having the health department -- having the budget for those custodial staff and the -- in the health department as opposed to the building services department who actually runs the staff. So that's an accounting change more than anything else there. And the decline in neighborhood housing community development is somewhat similar. There was a one-time cost in fiscal year 2015 related to a significant technology upgrade if was a one-time cost so we don't have that cost projected for 2016. That's why there's a decline there. We're not actually projecting a decline in their operating budget or staffing our their services. It's just a reduction of this one-time cost related to a technology upgrade that the department incurred in the current year. So that's a whole bunch about the forecast by department and what's driving those changes. This is just to give you some context, historical context. The light green bars on this graph show what staff for the last four fiscal years has forecast. So back in 2012 we forecast $43 million. The green bars show you where we actually landed the -- land in the budget by the time it went through the public engagement process, by the time council

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deliberated on it and ultimately adopted the putting. It landed at $40 million. 2013, 45 million is what we forecast and it came in just short of 50 when adopted it, and you can see the trends there. There was a very large increase from what we initially forecast in 2015 to what was ultimately approved by council of $54 million increase is what council approved for 2015. That big swing had to do with a lot of actions that occurred during the adoption of the budget so from what staff had proposed to what was ultimately adopted there was 41 positions added to the budget. The library hours had been restored where they had been closed one day a week, the library hours had been restored to prerecession levels. There was $1.7 million authorized payment to Austin independent school district for some of their afterschool programs and parent support programs and an additional million dollars for social services contracts. There was a lot of discussions and deliberations and actions that occurred as part of budget adoption that drove the 2015 approved budget so far beyond what was initially forecast. Again, in -- so I think you may recall from the orientation, I said 40 to 42 million that's going to be pretty standard cost drivers. You can see we're forecasting $51.9 million of increases next fiscal year. So why? Well, in attachment to save face I've tried to characterize this as typical, so in other words we would see any given year. Insurance increase is higher than we might normally see but we see an insurance increase every year. The transfers to other funds, so the support services fund is the fund that pays for all of our support functions, financial services, human resources, mayor, council, all gets funded through the support services department, or fund, and those costs get allocated out to the

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department departments and funds. And so we're projecting increases in those areas and so this, you know, contingency reserve, accrued payroll, $7.7 million in those transfers. Again, this is kind of standard. You're going to see that every year. 82 new officers is a $6.9 million -- >> Those are incremental right is this. >> Yes, sir, this is all incremental. From the $854 million budget in place -- >> So the 7.78 5 7 million [indiscernible] Are [off Mick] >> I can get that to you. I don't know the -- I'd have to know the total. >> Microphone, please. >> Mayor Adler: I'm sorry. >> So the support services fund is roughly I think eight or 900 staff between, you know, human resources, financial services, mayor, council, city clerk, auditors. So that fund faces the same built-in cost driver pressures that the general fund does, increases in health insurance, increases in angles, increases in workers' comp costs and those costs have to get spread out to the revenue-generating departments and part of that $7.7 million is that support services transfer. The contingency reserve fund is a fund -- pot of money we set aside for when the city has claims that we need to pay, legal claims that we need to pay, awards. And so the allocations to that are based upon history and actuals so depending upon the level of claims that number is going to move around. And the accrued payroll has to do with kind of -- it's an accounting issue with the fact that once every 11 years you have a 27th pay period and so you need to accrue money for that year. Otherwise, you'll have a problem when it comes. So typically in a -- in a typical year you have 26 pay periods but you get the calendar out and once every 11 years there's a 27th pay period. So those types of things, those are the -- >> Mayor Adler: What is the size of the contingency reserve?

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Do you know, roughly? >> I'm looking. I could look it up while we're talking. I have it on my computer here, but I don't know off the top of my head. >> Mayor Adler: Okay. >> Zimmerman: I didn't hear the question. >> Mayor Adler: I asked how large the contingency reserve was. Thanks. >> I'll look it up when Kim is talking about capital I'll look it up and give it to you. So the 82 officers we talked about. The contracts we have with police and ems, 1%, I've included them on here. I've also included 1% for the fire department because that would be typical. Even though we don't have a contract with fire, it would be very typical for to us assume we're going to get one and it would be at the same level as police and Pfeifer as a placeholder. In addition to the -- just the base wage increase, those staff also have what's called step increases, so longevity pay so if you've been here longer you're going to get additional money for having been here longer. Seven-point -- oh, yeah, one point -- 1.2 million is our contingency reserve and I misspoke that's just a contingency reserve set by council policy by 1% at the operating budget, so the transfer to the contingency reserve fund has to grow as well. Civilian wage increases at 3%. You can certainly debate the level of that and I know that that debate will occur, but assuming some degree of wage increase for civilian employees is a standard cost driver, we added a number of firefighters to the budget last year. Those firefighters were added the middle part of the year, and so from an incremental basis, if they were only on staff for six months la last yeah, you have to annual -- six months last year you have to annualize the cost, additional $2.8 million. Economic reserve fund is still an estimate but we are estimating that the transfer to honor or chapter 380 agreements is going up $2.2 million.

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I will forewarn you that number can swing significantly. We cannot calculate it exactly until we get a certified tax roll from the appraisal district. Civilian markets, Elaine mentioned earlier that H.R. Estimates roughly 30% of our civilian positions are below the level necessary to maintain a competitive position in the market. From a hiring and reintention standpoint so we're anticipating a midyear implementation of a market analysis which would have a cost of $2.4 million. We've talked several times about the new central library and 48 positions. The shared allocations for the economic development department and our 311 call center, those both used to be 100% funded by Austin energy. Several years ago we started transitioning to a shared cost model where Austin energy, Austin water, Austin resource recover and the general fund all share the costs because those activities benefit all those operations. They benefit other operations as well but there's a whole bunch of legal restriction in regards to how we use some of our other funding sources such as the transportation user fee, hotel occupancy taxes, the airport revenue, there's a whole bunch of legal restrictions on those things. Even though they benefit from the 311 call center we don't allot costs to those departments for those reasons. And then the fuel savings, $4.2 million of savings, Elaine already talked about. If that's all we had to deal with my prognosis would have been spot on 43.8 5 $9 million of cost drivers but there's a couple other things, one of which you've already heard about that's pushing us up, the $4.8 million transfer we're going to have to make next year to the lone star rail tax increment reinvestment zone fund, and I want to highlight again that's an estimate. We don't have a certified tax roll so can't dial that number in exactly, but working closely with tcad and looking at the properties in the area, growth

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occurring that's our estimate. Then we have a bruising the city council that directed staff to include funding as part of the -- they wanted us to -- you wanted us to kind of establish a placeholder for the fact that the fire department did not have a contract for the previous two years, they not get a wage increase for the previous two years so the resolution directioned us to include a funding assumption for -- to -- to take that into account. Back pay, essentially. And so that would be $3.2 million. So the 1% plus the two and a half% we're including three and a half% wage increase for the firefighters as an assumption and 2016 based upon the resolution council passed. So you get to $51.9 million of cost drivers for fy 2016 and that's all incremental over our existing budget. This is a five-year look at both revenues and expenditures, the story here is that we are forecasting a balance budget, structurally sound budget, albeit with the slight tax rate decline in 2016 but projected tax rate increases in the next four years of the forecast. The compound annual growth rate for expenditures and revenues 5.2, and that's about the neighborhood of Normal. 5% annual growth for all those type of cost driver things I laid out, wage increases, health insurance increases, adding more officers, typical growth is 5%. I want to kind of take a pause for people to think about that if your costs are growing by 5%, you need 5% growth in your revenues and all your revenue sources to keep pace with that. So when you talk about an Austin energy transfer that's flat at $105 million, that's flat. That's not 5% growth. You know, when you look at sales tax revenues that doing pretty well but we're forecasting 5%

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growth for the next year, that's less than 5.2%. Those other revenues I talked about usually stay flat. When you look at development revenue, we're forecasting development revenue in fiscal year 2016 to remain at the all-time highest level it's been, flat at the all-time high environmental left to keep pace with 5% growth in your expenditures you need it to grow 5%. All those other revenue sources are growing less than 5%. The only way to keep your budget in balance is to have your property tax revenue grow by more than 5% and so that's -- that's the story of that slide, and why we forecast tax rate increases in the future years. Last two slides is just to say this is, again, as I mentioned a forecast of our base cost drivers, built-in cost drivers, the funding that would be needed in order to fund all those things that I just got done talking about. But there's a whole bunch of unresolved issues, still the discussion occurring about a again homestead exemption which last year when we estimated it a full 20% homestead exemption would reduce our revenues by $36 million. We have a number of council resolutions outstanding related to paying benefits for city employees, one asking staff to look at adjusting the living wage, currently 11.39 an hour and looking at what an appropriate wage would be for our lowest paid employees and adjusting that upwards. Insurance for temporary, seasonal, contract employees is a resolution recently passed and human resources staff is working on and there's been a lot of discussion about the applied behavior analysis program for autistic children, adding that as a benefit to our insurance plan. All of those things would obviously cost additional money. We have a -- resolutions passed late last year, two different resolutions pertaining to the funding levels for health and human resources. You may have seen a memorandum

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from me that was our response to one of the resolutions that asked us to look at population growth and cpi, to look at -- if we were to index health and human services and social service contracts, how much would it cost us to index those services based upon those metrics. So we put a memo out there talking about that. That same resolution also set a goal, council goal, of trying to increase funding to social service contracts and health and human services by something combined 28-point some million dollars in the next three to five years so we also put that information out there. So a lot of resolution that's still are going to need to be discussed by this body, and policy directions decided. Ongoing funding for additional council staff, so obviously there's been a lot of discussion about that, the action that council ultimately took was to fund the positions for the remainder of this fiscal year and to have the discussions about the recurring funding levels as part of the '16 budget process so we'll have to still hit on that. We have initial funding requests from general fund departments so a lot of those things that councilmember pool talked about, you know, service standards at parks and library needs and fire department needs. We have 137 requests, totaling $4.2 million and -- none of that is in the Numbers I've shown you so far but they're still outstanding issues and a lot of that is the real work that occurs taking us from a forecast to a budget, what if any of those service needs are we going to be able to fund in the budget and how does it impact the tax rate. Then of course big is state legislature is currently in session, number of bills currently pending that could very significantly impact the city, including revenue cap. So we've started talking a little bit about the roll-back calculation. There's legislation out there that would lower that threshold

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so, in other words, the maximum amount of revenue that the city could generate without potentially triggering a roll-back election would be lower, and then there's a number of bills out there that could affect Austin energy and talk about the Austin energy transfer to the general fund, both of which would have serious consequences for our revenue projections and our bottom line. So that concludes the general fund discussion, and I think we're in the home stretch here with Kim springer to talk about our capital budget and highlights to that. >> Mayor Adler: Any questions? >> Zimmerman: Quickly before we go on. >> Mayor Adler: Yes. >> Zimmerman: Before we get too much further down the road, take a look at page 61 right quick, tax rate breakdown, page 61, there's operations and maintain, 36.86 and debt 10.96. So am I -- a aggie math says that about 23% of the property tax is going to service debt, okay? Now I want you now I want you to back up to page 41, the fiscal year 2015 budget, we're showing four percent to debt service. So what's the -- why is it like five times more percentage coming out of -- is all the debt service coming out of property tax payments? >> The four percent is the percent of the total three and a half-million-dollar budget going to general obligation debt service. >> Zimmerman: That's the three and a half billion. That covers all the enterprise fund debt? What is it on the general fund? If we look at the general fund and general obligation debt -- because I'm concerned about nearly 23% of property taxes going to service debt, right? >> I think if you wanted that percent similar to that graph, you would take the 854-million-dollar budget. You would need to add

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this $117 million to it and then do the math. That $117 million is not part of the 854. It's a separate. The property tax revenue when it comes in gets split. >> Zimmerman: 23% goes to debt. That's kind of a large percentage. If my income coming into me, if 23% has to go to debt service, there should be some red flags. Yes, no? >> It's not your only source of revenue. In the general fund revenue if you take into account the debt and all the general fund revenue, it's the 854 million plus -- >> Zimmerman: You're right, this is only 42% of the income. So sales taxes, the sales tax money coming in does 20% of that go to debt? >> No. >> Zimmerman: The point I'm getting at, this is a big number and kind of significant, 23%. And I want to know are there some rules or laws where it has to come out of property taxes, it can't come out of revenue. >> There are rules and laws of how you set your debt service tax rate so we can't set that tax rate arbitrarily higher and generate more revenue than what we need to pay back the debt. There are laws regarding that. But if we chose to charge a tax rate less than that, but make up the difference through sales tax we could do that if that's what you're angling at. >> Zimmerman: I think there's some council here -- I've been involved in these things before and there are rules and laws regarding how you collect tax and what it can pay for, but maybe you can add something -- this seems high, 23% of the property tax going to debt. >> We can get you comparable Numbers for other Texas cities. I don't think it is high. But I may be wrong. We'll certainly get you that information. When we issue general obligation bonds, the pledge for those bonds is the full faith and

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credit of the city of Austin and its taxing ability. So the pledge, the revenue pledge for the general obligation bonds is the debt service tax rate. And so that's why that funding source is what's dedicated to pay for the principal and interest payments on the bonds. >> Mayor Adler: With the public listening to that, one of the reasons that it seems to me that it's high is that you're taking all of that charge and charging it against only one of the revenue streams. Is city has lots of revenue streams. >> Zimmerman: That's the point I was getting at. If I could use sales tax money for sales tax debt, we could do that, but it sounds like the answer is no. >> You could do that, but when you adopt the ordinance to sell the bonds the pledge is the property tax ability, to raise the property tax. And I will say for Austin we do not cash fund any of our general government capital programs. They're all bond funded or we get money from grants. And so to the extent we would use current revenues to pay for capital programs, that would reduce the debt service requires because you wouldn't be issuing bonds for the projects. But we chose many years ago to debt fund our capital program. >> Can I add one piece? Tell me, is this true? The bond houses, when they issue their ratings, which tend to be favorable for Austin, which means that our rate is low on the bonds, they look at how predictable and levellized, I suppose, as well as conservative in our forecasts. Is that correct? So if you put it -- if you were using, for instance, sales tax, which tends to be very spikey and volatile, as

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ed was mentioning, then that would have a direct effect on how the bond houses would view our issuance of bonds and it would be a lower bond rating and we would end up spending more money to pay those back. >> That's true. They do look at the reliability of the revenue source. That's why it is the tax pledge that is the backing for those bonds because the council has the most control generally over that revenue source. It's a typical type of debt instrument for all cities, so they look at it from that perspective. >> Mayor Adler: Okay. Ms. Tovo? >> Tovo: Thanks. I have to backtrack a little ways. I apologize I forgot to ask this question earlier. In the section on general fund forecast highlights there's an item regarding the planning and development review department being divided into two departments. And as I understand it, creating a new department does require council approval. I'm assuming that's why it's appearing in our budget document that during the budget process is when we would actually be considering that creation of that new department and -- okay. Thanks. So that -- okay. >> Mayor Adler: Let's move on. >> Kim? >> Mayor Adler: Ed, thank you. >> You're welcome. >> Good afternoon, council, I'm Kim springer, deputy budget officer and one of my responsibilities is the capital program. And one of the questions that councilmember Houston had asked was about how do we address the additional infrastructure required associated with growth in the area? When it comes to our department such as Austin water, Austin energy, watershed and those sort of enterprise departments, they have the means to adjust their rates and fees in a way that will meet their needs to expand their various components

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of the city's infrastructure. When it comes to streets and roads, historically our public works and transportation departments have been reliant upon the voter approved bond programs. So of course those bond programs do not occur on an annual basis. Our typical approach on bond programs is every five, six years. And we do their best in planning for those bond programs to prioritize different programs, projects. We'll meet needs that have been identified previously and those that they're expecting to come down the road, no pun intended. Before I dig into all of the details of our expected spending over the next five years I wanted to provide some basics on our capital budgeting process. The two major components that come out of the budget office include the capital improvements program five-year plan as well as the capital budget. So the cip five-year program or plan, it outlines all the different projects, programs, and they're associated funding and what they anticipate to spend over the upcoming five-year period. Now, that five-year period is important because it allows us the time necessary for proper project design and determining the mechanisms by which we will fund those projects and programs. That five-year period is also important to those bond rating agencies. They want to see that we are taking that proactive approach to be planning multiple years ahead of time with all of our capital expenditures. It also -- that five-year period also allows us to properly coordinate the capital impact on our operating budget. We've mentioned the new central library several times and I will mention it again later in my portion of the presentation, but with the completion of that facility it requires operating dollars and staff to operate it.

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That similar situation occurs with recreation centers as well as water plants and so on. And finally, the first year of that five-year plan then serves as the basis for our development of the annual capital budget. We look at all of those requests, both from existing funding sources as well as requests that are perhaps unfunded to develop what we can approve or include as part of the proposed budget that then goes to council. So when we finally get to the capital budget, it is facultily funding all of the major improvements and expansions of our city facilities and infrastructures and it is multi-year funding. I want to stress that point because with the operating budget you have to make annual appropriations. With the capital budget all of those funds are available until they're exhausted. So they can be spent out over multiple years. Now, you will often have that spending over multiple years because we need to make sure all funding is in place for a contract to be awarded. For example, we may have a contract for design or construction phase services that will not be complete in a 12 month period. It will take 16, 18, 24 months to complete those services so therefore the multi-year funding is imperative for us to be able to complete those scopes of work. Then there's variety of expenditures that are allowed with capital budget appropriations. And you see here on the slide kind of a laundry list of those, but things, architectural continuing services, construction, labor and materials, financing charges and project management charges. Now, you will not see costs related to custodial staff or programming staff, things that are operating facilities. You will never see that coming from the capital budget appropriations. But project management staff is allowable because those are the staff that are making sure that the project progresses at the pace necessary for design and construction to be

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completed. So how do we fund our capital program? There essentially is a variety of sources, but we can narrow it down to essentially three different points. First, cash. It could be transfers from various budgets. The convention centers make transfers to their capital program as well as the other enterprise funds. And on occasion you will see transfers from the general fund to the capital budget. You also have other fees and cricks that do towards various projects. You also have grants and grants are a great opportunity for our departments to leverage other funds. And do something bigger and better than they would have been able to otherwise. Then finally debt. The use of debt is appropriate in capital projects because it promotes what we call intergenerational equity. And that means that the benefits of the project will be felt by people for many, many, many years to come, not just the population that is existing at this point in time. So when you debt finance some of these major facilities and other improvements, it allows the citizens enjoying the bits of those to pay over an equal number of years. We generally have five different types of debt that I listed here on the table. Public bonds. When we go to the public for a bond program, we then finance those programs with pib's. They are typically a 20 year term and they fund your general capital assets. There are certificates of obligation, Co's. They are very similar to pib's, but they're not voter approved. And similarly contractual obligations KO's, they're not voter approved, but have different time frames. CEO is 10 to 20 years on average while a KO is five to 10 year average. The reason for that difference is because

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KO's are funding things like capital equipment, vehicles, pay stations, those types of assets that have a long -- shorter life to the asset. So you don't want to have debt that exceeds the life of the asset. Now, when it comes to our known voter approved debt we have adopted financial policies that guide the use for the Co's and KO's, so policies including that the need is considered urgent, unanticipated, necessary to prevent an economic loss to the city or the most cost effective financing mechanism. Now, non-voter approved of course still must go through the review and approval process through the attorney general's office and ultimately city council. So it is not just done -- it does not bypass an approval process. Then finally the commercial paper or revenue bonds. Cp and revenue bonds are utilized by Austin energy and Austin water only. Cp is a very short-term debt and it allows for interim financing for both of those utilities and ultimately they will refinance that cp through revenue bonds. This slide provides you historical context for cip spending versus appropriations. As you will include I said that capital appropriations are multi-year. As a result there will always be a distinction between what is appropriated between what is 15 spent in any given year. This shows the new appropriations in blue, the spending in red. The spending, because of the multi-year nature of it, is going to be utilizing both the combination of new appropriations as well as appropriations approved in prior years. So for example, in fy 11 and 12 there were some significant projects that had been appropriated in prior years and the spending carried out over those subsequent fiscal years. The increase in fy14 and '15 in appropriations is due primarily to the 12

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and 2013 bond programs being implemented as well as projects being carried out by Austin energy and aviation. In fact, Austin energy and aviation in fy15 accounted for 56% of all new appropriations. So the five-year spending plan, this table provides you an overview of our spending for the next five years. And you will notice that our current plans project just under 755 until dollars in spending for fy 16. And that's driven district 5ly by Austin energy, Austin water, aviation and our bond programs. And then you will notice that in addition on this table that it's broken down by the various enterprise departments, our G.O. Bond programs and various other funding sources. So the G.O. Bond programs in this case were including 2006, 2010, 2012 and 2013. And for the other category it's all of our other non-g.o. Bond program funding sources that are supporting projects done by non-enterprise departments. So folks like the parks department, library and so on. But it's for those projects that are not utilizing the bond program funding. And finally, the other category also is primarily related to additional funds supporting the new central library, expansion at the animal services center, various facility renovations and I.T. Projects. This chart provides you a quick overview of our four active bond programs. Right now through the close of the second quarter of fy15, that's -- all these Numbers are through the close of second quarter. Just under $307 million remains to be spent. The majority of that or about 77%, $293 million, is coming from our two most recent bond programs, 2012 and 2013. And just as a reminder, our 2006 and 2012 programs were both

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comprehensive programs, meaning they funded projects and programs throughout the city, parks, libraries, police, fire and so on. But the 2010 and 2013 programs were much more specific. 2010 of course was $90 million for transportation only. And 2013, $65 million was for affordable housing only. I want to take this opportunity to highlight the central library currently under construction because as you have heard throughout the presentation, the impact will be seen in the proposed fy 16 budget. So we consider the new central library a library of the future. Mainly because of how it's designed and meant to serve the public, state-of-the-art technologies and community gathering place. Once it's complete, it will be approximately 200,000 square feet, include features such as reading porches, beautiful atrium space and a cafe. So with this 200,000 square feet community gathering place, its size and importance merits a superior level of service hence the 68 positions that would be added to the library department's budget between fy 16 and 18 to operate this facility and meet the needs of the public. And we anticipate opening in autumn of 2016. So now I'm just going to walk you through various highlights of numerous departments in our capital program, but this is certainly not the extent of the capital program. Next month we will be releasing the five-year cip plan document which contains extensive information from each department talking about their capital program, how it supports their business plan, their mission, imagine Austin, what they're accomplishments have been in the prior year, what they're planning to do for the upcoming fiscal year and how their capital programs have an impact on the operating budget as well. So I encourage you once we release that document

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we will of course send out communications to all of you and I encourage you all to look through that to learn more about the capital programs. Austin water -- sorry, I skipped a page in my notes. The animal services department. Their major project right now is the expansion of the Austin animal center. It will through two new kennels and in each of the kennels will have 40 new runs and that helps support the ever increasing amount of animals coming through their facility. The convention center, you will see parking garage improvements, upgrades to its equipment, and a new elevator even. And they're also going to be adding in a tasting kitchen and then finishing up renovation of the Cassman bull house, which will provide much expanded indoor and outdoor venue space and what they call the waller creek pavilion for the convention extra. Austin energy I won't focus much on them since they will be speaking later this afternoon. But this gives you a high level overview of the different components of their program. With Austin transportation, you will see are expanded work on the pedestrian hybrid beacons throughout the city and also work on the preliminary engineering work for the north Lamar and burnet road area. And as they continue working through that per process improvements that are coming to light and could be seen ultimately upon implementation include things such as street reconstruction, additional sidewalk and accessibility improvements, intersection improvements and pedestrian crossing signals among others. Austin water, similar to Austin energy, I'm not going to go into details about them. I'll let them take care of that. Again, here you can see a good overview of their program components. Aviation, they have numerous large scale projects underway, but the biggest one I would consider the east terminal apron and gate expansion. Once that's complete it will add approximately 70,000 square feet of

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new terminal concourse space and accommodate an additional four million passengers per year. And they're expecting substantial completion in 2018. The communications and technology management department, one of their big projects at the moment is gators, the great Austin Travis county regional radio system. Say that three times fast. This project has multiple partners involved. It includes the replacement of three major components of the system, including things like the my35 network and -- microwave network and dispatch consoles. It started back in 2012 and the end of life will continue through 2019. It will replace all the components by 2019 and it is shared by the city of Austin, Travis county, Austin ISD and university of Texas in accordance with the interlocal agreement. Also working with Austin studios. Austin studios is a city-owned facility at the Mueller development, but it's operated by the Austin film society. And they most recently received 5 tollway $4 million for various facility renovations out there. The onion creek fire station. Once complete will provide a nine thousand square foot station. And we're expecting completion in 2015. And you notice -- 2017, and you notice in ed's slides where it talked about the additional firefighters and paramedic staff that will be added in that fiscal year. The health and human services department, they are continuing work with the renovation and expansion of the Austin shelter for women and children. This shelter, it's owned by the city, but we have a partnership with Salvation Army for them to operate. And it provides services such as emergency shelter, basic needs, counseling and educational services

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both for single women as well as women with children. But with this renovation and expansion, it will make significant facility upgrades related to code and fire suppression and accessibility, but it will also expand child care spalt facilities, allow for new sleeping quarters for families with older males as well as expanded dining facilities and various site improvements. And that was funded from the 2012 bond program as well and construction will begin in fy 16. Codenext with the the planning and zoning, y'all are very well aware of the progression of that project. And right now they're continuing to hold off their various meetings with the code advisory group working groups, neighborhood groups and various other stakeholders and they're expecting to bring forward the new code to council for adoption in early 2017. Public works, they'll continue the work they do a street construction projects as well as improvements of sidewalks and ramps to meet A.D.A. Requirements. Then finally watershed protection. Their big project of course has been the waller creek tunnel. Construction is nearing completion in the flood conveyance portion of the tunnel. And the watershed department, public works, parks and recreation and others were all working together with the waller creek conservancy on moving forward with the surface redevelopment work in the district, including a significant improvements at palm park, Waterloo park, all along the creek and the trail system. And then also they will continue their home buyouts program in the onion and Williamson creek area. So with that I'll pass it back to ed unless there are any questions. >> Mayor Adler: Mr. Renteria? >> Renteria: I have one question on the waller creek tunnel. You're saying that we're near completion of the tunnel.

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How about -- I know you borrowed the money to complete the tunnel. How far are you from paying off the bond? >> So the tunnel is funded through a tax improvement financing zone. It was approved in

2008 and it includes just over $100 million in certificates of obligation funded from that tax increment revenue. And then there are a few other funding sources. For example, it was included in a 1998 voter -- 1998 voters approved $25 million to be put towards the project and then we have some other small sources going towards it. So from the bonds we've been selling them in stages as kind of a cash flow mechanism. We don't want to sell the bonds any further advance than we have to. So we have one more sale to do. This upcoming year. The bonds will be paid off probably in 2025, 2040 range. I'm reaching into the very depths of my memory bank right now. >> Renteria: Okay. Has any of the drainage fees money being used to pay for the bonds as of now? >> To pay for the bonds? >> Renteria: The tunnel. >> There's a small amount that went towards the tunnel, but the vast majority of the drainage utility fee when it comes to the tunnel is paying for the operations and maintenance of it. Not so much on the construction side. The vast, vast majority of funding for the construction comes from the tif in that financing plan. >> Renteria: Can you give me some of that information later on about how much actually that drainage fee goes toward the waller creek maintenance? The tunnel maintenance. >> Okay. >> All right. It's my privilege to close out our morning presentation. I think we're just a short three hours behind schedule, but that's all right. We'll pick it up here in the afternoon. And I want to close it

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out in how the city manager optioned it. This is the forecast, not budget. I hope you really take this as staff trying to set the table with what we're viewing as the cost drivers the city will be facing, service demands from our departments and vote variety issues that will need to be decided. On may six we'll be back having more discussions with you about this financial forecast and all of our departments will be here to answer any questions you may have. I would view July 30th on this slide as maybe about the middle of the process. That's kind of like, you know, your hump day Wednesday is July 30th. That's when you will get staff's budget proposal. And as Elaine mentioned, at that point it becomes council's budget to add, delete, amend in any way that you see fit. And the end of the process won't occur until September eighth through 10th where we'll have what we call our budget readings and council adoption of the budget. So that's the process and we would be happy to answer any further questions you may have. And I would also mention in terms of questions, we know well and good no matter how much documentation we provide to the council there's going to be little nuances such as how much of the drainage fee goes to pay for the maintenance of the waller creek tunnel. We have a budget question process and we encourage you to use it. There will be a memo going out later today with a point of contact for you to funnel all your questions through so that we can get them out to the departments and get your responses back in a timely fashion so we look forward to that and responding to your need as we go through the process. >> And the questions and answers are posted on the web so available to the public as well. >> Mayor pro tem tovo and I were talking about how fortunate we are to have such intelligence sitting over here to our right. And we thank you for being part of the process.

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And your future patience as you work with us through all of this. But we really are lucky and fortunate to have the skill and talent in your office. Thank you. >> I appreciate it, but I cantate Leticia it go without -- can't let it go without deflecting the praise. It is with the dozens and dozens of department at staff and the folks in my office who crunch all these Numbers and we just get the pleasure of presenting them, but we appreciate that very much. >> Mayor Adler: Anything else? Ms. Tovo, did you have something? >> Tovo: Just quickly since you were talking about the Q and a process, I think it will be clear from the site too, but you can also go back through previous years and do -- there's a pretty keen search that you can do on topics and things. And it's just a really valuable resource. I often find myself going back and looking up what was that answer to blah, blah, because it has a huge amount of information about different elements of the budget and they recur. >> Mayor Adler: Ms. Houston? >> Houston: Mayor, I just have a quick question. Is everything in the capital improvement program set in stone of in. In stone? Like at some point we will get some financial data on how much the library, let's say, is it on schedule, is it a cost overrun? And so -- these programs are set in stone and so what options do we have if they are or if they're not? So if something needs an expansion do we just have to sign off on that or can we go into the budget preparations and say give us more information about that and move that funding around? >> Yes.

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Essentially -- the information that I presented here is a snapshot in time. The way we try to set up the capital program is such that we can be flexible, we can adjust to changing needs, policy direction and the sort. As the contracts are let we have to take that into account on what if the council wants us to change direction, we consider what the impact might be, but for funds that are remaining the council has the wherewithal to kind of direct things in various ways and we just make sure that we're still in compliance with various laws and whatnot. So when there's a needs for kind of changing direction from a staff point of view, expanding a project, shifting the scope significantly, changing a contract that exceeds administrative authority, those sort of things, we certainly come back to council to -- for their approval on amendments and things like that. And so for major projects such as the new central library and similar, there's mechanisms that we can utilize to keep council updated regularly on what's going on. You will notice in the quarterly financial report that comes from financial services, we do have an extensive section there on the state of affairs for the capital program, what was the planned spending, what has the spending been year to date. What are we estimating through the end of the year? And then information on a variety of different benchmark projects. Those projects may be things that just account for significant amount of spending in the department's overall program or it may be projects that are significant to the public. We want to highlight to make sure that everyone is aware of what's going on. So we have a variety of ways of keeping everyone up to speed. But then if you ever have any questions about any particular project or program, we welcome questions and will provide whatever information that we possibly can to answer your question.

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>> Houston: Thank you. >> Mayor, you might also want to speak to the proposition language and how that reflects with the people who voted. >> When the bond program related and there are certain -- the ballot language that goes forth to the public is considered our contract with the voters. We have to ensure that the funding that is approved by the voters, that it is used in accordance with that proposition language. So -- it doesn't kind of go off of the deep end, so to speak, away from that. So whenever we are asked to look at can we use bond funds to pay for this, the very first thing we do is go back and look at the original proposition language to make sure that it fits within those different categories, whatever was named in the language, and there's a variety of other steps to check as well. >> Zimmerman: I need to take exception with that a little bit. If you go back and look at the bond language -- I've been involved in a lot of bonds and bond lawsuits over ballot language. It is shocking how generic bond language actually is. It will say mobility. And when the city of Austin sends out the propaganda -- I mean the education on the issue, they'll have cars stuck on a busy street and it will say vote for the mobility bond. The money goes out in lady bird lake, 18 or $20 million, to build a concrete sidewalk and they call that mobility. But the people are stuck in traffic and they think mobility means improve the road system, widen the roads and give us some road capacity because we're stuck in

congestion. So I really take issue with that. This -- I've looked at this in some detail. There's $100 million from that 2013 bond that could very easily be reallocated under the terms that it was sold to the voters and the attorney general is the one who has the authority to say, hey,

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Austin, you're not using that money in the way that you told the voters. The attorney general does review those bond packages. They're not going to say no. If you take transportation bond, mobility bond,, and you reallocate to to an urgent need in your district, the attorney general will say yes, councilmember Houston, can you do that. You can do that. >> Kitchen: I don't know if you -- [laughter]. >> Mayor Adler: Sounds like you just got $100 million to me. [Laughter]. >> Kitchen: Unfortunately I don't think we have 100 million. And I don't know the details and I don't know if you folks are in a position to comment on this, and we may need to dive it into another point. Because I don't think. I think there may be some funds that are not dedicated, but I don't think it's 100 million, councilmember Zimmerman, and that's an issue that we need to understand in more detail about what that amount is. I don't know if you all are in a position to make any statements about that. Or not. We can get more information in our mobility committee. We do need to discuss that in mobility committee. >> Zimmerman: I would just love to have that discussion and get some bond attorneys and people that have expertise. I would love to have that discussion because I'm confident I could win that argument. >> Mayor Adler: All right then. For another exciting day. We have the other funds to go through. If it's okay, we'll just keep plugging through these in the afternoon. We'll duck out when we need to and mayor pro tem, if you would take the helm when we do that and we'll get back as quick as we can. Why don't you take us through the enterprise funds. >> We've gone to get Austin energy. I think they're up first. >> Mayor Adler: Okay. Thank you. >> They'll be here right away. >> Mayor Adler: Thank you. And if you will turn to the Austin energy presentation tab in your big book, that's where we'll start.

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I used to be Larry's cfo. We were talking about old times. >> The rest of the day is Austin energy, Austin water and aviation the rest of the day. This is Larry Weis, Austin energy, art determine bros ski, the sfo of Austin energy and David [indiscernible], who is the director of budget. Take it away, Larry. It's your program. >> Thank you. They have an overview of Austin energy over the next five years and what our forecast looks like. The mission of our utility is to deliver green, affordable, reliable energy and excellent customer service. As we sit at the moment, we're the eighth largest publicly owned utility in the United States. That doesn't mean city owned utilities, that means publicly owned. So there's others. We're approximately the third or fourth largest city owned utility in the United States. Los Angeles is the largest and there are 70 cities in the state of Texas that have their own electric system. And the second largest is San Antonio. And we're third. Jacksonville, we're in a competition for Jacksonville for the third largest. And those are the statistics. We have 3.9 million in total assets in our generation and in our

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wires. Other annual budget is 1.5 billion. They are vertically deregulated in a regulated market. That means we have all the generation we have to meet our load and that's the way we used to operate. We went through in education on that, but we still went through that generation and we operate it inside of the ercot market and we have a pretty robust wholesale business. We have profitable operations, improving our cash, reserves. So the goal of the rates that we went through in 2012 was to begin annually year by year rebuilding our reserves. We have our debt service coverage is strong. We just went through some rating agency meetings and those will be reaffirmed or affirmed shortly. And we have adequate debt capacity and the ability to borrow. We have some planned expansion and we have in some forecast a 500-megawatt combined cycle facility with construction to begin in 2018. We have a 150-megawatt solar project that's coming online this year. That's the recurrent project which has been -- the company recurrent has been purchased by Canadian solar, but we still call it the recurrent contract. And a 50-megawatt solar purchase power agreement also for a local project, and some additional solar that we will add from the rfp that we just issued. So those are all baked into our forecast. We have an average system rate change at or below two percent to stay within our affordability goals. And we're forecasting right now the good news is the decrease in our power supply adjustment. And a full recovery of

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the fy 2017 currently unrecovered regulatory charge. To meet our budget last year what we did is we made a decision to not pass on all regulatory recovery of costs to our customers, but defer that so that we could have met the two percent goal last year. We came at a 1.9% total revenue increase last year in our budget. So speaking of revenue, this is our forecast. The electric revenue is 90% of Austin energy's total revenue. We have electric revenue growth projected at 2.28%. And a compound annual growth rate I guess is how you will call it in your financial world. From 2016 through 2020 includes both growth and rate increases. We have normalized weather in our -- and that drives our revenue forecast, that's what we use to do our forecasting. And we have base rate increases of 1.9% in fy 18 and 1.9% in fy 20. But I willry mind you this is a forecast that will change and one of the things that you will see about Austin energy is that depending upon how the weather goes for the year, changes are operating -- are changing operating characteristics a lot and therefore our consumers as well. For example, the year of 2011 we had significant sales and significant bills for customers and ourselves. We have some changes to pass through also, -- charges to pass through. It says changes to pass through. I guess it is changes to pass through. And those are changes in

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the power supply adjustment, the transmission and the energy efficiency. Our residential impact is what's on the screen now and our monthly customer use acknowledge of a thousand kilowatt hours per month. I might add that our customers, our average residential customer is using less all the time because we're more urban density, a lot of apartments are being built, and whether it's an apartment or whether it's a house, it's still a residential customer. So as the time goes by, that's gone down. Also people are taking advantage of our programs and using less energy and being mindful of all that. That's all in your forecast. But for sis Zimmerman policety sakes we've been using the thousand kilowatt hour on average monthly residential bill. This is the rate impact you will see in our forecast for the next few years. In 2016 and 2017 we don't forecast it to go up. And then we have a forecast for 18-19 and 20. We expect to do a cost of service study on our rates in the 2016-2017 time frame. This is by direction of council from our last rates that every five years we'll take a look at cost of service to make sure we're equitable in our rate application across the customer base that we serve.

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Over the forecast period costs are projected to increase by 1.4% per year and we have in fy 2016 we have an increase in wages and insurance and administrative support, shared service costs that we pay to the city. We have an increase in departmental costs for the fayette power plant, some operating costs, five million. And a decrease in power supply costs of $30 million that will help us in our power supply and our o&m expense side, and then we have the south Texas nuclear project, we have a decrease in the cost at south Texas nuclear. Fy 20172020 cost, the increase in city allocated costs are projected in their with wages, insurance and those items. The increase of power supply costs of 56 million and we also have stp and fayette power plant. Those are the acronyms, stp, south Texas nuclear plant. And we have an increase in cost of bad debt. We've shown you the arrearage before, but we have the Numbers that we're forecasting over time in that area as well. On the five-year capital highlights, we have projected in here the decker 100% debt for a power plant out in 2020. We have transmission and distribution average of 65 debt and 35% cash. Those are the -- those are debt equity Numbers that we use and we worked with council on

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our rates last time that we would strive to try to move ourselves to a higher debt -- higher leveraged position by using more debt and less cash. So we're moving that way, but in order to get there we're going to have to spend some significant amounts of capital to really move that equation much. >> I have a question. >> Yes. >> If we were to phase out decker what would the -- what would the change to this balance sheet look like? >> >> Phase out the new power plant at decker or phase out the existing one? >> Well, let's go for both, phasing out the existing one and if we were to take a different approach to energy, production for the gap that may or may not exist, what would the difference be in these Numbers here? >> That would be significantly less debt issue because we could run that but the amount of spending would go down and obviously what we would pay for it. But presumably we would be replacing the power with something. If it was something that we built and owned it would be another capital expense. If it was something that we purchased from someone, no matter what it would be, that would show up in on different place. >> Sure, but if we didn't have to build the hard infrastructure, for instance, we wouldn't have to with renewables, then the cost of the overhead and maintenance of the existing hard infrastructure would go away. And those dollars would conceivably be used elsewhere or not even -- we would not have to incur the debt related. >> That's true. We have -- as of yet, as you know, a lot of this is in the planning phase. So right now all we're doing is forecasting based on the plan that was last approved by council. >> Gallo: Sure.

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I recognize that is a very different way of looking at what may happen in the future, but that is a conversation that the council will be having at the policy level and in the not too distant future. What I wanted to do was to interject the reality that that specific -- those specific Numbers may or may not come to pass. >> Okay. >> Tovo: Likewise I don't want to get embroiled in a big discussion at this point, but since the slide talks about the 500 million for the decker combined cycle plant I just wanted to note that that was the purpose of doing the study right now. I know there was a substantial discussion about this in the past, but the study was to determine whether the gas plant was required. I know Austin energy believes it is, but in any case, I don't want to -- I don't want to conclude that it is until we have the results of the study, which is what was authorized by council. >> Houston: And mayor, is the decommissioning of decker in here? >> Yes. >> Houston: And how much is that? >> We have, I believe, in year 2018 we begin eight million dollars per year in our decommissioning fund for that plant. So the plant is four years ago before you decommission a plant and you begin building that reserve. We currently have a reserve study in place to determine what that reserve amount should be. So when the engineering study is done we'll have a better estimate and we'll revise our forecast at that time. >> Mayor Adler: So that I understand the timing, you're doing a five-year forecast now. And obviously you have to make certain assumptions about what happens in years two, three, four and five. Of the most critical nature to us are the decisions we're making now about the budget

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we're actually deciding. >> Correct. >> Mayor Adler: So I have a timing issue related to what the mayor pro tem asked. Do we need the gap study concluded in order to make the decisions that we'll make with respect to this coming budget? >> No. >> Mayor Adler: So even if the strategic decision is made that we don't need the plant and we're going to go a different way, that doesn't impact us next year, it would impact the later years in the forecast. >> That's correct. This is a five-year forecast. So the way that we make our assumptions is based on the policies we operate with today. And recognizing that things may change and we have to be flexible. But you're correct, mayor, that the real Numbers are really -- affect this next year's budget and there is no impact from that other than other components of that generation plan such as the solar rfp that we just release order anything like that, that would be folded into decisions that would come in the next budget year. For example, let's say we got a real good bid back on a solar project for X amount of megawatts, we would bring that before council and we can't project out right now what that would be. But that's not an effect to capital, it affects the capital adjustment charge and our power supply. >> Gallo: I had one additional question to follow on councilmember Houston's question about the decommissioning costs for decker. We decommissioned Seaholm about 10 years ago and I think it was completed in about a 10 year time frame. >> Holly. >> Gallo: Well, Seaholm also. >> Yeah, that was done quite awhile ago. >> Gallo: I guess it was the remediation so we could reuse it, either sell the land and the property or to use it as something else. I was just curious, okay, so it was decommissioned prior to that. I was just curious if you could give us -- not now. Just show us the relative costs of the decommissioning for the size of the plants over

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time? Just so that we can get a sense for how the decommissioning costs in 2015 and going forward compare and maybe give us some real dollar comparisons or actually -- I guess how would you get the present value? So that whatever it costs in like the '80's to decommission, how that would -- what that cost would have been if it was in $2,015 so we can have an apples to apples understanding if that -- would that be possible? >> We have holly. Holly was just decommissioned in the last few years. So we have all the holly Numbers. They're pretty accurate. And decker and holly are very similar plants. >> Gallo: Okay. >> We aren't going to get rid of all of decker. We have some small turbines there we'll keep. The main steam plants were similar to the holly plants. And the Seaholm plants before that. >> Gallo: Okay. Great. That would be really interesting to see those Numbers. Thanks. >> So that's how it stacks out. I might also say that relative to what discussion we were talking about that is not in here is that we anticipate at some point in time that with some of our renewal projects we'll actually own them, own and operate them instead of just buying the power. That flips it from the power supply adjustment of the purchase agreement into a capital program. As of yet we're not doing that, but watching what's happening with federal laws and tax credits and so forth. So that's something related to what we were just talking about. Our capital program for 2016, we have a new water system that we need to put in at the sand hill energy center. It's very highly purified and filtered water that we use in the steam cycle of our combustion turbine out there. And we have the south Texas project, we have $2.9 million in capital for upgrades at the south Texas nuclear facility. We have distribution system growth and reliability growth.

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Those are the main Numbers that are really driving our capital needs this next year is growth of our service area. And those are upgrades to our substations, those are distribution projects, and we have some very innovative projects that we're working on and energy storage and automation and some conservation voltage reduction. And what that means is, well, we can reduce voltage to customers and we can save energy. And we're working with a lot of different -- what you might see on television or whatever called the smart grid. Those are some components of it that we are working with. And we're pretty Progressive in it. And we'll I'm sure talk to you about some of those programs as time goes by, but we have some capital in the next year for that. We have some transmission upgrades that we're working on to our circuits at three substations. And we have downtown hotel on-site energy connections. That's our chilled water business. So we have several chilled water growth and we have a new chiller plant that we need to put at the domain this year. Now, we have three chilled water plants, we have one at the domain, one at Dell children's center, Mueller we call it, and then the one downtown. And we have two machines downtown and we have also some other plans for growth on downtown chiller business, depending on downtown growth, but most of the new buildings that you see going up are all in our chilled water business. We are adding electric vehicle fast charge stations -- >> Tovo: Mr. Weis, we have a question? >> Houston: That's all right. Mayor does it all the time. I have a question about the domain chiller plant new water cooler. How many of these have we purchased for them? This is a replacement for one I assume we purchased before. >> It could be. I'd have to find out whether it's a replacement or a new

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one. But I believe that this is a new one, cooling tower is what it is. It's a chilling cooler tower. So I'll find out. Do you happen to know, David, if it's new or replacement? No. Is Sheryl here? >> Replacement. It's rebuilding the originals. >> Rebuilding the original. Thank you. >> Houston: It will come up later. >> Tovo: That sounds like a good Q and a. I think it would be interesting to get a little more information about that. >> About the chiller? The cooling tower? >> Tovo: The one that councilmember Houston just asked about. >> Sure. We can follow up on that. And I think the council is aware of this, that we have a piece of property up on Justin lane on Lamar that has our recycle metal facility and there's been a long-standing project -- I know mayor pro tem tovo and I took a field trip up there actually a couple of years ago and we were looking at that property being converted to what I would say better use. And so we have a salvage and recycle operation so all of our line crews that take everything off, the wire and all the piece and fittings and all that, we take that all in, we recycle it all, and we actually old poles and that kind of thing. It's an interesting operation. And we need to move it off that property. So we need to find a place to put it and we're looking for that now. I might also add what is not up there too is that we are working on -- we need to find a solution to the lease space that's at Austin energy. And we brought forward last council the idea of building a building instead of leasing a building. And we're still in the planning stages of doing that, but if there was one significant capital change to the plans for next year, it's -- in particular it's what are we going to do council. >> We're still not at a place where we have done all of our Numbers and our planning, and I haven't had a chance to sit down

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with the city manager and plan to him exactly what we're doing so we need to do that as well. But it's not in our 2016 capital forecast at this point. Any questions on that plan up there? Okay. I'll turn it over to mark to go through our fun summary and talked about that page. >> Good afternoon, councilmembers. The fund summary is essentially our budget that we are currently working on, obviously, we're Oregon with the city manager's office and we will make revisions to this before you actually see the city manager's proposed budget. But it begins with the beginning balance, and so for fy15 this is the funds that we have from '14 that roll over to '15. We have additional revenues or transfers in of about $1.4 billion. Majority of that comes from our retail rates. And then our various requirements, total program that includes our largest sections, our o&m budget and power and supply budget. Debt service, about 120 million, debt service on $1.3 billion in long-term debt. $67.8 billion in cip. This is the cash portion that we contribute towards our capital program. We fund the rest of our capital program with commercial paper and about every year years we roll that into long-term debt that you'll be seeing this week also. General fund transfer is money that we transfer, 12% of non-power revenue or a floor of $105 million. Support transfers, these are services that we acquire from the city, for example, our fleets, technology, administrative services from the city. Other requirements, this is a -- it's an accrual for our labor through the course of the year

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that makes up for when we have leap years and such. Reserve transfers, we're assuming from our working capital that we will transfer $44 million into our strategic reserve. That gives us, in '15, a negative 9.5, so that's a deficiency, comes out of our working capital and gives an ending balance of $244 million. That becomes the beginning balance of the next year and that's how it works over the course there. We have about 1700 employees at Austin energy, and we expect those to hold fairly flat through the course of our forecast here. You can see the number of ftes we're forecasting. >> I might add on that, on the forecast of ftes, we are growing, as our customer Numbers grow. And we contract for a fairly significant amount of our labor to operate our call centers, and Austin energy operates the 311 for the city, so those employees are in here. We also operate and do all the billing for all the city utilities so that's all in here. So what's happening is we're getting to a point where the contract that we have for labor, it's better to bring some more employees on and have them be our employees full-time. So we're showing that happening in the fy17 year, you'll see a jump up to about ten employees. We're going to start moving that way. We're finding it more economical to bring employees on full-time rather than large contracts. We'll go into Ta probably in the committee meetings with you later but I wanted you to know that's where the Numbers are coming from. Since I've been here in the last five years we have grown in Numbers of employees in different areas, but what I've been doing is reshaping the utility internally to move

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employees from one group to another and, you know, trying to economize that way to deep us down. We also have -- operate our it, we have an -- Austin energy has a very significant it operation, both in realtime operation and business operation. And we're having real challenges in the marketplace getting the talent we need to keep it all working. You know, software engineers are highly sought after in this marketplace in Austin, for example, and so we have a lot of contractors that we have on, and that's in our budget. So as you go into our budget this year and our forecast, you'll see that too. >> Okay. Next is the affordability and system average. What you see here is we are looking at what our projected rates are based upon this current forecast from 2014 through 2020. That black line represents the 2% affordability goal, and our goal is to keep the bars underneath that black line. And we are succeeding in that. In fact in the outer years we're slightly below that. The other component of our affordability matrix is the system rates. So the bar chart on the right, it's a little hard to read there, the yellow line at 9.7 cents, that's Austin energy, and so for 2013, we are slightly above the state average for all Texas utilities. Our goal is to be below that average. When we look at these Numbers, what we believe is driving this is mostly the power supply cost. When we set our power supply adjustment, we're looking historically. Many of the utilities out in the market look forward when they set their power prices. So as we go into the budget

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cycle here, we're expecting to see our power supply adjustment decrease as a result of natural gas prices. And so we'll be catching up with the rest of the markets. We hope to continue to progress on getting us blow that state average. >> Zimmerman: I'm sorry, before you go on from there, quickly, very quickly -- >> Tovo: Councilmember Zimmerman. >> Zimmerman: The rates you were talking about on the slide does that include power supply adjustments, blah, blah, blah? >> That's it. We have data we get from the energy information agency. >> Zimmerman: Okay. >> So it's total retail revenue from each utility divided by the total kilowatt hours. >> Zimmerman: So it's a big aggregate of all rate classes lumped in. >> Yeah, system average. >> Zimmerman: Thank you. >> Yeah, when do you comparisons of rates, as you might imagine, there's a million different ways to do it ask it's very messy. One of the reasons we use the ias because it's not data we produce, it's data the federal government produces and it's a way of measuring against other utilities. >> Zimmerman: That's a good way to do it. >> Okay. The next slide is -- we're showing you some of our energy ratios that both we internally use to manage the utility as well as our credit rating agencies. Key metrics are cash on board, Austin energy uses about $2.7 million per day to keep operations going, and so we often look at how many days of cash do we have available. And we're targeting 150. That's for the best credit rating that we can get from our credit rating agencies. You can see we're making significant progress towards that. Cash reserve balances in millions. You can see what we're forecasting there. The target changes. In our financial policies that you'll adopt in the budget,

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there are various reserve balances and different criteria we use to set those balances, and we'll discuss those in more detail, about what those balances should be. Debt service coverage, this is how much revenue you have after you pay for all your operating expenses. Do you have to pay your debt service. This is a critical component of our credit rating agencies, and for our best credit we need to get at least 2.0 or higher, and we do this both before and after the general fund transfer. And so you can see the Numbers there. The higher the number, the better. And, finally, our debility -- debt to equity ratio, this is on our balance sheet how much debt do we have versus equity in our assets. And right now it's right around 46% or so, and I believe our target is 50%. You can see we start to get that in the outer years. Really what's driving that up there is we're assuming in this forecast that we do build that natural gas plant, and so because we have more debt, we assume 100% debt financing on that, that's why the number goes up. If we don't build the plant the number would stay down but you'd have more dollars coming out on the operating side because you're pagan operating cost as opposed to a capital cost. >> Pool: Just really quick, we would be paying the operating cost as opposed to the power supply cost? Is that what you just said? >> Operating -- it comes out of the power supply adjustment, but it's not a capital cost, where when you build a capital asset you pay debt service plus depreciation. >> Pool: Two funds. >> That's right. >> Pool: But the general overall cost would be less. >> I don't believe so. I believe it would be more expensive. We'd have to run the Numbers. It would depend on the alternatives you're looking at, power purchase agreement.

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Whoo we essentially pay is we pay a debt service component and take out depreciation so the net difference of that versus the ppa, I don't have the Numbers in my ahead. >> Pool: I was looking at it, and we can talk about it later further, I was thinking if we didn't incur the debt, then we would be that much further ahead on that. >> There's -- I see what you're saying. There's another aspect of it is, too, that we would switch strategies at some point about purchasing power from, like, let's say a wind farm. We would switch strategies, depending on whether the tax credits. If they go away we'd be acquiring the facilities ourselves and probably issue debt and buy wind projects. So the reason we don't do it now is because the tax credits are there, we can't take advantage of them. >> Pool: Right. >> So no matter what resource -- you can think about it that way, no matter what resource choice you make, that would you eventually, even if it's solar and everything else, eventually you'd be spending capital on those project. >> Pool: Okay. >> That is in our planning. At some point we always knew in our strategy, we always in my at some point in time we would probably be building when facilities are -- facilities ourselves instead of just purchasing the power but it's all about the tax issue. >> Pool: Goff got you. Thank you. >> Tovo: Councilmember Zimmerman. >> Zimmerman: This may be the time to emphasize this but I thought another point of the ppas, it's very much like leasing energy production, right? >> It is. >> Zimmerman: You're leasing some tangible asset. When concur lease term expires just like with your leased car, you get nothing. You fulfilled your obligation for the ppa, but at the end of the term you have nothing. >> Right. >> Zimmerman: You don't own a wind farm or gas plant. You have nothing. >> Yeah. Since we're public and is not private, how it affects our balance sheet and all of that for shareholders, I mean, the

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whole -- it -- you can't think about it that way with this business. It's public. And so the effect of the -- the real effect of not having the asset is -- I wouldn't say it's irrelevant, but it becomes less relevant for a publicly owned utility because really you're talking about power supply, and it can change and it can deappreciate too. There's some other advantages too, if you enter into a contract for a solar facility for 20 years and at the end of 20 years it's worn out you don't have to deal with a worn out machine. You can do something else. So there's pros and cons both ways. >> Tovo: Mr. Weis, to councilmember Zimmerman's point, when you own the facility you also have the ability to sell excess onto the market. >> Yes. >> Tovo: Doesn't that also play into the financial benefits of buying versus -- >> It plays into the -- yeah, it plays into the benefit of owning the asset, it does, yes. If we're purchasing power, like we do in most of our renewable agreement, we're purchasing power, we're obligated to buy that power and we really have no choice to buy it as it's produced. We can't throttle it back. But since there's no fuel, you wouldn't do that anyway, right? >> Tovo: Councilmember Renteria. >> Renteria: Basically, you're buying power out there and if it goes over a certain amount that you can produce it, then would you just use your internal power instead of paying the higher rate? >> Well, what we do today, today's market, today, what we do is sell all of our generation into the market and we get paid whatever price that is. If the price is too high relative to our cost of producing the generation, we don't run it, that's correct. So we'll just -- so if we had a machine that was -- let's say it produces power at 5 cents and the market is three, we're not going to run it. We're going to wait until it gets down to 3 cents and then if there's other opportunities in the ercot market to run it for reliability and other reasons. On the ppa agreements we have for solar and wind we're

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obligated to buy that power no matter what the cost of the market is. That's the whole basis of the generation plant, what we try to do is to help equal lies that, sell other resources to make money to cover for the renewable energy we have to buy in the market no matter what the market is doing. We still have it, we're obligated to purchase it because of the nature of the contracts. If we had our own wind projects that we owned and we paid cash for or we borrowed money for and we owned them, we would still have that, but we wouldn't be as bound to buy the power, to sell it at any price because it's a little bit different strategy. >> Renteria: Okay, thank you. >> But we don't do that today. Hope that helps you. Okay. >> Some of our outlook challenges are -- going forward we have a real fast-growing service area, and our employees and all of our -- the material that we're purchasing and everything that we're putting out there to hook up new customers, we're as busy as it gets. Unemployment is lower than the state and the nation. You know, if you saw the -- all of the economic forecasts for here. And we're in a market of very low energy prices right now. So there's some really interesting phenomenon happening in the energy market. Natural gas prices, which have fallen, oil, everything else are very, very low. We don't know. It's very difficult for folks to forecast the future with that. And we have the resource generation plan that we do need to visit with council on. It was -- it's a big -- it's baked into this forecast, as we talked about, and we do have that as an opportunity going forward to confirm or move forward on all the different parts of that, of that plan.

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Some challenges we have is the market that we operate in. It's ever changing. It has costs associated with operating the market. It's by that you we operate the way that we do -- by law that we operate the way that we do. We have reserve levels below our targets. We've talked about that and we need to continue to move our reserve levels to meet our target, which is policy set by you. And the bad debt we've talked to you about that, and we're moving as quick as we can to recover from the time that we -- you know, we showed before you on arrearages and management of those programs. And we have a significant number of key professionals. We have a very highly trained workforce, very specialized. It is utility-industry specialized and we have a lot of people retiring and we have a lot of competition for that skilled labor also in our craft areas. When I say craft, I'm talking about line crews, people who operate our power plants, substations, and a variety of other areas. We have balancing factor goals with rising costs, and one of the goals we have is to -- when we pick up reserve discussions within the committee, probably, we would like to create a rate stabilization reserve so that we have that year to year to help with affordability so that we always make sure we meet our goals. And we're competing in a deregulated market. We -- as you know, we have a lot of issues going on with -- around deregulation right now, but one of the challenges that we have is that the prices are just so low out there in the marketplace that it makes a vertically integrated public utility that's very stable like us not look as good as it does to the deregulated market, but the deregulate zero goes up and down.

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Right now it's very down. So that's a challenge we have. For more information on -- we put these Numbers up there for myself and for mark and Robert cullick is our Pio and director of our corporate communications. So if you need anything, you can certainly get ahold us. Any questions? >> Tovo: Councilmember Houston. >> Houston: Thank you so much, and thank you all for being here this afternoon. I had a question about the challenges. I see them as opportunities. Specifically regarding the competition for utility skilled labor, what are we doing to grow our own? >> A lot. For our craft area, we have within our power plants and within our line personnel and a variety of our -- of those, we have a lot of apprenticeship programs and we bring apprenticeships on and we train them ourselves. So they become fully credentialed at the end of those periods. So we have pretty significant luck in doing that. Where we have trouble is in some of the real specialized crafts, where we have people who have retired and we haven't prepared somebody to have that experience working alongside of them and those are extra ftes and those challenge us from time to time and frankly what we've found is the tools, when somebody surprises us and says I'm retiring next week, didn't give you much planning but I'm very sorry, but I am, what we do is say can you come back and work for us for a little bit and help train. So we do bring employees back that go through that to help with that. >> Houston: So with the apprenticeship programs, how do people in the community know that's an option? >> Well, we have a program through Austin community college that we operate. >> Houston: Okay. >> And that's been a very

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successful program. We have on our employment where we have the job fair just over at palmer center recently, we have a booth there, and we -- what is it called? Career days, I think? >> Career fair. >> Career fair. We participate in all of those every opportunity we can. >> Houston: If your staff would like to get in touch with those of us in outside districts that never have heard of this I'd be happy to help you spread the word into the community. >> Okay, great, great. Happy to do that. >> Tovo: Councilmember Zimmerman, did you have a question? >> Zimmerman: Yeah. Could you talk a little bit from a high level about the service area. Does the Austin energy service area follow the etj and the city limits? How does that work? What are the opportunities there? >> Okay, the 1977, the state of Texas decided that they don't want utilities fighting with each other so they drew boundaries and they drew boundaries around Austin energy, it does not actually make any sense at all. It just is where the power lines were at the time. And so we have some of our service area -- 50% of our service area is out of the city limits of Austin but there are parts of the city of Austin that we do not serve. Circle C, for example, we do not serve. We serve right up next to pertinales, like in lakeway one side, pertinales customer and the other side of the fair way is us. So it's literally drawn like that. We have cooperative agreements with bluebonnet and pertinales where we agree on things. We also jointly share a lot of transmission facilities with lcra so we have a lot of partnershipping with them. Back to the service area it doesn't follow the city boundaries like that. It's strictly the footprint set by the public utility commission in 1977. >> Zimmerman: Okay. So back to that question, I'm in pertinales myself. Probably district 6 in northwest Austin.

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>> Right. >> Zimmerman: We're probably 40% pertinales, probably that much. So are you saying the boundaries are stagnant and your idea of expanding is if the city or population moves in the direction of your existing service area, then Austin energy will gain customers? Or -- >> No. >> Zimmerman: Is there a way for you to gain territory? >> I see what you're saying. >> Zimmerman: Yeah. >> So, for example, if the city was to grow way beyond where it is today, that has nothing to do with what Austin energy serves. Our service area is our service area. And if -- yeah. >> Zimmerman: Why does it say growing ae service area? What does that mean. >> I understand of it. Number of customers, growth withinside of our service year. >> Zimmerman: It's increasing the number of customers inside the existing area. >> The density, for example. >> Zimmerman: Completely different things. I have a static area and I increase the number of customers within my existing area. >> Right. >> Zimmerman: Okay, I'm sorry. Okay. I got it now. >> Tovo: Good. Other questions? All right. Thank you very much. >> Thank you. >> Thanks. >> Tovo: We'll have Austin water. >> Tovo: Next is Austin water utility. >> Well, I'll get started. Greg, Austin water utility district, we also have our chief financial officer. Wanted to start off with just sort of a broader scale overview of the forecast today, you know, Austin water is the major water, wastewater utility provider in

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the metropolitan area, serve about 220,000 customers, capital intensative, over 7,000 miles of pipe we maintain, six major plants, six service centers, 239 other smaller facilities from package plants to tanks, pump stations. I think for this forecast, the predominant influencer for us is the impacts of our long-term conservation programs coupled with doubt restrictions on our utility in terms of water united States. You might recall from the policy discussion we talk a lot about per capita water use being in decline. I gave another perspective of it maybe to give you a little more sense of how it's impacting us financially but if you look at the last current annual year, 2014, water use in 2014 was equal to 1997. You have to go back to 1997 to find a year where we used less water than in 2014. And obviously our utility is much different in the year 2015 and '16 than in 1997. So it just gives you a sense of how many water demand has fallen our service area a combination of those two areas and we're forecasting that trend to continue throughout the five-year period with water demand continuing to drift downwards through the that five-year period, at all time lows to continue on a downward area. Bond rating agencies are picking up on that. Our last bond rating, we're currently aa, but several of the bond rating agencies did note concerns and put us on a watch list, which means that they're preparing to downgrade our debt if we can't stabilize our finances, particularly on the water side. And among several things they noted the the most morn is strengthening our debt service coverage. That is a key ratio, and a key driver of rates in this forecast period, trying to maintain and strengthen our debt service coverage. You just heard ae's debt service

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goals are 2.0 and above, our goal is much more modest. Weaver at 1.50 is the council financial policy and we're hoping to strengthen that. Quite frankly we've been well below. Our debt service coverage last year with such low water revenues had fallen I think to 1.25, which is I mean just the very minimums and we're going to get into kind arrive down rating death spiral if we can't ultimately stabilize our debt service coverage. Other forecast overview items, we're continuing to aadopt our business model, given falling water demand. For a two-year period at council's direction, a joint subcommittee had been impaneled and they had given a series of recommendations we'd been working through to stabilize our business model, and I not a couple of them here. One our utility has very high fixed costs. We have high debt service, we have to have energy to move water. You've got to make the water safe to drink, fixed asset base, 7,000 miles of pipe you have to maintain, valves and the like. Our view is highly variable. A few years ago 90% of our revenue came from water sales and 10% from fixed monthly fees. That was really low for the industry, and the joint financial committee made recommendations we begin to increase that. We're current at 80/20 MIX and would like to see that continue tow creep up through the forecast period and we'll go into that in a little more detail. That's one of the outcomes for 2016 and beyond, continue to increase the amount of fixed fees relative to the amount of consumption-based fees. We have on our residential customer side particularly as water demand has been dropping, more and more of our customers are falling into the lower block rates, and those block rates are below cost. So today we have aye approximately two-thirds of our

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customers on the residential side pay les than it costs us to deliver water to them. Obviously that's something that we can't continue indefinitely into the future. I have noted for the council another policy consideration. We established a customer assistance program in 2008 to assist customers that are meeting income eligibility tests, kind of the most vulnerable part of our community. Obviously water is essential for everyone, we want everyone to be able to afford this. We deployed this program linked with gnawing. That customer assistance program has been very effective at keeping water rates affordable since '08 about we current have 20,000 participants, over up over the last few years and we're providing about a 34% discount or 25 delivers per month per customer. We currently fund that through rates at about $6.6 million annually. Without additional assistance in the cap program, without additional discounting cap customer bills are forecasted to increase throughout the forecast period. So those customers are going to start to experience a -- more of the rate increases than they had in the past. So just to -- a kind of consideration perhaps for the council, given that customer class. Going into a little more detail, on the requirements side, I do want to note for the council that our 2015 budget, current year budget, is down significantly from previous budget P 2014 to 2015 we reduced our budget $30 million. It didn't go up, $30 million less, it went down $30 million. And we decreased our staff positions. Not only did we not does for staff this year but we decreased our staff positions cut our temporaries by two-thirds. We really honed up and eliminated a lot of transfers to

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the general fund departments and other outside funds. We reduced the amount we pay to Austin energy for customer care and billing. Austin energy does all of our customer care and billing. We implemented 5% reductions to the utilities operations and maintain budgets in 2014, carried that over to 2015 and proposing to carry all those over into 2016. We have been delaying infrastructure upgrades and rehabilitations and went through a refinancing of some of our existing revenue debt. So a whole package of reductions went memo that $30 million. We're forecasting that same kind of trend for 2016. We're going to try to persist in those cost containment reductions from this year into next year. We just renewed our commercial paper, and fortunately had lower administrative costs there so that's a reduction for us. We are proposing no new staff even though our system is growing considerably. We are -- we did another look at city administrative support costs and reduced those $900,000 and we're seeing the benefits of decreased fleet and maintenance costs. Big part of our 2016 budget ahead and into the forecast. I won't gee a lot of detail here but we did list some of the cost drivers. You heard a lot of this already, health insurance, living wage adjustments, other insurances are going up. Those are plug Numbers we get from the budget office and we put those in. We do see some increases in Austin energy's billing and customer care cost to us. Some reductions, fuel and maintain and, as I mentioned commercial paper. Debt service slated to go up slightly, $1.6 million for 2016. Our transfers out kind of a summary there, we cash fund a portion of our cip. We're proposing that cash funding of the cip go up about 8.4 million, predominantly from cash left over after we calculate our debt service

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coverage ratio. We had established one of our business model adaptations was a second reserve fund, proposing to transfer cash money to that. General fund transfers going up. Reclaimed water utility is a utility under doss and that's -- cost and supported by water and wastewater so that transfer is going up. Then a host of some smaller transfers there. Proposed staffing, no staffing for 2016. And then modest staffing increases proposed for the orient years in the forecast -- outer years in the forecast. We just provide that for you. We have kind of a summary slide with all of our requirements. As I just went through operating debt service and transfers, you can see kind of how that all lays out in this table and I won't go through that in detail unless you have more questions. I'm going to switch a little bit of revenue and rates. As I mentioned, we are forecasting average water use to continue its downward trend, similar though not as sharply we're forecasting wastewater uses to continue. We are implementing our program to get our reclaimed water rate up to 40% of the potable rate. We'd like to stabilize it there. It will be a subsidized rate but at least 40% of the drinking water rate for reclaimed water. It had been as low as 20%. This graphic shows you the downward trend of water consumption. You can see starting back in '05 and throughout the forecast period, particularly you can see how water demand -- this is total water sales in billion gallons, how it's fallen very rapidly since '11 as we've been implementing various programs and is going to continue a slow decline through the forecast period. This is just the residential element of that, the biggest area of decline. Again, this is in billion gallons of water sold -- or, no, this is average gallons per account. You can see -- you know, we'd be

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vary from weather in the blue but ever since we got into this drought and hardening those demand reduction that's our residential water use is declined very sharply and that decline is going to continue through the forecast period. So the future for water is a lot different than the past. We're going to sell a lot less water than we did in the past, even though our population is growing, we're going to absorb all that growth and not increase our water sales, they're going to go down, down, down. You might think about it. If you heard sales tax is going down forever, property tax going down forever, that's the way we are in the water utility, long-term trend of declining water use. >> I wanted to point out on that slide that '07 and 2010 were very wet Summers so that was the reduction in their usage in those years related to the amount of rain we had. Had a similar effect on Austin energy's revenue. >> Tovo: While we've paused for a minute I want to take this opportunity to say though we have dipped below a quorum and may again before the afternoon is out, as long as we begin our meeting with a quorum it's perfectly acceptable for to us continue with fewer than six members as long as we're not taking action. So in case any members of the public are watching or staff I just wanted to clarify that. >> I scared them off, I guess. [Laughter] >> I did want to note a couple of the business model adaptations we spoke about. One we showed you this slide during your policy briefing but this is our residential block rate. So as you use more water, you progress through the block rates. You know, the first couple thousand gallons you use you pay little less than $3. As you use more water you pay more, more, more, more. Conservation incentive -- conservation incentive, so we send a very strong pricing signal. Historically, the high water users were -- their revenues made up for the low water users who are below cost. See that red line, horizontal red line, that's the average

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cost of service, 550 per thousand. If you're below that, those are the blocks under cost, the ones above are over cost. With the doubt and long-term conservation programs the number of customers that make it to blocks four and five is significantly less than it had been in the past. So as a result more and more of our customers on the residential side have slid towards those lower blocks. Today two-thirds of our customers never make it past block two, which means two-thirds of our customers receive water, this is for water utility only, below the cost had a it takes us to get it to them. And that's why we're having a lot of our revenue problems. One of the objectives that we're going to try to solve this forecast period is block two, that was a recommendation from our citizen task force, was get block two up to the 550. Get it at least where the customers in block two are paling the average cost of water, and that's one of the business model adaptations we're going to be trying to implement in this forecast period starting in 2016. It will be phased in over a couple, three years, but we would propose it starting in 2016. Some other business model adaptations, as I mentioned in the introduction section, the other piece besides getting at block two we want to slowly continue to increase our fixed fees. So that we're not so reliant on water sales that are persistently going down, down. That we can better stabilize and have less volatility. We're currently at 20%, and we'd like to creep that up and -- I guess it was 20% in 2015. We'd like to creep that up to 22 and a half% in 2016 and then 25% in 2017. For the residential class, most volatile, the fixed fees would be a little higher. You can read the narratives there. Again, it's a mixture between fixed and revenue. As fixed fees go up the volumetrics don't go up, so you

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stay revenue neutral but you're not as dependent on water sales. We don't want the water utility in the future to be trying to sell more and more water. That's not the future that will be successful for us given the droughts and climate issues we're facing. I won't go through this in detail. This is all the revenue sources for you to see, reserve funds, miscellaneous and transfers in, and you can kind of see those dollars and increases and percentages. And this is a -- revenues and rates across the whole utility, isn't by customer class, just across our whole utility what our forecast is right now for rate increases for water and wastewater and reclaimed water and then how those are combined, how our customer would perhaps see those on the combined perspective. Again, all customer classes, not just residential. This is just residential. This is for the average residential customer, and everyone is a little different, but we define average as 5,700 gallons of water use and 4,000 gallons of wastewater. If you use a lot more than that, it will be different. If you useless it will be different. Using that as a typical Cher. You can get a sense of through the forecast period how their bill may change based on these assumptions. And just taking one example, forecast 2016, water for a typical customer would be a little less than $40, 39.76, wastewater about the same for a total bill of 79.70 or increase of 5.92 or roughly 8%. I'll call it good news but as you go into the outer forecast periods, we are forecasting that water and wastewater rates continue on a downward trend and ultimately kind of stabilize to near zero in the outer years. I spoke about the cap customers, and this slide just provides a little more detail there.

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Again, 20,000 of our residential customers are customer assistance program customers. If you're a cap customer, you're -- all your fixed fees are waived. Your monthly water fixed fee is waived, monthly water bill, fixed tiered fee is waived, your monthly wastewater customer charge, which is a fixed charge, is waived, and you receive a discount on your water volumetrics. So the total discount for a tip cap customer, 20.79 per month. You can see how a non-cap customer compared to a cap customer and what that discount is. I just note for the council, unless we increase some of those discounts, cap customers, particularly if we implement these business model changes with block two, they're going to start to see their rates going up. They had not really experienced many rate increase since 2008, but that's kind of run its course unless we put more money into the cap program. Going to speak about -- >> Tovo: Let's pause there for a minute. Councilmember Houston. >> Houston: May I ask a question quick question, please? >> Yes, ma'am. >> Houston: For customer assistance program individuals, do we know how much water and wastewater they use? >> We do. >> Houston: Do they use tier one amounts or . . . >> Our cap customers are generally about the same as our regular residential customers. They actually have a little bit -- slightly higher water use per their average versus residential. But they're around that 5700 gallons of water use per month and 4,000 gallons of wastewater use per month. >> Houston: Thank you. >> Tovo: I appreciate you highlighting that as an area that we want to keep our eye on. That's very useful information. And it remind me, too, that we

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never were able to solve a related issue, which is individuals who live in multi-family apartments who might be eligible for the customer assistance program if they're not on a separate meter do not get the benefit of these discounted water rates, though they would be eligible had they lived in a different kind of unit. So I hope we can continue to think about what some resolutions are there. I can't now recall whether there were any easy once. I don't believe there are. >> It's a difficult problem to crack. >> Tovo: Before we move on to our next section, I had a question back on page 6 about the customer care and billing system. Can you explain why this -- what this increase is about? Please? >> That one there? >> Tovo: Yeah. >> David, I'll have to does to you help me on that one. >> Okay. In 2015, to try and mitigate some large rate increases that Austin water was going through in that time, Austin energy provided a one and a half million dollar reduction to the green choice cost associated for Austin water. That was a one-time discount in 2015 so the $2.6 million, in a million and a half of that is related to us going back to the full level of green choice power cost. The other amount, about $1.1 million, is the -- just Normal increases related to increased costs that the customer care and billing at Austin energy would have. It's about a 10% increase or so in total cost. So those are the two components that make up that increase for

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this year. >> Part of those costs are employee related. They're the cost drivers of the salary increase, the health benefits, because they're people driven, many of the costs are people driven. >> Tovo: Thank you. So the billing system costs, some of those are staffing costs? >> Yes. >> Tovo: Okay. >> Portion are allocated to water, electric, watershed and the transportation department. >> Tovo: Okay, thank you. >> Billing for those five things. >> Tovo: So it's not a necessary fix or additional repairs to that billing, customer care system. >> No. >> Tovo: It's staffing costs. Councilmember. >> Houston: Thank you again, mayor pro tem. Did I miss something? Did we not talk about commercial? We've just talked about residential rates. Do we talk about commercial at all? And I just missed it? >> No, I didn't have a separate slide on commercial rates. >> Houston: Okay. So we're only talking about residential rates? >> Well, David you want to -- >> Yeah. The commercial rates are generally closer to the systemwide rates that you would see on the rate increase slide on slide -- well, 16 of what I think -- Greg is bringing that up. Generally the water and wastewater rates you see in 2016 would be what the commercial class generally would get. We can definitely provide you more information on the commercial and we also have a multi-family customer class as well as some large volume customer class. We can provide you each of the customer classes rate increases but they're all about -- around this system H wide average. >> Houston: That would be helpful. >> Okay. >> I'll continue on on capital spending, few slides. Our capital programs have been getting smaller over the years. Back in the '09-'some 13 we were almost 1.5 billion and now our

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forecast for the five-year cip is in the $860 million range. It will probably stabilize there for a few years and ultimately start to creep back up. We have long-term wastewater capital improvements, when I say long-term, ten, 15 year, we have nutrient removal requirements, probably expansion at our walnut plant that we'll need to get done by our roughly mid 2020s, but at least for the next few years it will be more in the five-year cip in the 850 to $875 million range. Here's how it breaks out for water and waste about it that way water. It's more heavy on the wastewater than the water side and you can see the Numbers here for our cip and spending. Again, we're capital incentive, buried infrastructures, lot of replacement, a lot of modernization, just, you know, many billions of dollars of assets that we maintain and it takes some capital investment to do that. We have a lot of relocation work. As roadways are expanding we're in the infrastructure right-of-way when they widen the roadway, we immediate to move. Lot of costs. This is a broad grouping of categories of capital investment. We do combo into a lot more detail as you get a better of sense of where you'd like to go deeper. A lot of investment in maintaining our exiting treatment plants. We have six large plants we try to maintain, particularly our Davis and south Austin regional wastewater plant will see significant investment in the five year cip, rehab, relocations is a big part of that. Our smaller facilities, I mentioned we have 250 odd pump stations and reservoirs and lift stations and each year they need rebuilding and maintenance and painting and those kind of activities. We do have one annexation that's in our radar screen. It's the one municipal utility

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district, shady hollow, is going to be annexed in the five year cip and at least the utility is going to take over operations and it's got a fair amount of septic tanks and one of the things we do is provide wastewater service so we are seeing a fairly sizable investment in that area in the five year cip. Reclaimed water projects about 39 million miscellaneous relocations. We do have water supply task force projects, proposing $23 million in water supply augmentation and I think that category will continue to grow into the future as we're factoring out more activities for water supply augmentation and a small amount for service extension requests, predominantly oversizing. >> Zimmerman: I'm sorry what is augmentation? Are you talking diversified water supplies? >> I wouldn't say. >> Zimmerman: What do you mean? >> We had identified, we discussed a few times we want to turn decker flying an off-channel reservoir where we could use it for water supply purposes. That's an augmentation project. We're evaluating aquifer storage and recovery options. We're looking at -- as we grow our reclaimed program, options for us taking reclaimed water and is not just using it for non-potable purposes but ultimately turning it into drinking water. That would be water supply augmentation, kind of quick, more rapid deployment of water supply enhancements. Typically water supply activities take many decades to accomplish and so those are smaller-scale projects we can add maybe 20 to 30,000-acre feet of water over the next few years by roughly 2018 to 2020. Bigger supply diversification strategy, additional enhancement of demand management, reclaimed water, additional reclaimed water, that is going to be examined through our integrated water resource planning effort that's underway.

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There's a council it was that's being -- task force being assembled for that and we're beginning that longer range work this year and into the future. >> Zimmerman: The aquifer storage recovery, reclaimed water, decker lake, augmentation means other ways to use the single source of Colorado river water? >> Yes. >> Zimmerman: Okay. >> Tovo: Councilmember Renteria. >> Renteria: On the -- are we using that new water treatment plant we just built for a billion bucks? >> Water treatment plant Ford is in service, it has been since the fall of last year, and absolutely using it. As a matter of fact I'll give you two great examples of how we used it here. Every day it's in service, produces water every day. You might have saw about a month ago we had that very large main break in the Austin -- north Austin area up around 620 Avery ranch area, where we washed out the rail line. I don't know if you saw that. That main break we lost eight to 10 million gallons of water in two hours, drained every tank in that part of our system and redirected water from plant four up there and filled those tanks up in short order. We recovered very nicely before that. Most customers didn't even notice we had that huge main break. We had our Davis water treatment plant out of service last few years. Several days where we had it out of service, wasn't prosecuting any whatsoever. Switching outline a transformer for electrical work with our chemical feed system. One example, ramped up production at plant four, almost up to full capacity for aify days while doing that. That's the kind of enhancement and flexibility we were looking for for plant four and it's starting to provide. Water quality has been very billion. It's lake Travis water. First time we've had lake Travis water. It's been a little more stable for us in terms of taste, odor, allergy issues, cleaner than lake Austin, not that lake Austin has been bad but

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certainly Travis water has been better. Long answer to your question, yes, it's being used, it's in service. >> Renteria: Are we looking for more water snores because we just paid -- source? We just financed a brand-new plant. Are we using it to the adapt where we can -- instead of investing in new water treatment facilities? >> If I understand your question, yes, we don't have any investments in the foreseeable future to expand water treatment capacity at all. You know, from a water supply perspective, though, as I was kind of commenting to councilmember Zimmerman, that we're looking at supplementing our Colorado river water supply. We're all Colorado river based. We're starting a process to examine more broadly other strategies for meeting water supply in the future. We're experiencing a drought unlike any drought we've ever experienced and what we thought was an extremely reliable water supply and had been for the last 70 years, the Colorado river system, is proving to be more vulnerable to this extreme drought that we're experiencing and those risks are probably likely to grow in the future with climate issues. We know it's going to be hotter, we know there's going to be heavier evaporation in the future, maybe less precipitation. So we do need to examine other kind of water supplies into the future. Certainly our community preference is more locally developed water supplies as opposed to mega investments to import water, as well as continuing to manage our demanding as I've been describing, we're forecasting demand continue to decrease as we're implementing more and more programs to manage that. >> Renteria: But we paid -- we paid up to 2050 for water but we did a big investment from water at lake Travis isn't that

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correct? >> That's right. We have a long-term -- we have our own water rights to the Colorado river system. But we also through contracts with lcra we prepaid and reserved water through 2050 with an option to renew through 2100. That prepayment and reservation fee was $100 million but that water is, you know, subject to availability. As drought conditions -- if we experience a drought worse than the drought we've experienced in the past, that's how it was set up, to get us through a drought of record, as we see future droughts we have to manage those risks which is going to quite likely mean additional water supplies or strategies to manage that. I mean, in the end, water supply is only on paper. If it's not there physically you have to manage through that. Councilmember, the other thing we're doing is really working closely with lcra and legislatures and others to make sure that Austin gets maximum value out of that investment. The Colorado river system serves not only Austin but other firm water customers. All of the water ae uses for the power plants comes from the Colorado river system and downstream users, agriculture users that grow rice have historically used the bulk of the water in the Colorado and we have been working with lcra and others to implement emergency orders to cut off that water for the last four years there's been a negligible rice water releases through these emergency waters. Then we're reshaping those plants called the water management plan with state agencies to better manage that water into the future. But even with all of that, I think it's prudent and appropriate for the community to be examining other options for water supply. >> Renteria: The reason I was bringing up that because I'm very concerned about all this increase on water and

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wastewater, especially on our low income people struggling to pay their bills, you know, because of what -- we made some huge investments and now our rates are going to be going up to cover that cost.

We call it a drought fee, but, you know, just basically they're not meeting the -- there's not enough water sales to pay for the plant that we just completed. And all the other service included. So they're basically just going to increase our fees to -- so we can cover -- get enough revenue to pay for all this costs. >> Yes and no. The -- certainly water rate increases are not all because of plant plant four. It is, again, water demand that's down as I described we're down at 1997 levels. The amount of revenue we're losing from those water reductions is, you know, dwarfs our infrastructure investments. The other thing that we're -- we're diversifying, we're diversifying revenue streams. With the council's assistance over the last couple of years we've really remade the way growth pays for utility infrastructure. Historically, Austin water has heavily discounted its capital recovery fees, the amount of impact fees that you pay when you hook up to our water system as a new customer had been well below cost. But beginning about a little over a year ago, we raised those fees substantially, and council approved the removal of all discounts. For example, our typical water capital recovery fee back a couple years ago was, you know, less than $1,000. Today it's over $5,005,000, and over the next 30 years the bulk of plant four will be recovered through those new development fees not all on the backs of the ratepayers. So we are sensitive to your concerns and trying to manage those risks by spreading more costs to the growth side. It takes a while for those

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growth revenue streams to grow through capital recovery fees but as time goes on, you know, we dough see those streams getting healthier and healthier but it is tough for the ratepayers. I'm not trying to gloss over that. Our water rates particularly have been really going up and it isn't that we're spending a lot more money, like I said we're spend being less money. I mean, our water budget went down $30 million last year, yet we're raising rates up. It's just trying to make up for the water losses, trying to preserve our bond ratings. It's tough. And we're not alone here, councilmember. This isn't unique to Austin. I mean, you go to California now, you even -- other Texas utilities are all in this boat. It's really a tough time for western cities with regards to water issues. >> Tovo: Ms. Hart did you have something you'd like to add? >> I just wanted to add, as Greg had mentioned earlier, when they completed the year for 2014, there debt service coverage came in at 125 times coverage, which is the amount that the -- their bond covenant requires them to meet. So they really don't have the option to go below that. So they're trying to maintain a cushion above that that they can reach in accordance with their policy. Their policy is set at 1.50 and they have just not been able to -- when -- every year they forecast for the last two or three years, the water usage has continued to go down, and so when they forecast coverage and they make those forecast presentations to the rating agencies and they continue to see that we can't meet their forecasted coverage and then it gets down to the level that the bond covenants require, they do have that concern. So I think what Greg is saying is he's kind of between a rock and hard place on the rates. He's got to raise rates. There's a rate covenant when he issues the bonds that he will raise rates to maintain that coverage at the level that they promised these they're really

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trying to maintain their financial viability. >> Renteria: I understand that, but the thing is that we've been told, hey, don't use any water, we're in a drought. People don't use water and then they turn around and say oh, we're going to have to increase your rates because you're not using enough water. Now, people are going, we're doing what we've been told to and now we're getting punished for it. >> I understand why people react that way, but I would say it goes back to what I said before. The customer if they have a fire at their house they want the water system to work that way and the hydrants to work and the tanks to work and all of that. And that's expensive. There's fixed costs to that that happens. Us replacing the water main, it costs $300 a foot to replace a water main and that doesn't change based on the amount of water we sell. So we're not punishing customers, we're just trying to maintain a healthy water system. It's essential for the quality of life, the prosperity of Austin. I think the most expensive water is the water that's not there. The high cost is something to consider. Councilmember, I'll go back to this slide on customer assistance program. I think this has been a very effective program for maintaining water for our most vulnerable customers, 20,000 customer, residential customers receive this. Their bill is -- for water and wastewater service combined is $53.91 a month. That's about what it was in '08. So for these customers for now coming up on seven years or thereabouts, we've kept their water and wastewater bills about flat. And that's taken a lot of effort, a lot of investment by our other ratepayers and we are sensitive to the customers that are most vulnerable. We know everyone has to have water. You can't deal without

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water. We're trying to help them. The other thing is we have many programs for customers. If they come in, we have programs to help replace toilets, to do water audits for them, other opportunities for them to continue to try to keep water affordable. And we want to continue that. We don't enjoy raising rates. I mean, it's tough. To cut $30 million from your budget and raise rates? That's -- it makes me wonder why, but it's just the kind of reality that we're in. >> Tovo: We will need to move on from here soon, but councilmember pool has been waiting to comment. >> Pool: If I could add some things to what councilmember Renteria was getting to. I think really what we're dealing with at this point are the policies that the council had put in place in previous years. And it took a long time for this body to be willing to provide different tiering levels for the water rates. You may remember it used to be 2000 and anything over and there was no granularity in the cost increases above 2000. We now have like three tiers I think and maybe we're looking at five. >> Five tiers. >> Pool: And the five is relatively new, right? >> The fifth year was added maybe three years ago? That's the tiers there. >> Pool: And the tiering at this level only started happening to my recollection about the time when I was on the water wastewater commission. That was one of the things I advocated for. The other thing I advocated for was don't build water treatment plant four because in my estimation and what I was hearing from people in the environmental community and what I saw around me is people weren't using water as much because we were really hearing the message of we're in the southwest and water is precious, it's hard to bring it back. We really do have to allow the heavens to bring it to us so to speak. And conservation is really a quality of life thing that austinites have adopted. I think maybe we need to shift the rhetoric that we use about our water

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rates and rather than feeling like we're being penalized with higher rates for using less water, we should champion the fact that we are being -- we are conserving it well because we don't know how long the supply will last. It could be a few years, it could be a lot of years. It depends on if we have another big storm like we had last weekend that seemed to have raised lake Travis up a pretty good foot or so in just a short amount of time, give or take. >> Yeah, about 10,000-acre feet. >> Pool: There you go. And -- but it's a hard sell. And -- >> Renteria: [Inaudible]. >> Pool: It's a combination of policy decisions that were made by previous councils. The big one was going ahead and building water treatment plant four and the staff estimates on the level of conservation that the city residents would be able to do was whoafully under estimated -- wowfully underestimated. We have saved tremendously more water in that time frame than what the staff ever estimated we could do. So we really out performed ourselves. I wish we could shift the rhetoric that that was a huge plus and try to find other ways to reduce the cost of water for the people who are really struggling and really push the cost on to the people who use massive amounts of it. And I think we're working toward that direction with having at least five tiers. >> Renteria: Let's hope so because there's no plus when you get your utility cut off. >> Pool: Exactly. And the water rates are considerably less than the electric rates, but we can't do without either of either of them. >> Tovo: Councilmember Houston and then we will move on to the last slides from our water utility. >> Houston: Thank you so much. I need to ask you a question about the capital improvement program. Is the walnut creek project at all in the

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capital improvement -- >> Yes. We annually invest monies in walnut, yes. >> Because you know the concerns that I get from the neighborhoods that it smells really, really bad. Agave, craigwood, all of those areas, I want to take -- they say bring them out here one hot summer day and smell the odor. And all of that waste comes from west Austin. That plant was built there so that we could move waste from west Austin down. So when we talk about quality of life, that's a quality of life issue. So if we could do something about the odor, I'm sure everybody would appreciate it that lives there. >> Understood. I'm about done! So this is the total fund summary, which again I won't go through all this to you, other than the forecast meets all council approved financial policies and we put our debt coverage forecast at the bottom of that like we said, that's a big driver of our utility is the debt coverage. That's contact information and there you go. >> Tovo: Any other questions for our water utilities staff. All right. Thank you very much. We appreciate the discussion. Our last presentation of the day is going to be aviation and then we'll round out the day by hearing from our financial staff again before we conclude. So welcome, Mr. Smith. >> I'm Jim Smith with the airport. And I'll try and walk you through our five-year forecast. The first slide tries to

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give you an overview of what existing budget is. You can see it lists 379 fte's. Some of you may not be familiar, there's almost four thousand people who work at the airport. The city however only employs 379. The bulk of those employees who work at the airport work for are tenants or our contractors, a variety of other businesses that we have partnerships with. The 2016 staffing, which is the first year of the five-year forecast, because of the construction projects we have coming online, the con rack facility, the rental car facility, that is going to open in the fall. Our east infill project, half of it opened already, which is the new customs facility. And the upper floor will open in June, which is the new T.S.A. Checkpoint. All of those facilities, plus some additional baggage handling equipment that was installed, is going to require additional staff to help maintain and take care of those facilities. Next slide talks about the five-year forecast staffing. We can go over each of the five years. You see there's some additional staffing coming in in each one. The big project that we have going on, which is the gate stanchion, the 780 gate expansion, doesn't come on until about 2018 but we're building up towards it. Over the forecast period we're talking about 96 additional employees during that particular time. In terms of expenditures for 2016 is -- right now these are just projections. The main issue that we're dealing with in

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2016 for expenditures is the airport has reached its capacity. And in '99 when the city built the new airport it was designed for 11 million passengers. We've exceeded 11 million passengers now, so all of the projects that we have going on in place today are designed to take the airport to a 15 million annual passenger capacity, which should with the three percent growth rate last us to 2025. However, the main project to get us there, which is the gate expansion, won't be ready until 2018, so there's going to have to be a lot of interim things done over the next three years to be able to handle the additional passengers that will be coming to the airport, but we don't have sufficient Gates to be able to handle them at peak periods during the day. So we're still working on the plans of how all of that is going to be handled, but these are our best projections at the moment. Next slide tries to talk about expenditures from 2016 to 2020. The main thing to look at is our debt service payments are going to have a significant increase. Today we're paying about 19, almost $20 million a year for debt service payments, but to fund the improvements that we talked about to get us to a 15 million passenger capacity we're issuing about $15 million in new debt over the next several years and that will take our debt service payment up to almost $40 million a year by 2020. In terms of revenue, because of our industry leading passenger growth, our revenue growth will grow as well. So it's not a revenue shortfall we're facing

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here. It anticipates substantial revenue growth. We get our revenue from two sources. One is listed as airline revenue and the other is non-airline avenue. Airline avenue is that revenue which we do get from the airlines, whether it's the landing fee, their rental payments, anything that they pay the airport to doness at the airport. -- To do business at the airport. Those funds are restricted by the government to do only cost recovery. So we're not recovered by federal law to turn a profit off of what we charge the airlines. Non-airline avenue however are not restricted that way. And the bulk of the non-airline revenue comes from our parking revenue. The next slide again tries to go over the revenue and how we forecast it between 2016 and 2020. And you can see in each case the rate of growth in airline revenue and non-airline avenue. Generally the airport has a target to try to get 60% of its revenue from non-airline sources and only charge the airlines for about 40% of the overall revenue required to run the airport. And we run pretty close to maintaining that ratio. The next slide tries to show you the various non-airline revenue sources. And you can see clearly from the chart that parking far exceeds anything else that we earn. Our airport pretty much runs on parking revenue. It is the driver of how successful we are at being able to pay for some of the improvements at the airport. So in terms of the overall forecast for the operating fund, this slide just breaks it down. I won't go through it all. You can see that the transfer to the capital fund, which is essentially those -- that revenue that exceeds expenditures in any one year, which we

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can transfer and use for capital projects, stays healthy throughout the forecast period. The cip, I mentioned a couple of these already, but the consolidated rental car facility, the conrac, that is opening in October. The customs and T.S.A. Checkpoint, that will open completely by June. The largest project is expanding our apron, which is the concrete around the terminal itself that the planes actually park on, as well as a seven to eight gate expansion. That is in doesn't phase right now. As I mentioned, the construction of that probably won't be appreciation completely open until -- won't be completely open until 2018. In addition to that there's a new parking garage that will be built adjacent to the consolidated rental car facility to add approximately another 5,000 garage parking places during the same type -- same time frame in the forecast. Next slide just reviews the Numbers for the capital fund. Again, if there's any questions I'll be happy to go over them. This next slide is an important one because it deals with the rate of growth. As I mentioned, the projects that we have going on right now are intended to take the airport to a capacity of 15 million passengers. And we've estimated that that's going to get us through 2025. However, if our growth exceeds that amount, then we run out of space with the facilities which are under construction a lot quicker than 2025. We've been growing at almost seven percent for the last two years and we're growing at seven percent again this year. And just to give you an indication, if we

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continued to grow seven% throughout the forecast period you could see at 2019 we exceed 15 million in annual passengers. So it could happen that quick. However the industry predictions are that the rate of growth for U.S. Airports will be around three percent going forward. But again, this is something we would have to review on an annual basis to see what Austin's rate of growth is relatively at the airport because it could affect the planning for the next round of improvements. And finally the last slide is just the summary and conclusions. The key is preparing the airport for the next 15 million passengers so that we don't lose out on airlines who can't put facilities in. To give you some indication of where we are with that, effective on June 1 in the peak morning we actually run out of gate spice space, so we will have to start ground loading some flights at the peak period in the morning. What that means is people will get in a hold room and then we will have to bus them from the hold room to a plane which is parked out on the apron, and unload them that way. And that's going to go on for probably at least two, two and a half years until we get the new Gates. So there will be a service impact to our passengers during the period of time where we try and get the additional capacity. That doesn't make the airlines happy, it doesn't make our customers happy, but it is a necessary thing to transition through the growth period. And with that I'll conclude unless there are any questions. >> Go ahead. [Laughter]. >> Troxclair: Mayor pro tem had to step out so she asked me to take over. Anybody have any questions?

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>> Zimmerman: I have one question here. >> Troxclair: Councilmember Zimmerman. >> Zimmerman: Going back to -- one of the slides, I guess I lost it here, it was talking about the rental cars. There were projections. Page 11. And it showed that -- it showed that for two years there was a prediction that the rental cars -- I guess the revenue would decline. It's on page nine. It shows fiscal year 2016, 12.92 and 201713.43 and that compares with fiscal year 2015, 13.48. I don't understand that. >> I'm going to have to get back to you on that and we'll get you something in writing to go over the details on that one. >> Zimmerman: Because everything else seemed to be incrementally increasing and it showed those did he creation. But there is some construction for some new rental car facilities. I thought there would be a temporary downturn because of the construction and then ramp back up. >> The overall rental car is actually pretty strong. So let me go back and take a look at how we calculated that and we'll get the information to you. >> Zimmerman: Thank you. >> Tovo: Councilmember Houston. >> Houston: Thank you. Thank you, Mr. Smith for being here again today. We're not nearly as scary as we were the first time. [Laughter]. We're a little better. So can you explain to me about the off-airport parking? Are those rental fees? I mean, how do you -- what does that number mean? >> There are two parking lots that run businesses that compete with the airport. You've got parking spot and fast park. And we charge them a 10%

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concession fee because they have to bring their buses on to the airport property to conduct their business. So that off-airport revenue refers to that 10% concession fee that those two parking operations pay us to have access to the airport. >> Houston: And for the new parking and pet hotel that the council just approved, will they have a 10% concession fee as well? >> They have a different price structure because they're actually under contract to us, is the city, to do the -- it's more than the equivalent, otherwise we would have allowed a private entity to build the parking. So -- but our contract with them allows us to recover actually more revenue than just the 10%. >> Houston: Okay. Thank you. >> Tovo: Councilmember Renteria. >> Renteria: [Inaudible]. I see that you're going to increase your staff here from 2016 to 2020. And are they going to be city employees? >> Yes. The ones that we have in the forecast, those are city employees. At the same time we have no predictions for how many employees are going to be working at the airport. That's up to the variety of companies that we do business with. Those in the forecast are city employees. >> Renteria: One other question. In the maintenance of cleaning the airport, taking care of it, all the maintenance, is that money come from the airline fee or is that through revenue that generate off of the small businesses that are operating down there? >> To clean the airport, our -- the cleaning staff is city employees. And we pay that with general airport revenues that we raise from a variety of sources. A small portion of what we charge the airlines

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for covers those cleaning costs, but a lot of the other cleaning costs to maintain the bulk of the terminal is not charged off to the airlines. We recover that from the parking and a variety of other fees that we have. >> Renteria: Thank you. >> Tovo: Councilmember troxclair. >> Troxclair: My question is next time will you request to go at the beginning of the meeting? >> I don't get to make that decision. [Laughter]. >> Tovo: Thank you very much, all of you. And we do have an update from our financial staff before we conclude for the day. Mr. Van eenoo, welcome back. >> Thank you. It's been a great day of talking budget with you all. It's my unfortunate duty to kind of end it on a by benefit of a sour note. While we've been down here talking Numbers all day, my staff has uncovered a miscalculation in our tif model. So that's the model we use to determine how much money is going to have to be transferred from our general fund to the various tif's and the error on our part of was really simple. All other tif's in the city are 100% of the increment gets transferred out, but in the case of the lone star tires, essentially the same as a tif, it was 50%. We need to recalculate that model. The Numbers are still large, but half as large as what we presented in the slide. So we obviously apologize for that and feel very, very badly about it. We will be getting updated slides to you this evening. On a good note as we flow this influence all of our models and we update everything it will result in lower tax rate projections and tax bill implications in the future. So we need to get those corrections done, we will get you updated pages out here later this evening. And we certainly apologize for that and thank you for your patience on it.

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>> Tovo: Thank you for all your work on this complicated process. With that we stand.