

FINANCIAL FORECAST

HIGHLIGHTS

- **Lower Property Tax Rate in FY 2015-16 and Long-term Financial Stability**

The Financial Forecast projects an FY 2015-16 property tax rate of 47.59 cents per \$100 of assessed value, a 0.5-cent reduction from the FY 2014-15 rate of 48.09 cents. In light of higher property values, the tax bill for the owner of a median valued home is projected to increase \$6.63 per month. Continued structural financial stability is forecasted through FY 2019-20.

- **Continued Commitment to Exemplary Public Safety Services**

To maintain high quality public safety services in the face of rapid population growth, the Financial Forecast anticipates the addition of 410 new police officers, 16 firefighters and 12 EMS sworn staff over the next five fiscal years. 82 new police officers are forecasted for FY 2015-16.

- **Increase in Austin Water Rates Required**

Water sales continue to decline as a result of the area's historic drought and Stage II watering restrictions. In order to maintain the financial stability of the utility, Austin Water is forecasting combined rate increases over the forecast period of 18.8%, or an average of 3.8% annually.

- **Stable Outlook for Austin Energy**

Austin Energy does not plan a base rate increase in FY 2015-16 and forecasts only modest increases in FY 2017-18 and FY 2019-20. Over the course of the forecast period, Austin Energy projects continued financial stability allowing for the replenishment of reserves to levels stipulated in the City's financial policies.

- **Strong Commitment to our Workforce**

In an effort to continue to attract and retain exemplary employees, the Forecast includes a 3% wage adjustment for civilian employees in FY 2015-16 and the subsequent out years. In addition, funding has been included to implement the results of a Citywide market study for civilian titles. Wage increases for sworn personnel are included at levels stipulated by their respective labor contracts.

FINANCIAL FORECAST

Document Guide

The FY 2015-16 Financial Forecast and Economic Outlook Report focuses on FY 2015-16 while illuminating critical issues facing departments over the five-year horizon. The report is divided into several sections. The first section discusses the City's financial outlook from an aggregate perspective, highlighting issues and cost assumptions shared by all City enterprises, and includes a discussion on Citywide staffing projections over the report horizon. Property taxes and utility fees are then examined with an eye toward the total cost burden for City residents. This analysis covers tax rates for all five local taxing jurisdictions as well as City utility rates and enterprise fees.

An overview of the General Fund is presented documenting revenue and expenditure projections over the next five years. The discussion begins with an analysis of the General Fund's major revenue categories: property tax, sales tax, development revenue, and transfers in from the utilities. Projections on General Fund expenditures are then provided with the major highlights by department.

Information on Austin Energy, Austin Water and other funds follow the General Fund section. The narratives are organized similarly, starting with a discussion of expenditures and staffing, moving on to revenue and rates, and culminating with a review of the fund's projected financial health. New for this year, we've added an Outstanding Issues section where departments discuss major areas of concern.

The report also contains 3 appendices: a Personnel Summary, the detailed list of Initial Funding Requests and Fund Summaries for all funds highlighted within this report.

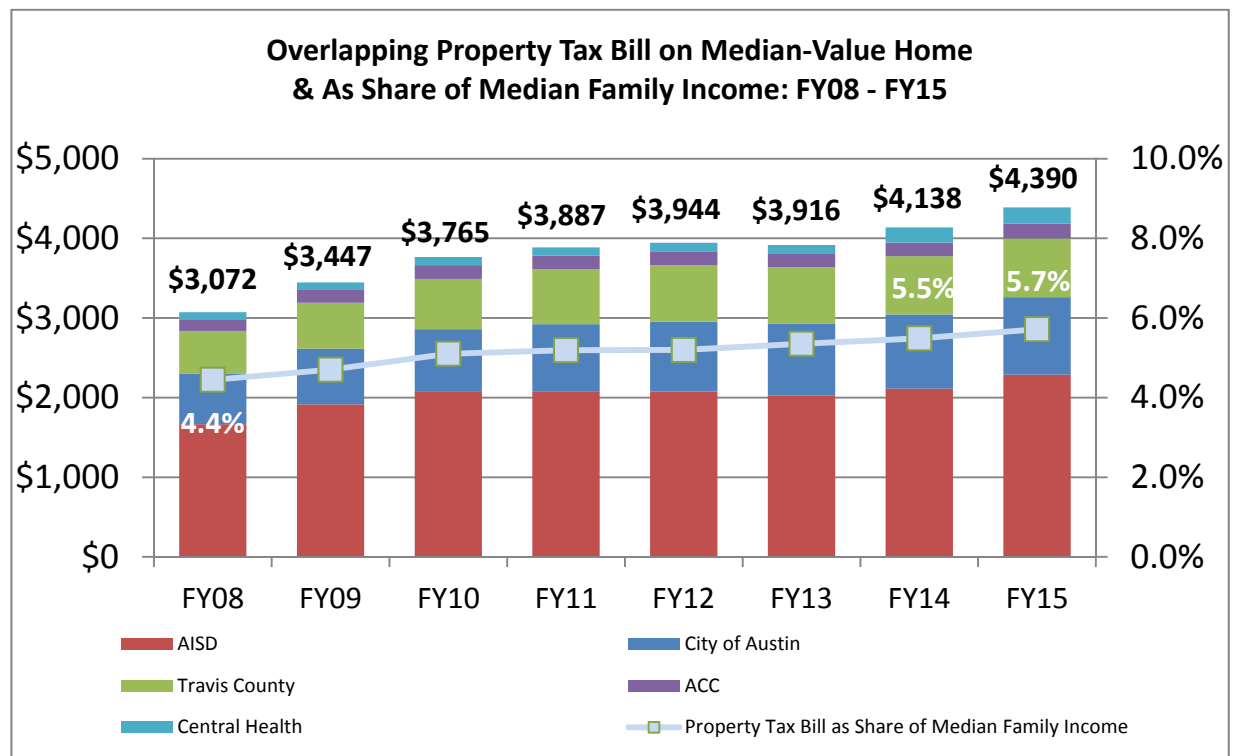
Timeline



FINANCIAL FORECAST

Overlapping Tax Bill Analysis and Impact of Forecasted Tax and Fee Changes

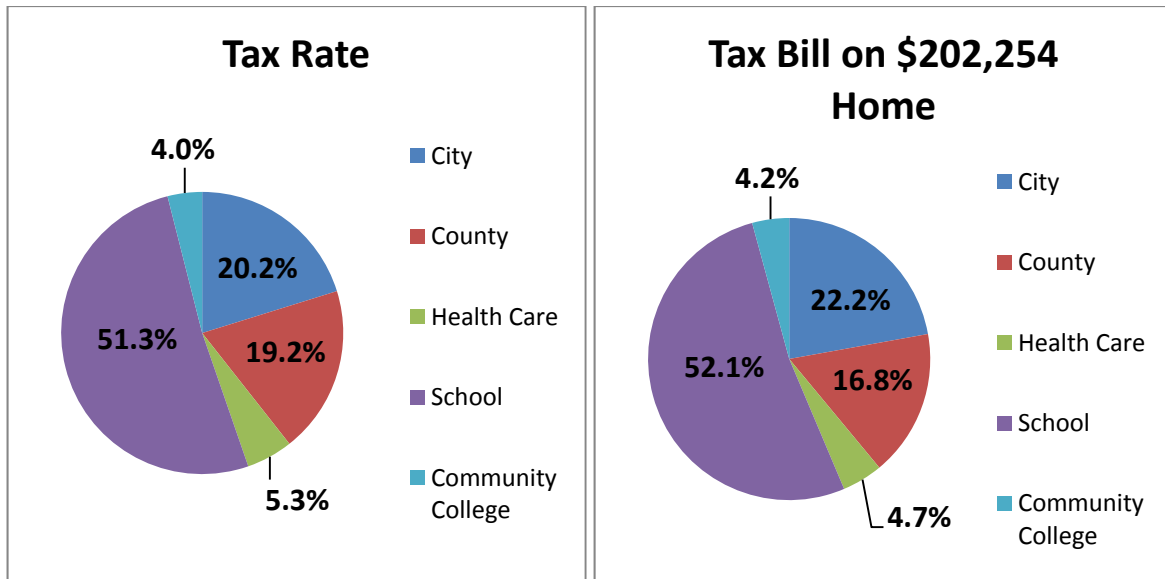
Taxes



The chart above displays the recent history of the combined property tax burden experienced by a typical Austin homeowner, defined as the owner of a median-value home who pays taxes to the City of Austin, Travis County, Austin Independent School District (AISD), Austin Community College (ACC), and Central Health. It also displays the combined property tax bill in any given fiscal year as a percentage of median family income.

The charts and tables on the following page provide additional detail as to the breakdown of the FY 2014-15 combined overlapping property tax rate and overlapping property tax bill experienced by the owner of a median-value home in Austin.

FINANCIAL FORECAST



Jurisdiction	Austin	Share
City	0.4809	20.2%
County	0.4563	19.2%
Health Care	0.1264	5.3%
School	1.2220	51.3%
Community College	0.0942	4.0%
Total Tax Rate	2.3798	100.0%

Jurisdiction	Austin	Share
City	\$973	22.2%
County	\$738	16.8%
Health Care	\$205	4.7%
School	\$2,288	52.1%
Community College	\$186	4.2%
Total Tax Bill	\$4,390	100.0%

As these graphics illustrate, the largest component of an Austin resident's tax bill is the school district, followed by the City of Austin, Travis County, Central Health, and Austin Community College. On an overlapping basis, the property tax burden associated with these entities represents 5.7% of a median family's income in FY 2014-15, up from 5.5% in FY 2013-14.

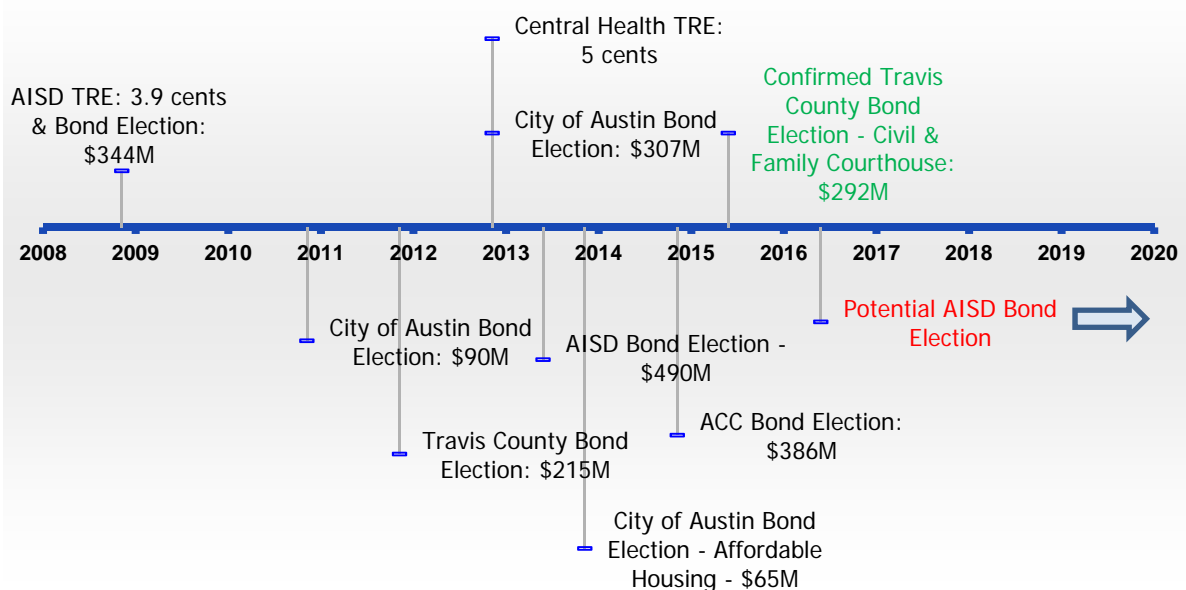
Looking ahead to FY 2015-16, the property tax rates of other jurisdictions cannot yet be accurately predicted. With respect to the City of Austin, an FY 2015-16 property tax bill of \$1,052 is forecasted for a median-value home. This figure reflects expected appreciation of residential property values and a projected 0.5-cent decrease in the property tax rate. It represents an increase of approximately \$79 per year from FY 2014-15.

The City of Austin is sensitive to the fact that its property tax bill is not the only one its residents receive. The City Council and City staff coordinate with counterparts from the other taxing entities in the region to ensure that each organization maintains a holistic view of the total tax burden shouldered by the City's residents as it considers its tax rate each year.

Increasingly, the region's taxing entities are working together to coordinate with regard to the timing and scope of prospective bond or tax rate elections. The following timeline displays

FINANCIAL FORECAST

Increasingly, the region's taxing entities are working together to coordinate with regard to the timing and scope of prospective bond or tax rate elections. The following timeline displays the recent history of such elections, as well as potential future elections. City financial staff will continue to work proactively with their counterparts in the other jurisdictions to develop timely cost projections with respect to these potential elections.



Fees

While it levies property and other taxes to support the operations of its public safety- and community services-oriented General Fund departments, the City also operates several enterprise departments, so called because their structure more closely resembles that of a traditional private-sector business enterprise. These departments include Austin Energy, Austin Water, Austin Resource Recovery, Watershed Protection, Public Works, Austin Transportation, and Austin Code. Each generally finance their operation through rates and fees rather than taxes.

However, because these departments are operated by the City and charge fees that are paid by nearly all of Austin's residents in one form or another, assessing the level of these fees and their impact to our typical citizen is a critical piece of any analysis of Austin's cost for government services.

FINANCIAL FORECAST

The Forecast includes projected rate and fee increases associated with these enterprise and utility departments, which are necessary to fund core cost drivers, service expansions, and the construction and maintenance of capital projects and facilities, while maintaining structural financial balance. The table below demonstrates the impact of forecasted property tax, fee, and utility rate changes in FY 2015-16 for a typical city of Austin resident.

PROJECTED RATE INCREASES

Description	2015 Monthly Rate	2016 Forecast Rate	Monthly Dollar Change	Typical Ratepayer
Austin Energy	\$107.90	\$109.01	\$1.11	residential customer using 1,000 Kwh
Austin Water	\$73.78	\$79.70	\$5.92	residential customer using 5,700 gallons of water and 4,000 gallons of wastewater
Austin Resource Recovery	\$21.60	\$23.30	\$1.70	residential customer using a 64-gallon cart
Clean Community Fee	\$7.40	\$7.85	\$0.45	per single-family home/residence
Transportation User Fee	\$8.25	\$9.77	\$1.52	per single-family home/residence
Drainage User Fee	\$9.80	\$10.58**	\$0.78	per single-family home
Property Tax Bill	\$81.05	\$87.68	\$6.63	median-value home of \$221,086
Total	\$309.78	\$327.89	\$18.11	combined projected increase of 5.8%

*In FY 2014-15, AW's typical residential customer used 7,000 gallons of water and 4,700 gallons of wastewater.

**The Watershed Protection Department is still in the process of developing its new fee structure. The Drainage Utility Fee is therefore projected to grow at the same 8% rate as the Department's overall revenue budget.

FIVE-YEAR RATE INCREASE PROJECTION

Description	2015 Monthly Rate	2016 Forecast Rate	2017 Forecast Rate	2018 Forecast Rate	2019 Forecast Rate	2020 Forecast Rate	Compound Annual Growth Rate
Austin Energy	\$107.90	\$109.01	\$109.01	\$110.03	\$110.03	\$111.07	0.6%
Austin Water	\$73.78	\$79.70	\$83.59	\$87.80	\$88.45	\$89.58	4.0%
Austin Resource Recovery	\$21.60	\$23.30	\$25.55	\$28.35	\$30.65	\$31.30	7.7%
Clean Community Fee	\$7.40	\$7.85	\$8.05	\$8.15	\$8.30	\$8.45	2.7%
Transportation User Fee	\$8.25	\$9.77	\$10.10	\$10.45	\$10.81	\$11.19	6.3%
Drainage User Fee	\$9.80	\$10.58	\$11.11	\$11.67	\$12.25	\$12.62	5.2%
Property Tax Bill	\$81.05	\$87.68	\$92.37	\$96.07	\$102.85	\$110.74	6.4%
Total	\$309.78	\$327.89	\$339.78	\$352.52	\$363.34	\$374.95	3.9%

FINANCIAL FORECAST

General Fund

The General Fund is the general operating fund for the City of Austin. It includes eleven departments that provide programs, activities, and services directly to the citizens of Austin, as well as to surrounding communities. This is two more than in FY 2014-15 as the Planning and Development Review department has been split into two functions: Planning & Zoning and Development Services. In addition, the Neighborhood Housing & Community Development department will now be reported as part of the General Fund. The remaining departments include Emergency Medical Services, Fire, Health & Human Services, Animal Services, Library, Municipal Court, Parks & Recreation, and Police.

This section details the General Fund's projected revenue and expenditures for fiscal years 2015-16 through 2019-20. A general overview of revenue and expenditures is followed by a more detailed review of General Fund department expenditure projections.

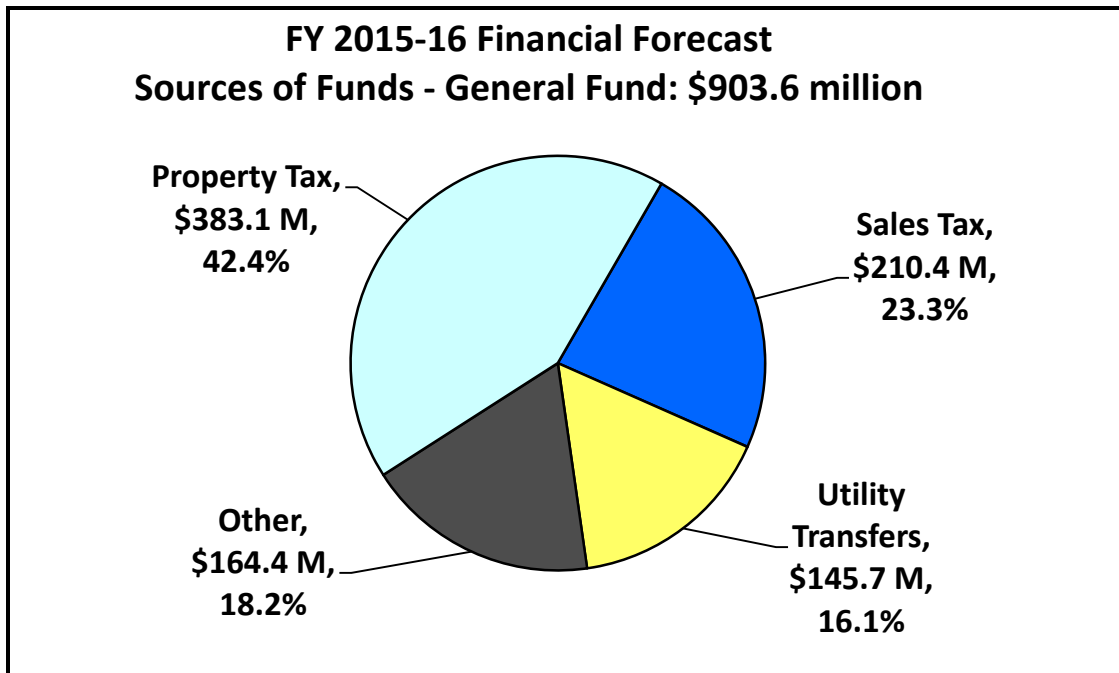
This Financial Forecast projects structurally balanced General Fund budgets in all years of the forecast time horizon.

REVENUE

General Fund revenue is sourced from four broad categories: property tax, sales tax, transfers in from the two City-owned utilities, and other revenue. Property taxes are a result of the tax rate per \$100 of property valuation. Sales tax collections allocated to the City of Austin are 1% of the price of taxable goods and services sold in the city of Austin. Transfers into the General Fund are received from the electric and water utilities in accordance with a Council ordinance. Other revenue comprises development fees, franchise fees, fines, forfeitures, penalties, licenses, permits, inspections, charges for services, and interest.

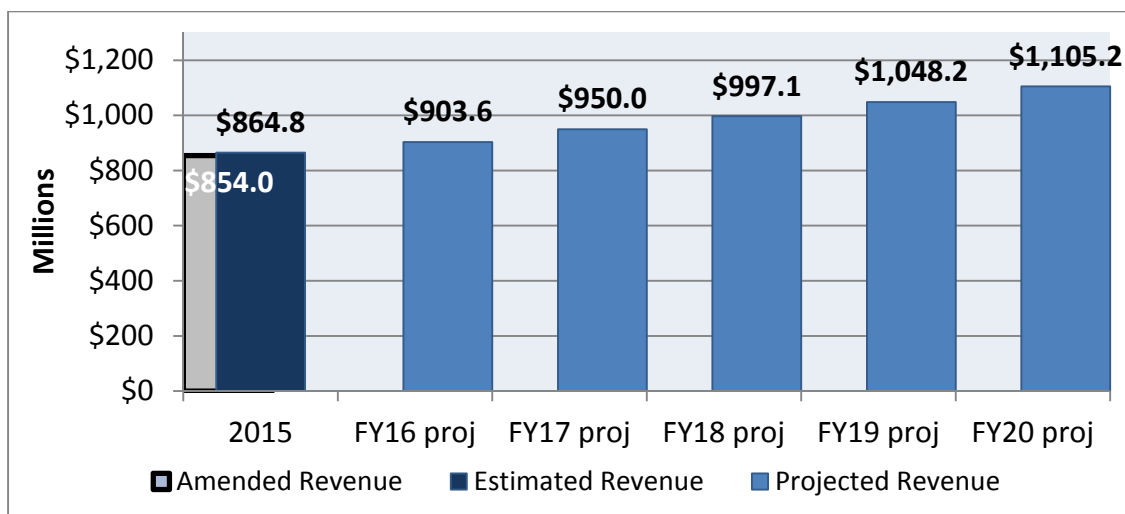
The graph on the following page depicts each of these four revenue categories as a percent of total projected General Fund revenue for FY 2015-16.

FINANCIAL FORECAST



The graph below depicts estimated General Fund revenue for FY 2014-15 and projected revenue for FY 2015-16 through FY 2019-20. FY 2015-16 forecasted revenue for the General Fund totals \$903.6 million, an increase of \$49.5 million from the FY 2014-15 budgeted revenue and \$38.8 million from estimated FY 2014-15 revenue. The revenue forecast reflects a tax rate reduction of 0.5 cents per \$100 of taxable value in FY 2015-16 and tax rate increases averaging 0.95 cents annually in the out years.

General Fund Revenue Forecast



FINANCIAL FORECAST

Property Tax Revenue

The Financial Forecast projects that in FY 2015-16 the property tax rate will decrease to 47.59 cents per \$100 of assessed value from its current level of 48.09 cents, a reduction of 0.5 cents.

Forecasted property tax revenue is based on applying this property tax rate to projected total citywide assessed valuation, as determined from the estimated tax rolls from the Travis Central Appraisal District, the Williamson Central Appraisal District, and the Hays Central Appraisal District. The Forecast reflects a citywide assessed valuation of \$107.6 billion, which represents an increase of 9% over last year's valuation. This figure includes \$2.3 billion in new construction, as a result of strong commercial, multifamily, and residential development activity. Looking ahead, City financial staff expects the robust growth in property value to continue, if at a more graduated pace. More specifically, total assessed valuation in Austin is currently projected to increase by 7% in FY 2016-17 and FY 2017-18 and at a slightly more conservative 5% rate in the two subsequent fiscal years.

The FY 2014-15 property tax bill on a median-value home assessed at \$202,254 is \$973. The median-value home is projected to appreciate by 9.3% in FY 2015-16, to \$221,086. At the forecasted FY 2015-16 property tax rate of 47.59 cents per \$100 of assessed value, the annual property tax bill on a median-value home rises to \$1,052, an increase of approximately \$79 per year. The table below illustrates the forecasted changes in assessed property values, tax rates, and General Fund property tax revenue for the next five fiscal years.

Fiscal Year	Projected AV Growth	Projected Tax Rate	Projected Revenue
FY 2015-16	9.0 %	0.4759	\$383.1 m
FY 2016-17	7.0 %	0.4821	\$417.4 m
FY 2017-18	7.0 %	0.4821	\$447.8 m
FY 2018-19	5.0 %	0.4963	\$486.9 m
FY 2019-20	5.0 %	0.5138	\$532.9 m

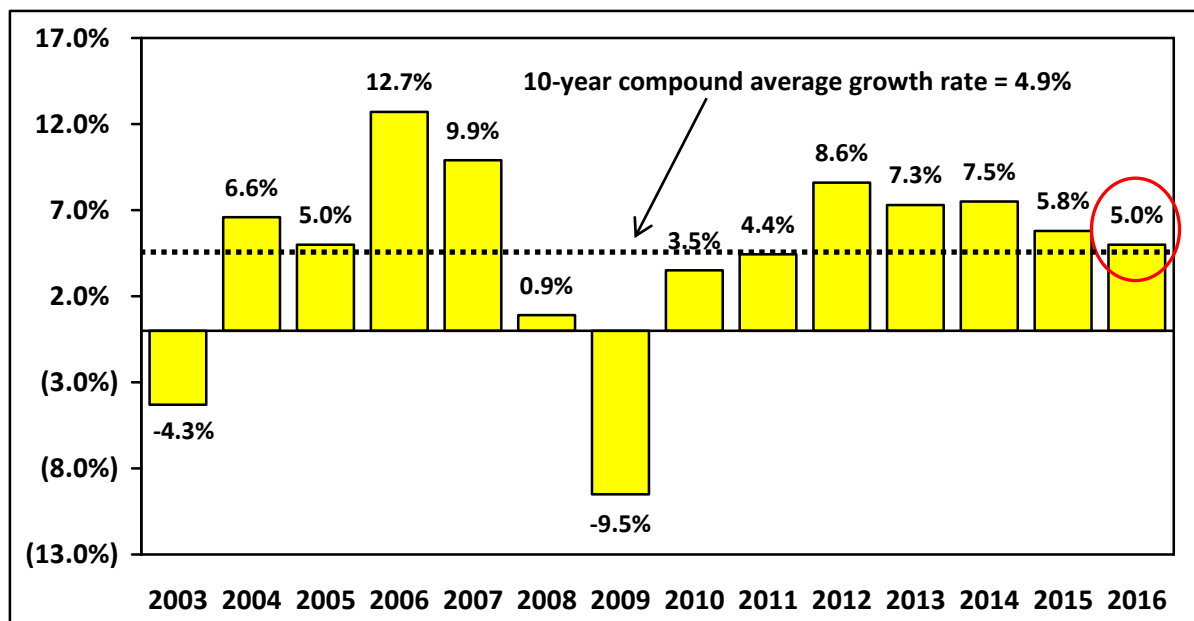
FINANCIAL FORECAST

Sales Tax

Sales tax is levied on the sale, lease, or rental of qualifying goods and services within the Austin city limits. Certain foods and drugs as well as governmental purchases are exempted from the sales tax. Sales tax is collected by businesses at the time of the sale and paid periodically to the Texas Comptroller of Public Accounts. The Comptroller then remits the portion due to the locality where the business is located. In the city of Austin, the State collects 8¼ cents for every dollar spent on retail sales. Of this amount, the State keeps 6¼ cents, 1 cent is allocated to the City, and 1 cent is allocated to the Capital Metropolitan Transportation Authority.

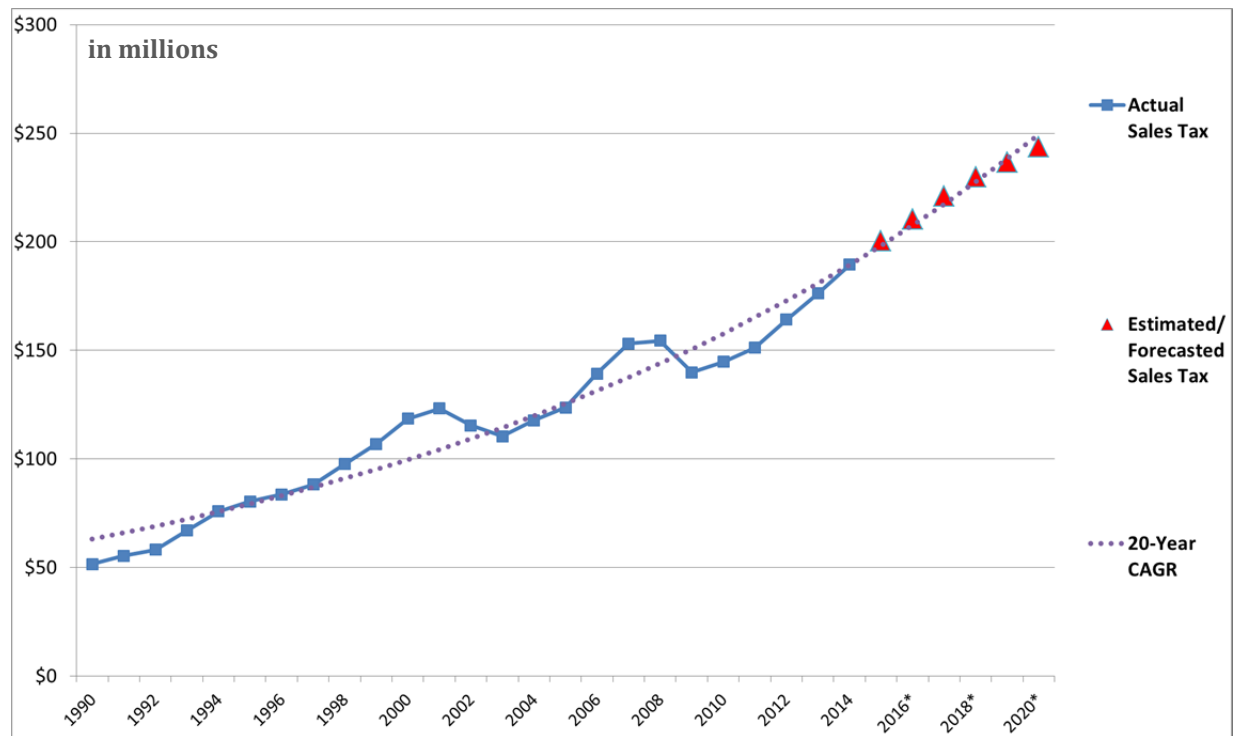
Sales tax collections are volatile since they are directly related to the strength of the local economy. The chart below tracks the growth in Austin's sales tax collections since 2002.

Austin has generally experienced strong sales tax growth over the past decade, with a compound annual growth rate of 4.9%. FY 2014-15 collections are estimated to end the year at 5.8% above FY 2013-14 levels. In line with this experience, sales tax revenue is forecasted to grow by 5% over estimated FY 2014-15 collections to an FY 2015-16 total of \$210.4 million. This projection is slightly more conservative than the 7% growth projected by the City's economic consultant, Texas Perspectives. Annual growth rates of 5%, 4%, 3%, and 3% are conservatively projected in FY 2016-17 through FY 2019-20, respectively; the smaller anticipated growth rates reflect historical experience tempered by the greater uncertainty associated with longer-term projections. Conservative sales tax projections are considered a best practice and are viewed favorably by credit rating agencies.



FINANCIAL FORECAST

The graph below illustrates the history of actual sales tax receipts, as well as estimated and forecasted sales tax figures for fiscal years 2014-15 through 2019-20. It's important to note that sales tax projections are on the high end of long term trends and downward adjustments in the future may be needed if the economy unexpectedly tempers.



*Estimate/Projection

Utility Transfers

The General Fund receives annual transfers from Austin Energy and Austin Water at 12% of three-year average non-fuel revenue and 8.2% of three-year average revenue, respectively. Note that the Austin Energy transfer policy set a floor of \$105 million until the calculated transfer based on 12% of non-fuel revenue exceeded that amount. These transfers serve as payments in lieu of the property tax, dividend, or return-on-equity-type expenses commonly experienced by investor-owned utilities. The transfer from the electric utility is forecast at \$105 million in FY 2015-16, the same level as in the FY 2014-15 Budget, while the transfer from Austin Water is forecasted to increase by \$2 million to \$40.7 million. The combined transfers from these two utilities are projected to rise to \$168.7 million by FY 2019-20. However, the overall share of General Fund revenue coming from the two utility transfers is projected to fall from its FY 2014-15 estimated level of 16.6% to 15.2% by FY 2019-20.

FINANCIAL FORECAST

Franchise Fees

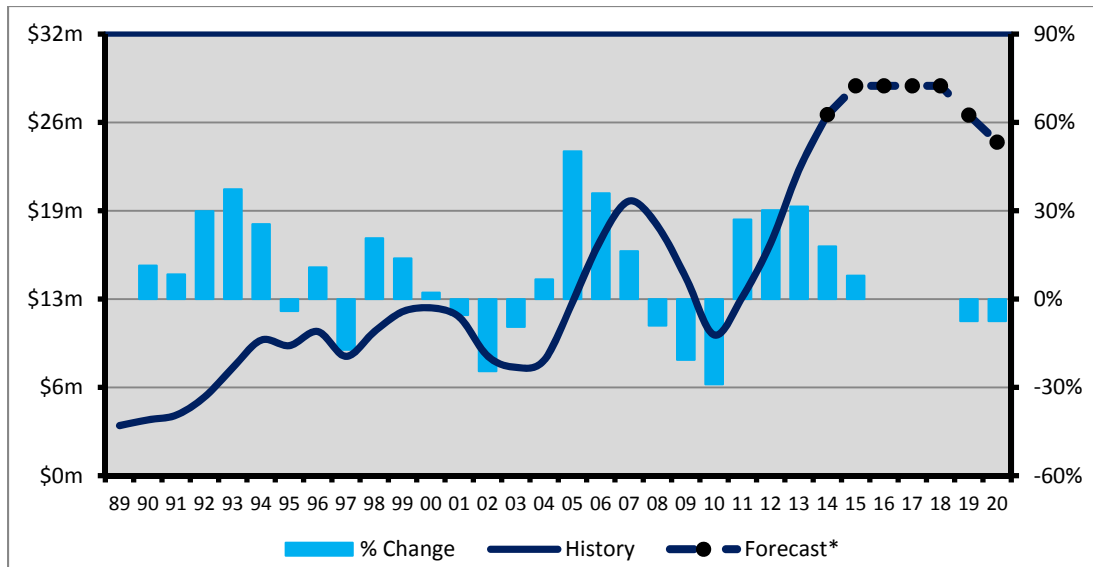
Franchise fees are assessments charged for a company's use of the City's rights-of-way. Three major categories of franchise exist in Austin: telecommunications, gas, and cable. Revenue associated with these fees generally correlates to growth or contraction in customer base and is also influenced by inflationary pressures. A \$554,000, or 1.5%, increase in franchise fee revenue is forecasted for FY 2015-16 compared to estimated FY 2014-15 revenues. Franchise fee revenue is projected to grow by an additional 1.4% in each subsequent year of the forecast period, which reflects the relatively sluggish underlying growth in this revenue source in recent years.

Building and Development Fees

Building and development revenue comes from a variety of fees and charges for permits, the largest subcategories of which are single- and multi-family residential development and commercial development. This revenue category is as strongly tied to the health of the local economy as is sales tax revenue, while being even more volatile. For instance, as recently as FY 2009-10, building and development revenue dropped nearly 30%—or \$4.2 million—in a single year. City financial staff work closely with the Development Services Department to monitor applications for permits and other leading indicators of demand in order to remain highly sensitive to signs of a downturn. This analysis has led staff to conclude that the high level of development activity that began in FY 2010-11, fueled by the shrinking pool of available homes, a continued influx of new residents, and higher levels of commercial investment, will begin to wane in FY 2015-16. While permitting activity has begun to show signs of decline, a combination of larger, high-value projects and a multiyear strategy aimed at increasing fees to the level of full cost recovery is expected to cause development revenue to plateau in fiscal years 2015-16, 2016-17 and 2017-18, before declining moderately in the subsequent two fiscal years.

The graph on the following page illustrates the 25-year history of the City's development revenue, as well as estimated FY 2014-15 and forecasted FY 2015-16 through FY 2019-20 receipts. It also juxtaposes the actual or projected annual growth rate associated with this revenue.

FINANCIAL FORECAST

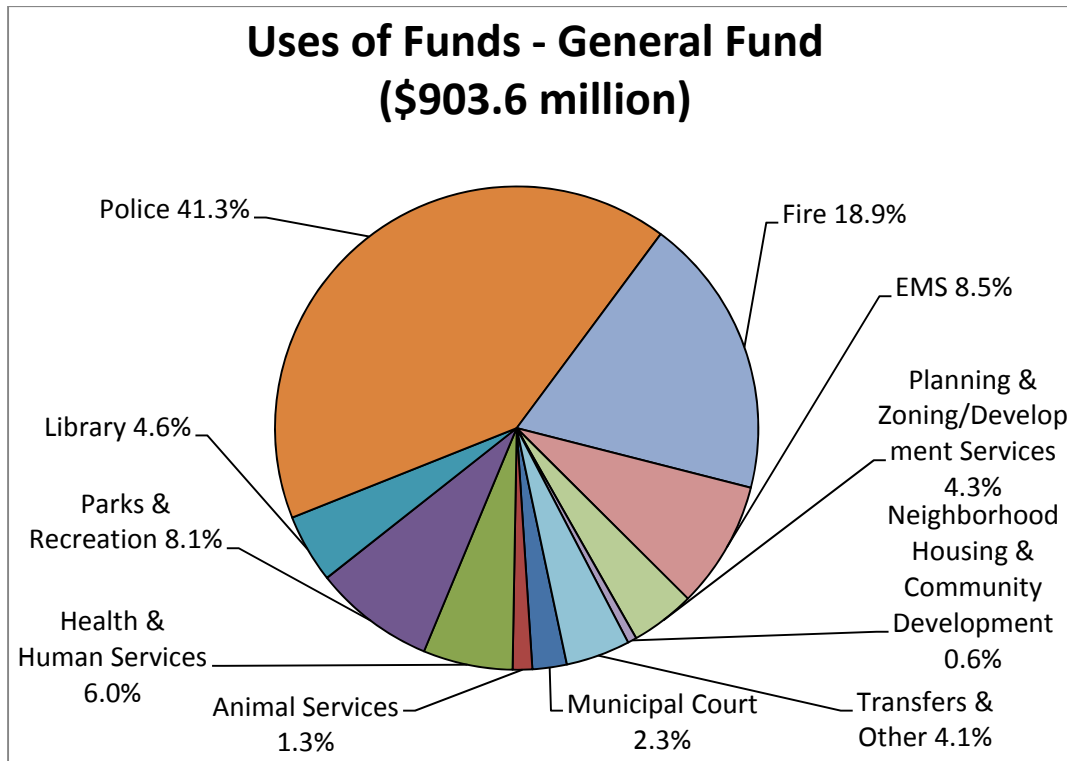


FY 2014-15 development revenue is estimated at \$28.2 million, which represents the highest amount in the City’s history and an increase of \$2.1 million over FY 2013-14 revenue. The same respect for the cyclical nature of trends and the awareness of disproportionate downside risk that informs sales tax projections also drive the medium-term forecast for building and development revenues. The Forecast projects these revenues to remain constant at the \$28.2 million level over the next three years, before falling to \$26.1 million in FY 2018-19 and to \$24.2 million in FY 2019-20.

EXPENDITURES

Total requirements for the General Fund in the FY 2015-16 Forecast are \$903.6 million, which is \$49.5 million, or 5.8%, higher than the FY 2014-15 Budget. As depicted on the chart on the following page, the largest portion of the General Fund budget, 69%, is allocated to the three public safety departments: Police, Fire, and Emergency Medical Services. The community service departments, namely Parks and Recreation, Health and Human Services, Library, Animal Services, and Neighborhood Housing and Community Development collectively comprise 20% of the General Fund budget. Planning and Zoning, Development Services, Municipal Court, and Transfers/Other collectively represent the remaining 11% of General Fund resources.

FINANCIAL FORECAST



As illustrated in the graphic on the following page, the make-up of the General Fund is not expected to change significantly over the next 5 years. While the overall spending is projected to grow by \$251.1 million, or 29% from FY 2014-15 to FY 2019-20, the ratio of spending by category is projected to remain relatively constant. Aside from the addition of police officers needed to increase proactive engagement time in the community, all of the projected growth is due to bringing on new facilities, such as the new central library and Onion Creek fire station, and built-in cost drivers such as wage increases, health insurance, and rent or lease agreements.

It is worth noting that the average growth over the forecast period is \$50.2 million which is a significant increase over the growth forecasted in the past several years. This rising growth factor is largely due to the addition of the transfer out of the General Fund for the Lone Star Rail tax increment reinvestment zone. The transfer begins in FY 2014-15 at a cost of \$1.0 million and grows to \$7.1 million by FY 2019-20.

FINANCIAL FORECAST

Outstanding Issues

APD has identified two major issues during the City's Business Planning process. First, APD facilities are overcrowded with parking at the headquarters a significant problem. Second, APD continues to struggle to keep up with both calls for service and the incoming flow of criminal cases that need investigation. The department must also accommodate mandatory training necessary to maintain high standards expected by our community. There is little time for community engagement, problem solving, or working initiatives related to "hot spots" without using overtime.

Transfers and Other Requirements

At \$36.8 million, the Transfers and Others Requirements category accounts for 4% of the total General Fund requirements. Included in this category are items that do not relate to a specific General Fund department such as payments pursuant to economic incentive agreements; a transfer to CIP for facility maintenance; a transfer to Austin Water to cover management expenses for the Balcones Canyonlands Nature Preserve; and increases to reserve funds.

The requirements for the Transfers and Other category is forecasted to increase by \$7.7 million in FY 2015-16. Of that amount \$1.9 million is tied to changes made to the funding of the Economic Development Department and the 311 Call Center. In FY 2013-14, the Economic Development Department was moved out of Austin Energy and into the Economic Development Fund with the costs for the department shared by Austin Energy, Austin Water, Austin Resource Recovery and the General Fund. For FY 2015-16—year three of the 4-year implementation plan—the General Fund's contribution is increasing by \$1.0 million. Likewise, this year is the third year of a phased-in approach to transition the allocation for the 311 Call Center onto a service ticket basis. In FY 2015-16, the General Fund will contribute \$0.9 million more to Austin Energy for the 311 Call Center, bringing the total contribution to \$2.6 million.

New to this category is the transfer out for the Lone Star Rail tax increment reinvestment zone. The transfer begins in FY 2014-15 at a cost of \$1.0 million, is forecasted at \$2.4 million in FY 2015-16 and grows to \$7.1 million by FY 2019-20.

FINANCIAL FORECAST

Initial Funding Requests

As part of the FY 2015-16 Forecast process, General Fund and Internal Services departments submit requests for additional resources through the Initial Funding Requests process. An Initial Funding Request (IFR) is defined as a basic critical need that is essential to the department's mission and for which the department does not have funding. For FY 2015-16, 199 requests were submitted for a total of \$48.3 million and 329.75 new positions. The table below summarizes the submissions received by fund and department. The itemized list of all IFRs is included in Appendix B.

The items in the IFR list are not all of the needs identified by departments. Instead, the list reflects each department's highest priority requests. For example, APD has identified the need for an additional 143 staff—35 civilian and 108 officers—for a total cost of \$21 million. Because these requests were of a lower priority they were not included in the report.

Fund/Department	Net FY16 On-going Costs	Total FY16 One-Time Costs	Total FY16 Positions	# of Requests
General Fund	\$27,480,338	\$13,963,933	280.75	137
Animal Services	\$603,835	\$6,391	15.00	5
Development Services	\$5,035,252	\$2,303,500	49.00	45
Emergency Medical Services	\$3,963,706	\$2,098,149	37.00	9
Fire	\$5,915,423	\$5,577,900	55.00	16
Health and Human Services	\$1,433,873	\$18,000	10.00	5
Municipal Court	\$413,564	\$0	3.00	4
Parks and Recreation	\$1,744,700	\$2,142,513	23.75	11
Planning and Zoning	\$251,000	\$500,000	0.00	4
Police	\$8,118,985	\$1,317,480	88.00	38
Support Services	\$2,770,605	\$463,560	30.00	31
Building Services	\$445,610	\$152,250	6.00	6
Capital Planning Office	\$50,000	\$0	0.00	2
Communications and Public Information	\$20,000	\$0	0.00	1
Financial Services	\$1,089,486	\$41,360	10.00	7
Government Relations	\$53,440	\$2,500	1.00	1
Human Resources	\$455,123	\$37,900	5.00	4
Law	\$172,828	\$3,000	2.00	1
Management Services	\$103,109	\$52,300	1.00	2
Office of Real Estate Services	\$34,508	\$0	0.00	1
Office of the Medical Director	\$69,791	\$70,000	2.00	3
Small and Minority Business Resources	\$191,425	\$3,000	2.00	1
Telecommunications & Regulatory Affairs	\$85,285	\$101,250	1.00	2
Communications & Technology Management	\$1,113,826	\$113,157	3.00	6
Fleet	\$689,166	\$3,360	10.00	5
Economic Development	\$1,241,707	\$469,500	6.00	13
Total	\$33,295,642	\$15,013,510	329.75	192