



# Financial Forecast & Economic Outlook

Fiscal Years 2017-2021

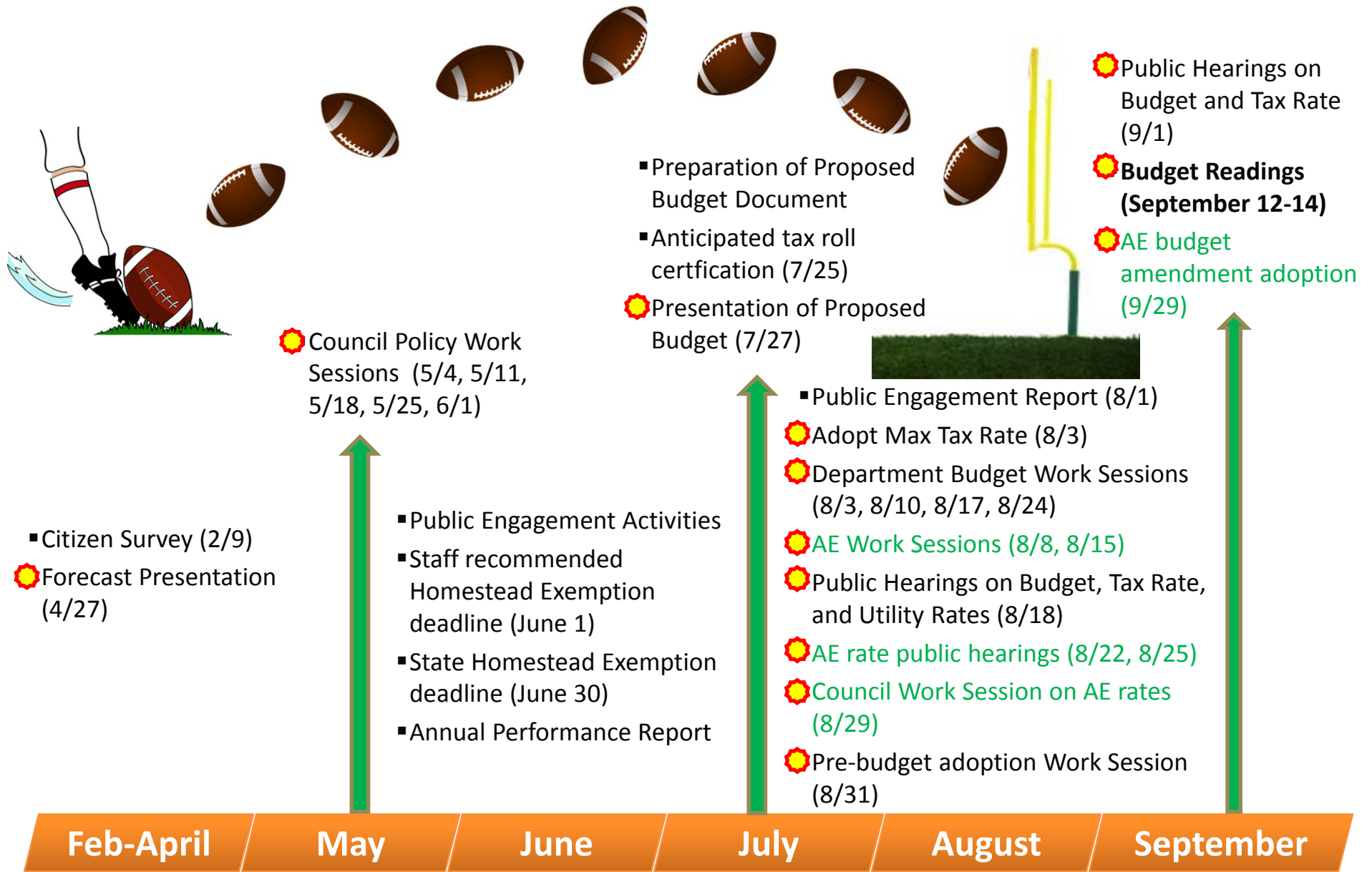
April 27, 2016 | City of Austin, Texas



# Purpose of Financial Forecast Process

- Outlook for the local economy and the City's financial position for the next 5 fiscal years
- Estimation of known cost-drivers and revenue
- **Opportunity for Council to delineate policy priorities**
- Planning tool for the preparation of the City Manager's Proposed Budget
- Considered a best practice by Government Finance Officers Association (GFOA)
- Required by City's adopted financial policies

# Budget Development Timeline



# Today's Agenda

***April 27 (9:00 AM – 12:00 PM)***

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**Economic  
Outlook**

**Jon  
Hockenyos,  
Texas  
*Perspectives***

**Five-Year  
Financial  
Forecast**

**General Fund  
Highlights  
Enterprise  
Fund  
Highlights**

**Discussion  
of Policy  
Topics**

**Recommended  
Policy Topics  
  
Council  
Discussion**

**Council  
Feedback**

**Council  
Discussion  
&  
Questions**

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# Economic Outlook

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*Jon Hockenyos, Texas Perspectives*





The Austin MSA Area  
Economic Forecast  
April 2016



austintexas.gov

# Macroeconomy

## Overview

- U.S. economy is showing signs of future slowing, as leading production indicators such as factory orders/purchasing manager's index are weak. Forecast is for growth in the 2.5 percent range.
- At near full employment, the pace of job growth and consumer spending is fairly even – there is some sign of improving wages.
- Global economy has a potentially negative influence
  - Falling overall demand/over-supply of oil
- Overall inflation near zero in US – even with removal of food and energy still shows little uptick. There are no signs of pressure from other sources
  - Commodity prices are weak
  - Demand/wages could change equation
- Slow pace of raising interest rates
  - Little market impact of first round of raising
  - Reduced level of additional action
    - Bank of Japan, others move to negative rates

# Macroeconomy

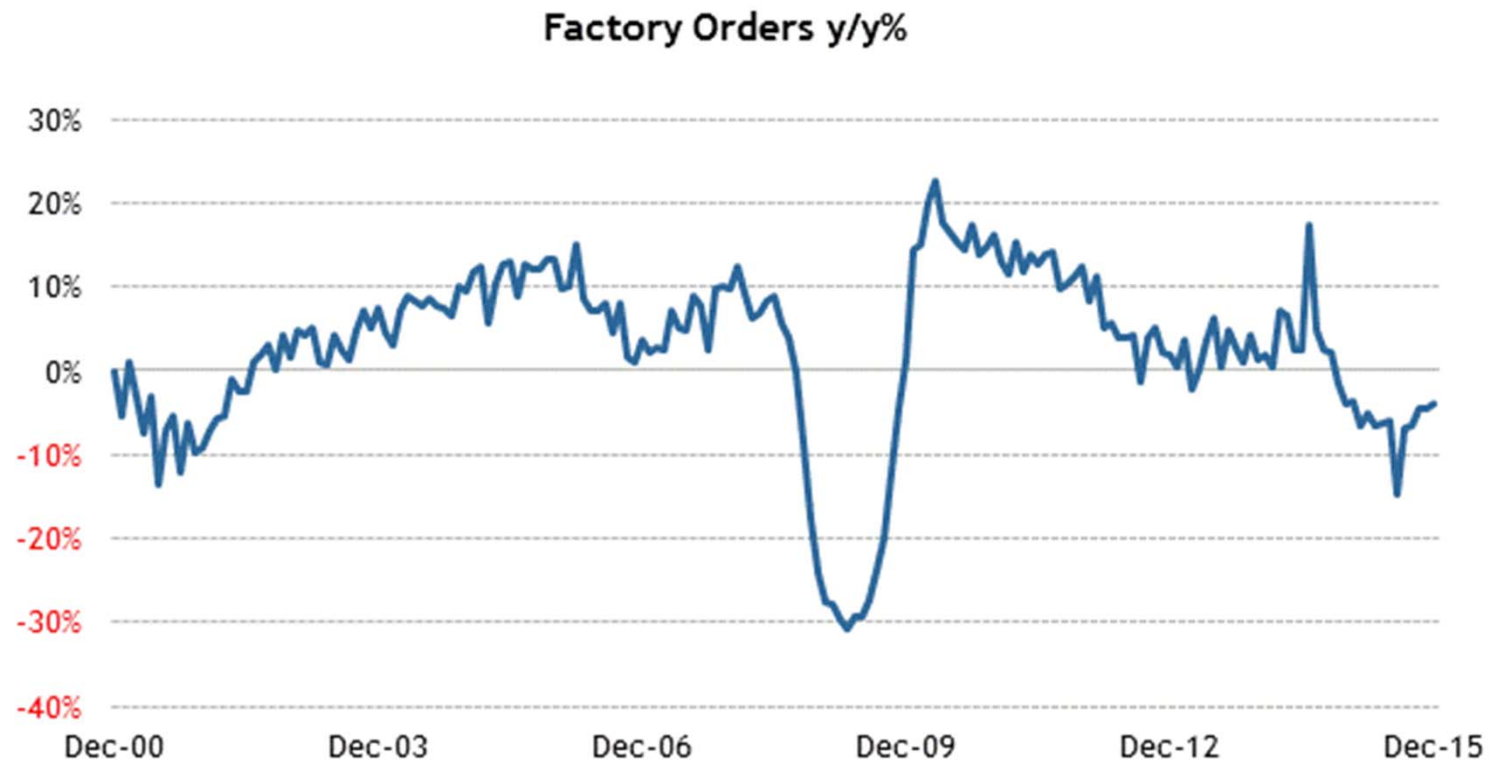
## Leading Indicator - PMI



SOURCE: [WWW.TRADINGECONOMICS.COM](http://WWW.TRADINGECONOMICS.COM) | INSTITUTE FOR SUPPLY MANAGEMENT

# Macroeconomy

## Leading Indicator – Factory Orders

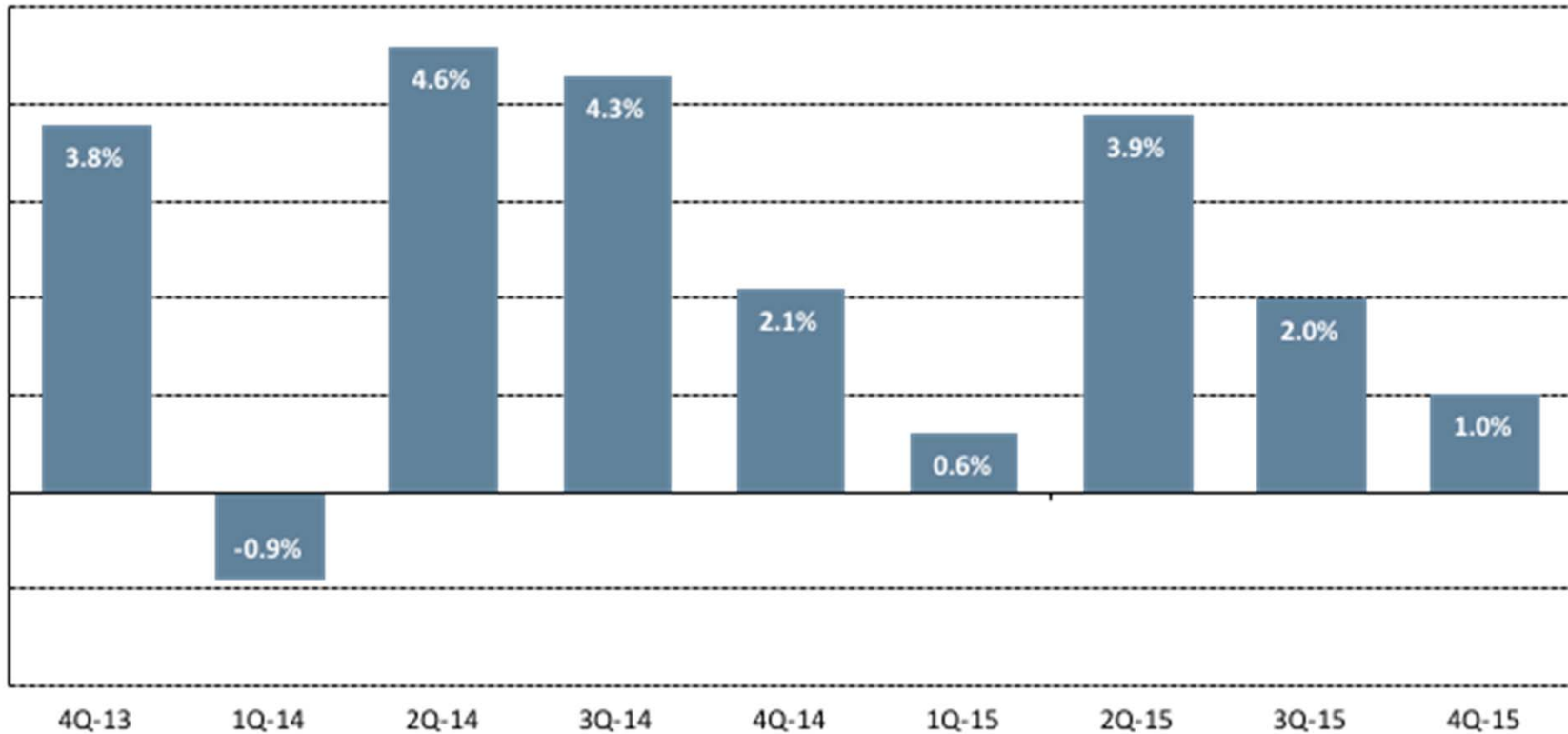


Source: Census Bureau; updated 02/04/16

Briefing.com

# Macroeconomy

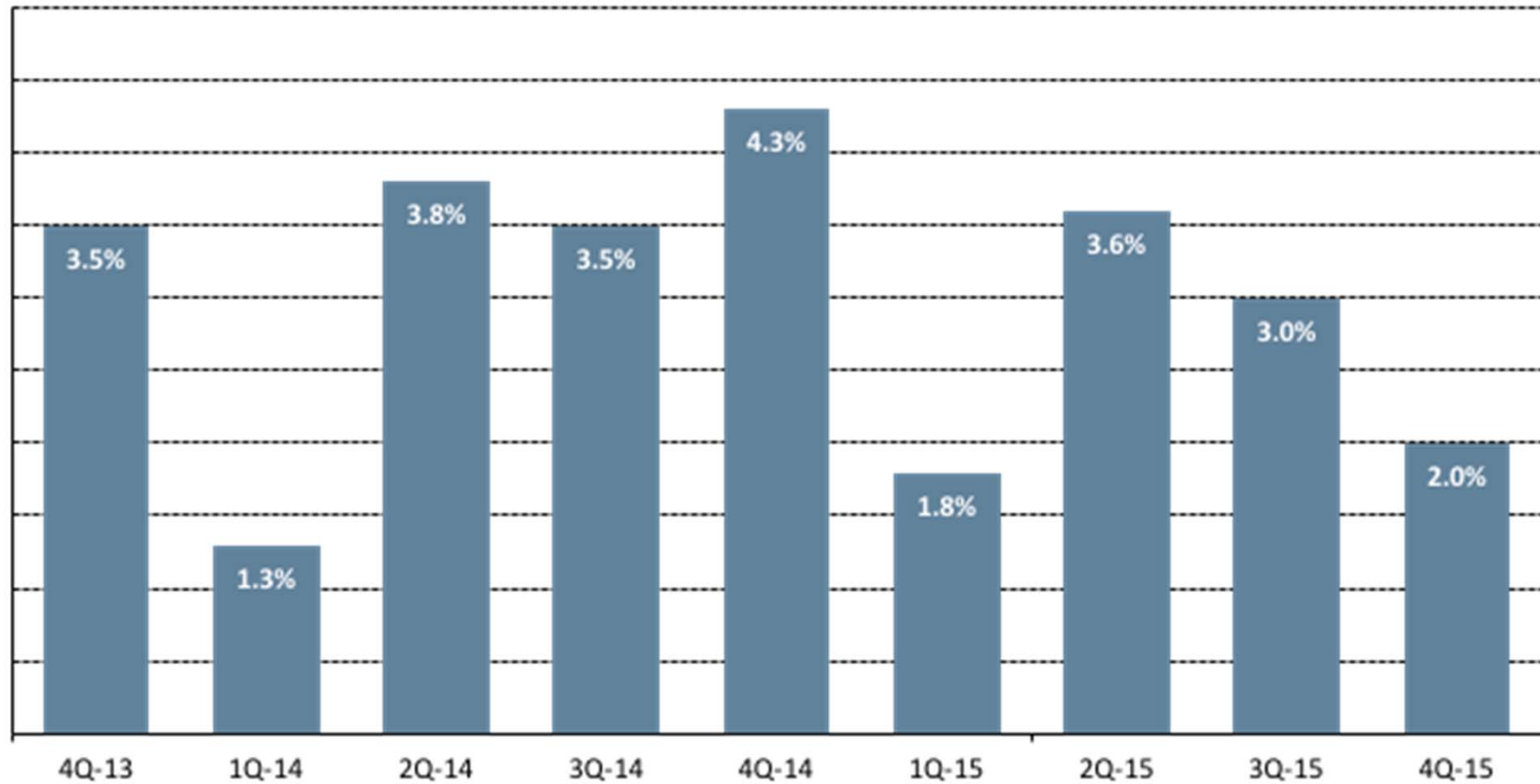
## GDP Growth



Source: Bureau of Economic Analysis (BEA); TXP

# Macroeconomy

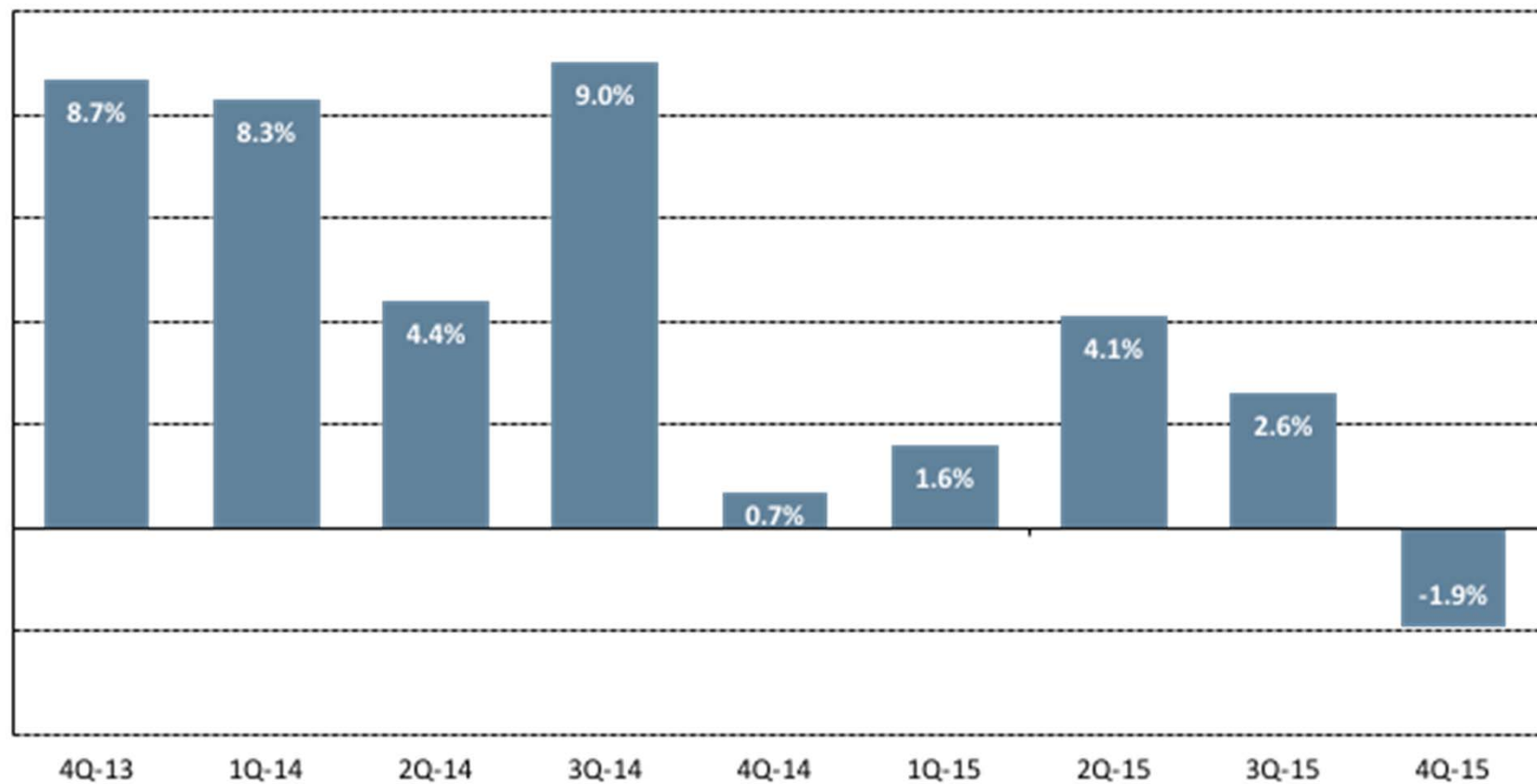
## Personal Consumption Expenditures Growth



Sources: BEA; TXP

# Macroeconomy

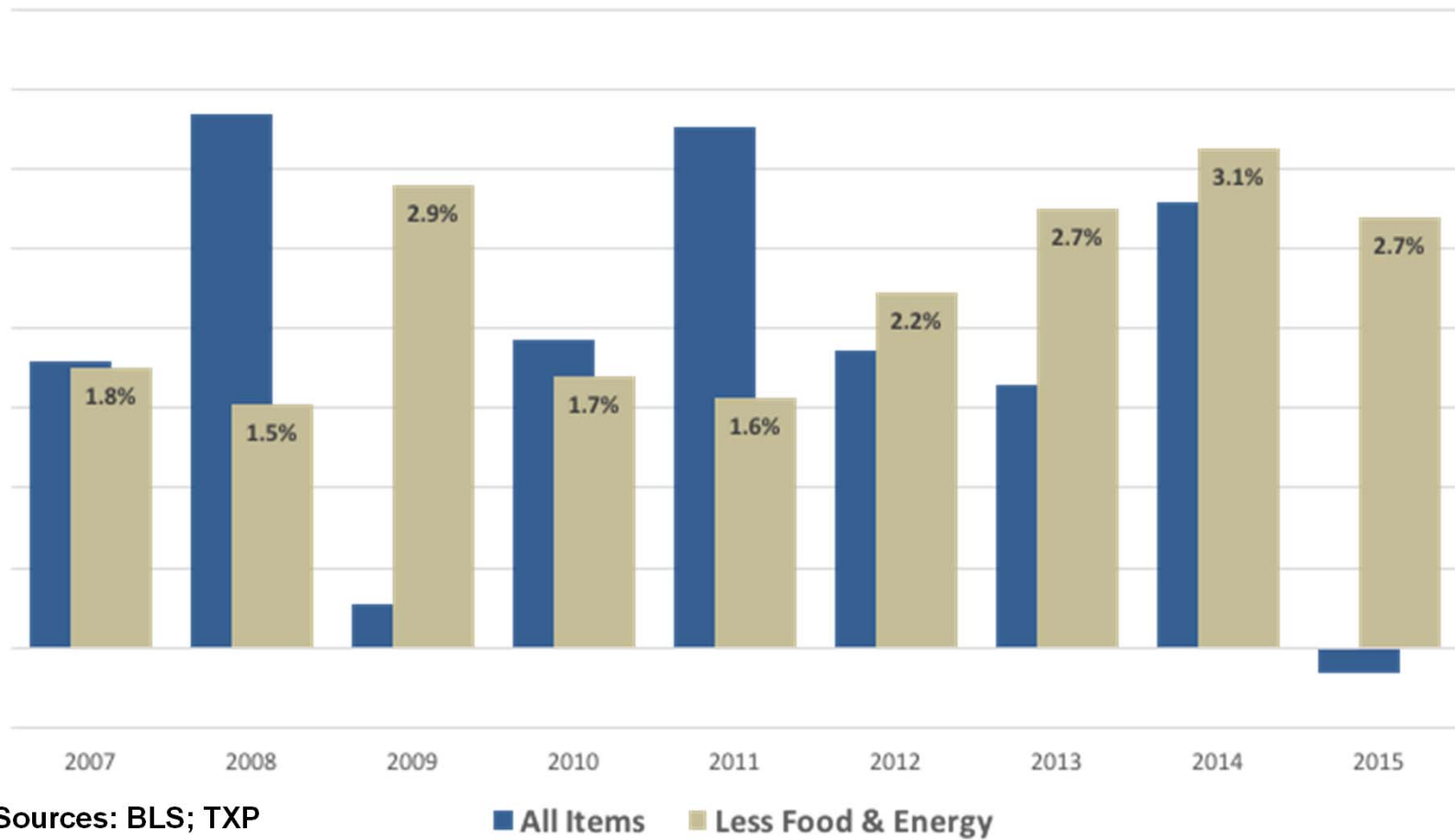
## Non-Residential Investment Growth



Sources: BEA; TXP

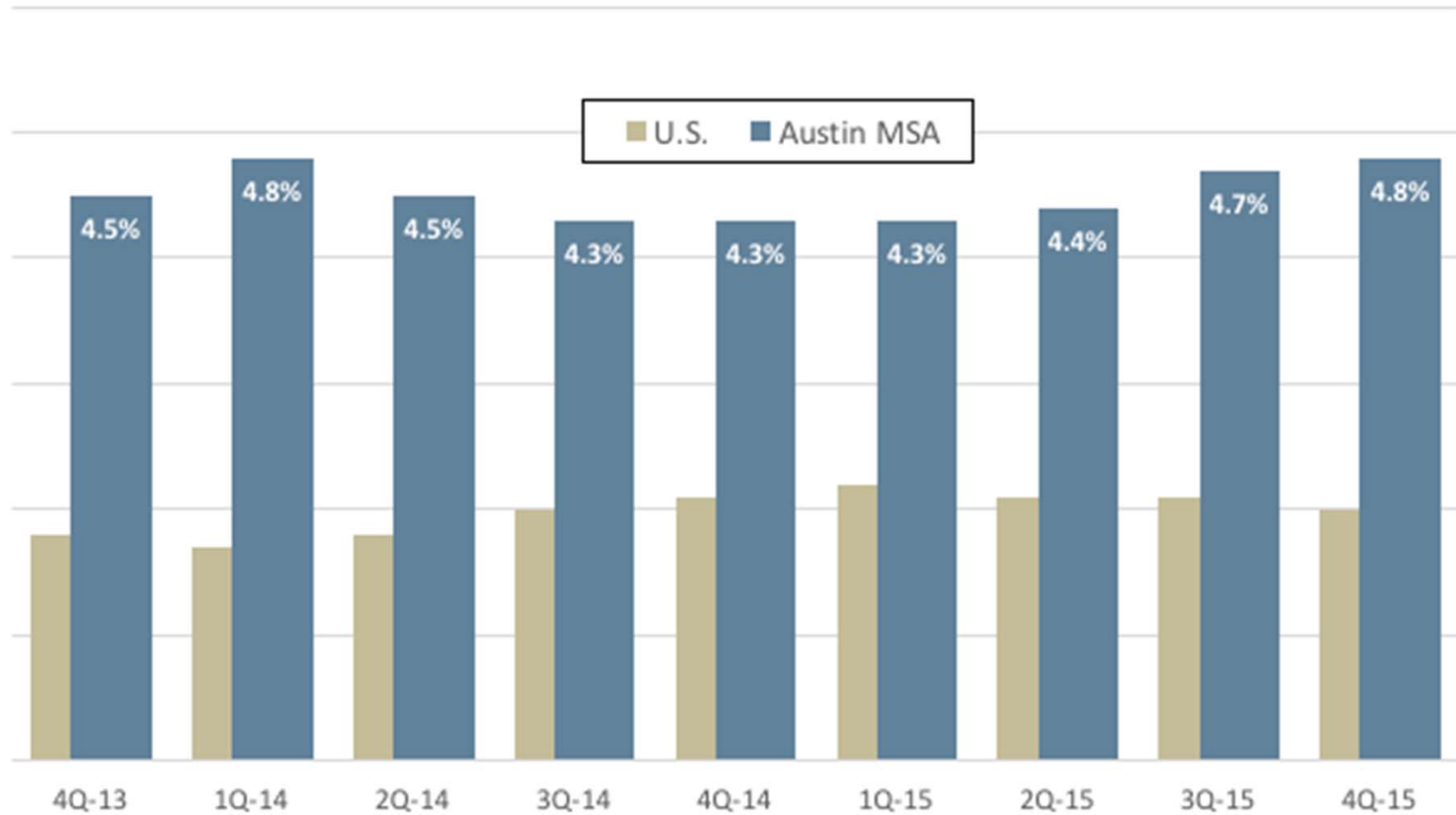
# Macroeconomy

## Consumer Price Index (12-Month Change)



# Macroeconomy

## Total Employment (12-Month Change)



Source: BLS; TXP

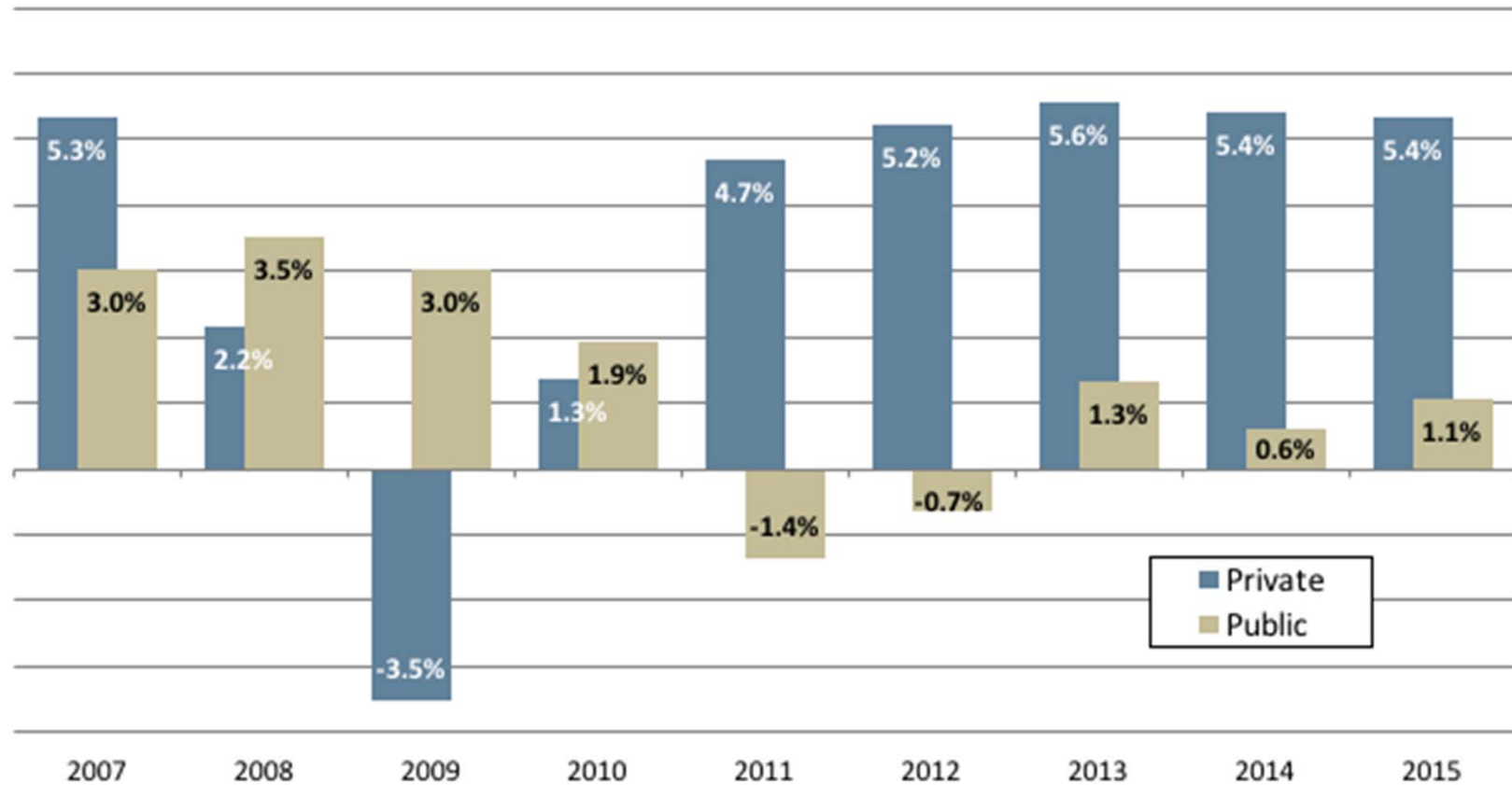
# Austin Area Economy

## Overview

- The Austin metro area (MSA) remains arguably the strongest regional economy among major metros across the nation, as aggregate indicators show growth at a high level during 2015.
- Job growth (as measured by the employer survey) remained torrid during 2015, with 41,800 net new jobs added, a pace of 4.6%. The private sector now accounts for the vast majority of the above, with a gain of about 40,000 net new jobs. Preponderance of this growth is found in the commercial sectors of the economy, in part reflecting population increases.
- Consumer spending reflects strong population and economic growth and is above long-term trend levels. Local venture capital was also solid during 2015, as the production side of the economy continues its transition toward soft-tech and bioscience.
- Tourism remains a growing element of the local economy, as 2015 again was a record year for hotel revenue and occupancy.
- Housing markets remain tight, reflecting both strong demand and diminishing excess supply.

## Austin Area Economy

### Austin MSA Private v. Public Employment (12-Month Change)



Sources: BLS; TXP

# Austin Area Economy

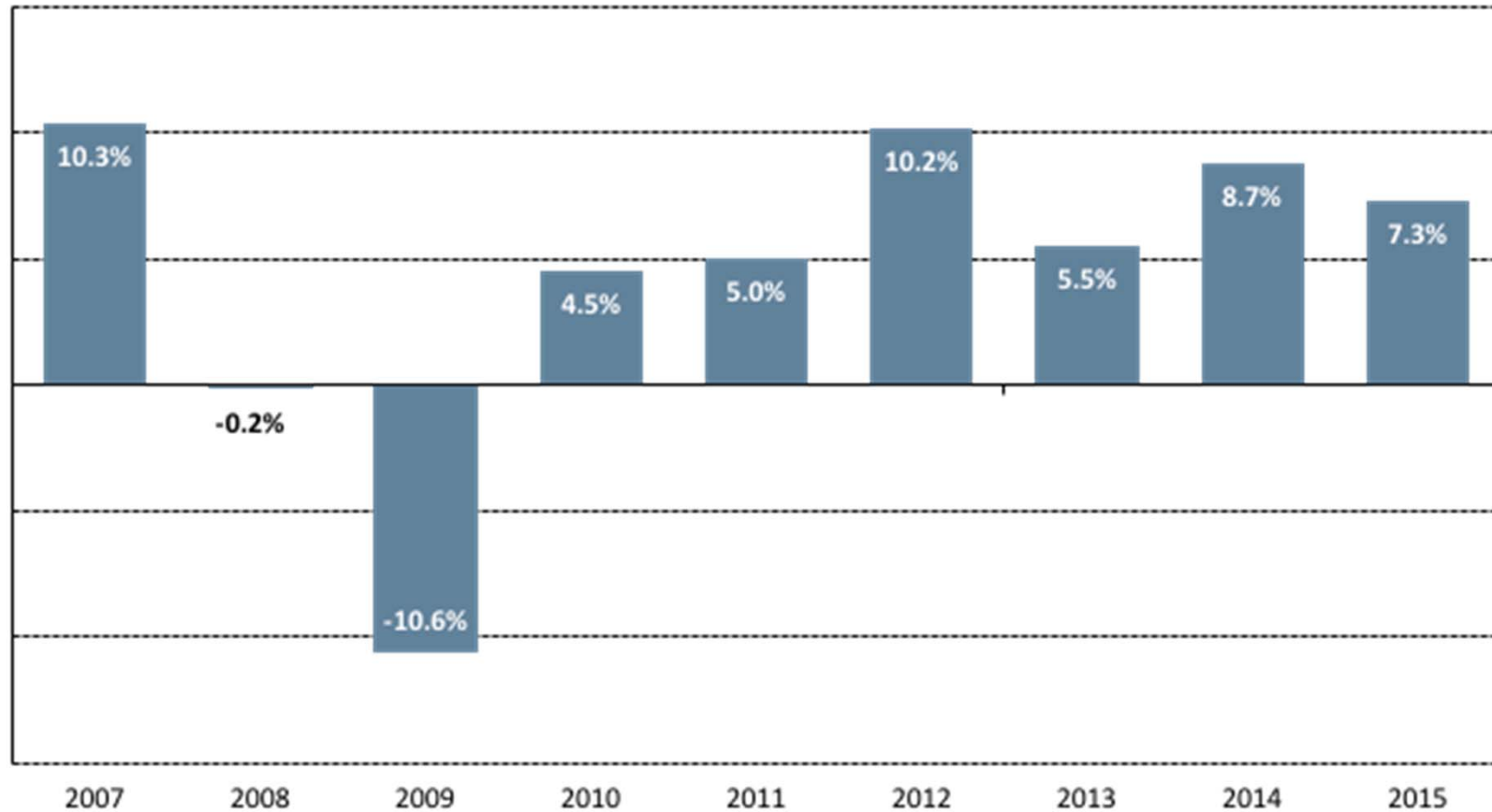
## Austin MSA Employment by Sector

|                                    | Employment (000s) |       |       | Change (Actual) |         | Change (%) |         |
|------------------------------------|-------------------|-------|-------|-----------------|---------|------------|---------|
|                                    | 2010              | 2014  | 2015  | '10-'15         | '14-'15 | '10-'15    | '14-'15 |
| Natural Resources/Construction     | 40.4              | 50.7  | 55.6  | 15.2            | 4.9     | 37.6%      | 9.7%    |
| Manufacturing                      | 52.8              | 57.7  | 57.6  | 4.8             | -0.1    | 9.1%       | -0.2%   |
| Trade, Transportation, & Utilities | 133.5             | 158.5 | 164.8 | 31.3            | 6.3     | 23.4%      | 4.0%    |
| Information                        | 19.9              | 25.2  | 26.9  | 7.0             | 1.7     | 35.2%      | 6.7%    |
| Financial Activities               | 43.4              | 51.9  | 53.7  | 10.3            | 1.8     | 23.7%      | 3.5%    |
| Professional & Business Services   | 113.1             | 150.4 | 161.3 | 48.2            | 10.9    | 42.6%      | 7.2%    |
| Educational & Health Services      | 87.8              | 106.4 | 111.5 | 23.7            | 5.1     | 27.0%      | 4.8%    |
| Leisure & Hospitality              | 85.5              | 107.1 | 115.3 | 29.8            | 8.2     | 34.9%      | 7.7%    |
| Other Services                     | 33.3              | 39.6  | 40.7  | 7.4             | 1.1     | 22.2%      | 2.8%    |
| Total Private                      | 609.7             | 747.5 | 787.5 | 177.8           | 40.0    | 29.2%      | 5.4%    |
| Government                         | 170.2             | 170.0 | 171.8 | 1.6             | 1.8     | 0.9%       | 1.1%    |
| <i>Total Employment</i>            | 779.9             | 917.5 | 959.3 | 179.4           | 41.8    | 23.0%      | 4.6%    |

Source: BLS; TXP

## Austin Area Economy

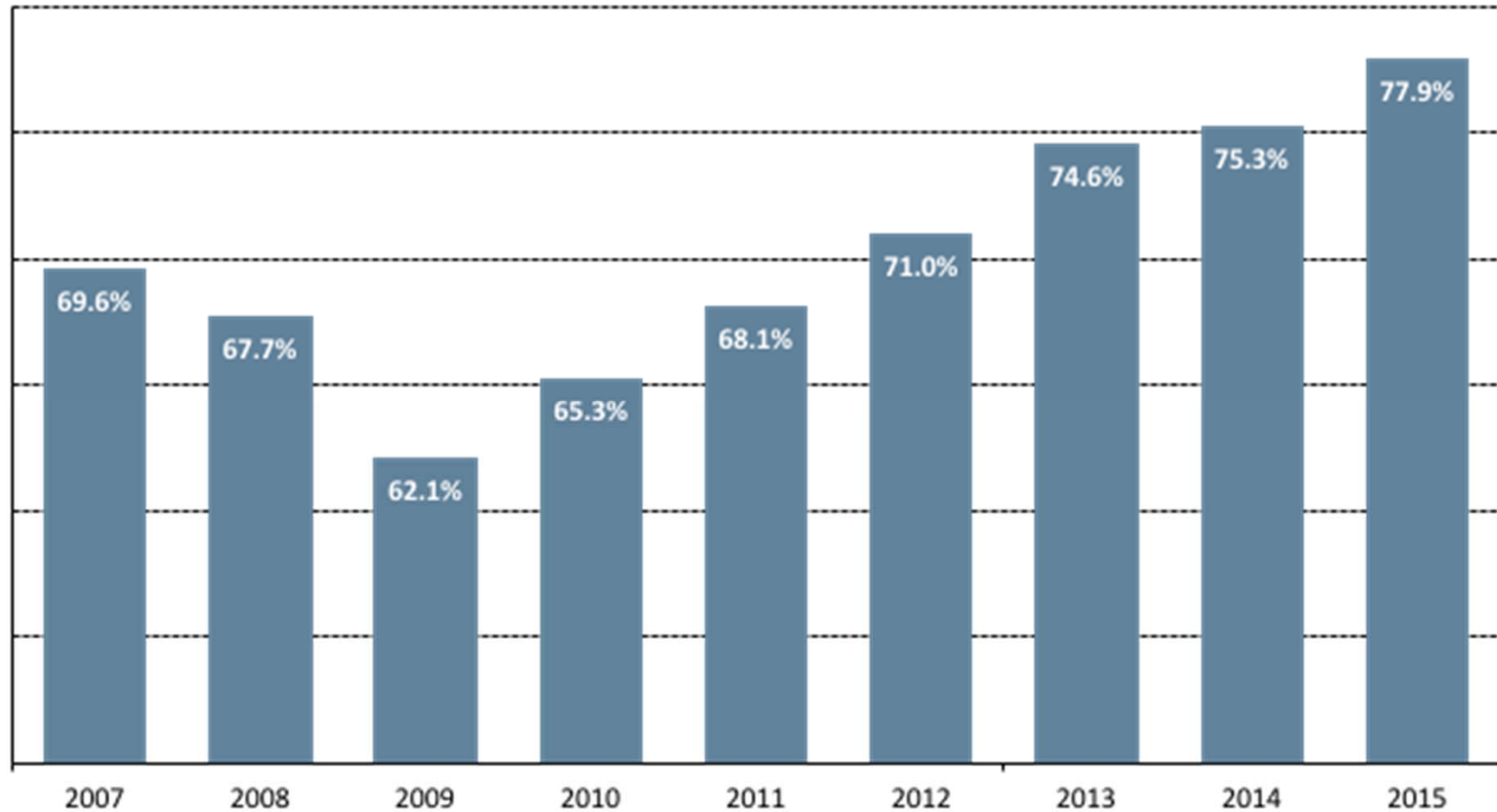
### City of Austin Sales Tax (12-Month Change/Calendar Year)



Sources: Texas State Comptroller; TXP

## Austin Area Economy

### City of Austin Hotel Occupancy



Sources: Texas Governor's Office of Economic Development; TXP

## Austin Area Economy

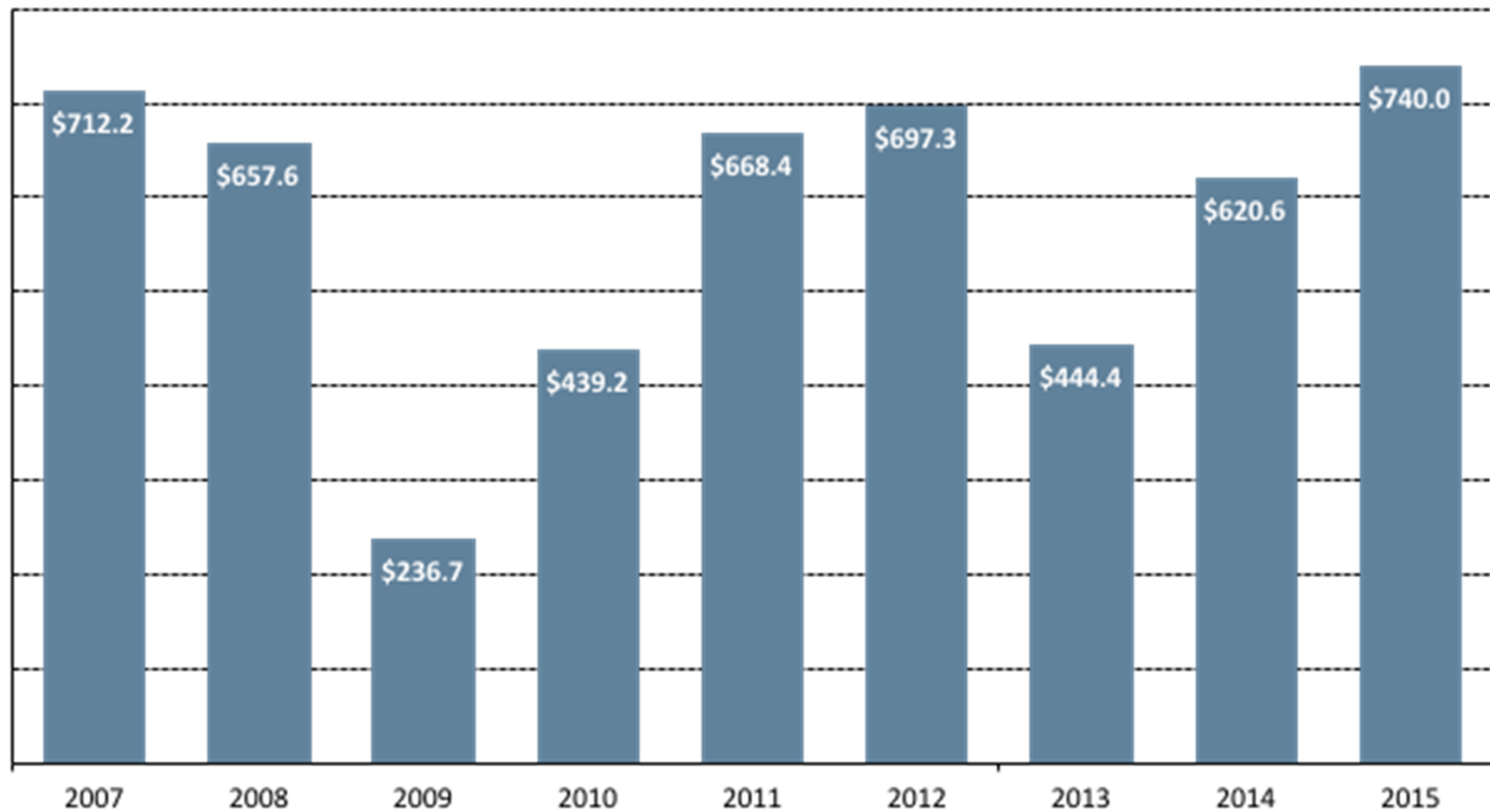
### City of Austin Hotel Revenue (\$Millions)



Sources: Texas Governor's Office of Economic Development; TXP

## Austin Area Economy

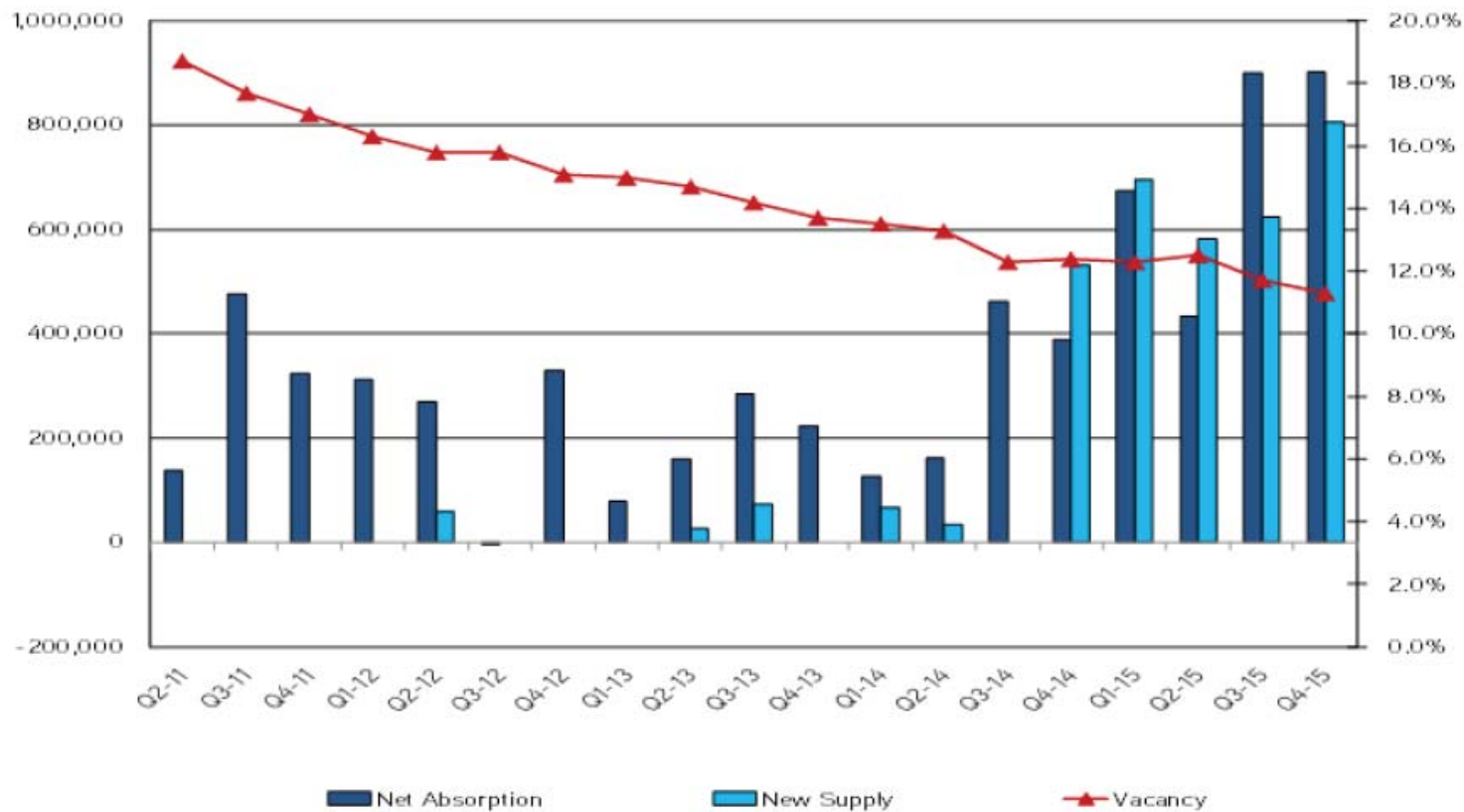
### Venture Capital Invested (\$Millions)



Sources: PWC MoneyTree Survey; TXP

# Austin Real Estate

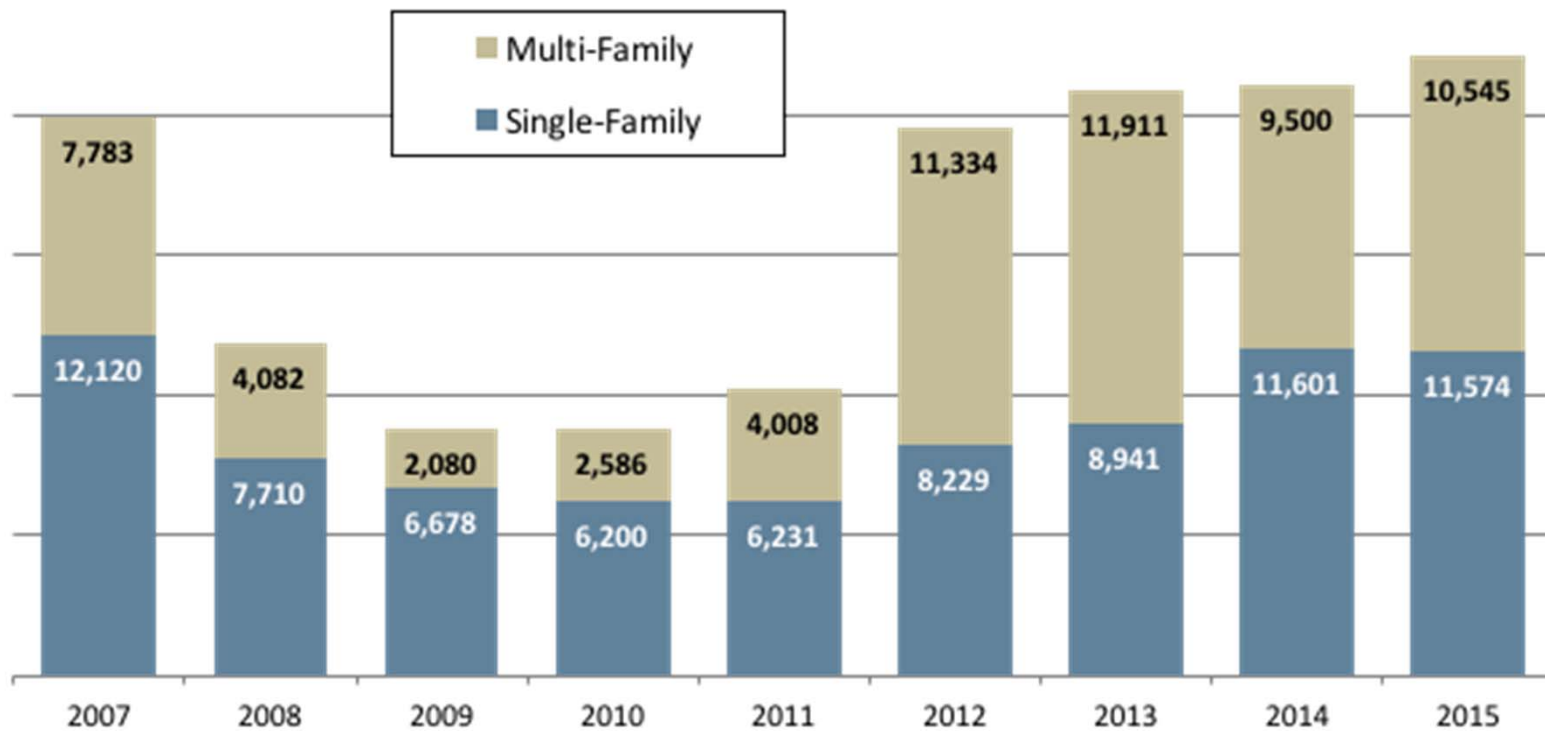
## Austin MSA Office Vacancy Rates



Source: Colliers Oxford; TXP

# Austin Housing

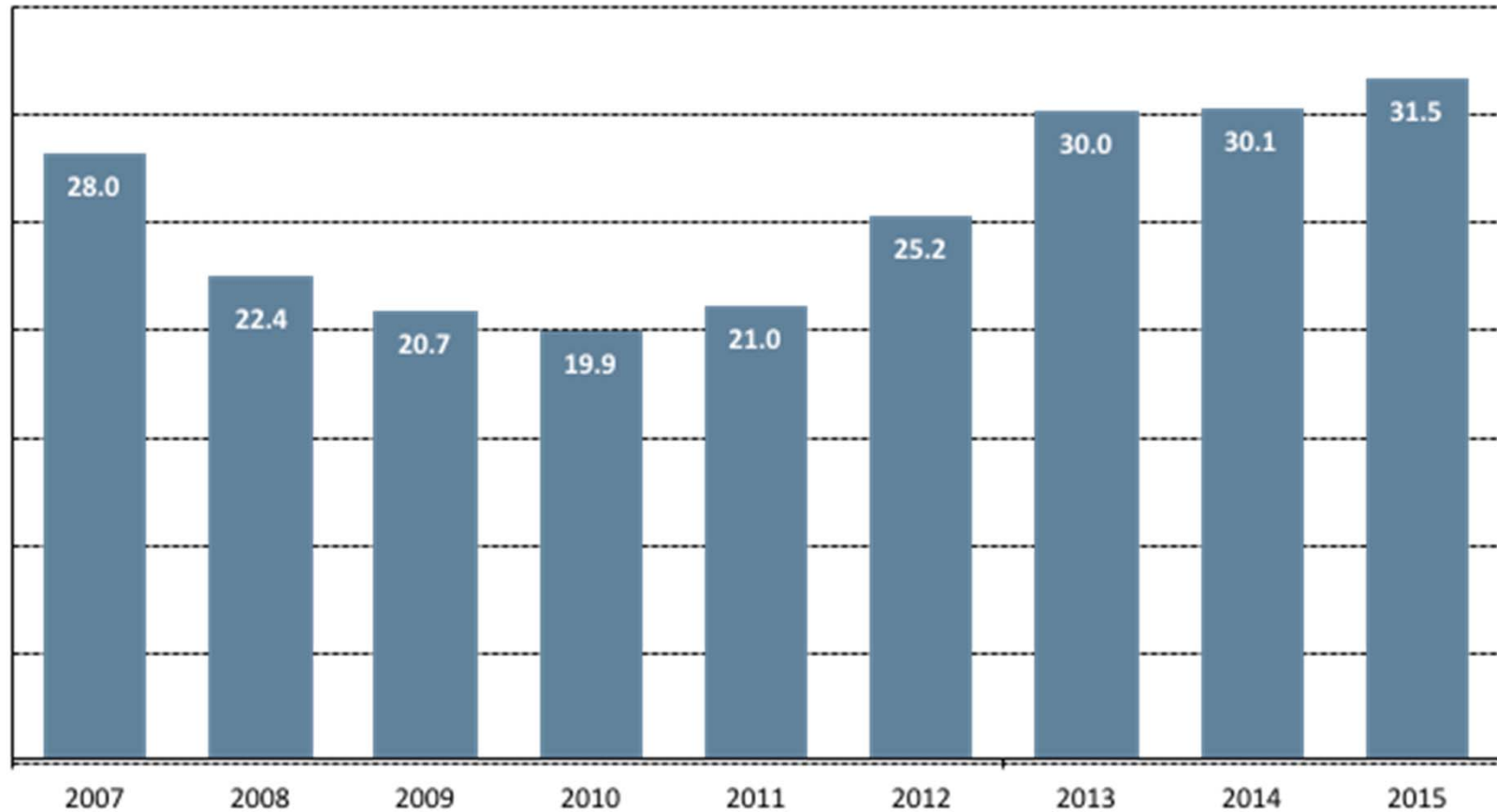
## MLS Building Units Permitted



Source: Texas A&M Real Estate Center; TXP

## Austin Housing

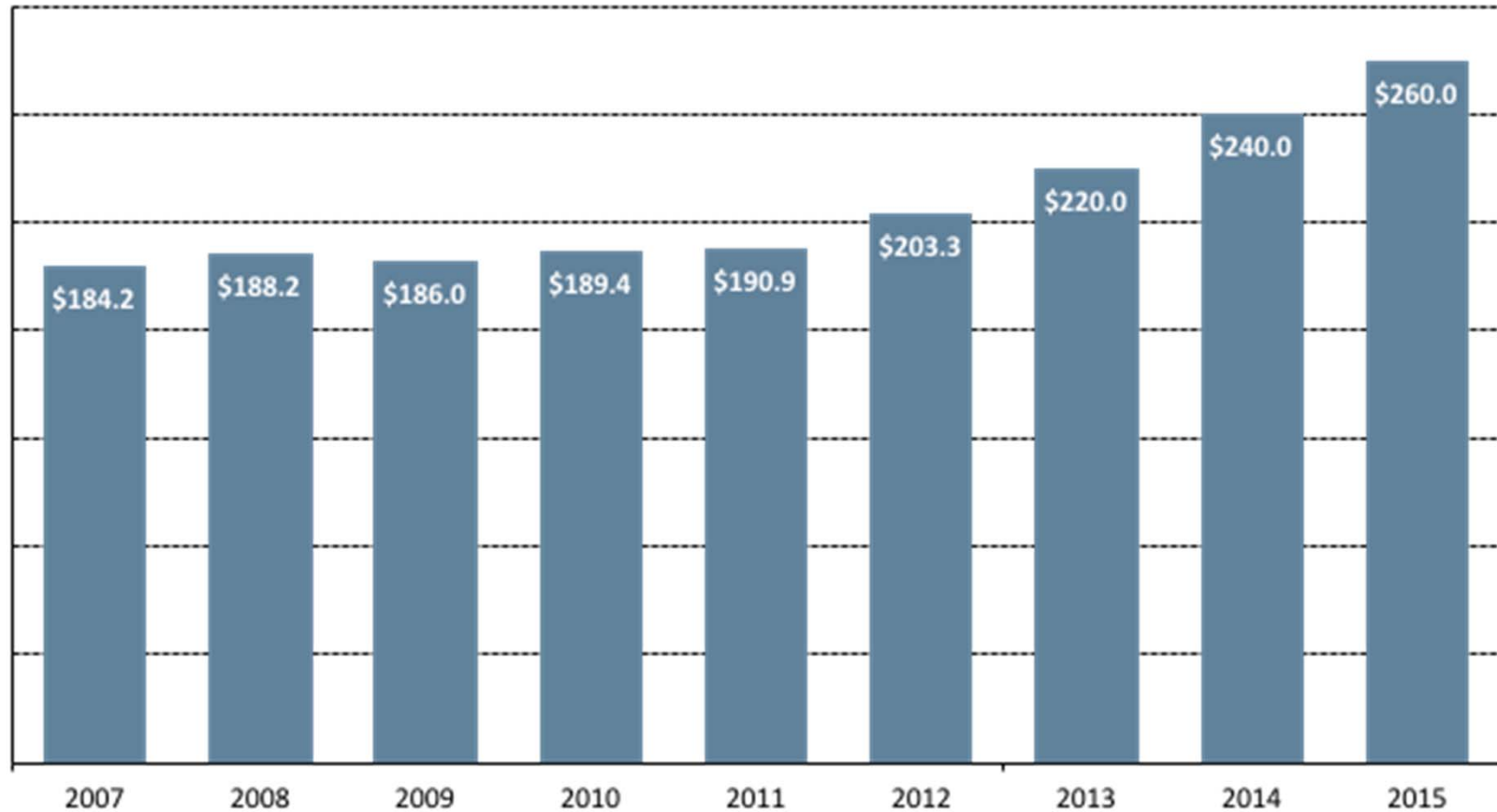
### Austin MSA MLS Home Sales (000s)



Sources: Texas A&M Real Estate Center; TXP

## Austin Housing

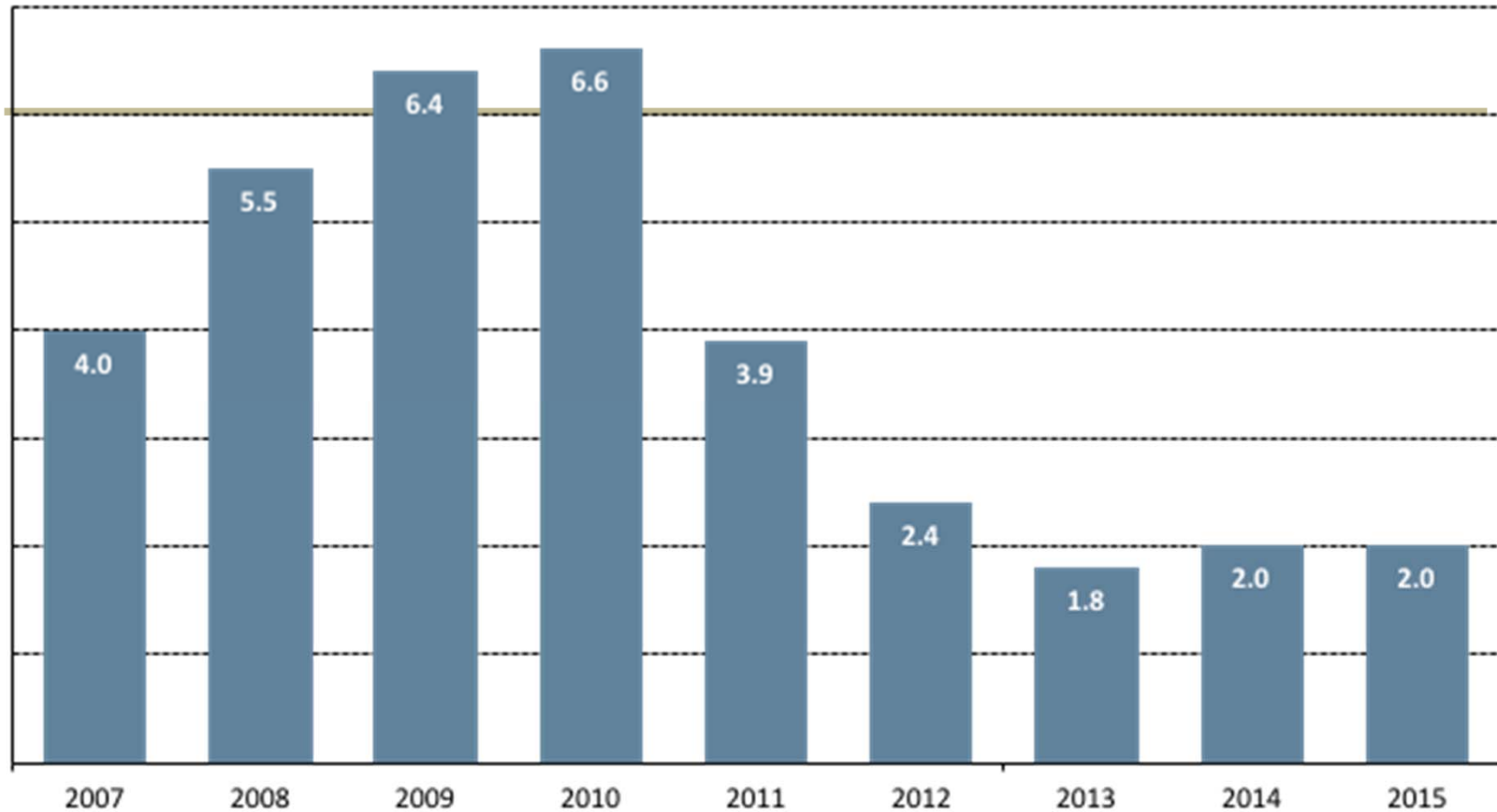
### MLS Median Home Price (\$000s)



Sources: Texas A&M Real Estate Center; TXP

## Austin Housing

### MLS Months of Available Housing Inventory



Source: Texas A&M Real Estate Center; TXP

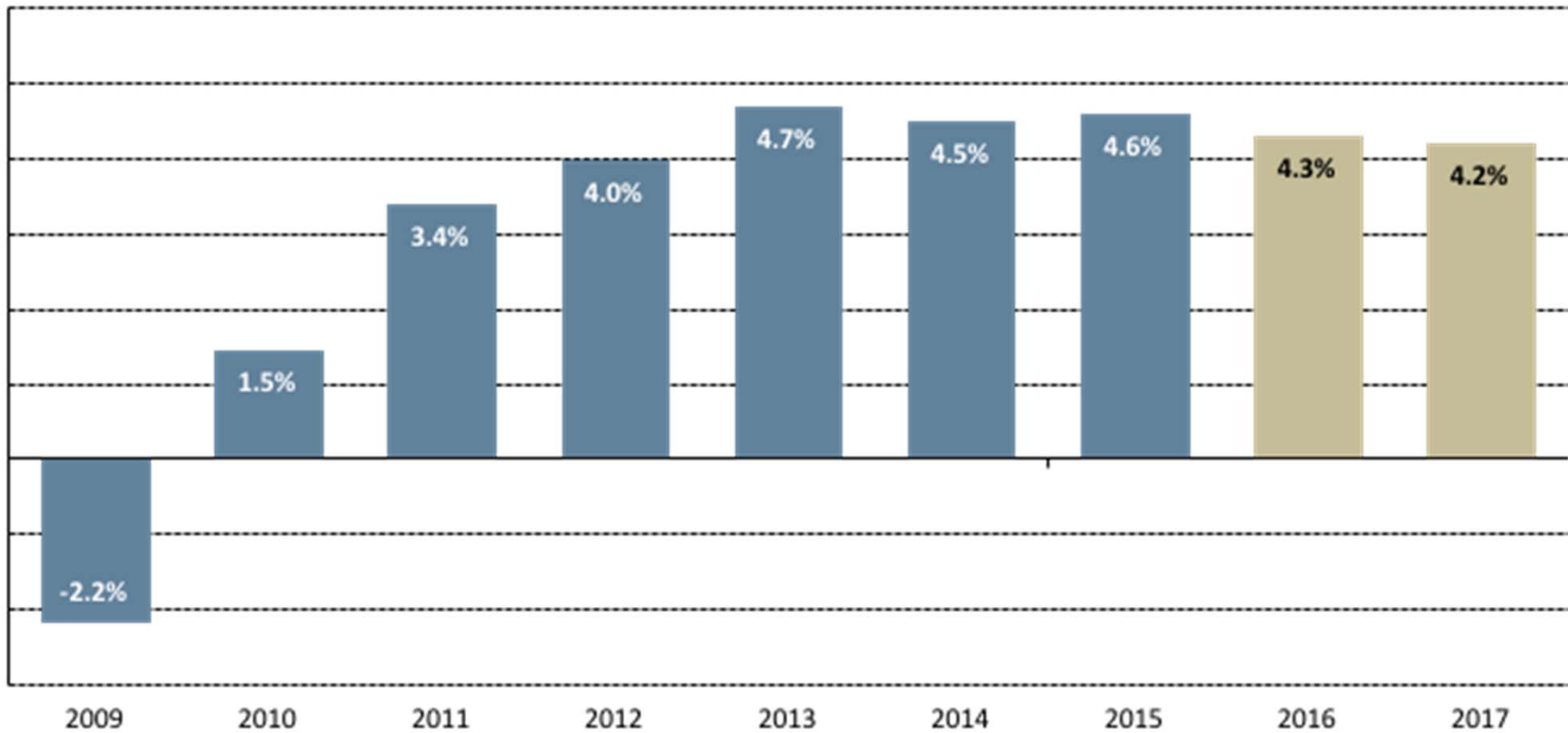
# Austin Area Economy

## Forecast

- Austin arguably has been the regional economic star in the United States since the recession, a fact confirmed by upward revision of employment figures for the past several years. Strong economic performance is anticipated through 2016 and 2017.
- Forecast is for the overall creation of 41,000 net new jobs in 2016, followed by 42,500 during 2017. Personal income should continue to expand in the 7-8% range.
- The private sector is projected to create 39,300 net new jobs this year, followed by 41,000 more during 2016. Services of all kinds are where the majority of the new jobs will be found, along with Leisure & Hospitality. All major private sector industry segments will grow, although natural resources/construction is slowing and manufacturing is largely flat.
- Austin remains highly prosperous overall, but the divisions in the community are widening.

## Austin Area Economy

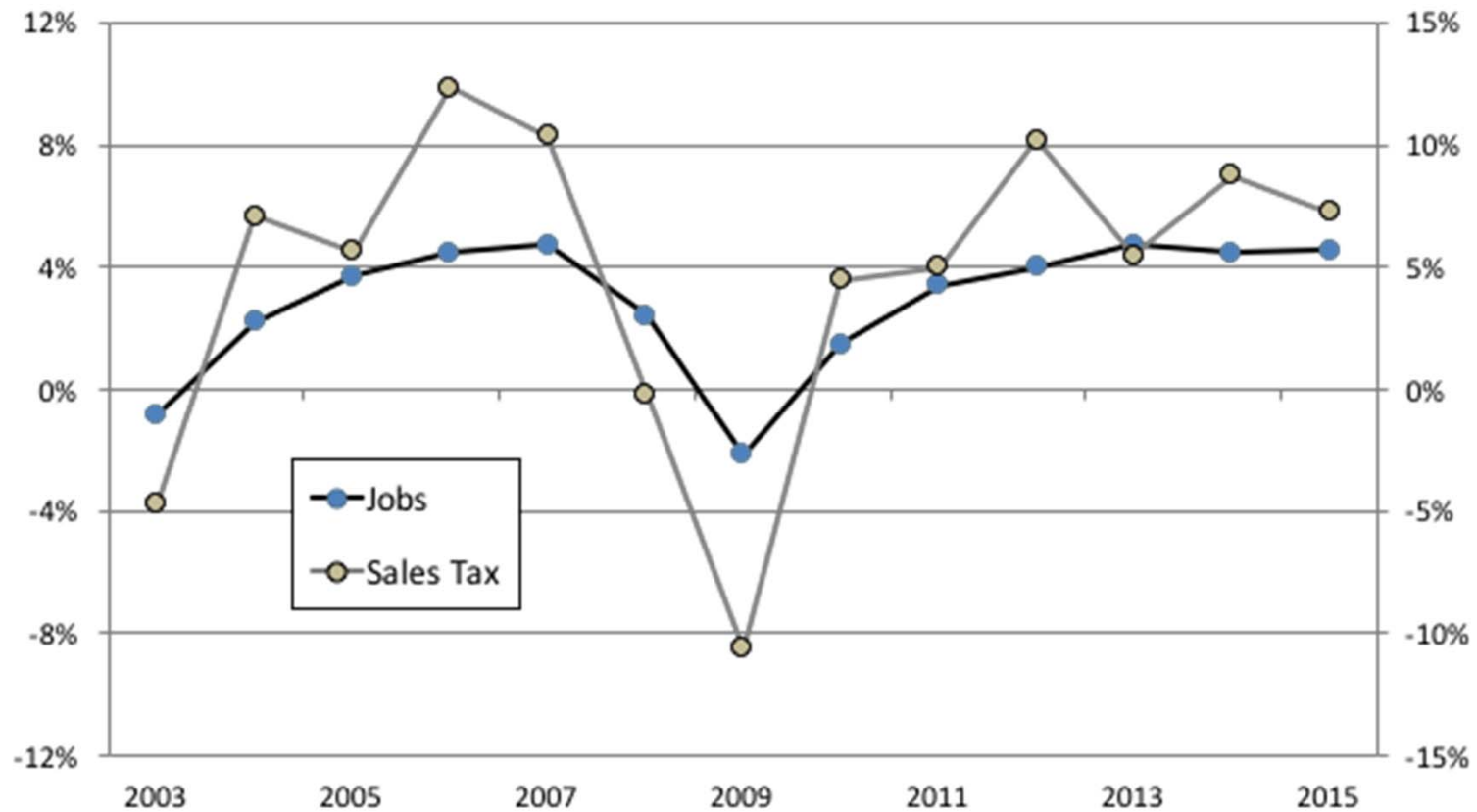
### MSA Total Employment Growth Forecast



Source: TXP

## Austin Area Economy

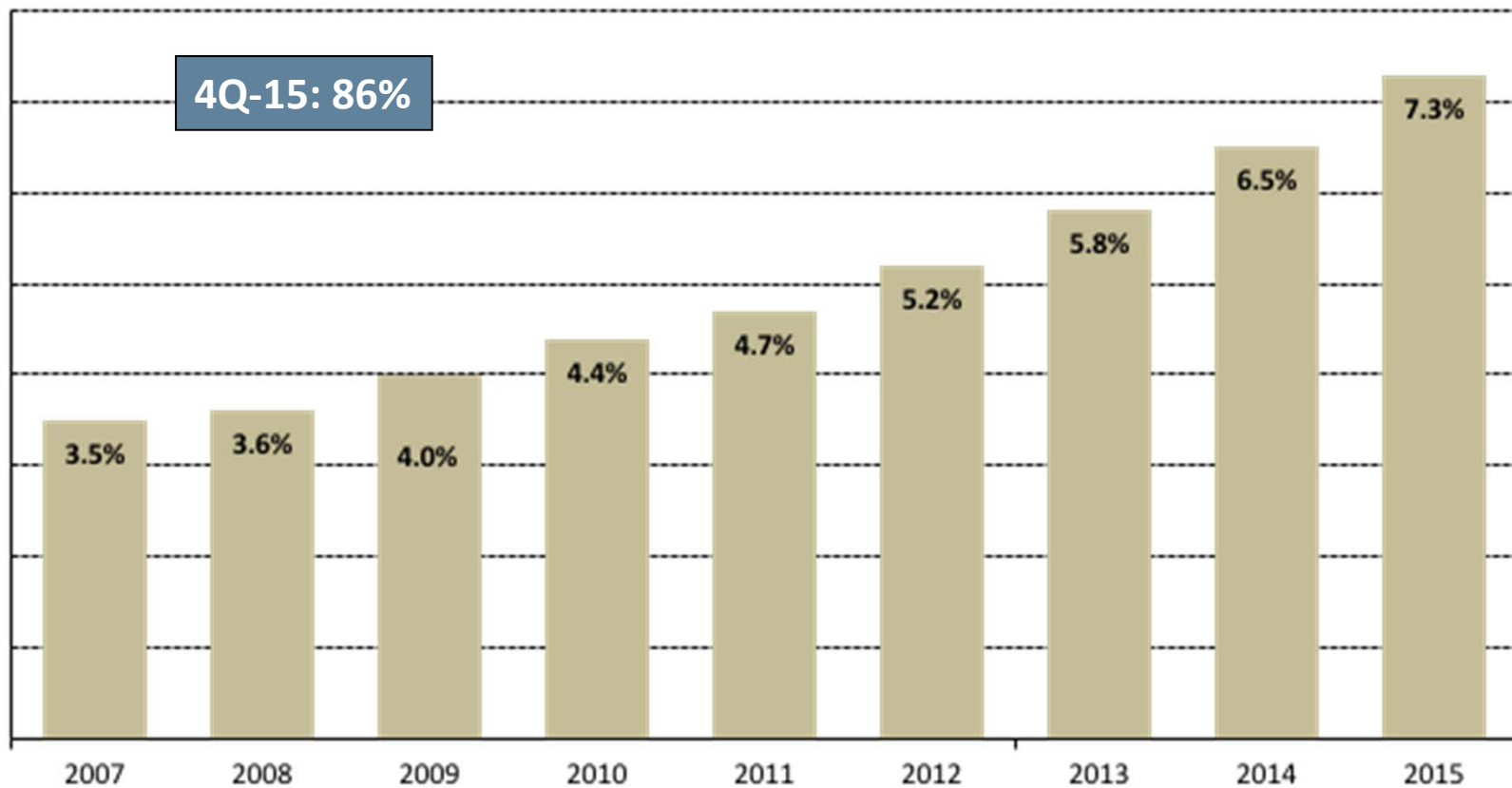
### City of Austin Sales Tax and Austin MSA Employment Growth



Sources: Texas Comptroller's Office; TXP

## Austin Area Economy

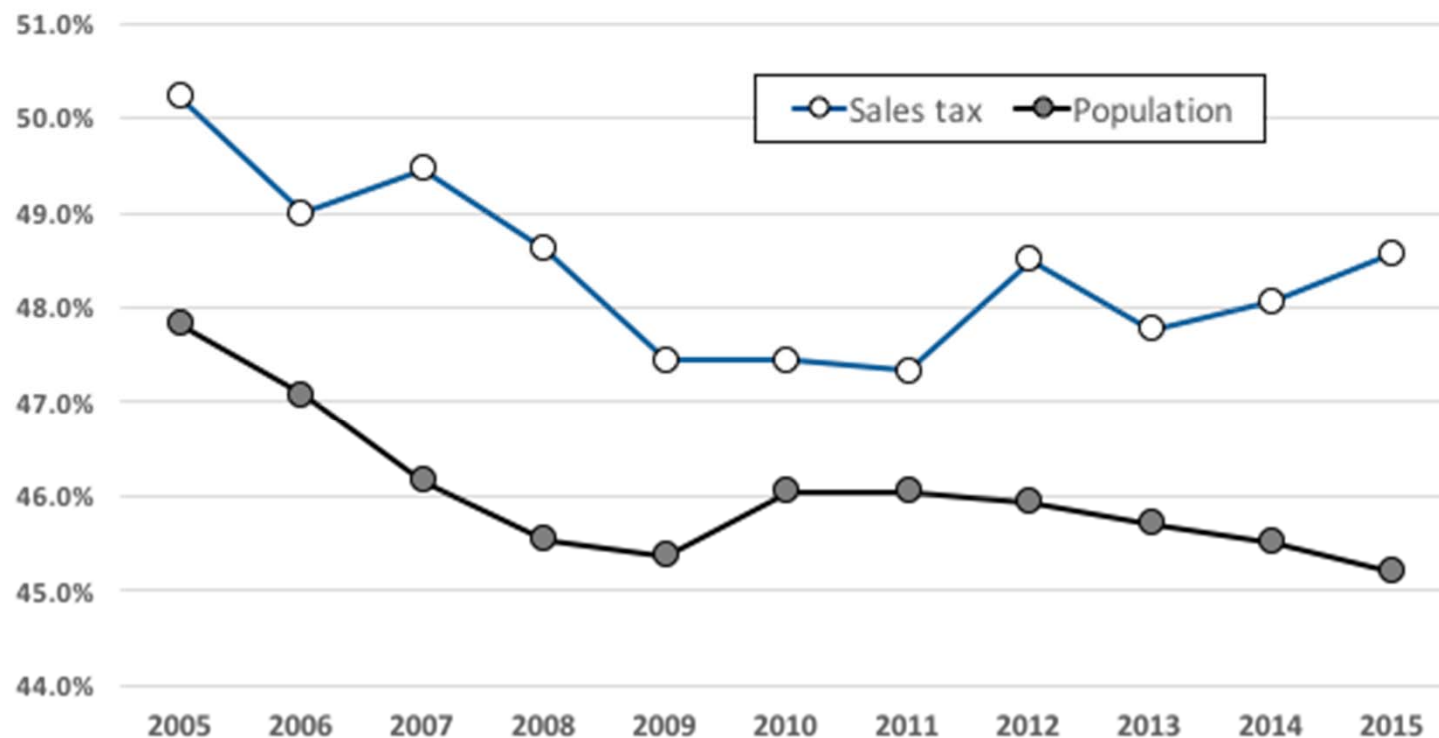
### E-Commerce as a Share of Total National Retail Sales



Source: Census Bureau; TXP

## Austin Area Economy

### City of Austin as Share of MSA Sales Tax and Population



Sources: Texas Comptroller's Office; City of Austin, TXP

# Austin Area Economy

## Sales Tax Outlook

- As has been the case for some time, sales tax tends to track job growth – historically 2-3x relationship. Key factors in the recent years:
  - More new households renting; home equity not as widely available, and underwriting standards tightened;
  - Huge boom in multi-family construction, especially in central city; and
  - Strong population/economic growth is bolstering aggregate spending levels.
- Additional factors to consider in the evaluation:
  - Exceptional visitor growth and related spending;
  - Retail continues to follow rooftops;
  - Internet share continues to grow – e-commerce now around 7-8% of national total, up from 2% ten years ago; and
  - Law of large numbers.
- Translation is closer to 1.5x relationship, putting fiscal 2016 and 2017 in the 6.5% range. Policy projections typically would be somewhat more conservative.

# Austin Area Economy

## Recent Poverty Measures: City of Austin

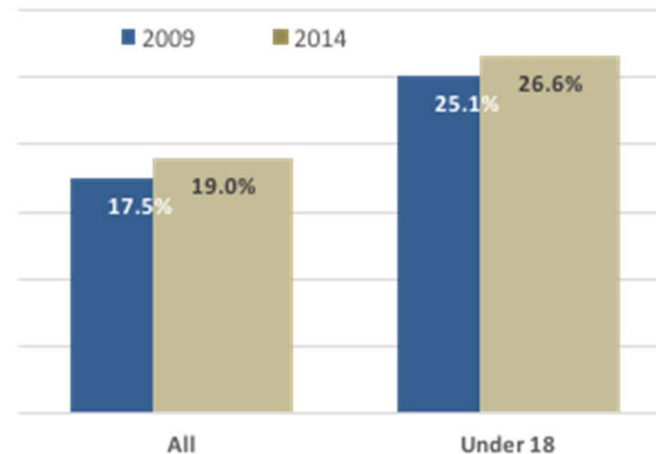
### Poverty by Race/Ethnicity

|          | 2009  | 2014  |
|----------|-------|-------|
| Anglo    | 10.9% | 10.8% |
| Asian    | 15.5% | 15.8% |
| Black    | 26.4% | 26.8% |
| Hispanic | 25.5% | 29.6% |

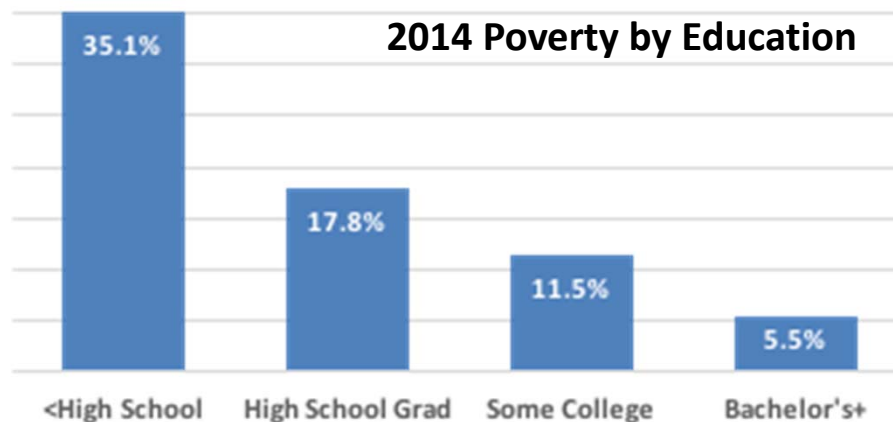
*If Non-Anglo poverty rates matched Anglo rates, there would be 41,000+ fewer households in poverty in Austin*

Sources: Census Bureau; TXP

### Total Share in Poverty



### 2014 Poverty by Education



# Austin Area Economy

## Detailed Austin MSA Employment Forecast

|                                    | Employment (000s) |              |                |                |                |                |                |
|------------------------------------|-------------------|--------------|----------------|----------------|----------------|----------------|----------------|
|                                    | 2014              | 2015         | 2016           | 2017           | 2018           | 2019           | 2020           |
| Natural Resources/Construction     | 50.7              | 55.6         | 58.9           | 62.0           | 65.0           | 67.8           | 70.5           |
| Manufacturing                      | 57.7              | 57.6         | 57.9           | 58.2           | 58.5           | 58.8           | 59.1           |
| Trade, Transportation, & Utilities | 158.5             | 164.8        | 171.3          | 178.0          | 184.8          | 191.9          | 199.1          |
| Information                        | 25.2              | 26.9         | 28.6           | 30.4           | 32.2           | 34.2           | 36.4           |
| Financial Activities               | 51.9              | 53.7         | 56.0           | 58.6           | 61.3           | 64.0           | 66.7           |
| Professional & Business Services   | 150.4             | 161.3        | 172.4          | 183.7          | 195.1          | 206.6          | 218.2          |
| Educational & Health Services      | 106.4             | 111.5        | 117.0          | 122.5          | 128.0          | 133.9          | 140.2          |
| Leisure & Hospitality              | 107.1             | 115.3        | 122.4          | 130.1          | 137.9          | 145.8          | 153.6          |
| Other Services                     | 39.6              | 40.7         | 42.4           | 44.3           | 46.3           | 48.2           | 50.1           |
| Total Private                      | 747.5             | 787.5        | 826.8          | 867.8          | 909.1          | 951.0          | 993.8          |
| Government                         | 170.0             | 171.8        | 173.5          | 175.0          | 176.7          | 178.4          | 180.1          |
| <i>Total Employment</i>            | <i>917.5</i>      | <i>959.3</i> | <i>1,000.3</i> | <i>1,042.8</i> | <i>1,085.8</i> | <i>1,129.4</i> | <i>1,173.9</i> |

Source: TXP



The Austin MSA Area  
Economic Forecast  
April 2016



austintexas.gov

# Citywide Cost Drivers

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*Ed Van Eenoo, Deputy Chief Financial Officer*



# Projected Citywide Cost Drivers

## *FY 17 Increases for Items Approved in FY16*

- Citywide salary market study
  - Two months funding in FY16; additional 10 months funding required in FY17
- Delayed hiring of new staff in FY16
  - Majority of new civilian positions funded for 9 months; additional 3 months funding required in FY17
  - Sworn police positions funded for 6 months; additional 6 months funding required in FY17
  - Sworn positions in Fire and EMS likewise delayed in FY16
- Living wage increase and insurance provision for temporary employees
  - Implemented January 1, 2016; additional 3 months funding required in FY17
  - Additional funding required for living wage based on year-to-date actual expenditures

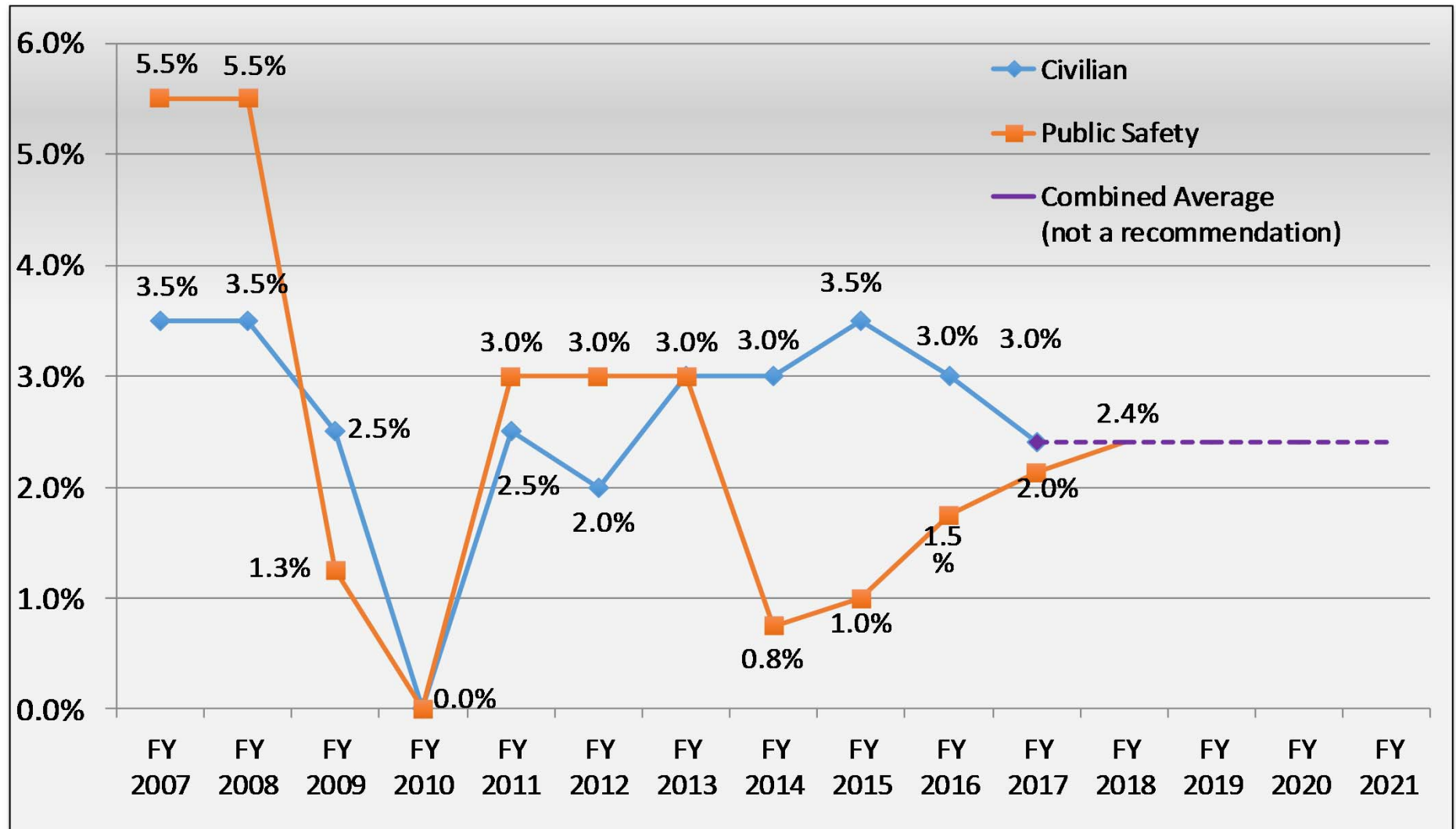
# Projected Citywide Cost Drivers

## *Other Cost Escalators*

- Employee wages
  - 2-4% annual wage increase anticipated for civilian staff from FY 2017-21 based on historical trends
  - 2% increase for APD, Fire, and EMS per labor contracts in FY17; 2-4% annual increase anticipated from FY 2018-21
- Increases in health insurance
  - 12% increase for FY17; 8% in out years
- Communications and Technology Management cost allocation
  - 10% increase in FY17; 5% increase projected in FY 2018-21
- Support Services Fund cost allocation
  - 7.5% increase in FY17; 5% increase projected in FY 2018-21
- Fleet maintenance
  - 3% increase throughout forecast horizon; mainly growth in fleet size

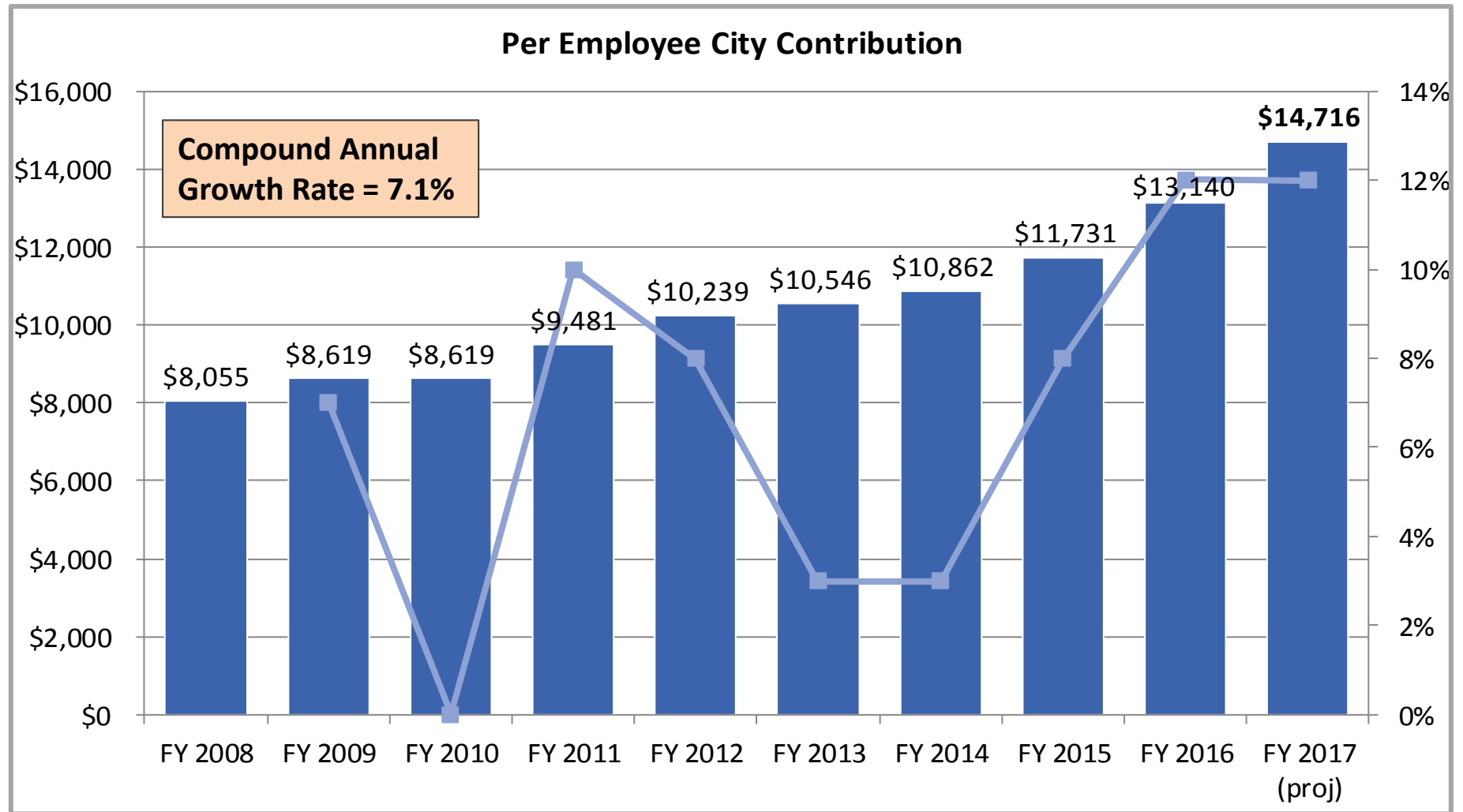
# Projected Citywide Cost Drivers

## *Wage Adjustments (Historical and Projected)*



# Projected Citywide Cost Drivers

## *City Contribution for Health Insurance and Other Wellness Programs*



# General Fund Highlights

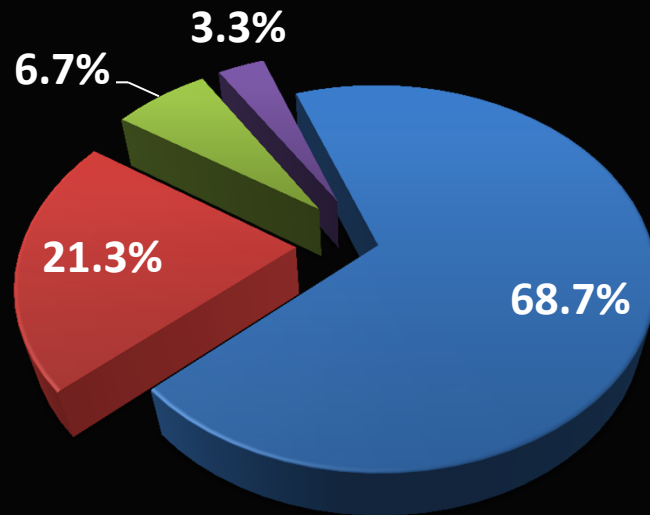
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*Ed Van Eenoo, Deputy Chief Financial Officer*



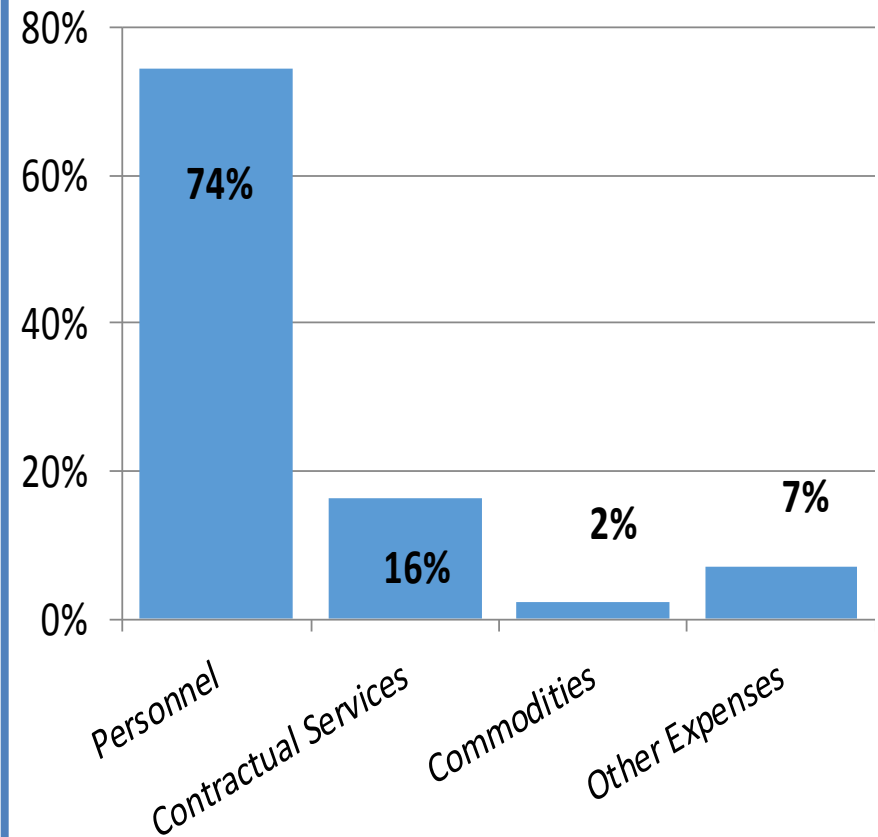
# General Fund Expenditures

## FY16 Uses of Funds (\$912.8 million)



- Public Safety (APD, AFD, EMS)
- Community Services (LIB, PARD, AS, HHS, NHCD)
- Other Departments (MC, PAZ & DS)
- Transfers & Other

## Uses of Funds by Category



# Projected General Fund Cost Drivers

## *FY 17 Incremental Increases for Items Previously Approved by Council*

|                                                                                                                       |                       |
|-----------------------------------------------------------------------------------------------------------------------|-----------------------|
| Police, Fire, and EMS wage increase of 2%, plus step & longevity                                                      | \$10.0M               |
| Annualized staffing costs and 11 additional positions to support New Central Library plus contractals and commodities | \$4.3M                |
| Annualized cost of civilian markets (August 2016 implementation)                                                      | \$4.1M                |
| EMS 42-hour work week implementation (52 FTEs for Phase 2)                                                            | \$3.5M                |
| Annualized cost of 50 officers added in FY 2016                                                                       | \$2.2M                |
| Delayed hiring of 98 civilian staff added in FY 2016                                                                  | \$1.5M                |
| Housing Trust Fund calculation change from 40% to 100%                                                                | \$1.5M                |
| Annualized Shady Hollow fire station costs                                                                            | \$1.3M                |
| “True-up” for living wage temp position funding (PARD and Child Safety Fund)                                          | \$0.7M                |
| <b><i>Subtotal</i></b>                                                                                                | <b><i>\$29.1M</i></b> |

# Projected General Fund Cost Drivers

## *Other FY 17 Cost Escalators*

|                                                          |                       |
|----------------------------------------------------------|-----------------------|
| Insurance increase of 12%                                | \$10.1M               |
| Communications and Technology Management cost allocation | \$5.1M                |
| Projected civilian wage increase                         | \$4.0M                |
| Increased Fire overtime                                  | \$3.1M                |
| Support Services cost allocation                         | \$3.1M                |
| Fleet maintenance and fuel costs                         | \$1.3M                |
| Increased transfer to CIP for facility maintenance       | \$1.0M                |
| Increased transfer for the 311 Call Center               | \$0.5M                |
| Removal of one-time expenditures                         | (\$0.7M)              |
| <b><i>Subtotal</i></b>                                   | <b><i>\$27.5M</i></b> |
| <b>Total General Fund Cost Increases</b>                 | <b>\$56.6M</b>        |

# Austin Fire Department

## *Projected Increase in Sworn Overtime*

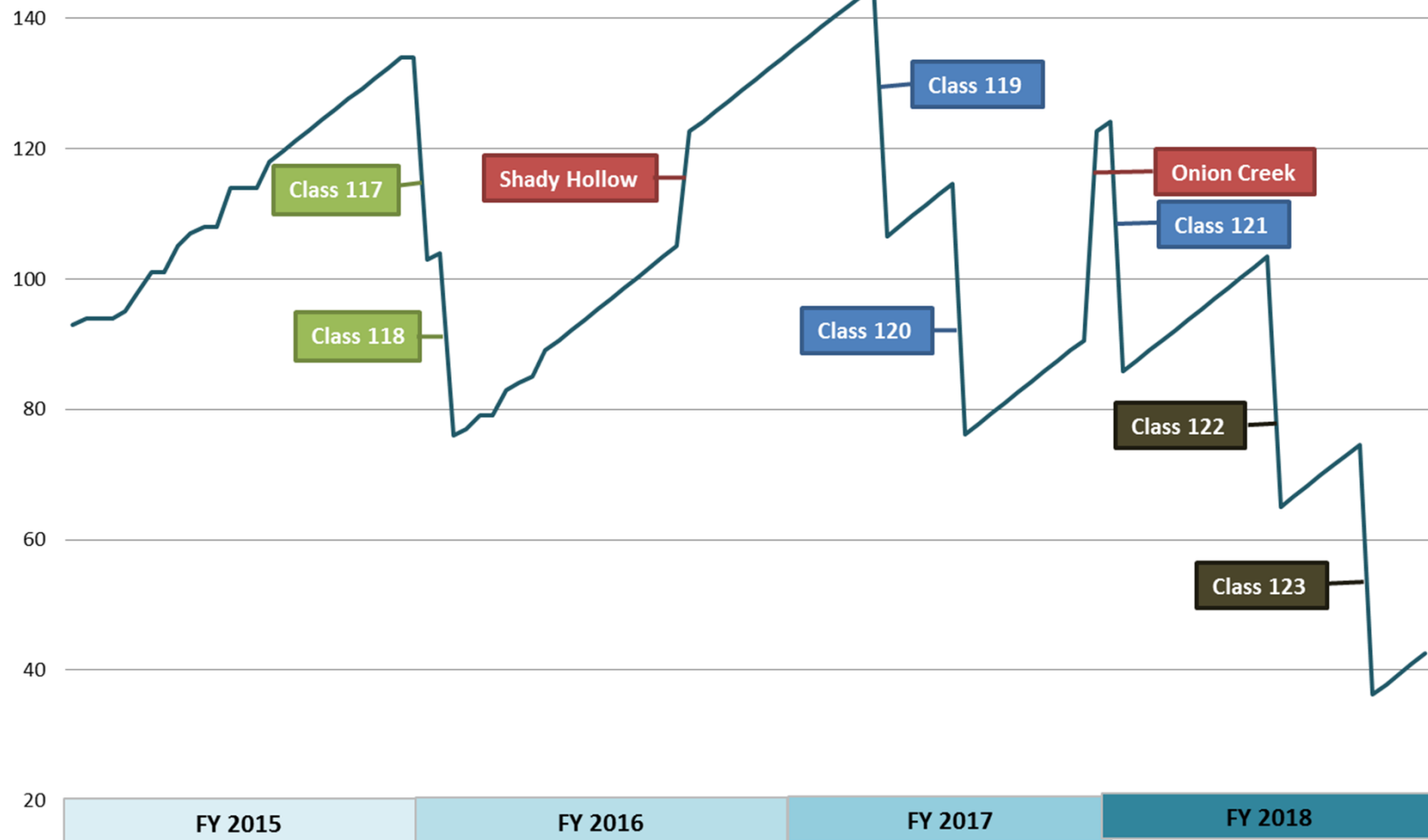
- Mandate to use four-person staffing and required back-fills
- Overtime expenses rise rapidly as vacancies increase
- Contract treats leave as productive time, increasing overtime
- Delay in hiring cadets due to Department of Justice review of hiring process
  - o 40 cadets start training August 2016 (Graduation February 2017)
  - o 40 cadets start training October 2016 (Graduation May 2017)
- Shady Hollow station - fire service starting June 2016

|                                                | September<br>2014 | September<br>2015 | September<br>2016<br><i>Projected</i> |
|------------------------------------------------|-------------------|-------------------|---------------------------------------|
| <b>Overtime Budgeted<br/>(Operations only)</b> | \$5.6 million     | \$6.2 million     | \$6.2 million                         |
| <b>Overtime Expense</b>                        | \$5.4 million     | \$12.0 million    | \$14.9 million                        |
| <b>Sworn Vacancies</b>                         | 92                | 135               | 129                                   |

# Austin Fire Department

## *Vacancies – Operations*

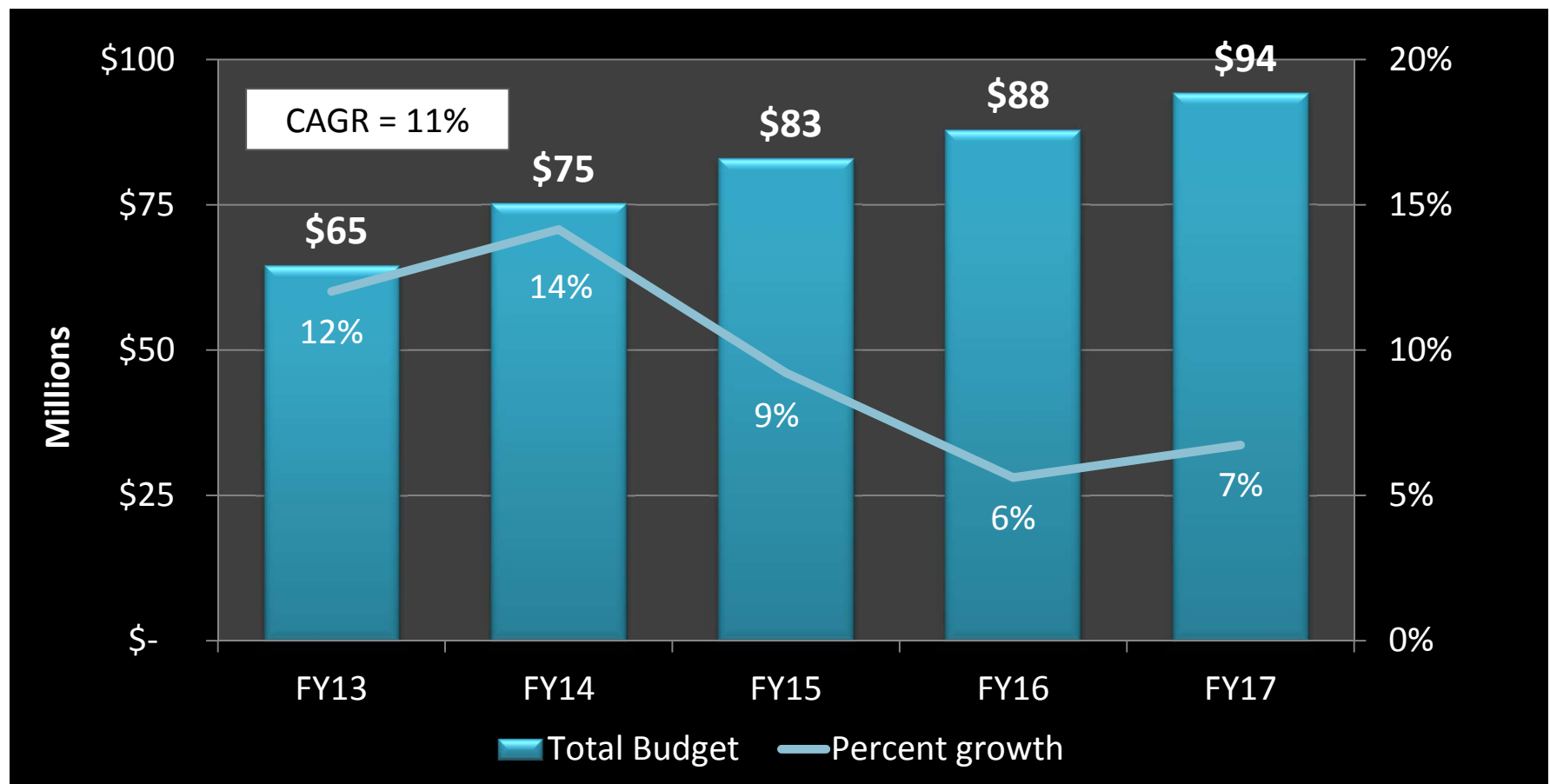
**AFD Vacancies and Vacancy Projections : FY15 to FY18**



# Communications and Technology Management

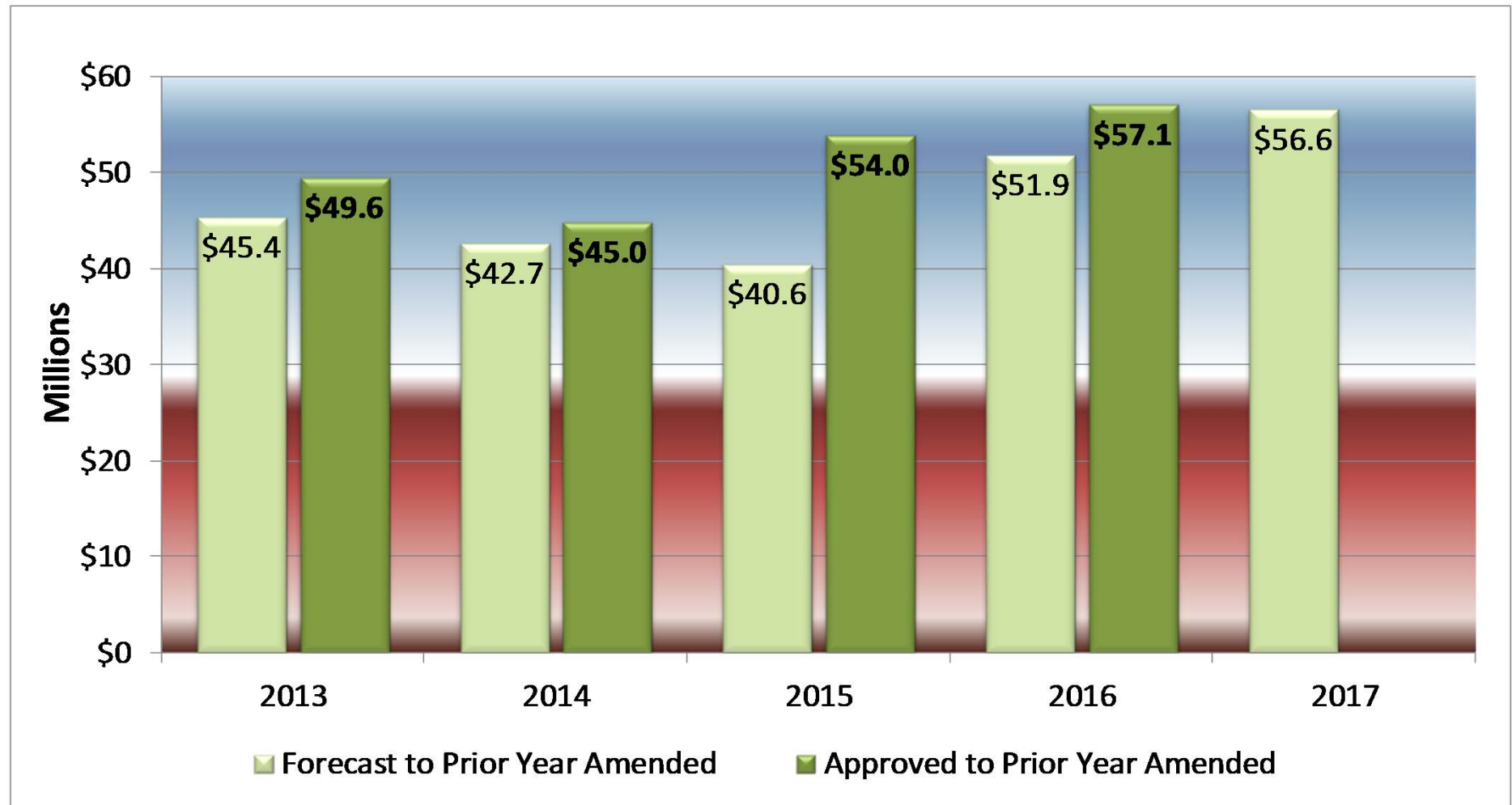
## Total Budget and Percent Growth: FY13-17

- Investments to maintain and expand the City's technology infrastructure have grown on average 11% annually in recent years



# Forecast vs. Approved Budget

## *General Fund History*



# Outstanding Council Policy Initiatives

## *Estimated FY16 Cost of Implementation*

|                                                                                      |                 |
|--------------------------------------------------------------------------------------|-----------------|
| Increase in general homestead exemption (revenue decline for each 5% increase)       | \$9.1M          |
| Total combined increases to HHSD and Social Services per various Council resolutions | \$8.3M          |
| Unaddressed Development Services requests from Zucker Report                         | \$1.1M          |
| Establishing fair chance hiring standards                                            | \$0.3M          |
| Utility transfer policies for the General Fund                                       | In progress     |
| Additional fire stations                                                             | In progress     |
| Sobriety Center                                                                      | In progress     |
| Assessment tool to address racial disparity and foster equity                        | In progress     |
| Addressing food access issues                                                        | In progress     |
| <b>Sub-Total Council Funding Requests</b>                                            | <b>\$18.8M+</b> |

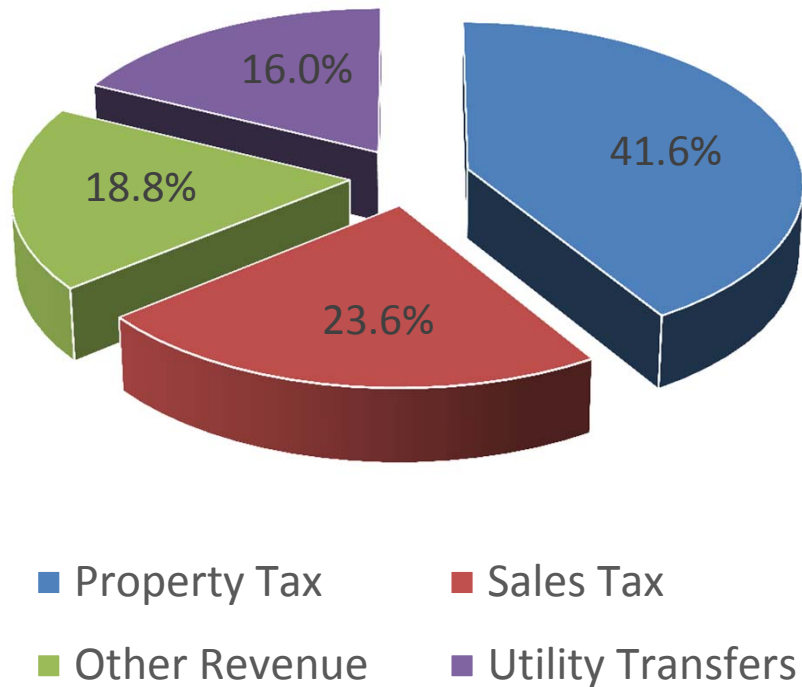
# Initial Funding Requests

## *General Fund Departments*

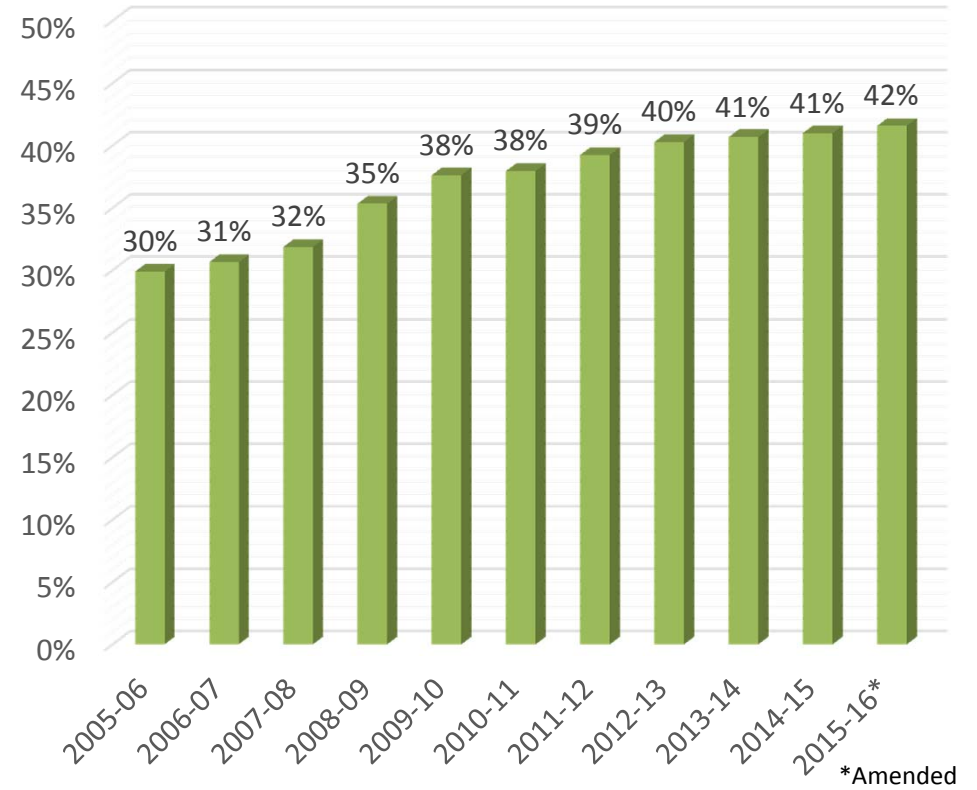
- Still in the development process and awaiting outcomes of Council policy discussions
- Last year's initial funding requests totaled \$48.3 million and 330 new positions
  - Funded requests totaled \$11.0 million and 98 new positions
- Report on General Fund departments' initial funding requests scheduled to be published in early June

# General Fund Revenue

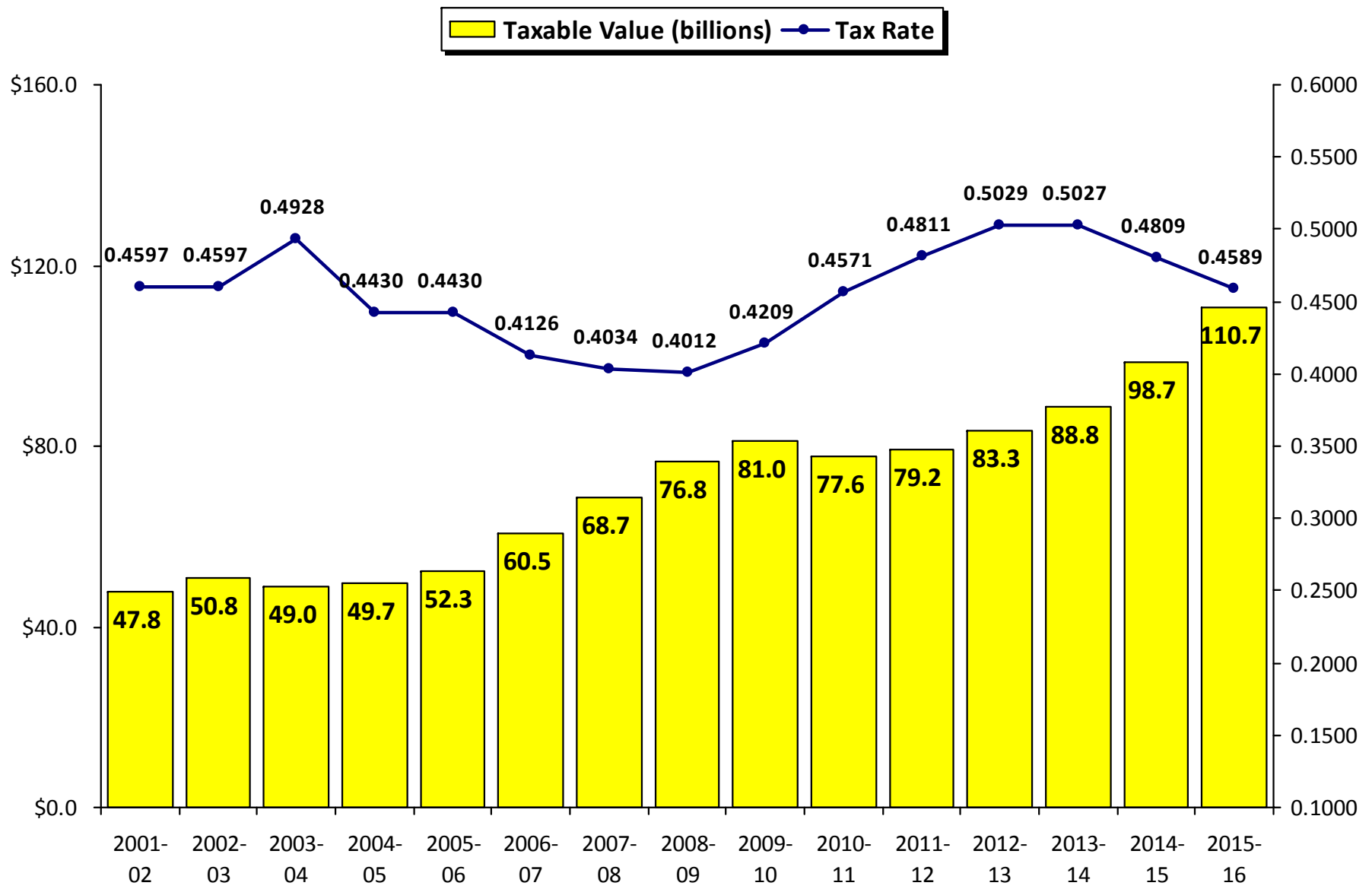
FY 16 Sources of Funds  
\$912.8 million



Property Tax as a Share of Total  
General Fund Revenue

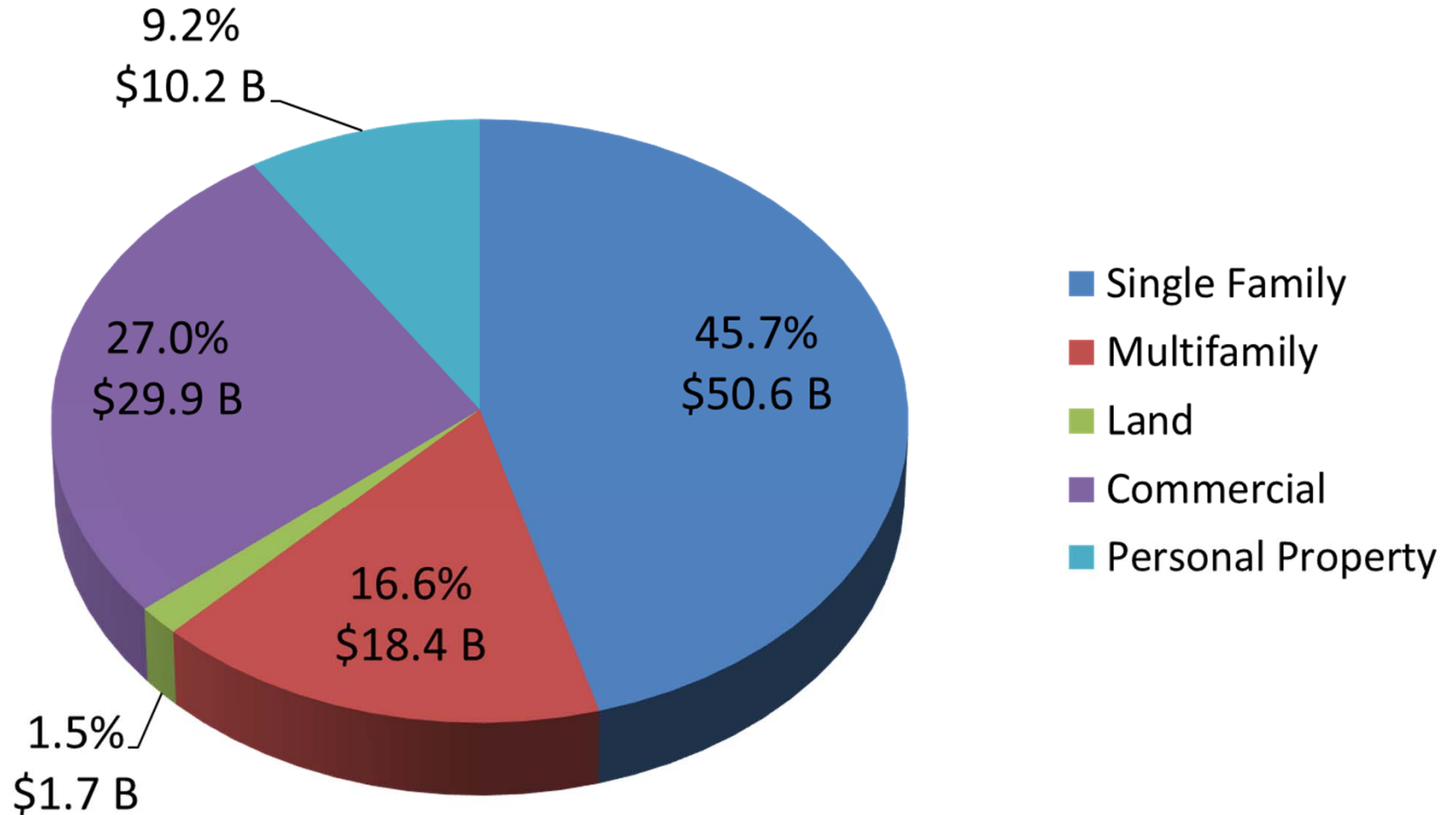


# Austin Property Tax Base



# Austin Property Tax Base Components

## Fiscal Year 2015-16 Valuation By Property Type

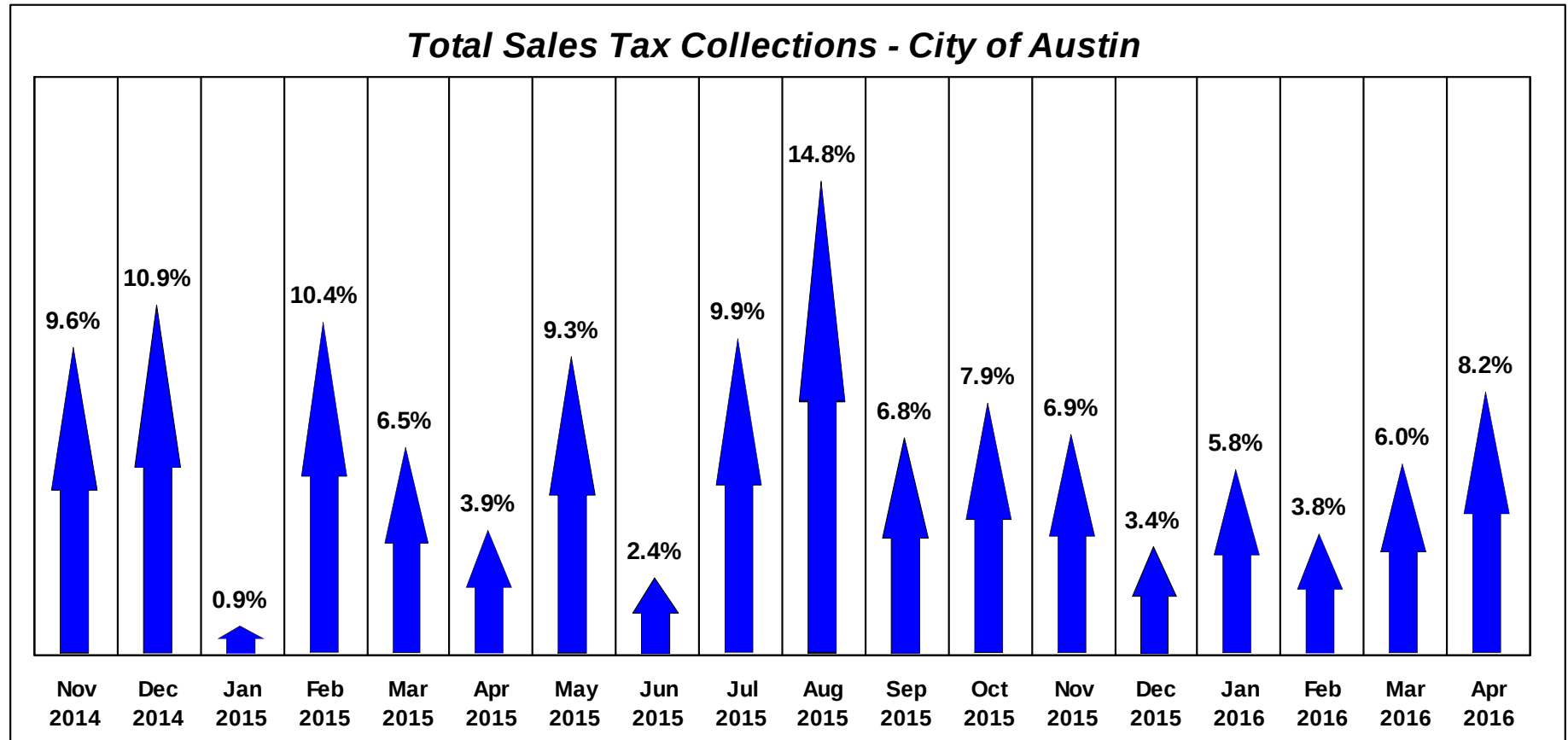


# Property Tax Assumptions

| Fiscal Year | Projected Assessed Valuation Growth | Estimated New Construction Value | Projected Tax Revenue at Effective Rate | Projected Tax Revenue at Rollback Rate |
|-------------|-------------------------------------|----------------------------------|-----------------------------------------|----------------------------------------|
| FY 2017     | 13.9 %                              | \$2.4 b                          | \$378.3 m                               | \$417.5 m                              |
| FY 2018     | 8.0 %                               | \$1.8 b                          | \$375.7 m                               | \$453.9 m                              |
| FY 2019     | 8.0 %                               | \$1.8 b                          | \$378.5 m                               | \$494.9 m                              |
| FY 2020     | 6.0 %                               | \$1.8 b                          | \$384.1 m                               | \$537.5 m                              |
| FY 2021     | 6.0 %                               | \$1.8 b                          | \$380.2 m                               | \$573.6 m                              |

- Travis and Williamson Central Appraisal Districts projecting another year of strong property value growth
- TCAD appraisal notices reflect Industrial sector growth of 33.5%, Multifamily growth of 23.1%, Commercial growth of 20.5%, and Residential growth of 10.7%
- Reduced expectations for protest loss as a result of increasing ability to defend appraisals

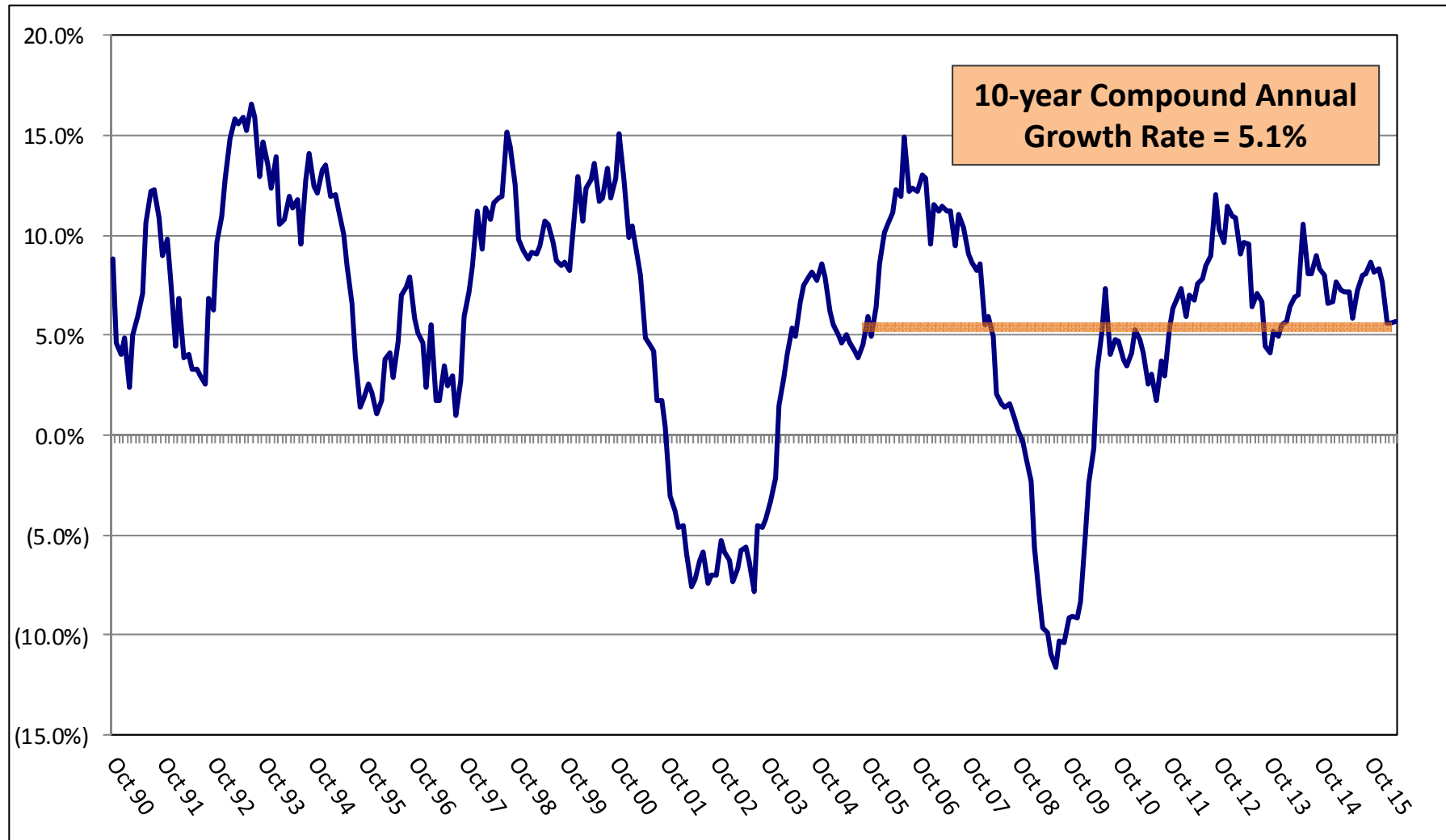
# Monthly Sales Tax Trend



FY 2016 budgeted increase = 5.7%  
Actual increase thru April payment (representing February sales) = 5.4%

# Sales Tax Revenue Trend

*6-month rolling average of monthly changes in sales tax*

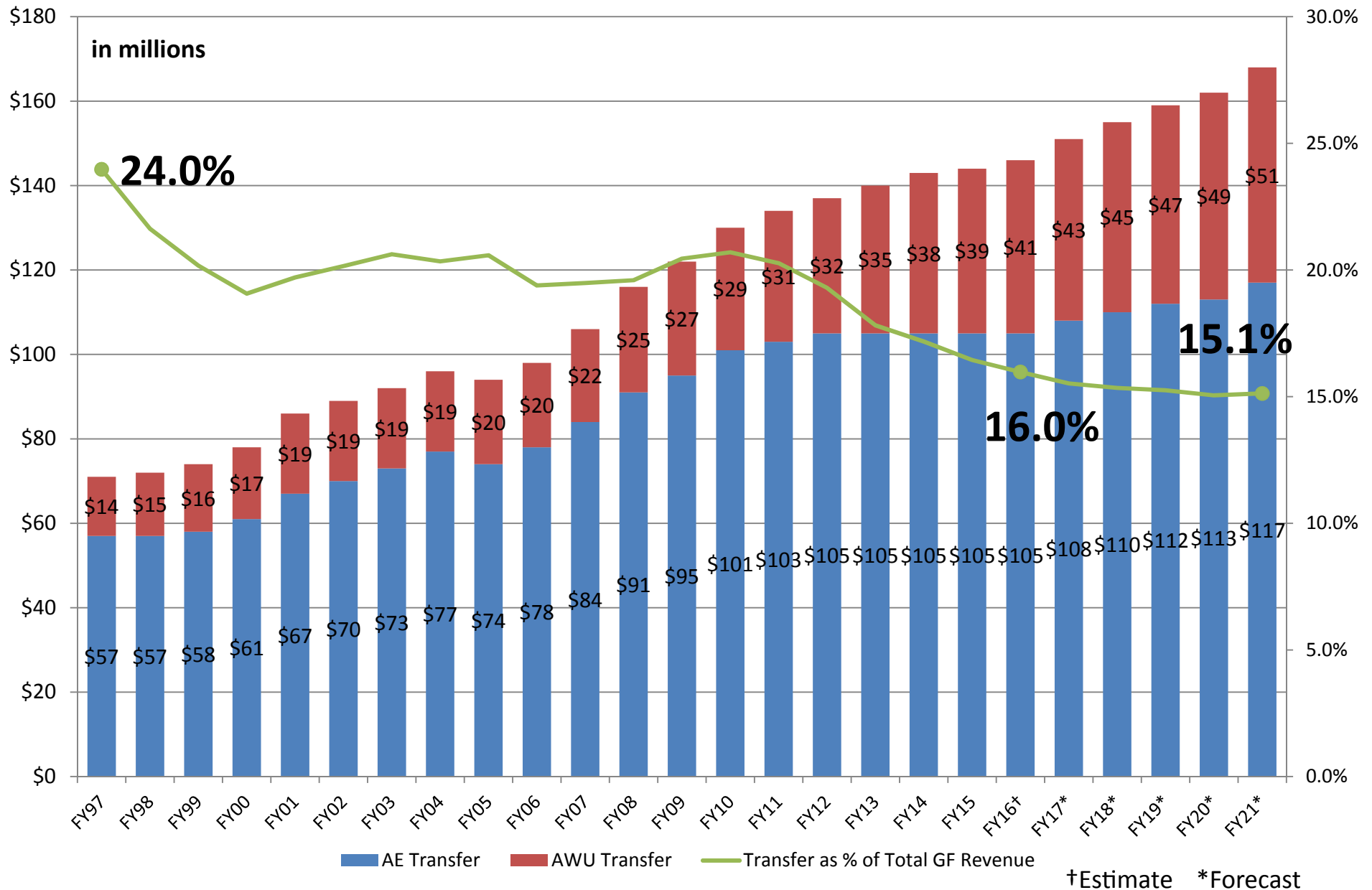


# Sales Tax Assumptions

| Fiscal Year | Forecast    |               |
|-------------|-------------|---------------|
|             | Growth Rate | Total Revenue |
| FY 2016     | 5.7%        | \$215.7 m     |
| FY 2017     | 5.1%        | \$226.8 m     |
| FY 2018     | 5.1%        | \$238.4 m     |
| FY 2019     | 5.1%        | \$250.7 m     |
| FY 2020     | 5.1%        | \$263.6 m     |
| FY 2021     | 5.1%        | \$277.1 m     |

- Year-to-date growth FY 2016 = 5.4%
- Forecast for FY 2017 and subsequent years represents the ten-year compound average growth rate
- *Conservative forecasting—a best practice viewed favorably by rating agencies*

# Utility Transfer History



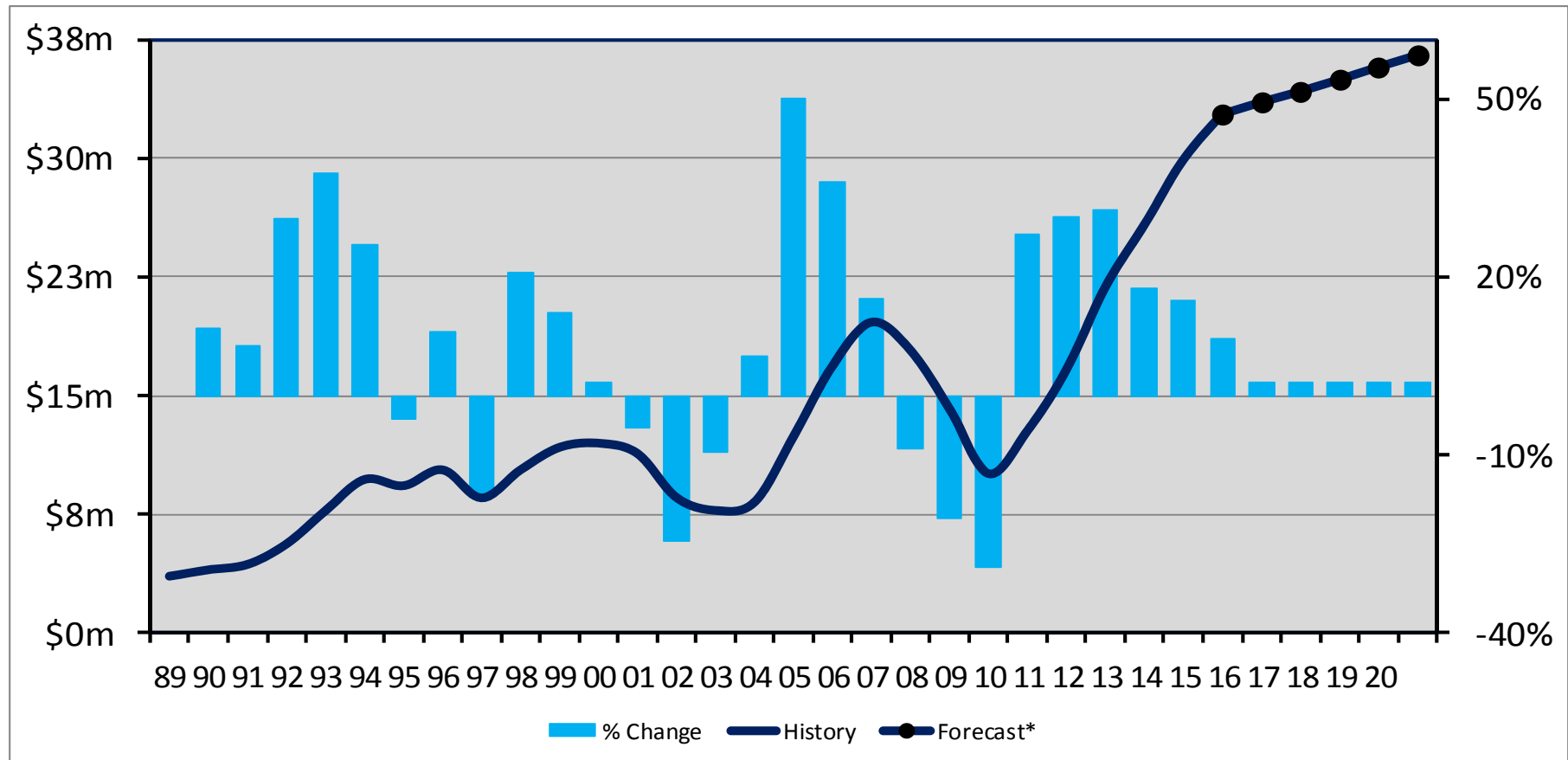
# Utility Transfers

| Fiscal Year | AE Transfer | AW Transfer | Total Increase |
|-------------|-------------|-------------|----------------|
| FY 2016     | \$ 105.0 m  | \$ 40.8 m   | \$ 2.0 m       |
| FY 2017     | \$ 108.0 m  | \$ 42.7 m   | \$ 4.9 m       |
| FY 2018     | \$ 110.0 m  | \$ 45.2 m   | \$ 4.5 m       |
| FY 2019     | \$ 112.0 m  | \$ 47.4 m   | \$ 4.2 m       |
| FY 2020     | \$ 113.0 m  | \$ 49.0 m   | \$ 2.6 m       |
| FY 2021     | \$ 117.0 m  | \$ 50.7 m   | \$ 5.7 m       |

- Forecast maintains Council approved transfer policies
  - o Austin Energy transfer set at 12% of the three-year average of non-fuel revenue, with a floor of \$105 million
  - o Austin Water transfer set at 8.2% of the three-year average of gross revenue

# Development Revenue

## *Historical Activity*



FY 2016 estimate = \$33.3 M; FY 2017 forecast = \$38.2 M

- 2% annual growth projected based upon consultant study.

# Other Revenue

## ➤ Charges for Services

- Examples include Emergency Medical Services fees, Parks and Recreation registration and entrance fees, Health and Human Resources food handler permits
- Projected to increase \$2.0M in FY17, from \$58.4M to \$60.4M

## ➤ Franchise Fees

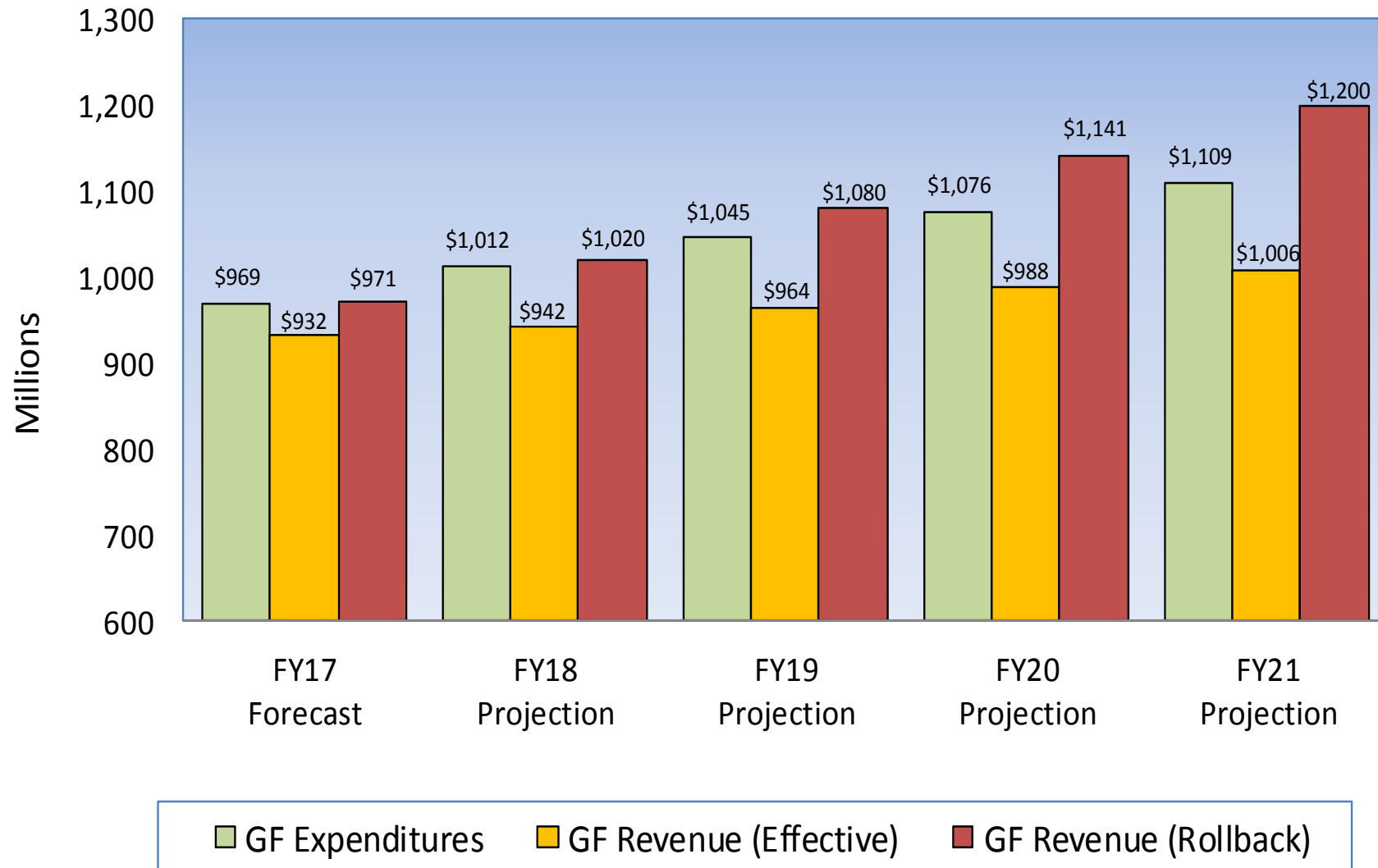
- Assessed primarily to telecommunications, gas, and cable firms for the use of the City's right-of-way
- Projected to decrease \$0.3M in FY17, from \$38.5M to \$38.2M

## ➤ Fines and Penalties

- Examples include traffic fines and parking violations, court and arrest fees, and library fines
- Projected to increase \$0.3M in FY17, from \$16.8M to 17.1M

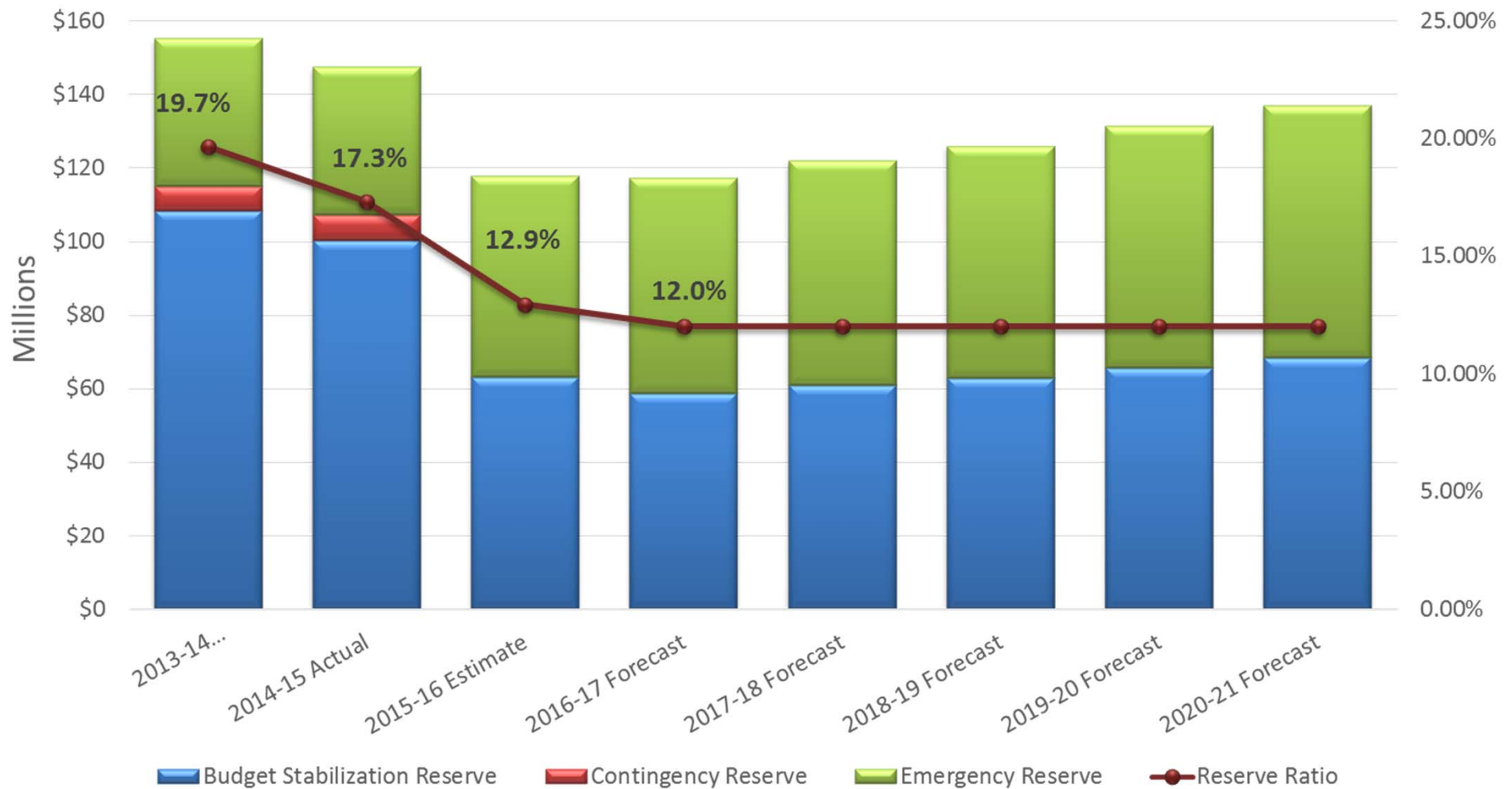
# Five-Year General Fund Outlook

## *Projected Baseline Expenditures vs. Revenue*



# General Fund Reserves

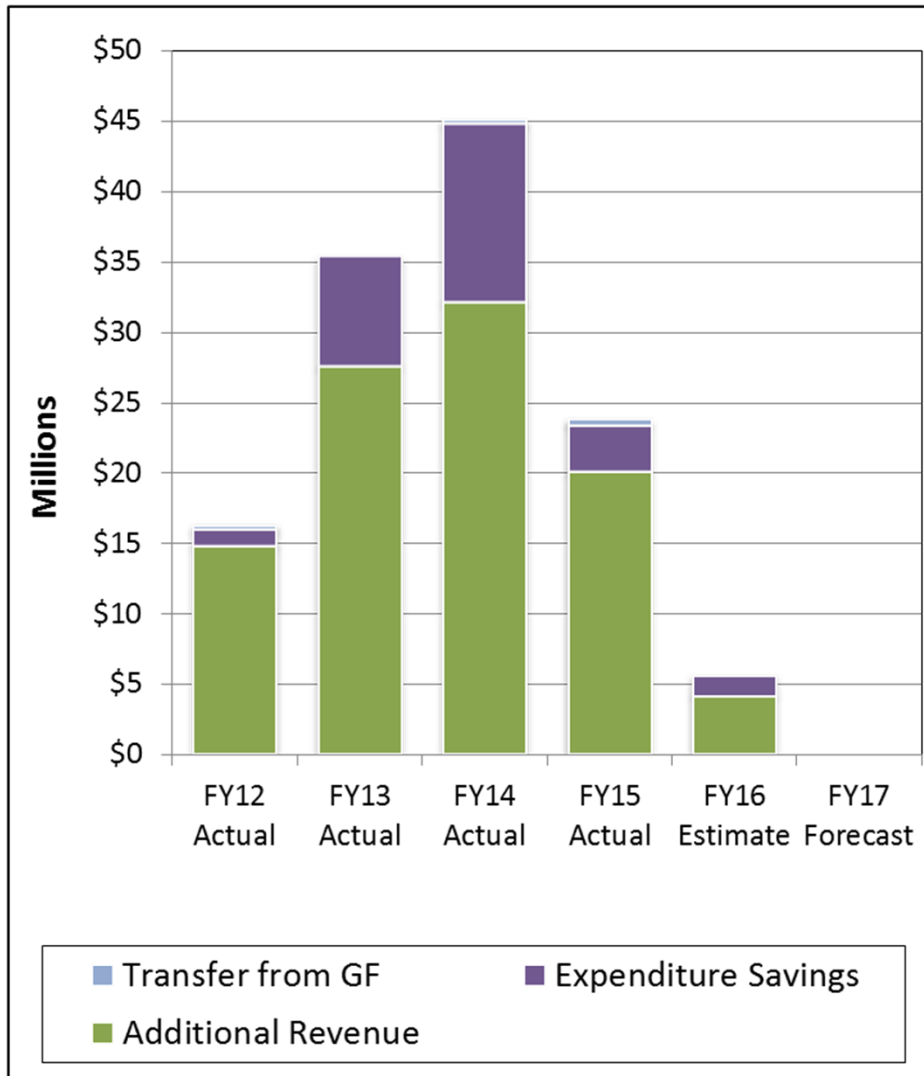
*Balance by Fund and as a Percent of General Fund Expenditures*



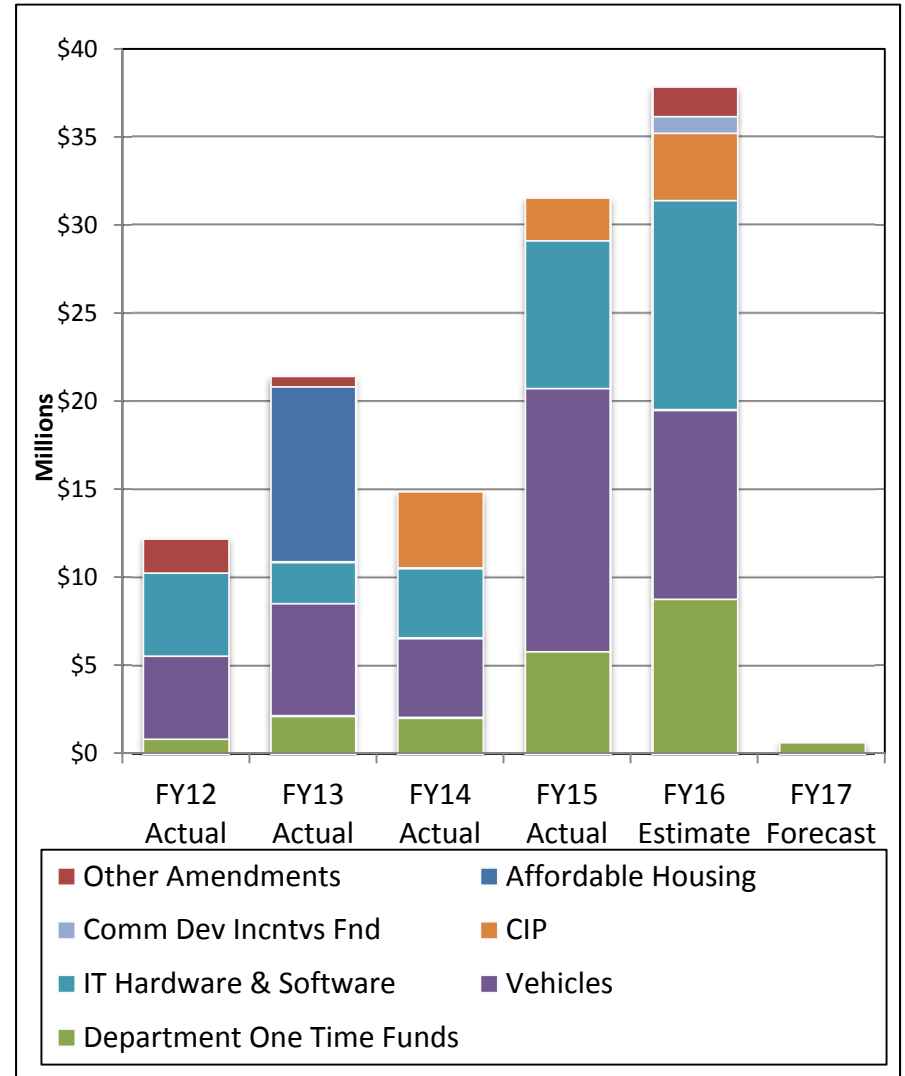
# General Fund Reserves

## Sources and Uses of Funds

Sources of Funds



Uses of Funding



# General Fund Reserves

## *FY 2017-21 Outlook*

- Aggregate General Fund reserves projected to stay at 12% policy level BUT...
- Very limited funding projected to be available from the Budget Stabilization Reserve (BSR) to meet one-time funding needs
- Increased use of debt will be needed for vehicle acquisition and replacement
- Transfers from the General Fund operating budget to the BSR may be needed to stay in compliance with policy

# Enterprise Funds Highlights

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*Elaine Hart, Chief Financial Officer*



# Major Enterprise Departments

*And Associated FY 2016 Operating Budgets*

Austin Code

\$20.1 million

Austin Convention  
Center

\$93.1 million

Austin Energy

\$1.4 billion

Austin Resource  
Recovery

\$89.6 million

Austin  
Transportation

\$41.5 million

Austin Water

\$518.3 million

Aviation

\$135.4 million

Public Works

\$80.6 million

Watershed  
Protection

\$85.3 million

# Enterprise Departments – Forecast Overview

- Forecast for each major utility and enterprise operations for expenditures, revenue, and system-wide rate projections
- Baseline Cost Drivers
  - Citywide: Cost drivers that affect all funds (civilian wages, health insurance costs, internal services cost allocations, Fleet charges for services)
  - Department Specific: Cost drivers unique to department's operation (new facility opening, escalation of contractual costs, vehicle replacements)
- Additional Enterprise department funding needs based on growth, customer demand, performance, or efficiencies

# Austin Energy (AE)

*FY 2016 Total Requirements \$1.4 billion; 1,672.75 FTEs*

- Provides retail electric service to over 450,000 customers
- Austin Energy is financially sound; financial indicators improving
  - Debt service coverage of 3x exceeds policy target of 2x
  - Debt to equity ratio projected to remain in conservative 45-50% range
  - Forecast fully funded emergency and contingency reserves in 2017
- Forecast indicates compliance with 2% affordability metric and trending toward metric of being in lower 50% of all Texas utilities
- Key forecast assumptions
  - Revenue based on proposed rate structure and rates
  - Total power supply costs remain stable
  - Adds renewable energy supply purchases (Goal 55% by 2025; at 23%)
  - Rate Stabilization Reserve remains out of policy compliance
- Risks to forecast: Federal and state regulatory pressures, power market uncertainty, infrastructure modernization requirements

# Austin Energy (AE)

*FY 2016 Total Requirements \$1.4 billion; 1,672.75 FTEs*

- 5-year capital improvement spending plan at \$1.2 billion
  - Emphasis on replacement and rehabilitation of critical assets to improve reliability and provide for “wires” system growth to meet increased customer demand
  - Delay of new gas plant beyond forecast period
  - Projected funding ratio of 39 percent cash/61 percent debt in compliance with financial policy
- Proposed 2017 rate reductions benefit customers but will lower AE’s operating margin (revenue less expenses from operations)
  - Projected FY 2017 baseline decrease of \$50 million; significant decrease due to lower power supply costs
  - Current Power Supply Adjustment (PSA) at lowest rate since 2004
- System-wide base rate increases average 1 percent annually

# Austin Water (AW)

*FY 2016 Total Requirements \$518.3 million; 1,148.50 FTEs*

- Provides treated water and wastewater service to customers within Austin and portions of Travis and Williamson Counties
- Austin Water financially stable; forecast to improve financial metrics
  - Strengthen debt service coverage to exceed 1.5x policy level
  - Operating cash and revenue stability reserves projected to increase
  - Debt strategies to stabilize debt payments at \$200 million per year
  - Continue improving financial metrics to achieve utility medians expected by bond rating agencies
- Key forecast assumptions
  - Current lake levels recovered with easing of drought conditions
  - Residential customer usage in gallons: 5,800 water; 4,000 wastewater
  - Rate projections highly dependent on improving financial metrics (cash reserve and debt service coverage)
- Risks to forecast: Weather extremes

# Austin Water (AW)

*FY 2016 Total Requirements \$518.3 million; 1,148.50 FTEs*

- 5-year capital improvement spending plan at \$884 million
  - Capital expenditures primarily driven by replacement and rehabilitation of critical water and wastewater system assets
  - Cash funding currently at 36%; increase to 46% by 2021; with a goal to reach 50%
- Assessing staffing needs to keep pace with system growth and increased customer service demands

| Metric                                 | 2005    | 2015    |
|----------------------------------------|---------|---------|
| Total customers (retail and wholesale) | 800,000 | 977,000 |
| Miles of pipeline maintained (w/ww)    | 4,991   | 6,613   |
| Staffing                               | 1,019.9 | 1,148.5 |

- System-wide rate increases of 2-3% annually over forecast

# Aviation

*FY 2016 Total Requirements \$135.4 million; 415 FTEs*

- Provide travelers a safe, clean, friendly, efficient, sustainable airport
- Aviation is financially healthy, but challenged by its original facility's limited ability to meet increased service demand
  - Airport Master Plan guides expansion plans
- Key forecast assumptions
  - Tourism is a growing element of Austin's economy
  - Passenger traffic to reach 12.75 million in FY 2017; an all-time high
  - 4% passenger traffic growth projected annually from FY 2018-21
  - Major new and expanded facilities coming on line
- Risks to forecast: Competition for airline business (# of passengers, # of seats, # of non-stop flights) and industry risks (economic activity, airline mergers and/or failures, terrorism activity)

# Aviation

*FY 2016 Total Requirements \$135.4 million; 415 FTEs*

- 5-year capital improvement spending plan at \$812 million
  - Nine-gate expansion, apron expansion, airport improvements, new parking garage, new facilities, centralized baggage handling system
  - Debt is primary funding source for capital improvements at 92%
- Staffing needs to provide service for facility expansions and address growing customer service demand
- Revenue projections (currently 45% airline, 55% non-airline)
  - 10% annual growth in airline revenue (terminal rent, landing fees)
  - 5% annual growth in non-airline revenues (parking, concessions, etc.)
  - Airline cost per enplaned passenger will continue in mid-range when compared to other airports over forecast (Key performance indicator)

# Austin Convention Center (ACC)

*FY 2016 Total Requirements \$93.1 million; 266 FTEs*

- Provide outstanding event facilities and services
- Austin Convention Center is financially healthy
- Key forecast assumptions
  - Tourism is a growing element of Austin's economy
  - Heavy reliance on hotel industry (available hotel rooms, occupancy rates, room rates) and hotel occupancy tax
  - 5% average annual growth in Hotel Occupancy Tax
  - 3% average annual growth in other revenue
- Risks to forecast: Competition for exhibit space limited by capacity of existing ACC facility
- 5-year capital improvement spending plan at \$24 million
  - ACC improvements and major renovations; excludes expansion plan
- Staffing needs to meet growing customer service demand

# Austin Convention Center (ACC)

*FY 2016 Total Requirements \$93.1 million; 266 FTEs*

- City Hotel Occupancy Tax of 9 cents – 4.8% average annual growth
  - o 62% of Convention Center's total revenue
  - o Hotel occupancy rates for calendar year 2015 at 73.8% with average daily room rate of \$134.76 (downtown hotels were 77.4% and \$214.84, respectively)
  - o 2,169 new hotel rooms added in calendar 2015

| Hotel Occupancy Tax (HOT)  | Allocation        | Description                                               |
|----------------------------|-------------------|-----------------------------------------------------------|
| Convention Center Tax Fund | 4.50 cents        | ACC operating & debt service requirements                 |
| Venue Project Fund         | 2.00 cents        | Debt service on existing bonds (ACC, Waller Creek Tunnel) |
| Tourism and Promotion Fund | 1.45 cents        | Contract payments to ACVB                                 |
| Cultural Arts Fund         | 1.05 cents        | Grants to artists and cultural agencies                   |
| <b>Total</b>               | <b>9.00 cents</b> |                                                           |

ACC – Austin Convention Center | ACVB – Austin Convention and Visitors Bureau |

# Austin Resource Recovery (ARR)

*FY 2016 Total Requirements \$89.6 million; 429 FTEs*

- Provides curbside trash collection, recycling, street sweeping
- Austin Resource Recovery is financially stable with limited volatility in its revenue stream and annual operating requirements
  - FY 2016 fund balance at 24 days; will restore to policy target of 30 days in FY 2019
- Key forecast assumptions
  - Zero Waste Plan – waste stream diversion goal of 50% by FY 2018
  - Next investment – implement City-wide Organics Collection Program
    - Expand current pilot program
    - Phase-in time frame (ARR – 5 years; ZWAC – 3 years)
    - Evaluating additional staffing needs and capital equipment cost
- Risks to forecast: Fleet fuel cost volatility

# Austin Resource Recovery (ARR)

*FY 2016 Total Requirements \$89.6 million; 429 FTEs*

- 5-year capital improvement spending plan at \$50 million
  - o \$35 million for vehicle/cart acquisitions, fleet technology upgrade, public space receptacles, construction of storage/maintenance space at FM 812 landfill site
  - o \$15 million investment for equipment to expand organics collection program to City-wide service (preliminary estimate)
- Assessing staffing needs to meet increased customer service demand due to population growth
- System-wide rate and fee increases
  - o Curbside collection rate – from 5-10 percent annually
  - o ARR Residential Clean Community Fee 3 percent annually

# Austin Code

*FY 2016 Total Requirements \$20.1 million; 117FTEs*

- Provides enforcement for City's Code, licensing, registration
- Austin Code is financially stable with limited volatility in its revenue stream and annual operating requirements
- Key forecast assumptions
  - Assessing staffing needs to address growing workload for case investigations and enforcement programs (Short Term Rental, Repeat Offender, Room & Board)
- Risks to forecast: Balancing enforcement and compliance; adjusting current programs to address needed enhancements
- System-wide increase in Clean Community Fee projected at \$0.85 for FY 2017 and an average 1-2% annually from FY 2018-2021

# Public Works

*FY 2016 Total Requirements \$80.6 million; 491.25 FTEs*

- Maintains City's aging infrastructure systems, manages City's capital projects, provides Safe Routes to School program
- Public Works (Transportation Fund) is financially sound
  - Increasing service level demand
- Key forecast assumptions
  - Improve and maintain overall condition of City roadways, sidewalks and trails in satisfactory condition or better
  - Deliver quality capital improvement projects consistent with baseline scope, schedule, estimated cost
  - Provide crossing guard coverage at school crossings
- Risks to forecast: Limited remaining bond funds for improvements to City streets/sidewalks/trails

# Public Works

*FY 2016 Total Requirements \$80.6 million; 491.25 FTEs*

- 5-year capital improvement spending plan at \$68 million
  - Focus on construction and rehabilitation of City streets/sidewalks
  - Expect Transportation bond funds to be fully expended by FY 2018
- Assessing staffing needs to address increased pace of growing infrastructure maintenance
- System-wide increase in Transportation User Fee projected at 5-15 percent in FY 2017; minimal increases in FY 2018-2021
- Child Safety Fund revenue to increase average 1% annually
  - Limited by State law – no increase in fine levels since mid-1980s
  - Not projected to keep pace with expenditure growth; need for increased General Fund support of 3-5% annually

# Austin Transportation

*FY 2016 Total Requirements \$41.5 million; 220.5 FTEs*

- Maintain safe and more efficient transportation system
- “Year of Mobility” a key initiative facing Austin
  - Pace of population and economic growth has outpaced the City and its transportation partners’ ability to meet Austin’s mobility needs
- Key forecast assumptions
  - Residents satisfaction levels: traffic signal timing on major City Streets at 41% (44% goal); traffic flow on major City streets at 17% (goal 30%)
  - ATD continues with City-wide program initiatives and expansion (Strategic Mobility Plan, Vision Zero Initiative, Safety and Enforcement Programs, Street Impact Fees Program Development)
- Risks to forecast: Limited remaining bond funds for mobility initiatives

# Austin Transportation

*FY 2016 Total Requirements \$41.5 million; 220.5 FTEs*

- 5-year capital improvement spending plan at \$15 million
  - Focus on traffic signal and parking meter installations, corridor and intersection improvements, traffic management programs
  - Expect Transportation bond funds to be fully expended by FY 2018
- Assessing staffing needs to address growing service demands related to special events, traffic safety, multi-modal transportation initiatives
- System-wide increase in Transportation User Fee projected at 4-7 percent in FY 2017; minimal increases in FY 2018-2021
  - Smart Cities grant application process underway; if successful, additional funding will be required
- Parking meter revenue projected to grow 2.5% annually

# Watershed Protection

*FY 2016 Total Requirements \$85.3 million; 275.75 FTEs*

- Protect lives, property, environment by reducing impact of flooding, erosion, water pollution
- Drainage Utility is financially stable
- Key forecast assumptions
  - o Ongoing impacts of major floods in 2013 and 2015
  - o Ongoing implementation of 2001 Drainage Master Plan (total cost over \$2 billion)
  - o Significant challenges in keeping up with maintenance requirements of rapidly growing and aging drainage infrastructure
- Risks to forecast: Ability to maintain aging infrastructure of over 1,000 miles of storm drainage pipelines and respond to emergencies

# Watershed Protection

*FY 2016 Total Requirements \$85.3 million; 275.75 FTEs*

- 5-year capital improvement spending plan at \$349 million
  - Major projects - Lower Onion & Williamson Creek Floodplain Buyouts, Upper Onion & Shoal Creek Studies, Waller Creek District Program
  - Cash is primary funding source for capital improvements at 81%
- Assessing staffing level needed to address deferred maintenance needs and keep pace with growing drainage infrastructure
- System-wide increase in Drainage Utility Fee of 2-3 percent annually
  - Based on amount and percentage of impervious cover
  - Key policy decision - single family discount transition plan
- Key reports may influence future budget recommendations
  - Flood Mitigation Task Force Report (anticipated completion May 2016)
  - Drainage System Audit (anticipated completion September 2016)

# Policy Work Session Topics

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*Elaine Hart, Chief Financial Officer*



# Proposed Policy Work Session Calendar

| May<br>4                                                       | May<br>11                                          | May<br>18                                  | May<br>25                       | June<br>1                        |
|----------------------------------------------------------------|----------------------------------------------------|--------------------------------------------|---------------------------------|----------------------------------|
| Civilian Wages<br>and Employee<br>Benefits                     | Funding for<br>Deferred<br>Facility<br>Maintenance | Zero Waste<br>Initiatives                  | Equity and<br>Affordability     | Mobility and<br>Traffic          |
| Tax Rates,<br>Utility Rates,<br>and Impact on<br>Affordability | Growing<br>Information<br>Technology<br>Needs      | Health and<br>Human<br>Services<br>Funding | General Fund<br>Transfer Policy | Public Safety<br>Staffing Levels |
|                                                                |                                                    | Other Topic                                | Other Topic                     | Other Topic                      |

# Questions/Comments/Discussion

*For more information, please visit:*

**Austin Finance Online**

City of Austin - Financial Services

