# City Council Budget Work Session Transcript – 04/19/2017

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>> Mayor Adler: All right. Let's go ahead and start. It's 9:00 is a. Today is April 19th, 2017. Today the five of us present are just receiving a forecast and economic outlook. So this is always one of the most interesting days of the year as a council member and community. All hoping against hope that what you said last year has not come true, even though it certainly looks like it has. Manager, do you want to say something before we ask them to present? >> I would. Good morning, mayor and council members. It's our pleasure today to be here to present to you the city's five-year financial forecast and economic outlook for the fiscal years to 18 through 2022. As you know, in years past, this would have been the kick-off of our budget process. The forecast is an integral part of our budget process. But we began our budget earlier in the year. During last year's budget sessions, we heard that council wanted more time to work on the budget, more information on which to base your decisions, and more opportunities for input prior to us finalizing our proposed budget. In response to that, we designed a different approach and actually began our budget process in early February. We began with the first of seven department review work sessions with council, during which we gave council a deeper look into the budget and the operations of our department and the general fund, as well as opportunities for the council to ask questions and engage in dialogue with the departments. The department review information was posted early. It was posted on Friday prior to the Wednesday work sessions to give the public and council an opportunity to review the materials prior to the work

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sessions. The information included the department's presentations, activity budget pages, as well as a line item detail by activity. These reviews this year were limited to general fund departments primarily because most of the budget pressure points in the past years have been general fund. In the past two budget cycles. It was my strong desire to allow sufficient time to go over these departments in detail and have the in-depth conversations that the council had asked for, so we needed to limit the number of departments presenting. This sets up somewhat of a two-year cycle where next year we would envision that the enterprise funds would be the departments we would go more in depth on. So the next years, general fund and like-wise, whatever the council would like to do. The goal of the reviews was twofold. One was educational, just to give you more information to base your decisions. Second, an opportunity for you to discuss policy questions, policy issues, reaffirm policy actions taken by prior councils and generally just to give staff more input that we could consider in developing the budget this year. It also gave the departments an opportunity to highlight their horizon issues that would affect their forecast. I really want to thank the council for setting aside that significant amount of time for us to be able to do those in-depth presentations, and I hope that you found them useful. Today we're going to present the financial forecast, which is just a planning document. It is, as we say in finance, just a forecast. It is not a budget. It is not that detailed. And you will see in this presentation compared to prior years, it includes less numbers. It's more policy-oriented so

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that you can continue your policy discussions and your budget priority discussions. We hope that you will give us -- continue to give us additional feedback and input as we move into developing next year's budget. I'm joined today by John with Texas perspectives who will present the economic outlook and our budget man, Ed. Deputy chief financial officer who will also present the financial forecast section. The key takeaways, we're forecasting a slower pace of growth for the Austin economy compared to recent years. We have been going through a boom time for the past few years. We're also facing significant challenges in developing this year's general fund -- or next year's general fund budget. Being able to balance the needs of our community with our available resources. I wanted to let the council know I've already taken steps yesterday to better position us as we move into that fiscal 2018 budget. I have asked all general fund and support services departments to bring their budgets in with at least 1% of budget savings. Those savings would roll forward and help us in balancing next year. I do think this is achievable. We did have one exception. I have given an exception to the fire department because they will not be able to meet that goal. These are goals, but I think they're achievable goals and will help with balancing next year. And last, before we begin the presentation, I want to thank the many people who participated in preparing this forecast. First, I want to thank my executive team, the department directors and officers. I want to thank them for their leadership, their stewardship and their financial support. I also want to recognize and

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thing the financial services budget staff. They never stop going, and it's all day and all night. We had some working at midnight last night and some at 6:00 this morning. So it is literally all night. I also want to thank the city department financial staff and many others who worked on this forecast. We couldn't get it done without all of you. And, John, it's always a pleasure to hear your insightful outlook. So with that, I will turn the presentation over to John with Texas perspectives for the economic outlook. We'll pause at the end of John's presentation for questions. Then I think he would like to leave. [Laughter] >> But you're welcome to stay. And then we'll go into the financial forecast. >> All right. >> Mayor Adler: One second, just before you start. We just want to announce we have a quorum present now. So we're going to formally convene the meeting with quorum present, and our goal today is to be done by noon. I understand there's a lot to be presented, so the request is to let these folks get through as much of this presentation as they're able to do. Okay? >> Thank you, Mr. Mayor. Thank you, city manager. Members of council, thank you for having me here this morning. For those of you I haven't met, council member alter, council member Flannigan, I've been doing this for a while. I actually looked back and realized I started working for the city in 2002 and started doing this presentation in 2005. So it's part of what my firm does overall. We do this kind of consulting work for a number of different cities and other sort of public sector bodies across the country. This afternoon, for example, I'm spending time working on Montgomery county, Maryland on what a wage increase would mean to their economy. That's what we do. The way we do these presentations, this is a context setting effort. We think, obviously in thinking

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about revenue forecasting, part of what you obviously have to consider is what's happening in the local economy. Part of thinking about the local economy is, of course, thinking about the broader economy overall. So I will walk through a fairly hopefully concise presentation about what I think is going on nationally, how that translates to the Austin economy, you know, what we think is going to happen over the next couple of years, and then, as, again, amplifying that notion of context, we do our own independent staff sales tax forecast. This is not designed to sub plant or in any way do anything other than inform what staff is doing, but it gives you an external look at what sales tax revenues are likely to be for the city of Austin. So I will walk through all of that. It's about a 15-minute presentation, and the city manager is right. I would actually like to leave. I would assume at that point, mayor, we might want to let people ask whatever questions they have of me. You lost the picture. I thought I had a really cool cover for this thing, and it got lost in the presentation, unfortunately. All right. Starting again with the bigger picture, talking about the ma crow economy. It's still growing. It's growing at fairly low pace. It's growing at a positive direction. Most of that is being driven by consumer spending. I will show you charts on this in a second. Consumer spending, retail sales, housing, they're all growing slowly in most parts of the country right now. On what's called the production side, which, of course, would be manufacturing, construction, energy-related activity, there's a little bit of positive stuff going on, but it's pretty slow going forward. There's sort of a decent volume of lending activity happening. Slightly improved is what the federal reserve bank says. But it's interesting. If you start looking into

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surveys being done across the country on how consumers feel and how business people feel, for the first time really in, I think, the history of a lot of these surveys being done, how people feel about the economy is being skewed by their political orientation. You know, it was striking last fall. Democrats felt great about the economy. Early this spring, Republicans felt great about the economy. Somewhat independent of facts, per se, really more driven by their political outlook. From my point of view, that's a problem because in theory, you know, I'm hoping people tell me how they feel about the economy, tell survey folks how they feel about the economy independent of the political lens in which they're viewing the world, but I think it's nothing more than an increasingly polarized world that informs everything. So having said that, I think overall it's hard to judge how people are feeling going forward. I think in general I would say probably the overall mood is of some anxiety out there across the country, unbalanced. One of the things the federal reserve bank has been very clear about is that they think that their orientation at this stage is toward tightening, meaning raising interest rates. They've already done it a couple of times in recent months, and the expectation, at least according to the markets is one or two more interest rate increases over the next -- really through the balance of 2017. I wonder about that, and I won't be surprised if it doesn't happen for a couple of reasons. One, I think as a nation, we're addicted to cheap money, and an awful lot of our economy at this point depends on relative inexpensive costs of borrowing. Perhaps more importantly, I think that the inflation numbers are going to continue to show us that energy really is the driver of inflation, and that the expectation is that OPEC's

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tightening in November -- I won't get too deep in these weeds, but it will stimulate more production in the united States, which will have an effect over the course of the summer, bringing energy prices down. If energy prices come down, that suggests overall inflation will move toward the fed's target of 2%. If inflation is not that big of a problem, there's not such a excelling need to -- compelling need to raise interest rates related to inflation activity. A couple of charts just to illustrate this. Let me apologize for using bin my opinions. GPD is gross domestic product. That's the standard measure of the national economy. And pce is personal consumption expenditures. That's all of us spending money, going to the dry cleaners, going to the grocery store, what have you. The darker bar is growth in pce, the lighter bar is growth in the overall economy. What this chart should tell you -- and it's volatile. What it should tell you is that consumer spending is driving things and that we're sort of bouncing around in this two to 3% picture mostly being driven by consumer activity. That's an issue in part because one of the things we pay a lot of attention to, it's considered to be a leading indicator out there is something called non-residential investment. That's spending by companies to do what they do. Whether it's investing in plant and equipment or investing in new software or technologies. It's investments made by literally non-normal people in businesses, essentially. So obviously on the non-residential side of the economy. Again, it's a little volatile. If you think >> And that suggests that businesses are not super confident about their future prospects. And again, this is a national number. >> Real quick question. >> Yes, ma'am,. >> If I can.

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>> Does that include salaries? >> It does not. >> Pool: Okay, so it's just -- it's everything else except for personnel costs? >> That's right. It's essentially spending, I buy some new software, I build a new plant, I buy some new equipment, et cetera. It's spending outside your organization for investment purposes to do what you do. And this is the last national slide, this is the national consumer index. Economists are great at taking this out of the the equation until we get what we want. One of the things that's done with this is people will take food out of the equation, energy out of the equation, take both of them. I went ahead and took energy out. It's a pretty standard thing to do, because I wanted to show you how stable inflation was absent energy, and of course those are the pale -- the pale bars at the back. It really is hovering right around the 2% level overall. That runs -- that chart runs through February of this year, the most recent data we have. If energy prices come back down to some degree, I think it will fall back into that overall 2% range. That's the feds' target, that's what they would like it to be. So again, I think that inflation is not much of a problem going forward. So what's it mean here in the area we care the most about, which is certainly the Austin area. The initial numbers reported by the Texas workforce commission were pretty startling. We have had a run here in Austin of job growth in the broader metropolitan area running in the 4 to 5% range for some time, which quite frankly is unsustainable. It really is. It ran a little longer than I thought it would. The initial numbers coming from the workforce commission suggested that growth had dropped down into more like the 2% range. They revised that and now says it's really more like 3.8%. I actually think that's a little high. I think subsequent revisions may bring that down.

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I think we have seen that the unsustainable pace is clearly beginning to slow down. Almost all the growth at this point is on the private sector side of the equation, and that's been the case for the last couple years, and most of that growth is coming in what we are calling the commercial sectors of the economy, which are largely related to population increases. Again, services, retail sales, housing to some degree. All that stuff is related to our, guess what, booming population here in this region. As you look at -- specifically at consumer spending, it's fallen back down to long-term trend levels, and that -- we measure that, really, by looking at sales tax. It's the best proxy we have. It's not perfect because in Texas, for example, we impose sales tax on things like building materials, so there is some nonconsumer activity baked into those numbers, but we're back down in the range of growth in the overall 4 to 5% range. There were periods when we had growth substantially faster than that, and I remember having internal conversations saying to people years ago, man, it's hard to project double digit growth on top of double digit growth on top of double digit growth because you run into a little bit of what we call the law of large numbers, which is as things get bigger and bigger their pace of growth has a hard time going at such an accelerated rate. One of the things we pay attention to, and this is actually? The appendix we provided, is patent activity. That is certainly something of a long-term indicator. It's pretty solid here. There was a dip, as I'm sure you all may have seen reported recently in the paper in the last couple days on venture capital activity in the first quarter, but for 2016 overall it has gone back to sort of overall trend levels. We are a long ways away from the days more than 15 years ago when venture activity pumped $2 billion into the local economy in one year. That was a -- that was an odd time, for sure.

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Anyway. Tourism is something we've been talking about for a long while. It's very strong. Has certainly in terms of its aggregate numbers, hotel occupancy is very strong, but growth is clearly slowing down, and it's my personal opinion we may, in fact, see a dip in that in the next two to three years just because there has been such an extraordinary volume of investment in hotel room capacity, a lot of which isn't on the market yet. A lot of which is coming. And then, you know, no surprise, the housing market is tight. There is a little bit of softness around the edges, particularly up at the very high end in million dollar-plus homes, but demand is strong and supply is just not keeping up with demand. And basic economics says when demand exceeds supply prices rise. That's sort of con 101. So again, that's kind of the overview of where we are -- I'm sorry. >> Another real quick question. On the -- the job growth piece and the pace of 3.8%, do you have the jobs broken down more granular level that shows the salary level and where the increase in jobs -- what the -- what the salaries are for the increase in jobs? >> We have -- further in the presentation we have a little more granular information by industry. The information that's related to salaries and wages comes from a less timely set of employment data. It's called the quarterly sensitive employment and wages. That information right now is current through the third quarter of 2016. And so we could certainly pull that together and send that over. >> Pool: And then the follow-on question to that is do you have time frames for the new jobs that are being created, how many in that salary range were created at what point? What we're seeing -- what we think we are seeing is with the addition -- with the new jobs that are coming into Austin, a lot of them tend to be -- they bring -- they hire from outside of the city and they pay them higher salaries. One of the things we've been working on here is trying to

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focus the hiring with people who already live here and if that means some middle to lower incomes, well, that's okay, but we would really like them also to be achieving those higher salaries. So we're trying to tease out what sort of an effect are we -- can we even have on encouraging employers to make that kind of commitment to the city and have it be sustainable. >> Have I got a half an hour or so to answer this? I'm kidding. On the specific data side of the equation, you're not going to get really good data from the workforce commission that will tell you -- it will tell you wages and salaries rolled up by industries and occupations. What we can track, though, that will help speak to this is obviously reports of companies moving to town, how many people they're hiring, what average wages they're going to be paying, and see if we could try to separate that out from the growth coming in the sort of overall data. In the -- in sort of thinking about your -- I think your broader point, which is how do we encourage growth in sort of lower -- not lower, but sort of mid-level jobs, if you will, sort of in that -- >> Pool: Well, we're losing the middle class. >> Right. That's right. And so I think that's something we are working on separate of this forecast and thinking about what we're going to, you know, propose or at least provide to council's information around incentives policy. >> Pool: Okay. >> I mean, I think that's an important place to pay attention to that. All right. So I actually -- I will try to -- instead of crossing this -- instead of turning off my microphone, thinking I'm pushing the remote, I will actually push the remote and advance the slide. So this is a chart of growth in overall employment, and again, this is the metropolitan area. This is five counties, and this is all based on a survey of employers. It's caused the nonag wage and salary survey where they call up and say, hey, Mr. Ball bearing manufacturer, you know, how many people do you have working and how is that different from what it was last month? So it's based on your -- on a survey of employers as

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opposed to the unemployment rate, which is based on calling you at home and saying, hey, mayor, do you have a job? Yes or no. So that's based on place of residence. And so what we do with this is simply show the 12-month change. So this is annual data. You can see how extraordinarily rapid overall job growth has been really in the wake of the recession. That is exceptional performance. If I am not mistaken, I believe it's probably the most rapid job growth of any major metropolitan area in the country over the last five years, but you can see the trend is abating just a little bit in that process. And then this is more recent. Instead of looking at the information annually, using that same kind of year over year change, we're looking at it now quarterly for the last couple years, and you can see the pace slowing down noticeably toward the end of 2016 there. Again illustrating what we're talking about. And then this is a comparison back on an annual basis of private sector growth versus public sector, and of course public sector in Austin obviously includes not only the city, not only the state, but also includes the university of Texas as well. So again, it's a fairly substantial piece of our overall employment base, and you can see really almost all the growth, the vast majority of it has come in recent years on the private sector side. What's interesting, if you look back in history during the big recession, the public sector actually offset a bit of the deep declines on the private sector side, which is kind of a nice buffer for our region -- and council, here's the breakdown down by major industrial category, major industry aggregation. What I've done there is put the annual figures for 2011, 2015 and then 2016, done the actual change and those numbers are in thousands, and then done the percentage change just to give you guys, again, a sense of kind of perspective.

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You see how slow manufacturing has been. There was a time in Austin when we had more than 80,000 manufacturing jobs. As you see the current number there hovers in the mid-50s, and so manufacturing is obviously well down from where it was back in the heyday of the late '90s. Most of the growth really is, again, tied to people, tied to people moving here, tied to people-related activity as opposed to production stuff. So this is the projection. The projection for 2017 is we will finish the year at about 3.4%. Around 3% for 2018. Quite frankly, this is a little more aggressive than -- when I went to do this forecast, I thought the numbers would be slightly lower, but in really drilling into it I think we are going to stabilize in and around the 3% overall job growth in the region. This is not city of Austin. This is the metropolitan area. I would think the job growth in the city of Austin itself would be slower than this, but this is the -- sort of the analytical basis we have for the region as a whole, slowing growth. 3% job growth if you could sustain it is ideal. I give a speech all the time where I ask how many people in the room are old enough to remember schoolhouse rock, and everybody kind of looks blankly at me except for guys my age. And then you say, yeah, 3 is a magic number. There was a great schoolhouse rock piece on that. If you could get 3% interest rates and job growth and inflation, it would be a pretty interest world, 3% employment rate. If we could sustain 3% that would be great. We average over 3% but unfortunately for us it's volatile, which makes planning a little bit challenging along the way. That's the overall job forecast. And so then turning a little bit to the sales tax side of the equation, again, this is on a calendar year basis, not on a fiscal year basis. We'll get to that in a second, but you see we had -- we've had a pretty

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good run there, commensurate with the strong economy, and things slowed down a little bit in 2016, down just below 5%. And then if you drill in again looking at it on a quarterly basis, and the reason why it says current period is the way the comptroller's office reports this information, they will give us a number for, say, March of this year, it actually reflects activity in January. It runs with a two-month lag. So the March data reflects what happened in January. We have rolled that up on a quarterly basis and then did the change, and again, you see, aside from that anomaly back there in third quarter of 2015, the overall trend there is slowing down. And this is specific to the city of Austin. This is not the metropolitan area. This is drilling in right here to the city. One of the things that has been interesting to me, and I've looked at this in a whole variety of communities, is the relationship between job growth and sales tax growth. I mean, in some sense it's logical, right? When the economy grows, more jobs, more income in theory, more money available to be spent, more money spent locally, et cetera, et cetera, et cetera. It's surprising that the relationship actually holds pretty well, as tightly as it does if the correlation is as strong as it is. And this again is city of Austin sales tax versus overall growth in regional jobs. So that gives us some insight, we think. If we have an employment forecast that is of a certain thing, we can tie it back to sales tax, but one thing I also always want to mention because it's a factor certainly for municipalities, is the rise of ecommerce. We do not have good data on the level of ecommerce sales for the city, so these are national numbers, but that's a very clear trend, rising annually for the last seven or eight years. The fourth quarter of 2016 was at 8.3% compared to the annual number, 2016, of

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8.1%. Pay attention to that obviously because a certain volume of these numbers are not subject to sales tax so it begins to have an effect on the city's revenue picture. So overall, this is txp's projection. On sales tax forecast done at a fiscal year level, fiscal year 2017 we think the city is going to end up at about 4.3%, and then I think slightly slower in 2018, consistent with our slightly slower job growth of around 3.9%. Fiscal year city of Austin, specifically obviously what you guys are concerned with. And you see, again, the trend is downward. It is leveling off to some degree, but it is certainly not anything resembling the pace of the wake of the recession, 2012 through 2015. And so conclusions, we're still -- this region still remains among the economic stars in the U.S. It's definitely slowing down. We are definitely affected by I think what is slower growth nationally. You know, we're talking about overall job creation in the 30,000 range, overall personal income, and this is in the -- in the appendix, should continue to expand in the 6% range. That's a little bit slower. Most of the growth continues to come in population-related side of the equation, and this is something -- the last bullet is really something I think you all are thinking a lot about, is that the aggregate numbers show a relatively high level of prosperity. But there's a lot of -- there's a lot of detail underneath that that suggests widening gaps. There certainly are cost pressures and mobility issues, which is something I know you think about every day, pushing growth outside the city limits, and I think we are thinking a lot as a community about how do we influence what I would call the distributional effects of this overall growth, how do we find a way to hang on to the middle class inside

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city limits. And so I think that's likely something we'll talk about in coming months working on a number of other issues. So with that -- >> Mr. Mayor? >> Mayor Adler: Yes. >> Can you talk for just a minute about the relationship between, you know, the job growth here that you've been talking about and the overall population growth in the city? >> In the city specifically? >> Kitchen: Yeah. We've grown quite a bit, or the msa if you'd rather speak to the msa, but we're in a community that's projected a lot of growth, which is one of the reasons that we have housing issues. So there's a relationship there. >> Definitely. >> Kitchen: So what is the relationship -- what, in your mind, is the relationship between, you know, you know, slowing job creation and our growth? Does that also mean that we will slow our growth? In terms of population? I mean, the word has been out across the -- I would say actually across the world in some ways, that Austin is an economic star and the land of opportunity. And so the interesting question becomes, as we slow down, how do we look relative to other areas? And so if all other areas slow down quite a bit, we may be, you know, the one-eyed individual in the kingdom of the blind. We may look good by comparison to other areas where there's not much opportunity. Conversely, if other areas look relatively more attractive, then that would, I think -- council member, I think you're right, I think it would help to slow population. My overall sense, I think population growth here is going to slow based on immigration is going to slow down over the next several years. It may not happen this year but I think it is going to happen over the next several years. I think quite frankly the cost here is relatively expensive. It's interesting, I was just with a group from Seattle. Our costs look great in comparison to Seattle and the bay area.

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They look terrible in comparison to Chattanooga and other places that could be the new Austin, could be the Boise or places like that. And so I think what you may very well see is you may very well see people, especially young people, and perhaps entrepreneurial people say, hey, man, I could be in Chattanooga, I could be in Detroit, I could be in St. Louis, I can be places where the cost of starting my business is nothing and why do I need to fight that fight in Austin? >> Pool: Thanks. I know you called it economics 101 and I went to grad school and took economics classes and statistical analysis and everything, so I think we get that. But how do you explain or factor in the other economic truism that is -- as profits decline so does development. How would you reconcile those conflicting pressures? >> As profits decline meaning developer profits? >> Pool: Right. >> I think it's a lag factor, honestly. I think one of the things -- one of the things that has driven a lot of the development in the Austin area is the word went out, and I -- I'm going to simplify this and make it something of a metaphor, among sitting around the pension fund campfire, wow, there's all this job growth and all these young people in Austin, let's go build apartments. That's a simplification. But there was a tremendous amount of institutional money that has flowed into Austin based on this conventional wisdom that Austin was a very, very attractive market. Most development projects have a three to five-year sort of cycle in front of them, and so I think we may very well be in the transition -- as has happened here in the past in other development cycles, where money is committed 18 months ago and by the time the project gets built demand has slowed way down. And I think that's likely to be the case. The other thing I think is the case is I don't think it's popular -- it's the popular view yet that things

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are really slowing down. I think there is some question about it, for sure, but I don't think it's a widespread view within the community and certainly out there in the development community that things actually have fallen off, even though the data and sort of our own sense of it would tell us that it actually has. >> Pool: Right. I'm not saying that it is either, although looking at your numbers it looks like you may be expecting that to happen. >> I am expecting it. >> But it does seem like those two truisms may come in direct conflict with one another. >> And I think what you'll see is what's happened in history here in Austin in the past, which is people, you know, lost their shirts because they were the last people in and mistimed the market. And that's one of the big challenges of development, is that -- it oftentimes has a long lead time, and so you have to kind of guess where things are going to be three to five years down the road, particularly for bigger projects. >> Pool: Thanks. >> You bet. >> Mayor Adler: Yes, council member alter? >> Alter: Good morning. >> Hi. >> Alter: I wanted to get some further clarification on your manufacturing numbers, and you had talked about how we had seen a big change over time -- excuse me -- in the number of manufacturing jobs. I was wondering how that compares nationally to national trends. >> Comparable. I mean, it's an overall economic restructuring, and there's a lot of stuff sort of baked into that. Austin used to be about what folks call hard technology, making things, and we still do to some degree, certainly our semiconductor guys would tell you they do. But increasingly technology in Austin is soft technology. It's services, it's cloud-related activity, it's software. And so a lot of that stuff doesn't actually get classified as manufacturing. So you get a little bit of that going on, and then you get the overall national truism that unless you're making kind of a niche product, if you're making something that's a mass market product, and particularly on the consumer

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side, most of that activity has left the United States. We don't have a lot of that here to begin with. We don't have a lot of consumer sector-related manufacturing going on. What we do have, again, tends to be kind of niche-related activity in and around the food and beverage sector, to some degree a little bit around clothing, but not on the wide scale that other places have had. So you're right, it is part of an overall national trend. >> Alter: And on your conclusions page you said personal income should expand in the 6% range. Can you help me understand what that number is referring to, the time span and -- >> Yeah. >> Alter: -- And if that's kind of just an aggregate number. >> It is. So the bureau of economic analysis, which is part of census, as is the workforce commission technically and they have a deal with the bureau of labor statistics, it's federal government data, tracks overall personal income at the county and metropolitan area level, and personal income includes everything from your paycheck to any dividends you might receive, if you are receiving public assistance of some kind, that's counted in the equation, and all that number is rolled up into an aggregate figure for that geography or for the county or for the metropolitan area. And so when I say in the 6% range, I'm talking about the overall metropolitan area. 6% personal income growth is consistent with the 3% job growth, essentially. I mean, obviously dollar denominated things grow faster than people denominated things, but that's what that is. >> Alter: And then my last question for now is you kind of hinted at it when you mentioned we had seen a slowdown in the venture capital, but I'm wondering if you could speak a little bit to what we see going on in the capital markets, which may also affect investments in the community and choices that business are going to be able to make. >> Well. On the venture side, and I'm -- I know what I read and know what people tell me is that there's actually -- what the challenge in the

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Austin area is our venture capital bench isn't as deep and as broad as certainly, say, the San hills area out in the bay area. And so companies appear to be having a not terrible time raising initial sort of true, I've got an idea and I want to start a business funds. The challenge seems to be when you get to the next level, it's called the mezzanine level, when you say, okay, we're up and running, maybe we have revenue and we need to really expand our footprint, and there seems to be some challenge around that. And what I read and what people tell me is that really is more about getting more of a presence here of capital sources that -- that sort of focus on that segment of the process. On the banking side of the equation, you know, I'm -- I'm actually -- I sit on the board of a bank, and we are continuing to see deals -- other bankers tell me the same thing, but again, one of the challenges for banks is an awful lot of economic activity in the modern economy doesn't have a lot of collateral tied to it. Bankers like to lend with something backing it up, and if I'm, you know, expanding my software company and don't have a lot of physical assets that I can use as collateral on the banking side. So, you know, I would say that there are some challenges related to finding capital in Austin, particularly for growing companies more so than on the true startup side of the equation. >> Alter: Does that hold true the same -- the same analysis hold true for those who are engaged in development and building apartments and the office complexes that we see? >> Depends on scale. Per what we were talking about earlier, institutional money has been very interested in the Austin area, so if you're talking about a substantial scale that requires, you know, institutional capital as part of the overall equation, it hasn't been very challenging, particularly if you're an experienced developer. Smaller scale, yeah, it's getting tougher. It's beginning to get tougher on a smaller scale when it doesn't involve that kind of institutional

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support. >> Alter: Thank you. >> You bet. >> Renteria: I want to ask you a question on the sales tax. How did you forecast the -- just through the employment at 3.9? >> No, the employment is a piece of the equation for sure, but we also factored it down actually a little bit in looking at some of the ecommerce stuff, and then we also -- we did a fair amount -- we always try to integrate what I would call kind of structural analysis, where I'll build a couple of different regression equations and play with it, and then also with trend analysis, looking at trends. And so the forecasts are always a combination of a couple of different statistical approaches, and then frankly my judgment based on what I think is going on out there in the world that will affect what's going on. So it's -- you know, they call economics the dismal science. I'm not sure it's science. I think if it's anything it's art of some kind. >> Mayor Adler: Anything else? Thank you very much. >> Thank you all, once again. >> Mayor Adler: Once again, real informative. Thank you. >> Houston: Mayor, before he rushes out, if we have any questions about your -- about the appendix, can we just call you? >> Yeah, of course. Call, email, carrier pigeon, whatever works. >> Houston: Good. Thanks. >> If you convey them to the budget office we'll make sure to get them to Jon and reply to the whole council, we can handle those questions for Jon through our budget process too, get them out there for everybody. >> Mayor Adler: Okay. Thank you. Council member alter, did you have something? A question? Your light is on. >> Alter: No. >> Mayor Adler: Okay. >> Well, good morning, mayor and council, I'm van van eeno, deputy chief budget officer for the city. I'm going to fast-forward you to slide 33, if you don't mind. The remaining slides from the Texas prospectus presentation, were just meant to be appendices,

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additional information. So there we are on slide 33. Should look like that. I'll just say as we look ahead we have two hours left on your agenda today. I would suggest that we all try to keep each other honest in regards to time and maybe try to get through the general fund discussion, which it is more in detail because that's where a lot of the pressure points will be for the fy 18 budget so we want to have some discussion about that. Probably an hour for the general fund, a half hour for cip and enterprise funds discussion collectively and we need a little bit of time at the end to talk about the policy discussions that are going to happen on April 26 and may 3. I want to make sure we're all clear about what the agenda for those two days will look like. I will also mention that our directors are here, so if we get some questions that are a little bit more detailed in nature, we do have our department directors here to come in and assist with some of those questions. The first thing I wanted to do before I really dive into our true fy 18 forecast is to take a quick look back, and this is an actual slide. I did not change it in any way, shape or form except to add that Orange banner on the top to say this was a slide we presented to council on August 31, 2016, just two weeks before you adopted the budget for fiscal year '17, and all we were saying on this slide is we were projecting that the budget for fy 17 was balanced, really at the roll-back tax rate, and then as you looked ahead to fiscal year '18 we were projecting somewhere in the neighborhood of about $47 million of cost drivers, of expenditure cost drivers, about 5% growth in our expenditures, which is pretty typical. And we were projecting that our revenues would be able to keep up with that level of expenditure growth, but again at the roll-back rate. So the green line on that graph is what we're -- what we were projecting back then to be our tax rate, and the red dotted line is the roll-back tax rate, the kind of the state defined cap of 8% above your effective o&m rate. So that was the story back then, and, you know, the

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story -- we could stop right now and ask questions because the story won't look a lot different than this. It turns out our forecast was somewhat early on target. We haven't come off this much at all in six months, but we'll get into some of those details and you can see what's going on. This is a look at our current budget. This is the budget the council adopted for fiscal year 2017. Our general fund budget. It's $970.6 million of revenue, and I should say I'm going through revenue first, and then we'll talk about the expenditure side of the general fund. Largely the general fund gets its revenues through sales taxes and property taxes with nearly 43% coming from property taxes. This is the first year that we've actually added a fifth slice to this pie. It's always been the four slices, property tax, sales tax, utilities, transfers, and other. Development revenue now is approaching $50 million. It seemed like it really made sense to pull it out as its own slice of the pie, and you can see revenues we're collecting from the development activity that we've seen in the city is now 4.3 of our total -- percent of our total general fund budget. I want to highlight over on the right, you can see the bars that show the growth of total general fund revenue coming from property taxes. So way back in 2007 property taxes were about 31% of our general fund revenue. Now we're up to 43%. And I think there's another important story in this slide, when you think back to what I just said, that our expenditure projections were anticipated to be about 5% growth, and that's pretty typical when you just look at wages, wage pressures, health insurance costs go up as we all know, cost of living goes up, just the cost of things gets more expensive from year to year, we might add a few positions to keep pace with growth and council of course typically is going to want to fund some new initiatives, but that 5% growth is pretty typical. In order for our expenditures to grow 5% and to keep the general fund budget in balance, which we're required to do by

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state law, we need all of our revenues to grow by 5%, in aggregate. We need sales taxes to grow by 5%, property taxes grow by 5%, the utility transfer needs to grow by 5%, all the revenues need to grow by 5% to keep pace with the 5% expenditure growth. But what's been happening is sales taxes haven't been growing 5%. The ten-year compound annual growth rate is closer to 4%. The utility transfer and those other revenues haven't been growing anywhere near 5%. They've been growing closer to 1%. And so when you have big chunks of your revenues growing less than that 5% expenditure growth rate, then some other revenue source, aka, property tax, has to grow more than 5%, and so that's -- that's why you've seen the growth in the property tax as a portion of our general fund revenues, is primarily being driven by those other revenue sources lacking the cost -- the cost driver grows of just wages and health insurance costs, things of that nature. >> Mayor Adler: Ms. Troxler? Did you -- >> Troxclair: Well, it's being driven by other sources of revenue that are slowing and by a decision not to slow spending. >> That's fire. >> Troxclair: To an equivalent amount. >> Yeah, I'm saying at the 5% growth, which -- that's been our -- kind of our typical year over year growth is 5%, so if that wasn't the case, yes, it would be a different story. But given that story, the only way you're going to keep the budget in balance is to have property taxes growing by more than 5%, because our other revenues haven't been keeping up with the 5% growth. It's really important because you're going to see later on, I'm going to talk a little bit about some of these legislative bills that would cap us at 5%, and because of that dynamic those bills are going to be very difficult for the city, a big challenge for us. But -- yes, ma'am? >> Troxclair: Well, I feel like you just said it again. That is part of it, but the other option is to choose where you're spending. >> Which I'm characterizing would be a challenge for us.

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We'd have to reduce spending significantly. >> Mayor Adler: And we'll see those numbers here in a second I imagine as you go through that. An interesting observation to make is that Travis county is able to lower both the tax rate as well as absolute taxes, and Travis county, they're almost their sole source of revenue is the property tax. So if we were only getting property taxes, then we would be able to keep property taxes at a lower rate for the same amount of spending if that was our only revenue. Is that right? >> Yes, and typically in the county, you see the county -- their budget grows about 4 or 5% a year as well, which means their property tax has to grow 4 or 5% because it's pretty much their sole source of revenue. The dynamic in Austin is such when our expenditures grow 4 or 5%, property tax really needs to grow by more than 4 or 5% because these other revenues aren't growing that rapidly. So it's just a -- it's a dynamic to keep in mind as you think about the city's budget and how it compares to a county budget, for example. >> Mayor Adler: Yes? >> Troxclair: I mean, I hate to -- I don't want to -- I want him to be able to get through the presentation so I'll try not to stop you again, but I do think -- mayor, I do think that that's an oversimplification. The county also doesn't get a hundred million-plus dollar transfer from the utility that they're spending on general funds. So I just -- I really don't think it's accurate to say that -- >> Mayor Adler: Let's pause for just a second, let's go into this and talk about it for a second because I think it's an important point. If both of our governments are growing at 5% rate and if property taxes are growing at 5% rate, then the county will be able to grow at that 5% rate just on the basis of keeping its property tax at 5%. If we were to try to grow at the same 5% rate and try to keep our property taxes at 5% issue, which is only 40%

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of the revenue that we raise, then we need each of our other areas to go up by 5% too so that our overall revenue goes up by 5%. So, for example, how much has the -- the interagency -- the revenue we get from electric and water -- how much has that gone up? >> You'll see it in a few slides, but it's been averaging about 1.2% a year. >> Mayor Adler: All right. So the fact is that because those revenues only go up 1.2%, sales -- property taxes have to go up 4 and 5% to make up the deficiency that is that transfer. If that transfer was also going up 5%, then we could maintain property taxes at 5%, assuming we don't want to cut services. You can always cut the budget. Sales tax are going up at what percent? >> 4.3. >> Mayor Adler: So that is also less than 5%, so to the degree that we want our total revenue to go up by 5% and sales tax are going up less than 5%, something has to make up that spread. And that -- that was the only point I was trying to make. >> Troxclair: But that -- the revenue that we're getting from the utility is above and beyond the revenue that the county even has access to. So if somebody else -- well, I guess somebody else like me will argue that if we increase property taxes by 5%, any additional revenue, 1% -- whether it's 1% from the -- from the utility, is a total of 6%, that you don't average those numbers, but -- but it's -- it's additional revenue that -- that another entity, the county doesn't have access to. >> Mayor Adler: Let me try -- so if I want government to grow, if county government grows at 5% and we want to grow at the same 5%, then we need each of our components -- our revenue to grow by 5%. Now, we could keep property taxes at 5% and not make up the balance of the fund at 1.2% or sales at 4% -- sales

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tax at 4%, but if we did that, then our general revenue would be going up less than 5%. So our rate of growth would be at 3 1/2 percent or something like that. At 5% without raising property taxes, if -- if we -- more than 5%, if we didn't raise our property taxes more than 5%, then we couldn't grow at the same 5% that the county does, we could grow at 3% or 3 1/2%. We would grow at a lower rate because we wouldn't have the overall revenue to grow at 5%. So we could do that. But the rate of growth would have to be lower than what the county's rate of growth would be. >> And I think what you're talking about is our entire budget, the 950 million that's in here, whatever the number is, 70 -- is made up of those different pieces of revenue. Travis county is only getting the revenue from one source. I mean, they get grants and other things too, as do we, but as far as revenue coming in, we've got all these slices of pie, and if they all grow at the same pace, 5%, then you're good. You just keep things moving at 5%, but if one is 5 and one is 2, then there is that -- whatever that proportional slice is is that proportion of the 3% that you're missing of the 5% growth. >> Mayor Adler: Right. And if you want to grow at 5% you have to raise property taxes. You could say we want government to only grow at 3 1/2%, so we could grow at a third less than what county is growing and maintain property taxes at the same rate. >> Troxclair: So if you're making the argument, then it sounds to me like you're arguing that the city of Austin would have an easier time keeping up with growth or balancing its budget if we didn't have a city owned utility, because if we didn't have a city-owned utility and we didn't have revenue coming in from that utility and we weren't averaging -- it wasn't a source of revenue that we were averaging and that --

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then -- and we've relied more solo property taxes -- solely on property taxes like Travis county then we could be better prepared to keep up with our growth. >> Mayor Adler: If we didn't have the electric utility we would have to cut $150 million out of our budget. That's what that says. And if we did that, if we cut $150 million out of our budget, then we would be -- we would not only -- we'd not only be growing at a lower rate, we would be restricting government. We would have to be cutting services in order to be able to do that. That's what it's saying. >> Troxclair: But other cities -- most other cities in Texas don't have -- have a municipally owned utility, and they are -- I don't think that you would make any different argument -- I don't think that you're making an argument that we're at a disadvantage, because we're an owner owned utility. >> Mayor Adler: No, if -- so our percentage of our budget that's covered by property taxes is at a lower percentage compared to cities that don't have something like Austin energy. So they're having -- their citizens and residents are having to pay a higher property tax as a percentage of their general fund than we do because we have other revenue sources. >> Troxclair: But that's not true. Other cities are not increasing their property tax rate by 8%. Other cities -- other growing cities in Texas are not adopting the maximum tax rate of 8% year over year. The city of Austin is. >> Mayor Adler: But you're talking about apples and Oranges there. The issue -- we charge our people to deliver the services we deliver, the percentage of that being covered by property taxes is lower in Austin than other cities because we have the revenue available to us, and we could grow at the rate of our property tax if -- without raising property taxes, if we wanted to have the overall level of

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government we had (indiscernible) Lower rate. >> Renteria: Mayor, we're not managing our time very well. >> Mayor Adler: Sorry. Why don't you go ahead. >> Okay. So the second slide we're looking at, what I was going to do now is go through on the revenue side each of those slides of pie starting with property tax and the city of Austin is not the only taxing entity in the region. There are at least five other major taxing entities from Travis county to one of the many school districts, Austin community college, and central health. You can see here that we calculate that in fiscal year 2016 the overall lapping tax -- overlapping tax bill for a median home, is $278,000, was $5,142. In fiscal year 2017 that collectively grew to $5,539. One of the take-aways from this slide is about a $400 per year increase in the overlapping tax bill last year with $300, roughly $300 of that coming from the school district, which comprises nearly 55% of the overall tax bill. So it's an important message for our community, who often look at the tax bill and get sticker shock about their tax bill. It is largely driven by the school district that serves you. They're the biggest portion by far of your property tax bill. We did add to this slide this year some of the other school districts just to give you a sense of how the tax rates vary between the different school districts, but in terms of this analysis comparing numbers, we chose to use the Austin independent school district because that is the district that serves roughly 75% of our residents. This slide here shows you the change in valuation over time, and the line is showing you the changes in the tax rate that corresponds to the valuation changes, so, you know, it's really where the tax revenue comes from. It's a combination of the tax base and the tax rate that the city chooses to

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set. And we've really seen remarkable assessed valuation growth over the last decade we've seen av more than double from 60.5 -- billion dollars to $125.8 billion in fiscal year '17, and you can kind of really see the trends, from 2004 to about 2009 when values were growing rapidly. The tax rate came down. Between 2010 and 2013 when the valuation growth was pretty level, only grew from 81 billion to 83 billion over those four years. Tax rate was going up. Then over the last four years we've seen really dramatic increases in property values, the city has been lowering its tax rate from 50.27 cents per $100 of taxable value down to the rate today of 44..18. Now looking ahead in fiscal year 18 we've met with the Travis central appraisal district. They're projecting another year of strong growth, 8.9% growth including $2.7 billion of new property value, and that's really the key number in terms of our revenue growth, is the new construction value. Looking ahead they're projecting continued strong growth, although tempered at 8% for fiscal year '19 and 20th, 6% for fiscal years '21 and '2 2. With new construction continuing to be strong but a little bit lower than what we saw this year at $2.1 billion. Looking at fiscal year '18 in terms of what the estimated growth is by property class, tcad is projecting 18.3% growth in multi-family properties, 14.7% growth in commercial properties, and 6.6% growth in residential property values. There's a lot of numbers up here and what we're trying to do is to show you differences between if you were to adopt a budget at the effective tax rate, which is designed to really give you the same amount of

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revenue for operations and maintenance next year as we have in the current year, plus additional revenue that would come from that new construction value. And we also show on the far right column the 8% roll-back tax rate calculation. So a lot of times we get asked, well, what's the difference between a budget at the effective tax rate and the roll-back rate, and you can see for fiscal year '18 it's a $37 million revenue swing between effective tax rate and the roll-back rate. We added in the middle column what a 5% roll-back calculation would look like, because there is currently a bill that's come out of the senate that would cap revenues at 5% -- property tax revenue growth at 5% as opposed to 8%. It doesn't affect fiscal year '18 because the way the bill is currently drafted it wouldn't impact us until the fiscal year '19 budget, but in fiscal year '19 at a 5% roll-back cap we would be at $482,000,000.06 versus 4-9 6.5 -- so there's a million-dollar swing between the 8% cap and the 5% cap in the first year, and then it compounds pretty significantly. It's kind of like when you do your investing and think about if you're earning 5% on your investment versus 8% on your investment, well, that 8% compounds much more rapidly than the 5%. So kind of the same logic applies here and as you look forward to fy 22 at a 5% revenue cap, we would be, what is that, about $68 million less revenue than at an 8% revenue cap, so the compounding effect of a 5% cap is going to be very significant. The final thing I'd point out on this slide is that we are projecting that at a roll-back tax rate, we would have a $5.20 per month impact to that typical homeowner, the median value non-senior homestead. >> Alter: May I ask a

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clarification on that? So when you're projecting the revenue numbers, you're using these assumptions for the revenue growth for the assessed valuation? You're using the assessed valuation percentage numbers to calculate the revenue growth? >> That plus when we get later into the slide and I start doing some forecasting, we're doing our forecasting both at an 8% projected rate and a 5% rate. So it's not just the value growth. It's the tax rate that you assume. >> Alter: Right, but it's based -- I just wanted to check on the value portion is based on that, that percentage growth. >> That's correct. Okay. So I wanted to skip ahead and look at sales tax revenue. About 23% of our general fund revenue. This is a long time series of a six-month rolling average. So you can see the degree of volatility that exists within sales tax revenue. And this is actually smooth. It would be more volatile than this if we did it on an actual monthly basis but we're taking a six-month rolling average to smooth it out to some degree. The ten-year compound annual growth rate is currently at 4.3%, and you can see in recent years it's been tailing down a little bit. So some indications that our sales tax growth is starting to slow. Additional indications we might be starting to see a slowdown in our sales tax growth numbers, this is looking at month over month changes for the last 15 months or so. Looking at that period from December 2015 to November of 2016, the average month over month growth was 5.5%. Those are the months that comprise fiscal year '16, the fiscal year that just closed. There's a two-month lag in terms of when the sales taxes are collected versus the period in which they were paid. Looking ahead to fiscal year '17, we have five months of sales tax collection dead data so

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far, and we've been averaging 3.9% growth. I will say these are actually showing what's called current period collections, so we exclude from these collections any adjustments, and the adjustments are very hard to predict. Some -- you know, there's a continual audit process at the state comptroller's office, and monthly they give us adjustments, so there's a lot of noise in the data when you look at it with all these adjustments, and so we strip away the adjustments and we look at just pure current period collections, and we think that gives us the best indicator of sales tax growth trends, and again, they would appear to be slowing down. In regards to what we're forecasting, we are currently forecasting 4.3% growth for fiscal year '17, which is exactly in line with what Jon hockenyos projected and we came up with these using our own methodologies and I understandly but we arrived at the same number. The 4.3% is higher than the number I just talked about and you may wonder why it's uncommon for budget staff to be that in any way -- the current period collections so far have been well in our favor. So the current period collections are about 3.9%, but we've had some really good positive adjustments this year that are pushing up our overall collections, and so we still feel very comfortable with the 4.3% growth rate, by it is quite a bit below our budgeted level of 5.4%. So right now we're trailing our budgeted growth rate of 5.4% by 1.1%. That translates into about $2.4 million, so we're a little bit behind overall in where we want to be. And then as we look ahead to fiscal year 2018 and beyond we are forecasting 3 1/2% growth. All of those numbers are on a conservative side of the range that Jon hockenyos is projecting using his methodologies. One thing I'll mention is

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that conservative forecasting is absolutely a best practice. It's viewed favorably by rating agencies, so we always encourage council to be on the conservative side of these sales tax estimates. You can just look back a couple slides and see the tremendous volatility that exists, so we always want to be on the conservative end of those forecasts, and if it really does help to build resiliency into our budget. When those sales tax revenues come in above our projections, it's extra revenue that falls into our reserves and gives us some ability to fund one-time initiatives in the next budget cycle, when our revenues fall short of those projections that doesn't happen. Actually the opposite of that happens. If you look at fiscal year '10 through '15, we were budgeting our sales tax revenues a little bit more conservatively, in the range range of 3%, and we were routinely beating those estimates to the tune of about $8 million a year for that five-year span. Our year-end numbers would be about $8 million above budget, and again that money would again flow into our reserves and help us out with our next budget planning cycle. For fiscal years '16 and '17 it's been the opposite, where we got a little bit more aggressive with our sales tax estimates. We are estimating in the range of 5%, and we've been coming in below that. So in fiscal year '16 we fell $3 million short of our sales tax budget, and in fiscal year '17 we're currently trending $2.4 million short of our sales tax budget. So that raise impacts our ability to fund one-time initiatives as we look ahead to fiscal year '18. So again, we would just encourage council to get a bit more conservative in our sales tax projections, which will help us build up our reserves and help us have a bit more resiliency in our budget overall. Moving on to our utility transfers, this is a continuing trend we've seen in terms of the percent of overall general fund revenues that is coming from our utilities. Back in fiscal year '12 was 19% of total revenues came from the utility transfers. It's currently down to

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15.5%. We were forecasting by the time we reach fiscal year 2 you 2 it will be under -- it will be 13.6% of revenues coming from the utility transfer. Looking at those five years previous, from fiscal year '12 to fiscal year '17, our compound annual growth rate in those revenues was 2%, and looking ahead we're projecting 1.9% growth in those revenue sources, so again that story of if this source of revenue is only growing by 2%, and expenditures are growing by 4 or 5%, something else has to grow more than 2%. I will just mention too that all these calculations are based upon existing council policies of 12%. For Austin energy it's 12% for 3 average, and Austin water, it's 8.2% of the three-year average of gross revenue. This is our development revenue chart, and you can sinned of see in this chart why we decided to pull them out as their own slice of the revenue pie. Back in fiscal year '10, the line shows the total revenue, the bars are showing annual percentage growth. Back in 2010 development revenues had dropped to $10 million. Here we are just seven years later and we're projecting $46.7 million of revenue in fiscal year 2017. The department is currently with this tremendous level of development activity they've been experiencing, our development services department is currently overrecovering. In other words the revenues that are coming in are above the expenditures. So they're in the process of revamping their cost of service study to get their revenues back into alignment with expenditures. What we're showing on this graphic is the result of that cost of service, would be revenue comes down in development services to get their revenues back into alignment with their expenditures so we're not overrecovering. We don't know exactly what's going to happen yet in the budget. Another alternative could be as they're looking at their staffing needs, there could be additional expenditures

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that have to be added, additional staff has to be added to the budget in which case expenditures would come you have to be in alignment with revenues. Right now we're looking at that cost of service study and we anticipate that that realignment is going to result in a swing of about 6 1/2 million dollars. As we forecast out, though, when you look at development services function that's fully offset by the services they provide, that the expend -- the cost of that service are being fully offset by the revenues, the revenue growth we're projecting is now tied to the expenditure growth of the department. So as the department's department'sexpenditures are grows we would expect revenues would grow to offset those costs. Are there questions about that? >> Yes. So what is the timeline that we'll see the results of this cost service study? >> I don't know the exact all-time but it will be in place before the fiscal year '18 budget. It will be incorporated into our budget process. >> Kitchen: So it's -- it's something that we can -- my questions really relate to just how they formulate the cost of service and what impacts they're looking at in terms of cost of service. So is that something that we'll be briefed on or that information will be provided to us in a memo? >> Any change of cost of service that would change the fee structure would have to come back to council. So you'll be briefed on that. >> Kitchen: So I'm trying to get a timeline. So that would be before the budget, is that what you're saying? >> It would either be -- I anticipate it would be before the budget or it could theoretically be part of the budget, but I'm hearing you would like to see something before the budget. >> Kitchen: I'm not saying it has to be before the budget. I just want it to be a conscious decision for the council to understand what we're factoring into that cost of service and make sure that we are not too narrowly drawing what that cost of service is. So -- and I just want to understand what all the components of it are. So I don't have an idea

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about when that should come to us. I just want to make sure it does and that we see the full picture. >> I could certainly tell that you the intent is for the cost of service to be very broad and to cover everything, not only the direct expenditure cost of the employees who are doing the plan reviews and the inspections but the departmental overhead, the citywide overhead related to technology costs and our support services allocation, that will all go in there. Rental costs of their facilities, equipment costs, pretty much everything that's eligible to recover under those fees is what we would put into that cost of service. >> Kitchen: Well, not to spend too much time but one of my questions will relate to how does it relate to investments that have -- that are maybe one-time investments. Do we cover that, like some of the technology investments are one-time investments, that may be bigger at the front end and over time they're not as much to operate, for example. So those are the kinds of questions -- we don't have to answer them right now, but that's what I'm going to want to understand, how do we capture those kinds of costs. So -- okay? >> We can brief you on that. >> Kitchen: Okay. >> I would also like to hear that. >> Yes, ma'am. >> This is a slide to show residential building permit activity and it kind of gives you an impression of what's going on and why those revenues have come up so high. Fiscal year '14 was a very strong year for development activity. You can see the cumulative residential permits in '14 by the time we got to the end of the fourth quarter was just shy of 10,000. That's a very big number. In fiscal year 2015 it was even larger. We surpassed the 10,000 unit level, and in fiscal year '16 it was really tremendous, over 13,000 residential permits, units permitted. We're a little bit seeing a slowdown in the first quarter of fiscal year '17, but that's just one quarter, and we'll surely continue to track this. But that's -- that really, I think, is the story of the

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rapid growth in development revenues. Just one last slide on revenue. This is kind of our catch-all. This is everything else, our other revenue category, and I just show you there some of the major components being emergency medical services revenue of $42.6 million, our franchise fees for gas, cable, telecommunication actions, we charge all those franchise fees, $37.4 million of revenue annually. We do have a mixed beverage tax that's assessed, close to $12.3 million there. There's also a bingo tax that's part of that $12.3 million. And then finally another big component is our municipal court fines of $12.1 million, and I just note here that those are down significantly this year. In fiscal year '17 we are projecting those to come in $3.3 million below budget, primarily due to lower traffic fines, which is related to the number of vacancies we have in the police department. Right now we have a lot of vacancies in the department, and when there's a lot of vacancies the noncommitted time goes down and the noncommitted time is really when the officers are able to write citations and do these types of activities. So that's just something to be aware of. And we think that situation will change once we're able to get the cadet classes graduated and get the number of officer ranks up. And you can see our compound annual growth rate on these sources of revenue collectively has been about 1.2%, so again, that story of a lot of these revenues, if not all of these revenues other than property taxes, are growing at a far slower pace than our expenditure growth. So the only -- the only two release valves there really are to bring down the expenditures or to have your property taxes grow more than that. Those are really the two options. I'm going to move on to the expenditures. Here's the same 976 general budget but divided, you can

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see a little more than 67% is public safety, that's police, fire and emergency medical services. 22% roughly goes to our community services. That's library, parks, animal shelter, health & human services and neighborhood housing, and I should highlight this is just their general fund pieces. A lot of those departments also have grant funds but this is just the general fund portion of their funding. 7% is for communal court planning -- municipal court planning and development services and 3% is transfers and other requirements with the largest portion of that transfers and other requirements being our transfer to the economic incentive reserve fund. On the right the bar graphs looks at the budget for expenditure category and the story there would be that 72% of our overall general fund budget is personnel costs, so, you know, it's really -- when you look at trying to make reductions, expenditure reductions to the general fund, I think there's two stories here. One is that it's personnel, it's a personnel budget largely, so if you want to reduce the general fund budget you're talking personnel, and two, it's largely a public safety budget so it's hard to make significant reductions to the general fund budget without impacting public safety. >> Tovo: Thanks, thanks for allowing me to jump in here. Once when we had this budget projection, it was presented in such a way that made a lot of sense for me and helps me slain to my constituents -- explain to my constituents why it's so challenging to decrease our general fund budget, and I think these two are the pie charts that really help with that because I think the comment was made at one -- one of our budget sessions that our property tax and our sales tax together don't quite cover the public safety portion of our budget. And so I think that's -- it's just a helpful -- it's just a helpful metric, I think, for me to -- when I look at those two together, because, you know, of course we want to continue to maintain strong public safety here, and it's -- it helps people picture sort of how we spend our general fund budget and really where

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the challenges would be if we are making -- if we're being asked to make huge cuts. And that seems to hold true, like this year, right? Because property tax and sales tax together it looks like equate to 55.8% of our general fund revenue. >> I think 65.8. >> Tovo: Oh, my bad, thanks, 65.8, and public safety is 67.6. So it's almost the same amount but even a little less. >> And then this shows -- it's always -- it's a common question so we like to track that dynamic overtime, the dynamic between what portion of general fund budget is allocated to subsafety versus -- public safety versus other service areas. This tracks it back to 2014 and the reason we went back to 2014 is to drive home one more time that big shift that happens. I don't think it's really apples to apples to compare 2015 and beyond to 2014, because 2015 was that year where we said, hey, there's a bunch of allocated costs down here at the fund level that get treated as other costs and we need to actually appropriately put those in other departments to give a truer picture. These are support funks, technology and communication -- functions, we used to budget at the fund level and now they're at the department level so you get a better picture of the real allocation. Beginning in 2015, that was the final budget of our previous city council. Public safety was 69.7% of that budget. Everything else was 30.3%, and then you can see that in the two years of this council, that has reduced to 68.7% and then 67.6% in fiscal year '17. So we've seen a downward trend in the portion of the general fund budget that's allocated to public safety services. I'm not going to hit everything on these slides. We have two slides really trying to explain what in aggregate is a

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$47.8 million increase in our general fund budget. So there's of things on this list, and again, I won't hit them all, you about I do want -- but I do want to hit on a number of them. If I skip anything you want to hear about please ask. The first one is the largest, 17 1/2 million. We have put in a place holder for market study, employee pay for performance plans and a labor contract, which are just getting started. We don't know how that's getting resolved but we have knowledge what's happening in a typical year looking back and looking at this in terms of dollars amount and it's about 17 1/2 million dollars. We think from a professional recommendation, we think that's a general placeholder for general fund which contains 6,500 employees, which is a placeholder for all those things. Without any preconceived notion how much would be for contracts, versus markets versus we would do a cost of living adjustment or pay for performance plan. We also mentioned we don't have any new positions in this budget other than this that were put in motion last year, so it also is a source of funding that potentially could be redirected toward funding some positional needs. So that's a big one. Our second biggest cost driver again is employer-related, has to do with our city health insurance contributions and this is really good news story. Typically you've been seeing me around this time talking about a 10% increase or even a 12% increase. We've been able to bring it in below those levels in recent years. Right now based upon our actuarial information and looking at our employee benefits fund we're projecting that the city's contribution to the employee benefits fund is only going to need to grow 5% next year so really indicative of some of the many plan design changes that have been put in place and the wellness program, we're starting to see what I hope will be a continued trend of slowing growth in these costs. They'll keep growing but we'll hope they don't grow at 10%. If we can keep it to 5 or 6%

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that would be nice. Next one I would talk about skipping down a few lines would be the increased fire overtime pay. We had a similar line item last year, the fire department continues to struggle with the number of vacancies it has, and so last year I was making this presentation and we were talking about the high number of vacancies in the fire department and that they are projecting to go over budget by $3 million. They ultimately went over budget in fiscal year '16 by 3 1/2 million dollars. But in anticipation of that we added $3 million of overtime budget to fiscal year '17. The overtime situation has gotten worse. The number of vacancies has gone up, not down, and so despite that $3 million influx of additional overtime funds in fy '17, the department is projecting again that they're going to go over budget by 3 1/2 million this year, and so that's what that line item indicates, is a 3 1/2 million dollar increase in fiscal year '18. So over the course of two fiscal years an additional 6 1/2 million in fire overtime costs. I do have another slide, a couple slides down, that gets into a little bit more of that dynamic, so I'll just leave it there for now and maybe if you have any questions about it, we do have a slide to get into more detail about that. The only other one on this slide I want to talk about would be the second from the bottom, the final staff and supplies for our new central LIBRY opening an additional increment $1.9 million in fiscal year '18. That brings the full complement on board. That would be 68 positions to unare our new central library with a total annual operating budget of $4.3 million. So it's still not open yet but we have been incrementally increasing the cost and the staffing related to that eventual great opening and that will -- grant opening in 2018 and come on line in 2018. >> I know you said this, but once again, could you clarify why these are referred to as built-in costs escalators? Are these reflection current

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policy? Is that it or are they -- >> They are. So when we talk about built in cost drivers, what we do is we go back and look at the fiscal year '16 budget that the city council spent a lot of time talking about. >> Kitchen: Right. >> And ultimately adopted. And in that budget a lot of decisions were made. For example, there was a decision made about how many staff we were going to add for the central library. There was decisions made about that fire overtime issue. So those kind of decisions we carry forward into fiscal year '18. We consider all that a built-in cost driver. We also have historically included as a placeholder wage and health benefit insurance increases as a placeholder. Of course council could make different decisions. You could choose not to do a wage increase. You could choose to make more aggressive plan design changes that would bring down the 5% increase in health insurance but we put them there as placeholders because they're significant cost drivers. So it's those types of things. When you look at things like fleet maintenance and fuel costs, we're projecting what our fuel costs are going to be, and what maintenance costs are doing, and we project out the additional money we would need to maintain our fleet and to keep pace with fuel cost changes. So those are all the things we're building into our built in cost drivers. What we're not including are any new funding requests, so departments -- parks department or the police department or the fire department who may have unmet service demands, who may want additional funding for a variety of initiatives, we're not including those in these built in cost drivers. We're likewise not including any council initiatives where you've said, hey, we sure would like to have funding for other things. Those aren't in here yet unless they've already been approved. If council has actually approved something as part of the budget through a budget ordinance, for example, I believe the sobriety center you'll see on the next side. Council approved that so we're including that in the fiscal '18 budget for the sobriety center. I actually have a list of some of the things that we have not included in here,

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and I think it's as telling as the things that are included. But most of these are just, you know, kind of standard increases. The 311 call center just pertains to the cost of running that center and what the general funds shared portion of that is, things like workers' comp. And accrued payroll. These are all -- our accountants worked on those and look what those costs are doing and what increases are needed to keep pace with that growth. >> Mayor Adler: Mr. Renteria? >> Renteria: Ed, could you tell me if the ems personnel, the reduction of ems for the 42 hours that we just deferred from last year to this year, is that included somewhere else? >> It's included on the next slide, so I'm going to use thats a perfect -- that as a perfect segue. >> Kitchen: I still have a question. I didn't finish my questions. So -- could I go ahead or -- before you go on? Would that be all right? >> Well, this is just a continuation of the list from the previous slide. I actually haven't finished going through all those cost drivers but either way. >> Kitchen: I had a question on the cost driver of this page. Would you like me to go ahead and ask that now? >> Yes. >> Kitchen: The fleet maintenance and the fuel costs -- I don't want to take too much time drilling down on this now, but -- so you've got other information that we could read through that will give us the drill-down on these, I assume, right? Because my question about that is just in relationship to our -- our plan for fleet electricfication and projections on fuel costs going forward. So I assume I can just look at that in the backup or should I just assume that this reflects our plan to reduce our fuel costs over time with fleet electrification? >> I think we can handle that as a budget question. >> Kitchen: All right. >> (Indiscernible) Additional details you would like, because there's tons of details. I can make this a thousand slide presentation, but trust me, I won't do that to you. But I could, because there's that many details, but certainly we could provide you the backup on the fleet

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maintenance cost and what's going on with the fuel and how electrification, am I saying that right, fits into that. >> Mayor Adler: That would be good. And generally what we want to do here so we can get this, because he has indicated that he doesn't think that he has enough time before noon to get through all this stuff, is if you want to daylight the question. If it's something you want to daylight now and then he can follow up with answers. Councilwoman alter? >> I wanted to understand what fell under category support services. >> The support services is our fund that basically pays for what we call support functions. So mayor and council is in the support services fund, financial services department that I'm part of is in support services fund. Mayor, city clerk, all those are in the support services fund and then we take that cost and allocate it out to all of our different funds. So Austin energy, Austin water, resource recovery, the general fund, they all get, quote/unquote, their fair share of those costs based upon a number of drivers. So we might take payroll costs and say we'll allocate that out by the number of people, employees you have. If you have a lot of employees you'll get a bigger chunk. And support services is almost all staff, so in the same way that the general fund budget is anticipated to grow as a result of cost of living adjustments, pay for performance, health insurance increases, workers' comp. Increases, that support services fund will grow for those same reasons and so this is showing the allocation, the general fun -- the projected general fund's share of that growth in the cost of those functions. And ctm is really the same thing. Ctm is handled as a corporate function and we take all those costs and allocate it out, and then based upon various growth factors within ctm we're projecting $4.4 million increase in the general fund's share of our ctm costs. And general fund generally gets a bigger share of those

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ctm costs because we have police, fire and ems and they use a lot of technology. >> There was a memo sent to council about these allocations and transfers last week. I can send it to you again. >> It's a policy topic for may 3, so we can get into more details about those allocations then. >> Mayor Adler: Mayor pro tem, did you want to -- >> Sure, I appreciate the opportunity to ask these questions and then you can answer them whenever it makes sense. My question would be about why we're replenishing the economic reserves fund in that amount. And then the golf -- the increase to the golf fund, and I think that was it, because you've answered the other question. And I'll just also apologize in advance for coming late and leaving early. I'm moving in between Austin police retirement committee meetings and other meetings today. So sorry to have missed the beginning and the end here in a bit. >> So I'm going to move on to the second slide because I think both of your questions pertain to this slide. We can go back to the first slide if you want. >> Houston: Exactly what page are you on, your question? >> She's on slide 49. >> 48 and 49. >> Yeah, 48 and 49 are really a companion. It's a long list that wouldn't fit on one slide. Council member tovo was asking about the line item on here that's the increase in the economic incentive reserve fund of $900,000. So that payment is based upon the different chapter 380 agreements that are in place. A lot of them are driven by property valuations and economic development looks at those property valuations, looks at the terms of the agreement and projects out how much money we're going to have to transfer to the economic incentive reserve fund to pay for those things. We're projecting a $900,000 increase in that. >> Tovo: Over last year? >> Over last year. And last year's number, important to remember last year's number was kind of artificially low.

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The dynamic that happened last year that we had $2 million above in your ending balance what we needed. We hold these monies in reserve to be paid out in the future, and we had about $2 million of cushion in there. And we had a discussion with council and the desire was to take that $2 million and use it for other priorities. The way that worked out mechanically, though, is that with the annual -- what the annual be transfer amount needed to be we transferred $2 million less, and so we need to bring that -- that was just a one-year thing so now in the next year we need to bring it back up to what the actual amount was. We basically had one year of reduction last year and now we need to bring it back up this year. That's why it's increasing. If not for that dynamic it actually would be going down. >> Tovo: Okay. Thanks. >> Mayor Adler: Okay. >> I think you also asked about the golf enterprise transfer. So our golf enterprise -- and we have a policy discussion currently on your agenda for may 3 on this topic as well. What we started seeing last year is our golf enterprise had been kind of holding somewhat steady at a negative balance of about a million dollars collectively, not annual but collectively. We saw that situation get worse when council adopted a living wage, which significantly increased the wages, I think of all the different funds out there, all the different department functions out there the golf enterprise was probably hit the hardest by the living wage decision because they used to pay in the neighborhood of 9 to $10 an hour for most of their employees and now they're paying 15. Their cost structures, their revenues they can collect are really capped by the market and what the market conditions are. So we've seen that negative balance grow in fiscal year '17 I believe we were projecting at about a million and a half dollars and we have a financial policy that says, if you've got a fund that's more than a million dollars in the red, you need to have a plan in place to remedy that. Staff's recommended plan was to start doing a general fund transfer to the golf

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enterprise and we recommended a million dollars. Ultimately it got reduced to $500,000. Well, the situation we're in right now is the golf enterprise ended fiscal year '16, even worn we projected. -- Worse than we projected. We're currently at $13.3 million innocent. We need to take action to make it fiscally sustainable and sound for the future. We're proposing to increase the general fund transfer to the golf enterprise to a million dollars, and quite frankly that may not be enough. So again, we have a policy discussion on this for may 3. >> Mayor Adler: Okay. >> Just a few other highlights on this slide. I don't want to spend too much more time on here but if there's questions stop me. The sobriety center, an additional $1.2 million to fully fund the city's portion of that sobriety center which is anticipated open in the spring of 2018. Our onion creek fire station, a joint fire ems station is projected for a June 2018 opening. We have $1.2 million in the budget for that. This is one of those things that will have additional costs in the fiscal year '19 because we're only partially funding it in fiscal year 18 here. I talked about the golf enterprise already. Codenext, you recently had a budget amendment for codenext, and near the bottom there we've included in our forecast an additional $300,000 for codenext, plus on top of that $900,000 coming from our reserve fund to continue with phase 4 of codenext. And then the final item that I think is really worth noting is that negative 4 1/2 million dollars in parentheses. Every year when we go through a budget process there's a bunch of one-time items that are included in the budget, anything from when when he add new staff, staff needs vehicles, niece computers, maybe office equipment, so we put those in the budget. It's one time. We take them out for the in the case year. In total the general fund one-time items we're removing is 4 1/2 million. There's other one-time items

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we're removing that came from budget stabilization funds that's important to keep track of. A couple slides down we're going to talk about some of these one-time items that were removed. This is a slide that I promised on the Austin fire department and their overtime challenges. Really being driven by the four-person staffing model and the requirement to backfill vacant positions on an overtime basis. And those overtime costs really rise rapidly. It's not a linear function. They really rise rapidly as the number of vacancies increase. You can see the evidence of that down in the table. These are all actual numbers going from fiscal year '14 to '17. Back in fiscal year '14 they had 67 vacant positions. Still a little bit higher than they want to be but not too bad. $5.1 million of overtime expenses. In fiscal year 2015 that rose to 115 vacant positions, and the overtime costs jumped up to 12.1 million. Fiscal year '16, it kind of held steady, came a little down, but basically steady, 106 vacant positions and these are all archtion over the course -- averages over the course of a year. Pay periods they go up and down but this is average. Overtime expenses rose to $14.2 million and like I said earlier, the vacancy issues got worse, not better. We're currently projecting that the average number of vacancies in fiscal year '17 will be 158 with overtime expenses growing to $21.6 million. The very bottom line shows the bottom line of the overall fire department budget, that this will be the fourth consecutive year they've exceeded their budget allocation, and it's -- that issue is predominantly being driven by the vacancies and overtime costs. I do highlight up on my slide there that we have a policy topic slated for April 26 on this and so you'll get a lot more details about what's going on here and perhaps what some options might be other than increasing the city's budget allocation to this. Now I want to go on to some

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notable one-time funding items. So I think -- like I said, every year there's a lot of one-time items in the budget. For example, in this year between our general fund and our budget stabilization reserve fund combined, there was over $10 million of items that were funded in a one-time basis. And we take all those out, once they're paid for they come all out. I think these are noteworthy ones because these are things that were council priorities that came off of your council concept menu but they were all brought forward as one-time items. I'm happy to answer questions on them but from our general fund there was $4 million of items that were included by council direction as a one-time item. The largest being the aid support for their parent support specialists and prime time after school programs. That was $2 million.

The housing trust fund, staff proposed a housing trust fund amount of $2 million, which was below the $3 million that was required by the resolutions. Council increased that to two and a half million dollars. But sthe took -- it was one-time -- they took -- it was one-time funding so we're removing the one-time amount here so the fy '18 forecast is back to the $2 million level, which again is below what the resolutions would call for. You can see a list here, a lot of quality of life initiatives that were funded all on a one-time basis. This is looking at budget stabilization reserve. That's the fund that needs to stay above 12% of revenues, and we typically fund a lot of one-time items from that fund, and these are just more things that are -- at this point in time they're being removed from the forecast because they were all funded by council on a one-time basis in the '17 budget. Some other -- >> Kitchen: Could I ask a question? >> Mayor Adler: Yes. >> Kitchen: Okay. So I'm sorry, I just want to make insure I'm understanding. So -- make sure I'm understanding. If these are removed into this mean they won't come forward as part of the general manager's budget? Or is that something you can

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answer at this point? >> At this point they're not in the forecast and we have not started that work. >> Kitchen: Okay. All right. Thank you. >> I don't know if they would be in, but if they are put in we have to delete something else. >> Kitchen: No, I understand that. I'm just trying to determine -- I'm just trying to determine the process of decision-making. So -- so I'm reading this that the decision has not yet been made on whether these go into the budget or not. This is part of the forecast. Is that right? >> What we are presenting is a forecast that does not include these in the forecast 2018 budget, so management would have to take action to add them back in during our budget balancing processing arriving at proposed. But the starting point is there, not in it. >> Kitchen: Okay. Thank you. That explains. >> I have a question about -- >> Mayor Adler: Question. >> On slide 49 we took out the 4.5 re -- does that include this 4 million? >> It does. >> It does? Kay. Thanks. >> And again, it's kind of complicated because we've got multiple funds but if council wanted to see through a budget question I could give you the list. It's about 10 1/2 million dollars, a comprehensive list of everything that was removed from the budget because it was funded on a one-time basis much a lot of it I don't think so -- a lot of it is not controversial. Some is controversial and those are on the screen. >> Mayor Adler: What was the question you asked? >> If on 49 we took out 4 1/2 million and I was wondering if this 4 million was included in that and he said yes. >> Mayor Adler: Okay. Thanks. Got it. >> I was just wondering for the affordable housing, we haven't actually set the rfp and gotten that study yet? And obviously we're waiting to see what the legislature does, but -- >> Yeah, so on something like that if, if it's -- if we're at a point where we can actually enter into a contract with the consultant or, you know, we can encumber the funds, short of having a layoff purpose to

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encumber the funds we would have to remove them from the budget. So if they're encumbered they're encumbered and they'll be there to pay for the contract. But that's -- >> Mayor Adler: Okay. Mayor pro tem? >> Tovo: Mayor, during last year's -- >> Mayor, we had a qfertion conversation about the quality of life and setting different expectations this year with regard to the budget process that those quality of life commissions will be going there you and I want to note that and hope that that will happen as those commissions start talking about budget priorities >> I know that we have to talk to them and we've told them rather than coming to us in August with what that is, we really wanted them to come back to us in April, and if not, like the first few days of may. My hope is that they're going to continue to do that. >> Right, but the discussion, the real point of discussion was about whether we were setting an appropriate expectation for our quality of life commissions and any other commissions situationing in on the budget that they should probably recommend areas where they think we should invest rather than specific programs and that we not be in a position, again, where we are asking -- we are funding are programs that are recommended by a commission. Do you remember that kind of policy question? >> I do, and I think that's been communicated, I think it has been. >> Okay. >> But it wouldn't hurt at all, managers, to have something that came from your office to the quality of life commission members and chair to remind them that that's the expectation of the council. >> If I could offer the rational in case it has been forgotten, we have various grant lines and various other city processes where they're open to all 0 organizations, they can apply that qualify. They can apply and go through that kind of vetting process and the concern that we talked about last year is that some, you know, it was a different process

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that was happening at our commissions so to try to get a more level playing field there. We were going to set different expectations this year. >> I would like to make the statement. >> I wanted to be sure our quality of life commissioners and others didn't feel we -- their opinion, that is just a real short summary of the much longer and much more thorough conversation we had last year. >> Okay. >> And, as council, we're really not cut out to do that kind of vetting on the dais. It doesn't work. >> So, as I'm understanding that our requests of our quality of life commission is they make their recommendations in general categories, if I understood. I also just cant to say that, you know, I also think it is important we not always think in terms of our quality of life, any of them, recommendations being extra on top of our budget because that means we have to go through a process of trying to find dollars for them. So that's just a suggestion. I know that there is a lot that has to be considered in terms of the budget that comes forward to us, but I'm reluctant to continue thinking of quality of life as an add-on as 0 opposed to an integral part of our budget. >> The reason we asked them to get to us much earlier in the process so that information would be available to us earlier when they were putting together the budget. For that reason. >> So I have another kind of a slide of things that are not currently in the budget. These are some outstanding council policy initiatives. We have a number of resolutions that have come forward from council from the housing trust fund two resolutions that would have us increase our transfers to the housing trust fund. We have a couple resolutions related to Austin public health and social service contract funding levels. We have a resolution approached by council to look into adding five new fire stations over some

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undefined period of time there was a report on community policing presented to the city council a while back. In the fiscal year '17 budget, council added 12 officers but didn't fund them, so currently we still don't have those funded in the fy-18 budget. Wanted to have that discussion with council. And the resolution pertaining to the living wage. The goal was to get to a living wage of $15 an hour by 2020. We are currently 13.$50 so we probably need to do a 50-cent incress per year for the next three years to achieve that goal. These are all resolutions and would require additional funding or reductions to something else to get all this stuff into the budget. This is just a hypothetical timeline, what it might look like. It doesn't have to look like this, but so for the housing trust fund, we are calculating, what would the increase in the transfer have to be in fy-18. We currently have $2 million in our forecast. We would need transfer an additional 1.3 before million to comply with these other resolutions. It is an important footnote that all these calculations for the housing trust funds are just for existing properties and it is really reflective of taking existing properties from 40% to 100%. So wool creek is a big property but there nor assumptions about when it will be developed or what the timeline or value will be. We're not trying to guess in 2020 what state properties or UT properties might come on to the tax role. We don't know. I think the housing trust fund is a bare bin mum amount just to come -- bare minimum amount to comply with going from 40% to 1 had you been%. Calls for increased funding in the neighborhood of $28 million over a certain period of time. We've made significant increases over the last couple years and these increases would be required in order to keep us on track with achieving that goal. The five new fire stations,

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realistically, what would be the time frame for bringing on additional fire stations, assuming one in fy-18 and one in fy-21, right now we don't have a plan to build them or where they would go. We do ideas where they would be needed but not the capital expense for building them. This is reflective of the operating cost. One online in 2019 and another online in 2021, it is about 1.5 million per station to op right them. Community policing, you can see the cost of the unfunded officers and cost of the living wage. These are you will incremental year-over-year costs. Bottom line, if we would like to be fund everything the council would like to fund in 2018, we would need $20.7 million more. Either reductions to other things or increases in rev refer which you revenue rev slide, which you will see would mean going past the next tax rate. >> Miss pool and miss gar is Garza. We have eight people to go. >> Is that over and above anything that might be in a bond book and? >> That's the operating cost, so I think thatees probably the logical, thatees what we have done in the past primarily, fund new fire stations through a bond program. We're estimating one might come online in '20 and '21, operating costs come happen faster or slow nearly thank you. Book on page 52, translation, do you have the number of how much is spent out of that budget. >> I can get it for you. >> Okay. And then on page 51, affordable housing linkage fee shows taking 200,000 out of that. Is that -- my understanding was, we don't have a linkage fee yet, and there's legislation that would prevent us from having

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one, so can you explain that to me? >> I think this money was put in by council last year to fund a consultant that would do a study to create the linkage fee, and it is not expended yet. If the state legislature prohibited it -- >> You can tell us that toll, what, about a half million we put in there? >> I thought it was 200,000. >> This zero it is out entirely? >> This zero it is out. >> Thank you. >> You said for the housing trust fund there is 2 million in the forecast. This is additional. I didn't hear the same for the rest of them so for the health and social service contracts is there anything in the forecast, or is that all -- >> The only increase would be in the forecast right now for Austin public health, their standard cost driver increases. >> So this is on -- would be on top of that. >> This is the total amount on top of the cost drivers to keep us on pace with that resolution. >> It doesn't come with any existing programs. >> We were having the quality of life discussion and I think there is duplication with social service contracts so that is something we need to think about, too, when we're 0 deciding how to take those quality of life recommendations in that if they're given to news general, which I think is good, it could -- it could be going forwards this goal of increasing our social service contracts because we've kind of done it twice, basically. So, anyway. >> Mayor Adler: Miss kitchen. >>Kitchen: On the community policing line, the 9.9 million, where does that number come from? Does that reflect you will of the recommendations in the report or -- I just would like to understand a little bit more about where that number comes from. >> I can tell you the number -- all those numbers came from the may tricks report. I'm not -- matrix report, I'm not familiar enough to say. >> It sounds like it wasn't a prioritization of those

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recommendations, it was everything that came out of those. >> Yes. >>Kitchen: Thank you. >> Mayor Adler: Mayor pro tem. >>Tovo: I wanted to understand. You are saying some quality of life did hit on social services issues, so should we encourage the quality of life -- I guess we should encourage them to be general in that they're not naming organizations but specific in terms of the particular need? Does that -- I'm not sure if you were raising that as a concern or an observation, but I wonder if -- I guess, I guess I would want to clarify that the general -- coming back with general recommendations should also be specific enough to highlight particular areas of concern rather than naming organizations. Is that kind of what you were thinking. >> Yes. >> Okay, thanks. >> If I can just add to that, we did, when we were doing the accounting of this, we did the quality of life initiatives that seemed to be related to the public health. We counted those in the 2017 amount, but, remember, they're one time so now we've taken them out of the budget and that's why, on this slide, the fy-18 amount is larger than the fy-19 and 20 amount. You have more to keep pace with the resolution. Am I making sense? >> Okay. >> Okay. This next slide tries to bring it all together. The blue bars, we had this discussion about what is basic expenditures. This blue bar just shows our projected growth and basic expenditures. They typically grow by 5 pass year for wages -- 5% a year for wages, health insurance. Those are the basic expenditure growth. It doesn't include funding for any council initiatives or one-time items removed or any new department requests. It is just our base budget in fy-17 projected forward.

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The yellow bars then says, hey, if we want to do everything the council said they wanted to do on the time frame that we hypothesize in the previous slide, the yellow bars are the additional funding. Next one is this green bar shows the revenue we would generate in each of those fiscal years were we to go to the maximum tax rate, the 8% roll back rate. It is hard to see on the slide, the text box there, we are projecting a gap of $2 million in fiscal year 18 and a gap of $4.4 million in '19. These aren't significant gaps for a billion-plus dollar budget. We can deal with those gaps. I think the real challenge is the yellow bars on top of there. It is going to be a real challenge to fund those council initiatives without increasing revenue past the roll-back rate or increasing the size of the blue bars. I want to remind you, too, back in September we were actually projecting a $47 million increase. We ended up with a $47.8 million increase. We were projected a $2 million gap and we have a $2 million gap now so some people up stairs with V a real good crystal ball in regards to this tough. The red line is what would happen if the state were to cap us at 5% revenue growth. Beginning in fiscal year '19, the maximum revenue we would have would be less and you can see the compounding effect there. The red line diverges away from the green line, and we're projecting that at a 5% revenue cap we won't even be able to keep pace with the base cost drivers let alone funding a lot of new initiatives. >> Mayor Adler: Miss kitchen. >>Kitchen: A process question. Part of our discuss last year was that we wanted to have more discussion this spring in partnership with the city manager and our staff on what our policy, priority should be for the budget.

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So, the fact that we have outstanding council policy initiatives that are shown outside the forecast is something that I would -- my request really is, what is our process that, what is our opportunity to have a discussion, you know, with our staff and our city manager about what we would like to see in the base budget. I mean, that is something we talked about in the past, instead of doing again with a we've done in the past about coming in after we have a city manager budget. So it is a process yes. >> That question, these omitted items on a week from Wednesday, the first Wednesday is part of the policy conversations that we're having. >> Okay. >>Kitchen: Okay. >> Mayor Adler: That will be today. Yes. >> I don't know if I'm asking this, right, but is this revenue at 8% line, does that include, assume any increase to the homestead exemption? >> It does not. Or the senior exemption. >> Mayor Adler: Ms. Pool. Pooling to respond to what council member kitchen said, it makes sense to me that it would not include the one-area, one-time initiatives in the base budget. We said in the policy it is a one-time expenditure that it wouldn't be in there. I expect and I see those one-time expenditures have been highlights so we can look at that and see what we want to include for a second year, because bed have to find new monies for that. So it makes sense to me, if I were doing my own personal budget and it was one-time expenditure, that is how I would include it in my budget, as well as categorizing it, this is clearly an initiative of this council, this is a value the community prices on it so we would have a conversation whether to expand it, or include it, or include and reduce. >> Mr. Mayor, I appreciate what council member pool is saying, I'm trying to understand what our process is. We said last year we really,

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really wanted to avoid, to the extend possible at the last minute, you know, having to talk to about what the council priorities were and having to find money and put it on. I would like to back up those conversations so I'm understanding we can start to have that conversation. >> That's right, we wanted to try to, and as part of that we set those dives we had on the general fund budget so we might be able to identify things and we put two days in without agenda, other than the issues that people have identified and I think that going in second, talk about the items they've 0 identifies to talk next Wednesday and the Wednesday after that where our agendas for the policy conversations that we want to have. So talk about it in that context. >> So I'm going to be more selective on the slides I hit because we're going to run out of time and there are some important ones we don't wouldn't to miss. This one is just showing our history of what we forecasted verses where we ultimately adopted the budget. Aine already mentioned this in light of the somewhat constrained forecast, we've already taken a number of actions. One being that we instructed our departments that we're not going to be going through a funding request process this year, just looking at the forecast, looking at all the outstanding council initiatives we are not seeing anyway to fund new departmental requests this year and we've been asking them if there is anything really critical coming up, a critical need in your department, you're going to have to look for ways to reprioritize your economisting budget to meet those needs. It is something we've done in past tough times. They want to end the year with at least 1% savings off the fy-17 budget which would result

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in $8.9 million savings and help us improve our reseven levels in regard to our reserve levels, I'm going to skip over all the text, you can read it as well as I can and just show you the picture. With those actions we're taking requiring departments to hit at least is% reserves for fiscal -- 1% reserves for fiscal 17, we're estimating a 15.1% reserve level. So the budget you adopted was spot on but now we need save money in the budget, we project we would end the year at 13.1% reserves. There are a number of one-time items that we are anticipating will need to be funded in fiscal year 18, so we would be projecting right now that we would have about 12.4% reserves for fiscal year 18, which maybe opens the window a little bit for one-time money there, we might start being able to talk to council about, one-time funding items might you put back in the budget. Been, I would remind council that staff's strong recommendation is we start looking for ways to rebuild these reserves. You start thinking about what the intent of a reserve is there to help you through difficult financial times, and if during these good financial times we brought ourselves down to the 12% floor, we don't really have a lot of cushion. The only way you will have any money to address the economic downturn is go below 12%. What we would like to see happening during these good economic times is our reserve levels rising to 13, 14, 15% so when there is an economic downturn, they can come down. We have some latitude to adjust our budget without going below the 12% council policy. >> Mayor Adler: Is there a way to state the reserve objective that takes that into account. It seems to me, if our goal is 12%, we're hitsing 12%, we should be fine. If it is not fine, we should make the goal 13%. Or maybe we have a percent that

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takes into account what the growth of budget has been over the last two years so that the goal varies by percentage based on some objective measure and whether we are in an up or down so we have an objective number, we're in compliance or not. My sense is that you're saying, even though we're in compliance, we're not doing what we should do and that makes me question the goal. >> I understand. We can think about that. We can think about what that policy might need to look like to better capture what we just discussed. >> And just one more piece on that 12%, and the reserves. A year ago, when we were raising the hourly wages for our life guards, we were told that we were at the 12%, we would have to dip into our reserves in order to find a half million dollars to fund the additional wages for the life guards and just as an aside, I understand our increased wages for life guards has had the desired effect. We have and we will start our swim season with life guards everywhere, so it has been a really productive and it has an initiative and had the desired effect. But, if indeed we were that close to the 12%, because there were some objection to passing those salaries and some other initiatives along those lines, because we were dip nag reserves, you -- dipping into reserves, but it looks like we didn't dip in a reserves because the 2017 estimate was a full percentage point over the 12. I realize that that could be the reality, the actual dollars in the account verse what is may have flowed into it over the last 12 months. Is that really what is going on? >> It really is. It is a moving target, we might come to you and say taking 500,000 out of the reserves will put us below 12%, based on the current estimate based on what revenue will come in. If the revenue comes in higher than that, then our estimate was wrong and we always try estimate conservatively. Typically, the revenues come in higher than we estimate. >> The last thing I would sigh about that, I have spent the

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last year thinks we dipped into our reserves and I didn't realize until today we hadn't and that piece might have been helpful to get a mid year, maybe in December or something, when we had heeled that decline in the reserve policy. >> Well, even the number you're looking at for fy-17, if that is the number you're looking at, that is recent. That 13.1% came out of the city manager's directive we need get at least 1% savings this year. So all the sudden my assumptions for year-end savings went to significant and projected reserves are now higher. >> I think that is a really healthy number. I appreciate the additional effort put towards that. >> I think I'll 0 skip over these. I know you've had legislative updates and there is not a lot of good news from a fiscal picture. Revenue caps, sanctuary cities, pension funding levels, some of the proposed changes at the legislature that would have the most significant consequences for the city. >> With respect to sanctuary cities, you're listing what the total state grants are and what the total federal grants are and I would caution anybody looking that, that that based on other legal principals that amount is not really at risk but it is good to know what the universe of that funding is. >> So, then, finally in this general fund presentation, in looking at all this and thinking about all this, these are what staff feels are some important policy topics for council to chew on. Maybe you could give us some direction today about which if any of these you would like us to bring forward in the April 26 and may 3 work sessionsable we don't have time to get into these topics today but the prioritization is right on there as what I think is an important discussion along with your feelings about our sales tax growth estimates, property tax rate. Right now we're projecting a need to be at the roll back rate to balance this budget without impacting services.

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What is your support for increasing reserve levels. The conversation they were having. And the homeless, homestead for seniors and disabled. We would encourage you to take action so it gives us time to adjust in the budget. That's with a we would put out there is maybe from a general fund perspective, some key policy considerations. >> Just a quick question. The senior exemption doesn't have the same kind of deadlines, right? >> No, it doesn't. The senior exemption, you can make that decision as part of the over all budget deliberations. Unfortunately, the state law requires to you make decisions before you've seen page one of the budget next year. >> Is the general homestead exemption a policy topic we will have in the coming Wednesdays? >> He is asking that question, and I agree that what we should. >> If we do, I would please ask to not have that on may 3 because I won't be here and I want to be part of this conversation because I have been against that homestead exemption and I continue to be against any increase to it. >> Okay. So we have a slide at the end I hope we don't run out of time for that actually shows what the agenda currently is for April 26 and may 3 based on council input and I would anticipate we would add the general homestead exemption and the discussion about prior initiatives to the agenda. I will move on to the capital program and try to make up some time. This slide is showing the history of the capital program, appropriations and spending. The story I would like to take away from this, typically we're spending about $700 million a year in capital infrastructure improvements across the entire city. It has been ramping up.

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Fiscal year 2017, projecting spending $862 million. Look ahead to fiscal year '18 projections and spend willing close into a billion dollars. A lot of it coming from the aviation department. There is a lot of capital work happening at the airport and this is unusual. When we show the slides in the future, you probably won't see aviation at 33%. There is a big number because there is so much work going on out there. The big three are clear. Our capital program is driven by Austin energy, Austin water and aviation. Public works and others are more indicative of the public improvement bond program. A lot of attention on the bond programs but the bulk of the capitallen spending in any given year is coming from the three large enterprise departments. The other category includes improvements happening in parks, libraries, Austin public health, housing department, public safety improvements. That all gets lumped into the "Other" category. This next slide takes a look at what does it look like from a big picture level over the next five years. If you were to add up all these numbers for five years, projecting $3.8 billion in capital spending over the next five years that comes out to $760 million a year, roughly in line what we typically do in this city. 700 to $750 million a year in capital spending. Again, you can see the continuation of the big three departments. Another interesting thing, you see the other category fades 2002 zero by 2020 and we would anticipate that a successful future bond program would increase that other category section. That is all those parks and libraries type program that go through a voter approval process. >> Does that include the transportation bonds? >> That's in the Orange slice there. The public works and atd portion largely driven by the $762 million mobility bond. >> 720. >> 720. I tried to give you 42 million more. >> We'll take it.

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[Laughter] >> Mayor Adler: Miss kitchen. >>Kitchen: A quick question, I'm sorry. To understand this slide, so this is the anticipated issuance in these different categories? >> This is the anticipated spending different than appropriations which is different than when we would actually issue the bonds. This is actually money out the door spending on project the. >>Kitchen: Is it possible to get something like this for the anticipateddishiance. We have remaining dollars in the other bond packages so it is not just transportation. >> We can get that for you. It will be smaller than this. >>Kitchen: I understand that. >> Not all of this money comes from bonds. >>Kitchen: I understand that. >> Okay. >> Mayor Adler: Okay. >> I would just mention, too, we have over 1600 active projects, capital projects throughout the city ranging from the very small to the very large. 1600 active projects. I'm not going to go through 1600 projects. What I am trying to do is give you a quick few highlights about some cool stiff we're doing in the capital arena. None cooler than what is going on at the airport. An airport designed many years ago for about 11 million passengers a year. We are currently associate about 12 million passengers a year. We will increase the space at the airport by 175,000 square feet and allow for a passenger capacity of $15 million annually. We got started on that project in late 2016. Some other projects at the airport -- >> 15 million projects annually or 15 million people. >> 15 million people, currently it is about 12 million so a significant increase in what the airport handle. Parking garage and administrative building, a project going on to increase the capacity of both. We anticipate started construction on that in summer of 2017. A new maintenance facility to consolidate all these different maintenance facilities at the

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airport into a single location. A further terminal expansion projected to begin in 2020 so that is a longer term project but part of the five-year trend I showed you, they would anticipate additional terminal expansion in 2020. And the current in-fill project will add space for customer check in, security, backage handling, all that stuff you need to handle more passengers. In regards to the water utility, it is a big utility, highly capital intensive. They've been growing a lot and their capital program is focused on keeping pace with that growth, addressing customer service demands, maintaining system reliability, regulatory requirements. Annexations, all of this requires additional capital work. I listed a few of the significant projects. Three of them being water treatment plants over the five-year time horizon, projecting over $100 million of spending for the renewal of some of our very aged and aging waste water treatment plants. In regards to the palmer lane and Williamson creek, they will be replacing more than two miles of waste water pipeline that is very old and need to be replaced. That is going to allow them to eventually decommission the Anderson mill waste water prepare because the waste water can now be directed to the walnut creek plant in regards to Austin energy, they have a large capital program. A few highlights here. Mostly, their capital program is routine infrastructure. There is a lot of numbers after the dollar signs when you're talking about Austin energy but it is really routine infrastructure and maintenance projects. A fewing from things is the replacement of their system that monitors their energy supply and helps to protect the electric grid. The bottom right picture is a picture of what it might look like. It is not an actually -- it is not ours, it is who a picture of what the scada system looks

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like. A new chilled water plant for the college campus. A picture bottom left is what a chilled water plant looks like. And they will build two new substations and rainy street and Brackenridge to improve the reliability of the system in those areas. These next slights are really us trying to begin to steer our presence station towards your strategic objectives. The strategic outcomes you talked about at the last there's strategic planning sessions. I'm going to go through those real quick. Before I do, I think there is a question for me. >> Real quick, back on the Austin water capital program, are these extensions, the system -- the relocations and the row construction and the extensions and so forth, are those all funded out of bonds are these the result of new development or combination, maybe aging pipes, et cetera. >> It is really a combination between bonds and cash. They are typically 60/40 funding of cash and bond projects. They're not currently in the room, I couldn't speak if they will being developed through some developer impact fee. I don't suspect so, given the project list I have here. >> If it is not in this capital program, it is somewhere elsewhere the city waves the extension, the cost can be millions of dollars for new development and what impact that has on the general fund and water utilities budget. That may be an area we can prop up our general fund by not waving those development construction costs. >> I think it is getting pretty busy on April 26 or may 3 but that would not a mention of a good policy discussion because it has significant consequences to both the general fund and 0 the water utility. >> Thank you. >> Okay. >> Excuse me, mayor. >> Mayor Adler: Yes, miss Houston. >> Houston: Thank you. You don't have to even this now, but I need more information about the walnut creek waste water plant and the closing of

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the Anderson mill plant, so I just need to know what that capital program is going to look like. So somebody could get that to me. >> We can follow-up on that. >> Houston: Thank you. >> So going back to your strategic outcomes, one of them is mobility. I'm not going to spend a lot of time talking about mobility because you will get a lot of briefings on it. Just on my 3, the mobility committee will get a briefing, update on the 2016 mobile bond, it is $720 million. We brought forward an initial amendment for $28 million. We will have a second budget amendment coming forward to council in may of 2017, I think as soon as may 4, which will be an additional capital appropriation request as well as the staffing plans in order to implement the bond program and the aggressive timeline council expects. In the future, we will incorp rate appropriations as part of the annual budgetary pro process. Total plan spending is $595 million of the mobility bond being spent by the time we get to fy-22. In regards to health, I think in the sake of time I'm not going to talk a lot about these, but these are great projects happening throughout the city that are going to help with our health outcome from the park, alliance children garden, a schematic on the top right, built out at butler park, a recreation, a joint use park and public health project built in district 3, southeast Austin. A lot of improvements at the bet yes bunkly campus, houses the Austin health department and animal center. Road improvements, drainage improvements, additional kennels for the animals. The women and children's center

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will provides additional sleeping quarters, fire suppression system upgrades, Ada access, construction vehicles. Construction began in January of this year. Our safety outcome, three projects I wanted to highlight. I want to remind you, there are 1600 projects in the city. If you're wondering, hey, where is that project, I can't cover them all but these I thought were interesting. The flood guy bye outs continue. $78 million approved for flood buyouts. Today we've only gaited $62 million of those funds and acquired 214 homes. Amounted to much, much needed mounted patrol facility in district 2. Construction is anticipated in summer 2017. I think you're going to see and and item on your agenda to extend the lease on the exist facility for a few years until this new one is ready to. Go then, out in district five, the onion creek fire station. Design phase is completed and we anticipate construction is going to begin on that fire station next month. Moving on to economic opportunity and affordability, we've got a couple awesome housing projects under way. Our housing first at oak springs is a 40,000 square foot facility, it is going to provide 50 fully furnished supported outing units and integrated health care clinic being funded out of the 2013 bond proceeds and we anticipate that is going to be completed in 2019. The rbj tower is an independent living center for seniors and disabled people this project include as comprehensive rehabilitation of the exist facility as well as new construction that is going to roughly double the number of units, bringing the total number to 491, again being funded with 2013 bonds. For cultural and learning, just a new central library. You've heard a lot about that

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but it is in its final phases. Collections being acquired, technology, furniture being installed. At the same time that is going on, we have a lot of remodels happening across the city at various branch libraries from complete remodeling of the library to simple hvac upgrades and roof replacements. Finally if, in our government that works categories, highlight in our development services department we have some technology upgrades going on. Electronic plan review, which will reduce travel times for customers, include timelines and quality for our reviews, we are also doing an upgrade to version seven of our Amanda system, the permitting and case management system that is used by our development-related departments. Building services, we talked a lot about it last year, and happy the council authorized a transfer to our general building services, cip. Right now we're proposing to keep that flap but it would be nice to find a way to increase it. We have a lot of old, outdated city facility ies that desperately need loving care. This is a chill they're needs replaced. It is not always about inward facing city administrative facilities, it is also about maintaining the public facilities. Those are some of the exciting projects going on. That is all I have for cip. I'm going to skip on to enterprise unless there is questions. >> Go ahead. >> Can you tell me how much the city has invested in -- >> Which one? >> The rbj. >> I think it is $3 million, the city's contribution to rbj in the 2013 bonds. >> Thank you. >> So this is just looking at our enterprise departments. You remember I showed you for the general fund fiscal year '17 budget verses fiscal year '18

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and said it is a $48.7 million projected increase. These are our nine major enterprises and see what we're projecting, what the projected growth is for all the enterprises. I'm not going to read it all, but it is there for your consumption. Enterprise is how we're really trying to change this forecast. Instead of lengthy detail presentations, what we're trying to do today is, you know, the enterprise is facing the same cost drivers we spoke about on the general fund. Health insurance increases, worker compensation cost, shared service, the management where the costs go out and we share it even more so, the enterprise experiences contractual and commodity increase us when think about the chemicals and things that have to be added to the water supply, there is a lot of cost associated with that amount lot of equipment, much more so than the general fund. A lot of wind in our enterprise departments that needs to be are you tunely replaced and un-- routinely replaced and ungrated. Typically don't have debt service in their budget, it is handled as part of the debt service tax rate. The enterprise department, a big portion of their annual budget is often debt service cost. That is all I really wanted to you can talk about this. Typical cost drivers. We wanted to hone you in on what we thought were important conversations for the fy-18 budget. Woe don't have a budget yet, but if we want to daylight what important issues are so we can get feedback from you, here is a list of issues we're going to be talking about. Continuation of the curb side composting program, staffing requirements in the Austin code department. A new cost of service model being created or updated in Austin water utility. The continued implementation of Austin water utility's five-year staffing plan.

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We talked a little bit already about the extensive growth at the airport. They need additional staff to keep pace with that growth, as well. There is a potentially controversial issue related to ground transportation feeses that will be addressed in the fiscal year '18 budget. In regards to Austin energy, some issues in regards to the rcot market, basically the Texas energy market has some challenges some real quick, curb side compost something that the council has supported over the years. We've had extensive discussions with this city council about it. We started a pilot program in January of 2013. This council eye approved expanding the pilot to all areas of the city over I think a three or four-year time frame, beginning in fy 2017 and completing it by fy-20. This is to remind council we started doing last year. As we look forward to fiscal year 2018, the rollout, projected additional $2 million will be needed to add to the bunk to continue the rollout. Down associate the bottom, you can see the rate increases of just the curb-side composting portions. Just related to curb-side compost we sue a dollar increase in ar's rate, an additional 1.$10 in 2018 for a total of 2.$10. The final slide, as you look at that time over time, full program rollout is a total cost of $22.4 million and $3.90 per month increase by the time is project is fully implemented throughout the city. I will highlight the 390 is down from last year. Last year we were projecting something north of $5 as program cost. Sam can come down and talk about the rethinking they've done on the practice and how they've managerred to bring the cost down. Good news there, we're now projecting the composting program will have a lower cost

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for our customers. The growing expectation for services, it there is a number of resolutions and ordinances past for short-term rentals repeat offender programs, enforcement of city-owned properties and we don't have the staffing in place to enforce all of these requirements. They are also looking to implement extended enforcement hours, basically enforcing in the evenings and Saturdays, as well, to improve response times and then they feel it is important to start doing more education. So still early in the process, but they're anticipating a need for 20 to 25 additional positions in fiscal year '18 to fully meet the expectations of all these new initiatives with a 70-cent per month increase for a typical user of their services. Through the clean community fee. Looking at the Austin water utility, I think one of the big eye lights you will be hear -- highlights you will be hairing more is about the cost of service update. They've been doing a lot of public involvement in that process. Next is the annual hearing examiner review. Council, by June of 2018, council can expect to see and ultimately approve the independent hearings examiner recommendations related to their cost of service model. With implementation of the new cost of service not happening until fiscal year '19. There are some, down the road, but there are some things we anticipate happening in fiscal year '18. One of those being the departments looking into and wanting to bring forward a community benefit charge similar to what is used in Austin energy to pay for the customer assistance program. At the same time, they would like to enhances and increase the customer assistance program by adding waste water volume.

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Currently it applies to waste water usage. In regards to staffing, it is a big utility. Their service area has been growing a lot. Their customers have been growing a lot over the last decade and their staffing has not kept pace with the growth in the system. They need additional positions to keep up with operations and maintenance activities, engineering services, pipeline management, pretty much everything they do is short staffed and so they've looked at a five-year staffing plan and over the five-year time horizon they would be projecting in the neighborhood of 25 positions per area to slowly start bringing on those staff that are needed to keep pace with their growing system. We talk about their rates a little bit later, but the good news is, they will be able to do this with no rate increase next fiscal year and very limited rate increases over the five-year horizon. In regards to aviation, I'm not going to revisit everything I just told but how extensive the capital growth is at the airport but do they need positions to keep pace with that unprecedented -- they deep hitting every year, a any all-time high high for the passenger traffic. They're opening any facilities so they're projecting a a united for an additional 20 to 35 positions. No fee impacts as a result of that, no general impact, all funded through airport operations and planning fees assessed to the airlines. Another issue with regards to aviation, the ground transport fees which are woefully below the cost of service. They estimate it $3 million and currently the revenue is less than a million dollars. Under FAA regulations they are required to charge what is considered a fair market value for the nonairport activities. They haven't updated this rate structure since the 80s, so this would be a proposal to increase their ground transportation fees with it going into effect in fiscal year '18. We just want to bring that forward for council's

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conversation now. We don't have the specifics in place. We don't have. >> Recommendation in place but don't want you to be surprise when you had see a proposed increase of ground transportation fees at the airport as part of the fy-18 budget. And then, finally, and certainly not least, our biggest enterprise, Austin energy, they're not proposing any new staff for fiscal year '18 or even over the five-year horizon but do they have a potential concern in regards to the Texas energy market. Or the electrical reliability council of Texas, ercot that in the ercot market, power market prices are historically low, largely being driven by extremely low natural gas prices. What that means is, in regards of going on the market to purchase power to meet the load requirements, it is a good time for that. If you are in the generation business, there is currently little no property and some case as 0 loss from generating power and selling it back into the ercot market. And the rating reviews that we've seen don't anticipate any changes to this power market situation in the near term. It is causing cash flow issues for a lot of utilities, credit agencies have taken note, reporting a weakening power industry in Texas and we have seen some down grades of utilities and outlet revisions for utilities. We don't think Austin energy is in that boat, but really keeping us out of that boat, the key is cash reserves and maintaining our coverage ratios. We need to keep focused on that and keep the cash reserves and coverage ratios, that is what we view to being the key to our financial holt of that utility. There are some risks from the legislature, as there probably are throughout this budget. Specifically, a variety of bills filed at our state legislature that could significant significantly impact the utilities. The mayor testified on a number of them. You have your legislative update

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voice won't reiterate all this here. There is the changing administration in Washington and changes to environmental regulations. We don't know exactly what that is going to look like yet but it makes it difficult for the utility to plan for future generation investments when we don't now how that environmental regulatory situation is going to change. We're going to wrap this up with everybody's favorite slides, the discussion of major rates and fees. This is looking at what's the cost of all these great city services costing a typical icer in fiscal year '17 and how do we think it will change going from '17 to '18. For all these different categories, we define a typical rate payer for Austin energy is somebody that uses 895-kilowatts of electricity per month on average. For Austin water is 5800-gallons of water and all based on their own calculations whatever a typical customer uses. For resource recovery, 60% use the 60-gallon cart. That is what we define a typical customer as in regards to the tax bill, we utilize the median nonsenior homestead as the typical customer. And so I'll just focus on the change column. You can see just a small change projected for Austin energy. No base rate change there. That just has to do with the various regulatory fees and pass-through fees they anticipate will change about a 34-cent per month increase. I already talked a little bit about the water utility and no increase projected despite staffing increases they will be implementing in fiscal year '18. It is a tremendous accomplishment when you look at the struggles they had in the drought, when water usage dropped significantly, they've taken a lot of action to respond to that situation. They adopted new business models to stabilize the revenue. They had a lot of debt, $40 million in fy- 'and '17 combined. They're looking to keep the

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costs down. They're truly focused on balancing their system requirements with affordability, and so you can see here no rate increase projected in fiscal year '18. The next slide, you will see three of the fire years in the forecast we're not projecting an increase in the water utility. The only other thing I would highlight is the transportation user fee. We're currently show nothing rate increase. You are going to see a staffing budget amendment come forward here in may to add additional staff to this department, and others. And we also are still currently working with the department on their staffing analysis and needs for staff beyond implementation of the bond program. We haven't cooked that into the forecast yet. It wasn't quite ready but there is a chance by the tame we bring the budget forward we may need to change the it yet, but right now it is zero. >> What is the population increase? Percentage population increase? >> For the city? >> Yeah. >> I don't have it exactly, but it has typically been 2% to 3%. >> Thank you. >> I can get you the exact number for '17- '18. >> Thank you. >> That is another good take yay, thank you, mayor, the combines increase is a projected 2% to 3% growth in over all taxes and growth in '17 to '18. Looking over five years -- >> Historically, that has been 4% or 5%. >> Or more. Particularly when the water utility was having the challenges and had to keep increasing rates as a result of the significant drop in water usage, to meet the fixed cost it is war 4 or 5%. Again, it looks like the water utility made the changes they need to make to get their business model stable and sustainable. You can see it on this slide, three zeros out of the five years only a $2.60 over all increase projected for the total five years. I'm not going to read through all of these. I highlighted a few things.

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In Austin energy, they're only projecting one base rate increase in fiscal year '21 where you see that $1.90 projected increase, that is the only year they're projecting an increase in the base rate of 2%. All the other years the bates rate is staying the same and it is the regulatory charges and pass-through fees that are affecting those increases. Also highlight Austin resource recovery, fiscal year '18ness '19 and '20, those rate increases are predominantly driven by the new organics program. Finally, I would just talk about the over all increase of $40.35 spread out over five years, comes out to about $8 per month per year on average. And so that's a 2.5% compound annual growth rate. So, in short, we are looking associate about a 2.3% increase in taxes and fees for a typical customer in fy '18 and over the longer haul, about 2.5% per year. I'm just going to wrap it up, since you're not asking questions with the final slide. This is everything we've heard, from the six departmental reviews plus additional communications I've had with various council members this is the university of topics you want to hear from staff on April 26 and may 3. I think we identified two more today, one being the prioritization of all the under funded council initiatives and the other being the general homestead exemption. With the additional those two items for the agenda, these are really full agendas and we mace need an additional day. I will throw that out there. >> As I recall, over time and hiring was a big issue, also with respect to fire. >> That will come out under the four person staffing. >> It could be independent of that, as well. >> It could be independent of that, but there is discussions

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in there about their hiring and vacancies and over time. I think it all comes out in full-person staffing but we can broaden that topic. >> I want to talk about that independent of full-person staffing, as well. I don't want to be just about how four-person staffing would impact that question, but I think just to broaden that. And then, when we talked about community services, we talked about golf, I thought we talked about pools, as well. That is a really big area. I could be wrong about that, but I seem to recollect -- is that we can still talk about pools and certainly add a discussion about the pools and -- >> My recollection that was a pretty big cost driver issue. >> Do we have the report yet? Has the aquatics report been finalized with that information, with the recommendations. >> I'm getting a shake of the head from acm. >> That would be why it is not on there. We haven't gotten that final. >> With respect to the other question I think is hit by the ems recovery and fire questions on public safety, and the compensation and staffing as those things push-pull with each other on public safety, to have a conversation with whether or not we should set a percentage for the public safety budget that we would then prioritize within that budget how we spend public safety and then so that we're not doing trade-offs between public safety and social services to see if that makes sense for us just to set a percentage around then be able to set priorities within each of those two groups. I would like to have that conversation tomorrow get a feel for maybe this isn't the time to do it, a five-year -- since public safety is such a large portion of what we -- of our budget, to get a feel for what a five-year, three five-year long-term progression would be

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with respect to public safety so we make sure we're getting the staffing levels that we need and the policy and the additional fire station, whatever it is, played out over a five-year period of time, that might be a helpful context. Council member kitchen. >>Kitchen: With regard to particularly, this is a general statement with regard to public safety, more specifically, I think we need to talk about these items in relation to the metrics for what we're trying to achieve. It makes sense to me, the mayor's percent speculative in looking at the percentage of our budget and I think we also have to look at that in relation to what we're trying to achieve that should inform us in terms of, you know, what percentage public safety might be of our budget. And I know we talked about this before, and it's probably not timely yet, but I just want to continue to state that, at the appropriate time, I would really like to understand the extent to question we can, you know, use our outcomes indicators and metrics in this budget cycle, understanding, of course, that we won't be done. It certainly wouldn't be final. But I continue to ask you all to think about how we can help us. And so I just gave you an example of one area in which that could be particularly helpful for us in making some policy decisions. >> Mayor Adler: Council member aol ter. >> Alter: I would like to piggy-back on her suggestion and make you be share with us in those sessions ways this year we can use it, specifically the strategic outcomes to help us guide the budget process in particular. And then, I wanted to add on to the mayor's comments about over time and hiring in general. I think there have been several sessions where I've asked for a better understanding of the recruitment and retention issues

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that we're facing across departments, not just with respect to fire. Because that seems to be a cross-driver, not just through overtime, but many departments seem to be having challenges with more of a bird's eye view of those challenges. >> I mean, I don't know if I could characterize it as a challenge as opposed to a big organization like Austin where in the 7 to 8% vacancy rate is just where we're going to be because of how our hire process works, a lot of times we fill internally. We have spent a lot of time looking into that and we're -- we're currently at about that 7 to 8%. Maybe a little bit higher. But I don't think we're outside of the norm overall with what you would expect to see with regards to vacancy, two exceptions being fire and police right now. >> Alter: I think we also had some conversations where we were doing workforce development programs and trying to understand if we could be better connecting our desire to be helping people to -- to move into living wage jobs and our recruitment needs and if there are places where we can be doing that where we are solving city recruitment needs as well. >> Is the idea that you would like to get that added to this agenda or do you think that's a separate conversation where we could maybe try to tease out a budget question. >> We could tease it out. Whether it's not, I'm happy to have that conversation, but I did come up several times in the budget discussions. I would like to hear more about that perspective, but it's not -- it's only a general problem for police and fire. That was not necessarily what we were hearing in terms of the recruitment challenges that Austin energy was having and other -- other units and, yes, there's a general issue that happens with being a large organization, but we could presumably be saving more money if we could find

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ways to be doing that better. Because there are costs to having that turnover. >> Okay. I was going to suggest if we do need to add a third date, if we could make that decision sooner rather than later as our calendars are filling up, I'm sure. There's a Wednesday -- there's a may 10th and a may 17th that follow what we have so far. >> Mayor Adler: If you could take a look at that and poll the offices, let's at least schedule a half a day just as a hold for people in case it turns out as we're in those days that it extends over. So that we have a hold. >> [Indiscernible]. >> Mayor Adler: One additional -- yeah. Well, if we can, gab the day. Grab the day and then we can decide later whether we need it at all or just have half a day that day. But check to make sure that the offices are okay with that. >> Pool: Just real quick, the 10th is not as good as the 17th because it's audit and finance in the morning. I have a question on the percentage -- I think it's below 70% that's allocated or that's spent on our uniforms, on our law enforcement first responders, 69 some percent. Do we have the data that breaks out personnel costs from program costs? For the three different services that are in that? Because it -- often it's talked about that that is the total budget for A.P.D. And we know -- we know it isn't. So if we could talk about a.p.d.'s portion and the personnel versus programs in one bucket, A.F.D. In one and ems in sneer we have the

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data so maybe I'll follow up with you afterwards to figure out how to present it. We can get it for everybody. We've got the data, just ask. [Laughter]. >> Pool: Thank you. >> Houston: Thank you, mayor. One of the things that I've heard people talk about is the difference between using contract employees in many of the ways we use and bringing them on to the payroll. So that came up with security. It's come up with 311. And I would like to know -- well, if we're not going to have that conversation, then at least the -- the difference in the cost drivers if we bring all of the security personnel. We just had that conversation, what, a month ago about contracting and security. I'm not sure that was ever flattened. >> We did do a report on that. The budget office actually led a pretty comprehensive report on this. It was years ago, but I think the story was pretty clear that generally taking contract staff and bringing them on to the city in almost every case was going to be considerably more expensive. It's not surprising. Our salaries I think are comparatively good and our benefits are comparatively outstanding. So it is typically more expensive. I think from an operational perspective a lot of times you may be lose some of the flexibility in the contract, the ability to quickly ramp up or ramp down the service doesn't exist when they are full-time employees. I think those are the two key dynamics on that discussion. >> Houston: I just say that, that it may come up again. >> Yeah. >> Mayor Adler: I think we're done. Thank you very much, this is really good. >> This is really good. Informative and shows us obviously the challenges that we have. But I am encouraged by the -- by the forecasted rate of growth of government being so much lower than -- than what it has been. So thank you for that.