

City Manager's Proposed Budget Fiscal Year 2004-2005

July 29, 2004

Mayor, Mayor Pro Tem and Members of the City Council:

Today I present to you the proposed fiscal year 2005 budget. Fiscal year 2005 is about staying the course. This budget reflects the financial principles that guided us to a structurally balanced budget in fiscal year 2004 despite the dramatic revenue decline of the past few years. We continue to rely on those same strong principles as we face fiscal year 2005; the last year our financial forecast shows our growth in expenditures, or cost drivers, outpacing our revenue. I believe this budget sets the stage for moving forward in a sustainable budget environment.

We have closed the \$19.4 million gap forecasted for the General Fund in fiscal year 2005 through a series of revenue initiatives, improved revenue collection experience and expenditure reductions. Approximately 45% of the gap was closed through enhanced revenue and the remaining 55% by expenditure reductions. Of the 36.8 positions eliminated in the General Fund and Support Services, 15 employees were impacted and of those, all 15 are being offered placements within the organization. Although no facility is recommended for closure, many facilities will continue to have significantly reduced hours and program levels. For the first time since 2002, we are recommending the judicious use of our one-time fund balance to fund \$8 million in critical equipment and capital. The budget also includes the first pay increase for our civilian employees since 2002; a 3.5% increase.

The budget is proposed at the effective tax rate of 50.65 cents. The effective rate increased from the estimated effective rate of 50.13 in the Policy Budget for two reasons. First, existing commercial and multi-family values dropped slightly more than anticipated with the certified tax roll. Second, current year tax revenues were negatively impacted by a dramatic increase in prior year tax refunds. The effective rate will be reduced by the amount of the tax rate that will transfer to the newly created Hospital District, currently estimated to be approximately 6.18 cents.

The transmittal letter for the 2005 Proposed Budget is organized into several major sections that can be found on the following pages:

Setting the Stage for a Sustainable Budget Environment	<u>Pg 2</u>
Assessing Citizen Priorities and Measuring Customer Satisfaction	<u>Pg 4</u>
Examples of Reorganizations and Customer-driven Change	<u>Pg 6</u>
Implementing Safeguards	<u>Pg 8</u>
Revenue Policies	<u>Pg 10</u>
Hospital District Transition and Revised Tax Rate	<u>Pg 12</u>
Proposed Rate and Fee Increases	<u>Pg 17</u>
Fiscal Year 2005 Budget Highlights	<u>Pg 18</u>

Setting the Stage for a Sustainable Budget Environment

I believe balancing the fiscal year 2005 budget reflects the closing stages of an arduous four-year journey for our community and our organization.

Year One. Our journey actually began just after the Council passed the fiscal year 2002 budget on September 11, 2001, when our country suffered a terrorist attack that would ultimately alter the course of our domestic economy. Within months of passing what would be the last of the boom year budgets, our revenue stream began a downward spiral that has only recently begun to rebound. Without the corresponding revenue projected for fiscal year 2002, we couldn't implement that budget but instead began what would turn out to be four years of cost containment, hiring freezes and aggressive budget reductions.

Year Two. Fiscal year 2003 represented the second year of our financial odyssey. In fiscal year 2003 we closed a \$52 million gap, producing over \$31 million in General Fund budget cuts of which \$17 million was in management and administrative costs. Despite the elimination of 321 positions, an early hiring freeze prevented us from having employee layoffs.

Year Three. In fiscal year 2004, the third year of our financial journey, we eliminated \$38.2 million in General Fund expenditures. We reduced the General Fund by another 344 positions, of which 200 were management and administrative jobs. For the first time we had to lay off 91 employees when 206 of the 344 eliminated positions were filled and only 115 placements could be found.

We have stayed true to our budget principles throughout this journey. We focused on reducing expenditures before relying on raising revenue.

We focused on finding structural or on-going reductions, rather than relying on one-time savings. Wherever possible we cut management, administration and support costs before cutting the provision of direct service to our citizens. We have persistently examined ways to reduce our built-in cost drivers. And we have continued to approach the budget without assumptions about sustaining business as usual, seeking to deliver services differently in an attempt to preserve existing service levels despite reduced resources.

The past three years of cutbacks have reduced the growth of our General Fund by almost 25%. It hasn't been easy. And it hasn't been popular. And it certainly hasn't been without significant organizational impacts. The low hanging fruit, the more obvious and less painful cuts, are long gone. Both our workforce and the provision of direct services to our citizens have been deeply affected by the reductions.

Year Four. We are now going into our fourth year of reductions to close the \$19.4 million gap projected for fiscal year 2005. As we approach this budget, it is important to see not only where we've **been**, but to remind ourselves where we **are**.

Today your government is much leaner, our service levels are much reduced and our current budget, while structurally balanced, is comprised of **needs**, not **wants**. And as our growth in expenditures, or cost drivers, will still outpace the renewed growth in our projected revenue for fiscal year 2005, we face a fourth and final year of cuts.

So fiscal year 2005 is about staying the course. If we adopt this budget with our financial principles firmly in place, we will have set the stage for moving forward in a sustainable budget environment. And we will be well positioned to strategically rebuild our programs and our service levels as the economy rebounds in the upcoming years.

Responsible, Responsive Government in Spite of Reduced Resources

Responsible, responsive government begins with inviting citizens to participate in the political life of their city. The City of Austin does this in a variety of ways, never more important than in an economic downturn when we need to actively engage citizens in expressing their preferences and public choices for change. Public feedback serves as one frame of reference for assessing progress in service delivery, as well as a tool for resource allocation decisions during budget deliberations. Additionally, as we think differently about service delivery in a time of reduced

resources, public feedback allows our efforts to restructure service delivery to be customer-driven and customer-focused. And finally, public feedback helps us improve the public accessibility and accountability of City government.

Assessing Customer Priorities and Measuring Customer Satisfaction

The City of Austin annually asks its citizens to complete an extensive survey that explores their priorities and concerns. The survey seeks to determine the levels of importance and satisfaction residents assign to the general government and utility services of the City. Findings include a comparison of the 2003 and 2004 results, as well as a comparison of ethnic and socio-economic differences in attitudes.

Top Issues Facing Austin

When citizens were asked to fill in the blanks listing the top five issues facing Austin, the following issues emerged in rank order:

1. Traffic issues (congestion, flow, planning, etc.)
2. Tax related issues (too high, too many, etc.)
3. Growth management (speed, planning, zoning, etc.)
4. Environmental issues (protection, conservation, control, balance, etc.)
5. Roadway development (planning, maintenance, inconvenience, etc.)

The next five concerns emerged as second-tier issues facing Austin (also in rank order):

6. Police services (availability, relations, quality, etc.)
7. Housing (availability, affordability, etc.)
8. Education services (availability, facilities, teachers, funding, quality education, etc.)
9. Health care (availability, affordability, development, planning, etc.)
10. Crime/public safety

Citizen Priorities for Resource Allocation

When asked to prioritize these following ten core government services for resource allocation, the following rankings resulted with public safety scoring significantly higher than any of the other individual services:

1. **Ambulance (EMS) services**
2. **Police services**
3. **Fire services**

-
4. Traffic flow/signal synchronization
 5. Environmental protection
 6. Health care and social services to low-income citizens
 7. Affordable housing
 8. Parks
 9. Libraries
 10. Economic development efforts

Public Safety Services. Austin residents assign a very high level of importance to all emergency response services. Generally satisfaction with most public safety services is high, although our data indicate that minority residents are less satisfied with the Austin Police Department than are others. Satisfaction with neighborhood policing and traffic control/enforcement rank very low as compared to those of other public safety services, however, our current findings indicate a marked improvement over the opinions residents had last year about these same services. Additionally, compared to last year's findings, there has been a general improvement in the level of safety residents feel walking alone during the day or night in their neighborhoods and in the downtown area.

Youth, Family and Neighborhood Services. Residents are generally satisfied with the services of the Parks and Recreation Department. This is particularly noteworthy and a tribute to our employees given the significant cuts to the Parks and Recreation budget over the last few years. Citizens assign the highest priority to park safety and the availability of parks and preserves, as opposed to parks and recreation programs. About 72% of the City's residents use the parks and preserves in a year, and about 20% of residents or their children participate in a park's program. Consistent with last year's findings, minority residents participated in park programming significantly more than other residents.

Generally, residents are satisfied with the services provided by the City's libraries and that finding runs across regional, racial and economic groups. This is also particularly noteworthy and a tribute to our employees given the significant cuts to both facility hours and the book budget over the last few years.

Residents of Austin assign high importance to the quality of life services of the City. While they are highly satisfied with the livability of their neighborhoods, they are generally less satisfied with the vitality of

downtown, pedestrian-friendly areas, and with neighborhood planning/zoning efforts. Compared to last year's findings, however, there has been improvement in 2004 in all three of these areas. Additionally, the provision of solid waste services in our neighborhoods receives high marks for both importance and satisfaction.

Environmental Sustainability. Austin residents assign a high level of importance to nearly all aspects of the City's conservation and environmental efforts. However, the levels of satisfaction are not as high as the corresponding levels of importance. Residents are most satisfied with the quality of the drinking water and the wastewater treatment system. They are least satisfied with the availability of alternative modes of transportation and efforts to improve air quality. However, compared to last year, there has been improvement in the level of satisfaction in efforts to improve air quality, as well as for energy and water conservation programs, preservation of green space and in the water quality of our lakes and streams.

Infrastructure Maintenance and Repair. The City's residents also assign high importance to nearly all services related to infrastructure maintenance and repair. But they are very dissatisfied with our traffic flow, timing of traffic signals and maintenance and repair of city streets. Compared to last year, however, there was significant improvement in 2004 in the satisfaction with traffic signal timing, as well as the maintenance and repair of city streets.

A Customer-Driven Model for Change

Significantly reduced resources have required us to rethink our service delivery models and to restructure for efficiencies to help compensate for fewer resources. I'd like to highlight four specific service delivery model changes. The model for change we used here and across the organization followed three simple principles:

1. Organize for the Customer.
2. Streamline and Simplify Processes.
3. Think Differently About Service Delivery.

Transportation, Planning and Sustainability Department (TPSD) Reorganization. The reorganization of TPSD is aimed at consolidating like functions into single unified departments resulting in one less department. All street-related functions such as traffic and transportation are moving to Public Works. The urban design and planning functions, including annexation and historic preservation, will be consolidated into the Neighborhood Planning and Zoning Department to provide seamless transportation and land use planning in a single

department. The water conservation function will move to the Water Utility to unite the missions of these two interrelated areas. Finally, the air quality and sustainability functions will move to Austin Energy. With both water conservation and air quality our aim is to have vital and specialized programs assigned to the utilities that fund them and around which the bulk of the work centers.

One-Stop Development Shop. Our customer survey shows a dissatisfaction level of about 65% for the City's development review and permitting process. These scores consistently lose ground each year. Designed to improve our customers' experience with the City's development process, the reorganized Watershed Protection and Development Review Department (WPDRD) will realign our development services to create a linear progression through the four phases of development regulation: pre-submittal planning, formal review, permitting, and inspections. This alignment mirrors the way our customers move through the process. All employees involved in a development review function (currently housed in 13 different departments and 12 buildings) will be located under the same roof and in the same department, WPDRD.

Perhaps most significantly, the process redesign team has simplified and consolidated 57 City regulatory processes into 21 based largely on suggestions from staff and customer interviews. The "one stop shop" approach allows us to improve cross training and communication, reduce response times, eliminate duplication of work and ultimately provide a simplified development review process. At the same time, this consolidation allows us to maintain that critical balance between community and development interests.

Consolidated Code Enforcement. Our customer survey shows a dissatisfaction level of almost 60% for code enforcement services with a drop in that level of almost 5% from 2003 to 2004. Historically, this is a significantly under-funded function in the City of Austin with our investment in code enforcement per capita lagging all our peer cities.

Code enforcement currently occurs in a variety of departments including Neighborhood Planning and Zoning, Solid Waste Services and Police. Streamlining these functions into a single division in Solid Waste Services will improve communications and provide customers with a single point of contact. Additionally, this builds on a previous consolidation that merged weed and litter control into Solid Waste Services. Finally, this allows us to locate code enforcement employees together with the bulk of the equipment and infrastructure needed to provide these services.

One of the added benefits of this consolidation is that police officers currently responding to junk and abandoned car complaints in neighborhoods will be freed up for other police work and civilian employees will handle these calls. Additionally, we have initiated a thorough process of identifying and analyzing each code policy and procedure to eliminate duplication and enhance our enforcement efforts. This consolidation allows the City to be more responsive to our customers, who are increasingly concerned about code violations that affect quality of life and neighborhood vitality.

24/7 Call Center. It's laudable that despite declining resources and significant reductions in staffing, customer service satisfaction levels remain generally high for City services. In fact, citizen satisfaction levels actually increased from 2003 to 2004 in a few key areas such as employee courtesy and the efficient provision of services. As you would expect, however, citizen satisfaction with the accessibility of City employees is an area that is suffering, losing almost 5 percentage points from 2003 to 2004.

The 24/7 Call Center is designed to provide a single point of citizen access for information and City services. The Call Center is scheduled to go live the first quarter of fiscal year 2005 and fully phase in throughout 2005. This system is configured around the 3-1-1-phone number and will manage the intake, routing and resolution of service requests. Equipped with a workflow mapping function, the system is capable of coordinating cross-functional or multi-departmental responses. Additionally, the system will generate performance, trend and management information on the provision of City services and on our track record for complaint resolution.

Implementing Safeguards

Deep budget cuts. Reduced staffing. Increased demand for City services in an economic downturn. Several years without an increase in employee compensation. A very tenured organization facing a critical mass of retirements. All these factors increase an organization's overall risk and vulnerability, putting stress on our internal controls. Although we have a number of initiatives under way to mitigate that vulnerability, I'd like to highlight two in particular: the establishment of an Integrity Office and our efforts to invest in our human infrastructure, the workforce.

Integrity Office. One of our core budget values was to cut management, administration or support costs before reducing direct service to citizens. Our budget reductions have reflected that value and have disproportionately impacted citywide support services. Our ratio of

management, administration and support to operations is a very lean 4.5%. This has resulted in decreased internal controls such as fewer checks and balances or, in some cases, less separation of duties. Additionally, City employees are cast in a number of regulatory roles that leave them vulnerable to ethics violations.

As part of the City's continuing integrity initiative, the establishment of an Integrity Office will reinforce our management structure and help ensure that these stresses do not contribute to integrity-related problems in our organization. Ultimately, my goal is to establish a municipal integrity program that will set the national standard, enhancing Austin's reputation for good government.

The Integrity Office will provide a central resource for the questions and concerns of employees, as well as board and commission members on matters of government ethics and public integrity. We will establish regularly scheduled integrity training for every City employee, including special training for employees in sensitive positions, as well as regular training for board and commission members. The Integrity Office will also review existing ordinances and policies to develop recommendations for revisions. This review will focus on developing specific policies for employees in each job category to help address the real-world challenges faced by our employees.

Investing in the Workforce. Our employees have proven to be both resourceful and resilient, sacrificing in untold ways to keep our organization running in a way in which we can be proud. By far our greatest resource as an organization is our human capital, our workforce.

It's time to invest in that workforce. This budget has a 3.5% pay increase for all employees who meet or exceed their performance expectations. We are simultaneously moving our pay ranges by 3.5% to adjust for market conditions. Additionally, we are revamping both how we measure and then reward and recognize excellent performance across the organization.

Finally, we are developing a number of initiatives to mitigate a looming talent flight primarily due to retirement trends in our organization. A recent Government Accounting Office report indicates that nationally three-quarters of the country's top public sector executives will be eligible for retirement in the next five years and more than 70% of the federal workforce will be eligible to retire by 2010. Just in the City of Austin executive ranks, 25% of our executives are eligible to retire in October 2004. This retirement trend carries throughout our organization and underscores the critical need for a strong workforce development

program and succession plan. Over the next year, we will be developing and funding a data-driven workforce planning model to help with personnel planning, including recruitment and retention strategies, workforce succession planning and leadership development.

Fiscal Year 2005 Revenue Policies

Staying the course for this community's long-term financial stability begins with achieving a structurally balanced, sustainable budget. In this budget environment, our revenue policies play a critical role in financial sustainability, as does our investment strategy in the physical infrastructure of our community. Highlights of our key revenue policies and the utility rates tied to our infrastructure investment strategies follow.

Maintenance of Utility Transfer Rate. This budget maintains the Austin Energy transfer rate at 9.1% and the Water Utility transfer rate at 8.2% in keeping with our financial policies and our covenants to the bond-rating agencies. Both utilities are aggressively pursuing cost-saving strategies and business innovations to maintain competitive positions and protect themselves against the weather and business risks that abound today: plant outages, spikes in fuel prices, extreme weather conditions such as drought and other risks that can quickly destabilize either utility's financial position.

Judicious Use of One-Time Funds. Making permanent expenditure reductions is painful and therefore using one-time revenue sources such as the fund balance to cover ongoing expenditures is tempting. However, a budget relying on one-time quick fixes is neither structural nor sustainable. It is not a real budget, but a "virtual budget" that cannot be sustained realistically for more than one year. The Council has been fiscally prudent in resisting one-time quick fixes that neither solve our current problem nor ensure our long-term financial health.

Now that we are beginning to see sustained signs of an economic recovery, I am recommending a judicious use of our one-time fund balance in strict compliance with Council's adopted fiscal policy to use our unreserved fund balances to fund capital items. Basically, this policy requires one-time funds to be spent on one-time expenditures. This budget uses \$7.9 million from our ending balance of \$38 million to fund critical equipment that we haven't been able to replace for several years, as follows:

Vehicle replacements	\$4.90m
Technology replacements & upgrades	\$1.20m
EMS safety equipment	\$0.65m
Firefighter equipment	\$0.34m
Health facility equipment	\$0.01m
Library facility equipment	\$0.19m
Parks facility equipment	<u>\$0.58m</u>
	\$7.87m

Effective Tax Rate. The one revenue tool Texas cities share for achieving structural balance is the effective tax rate. The effective tax rate is the rate that, despite fluctuating property valuations, brings in the same amount of revenue as the year before. The effective tax rate holds the communitywide tax burden constant. Without the stable revenue stream provided by the effective tax rate, cities could be subject to great volatility in revenue and would be unable to plan for the future.

This budget is proposed at the effective tax rate of 50.65 cents per \$100 assessed valuation, a difference of 1.37 cents from the current tax rate of 49.28 cents. This rate will be reduced by the amount of the tax rate that will transfer to the newly created Hospital District, currently estimated to be approximately 6.18 cents.

The effective rate is different from the estimated effective rate of 50.13 used in the Policy Budget for two reasons. Although our overall assessed value has increased slightly due to additions to our 2004 tax base, that tax base, especially in commercial and multi-family property, has declined slightly more than we anticipated. This decline in property valuations is one reason the effective rate is higher than our current rate. Secondly, current year tax revenue was negatively impacted by a dramatic increase in prior year tax refunds based on settlements of property valuation litigation. Two years ago Austin had an unusual amount of our property tax valuation (almost \$4 billion) either pending appeal or litigation. Travis County cleared almost 50% of that caseload over the last year resulting in an abnormally high level of tax refunds, which in turn, increase the calculation of the effective tax rate.

The average home price in Austin is \$182,111. For the owner of a homesteaded residence at the average price, the effective rate will add \$25.00 per year or about \$2.00 per month to the City's tax bill; however, of this amount only \$21.95 will be attributable to the City, with the difference, \$3.05, going to the newly created Hospital District.

After adjusting for the hospital district, our analysis shows that in 2004 the City of Austin's share of the total overlapping tax bill is 18%. By

comparison, the other major Texas cities' tax bills ranged from 22.1% of the overlapping tax bill in Houston to 26.6% in San Antonio.

The City's tax bill as a percent of median income is on the upper end of the range for the other major Texas cities after adjusting for health care expenditures. Austin's bill as a percent of median income is 1.13%; the other major Texas cities range from 1.01% in Fort Worth to 1.13% in Dallas.

Hospital District Transition and the Revised Tax Rate

On May 15, 2004, the voters of Travis County created a countywide hospital district in an election initiated by citizen petition. Under State law and after this action by the voters, neither the City of Austin nor Travis County can levy taxes for hospital purposes or for indigent medical care; current funding for these services extends only through September 30, 2004.

The new District must therefore be organized promptly to take a number of actions, the most important of which is to levy taxes for fiscal year 2005. Failure to do so will cause severe disruption in the management and funding of the components of the local health care system, which are as follows:

- The Daughters of Charity Health Services of Austin ("Seton") and the University of Texas Medical Branch (UTMB) leases at Brackenridge Hospital;
- The City and County Community Health Centers (FQHCs); and
- The City and County Medical Assistance (MAP/RMAP) Programs.

Meeting the statutory, tax-related deadlines for levying taxes under State law will require prompt and coordinated action by the City, the County, and the District. City staff and the Council Health Care Subcommittee are working diligently with the County and with stakeholders to accomplish the requisite steps in order to provide for a seamless transition to the District. In particular, during the period in which this proposed budget has been prepared, the Subcommittee has worked with City staff towards the selection of the City's four appointees and the joint appointee (together with the County). Similarly, the County has worked towards the selection of its four appointees and the joint appointee during the same time period.

History of the State and Local Health Care System

The City has a long history of providing health care for its residents, first through the operation of a public hospital and later through the establishment of medical and dental clinics. The City estimates that in the 25-year period since 1980 alone, it has spent more than \$650 million in General Fund dollars to provide health care for Austin and Travis County residents.

The public's investment in hospital care for the needy in Travis County began in the 1880's when the City and County helped fund what became known as the "City/County Hospital". By 1907, the County had sold its interest in the hospital to the City, and the City opened what was then known as the "City Hospital" in 1915. The new hospital had forty beds and was later named Brackenridge Hospital. Based on demand for pediatric services and the support of the physician community, the City established Children's Hospital on the Brackenridge campus in 1988.

Until 1995, The City of Austin operated Brackenridge Hospital as a City department. However, in the late 1980s and the early 1990s, it became clear that the City could not manage the hospital effectively due to the complexities of the health care market. By 1995, it was even more apparent that continued City operation of and responsibility for Brackenridge Hospital and the Children's Hospital was extremely risky from a financial perspective for the following reasons:

- The City's operations were "stand-alone," without the benefit of a network to negotiate with doctors, insurance companies, etc.;
- Federal aid for indigent care was expected to decrease and the burden of treating uninsured and underinsured was expected to increase;
- Governmental constraints on purchasing and other operational activities led to inefficiencies compared to private sector competition; and
- Competition was increasing, with the area's hospitals consolidating into two systems.

Accordingly, the City entered into a long-term lease and an agreement for the provision of indigent care with the Daughters of Charity Health Services of Austin ("Seton") under which:

- Seton leased (for a rent based on appraisals) Brackenridge and Children's Hospital;
- Seton assumed responsibility for operating Brackenridge and Children's Hospital as part of Seton's business;

- Seton agreed to provide Medicaid-like indigent hospital and related physician care to all City residents, at any Seton facility that offered the specified services;
- Seton agreed to provide specified services to MAP enrollees (MAP/RMAP are the City/County managed care programs for uninsured indigents); and
- The City agreed to pay Seton limited and capped amounts for the services listed above.

In broad terms, government funding for so-called “indigent care” is part of a complex and interdependent web of health care funding. For example, reducing clinic care for uninsured working poor results in increased visits to a hospital emergency room. The unreimbursed cost of those emergency room visits increases hospital charges to employers who provide insurance to their employees, sometimes forcing those employers to drop or reduce coverage, which exacerbates the problem.

Recognizing these dynamics, the City established clinics and medical assistance programs as part of a health care safety net for the uninsured. The Community Health Centers in the late 1970s and 1980s were limited to MAP and Medicaid patients. In 1990-1991, the City of Austin was provided the opportunity to seek Federally Qualified “Look-Alike” status. This status allows the clinics to receive higher cost-based reimbursement for patients with Medicaid or Medicare. The application for Look-Alike status was submitted in 1991. The Community Health Centers received this designation in summer of 1993. In 2001, the Community Health Centers designation was changed from Look Alike Status to Federally Qualified Health Centers upon the award of a Public Health Service Section 330 grant, which allowed for a number of improvements in funding and service delivery.

The 11 medical and three dental centers provide care to approximately 50,000 patients per year. Medical services include primary care, maternity, pediatrics, internal medicine, and women’s health services.

The City has approximately 320 employees (including physicians and nurses) providing care through the Community Health Centers and administering the MAP/RMAP programs.

What Transfers to the District?

The following City assets and obligations will transfer to the District, although the exact timing of the transfers may vary based on considerations such as the need for federal approval related to transfer of

the federally-qualified status of the Community Health Centers to another entity:

- Title to the land and improvements of Brackenridge Hospital and Children's Hospital;
- Rights and obligations, including funding obligations, under the leases to Seton and UTMB;
- Rights to leased space and related equipment used by the City Community Health Centers;
- Rights and obligations related to operating the Community Health Centers and to administering the MAP and charity care programs;
- Cash appropriated by the City for the remainder of the current fiscal year related to the assets and services being transferred; and
- The obligation to contribute tax money to the State as part of the State Medicaid Disproportionate Share matching grant program that enables the State to obtain Federal matching dollars.

The District will also assume all of the contracts related to the transferred assets and functions. The City is not obligated to transfer any operating or capital reserves that were not appropriated in fiscal year 2004. However, the City is considering appropriating for transfer to the District the operating and capital reserves that are estimated to remain in its Federally Qualified Health Center Fund at the end of fiscal year 2004. These reserves are currently estimated to be between two and three million dollars.

What Does Not Transfer to the District?

All other City or County functions remain, respectively, with the City or County. For example, the following City or County assets and obligations do not transfer to the District:

- Public health functions related to disease and pest control, certain immunizations and the like;
- Rights and obligations related to EMS and Star Flight;
- Public safety functions; and
- General Fund reserves, regardless of their source.

Reduction to the City's Tax Rate

In fiscal year 2005, the City will no longer be able to tax for those components of its health care system and for the related services that transfer to the District. Further, as also required under State law, the City must take into account the decrease in the amount it will spend (would have spent) for health care purposes in fiscal year 2005 and must

reduce its property tax rate in accordance with the amount of the decrease.

The fiscal year 2005 budget is proposed at the effective tax rate less the property tax rate reduction related to costs transferred to the District. City staff is still in the process of working through the process of the tax rate reduction calculation with the County, and therefore there are still some variables in the calculation of required decrease in the City's tax rate for fiscal year 2005 that are yet to be known precisely. Nevertheless, following is an estimated and illustrative calculation of the tax rate decrease for fiscal year 2005:

□ Overall assessed value	\$50.0 billion
□ Effective tax rate	\$.5065
□ Total current (FY 05) tax revenue	\$220,022,927
□ Amount of revenue per one-cent tax	\$4,899,637
□ Amount that would have been spent on transferred health care services	\$30,272,383
□ Proposed reduction to the tax rate	\$.0618
□ Reduced tax rate proposed for adoption	\$.4447

In November 2003, the City solicited proposals to validate a financial model for the District that City staff had prepared, which included an analysis of the effect of the creation of the District on the City's tax rate. The consultant's study, which was available for all stakeholders to review throughout the election campaign, estimated that the City would reduce its tax rate by 5.97 cents.

Again, there are some variables that are not yet known precisely, e.g. total assessed value. Changes to these variables may result in a change to the "reduced tax rate proposed for adoption." However, based on these estimates, the proposed reduction to the tax rate would be 6.18 cents as compared to the 5.97 cents originally estimated by the consultant's study.

Interlocal Agreement with the New District

The Board of Managers of the new District will make policy decisions regarding the delivery of health care services. Although the Board has not been appointed as of the date of preparation of this proposed budget, the City has prepared the budget under the assumption that the District will enter into an interlocal agreement under which the City will continue to operate the clinics and will perform certain administrative functions for the District on an interim basis.

Fiscal Year 2005 Proposed Rate and Fee Increases

Water & Wastewater Rate Increases

Over the next 3-year period, operations and maintenance costs for the combined utility system are increasing primarily due to aging infrastructure, an increase in the treatment volume for water and wastewater, and costs from service extensions and system growth. The Austin Water Utility has continued to implement management initiatives to mitigate cost increases while simultaneously meeting increased demands. The Utility eliminated 40 positions in fiscal year 2004, and is not requesting any new positions in this budget. The major cost driver of the Utility is related to required capital improvements. New capital spending of \$816 million over the next five years includes investments for regulatory compliance, service extensions, replacing and repairing aging infrastructure and system growth. To meet the increased demands on the system and the required infrastructure improvements, the proposed budget includes a system rate increase. The water utility rate is proposed to increase 9.2%; the wastewater utility rate is proposed to increase 14.7%. The combined rate proposed increase is 11.8%

Drainage Rate Increases

The proposed budget includes implementing the fourth year of the drainage fee utility cost of service plan. The drainage fee is the primary source of funding for capital improvement projects identified in the Drainage Utility Flood and Erosion Control and Water Quality Master Plan. The residential fee is proposed to increase from \$6.30 to \$6.74 per month, a 6.98% increase from fiscal year 2004. The commercial fee is proposed to increase from \$120.41 to \$147.92 per acre per month, a 22.85% increase from fiscal year 2004.

Fee Increase Highlights

A comprehensive revenue initiative has been completed which reviewed all existing fees. The review included an inflationary analysis, as well as a cost of service analysis. In addition, departments also reviewed services and programs, in which users of those services and programs were not assessed a fee to identify viable new fees.

The proposed budget includes a recommendation to increase several fees, as well as the implementation of some new fees. The annual estimated impact to the General Fund for both recommended fee increases and new fees is a total of approximately \$649,000. Existing fee increases total

\$288,000, of which approximately \$220,000 is attributable to increases in Food Establishment Permit fees. Below is a summary highlighting the proposed new fees with the largest annual fiscal impact.

Department	Fee Name	Proposed Rate	Estimated Annual Fiscal Impact
EMS	Large Event Plan Review	\$100	\$10,000
Fire	Sprinkler System Inspections	\$100 - \$200	\$52,000
Fire	Fire Alarm System Inspections	\$50 - \$100	\$63,000
Fire	Inspections / Testing – Certificate of Occupancy	\$30 - \$500	\$46,815
Fire	Annual State Required Inspections	\$50	\$21,875
Fire	Alcohol Permit Inspections	\$150	\$28,425
Fire	Hydrant Flow Testing Reports	\$100	\$32,800
Library	Proctoring Fee	\$25	\$9,000

The complete analysis of all fee increases and new fees can be found in the Proposed Budget Supporting Documents Volume – Fee Schedule.

Fiscal Year 2005 Budget Highlights

Fiscal year 2005 represents the fourth year of a challenging budget environment. The fiscal year 2005 budget continued the approach of strategic cost reductions, implementation of operational efficiencies, and changes in service delivery where it made sense. While you will find very lean operations throughout the organization, you will also note that we are well positioned to rebuild our programs and services levels as the economy rebounds.

Police

The proposed budget includes reductions of approximately \$1.8 million and 4 vacant civilian positions.

The total budget for fiscal year 2005 is \$172 million. The proposed budget will allow the department to provide all public safety services and

achieve the department's goals and objectives. The budget provides funding for the following:

- **Maintain 2.0 Officers per 1,000 residents** – 13 additional Police Officers and necessary vehicles and equipment are funded to maintain this goal.
- **Replacement of critical equipment** – funding is included to replace 85 marked patrol cars, as well as replacements of other vehicles and motorcycles; funding is also included for replacement of critical technology equipment.
- **Meet and Confer** – funding is included for the 2nd year of the approved Meet and Confer contract provisions.

Fire

The proposed budget includes reductions of approximately \$1.5 million and 4 vacant civilian positions and 3 vacant sworn staff positions, as well as executive management reductions.

The total budget for fiscal year 2005 is \$89.3 million. The proposed budget will allow the department to continue providing all fire emergency response and prevention services, as well as achieve the department's goals and objectives. The budget provides funding for the following:

- **Operation of all fire stations maintaining taskforce staffing** – funding is included to operate all 43 of the City's fire stations, including full year funding for the 40 additional firefighters added in fiscal year 2004 to support the Del Valle and Circle C fire stations. These stations are anticipated to open in the first half of fiscal year 2005. Citywide average response time is anticipated to remain at approximately 4 minutes.
- **Replacement of critical equipment** – funding is included to replace 3 Pumpers and 1 Ladder truck, as well as other vehicles. Funding is also included for the 2nd year of replacement purchases of new self-contained breathing apparatus and air bottles.
- **Executive management reductions and redeployment of staff firefighter positions** – the proposed budget reclassifies one Assistant Chief position to a Battalion Chief, and includes the impact of eliminating one Assistant Chief at mid-year upon an anticipated retirement. These changes will result in 3 Assistant Chief positions as compared to 5 Assistant Chief positions budgeted in fiscal year 2004. Three staff firefighter positions (one from Recruiting and two from Medical Operations) will be redeployed to the stations, which will reduce the requirement of firefighter positions for the stations.

Emergency Medical Services

The proposed budget includes reductions of approximately \$1.3 million and 6 vacant paramedic positions, delaying EMS staffing for the Del Valle Fire/EMS Station for one year.

The total budget for fiscal year 2005 is \$29.5 million. The proposed budget will allow the department to continue providing all emergency medical response services, as well as achieve the department's goals and objectives. The budget provides funding for the following:

- ***Operation of all 28 EMS stations*** (20 within city limits, 8 outside city limits and inside Travis county) – funding is included for 318 uniform paramedic positions as well as 57 non-uniform positions.
- ***Emergency response service delivery enhancement*** – the proposed budget provides funding for 4 paramedics and 2 support staff to convert 2 stations to a 12-hour alternative shift schedule at the stations with the highest call volume. This change will improve response time and enhance safety by increasing the frequency of staff rotation to address the issues resulting from excessive fatigue.
- ***Replacement of critical equipment*** – funding is included to purchase a skid truck simulation vehicle, which will enhance the training curriculum, as well as enhance the safety of our paramedics and community. Funding is also included to improve direct patient services: nitrox and capnography equipment, which assists with pain and airway management, airway masks and Fast IO devices to facilitate the administration of intravenous fluids and continued funding for lease of all fifty-two cardiac monitor defibrillators.
- ***Automated external defibrillators (AEDs)*** – the proposed budget includes funding for the purchase of 50 AEDs to expand the number of city facilities with AED's on location. This equipment has proven to save lives of patients experiencing cardiac arrest and can be operated by laypersons with minimal training.

Health and Human Services Department (HHSD)

The proposed budget includes reductions of approximately \$689,000 and 2 vacant and 5 filled positions.

The total budget for fiscal year 2005 is \$16.4 million. The proposed budget will allow the department to continue to provide public health protection and prevention services, social services and animal control services, as well as achieve the department's goals and objectives. The budget provides funding for the following:

- **Shots for Tots** – provide approximately 44,000 immunizations.
- **Food establishment inspections** – increase number of inspections from 7,115 in fiscal year 2004 to 8,114 in fiscal year 2005.
- **Disease surveillance** – maintain current service levels, including investigation of 900 cases.
- **Maintain funding levels for social services** – includes funding for basic needs, childcare, homeless services, mental health, substance abuse, violence and victimization services and workforce development.
- **Animal control services** – provides funding to continue basic service levels for animal care and control, including operational costs of the animal shelter.

Parks and Recreation Department (PARD)

The proposed budget includes reductions of approximately \$493,000 and 3.5 vacant positions.

The total budget for fiscal year 2005 is \$28.1 million. The proposed budget will allow the department to continue providing recreational programs and maintenance of grounds and facilities, as well as achieve the department's goals and objectives. The budget provides funding for the following:

- **Community recreation programs** – community recreation program funding will provide recreational activities to maintain current levels of youth participation hours.
- **Park safety** – the proposed budget maintains funding levels for Park Police to continue all public safety efforts at our park facilities.
- **Facility maintenance & improvements** – funding is included to maintain current maintenance and service levels for all parks and recreational facilities. In addition, the budget includes critical 'one-time' funding for facility repairs and improvements.
- **Cultural services** – the proposed budget includes funding for the operating costs associated with the opening of the expanded Carver Museum and Cultural Center, scheduled to open October 2004.

Austin Public Library (APL)

The proposed budget includes reductions of approximately \$386,000 and .25 vacant and 1.75 filled positions.

The total budget for fiscal year 2005 is \$17.2 million. The proposed budget will allow the department to continue all core library services, as well as achieve the department's goals and objectives. The budget provides funding for the following:

- **Library services** – the proposed budget includes funding to maintain current operating hours at all branch libraries and the central library.
- **Austin History Center** – the proposed budget includes funding to maintain current operating hours for the Austin History Center.
- **New libraries** – funding is included for operating the newly expanded Carver Branch library scheduled to open in October 2004. Partial year funding is also included for the Terrazas branch library scheduled to open June 2005.
- **Book material budget** – the book material budget was reduced by 32% in fiscal year 2004. At \$1.71, this placed the Austin Public Library in the lower quartile of expenditures per capita for public libraries serving similar populations. Restores partial funding of \$300,000 for books and library materials.

New Facilities

While the proposed budget maintains the approved 2-year delay for the opening of many facilities, five facilities are scheduled for opening during fiscal year 2005:

- Circle C Fire/EMS Station
- The Fire component of the Del Valle Fire/EMS Station
- Carver Library expansion
- Carver Museum and Cultural Center expansion
- Terrazas Branch Library expansion

Roadways, Sidewalks & Transportation

The proposed budget includes funding for continued investment in roadway maintenance, construction of curb ramps and sidewalks, and transportation infrastructure. The transportation budget is enhanced by \$4 million of Build Greater Austin funding from the Capital Metropolitan Transportation Authority (CMTA), which will help fund various transportation and mobility initiatives.

- Provide for preventative maintenance on 545 lane miles or approximately 8% of the total street inventory. Approximately 74% of all lane miles will be in fair to excellent condition.
- Addition of new concrete crew dedicated to Americans With Disabilities Act (ADA) sidewalk and ramp projects.
- Total of \$4.3 million is available in fiscal year 2005 for ADA projects such as restroom upgrades, curb ramps & sidewalks, and park facility upgrades.

- Construction of 100 curb ramps and 14,000 linear feet of sidewalks.
- Continued expansion of the traffic signal system along bus routes; funded by ¼ cent sales tax from the Capital Metropolitan Transportation Authority (CMTA). The system provides automated signal timing and remote diagnostics and adjustment.
- Increased appropriations for bikeway improvements.

1998 Bond Projects

The Proposed Budget includes new appropriations for several projects authorized by the voters in the 1998 bond election. These appropriations include:

Proposition 1 - Transportation

- \$8.9 million for street reconstruction
- \$784,000 for bikeway improvements
- \$1.3 million for sidewalk improvements
- \$735,000 for traffic signals

Proposition 2 - Parks

- \$2.2 million for Destination Parks
- \$1.9 million for South Austin Tennis Center
- \$200,000 for playscapes

Fiscal Year 2005 Unanticipated Surplus

Better than expected sales tax revenue and the revised calculation of our effective tax rate allowed us to ease the impact of reductions to our General Fund departments in the preparation of the fiscal year 2005 proposed budget and left us with an unanticipated surplus of ongoing revenue of approximately \$200,000. We have held this surplus aside for the Council to use for unforeseen changes that may occur between the proposed and the adopted budget.

Groundwork to our Future, Keeping Austin a Glamorous City

Balancing a budget in an economic downturn is not glamorous work. It shifts the administrative and policy discussions from **wants** to **needs**. Reducing expenditures are a given. How you handle those reductions is what separates good from great organizations.

Like any prudent business we focused on the issues at hand. This included the daunting task of completely realigning revenues and expenditures. The boom of the 1990s allowed us to grow services aggressively. The bust of the early 2000s cratered the revenues needed to maintain those service levels.

The hallmark of our efforts over the past four years is that we have worked together. Hand in hand City staff, administration and the City Council have turned the tide by reducing expenditures, reorganizing service delivery and identifying strategic revenue enhancements. Our success results from our mutual commitment to a fundamental priority of ensuring the long-term financial viability of this organization and of our community.

Such an inward focus on the structure and viability of the government itself is somewhat unusual, but it offered opportunity after opportunity for us to redefine local government. We are a much leaner government today than we were three years ago. But we are also a lot stronger, more efficient organization. Together, we challenged the status quo. We scrubbed the budget. We used the economic downturn as a catalyst for customer-driven change.

By working together and concentrating on our long-term financial viability we laid the groundwork for our future. We have completely repositioned Austin in three years from a City devastated by the dot.com implosion to a City on the move.

It may not have been glamorous work, but there's no doubt its part of what helps make Austin a glamorous city. People all around the country continue to take notice of our assets and our potential. Austin's topping the lists as one of the best places to live, work and play; to start a career or retire; to establish a business or grow one; to make movies or enjoy artistic pursuits; to ride a bike, swim and run. We're ranked second among the world's top knowledge-based economic regions and best places for business. We've been declared one of the "coolest" and "hottest" places in the country to live for a wide variety of reasons.

Our focus and our diligence are paying off. We have laid the groundwork for our future.

Respectfully submitted,

Toby Hammett Futrell
City Manager