

City Manager's Proposed Budget Fiscal Year 2006

July 28, 2005

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

Today I present to you the proposed fiscal year 2006 budget. Fiscal year 2006 is about strategic reinvestment. I am presenting a budget that is sound and balanced, but more importantly, one that allows us to strategically reinvest in the services we provide our community.

In recent years, we have faced double digit deficits at the beginning of our budget process, the largest of which was \$52 million in 2002. Years of budget reductions have created vulnerabilities in our service delivery and morale issues in our workforce. This year in comparison, the deficit in funding our cost drivers was only \$4.9 million at the beginning of the process. This modest recovery gives us an opportunity to shift from budget reductions to strategic reinvestment.

Consequently, as I presented to you in the policy budget at the end of May, I believe this year is the time to consider strategically reinvesting in our workforce and rebuilding some of our services. I have included in this budget a variety of tactical add backs that I believe are necessary to address organizational vulnerabilities, as well as to enable us to better deliver the services our citizens need and expect. This budget also addresses issues that are very important to our most valuable asset: our workforce.

Further, I am pleased to say that we have accomplished this without having to cut in other areas. We have achieved this through the addition of some new revenue and, because of savings realized from a series of prior cost containment strategies, through reallocating funding.

New Revenue. We are seeing further increases in our sales tax revenue, there is more new property coming onto the tax roll next year than in previous years, and we are achieving a slightly higher collection rate of property tax revenue. As a result, I am recommending lowering our tax rate from 44.30 cents in the current year to 43.95 cents in fiscal year 2006.

Due to an overall increase in our assessed value, we can reduce our tax rate below the 2005 level and still receive about \$2.1 million in new property tax revenue that will help fund the strategic reinvestment in our services. Further, one of the significant changes we will see in fiscal year 2006 is a 5.2 percent increase in commercial assessed value, which will finally bring some tax relief to Austin homeowners.

However, the \$2.1 million in new property tax revenue is achieved by going slightly above the effective tax rate of 43.53 cents. Although I strongly recommend adopting the proposed tax rate of 43.95 cents to begin addressing the key service delivery deficiencies and vulnerabilities we have identified, if Council chooses instead to adopt the effective tax rate, this can clearly be done with no cuts. It will simply require scaling back on our proposed reinvestment or add backs.

Nevertheless, in order to deliver this budget with a reduction in the tax rate from 44.30 cents to 43.95 cents, I have already trimmed down some of the add backs I discussed in presenting the policy budget. Although I do not recommend cutting them back further, if that is Council's desire, I have developed a prioritized list of reductions to the proposed add backs that totals \$2.1 million and would take the proposed tax rate back to the effective tax rate.

Reallocated Funding. Due to an increased focus on worker safety and to some changes we have implemented in our workers' compensation program, we will not need the level of funding required in prior years, and the reallocation of this funding has also allowed us to fund other priorities.

Similarly, due to changes we made in our health insurance plan in calendar year 2004, we are seeing better cost experience in this program than originally projected. Having experienced significant employer cost increases over the last few years, we had forecast contribution increases of 10 percent but are in fact able to hold the amounts contributed by all departments to the same levels as the current fiscal year. This represents a change to our cost drivers that will benefit us in future years. Equally important, there are **no** cost increases to our employees included in our 2006 benefits plan.

While we have experienced some much-needed economic growth that we can use to reinvest in our workforce and in our non-public safety services, we still face continuing challenges in the future. Our biggest challenge will be to deal with the rate of growth in our public safety departments. If we do not find a way in the future to alter the present growth rate of public safety cost drivers, we will have to increase taxes or

begin to reduce other departments' budgets just as we were forced to do in the downturn.

A Time to Reinvest

The economic downturn in 2001, which was exacerbated and extended by the terrorist attacks on September 11th, presented us with some very difficult budget challenges over the last several years. However, due to the City Council's commitment to focusing on a multi-year budget horizon, on using one-time funds judiciously, and on attaining structural balance – that is, not spending more in a given year than we collect in revenue – the City has overcome these challenges.

We did so by successfully implementing a number of budget reduction or containment strategies during the last four years: cutting management and administrative costs, streamlining and improving our service delivery models, foregoing pay for performance for our non-civil service workforce, eliminating positions, delaying the opening of new facilities, and reducing expenditures for non-essential items such as travel, training and overtime.

Throughout these last several years, I have been especially proud of the efforts our workforce has made to see that we all come through this difficult journey together. Our employees have contributed significantly through their ideas, their time and energy, and their spirit of cooperation, and my proposed budget begins to reward them for these loyal efforts.

In fact, our collective efforts have resulted in budgets based on “needs” and not “wants.” However, our budget reductions have not been “stress-free,” and I know we are not in fact meeting our citizens' needs. I believe it is time to reinvest. I have therefore included funds in this budget for select strategic reinvestments in both our services and our workforce.

Understanding Community Priorities and Measuring Customer Satisfaction

Responsive government begins with inviting citizens to participate in the political life of their city. Public feedback serves as one frame of reference for assessing progress in service delivery, as well as a tool for resource allocation during budget deliberations. In addition, public feedback helps us improve public accessibility and accountability of City government.

The City of Austin annually asks its citizens to complete an extensive survey that seeks to identify their priorities and concerns, as well as to gauge their satisfaction with city services. Citizens are asked to rate a number of City services, including emergency public safety response, transportation, parks and recreation, library services, garbage collection and utility services. The survey results rank the issues frequently cited by residents according to the level of importance and provide information about what's working or not working with City services. The report further categorizes findings according to regions within the City, by ethnic group, household income and other demographic categories.

Austin's Top Issues

When citizens were asked to cite the most important issues Austin faces, they responded somewhat differently depending on the region surveyed. However, in general the following concerns were cited by citizens, as listed in rank order below:

1. Mobility issues (parking, traffic congestion, construction, etc.)
2. Quality of life (more green space, arts, etc.)
3. Growth management
4. Cost of living

Other issues that citizens considered important, also in rank order:

5. Tax-related issues (including rates, fees and charges)
6. Road conditions and new roads
7. Pollution-related issues
8. Mass transit
9. Poverty-related issues
10. Public education issues

Customer Priorities

The following is how residents ranked the priority of City services:

1. Police services
2. Ambulance (EMS) services
3. Fire services
4. Traffic flow and synchronization
5. Environmental protection
6. Affordable housing
7. Health care and social services to low-income citizens
8. Parks
9. Economic development efforts
10. Libraries

Public Safety. Public safety continues to be at the top of the list as the highest priority for Austin citizens, specifically police, emergency medical services and fire. Satisfaction with most public safety services is slightly lower than last year but still ranks high in most categories, particularly emergency response services. Similar to 2004 survey results, satisfaction with neighborhood policing and traffic control and enforcement is low compared to other public safety services. Minority residents expressed less satisfaction with public safety services than other residents. The vast majority of people continue to feel safe walking alone during the day in their neighborhoods or downtown. This year's survey results indicate a drop in the percentage of people who feel safe walking in their neighborhoods at night, down from 77 percent to 69 percent, although 47 percent of respondents feel safer walking alone at night downtown compared to 44 percent last year.

Youth, Family and Neighborhood Vitality. In the past, respondents have generally indicated they are satisfied with the services provided by the Parks and Recreation and Library Departments, in spite of the significant budget cuts made in recent years. In 2005, satisfaction with almost all service areas has improved over last year, notably the City's cultural programs, the Austin Nature Center, the availability and appearance of parks and preserves, the library's youth programs, and the Austin History Center. About 74 percent of Austin's residents use a parks facility, park or preserve each year, similar to last year's findings. Minorities continue to participate in parks programs significantly more than other residents; however, the survey indicates that minorities are also less satisfied with these programs. About 60 percent of all residents use library services during the year.

Quality of life was ranked as one of Austin's top priorities in 2005 and encompasses considerations such as the livability of neighborhoods, the vitality of downtown, pedestrian-friendly areas, and neighborhood planning and zoning efforts. Downtown Austin has virtually undergone a development renaissance, and offers a vibrant and diverse array of shops, restaurants, live music venues, museums, and theater for its residents and visitors. This vitality also shows up in our survey results, which reflect a higher level of satisfaction than last year. The survey also indicates that residents continue to be very satisfied with the livability of their neighborhoods. Customers continued to express satisfaction with our garbage collection and recycling programs in the 2005 survey.

Environmental Sustainability. Survey results continue to show that Austin citizens consider environmental protection as one of the top priority areas for municipal services. Residents are most satisfied with the quality of drinking water, consistent with 2004 findings. In 2005, satisfaction with almost all service areas has improved over last year,

including the City's preservation of green space, efforts to improve air quality, and the availability of alternative modes of transportation.

Infrastructure Maintenance and Repair. For the last three years, survey responses indicate that citizens see general improvement in the road conditions in Austin. The regional gaps that existed for road conditions in the 2004 survey are now closed. About 62 percent of respondents view road conditions as "good" or "mostly good." Satisfaction with the traffic flow on major city streets has increased slightly compared to 2004 survey results, yet citizens still remain dissatisfied with road conditions and traffic flow overall. Both of these categories still remain in the top ten citizen issues in 2005.

Update on Customer Driven Model for Change

During the last several years, significantly reduced resources required us to rethink our service delivery models and to restructure for efficiencies to help compensate for fewer resources. I would like to update you on three specific service delivery model changes included in the fiscal year 2005 budget. As a reminder, the model for change that was used here followed three simple principles:

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

One-Stop Development Shop. In response to our customers expressing high levels of dissatisfaction with the City's development review and permitting process, we created a One Stop Shop for development services in fiscal year 2005. The reorganization realigned development services to create a linear progression through the four phases of development regulation: pre-submittal planning, formal review, permitting and inspections. The project, which was designed to improve our customers' experience with the City's development process, involved:

- Combining staff in 13 different departments into one department, Watershed Protection and Development Review,
- Co-locating them from 12 buildings into one, and
- Reducing the number of processes required from 57 to 21.

This One-Stop Shop reorganization was completed in fiscal year 2005 and will be further enhanced in 2006 with the implementation of a new land development, review, and permitting software application, AMANDA. The 2005 Citizen Survey indicates that these efforts have yet to pay off in terms of improved customer satisfaction. However, we are also conducting focus groups with recent customers, and we will analyze and

present the results of this work to Council in August when the department presents its budget.

Consolidated Code Enforcement. Our customer survey shows that dissatisfaction with code enforcement, a historically under-funded function in the City of Austin, also continues at high levels. As a part of the fiscal year 2005 budget, we took the first step to improve the responsiveness and quality of code enforcement in the City by consolidating all the code enforcement activities into one department, Solid Waste Services. Eight new positions were added representing a 22 percent increase in resources. During 2005, an extensive business analysis was performed to identify how this new consolidated unit should be organized, how they should operate, and what technology was needed to support the operations.

The analysis recommends that code enforcement be organized into four geographic areas along the lines of consolidated community policing districts and that seven new positions be added. The proposed budget of Solid Waste Services adds these seven additional positions as well as a new dedicated attorney in the Law Department to enhance legal enforcement efforts. These additions represent a 35 percent increase in resources. Recommendations to streamline processes include:

- Reducing intake phone numbers from seven to one by utilizing the 3-1-1 Call Center,
- Decreasing intake systems from five to one through the use of customer service request software utilized by the 3-1-1 Call Center, and
- Decreasing work order systems from five to two.

The consolidation, reorganization, and technology improvements should all be implemented by the end of fiscal year 2006.

24/7 Call Center. The 24/7 Call Center is designed to provide a single point of citizen access for information and City services. The system is configured around the 3-1-1 phone number and will manage the intake, routing, and resolution of service requests. Equipped with a work-flow mapping function, the system is capable of coordinating cross-functional or multi-departmental response. Additionally, the system generates performance, trend and management information on the provision of City services and on our performance in complaint resolution.

In February 2004, the project began expanding the 3-1-1 system from only public safety non-emergency, to eventually including all City services. To date, the following functions are fully integrated: Public

Works Transportation Division, Public Works Street and Bridge Division, Watershed Protection Operations, Parks and Recreation Forestry and Maintenance, and Health and Human Services Animal Services. The next department to be added will be Solid Waste Services and Code Compliance in the fall of 2005. Additional departments will continue to be phased in during fiscal year 2006.

In 2006 the Call Center is expected to begin taking all 3-1-1 calls, including public safety non-emergency calls that are currently going to the Austin Police Department. This should continue to relieve some of the growing workload pressure on our 9-1-1 operation. This consolidation coupled with expected growth in future years will require the center to move to a larger facility with more seats for customer service representatives. The current plan is to locate it at the new Cameron Road Campus Facility that the City has optioned and is proposing to acquire to house staff being displaced from numerous expiring leases.

Improving the Quality of Life for African Americans in Austin

Over the past two years, we experienced a series of serious incidents that raised community concerns about race relations and eroded trust with our African American population. Austin is a growing city, yet the African American share of the total population has declined and is now less than 10 percent. This is true as well for Travis County and our surrounding region. This past year, I initiated a study to help determine whether the quality of life in Austin for African Americans is different from that of other Austinites, and to learn whether it differs markedly from the quality of life for African Americans in other cities. The *African American Quality of Life Scorecard*, presented to the City Council in March 2005, was based on community dialogue about race relations and research of 10 key indicators that are often used to evaluate quality of life. Our key findings included lower rates of African American home and business ownership in Austin compared to other cities, and striking disparities in income and unemployment between Anglos and African Americans, although Austin compared favorably to other cities. Survey data also suggested that Austin does not have viable social and cultural opportunities for working and middle class African American singles and couples.

The scorecard kicked off a series of consultant-facilitated community meetings. These forums were followed by a report recommending what the City and other local governments could do to retain and attract African Americans so that Austin maintains a diverse economy and

culture. The forums generated several areas of challenge that include a welcoming environment, arts and entertainment, police interactions, jobs, investment in East Austin, housing, education, and business and economic development. Members of the African American community hosted an additional forum at Huston-Tillotson University to review the consultant's recommendations and incorporated "health" as an additional challenge area, as well as several new recommendations. We are currently working with African American community organizations and stakeholders to develop strategies to address these concerns as part of the City's overall economic development program.

Strategy development is by no means complete but we have included four positions and approximately \$730,000 in the 2006 budget proposal that can help us get started on some of the solutions and actions identified during community dialogue.

- A proposed position budgeted at \$65,000 at the Austin Convention and Visitor's Bureau to enhance overall marketing efforts, including Austin's African American culture, venues, and events.
- New cultural arts funding of \$125,000 targeted to develop emerging artists and to strengthen the capacity of existing, ethnically-specific nonprofits arts and cultural organizations.
- Funding of \$50,000 for programs in Austin Energy and Austin Water Utility to partner with community organizations sponsoring vocational trade training.
- Assembly of a team to focus on preventative health care, using existing resources, as well as a proposed, new full-time position to focus on HIV prevention, outreach programs, and the pursuit of additional grant funding of \$49,000.
- Additional grant funding of \$100,000 in the HOME program to help address the gap in resources for community organizations that provide education on home ownership and retention.
- A proposed position budgeted at \$41,555 to act as an arts education/event coordinator at the George Washington Carver Museum.
- A proposed business development counselor budgeted at \$58,311 in Small and Minority Business Resources to assist with post-award compliance monitoring.
- Investing an additional \$50,000 in diversity and community sensitivity training in APD.
- Providing funding of \$175,000 for ten City internships for Huston-Tillotson University students.

- Weekly and monthly advertisement in minority publications of employment opportunities in the amount of \$10,100.
- Summer Movies and Music and in the Park at Carver in the amount of \$5,300.

Department of Safety and Security

In August 2005, a budget amendment will be presented to Council which will effectively combine the Office of Emergency Management, Park Police, Aviation Police, and Municipal Court Marshall functions into one department, Safety and Security, in the General Fund. The proposed budget reflects this change. Combination of these functions will help us create greater consistency in standards of operation and training. The officers assigned to each function will still be housed in their corresponding department, and the head of this newly-created department will work closely with all departments to ensure their needs are met.

Rebuilding Our Workforce

Lean budget times forced us to eliminate positions, and to forego pay increases while our employees continued to experience rising costs of living. In fiscal year 2005, we began reinvesting in our workforce and included our first pay increase since 2002 for non-civil service employees who met or exceeded their performance expectations. This 2006 budget further reinvests in our workforce.

The budget proposal includes a 3.5 percent pay for performance increase for non-civil service employees, and simultaneously moves our pay ranges by 3.5 percent to adjust for market conditions. In fiscal year 2006, we will also complete a two-year plan to move our lowest paid employees to the living wage, from \$10.00 to \$10.90 per hour. We plan to review market conditions over the next two years for our entire non-civil service workforce, shifting our pay philosophy to also incorporate internal comparisons and how we value positions at the City. This is particularly critical with a large number of employees retiring over the next few years, as we work on succession planning and on aggressively recruiting the future leadership of this organization. Accordingly, the budget includes funding for 50 percent of the market adjustments anticipated to result from that study. The budget continues service incentive pay, which is based on tenure, and we have introduced a one-time, 2 percent lump-sum payment as a service incentive pay enhancement.

Our workforce is our greatest asset and the source of many creative, innovative ideas that have helped us get through the lean years. Our employee recognition efforts, including the ACE (Austin City Employee) program, are some of the ways we thank those employees who go above and beyond the call of duty to deliver quality City services. I am continuing my annual tradition of having a direct dialogue with employees about next fiscal year's budget through a series of Town Hall Meetings. I will also be receiving employee feedback throughout the year through our newly elected Employee Committee on Workforce Issues.

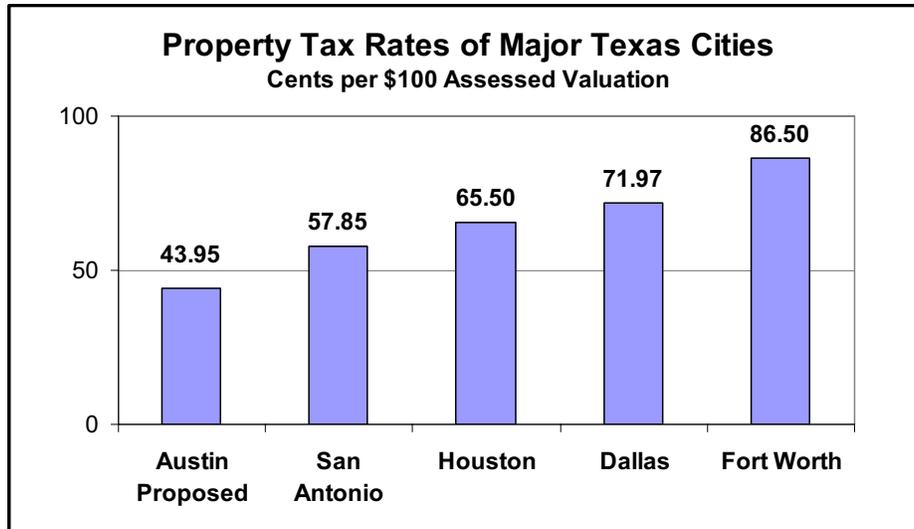
In May 2005, the City Council approved a plan to provide supplemental funding to the City of Austin Employee Retirement System. The purpose of the additional funding is to strengthen the financial position of the retirement system by reducing the unfunded liability to an amount that can be amortized over 30 years. Beginning in 2007, supplemental funding will increase by 1 percent of compensation each year, paid as a stipend, until we are able to achieve 30-year amortization. This additional amount will be capped at no more than 4 percent in additional City contributions in any one year and will be reduced as market conditions allow. Payment of the additional funds in any given fiscal year will be deferred until the following budget year if the retirement system achieves an overall investment return of greater than 12 percent. This agreement does not increase employee retirement contributions or reduce future retirement benefits.

Fiscal Year 2006 Revenue Policies

Tax Rate

The budget is proposed at the rate of 43.95 cents per \$100 assessed valuation, a decrease of 0.35 cents from the current tax rate of 44.30 cents. The proposed tax rate is 0.42 cents above the estimated effective tax rate of 43.53 cents.

The following chart compares our proposed 2006 tax rate of 43.95 cents with the current or 2005 tax rates for the major Texas cities shown. However, even at the current tax rate for Austin of 44.30 cents, Austin's tax rate is significantly lower.



The overall increase in assessed valuation is estimated to be \$2.5 billion, representing a 4.2 percent increase over last year. The assessed valuation of \$52.1 billion includes \$1.2 billion in new property value. This increase in assessed valuation, combined with the proposed tax rate, will provide additional revenue in 2006 that can enable us to begin strategically rebuilding our services.

What does this mean for homeowners? The current average home price in Austin is \$187,574. For the owner of a homesteaded residence at the average price, the proposed tax rate of 43.95 cents will add \$18 per year or \$1.50 per month to the City's tax bill.

Use of One-Time Funds

During the downturn, we worked hard to achieve structural balance – to make sure that we did not use one-time money to fund ongoing costs.

We were successful in these efforts, and this allowed us to maintain our AA bond rating during the downturn. In fact, we received accolades from our rating agencies and were able to increase our fund balances and reserves over the downturn. However, in discussing our balances and reserves with the rating agencies, we told them consistently that we would be spending some of our balances in the future to pay for one-time costs we had deferred during the downturn. In fact, we budgeted in the current fiscal year to spend \$7.8 million for one-time expenditures in addition to the one-time payment of \$7.7 million we made to the hospital district from General Fund balances.

For this year, we are proposing a change to our financial policy on fund balance and reserves that would allow us to do two things: one, to capture unanticipated revenues and savings into a reserve, and two, to provide guidelines for continuing to use the reserve judiciously for capital items and other one-time expenses.

In doing this, we propose to increase our emergency reserve from \$15 million to \$40 million. We would leave our contingency reserve as is at one percent of departmental expenditures, currently \$4.3 million. These two together comprise our “hard” reserves that if appropriated during the course of a year would have to be replenished the following year. The total of these two in fiscal year 2006 will be \$44.3 million, which is about ten percent of our total General Fund expenditures. According to our rating agencies, a ten percent “hard” reserve amount is an excellent benchmark for cities.

We would then put the remainder of our projected ending balance into our Budget Stabilization Reserve. This reserve would total approximately \$49.1million at the beginning of fiscal year 2006.

Reserve Policy Summary		
	Current Policy	Proposed Policy
Contingency of 1%	\$4.3m	\$4.3m
Emergency	\$15.0m	\$40.0m
Subtotal: "hard" reserves	\$19.3m	\$44.3m
Fund Balance	\$41.1m	-
Budget Stabilization	\$33.0m	\$49.1m
Totals beginning of 2006	\$93.4m	\$93.4m
Use of Budget Stabilization in 2006		
Beginning of 2006		\$49.1m
Less appropriation in 2006		(\$16.4m)
Balance at end of 2006		\$32.7m

Under the proposed policy, we could appropriate one-third of this reserve for one-time expenditures in a fiscal year, and we are proposing an appropriation of approximately \$16.4 million in fiscal year 2006. This

will fund some critical capital and other one-time needs that we now have but equally importantly, it will leave us a reserve of \$32.8 million to fund critical one-time items as we transition out of the downturn. Following is a list of the one-time needs we are proposing to fund in 2006:

- Phase two of the permitting system for our One-Stop Shop
- New radios for our trunked radio system
- Computer replacements
- Vehicle replacements
- Departmental equipment (primarily parks and public safety equipment)
- Stability pay enhancement for our workforce

At the end each fiscal year, we will direct any unanticipated revenues and any unspent appropriations into the Budget Stabilization Reserve.

Bond Election

In March 2005, we presented Council with information about bond elections the City has held since 1982, about the City's current bond ratings, and about the City's capacity to issue new general obligation debt. In April, we followed up with a presentation on projects the City could fund through the issuance of general obligation bonds that could be put to the voters for their approval in 2006.

As we presented to Council in March, the City currently enjoys favorable bond ratings from our rating agencies: Standard and Poor's, Moody's, and Fitch. Our rating agencies believe Austin's economy will remain strong, that the City has the proper financial and management controls in place, and that our debt burden and debt structure are manageable. Further, they believe that the City has the capacity to issue additional debt in the future.

The City's last bond election was in 2000. That bond election dealt with a single pressing issue, transportation, and in that election voters approved the issuance of \$150 million in transportation bonds to fund major highway projects, capacity improvements, and pedestrian, bikeway, and sidewalk projects. The 2000 transportation bonds are being issued over a ten-year period in annual increments of \$15 million.

Prior to that, the City's last bond election was in 1998. In that election, voters approved \$339.7 million for a variety of projects, including transportation, parks, public safety needs, libraries and cultural centers, and flood and erosion control projects.

The 1998 bond projects are in the final stages of completion, and the City now needs to look forward to funding its critical infrastructure, facility, land, and housing needs. As presented to Council in March, the City could fund bond packages of the following sizes (in millions) with adjustments to our tax rate in the years following the bond election, as shown below:

No increase – stay at the effective tax rate in fiscal year 2007	\$279
One-cent increase above effective tax rate in fiscal year 2007 only (One cent total increase)	\$360
One-cent increase above effective tax rate in each of fiscal years 2007 and 2008 (two cents total increase)	\$499
One-cent increase above effective tax rate in each of fiscal years 2007 – 2009 (three cents total increase)	\$600

The bond projects would be implemented over a similar time frame as was done for the 1998 bond election, approximately six or seven years.

The April presentation to Council was an assessment of a number of pressing needs the City has and included information on the following types of projects:

- Drainage
- Transportation
- Renovation of existing facilities
- New or replacement public safety and health facilities
- New Central Library
- Preservation of green space and acquisition of parkland
- Affordable housing

In April, the City Council also appointed a 27-member advisory committee that will recommend a proposal to Council for a bond election in either May or November of 2006. The committee has begun the process of reviewing the City's financial capacity to issue bonds and the April needs assessment. The committee has organized into subcommittees and over the upcoming months, staff will brief the subcommittees on project details and on related operations and maintenance costs. The subcommittees will then hold public hearings to

solicit input from the community. The full committee will forward its recommendation to the Council in December 2005.

Future Increases in Public Safety Costs May Outpace Future Growth in Revenue

In preparing the fiscal year 2006 budget, we have looked for ways to reduce the growth in our public safety budgets. Although we have reduced public safety costs in this budget by \$3 million from our April forecast, we have still not achieved any significant reduction in the growth rate of public safety costs.

As we presented to you in the policy budget in May, since 1992 our public safety costs have increased 195 percent, while other General Fund departments' budgets have only increased 34 percent, less than the consumer price index over that same period of time. Although some of the increases in public safety costs have been related to policies such as 2.0 police officers per thousand population and task force staffing in the Fire Department, 93 percent of public safety expenditures are salary related.

We analyzed the growth in the number of public safety employees versus the growth in total public safety costs from 1995 to 2005. Our analysis showed that the number of public safety employees over that time period increased by 30 percent. However, total public safety costs increased over that same time period – in which we began meet and confer with both the fire and police unions – by 122 percent. Since salaries comprise 93 percent of public safety costs, our increases in public safety costs are therefore mostly driven by increases in compensation.

The following observations summarize where we are on public safety budget increases:

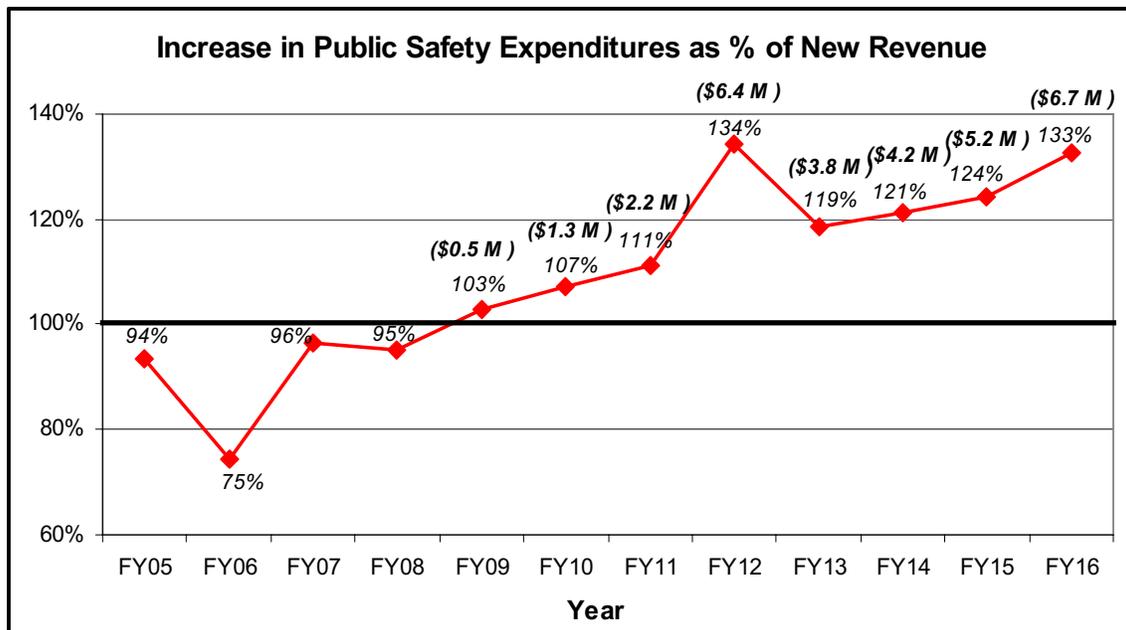
1. Using our forecast assumptions, and staying at the effective tax rate, public safety cost drivers will consume most of our new revenue within the next two years and beyond that will then exceed our new revenue.
2. Public safety salaries are 93 percent of total public safety costs and they are growing at a much higher rate than any appropriately comparable rate of growth (e.g. the consumer price index).
3. Our public safety salaries are already out of line in comparison to other major Texas cities – on average our police officers' salaries are between 18 percent and 33 percent higher than the average salaries of

their counterparts in the major Texas cities, depending on the length of time with the department. Similarly, our fire fighters' salaries are between 6 percent and 28 percent higher than the average salaries of their counterparts in the major Texas cities, depending on the length of time with the department.

4. The built-in increases in our public safety labor contracts will likely keep us well above market and may drive us further out of line relative to the other major Texas cities.
5. Attempts to stem the trend in increasing public safety costs that do not deal with salary issues will be marginally successful at best.

The rates of growth of our public safety cost drivers are therefore mostly due to compensation increases. If these compensation increases continue at the same rate, we estimate that in fiscal year 2009 our new revenue will no longer be enough to fund all of our public safety cost drivers, much less any other General Fund expenditures.

As shown in the graph below, if we do not change the rate of increase in compensation, we will need to produce \$500,000 in additional revenue in 2009, either through a tax increase or by reducing other departments' budgets by that amount. Beyond 2009, the gap between our estimated new revenue and our growing public safety cost drivers widens: in 2012, for example, we expect that gap to be about \$6.4 million. Amounts shown in parentheses are in millions and represent the deficit between our estimated new revenue and our estimated increases in public safety costs for the years shown.



Fiscal Year 2006 Budget Highlights

For the first time in several years, the economy has rebounded sufficiently so that the City's revenue growth covered our built-in cost drivers. As a result, the fiscal year 2006 proposed budget is the first budget in several years that did not require reductions in General Fund departments. In fact, at the proposed tax rate we were able to begin to strategically rebuild the services that have been cut so severely in prior years. This section of the transmittal highlights the budgets of the major General Fund departments including new investments that are being proposed.

Police (APD)

- ***Total 2006 proposed budget*** - \$183 million
- ***Maintain 2.0 officers per 1,000 residents*** - 17 additional officers will be funded in the current year through a COPS Universal Hiring grant to maintain 2.0 officers per 1,000 residents.
- ***Overtime for constant staffing*** – an additional \$500,000 in overtime to maintain constant staffing in patrol sectors has been included.
- ***Meet and confer*** – funding is included for the 3rd year of the approved Meet and Confer contract provisions.
- ***Jail interlocal*** – \$1 million has been included for the unanticipated 29 percent increase in the jail interlocal contract with Travis County.
- ***Addition of civilian staff*** – eleven new civilian positions, (including one animal cruelty investigator, two victim witness counselors, two crime report technicians, and six staff in the forensics area), are proposed to be added in 2006. There is not an accompanying increase in APD's budget as these positions are funded through a reallocation from other areas of the budget that has historically resulted in savings.

Fire (AFD)

- ***Total 2006 proposed budget*** – \$91.5 million
- ***Full funding for operation of all fire stations at task force staffing levels*** – the proposed budget includes funding to operate all 43 of the City's fire stations, including full-year funding for the new Circle C fire station.
- ***Firefighters for Spicewood Springs Station*** – 20 firefighters are being added in preparation for the Fall 2006 opening of the Spicewood Springs Station.
- ***Wellness center*** – approximately \$130,000 in matching funds for a federal grant to design and implement a Wellness/Fitness Center are

included to complement the \$302,205 received from the granting agency.

- **Critical equipment replacement** – systematic replacement of critical equipment will continue with funding for three pumpers and one ladder in the upcoming year.

Emergency Medical Services (EMS)

- **Total 2006 proposed budget** – \$35.2 million
- **Conversion to 48-hour work week for paramedics** – to maintain optimal patient care and to preserve paramedic safety, the budget proposes the addition of 24 FTEs and \$1.3 million to convert from 24-hour shifts to 12-hour shifts for all EMS stations. Currently 12 of the 28 units operate at levels that do not allow for sufficient down time and call volume is growing. This change should also help to reduce turnover and enhance recruiting. In a recent employee survey on the proposed 48-hour work week, 94 percent of the paramedics who voted supported the conversion.
- **New stations** – two new stations, Del Valle and Circle C will be open, requiring the addition of 20 new paramedic positions and funding for associated equipment and supplies. These stations will assist the department in meeting its goal of responding to life-threatening calls in fewer than 10 minutes, 90 percent of the time.
- **Recruiting and safety** – two safety positions are proposed to be added to develop a wellness and physical assessment program for injury prevention to reduce injury rates in EMS, which has one of the highest rates among departments. We are also adding one paramedic position to strengthen our recruiting efforts in the face of a national shortage of paramedics.

Municipal Court

- **Total 2006 proposed budget** – \$9 million
- **Improved customer service** – the proposed budget adds four positions to reduce customer wait times which have increased to 25 minutes and to reduce the number of abandoned calls due to extended hold times currently at 18 percent.
- **Community Restitution ROW mowing crew** – the proposed budget adds two additional supervisors for mowing crews to allow more probationers to fulfill their community service. One funded by the General Fund will reduce the mowing cycle from 28 to 21 days in the southeast part of the City. The other is funded by Solid Waste for supervision of crews working on code compliance issues.

- **Juvenile docket pilot** – \$21,000 is included to add Saturday appearance dockets to improve the rates at which juvenile offenders show up for court.

Health and Human Services

- **Total 2006 proposed budget** – \$28.4 million
- **Social services funding** – the proposed budget restores \$573,182 in prior year reductions to social services contracts
- **Food establishment inspections** – four sanitarian positions have been included to enable the department to inspect all food establishments two times per year, a goal that is not currently being met.
- **Communicable disease services** – five positions are proposed to be added in order that 90 percent of communicable disease clients seeking treatment may be seen within 24 hours of presentation. Currently only 75 percent are being seen and clinic visits are expected to increase 20 percent.
- **Animal control services** – funding for animal care and control is proposed at existing levels. Two additional positions are added to be funded by Travis County as a result of a recent change in county leash laws.

Parks and Recreation Department (PAR)

- **Total 2006 proposed budget** – \$27 million
- **Parks maintenance** – the proposed budget includes the addition of six positions in the facility services area for a new crew to address City-wide maintenance needs including the addition of Colony Park to the City's park inventory and recently annexed areas such as Harris Branch, Scofield Farms and Riata.
- **Forestry** – one of the proposed strategic add backs to PAR is a five-person forestry crew which will help the department reduce response time for blind corner requests from 19 days to five days.
- **Community recreation programs** – recreation centers, summer programs and other recreation programs are proposed at constant levels for fiscal year 2006.
- **Carver Museum** – with the expansion of the George Washington Carver Theater and Museum, a cultural arts education coordinator is proposed to be added to offer additional cultural arts activities.
- **Bergstrom Golf Course** – this budget closes Bergstrom Golf Course in December 2005 due to ongoing operating deficits at the course and the inability to reinvest in the course due to the airport master plan, the widening of State Highway 71, and a 39 percent decline in

revenue. The Golf Advisory Board concurs with this action, voting unanimously on February 28, 2005 to discontinue operations at the Bergstrom Golf Course. Closure will net the Golf Enterprise Fund approximately \$200,000 annually. The 28 members of this course will be allowed to transition their membership to the City golf course of their choice in 2006.

Austin Public Library

- ***Total 2006 proposed budget*** – \$19.3 million
- ***Library services*** – the proposed budget includes funding and 30.63 positions to open all branch libraries one additional day per week to restore the reductions implemented in 2004. The addition of a managing librarian is proposed to eliminate the need for shared supervision of two locations by one librarian.
- ***Austin History Center*** – funding, including 2.75 positions, to open the History Center one additional day to restore the reduction implemented in 2004, was also included.
- ***Support operations*** – 6.5 positions have been added to address core areas critical to library operations such as a backlog of shelving and delivery services to branch libraries.

Neighborhood Planning and Zoning (NPZ)

- ***Total 2006 proposed budget*** – \$4.2 million
- ***Increased focus on planning*** – with the increased level of interest in planning and downtown design, the budget includes three additional planners and one landscape architect position to assist with transit station area planning, neighborhood plans that are eligible for updates, the zoning code rewrite, implementing commercial design standards, and handling the significant increase in historic zoning and preservation cases.
- ***State Highway 130 land use planning and annexations*** – the department will also continue to coordinate the City's land use planning and annexation initiative for State Highway 130. No specific funding is included in the budget in anticipation of these annexations. Any funding changes would be brought to Council along with the annexation.

Watershed Protection and Development Review (WPDRD)

General Fund

- ***Total 2006 proposed budget*** – \$12.5 million. The General Fund portion of WPDRD provides funding for the City's One Stop Shop for development services.

- **Building inspections** – the 2006 proposed budget includes two additional inspectors and one support position for the building inspections function. Current building inspection staffing only provides for completion of 90 percent of building inspections within 24 hours rather than the current goal of performing 95 percent. This year’s workload alone has increased 17 percent since 2004. The citizen survey supported the need for additional resources in this area with levels of dissatisfaction increasing from 30 percent to 38 percent.
- **Permit center** – a detailed analysis of permit center workload demonstrated a need for two additional positions in the Permit Center to meet a 28 percent increase in customer demand. The citizen survey supported the need for additional resources in this area with a 16 percent drop in satisfaction from 2004.
- **Zoning review** – the proposed budget includes one position to handle the increase in residential zoning review applications in an area in which staff was eliminated during the economic downturn. Only 77 percent of residential zoning reviews are completed within the seven days mandated by the Land Development Code. The citizen survey also supported the need for additional resources in this area with a 27 percent drop in satisfaction from 2004.

Drainage Fund

- **Total 2006 proposed budget** – \$52.2 million. The Drainage Fund supports the WPDRD mission related to water quality protection, flooding and erosion controls. Additional funding from the planned increase in the drainage fee will cover increased maintenance operations, as well as increases to fund capital projects.
- **Infrastructure and waterway maintenance** – the proposed budget includes ten positions to support enhanced infrastructure and waterway maintenance. This will allow for an additional erosion repair crew, a third concrete repair crew and completion of two existing crews.
- **Flooding and erosion control** – funding is proposed for six additional staff to maintain floodplain maps, assess creek flood and erosion problem areas, assess pond dams, and work with the flood early warning system.
- **Capital budget** – while revenue generated by the drainage fee is not nearly sufficient to fund the \$800 million back log of flood, erosion and water quality projects identified by the City’s Drainage Master Plan, the department continues to set aside a portion of these revenues for capital projects. The proposed budget includes a \$16.5 million capital transfer which primarily provides \$7.2 million for multi-objective projects, \$3.7 million for erosion control, \$2.0 million for storm sewers, and \$2.7 million for flood control projects.

Roadways, Sidewalks, and Transportation

The fiscal year 2006 proposed budget continues the City's investment in roadway maintenance, as well as the construction of sidewalks and curb ramps and transportation infrastructure. The transportation budget is enhanced by \$4 million in Build Central Texas funding from the Capital Metropolitan Transportation Authority, which will help to fund various transportation and mobility initiatives. Maintenance highlights include:

- 550 lane miles or eight percent of the roadway network will receive preventative maintenance.
- 73 percent of the roadway network is projected to be in fair to excellent condition, exceeding our goal of 70 percent.
- \$3.4 million is available for Americans with Disabilities Act (ADA) projects such as restroom upgrades, curb ramps and sidewalks and park facilities.
- 75,000 linear feet of sidewalks and 400 curb ramps are proposed to be constructed. It is important to note that the combination of all sidewalk planning, design and construction into Public Works in 2005 has significantly improved the effectiveness of the sidewalk and curb ramp programs. In fiscal year 2004, only 13,400 linear feet of sidewalk and 97 curb ramps were constructed, approximately 25 percent of what is proposed for 2006. The results of the citizen survey also demonstrated recognition of this improvement with the satisfaction scores for pedestrian accessibility increasing approximately 3 percent.

Housing and Small Business Assistance

Housing. The purpose of Neighborhood Housing and Community Development Department (NHCD) is to provide housing, community and small business development services to benefit eligible residents so they can have access to livable neighborhoods and can increase their opportunities for self-sufficiency. The proposed 2006 budget has \$23.1 million invested in activities such as:

- Tenant Based Rental Assistance
- Rental Housing Development Assistance
- Architectural Barrier Removal for Elderly or Mobility-Impaired
- Anderson Hill Redevelopment
- Homebuyer Lending Assistance (zero-interest loans and down payment assistance)
- Emergency Home Repair
- Homeowner Moderate Rehabilitation (substantial home repairs)
- Lead Hazard Control Program

- Materials Grants Program (purchase materials for home repairs)
- Homeownership Development
- Community Housing Development Organization Support
- Single Family and Multi-Family Bond Program
- SMART Housing Program

Small and Minority-Owned Business Assistance. The City Council has placed a priority on creating new jobs through assisting the start up and expansion of small businesses. We consider small business development to be a vital part of our overall Economic Development and Community Development programs. In addition to this, our organization remains committed to working with small and minority-owned businesses through our Small and Minority Business Department.

In the fiscal year 2006 proposed budget, the City is investing a total of \$6.8 million in small and minority business programs. This represents an increase of 22 percent over fiscal year 2005 in three areas:

Economic Growth and Redevelopment Services Programs: \$1.4 million

- Assists small businesses with information and referral assistance
- Offers training classes, conferences and events pertinent to entrepreneurs
- Offers a Business Resource Center to provide technology and materials access

Small and Minority Business Resources: \$1.7 million

- Conducts recruiting and outreach to increase the pool of available MBE/WBE firms
- Reviews for compliance with MBE/WBE Ordinance
- Post-award monitoring to ensure ongoing compliance
- Provides an Online Plan Room

Neighborhood Housing and Community Development Department Programs: \$3.7 million

- *Community Development Financial Institution:* to provide for flexible capital and technical assistance to small and minority businesses expanding or relocating in low-income areas
- *Micro Enterprise Technical Assistance:* to provide operational funds for training and technical assistance to micro enterprises
- *Neighborhood Commercial Management Program:* to provide a revolving loan pool for gap financing to small businesses that are expanding, in exchange for job creation

- *Small Minority Business Assistance:* to provide operational funds to train business owners through workshops, one-on-one technical assistance and information referrals

Bond Projects and Consolidation of City Lease Space

Bond Projects. The proposed budget includes new appropriations for several projects approved by voters in the 1998 and 2000 bond elections:

- \$4,170,000 Gus Garcia Recreation Center - PARD (1998 Prop 2)
- \$2,860,000 North Village Branch Library - Library (1998 Prop 4)
- \$1,080,000 Twin Oaks Branch Library – Library (1998 Prop 4)
- \$1,500,000 Guadalupe Streetscape Improvements - NPZD (2000 Bonds)
- \$5,000,000 Sidewalk Improvements - Public Works (2000 Bonds)
- \$4,590,000 Street Improvements - Public Works (2000 Bonds)

Consolidation of City Lease Space at the Cameron Road Campus.

The proposed budget includes a new fund which will account for operations and debt service for the proposed purchase of a campus-style location at Cameron Road. The site is being considered to consolidate City facilities previously being leased, as well as employees being dislocated by the Mueller Redevelopment Project. Staff completed a near-term facility needs assessment and financial analysis in fiscal year 2005 and identified existing leases that can be terminated as they expire to reduce operating costs in the future.

Converting lease payments to debt service has a number of advantages for the City, including non-escalating payments, tax savings and an owned asset at the end of the debt service term. Negotiations and due diligence activities needed before seeking City Council approval for the purchase are currently underway. In the event that the purchase is not does not occur, the new fund will not be included in the approved 2006 budget.

Fiscal Year 2006 Proposed Rate and Fee Increases

Water and Wastewater Rate Increases

Over the next 5-year period, operations and maintenance costs for the combined utility system will increase due to aging infrastructure, an increase in the treatment volume for water and wastewater, and costs for facility expansions and additions, as well as annexations. The Austin Water Utility eliminated 40 positions in 2004 as part of an efficiency review and did not request new positions in 2005. The 2006 budget

proposal, however, includes 12 new positions to accelerate ongoing initiatives for water conservation, reclamation and reuse, watershed land management, and the wastewater overflow abatement program.

The major cost driver for the utility is related to required capital improvements. New capital spending of \$975.5 million over the next 5 years includes investments for regulatory compliance, repairing aging infrastructure, service extensions, and capacity extensions. Growth in the customer base alone will not be sufficient to generate the needed revenue to meet expenditure requirements.

In an effort to avoid two large rate increases as projected over the next 5 years, the Utility has proposed a 5-year level rate increase plan ranging from 4.2 percent to 5.2 percent per year. The proposed 2006 budget includes a 3.6 percent increase for water service and a 7.0 percent increase for wastewater service for a proposed combined rate increase of 5.2 percent. Austin's current average monthly combined water and wastewater bill is \$47.69 and falls below the midpoint monthly bill of \$60.71 for thirty cities surveyed. The proposed rate increase would bring the average monthly bill to \$50.29.

Drainage Rate Increases

The proposed budget includes implementation of the final year of the five-year drainage fee utility cost of service plan. Without additional general obligation bond funding, the drainage fee is the primary source of funding for capital improvement projects identified in the Drainage Utility Master Plan. The residential fee is proposed to increase from \$6.74 to \$7.15 per month, a 6.1 percent increase from fiscal year 2005. The commercial fee is proposed to increase from \$147.92 to \$176.66 per acre per month, a 19.4 percent increase from fiscal year 2005.

Other Fee Increase Highlights

A revenue initiative was completed for fiscal year 2005, which included a review of all fees. The review included an analysis of whether fees had kept pace with inflation, as well as identifying viable new fees. The City's fee schedule is substantially up to date and minimal changes are proposed for fiscal year 2006.

Recommendations contained in the proposed budget include increasing the off-airport parking fee by one percent of gross revenue, from four to five percent for existing facilities, and implementing a fee of ten percent of gross revenue for new off-airport parking lot operators. This change is expected to generate \$60,000 in additional airport revenue in fiscal year 2006.

Increases in golf green fees at Hancock, Jimmy Clay and Morris Williams, and golf surcharges at all the courses will help restore funds for turf maintenance that have been reduced over the past four years. This change is expected to increase golf revenue by \$64,000 in fiscal year 2006.

A comprehensive listing of all fees can be found in the Proposed Budget Supporting Documents Volume – Fee Schedule.

Structural Balance. . .

Staying the Course. . .

Strategic Reinvestment

Balancing the budget for fiscal year 2006 was the final stretch of an arduous financial journey for the City Council, our organization, and our community. However, through our combined efforts we have established a policy direction that has resulted in structurally balanced budgets and has positioned us to use our one-time funds in the most prudent manner possible.

Structural Balance. Beginning in 2002, we focused all our efforts on cost containment, hiring freezes and aggressively reducing expenditures to achieve structural balance. We approached the budget without assumptions about sustaining business as usual, seeking to deliver services differently in an attempt to preserve existing service levels despite dramatically reduced resources.

Those years of cutbacks reduced the growth of our General Fund by almost 25 percent. It wasn't easy. It wasn't popular. And it certainly hasn't been without significant organizational impacts. Both our workforce and the provision of direct services to our citizens have been deeply affected by the reductions. Balancing a budget in an economic downturn is challenging work. But how you approach it is what separates a good organization from a great organization. And Austin has been widely recognized as a "best practice" city in financial management by the International City/County Management Association, the Government Finance Officers Association, and the major bond rating agencies.

Staying the Course. Fiscal year 2005 proved to be all about staying the course. While structurally balanced, our growth in expenditures or cost drivers still outpaced the renewed growth in our projected revenue for the year.

But we stayed true to our budget principles. We focused on finding structural or on-going reductions, rather than relying on the easy allure of one-time savings. And our organization today is much leaner, our service levels much reduced and our current budget, while structurally balanced, is comprised of needs, not wants. However, we adopted the 2005 budget with our financial principles firmly in place, preserving our structural balance and setting the stage for moving forward in a sustainable budget environment.

Strategic Reinvestment. By tackling the daunting task of completely realigning revenues and expenditures in the downturn, we positioned ourselves to strategically rebuild our programs and our service levels as the economy rebounds in the upcoming years. During the 2005 budget process, we laid the groundwork for our future and prepared for a time when we would need to begin a strategic reinvestment in our organization.

The impact of four years of cost containment and expenditure reductions on both our workforce and our service levels is significant. We recently completed an extensive assessment of that cumulative impact, identifying and prioritizing critical vulnerabilities and deteriorated service levels across the organization. Based on that assessment, we made a recommendation on select strategic add backs of \$8.1 million during the policy budget presentation in May and have further refined that recommendation in the proposed budget to \$6.5 million.

I believe this budget balances fiscal responsibility to our tax payers, prudent stewardship of the public services we provide and our obligation as a public employer. The proposed budget is structurally balanced and reduces the current tax rate while still capturing a modest growth of \$2.1 million to reinvest in restoring critical resources.

From structural balance.....to staying the course.....to strategic reinvestment. Austin is known for excellence but excellence requires investment. The time for reinvestment is now.

Respectfully submitted,

Toby Hammett Futrell
Austin City Manager