

City Manager's Proposed Budget Fiscal Year 2007

July 27, 2006

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

Today I present to you my proposed fiscal year 2007 budget. This budget continues to rebuild our services, respond to growth and reinvest in our workforce, following several years of economic downturn.

Our current economic outlook is strong: the revenue recovery that began in 2005 has continued unabated in 2006 and is also reflected in our projections for 2007.

There are a number of reasons why Austin is enjoying renewed success. We're an incubator for local creativity and enjoy an economy that's based on intellectual capital. Today we're open for business. We're ready to compete. Austin was recently chosen as the site for Samsung's new \$4 billion 300mm chip production facility. This project alone has the potential to anchor Austin's high-tech community for years to come. *Expansion Management* magazine recently featured Austin as one of a few worldwide, high-tech communities because of our status as the most wired city in the United States and our abundance of high-tech workers. Freescale Semiconductor's decision to locate its corporate headquarters in Austin and the opening of Whole Foods' new flagship store and worldwide headquarters simply reinforce that reputation.

As I presented to you in our policy discussion at the end of May, this budget proposal is based on the effective tax rate and on aggressive revenue projections. At the effective tax rate, growth in our new revenue will enable us to fund the Council's policy and contractual cost drivers, in addition to maintaining our current service delivery.

However, beyond funding our cost drivers and current services, our projections for revenue growth and the work we have done to further refine our expenditure projections have allowed us – for the first time since 2002 – to begin rebuilding our services, responding to growth, and reinvesting in our workforce within a budget balanced at the effective tax rate.

As a service organization, our workforce is our greatest asset. During this current fiscal year, we continued reinvesting in the workforce by addressing key pay and benefits issues. The 2007 budget proposal builds on that momentum to position our organization to better deliver the services our citizens need and expect.

The transmittal letter for the 2007 proposed budget is organized into several major sections that can be found on the following pages:

- Planning for the Future: Managing our Resources Wisely T-2
- Reinvesting in our Workforce T-6
- Rebuilding our Services, Responding to Growth:
 Funded Budget Enhancements T-9
- Strategic Adds not Funded in the Proposed Budget T-15
- Understanding Community Priorities and
 Measuring Customer Satisfaction T-20
- Revenue Policies T-26
- Bond Election T-29
- Managing Public Safety Overtime T-30
- Proposed Rate and Fee Increases T-32
- Departmental Budget Highlights T-33

Planning for the Future: Managing our Financial Resources Wisely

The City Council's commitment to focusing on a multi-year budget horizon, on using one-time funds judiciously, and on attaining structural budget balance – that is, not spending more in a given year than we collect in revenue – has been crucial to our success thus far. While we have experienced much-needed economic growth that we can use to reinvest in our workforce, as well as in our frontline and support services, we must not lose sight of our sustainable budget goals.

We got where we are today by planning for the future. The Austin City Council adopted a comprehensive set of financial policies to govern the financial management of our major funds and provide the foundation for long-range financial sustainability. These financial policies are directly aligned with Council's priority of affordability and continue to position the City to invest in its future economic development, infrastructure needs, and quality of life. The financial policies are also crucial in maintaining the City's favorable bond ratings. Consistent with Council's philosophy of affordability, we successfully implemented a number of budget reductions or containment strategies during the downturn and resisted one-time fixes that did not ensure long-term financial health.

This proposed budget continues our philosophy of a budget based on “needs” and not “wants.” This approach has served us well and positioned us on the front edge of rebuilding services in our organization.

Balancing the Proposed Budget. Our forecast at the beginning of the budget process projected a deficit of \$2.2 million. Since that time, we have continued to record positive trends in our revenue base. We are seeing further increases in our sales tax revenue, there is new property coming onto the tax roll next year, and we continue to achieve a high collection rate on property tax revenue. We have also refined our cost estimates throughout the budget process and have realized some projected savings as a result.

Beginning at the Effective Tax Rate. Today, I am presenting a budget that is sound, balanced, and based upon the effective tax rate. We do not receive our certified tax roll until the end of July, so as of the date that this proposed budget went to print; we do not know the exact effective tax rate. However, our estimate of the effective rate for the proposed budget is 40.66 cents per \$100 assessed value, a decrease of about 3.64 cents from the current tax rate. I have prepared this proposed budget based on the estimated effective tax rate. I will apprise you of any changes in the effective rate when we receive the certified roll. We do not expect significant changes.

It is important to note that for the second year in a row, we will see an increase in commercial assessed value, which will continue to bring some tax relief to Austin homeowners.

Summary of Tax Rates			
	2006 Approved Budget	2007 Policy Budget	2007 Proposed Budget
Tax Rate	.4430	N/A	.4066
Effective Tax Rate	.4320	.4062	.4066
Rollback Tax Rate	.4481	.4212	.4214

Due to an overall increase in new property on the tax rolls, we can reduce our tax rate well below the 2006 level of 44.30 cents, and still fund our annual cost drivers, as well as about \$6.1 million of our most pressing operational needs.

I am therefore pleased to say that we have been able to include funding in this proposed budget to rebuild some of the critical operational areas

that we did not anticipate being able to fund during early budget planning. These prioritized areas are crucial to the quality and integrity of our service delivery.

Going Above the Effective Tax Rate. An additional \$8.6 million in new revenue could be generated by adopting a tax rate equal to the rollback rate of 42.14 cents, which is 1.48 cents above the effective rate of 40.66. This would translate into an annual increase of \$26 in the tax bill of a homeowner with a residence valued at \$175,000.

Alternatively, Council may wish to adopt a tax rate above the effective rate of 40.66 cents, but somewhere below the rollback rate of 42.14 cents. Each ½ cent that is added to the effective tax rate generates roughly \$2.9 million in additional revenue. I have also included in this proposal a prioritized list of strategic adds for the Council's consideration during budget deliberations. These potential add backs can be funded by going above the effective tax rate.

Budget Stabilization Reserve. I am recommending the use of one-third of our budget stabilization reserve in fiscal year 2007, consistent with the Council's policy regarding budget stabilization and reserves that was adopted in fiscal year 2006. That policy provides that we will deposit expenditure savings and revenue surpluses into the budget stabilization reserve, one-third of which can then be appropriated to fund capital or other one-time expenditures. Related financial policies adopted by Council in 2006 and continued in this proposed budget maintain our contingency and emergency reserves – our “hard” reserves – at close to ten percent of our total General Fund expenditures, which is an excellent benchmark according to our bond rating agencies.

In fiscal year 2007, we are proposing \$17.4 million to fund one-time expenditures, including the replacement of critical equipment and other one-time needs. Of this amount, \$16.7 million will be funded directly from the budget stabilization reserve, with an additional \$700,000 in savings from the 2006 one-time appropriations. This will leave us a balance of \$33.4 million in the budget stabilization reserve to provide a financial buffer from another unexpected downturn like we experienced in 2002, as well as to fund future one-time expenditures as we continue to rebuild our organization.

Managing our Cost Drivers. Managing our financial resources wisely also means managing our cost drivers. The most significant of our cost drivers include our public safety staffing policies – maintaining 2.0 police officers per 1,000 population and enhanced task force staffing in the Austin Fire Department, as well as the costs associated with current and future public safety labor contracts. In addition to public safety, our cost

drivers also include increased operations and maintenance costs as we bring new or expanded facilities online, rising health insurance costs, and most recently, intense inflationary pressures resulting from the high cost of fuel and construction.

In the forecast presented in April 2006, our cost drivers totaled \$40.5 million. Since then, as we worked through refinements to each department's budget, we managed to reduce the cost drivers by \$2.9 million. The proposed budget contains \$37.6 million in cost drivers as shown below.

Major Cost Drivers (in Millions of Dollars)			
	2007 Forecast	Adjustments	2007 Proposed Budget
Public Safety	\$24.0	- \$1.0	\$23.0
Health Insurance			
• Public Safety	2.4	- 1.2	1.2
• Non-Public Safety	0.9	- 0.4	0.5
Pay for Performance			
• Public Safety	1.3	- 0.1	1.2
• Non-Public Safety	2.0	- 0.1	1.9
New Facilities O&M	0.9	0.1	1.0
Other Estimated Cost Increases	9.0	- 0.2	8.8
Total Estimated Cost Increases	\$40.5	- \$2.9	\$37.6

Since presenting the forecast, we have also identified additional revenue, including additional sales tax revenue, additional interest income, and additional fee revenue. At forecast, we projected receiving \$38.1 million in new revenue; however, the proposed budget now includes a total of \$43.7 million in new revenue. We therefore have enough new revenue in 2007 to fund all of our cost drivers, as well as to fund \$6.1 million in pressing workforce and operational needs.

Nevertheless, we must continue to be vigilant in monitoring our cost drivers – future increases in cost drivers are more certain than future increases in revenues.

To illustrate that point, let's examine two snapshots in time. Today we are projecting to receive \$150.7 million in sales tax revenue in the proposed 2007 budget, a 22% increase over the amount we received in fiscal year 2005. Conversely, during the downturn that began in 2001, our sales tax revenue actually declined 10.4% - from \$123.2 million in 2001 to \$110.4 million in 2003.

Applying that same percentage decline of 10.4% to our projected 2007 sales tax revenue of \$150.7 would result in an imputed “loss” of \$15.6 million. Subtracting that \$15.6 million from the \$43.7 million in new revenue that is included in the 2007 proposed budget would result in our being \$9.5 million “upside down” on our cost drivers – in other words, our total new revenue would decrease from \$43.7 million to \$28.1 million, with our cost drivers remaining at \$37.6 million. The \$9.5 million shortfall would then have to be funded through a tax increase or through cuts to our non-public safety departments.

Reinvesting in 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. The 2006 budget reinvested further in our workforce, continuing pay for performance and moving the living wage from \$10.00 to \$10.90 per hour for our lowest paid employees. Additionally, we completed a review of market conditions for our entire non-civil service workforce, shifting our pay philosophy to also consider the internal relationships of positions within the City. These strategies are particularly critical with a large number of employees retiring or planning to retire, and as we work on succession planning and on aggressively recruiting the future leadership of this organization.

Pay for Performance. The 2007 budget proposal includes pay for performance for non-civil service employees. Employees who meet expectations would receive an increase of 3.5 percent to their base pay; employees who exceed expectations would receive an additional 1.5 percent increase to their base pay for exceptional performance. During the downturn, we eliminated this feature and rewarded exceptional performance through a lump sum payment.

Compensation Review. The 2007 budget proposal includes \$14.2 million in full-year funding for the compensation review, which was implemented in three stages during 2006. Approximately 86 percent of the workforce received an average market adjustment of 4 percent on top of the 3.5 percent Pay for Performance increase.

Service Incentive Pay. The 2007 budget also continues service incentive pay, which is based on tenure, as well as the one-time, two

percent lump-sum payment that was introduced as a service incentive pay enhancement in 2006.

Medical and Dental Insurance. Note that the City continues to cover 100 percent of each employee's medical and dental insurance coverage in the 2007 benefits plan. Employees will see cost increases this year of approximately nine percent for spouse and dependent coverage. In 2007, we will introduce a new premium dental plan recommended by the Employee Workforce Committee as an additional alternative to the existing dental plan, offering a higher level of coverage at a higher premium to employees.

Temporary and Seasonal Conversion. An important part of employment is a living wage and simply having access to health and other benefits. This year, I began an internal review of long-standing temporary and seasonal employees who have regularly worked over 20 hours per week and have worked at least one year as of April 1, 2006. Although the estimated cost of the conversion is \$1.3 million, I believe it is critical to provide equal access to City benefits for all of our employees who are truly working on a regular and continuous basis. The budget proposal includes converting 109 temporary employees to regular employment status with health and retirement benefits.

Tuition Reimbursement Program. The proposed budget includes city-wide funding of \$340,000 to increase the maximum reimbursement for tuition and fees from \$1,200 to \$2,000 annually and doubles the amount of money available for the program. The program is available to regular, non-probationary employees who wish to pursue career-enhancing or job-related educational opportunities at accredited, degree granting schools and institutions. A program to allow limited use of tuition reimbursement funds for certain non-college certifications is under development by the Employee Workforce Committee.

Vacation Accrual. We have fallen behind other major Texas cities in our vacation accrual schedule, so additional annual vacation accrual is proposed in the budget. The additional amounts are 1 extra day for full-time employees with less than 10 years of service, 1½ days with 10 – 14 years of service, and 2 days for 15 or more years of service.

Restoring Productive Time. The budget proposal includes the reinstatement of the definition of productive time or hours worked for the purpose of calculating overtime for nonexempt employees to fiscal year 2004 status. In October 2003, the City changed its definition of productive time to include only hours worked. Effective September 17, 2006, the earnings codes previously considered to be productive hours would be restored to the calculation of overtime, including administrative

leave, holiday pay, exception vacation, administrative recognition, bad weather pay, court leave, emergency leave, injury pay, mentoring and serious injury supplement. The estimated total cost in any single department is not material and will be absorbed within each department.

Domestic Partner Coverage. Equally important, this past spring Council directed me to include funding in the budget so that the City could extend health coverage to the domestic partners of our workforce. We have included \$500,000 in the budget proposal to cover the estimated costs of new plan participants, which includes both same sex and opposite sex domestic partners in the existing workforce, as well as current and future retirees.

Supplemental Funding to the City of Austin Employees Retirement System. In May 2005, the City Council approved a plan to provide supplemental funding to the City of Austin Employee Retirement System. Of our three retirement systems, ERS has the greatest unfunded liability. 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 one 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 four 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.

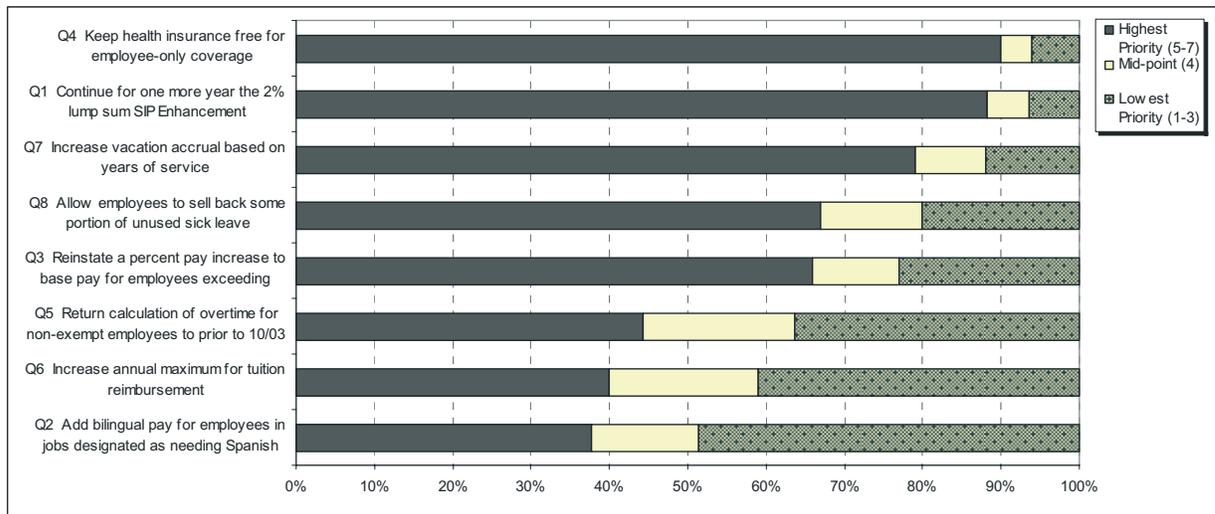
This agreement does not increase employee retirement contributions or reduce future retirement benefits. We have included \$1.3 million in the proposed budget for costs related to our General and Support Services Funds. The estimated cost across all City funds is \$3.6 million, which is the equivalent of one percent of payroll for non-civil service employees.

Employee Feedback. We have a dedicated workforce, who worked hard and persevered through our 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 this proposed budget and other workforce issues through a series of Town Hall Meetings held at different worksites at different times over three months.

Special thanks go to the members of our Employee Workforce Committee who are elected by their co-workers in each department. The Committee serves as a valuable source of information and ideas that I use to address the concerns of employees, particularly those not formally represented through meet and confer or collective bargaining. The Committee worked hard all year on employee benefit issues and much of that work is reflected in the employee benefit package in front of you today.

I also continue to solicit employee feedback throughout the year through employee surveys. The most recent employee survey on how our workforce ranks their benefit priorities is shown below. Well over half of our workforce participated in this survey and you will see a strong correlation between the survey priorities and the proposed employee benefit package.

Workforce Survey Ranking Benefit Priorities



Rebuilding Our Services, Responding to Growth: Funded Budget Enhancements

In each of the last two years, City departments have conducted an annual risk and vulnerability assessment to identify basic unmet operational needs that have become critical due to the demands of growth or pressures from budget reductions in previous years. There is no question that our resources are still strained, both in our frontline operations and support services. During the 2007 budget development process, our department directors identified \$23 million of critical unmet needs. We have rigorously scrubbed that list at the corporate level down

to \$13.8 million, taking into consideration our service goals, key indicator trends and performance measurements.

The most pressing needs – those that are crucial to the effective delivery of our core city services – totaled \$6.1 million and are funded in the proposed budget and outlined in the section below.

The remaining \$7.7 million will follow in another section, providing Council with potential investments that could be added by taking the proposed tax rate above the effective tax rate. The unfunded \$7.7 million in requests represent investments that would position us to more effectively deliver quality service and respond to growth.

Strategic Adds by Category	Added to Proposed Budget
Public Safety	\$2.4 million
Community Services	\$2.4 million
Central Support Services	\$1.3 million
Total Investment	\$6.1 million
Total Full-Time Equivalents	86.0 FTEs

Public Safety

Respond to Increased Demand for Emergency Medical Services – Growth in the Austin area has resulted in increasing demand for emergency medical services (EMS), with paramedics having less and less downtime between increasing volumes of calls. This translates into longer response times, which is compounded by the difficulty that we are currently experiencing in hiring paramedics. The 2007 budget proposal includes the addition of a peak load unit to rove during times and in areas of the city where call volumes are high, as well as signing bonuses, training and other resources needed to recruit, retain and supervise paramedics.

A full-time associate medical director is also needed to help manage the existing workload and respond to increased demand. The current medical director oversees over 2,000 system credentialed providers and twelve emergency service districts, as well as coordinating education, quality assurance and responding on-scene to incidents. Additional staff

is included in the medical director's unit dedicated to system education, medical quality assurance and coordination among agencies.

Proposed Funding: \$1,620,000, including 16 FTEs and \$227,000 for one peak-demand ambulance and equipment.

Provide 24/7 Magistration at the Central Booking Facility –

Currently, magistration at the Central Booking Facility takes place from 7 a.m. to 1 a.m. with two, one-hour meal breaks. 24/7 magistration will smooth the entire process at the Central Booking Facility and eliminate unnecessary overnight bookings. During peak times at the Central Booking Facility, 24/7 magistration could keep the holding facility from overcrowding. The addition of a court clerk (lead), two court clerk assistants, and a part-time associate judge will provide a third shift for magistration support at Central Booking, making it a 24 hours/7 days per week operation instead of the current schedule of 16 hours/7 days per week.

Proposed Funding: \$313,000, including 3.5 FTEs.

Restore Frontline Firefighter Positions – The restoration of four firefighter positions is needed to rebuild frontline operations. The reclassification of these four positions was approved in May and June 2006 to focus on medical service delivery and to team up with the Austin Independent School District to provide a firefighter and emergency medical technician certification program at LBJ High School beginning with the 2006-2007 school year. Additional funding of \$50,000 is also included for cultural awareness training for our firefighters to promote respect and understanding of the increasing cultural differences encountered in today's workplace. This funding would be ongoing and would be targeted at one-third of the workforce each year. Funding of \$17,000 is also included for a fire career program with the Austin Independent School District to encourage and prepare high school students to enter the fire service.

Proposed Funding: \$227,000, including 4 FTEs.

Restore an Assistant Police Chief – The addition of an assistant police chief is included to restore a position redeployed at the commander level during the downturn. The restoration of this position will provide stronger oversight and leadership in a growing Police Department.

Proposed Funding: \$165,000 (1 FTE).

Enhance the Volunteer Program in Emergency Preparedness – The addition of one position is proposed in the budget to oversee a volunteer recruiting, training and mobilization program for emergency events. As we debriefed the Katrina and Rita events, one of the gaps we identified was in the area of volunteer training and coordination. The addition of a volunteer coordinator to create a pool of prescreened and trained

volunteers will better position the City to effectively staff any number of diverse emergency events and ensure that volunteers can participate and work in areas where their talents can best be tapped.

Proposed Funding: \$65,000 (1 FTE).

Community Services

Provide for Timely Residential Building Inspections – Real estate activity continues to increase resulting in continued strain on inspection services. In Austin, a home is currently being built about every 60 minutes. Residential inspections are up over 20 percent compared to last year and our goal of making at least 95 percent of inspections within 24 hours after requested is not being met. Our inspectors performed 92,873 inspections last month alone. Time is money for builders and developers when they are at a critical juncture during construction and must wait for an inspector for two days instead of one day. Adding four inspectors and funding for temporary employment services will help bring us closer to our goal of completing 95 percent of inspections within 24 hours of the request and will assist the development community in keeping their projects on track.

Proposed Funding: \$515,000, including 4 FTEs.

Strengthen Code Enforcement and Court Operations – The number of bench trials has increased by almost 50 percent in only one year. By adding a judge, a court clerk assistant and two prosecutors, 16 evening dockets could be added that would double the number of code enforcement dockets and reduce cases per docket across the board by about 20 percent. An additional court clerk assistant is also included for the Downtown Community Court to respond to increased caseload and the addition of citywide public works-related community restitution programs, such as graffiti removal and right of way mowing.

Hiring an additional court operations supervisor would restore one of four positions eliminated during the downturn. These supervisors provide leadership for the frontline employees who issue warrants and regulatory citations, serving approximately 278,000 people each year. Currently, the employee-to-supervisor ratio is 20 to 1, far too large a span of control for one supervisor to effectively manage. Adding a new supervisory position will give supervisors more time to focus on quality control.

Proposed Funding: \$393,000, including 6 FTEs.

Respond to Increased Demand for Zoning and Plan Review – New commercial building applications are up over 40 percent so far this year. Residential applications are up another 10 percent. Current staffing levels in the Watershed Protection and Development Review Department

are not sufficient to handle the demand. In addition to responding to current and projected demand, these new positions will also provide the resources needed to implement the new commercial design standards, scheduled for City Council approval in August, as well as the new single family residential standards recently adopted by the City Council.

Proposed Funding: \$308,000 (5 FTEs).

Improve Timeliness and Quality of Traffic Plan Reviews – The right of way management program reviews traffic control plans and inspects work sites to ensure public safety during construction. The number of plan reviews alone has increased 66 percent in 2006. It is critically important to do thorough reviews to reduce the number of expensive corrections that would otherwise be required in the field. With the passage of the commercial design guidelines, we expect to see another significant increase in the number of agreements that would be required for trees and amenities in the right of way. Funding for two additional positions is included to address the growing workload for traffic control plan review and inspecting traffic control plans for compliance in the field. These positions will improve the quality of traffic plan reviews while allowing inspectors to monitor traffic control and ensure safety at construction sites.

Proposed Funding: \$126,000 (2 FTEs).

Improve Transportation Planning in Neighborhood Plans – The addition of a senior planner is included in the budget to help ensure that neighborhood plans include a strong and connected transportation component. Additionally, this position will assist in strategic planning related to development along State Highway 130 and other corridor plans.

Proposed Funding: \$66,000 (1 FTE).

Provide Additional Resources for Graffiti Abatement – Since 2003, there has been a steady increase in the numbers of graffiti taggings appearing on private and public properties in Austin. In addition to paint, vandals have begun etching their tags onto glass, metal and wood surfaces. The addition of two community service crew leaders - one in the Health and Human Services Department and one in Community Court - is included to clean up or paint over graffiti tags, as well as funding to hire youth to get involved in cleanup efforts. These efforts are expected to result in at least a 75 percent increase in the number of cleanups in the first year. The program will also include education and collaboration with other interested parties, including work with neighborhoods, business owners, and the Austin Police Department to strengthen prevention efforts.

Proposed Funding: \$200,000, including 2 FTEs.

Enhance Outreach Efforts for Primary and Preventive Care – Funding for two additional positions in the Health and Human Services Department is included for more outreach efforts targeted at hypertension, diabetes and other health issues taking such a disproportionate toll on our lower-income residents today. These resources are also critical to our ongoing African American Quality of Life initiative.

Proposed Funding: \$128,000 (2 FTEs).

Increase Maintenance of our Parks and Gardens – In the past, respondents to our annual citizen survey have generally indicated they are satisfied with the services provided by the Parks and Recreation Department, in spite of the significant budget cuts made in recent years. In 2006, satisfaction ratings slipped somewhat compared to last year and the survey results appear to focus on the condition of our facilities, notably the appearance of park facilities and grounds. Eight of seventeen recreation centers do not currently have a dedicated building or grounds assistant to provide ongoing preventive maintenance. Funding is included for the addition of 5 Building and Grounds Assistants.

Additional funding is included for Zilker Botanical Gardens for tree trimming and tree preservation, as well as security cameras to prevent thief and vandalism of the garden. Funding is also included in the proposed budget for 6 additional staff to help maintain the facility and grounds.

Proposed Funding: \$429,000, including 11 FTEs.

Strengthen Services in the Library – During the downturn, our first cuts focused on management and administration, and conversely our first add backs in 2006 were for frontline services. The library's staff was reduced in all administrative areas, including human resources and financial support, security services and circulation. Beginning to restore these positions is the Library's top priority. Their resources are stretched thin, sometimes even having to pull employees on the frontline to fill support roles such as screening applications to fill vacant positions. The proposed budget includes funding for a human resources specialist, an accountant associate, a security guard, and 2 administrative positions for circulation support.

Proposed Funding: \$204,000 (5 FTEs).

Central Support Services

Ensure Integrity of Internal Controls and Support Services – Support service functions across the City are strained. Routine transactions take longer to complete while workloads have increased.

For example, personnel reclassification requests are backlogged for up to nine months. Last year, we focused on strategic add backs in our direct services. This year, I am recommending that we also turn our attention to rebuilding the foundation of our organization, including building services, finance, human resources, legal services, procurement, audit and our City Clerk's office. Support functions provide the internal control systems that are crucial to the integrity and well-being of any organization. These work areas have been stretched especially thin over recent years, while in the midst of implementing critical new systems and managing new facilities. In addition to adding back a number of central support service positions, funding is included for additional engineering services in the amount of \$35,000 to be used in an Austin Water Utility audit planned by the Office of the City Auditor in fiscal year 2007. Additional funding of \$115,000 also was included in the Office of the City Auditor for a department-wide restructuring that involves position reclassifications.

Proposed Funding: \$1,312,000 (22.5 FTEs).

Strategic Adds not Funded in the Proposed Budget

The list of unfunded strategic adds has been continually refined and prioritized since our policy discussions with Council this past May. These unfunded add backs could be wholly or partially added to the budget by taking the proposed tax rate above the effective tax rate. The majority of the potential add backs involve frontline public safety and community services. These add backs total \$7.7 million.

Public Safety

Recruit, Develop, and Supervise Future Paramedics – Recruiting for paramedics is very difficult now, even at the national level. Without innovative new ways to bring on qualified paramedics, we will be facing a critical shortage in our community. Working collaboratively with Austin Community College to create a paramedic developmental academy and establishing a training program at the Austin Independent School District would result in a grassroots recruiting program aimed at attracting our youth to become future paramedics in Austin.

To maintain optimal patient care and to preserve paramedic safety, the 2006 budget included the conversion from 24-hour shifts to 12-hour shifts for all EMS stations. The purpose of this change was to allow for sufficient down time in the face of increasing call volume. Meanwhile, the current staffing ratio is one supervisor to 14.8 paramedics. Adding three district commanders would result in a ratio of 1 supervisor to 12.8

paramedics, providing a better standard of medical oversight to a critical public safety function.

Estimated Cost: \$1,022,000, including 15 FTEs.

Increase Civilian Staffing in the Police Department – While sworn staffing was not reduced and in fact increased during the downturn, civilian staff was cut dramatically. Our civilians are stretched to the limit. Requests for latent print comparisons and identification are up 108%. Officers are currently responding to the overwhelming majority of property-related calls, which no longer leaves them free to remain on patrol. Civilian crime technicians previously handled this caseload. This proposal will free up 600 additional patrol hours, increasing officer time on the street and improving response time for citizens who report property crime. Additional resources are also needed in the juvenile services unit to handle the current workload.

The addition of nine crime technicians and converting two part-time positions to full-time status in juvenile services will help address current workload and demand.

Estimated Cost: \$479,000 (9.5 FTEs).

Provide Additional Resources for Lake Patrol – Lake patrol currently consists of only one officer per boat, in spite of dramatic increases in boat traffic and boating accidents on our lakes. Additional resources would allow for a two-officer patrol during peak times, increasing the total number of patrol hours and providing adequate back-up for the one-officer patrol that is currently in place.

Estimated Cost: \$286,000 (5 FTEs).

Standardize Replacement Cycle of Protective Firefighter Gear – Our goal is to replace protective bunker gear every seven years. Currently, about 30 percent of our operations personnel are in the same bunker gear over a longer period of time. Additional funding of \$100,000 will allow us to replace 83 sets of bunker gear and start moving back to a standard replacement cycle of seven years.

Estimated Cost: \$100,000.

Augment Customer Services at Municipal Court Substations – A court clerk assistant is needed to cover increased customer demand at substations. Customers at the south substation, in particular, are estimated to be up six percent by the end of the fiscal year. Because of previous staff reductions, there are only two court clerk assistants currently assigned to the south substation. This additional resource would restore staff to three assistants and help meet growing demand.

Estimated Cost: \$37,000 (1 FTE).

Community Services

Increase Preventive Maintenance of our Streets – For a number of years, the City’s goal has been to provide preventive maintenance on 10 percent of our lane miles on an annual basis. Timely funding of preventive maintenance helps to avoid street reconstruction in the long run, which can be much more expensive per lane mile than preventive maintenance. Our current resources only provide for preventive maintenance at the eight percent level; an additional one percent would cost \$2 million.

Estimated Cost: \$2,000,000.

Provide a Cost of Living Increase for Social Services Providers – We contract with a myriad of social service providers to deliver services to eligible individuals to improve their quality of life. These services are directed at basic needs, child development, HIV community programs, homeless services, mental health, self sufficiency, substance abuse, violence and victimization and workforce development. Our non-profit providers face the same cost drivers that other organizations face, such as rising insurance and fuel costs. This funding would provide an inflationary increase of 3.5 percent for social services providers, and is estimated based on existing funding levels in the 2006 approved budget.

Estimated Cost: \$543,000.

Establish a Second Day Labor Site in South Austin – Over the last several years, we have had reports of people gathering without oversight in multiple south Austin neighborhoods looking for day labor work. Our community has outgrown the single north central day labor facility the City began operating many years ago. With this additional funding, we could provide a second coordinated location with oversight and controls for workers, which could place about 20,000 workers annually.

Estimated Cost: \$275,000.

Expand Outreach and Education to Reduce Euthanizing Lost or Abandoned Pets at Animal Shelter – We do not have dedicated staff in our animal services unit for prevention programs. Our stray cat intake is up over 15 percent since 2002 and our rate of euthanizing adoptable animals has increased from 25 percent to close to 40 percent from 2002 to 2005. We are losing important ground on our No Kill Millennium goal. Additional funding for animal sterilization, education and outreach and a microchipping identification program to help return animals to their owners will go a long way toward decreasing our animal intake at the shelter.

Estimated Cost: \$155,000, including 1 FTE.

Accelerate the Implementation of Neighborhood Plans – Five new planning positions would allow us to accelerate the development and implementation of neighborhood plans brought before Council for incorporation in the City’s comprehensive plan, Austin Tomorrow. This proposal also includes funding for the incorporation of three-dimensional computer modeling in neighborhood plans.

Estimated Cost: \$333,000, including 5 FTEs.

Central Support Services

Restore an Auditor Position for the Office of the City Auditor – Although our audit staffing levels remain above our peer city comparisons, one auditor is requested by the Office of the City Auditor to restore staffing cuts in previous years.

Estimated Cost: \$66,000 (1 FTE).

Unfunded Workforce Initiatives

At our policy discussions, Council directed me to research the cost of several options related to expanded coverage under a new Plus One employee health insurance program, and our Employee Workforce Committee has been examining the costs associated with the implementation of a bilingual pay program. The additional analysis is provided below.

Plus One Coverage – We have included funding in our proposed budget to add a same or opposite sex partner program as approved by Council. Because of the uncertainty of the actual cost implications of expanding our health care coverage, I would strongly recommend getting one year of claims experience under our belt in 2007 for same or opposite sex domestic partners before adding any additional coverage to our plan.

However, during our policy discussion, Council requested that we consult our actuary for additional information about extending insurance coverage to one adult dependent under a new Plus One program. This program would allow an employee to cover a spouse, domestic partner **or an adult relative**.

For all the options that follow, there were two ways to estimate costs. We could have either done the analysis based on the same dollar subsidy provided by the City for other dependents or based on the same percentage subsidy. We have chosen the lower cost model of assuming the same dollar subsidy. The actuary’s analysis is summarized below.

In addition to the funding included in the proposed budget for same sex and opposite sex domestic partners (including current and future

retirees), it would cost an additional \$280,000 each year for all City funds to implement a Plus One program. This option is considered in the medium-risk category by our actuary because of the uncertainty surrounding the amount of future claims costs that could be incurred as people began to enroll in the program. By contrast, the actuary categorized as low risk simply extending benefits coverage to opposite and same sex domestic partners, which is included in the budget proposal.

Based on further Council direction at our policy discussions in May, we also asked our actuary to estimate the costs for other coverage options. The addition of same/opposite sex domestic partner **and an adult dependent of the employee or retiree** would cost an additional \$560,000 for all City funds. The additions of same/opposite sex domestic partner **and an adult dependent of the employee, retiree, spouse or partner** would cost another increment of \$560,000.

The total incremental cost between what we have included in the proposed budget and expanding coverage to include an adult dependent of the employee, retiree, spouse or partner is estimated at \$1.4 million, with an impact to the General and Support Services Funds of about \$700,000 each year.

Bilingual Pay – Beginning a basic bilingual program for Spanish only beginning in January 2007 would require funding of about \$546,000 for the first year for the General and Support Services Funds. The annualized cost of the program is estimated at \$720,000. The program is recommended by the Employee Workforce Committee and is built around 70 job titles pre-prioritized by departments. To be eligible, the employee would need to use Spanish routinely for his or her job, as well as pass a standardized proficiency test.

Other Unfunded Considerations

Affordable Housing Funds – Our survey results have shown for several years now that affordable housing is one of the community's top priorities. Over recent years, the federal government has been systematically cutting funding to Community Development Block Grants and H.O.M.E. funding, and additional cuts are expected next year. At our policy discussions in May, we included affordable housing as an area that Council might consider as a candidate for added resources. However, before committing to additional housing funds in 2007, we want to do some additional analysis to determine the level of carry-forward funding that will be available to Neighborhood Housing and Community Development and to understand how that carry-forward funding fits into the department's capacity to spend in 2007. We should

not add funds to the department's 2007 budget that it will not be able to spend in 2007.

Understanding Community Priorities and Measuring Customer Satisfaction

Austin's city councils have been defining their top policy priorities since the early nineties. Current council priorities support our vision of being the most livable city in the country and provide an organizing framework for planning and service delivery. These priorities provide the continuity and direction needed to develop business plans that build upon each other, year after year, to help achieve longer-ranging goals. The City Council's four policy priorities are:

- Youth, Family and Neighborhood Vitality,
- Public Safety,
- Sustainable Community, and
- Affordability.

When we talk about a livable city from a government perspective, we mean a responsive city government that understands the community's priorities and invites 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 the 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 grouped according to Council's top policy priority areas, including emergency public safety response, transportation, parks and recreation, library services, garbage collection and utility services. Citizens rank the issues by level of importance and provide us with 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.

In general the following concerns were cited by citizens, as listed in rank order below:

1. Road conditions and new roads
2. Growth management
3. Cost of living

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

4. Tax-related issues (including rates, fees and charges)
5. Mass transit
6. Pollution-related issues
7. Quality of life (more green space, arts, etc.)
8. Public education issues
9. Water quality and supply
10. Management of budget

Customer Priorities

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

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

Customer Satisfaction

Public Safety. Public safety continues to be the highest priority for Austin citizens, specifically police, emergency medical services and fire. Satisfaction with most public safety services is higher than last year. Neighborhood policing showed the most improvement from 2005, notably in police cooperation with neighborhoods. Similar to 2005 survey results, however, 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.

Satisfaction with emergency medical services (EMS) among people who have used these services within the last 12 months has dropped compared to last year's survey result with the primary factor cited as

timeliness. This statistic is consistent with the rising call volumes that EMS is experiencing. In addition to funding 2 new EMS station openings in the next 12 months, our budget proposal includes the addition of a peak load unit to rove during times and in areas of the city where call volumes are high, as well as funding to recruit and retain paramedics.

Youth, Family and Neighborhood Vitality. The City Council priority of youth, family and neighborhood vitality began as a discussion about preserving Austin's quality of life. Child and youth development, strong families, community health, a viable economy, and a clean environment all contribute to a safe, vital community with self-reliant neighborhoods.

In the past, respondents have generally indicated they are satisfied with the services provided by the Parks and Recreation Department, in spite of the significant budget cuts made in recent years. As we noted earlier, this is changing. In 2006, satisfaction with almost all service areas has declined slightly over last year and the survey results appear to focus on the condition of our facilities, notably the appearance of park facilities and grounds and the availability of parks and preserves.

The City Council's vote to place a \$567.4 million bond package before Austin voters in November 2006, which will include \$20 million for parkland acquisition and \$64.7 million for park facilities, will be targeted primarily at major rehabilitation of our existing facilities. Of the \$64.7 million for park facilities, the bond package will include \$53 million to renovate our buildings and facilities, pools, and park infrastructure.

About 60 percent of all residents use library services during the year. The overall rating of library services has increased compared to 2005, with satisfaction related to availability of materials showing the most improvement. The bond package will include \$90 million for construction of a new central library.

Satisfaction with health and human services programs declined compared to 2005 survey results, particularly animal control services. Proposed budget additions for Council consideration include funding for animal sterilization, education and outreach and a microchipping identification program to help return animals to their owners in order to decrease our animal intake at the shelter. Council's bond package also includes \$12 million for a much needed new animal shelter.

Quality of life 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, offering 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 in all survey categories than last year. The survey also indicates that residents continue to be very satisfied with the livability of their neighborhoods. Additionally, customers continued to express satisfaction with our garbage collection and recycling programs in the 2006 survey.

Sustainable Community. 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 2005 findings. In 2006, satisfaction with almost all service areas has improved over last year.

The preservation of green space slipped somewhat compared to the 2005 survey results, but was still higher than the results for 2003 and 2004. The November bond package includes \$50 million funding for acquisition of land, including fee title and conservation easements in the Barton Springs contributing and recharge zones and should favorably impact ratings in the future.

For the first time, survey responses indicate that citizens see significant improvement in the road conditions in Austin. About 70 percent of respondents view road conditions as “good” or “mostly good” compared to 62 percent in 2005. Satisfaction with the traffic flow and traffic signal timing on city streets has also increased compared to 2005 survey results, yet citizens still remain dissatisfied with road conditions and traffic flow overall. Both of these categories remain in the top ten citizen issues in 2006.

The recent storms that swept through the Austin area coincided with the administration of our survey. We believe this affected the survey results for questions related to electric service reliability, timely responses to power outages, and tree trimming around power lines. Austin Energy and other City departments responding to these storms have completed an after action report that was presented to the City Council in June 2006. Plans are underway to implement an automated alert system for proactive identification and trouble shooting of likely outage areas by Austin Energy. Austin Energy has also begun working closely within the neighborhoods to balance the need for keeping trees trimmed around the power lines while preserving the beauty and shade that these trees provide.

Affordability. Affordability can be defined as a guiding principle for how we do business. Affordability means providing the best possible service to our customers at a reasonable price. The citizen survey asks questions about the amounts citizens pay for electricity, water and

wastewater, and garbage and recycling. Survey results are relatively unchanged compared to the results in 2005. The most favorable ratings regarding affordability are associated with fees for the garbage collection and disposal services. Rates for the City's "Pay-As-You-Throw" program have been stable since the rate structure was adopted in 1996. Although operating costs have increased, Solid Waste Services has managed its rising costs by implementing cost savings, such as process improvements and by shifting routes to combine garbage collection and recycling rather than raising fees.

Customer-Driven Initiatives

Update on 3-1-1 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 manages 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 by expanding the 3-1-1 system from public safety non-emergency calls to the phasing in of all relevant 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, Health and Human Services Animal Services and Code Compliance. The next department to be added will be Solid Waste Services in the summer of 2006.

Additional departments will continue to be phased in all during fiscal year 2007, most notably being the public safety non-emergency calls currently going to the Austin Police Department. In the summer of 2007, the Call Center is expected to begin comprehensively taking all city 3-1-1 calls. This should continue to relieve some of the growing workload pressure on our 9-1-1 operation and allow the Police Department to redeploy five 3-1-1 call takers to dispatch and ten call takers to crime report writers.

The final call center consolidation coupled with expected growth in future years requires the center to move to a larger facility with more seats for customer service representatives. The location for the consolidated call center is at the new Cameron Road Campus Facility that the City acquired in 2005 and the move is planned for the end of 2006.

Austin Energy Quality Initiative. Recognizing the importance of achieving the highest level of quality service and reliability to its large high-tech customers, Austin Energy has embarked on a quality enhancement plan that will be designed by experts in this field. Austin Energy is striving to obtain ISO 9000 certification for the utility and is adding a quality management program (i.e., Sixth Sigma, Total Quality Management). We are also increasing Electric Service Delivery staff, plus working with an engineering firm to augment the utility's engineers with engineering support when necessary. The utility is committed to providing the necessary time and resources to accomplish this effort.

Beginning with Austin Energy and several of our other key enterprise departments, we are also exploring ISO 9000 certification for some essential General Fund functions. Coming out of the downturn, the ISO 9000 certification along with a quality management program will provide a solid structure for assessing and maintaining the City of Austin as a high quality service organization.

Department of Public Safety and Emergency Management

In August 2005, Council approved a budget amendment that combined the Office of Emergency Management, Park Police, Aviation Police, and Municipal Court Marshall functions into one General Fund department, Public Safety and Emergency Management (PSEM). Combining these functions creates greater consistency in standards of operation and training. The officers assigned to each function are still housed in their corresponding department to provide focused service, while the PSEM Department Director works closely with all customer departments to ensure their needs are met.

In June 2006, the Council directed me to complete a feasibility study regarding the potential costs, savings, efficiencies, employment issues, and practicality of combining all of the City's law enforcement officers under a central command and control structure. We will report back to Council on the results of the study in August. This analysis will include an evaluation of the current structure and organization to determine the impact on services if these functions are placed in a centralized command within the Austin Police Department. The analysis will also include an estimation of the cost of compensating the officers in the Public Safety and Emergency Management Department commensurate with the officers of their rank and tenure within the Austin Police Department. Lastly, we will review the legal requirements and other employment issues associated with potentially combining these departments.

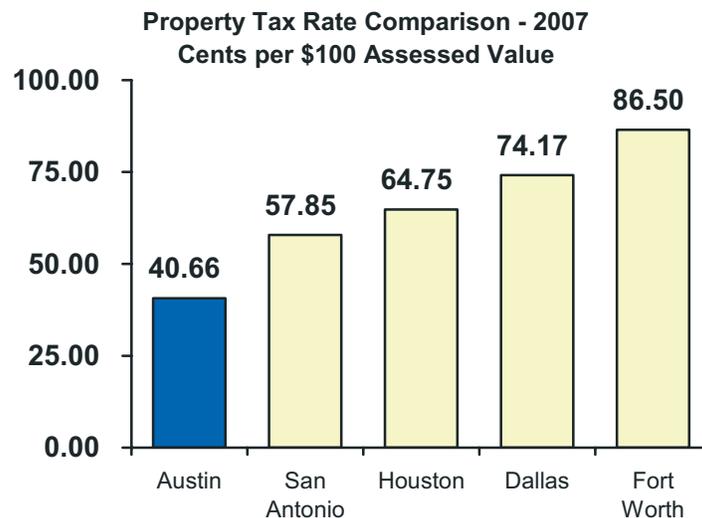
Fiscal Year 2007 Revenue Policies

Tax Rate

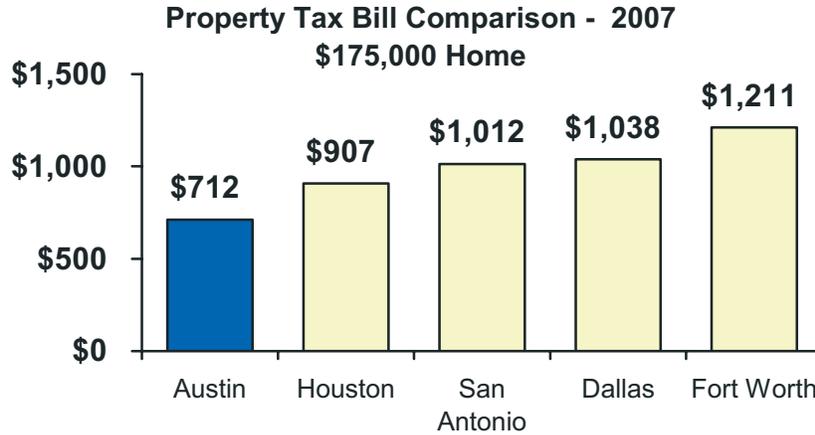
Affordability for Austin residents is a key consideration when Council considers the property tax rate each year during the budget process. Property taxes serve as the primary funding source for basic City services, including police, fire protection, emergency medical services, and health and human services.

Our task is to submit an annual budget proposal to Council based on “needs”, not “wants”. The principles that guide our budget development process focus on affordability. These principles include managing our financial resources effectively, delivering high quality services at a competitive cost, and investing in technology that enhances productivity and efficiency.

The budget is proposed at the effective rate of 40.66 cents per \$100 assessed valuation, a decrease of 3.64 cents from the current tax rate of 44.30 cents. The rollback tax rate is 42.14 cents per \$100 assessed valuation. The following chart compares our proposed 2007 tax rate of 40.66 cents with the current or 2006 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.



What does this mean for homeowners? For the owner of a homesteaded residence valued at \$175,000, the proposed tax rate of 40.66 cents will result in an annual tax bill of \$712 or \$59 per month.



Citizen Focus Groups. In conjunction with our annual citizen survey, we hired M. Crane and Associates, Inc. to conduct a series of six focus groups in late June with a diverse array of Austin residents in order to understand their opinions about the value of various strategic adds, as well as their willingness to incur increased property taxes needed to fund the adds. Research participants received basic information about the City of Austin, including tax rates, revenue and expenditures, and then were led through descriptions of a representative package of strategic adds.

More than 80 percent of these Austin residents expressed their willingness to sustain at least an additional \$20 per year in property taxes for a series of strategic adds. Further, 38 percent expressed their willingness to sustain at least an additional \$40 per year in property taxes. The factor driving their support was a strong sense of identification with Austin's quality of life and sense of community. The participants placed the greatest importance on reinvesting in emergency medical services and social services.

Use of One-Time Funds

Last year, we increased our emergency reserve from \$15 million to \$40 million. We left our contingency reserve at one percent of expenditures, estimated at \$5.1 million in 2007. If funds are appropriated from either of these two reserves during the course of a year, these funds would have to be replenished the following year. The total of these two reserves in fiscal year 2007 is expected to be \$45.1 million, which is about 10 percent of our total General Fund expenditures. According to our credit

rating agencies, a 10 percent “hard” reserve amount is an excellent benchmark for cities.

Additionally, Council adopted a change to our financial policy on fund balance and reserves that allows us to do two things: one, to capture unanticipated revenues and savings into a Budget Stabilization Reserve, and two, to provide guidelines for continuing to use that reserve judiciously for capital items and other one-time expenses.

At the end of each year, we place the remainder of our projected ending balance into our Budget Stabilization Reserve. This reserve is expected to total approximately \$50.1 million at the beginning of fiscal year 2007.

Reserve Policy Summary	
	2007
Contingency of 1%	\$5.1m
Emergency	\$40.0m
Subtotal: "hard" reserves	\$45.1m
Budget Stabilization	\$50.1m
Total	\$95.2m
Use of Budget Stabilization Reserve	
	2007
Beginning balance	\$50.1m
Less: appropriation during year	(\$16.7m)
Estimated ending balance	\$33.4m

In the past when we have discussed 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 deferred during the downturn. Under the proposed policy, we may appropriate one-third of this reserve for one-time expenditures in a fiscal year, and we are proposing an appropriation of approximately \$16.7 million in fiscal year 2007. This will fund some critical capital and other one-time needs, but equally importantly, it will leave us an ending balance in the reserve of \$33.4 million.

Following is a list of the one-time needs we are proposing to fund in 2007:

- Computer replacements
- New and replacement radios, mobile data computer equipment and automatic vehicle location equipment
- Vehicle replacements

- Departmental equipment (primarily parks and public safety equipment)
- Stability pay enhancement for our workforce
- Supplemental funding for the retirement system to begin reducing the unfunded liability to an amount that can be amortized over 30 years
- One-time funding to cover additional firefighter overtime resulting from vacancies caused by cancellation of a scheduled cadet class
- Replenishment of \$500,000 for park maintenance and capital investment that we could not fit into our final bond proposition
 - These repairs would help fund rehabilitation of our pools, such as electrical upgrades and backwash water discharge systems. Our goal is to continue this same amount of funding annually through 2010.
- Funding of \$500,000 for Barton Springs Pool would begin to address a variety of infrastructure issues at the pool, including restroom and dressing room upgrades, roofs and HVAC, asbestos and lead abatement, and electrical upgrades
 - This funding would first be used for a condition assessment by a preservation specialist and engineer. Our goal is then to make this \$500,000 an annual contribution to the restoration of Barton Springs Pool in future years.

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

Bond Election

In June 2006, after an extensive public input process, the City Council resolved to submit to the voters a \$567.4 million bond election program of long-term capital investments. These investments meet both municipal and regional goals for providing quality public services and responding to growth in Central Texas. The process that culminated in the Council's approval of the bond proposition began with the appointment of a Citizen Bond Election Advisory Committee (BEAC) in February 2005. The BEAC presented its recommendation to the Council one year later in February 2006.

Council voted to hold the Bond Election in November 2006 and received a series of briefings and recommendations on different project and program areas from staff. In May 2006, Council conducted two public hearings to receive additional citizen input. Council used the BEAC recommendation, staff briefings and public input to determine the bond program that voters will be asked to consider in November.

The following table outlines the final bond propositions.

Number	2006 Bond Proposition	Amount
1	Transportation	\$ 103,100,000
2	Drainage & Water Quality Protection	\$ 145,000,000
3	Parks Facilities & Parkland	\$ 84,700,000
4	Community & Cultural Facilities	\$ 31,500,000
5	Affordable Housing	\$ 55,000,000
6	Central Library	\$ 90,000,000
7	Public Safety Facilities	\$ 58,100,000
TOTAL		\$ 567,400,000

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. Moody’s Investor Services, considered by many cities to be the toughest of the rating agencies, reaffirmed the City of Austin’s general obligation bond rating in 2005 and upgraded the City’s outlook from “stable” to “positive”.

The bond projects would be implemented over approximately seven years and would add an estimated 2.88 cents per \$100 assessed value to the tax rate after the facilities are completed and brought online. Of the 2.88 cents, 1.00 cent is associated with additional operations and maintenance costs of the new facilities. The remaining amount of 1.88 cents is associated with the debt service tax rate.

Managing Public Safety Overtime

Public safety overtime has been in the forefront recently, both through our analysis of costs and issues during ongoing expenditure review, and through a series of articles and editorials in Austin’s daily newspaper. Overtime costs for our frontline public safety employees are significant. In 2005, overtime costs incurred in the Austin Police Department totaled \$10.3 million; while overtime totaled \$3.5 million in the Austin Fire Department.

Police. Our analyses of the factors that have contributed to the increased use of overtime over recent years include:

- Increased homeland security demands after September 11th

- Implementation of a constant staffing level goal of 80 percent for all patrol shifts, beginning in 2001
- Increased intensive training requirements to ensure officers have the tools they need to better serve our community, over 60,000 additional training hours over the past two years
- An increase of 75 percent in special and major events, such as Halloween, Mardi Gras, New Year's Eve and the Texas Relays

As part of our analysis, we compared ourselves to other cities and found that Austin is the only city with a constant level staffing policy for patrol. This is despite the fact that both our authorized strength and our vacancy rates are at the midpoint of that comparison. For cities that limit the amount of overtime that an officer can work and/or that monitor secondary employment, Austin's policies and practices are essentially in line with those cities or in some cases stricter.

There are operational reasons to consider in using overtime. Backfilling for vacant positions allows for more flexibility in work assignments and places more tenured, experience officers on the street. This is consistent with our community policing expectations by keeping officers who know an area on patrol in that same area, as opposed to hiring a pool of floaters to provide this coverage. Finally, in some cases, the staffing demand can only be filled by overtime, such as for large special events.

Our budget clearly reflects the investment and commitment we have made to ensure that our citizens and our officers are safe.

- The Austin Police Department has maintained national and international accreditation.
- Our officers have implemented strategies and programs that are recognized as national best practices.
- Their dedication and efforts have resulted in the ranking of Austin as the third safest city in the country.

Our Acting Police Chief is developing a plan to manage overtime more effectively in the future, while still maintaining public safety as a priority. Those efforts to date have found that our constant staffing model is being applied inconsistently among the many patrol units. This correction, along with exercising more centralized control over the assignment of officers for overtime duty, the filling of vacancies when our two cadet classes are completed, and the addition of civilian positions to free up patrol hours should result in reduced overtime hours next year. Overtime of \$7.1 million is included in fiscal year 2007 budget, a decrease of 25 percent compared to our current estimates of overtime for 2006. We plan to monitor spending throughout the year as we

implement these operational controls and will keep Council informed about our progress.

Fire. Enhanced task force staffing, begun as a pilot program in 2004, and the cancellation of a cadet class due to legal challenges exacerbated the number of vacancies and required additional backfill overtime to cover those vacancies. However, the cadet class cancellation was a one-time occurrence. The Austin Fire Department is estimated to have about 70 vacancies at the end of 2006, compared to the average of 30 vacancies that are normal for the department. With the resumption of cadet classes in August 2006, we should be back on track by the end of fiscal year 2007. The proposed budget includes \$2.3 million for one-time funding to cover the additional firefighter overtime resulting from increased vacancies caused by cancellation of the scheduled cadet class.

Fiscal Year 2007 Proposed Rate and Fee Increases

Water and Wastewater Rate Increases

The major cost driver for the utility is related to required capital improvements. Over the next five-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, regulatory compliance and costs for system expansions and additions, as well as annexations. Growth in the customer base alone will not be sufficient to generate the needed revenue for new capital expenditures estimated at \$920.2 million.

In an effort to avoid two large rate increases over a five-year period, the Utility proposed a five-year level rate increase plan ranging from 4.2 percent to 5.2 percent per year beginning in 2006. During the last year, construction costs have skyrocketed, together with increased inflationary pressures on the combined utility systems operations and maintenance costs. As a result, the Utility proposes a combined system-wide rate increase of 7.1 percent in 2007.

Austin's average monthly combined water and wastewater bill is \$49.95 and somewhat above the midpoint monthly bill of \$45.24 for 27 cities surveyed. The proposed rate increase would bring the average monthly bill to \$54.01.

Other Fee Increase Highlights

As is our practice, every two years we complete a comprehensive revenue initiative in which we review existing fees and explore new fees appropriate to support the services we deliver. The review included an

analysis of whether fees had kept pace with inflation, as well as identifying viable new fees. Highlights of the initiative are outlined below.

EMS. This year, we propose increasing the advanced life support transport fees by \$100 for the Emergency Medical Services department. It has been four years since these rates were adjusted and during this time, costs have increased over 30 percent. The rates as proposed would remain below a 200-city average per a survey that was completed in 2005 and are lower than the majority of surveyed agencies in our area. The additional revenue is estimated at \$1.1 million and will help fund the cost of emergency medical services, as well as the increased demand for those services.

Airport. Airport hourly parking garage rates are proposed to increase from \$2.00 to \$3.00 per hour or part thereof after the initial thirty minutes. The authorized maximum daily rate would increase from \$18.00 to \$21.00. The maximum valet parking rate would increase from \$25.00 to \$27.00 for each period of time up to 24 hours. The estimated annual fiscal impact is \$1.8 million and will help to reallocate parking patterns so that the parking garage does not reach capacity as often.

Municipal Court. A new fee of \$4.00 will be added to the fee schedule for fiscal year 2007 although the fee actually became effective in January 2006 per an ordinance adopted by Council. The fee is paid by a defendant convicted or receiving deferred dispositions on fine-only misdemeanors in Municipal Court. The revenue from the fee must be used to offset the costs of case managers handling juvenile cases in Municipal Court. The estimated annual impact of this fee is \$550,000.

Golf. Increases in golf green fees at Hancock, Jimmy Clay, Morris Williams, Lions and Roy Kizer will continue to help restore turf maintenance that was cut during the downturn. This change is expected to increase golf revenue by about \$170,000.

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

Fiscal 2007 Departmental Budget Highlights

This section of the transmittal letter highlights the proposed budgets of the major General Fund and Support Services departments. New investments that are included in the proposed budget are shown in italics at the end of each department.

There are several cost drivers which have impacted numerous departments this year that I would like to mention. First as was previously mentioned, the initiative to convert long-term temporary positions to permanent status will have an incremental cost as a result of adding health insurance and moving the employees to a market-based salary. In addition, over the last few years we have seen significant increases in contractual services and commodities as the result of rising energy costs. Virtually all departmental budgets were increased this year to reflect higher utility, fuel and maintenance costs. Finally, in an effort to provide our employees with opportunities for training and professional growth and to provide more equity between departments, some of the training funds cut during the downturn have been restored based on a per FTE calculation.

Police (APD)

- **Total 2007 proposed budget** - \$196.6 million
- **Maintain 2.0 officers per 1,000 residents** – Adds partial-year funding for six additional officers.
- **Meet and confer** – Funding is included for the fourth year of the approved Meet and Confer contract provisions.
- **Jail interlocal** – Contractual increases of \$156,000 have been included for the jail interlocal contract with Travis County.
- **Traffic incident management program** – Adds \$158,000 to fund seven part-time, retired police officers and related program costs to manage the City's towing ordinance and provide rapid response to clear vehicular accidents from our major roads and highways.
- **Addition of civilian staff** – Eight new civilian positions, (including five dispatchers, two positions in the homeland defense area and a community liaison), are included in the General Fund as the result of expiring grants in 2007. The proposed budget also includes a 9-1-1 call taker as well as the conversion of 6.75 positions from temporary to permanent status.
- **Addition of Assistant Chief** – *The addition of an assistant police chief is also included to restore a position redeployed at the commander level during the downturn. The restoration of this position will provide stronger oversight and leadership at the Police Department.*

Fire (AFD)

- **Total 2007 proposed budget** – \$105.9 million
- **Full funding for operation of all fire stations at enhanced task force staffing levels** – The proposed budget includes funding to operate all 44 of the City's existing fire stations, including full-year

funding for the new Spicewood Springs fire station and \$180,000 for bunker gear for all graduating cadets.

- **Collective bargaining** – Funding is included for the second year of the approved collective bargaining contract provisions.
- **Wellness center** – Because of an expiring grant, five positions and \$308,000 are added to fully fund the wellness center. Early successes in the program have resulted in the identification of three firefighters with potentially life-threatening conditions that were caught early and can now be corrected.
- **Reduces estimated vacancy savings as cadets graduate** – Additional cadet classes will reduce the number of vacancies and related salary savings next year, estimated at \$1.4 million.
- **Critical equipment replacement** – Systematic replacement of critical equipment will continue with funding for four pumpers in the upcoming year.
- **Training** – *Funding has been included for cultural awareness training for all staff on a three-year rotating cycle and to establish an AISD career track program.*
- **Sworn positions** – *During 2006, four sworn firefighter positions were reclassified to higher levels to serve as leaders in two areas: three are being utilized as Field Training Officers in the wellness program and one serves as the leader for the AISD career track program. The proposed budget replaces these four positions at a cost of \$160,000.*

Emergency Medical Services (EMS)

- **Total 2007 proposed budget** – \$38.1 million
- **New stations** – Includes full year funding for Del Valle and Circle C stations.
- **Conversion to 48-hour work week for paramedics** – In 2006, funding was included in the budget to convert from 24-hour shifts to 12-hour shifts for all EMS stations. Implementation of this new 48-hour work week for paramedics began earlier this month and is expected to improve patient care, preserve paramedic safety, and save \$525,000 in overtime in 2007.
- **Critical equipment replacement** – Systematic replacement of critical equipment will continue with funding for five ambulances in the upcoming year.
- **Call volumes** – *An additional demand peak unit with six paramedic positions at a cost of \$770,000, which includes \$227,000 in one-time funds for an ambulance. Also, one additional communications position was added at a cost of \$59,000 to address high call volumes.*
- **Office of the Medical Director** – *The 2007 budget includes adding \$308,000 and four positions to enhance the services provided by the Office of the Medical Director.*

- **Training and recruiting** – Budget proposal includes two new instructors for the EMS academy, an additional 20 hours of training per paramedic, and signing bonuses for new paramedics at a total cost of \$319,000.
- **Safety initiative** – Two new positions and \$125,000 are included to provide EMS with in-house occupational safety expertise and additional research capabilities to address on-the-job-injury rates which continue to be the highest in the City.

Public Safety and Emergency Management

- **Total 2007 proposed budget** – \$5.1 million
- **Additional officers** – Full year funding for converting five temporaries to permanent parks officer positions added in FY 2006 at a cost of \$192,000.
- **Stipend program** – Addition of \$179,000 for full year funding for stipend program for officers to provide consistency within the department and with Travis County Law Enforcement Officer Standards.
- **Emergency preparedness** – Addition of one position is included to oversee a volunteer recruiting, training and mobilization program for emergency events.

Municipal Court

- **Total 2007 proposed budget** – \$10.1 million
- **24/7 Magistration at the Central Booking Facility** – Proposed budget adds 3.5 positions and \$313,000 to provide this enhanced service.
- **Graffiti removal** – \$75,000 and one position are included in the Downtown Austin Community Court (DACC) budget to support the overall graffiti abatement program with community restitution workers.
- **Improved customer service** – Addition of one court supervisor in Municipal Court will reduce employee to supervisor ratios from 20:1 to 17:1 to support improved customer service and effective operations. One administrative assistant is added in DACC to provide needed support for the increased number of community restoration programs carried out by the court. Total cost of \$93,000.
- **Evening docket** – Two positions and \$141,000 are included to support the evening docket program to address growth in bench trials and code enforcement cases. In addition, two prosecutor positions and \$159,000 are included in the Law Department budget to support this program.

Health and Human Services

- **Total 2007 proposed budget** – \$30.9 million
- **Base cost increases** – Funding of approximately \$208,000 is included for anticipated cost increases for operations and maintenance at the Austin Resource Center for the Homeless (ARCH), flu vaccine, animal shelter equipment and drugs, and security guard contracts.
- **Graffiti removal** – *Addition of one program specialist and related supplies at the cost of \$125,000 to address increased graffiti activity and coordinate youth workers as part of the graffiti abatement program.*
- **Access to Primary and Preventive Care** – *Funding of \$128,000 for two additional positions in the Health and Human Services Department is included for more outreach efforts related to health issues taking such a disproportionate toll on our lower income residents.*
- **CAN social services contract** – *City of Austin share of a new position proposed by the Community Action Network (CAN). The City portion is \$10,000. Matching dollars would be required by other participating entities.*

Parks and Recreation Department (PAR)

- **Total 2007 proposed budget** – \$31.4 million
- **Mexican American Cultural Center (MACC)** – With the anticipated opening of the MACC in mid-2007, partial year funding for eight positions, temporaries, contractuales and commodities has been proposed. In 2007, the cost of \$450,000 will be offset by a transfer to the General Fund of Holly mitigation monies as was proposed by Council several years ago to accelerate the opening of the MACC.
- **Town Lake Park** – Partial year funding for six positions and related costs associated with the opening of Town Lake Park in the summer of 2007 is included at \$314,000.
- **Turner Roberts Recreation Center** – Expected to open in September 2007, funding of \$63,000 is included for four positions and related program costs for this recreation center at Colony Park for one month in 2007.
- **Increase in lifeguard salaries** – Full year funding of \$312,000 is included for a \$1.50 per hour increase in lifeguard salaries implemented in the summer of 2006 because of the inability to fill positions and fully staff pools this summer.
- **Community recreation programs** – Recreation centers, summer programs and other recreation programs are included at constant levels for fiscal year 2007.

- **Parks maintenance** – *The proposed budget includes the addition of five building and grounds assistants at a cost of \$206,000 to provide for full-time custodial services at five additional recreation centers.*
- **Zilker Botanical Gardens** – *Funding of \$222,000 and six positions are included to improve staffing levels and security, as well as improvements to the grounds to address on-going issues at the gardens.*

Austin Public Library

- **Total 2007 proposed budget** – \$21.0 million
- **Spicewood Springs Library expansion** – *Two positions have been added for a full year to support the funding of this expansion.*
- **Support services** – *Five positions and \$204,000 have been added to address core administrative and support functions that were cut dramatically during the downturn. With the restoration of library hours in 2006, this is the library’s most critical operational need in 2007.*

Neighborhood Planning and Zoning (NPZ)

- **Total 2007 proposed budget** – \$4.5 million
- **Increased focus on planning** – *One additional transportation planner at \$66,000 is proposed to address transportation planning within neighborhood plans, as well as SH 130 and other corridor plans. This will complement the four positions added in 2006, which added focus on downtown design, neighborhood plans that are eligible for updates, implementing design standards, and handling the significant increase in historic zoning and preservation cases.*

Watershed Protection and Development Review (WPDRD)

General Fund

- **Total 2007 proposed budget** – \$14.4 million. *The General Fund portion of WPDRD provides funding for the City’s One Stop Shop for development services.*
- **Building inspections** – *The 2007 proposed budget includes \$515,000 for four additional inspectors and temporary funding for the building inspections function as the result of tremendous growth in workload in the development area.*
- **Zoning review** – *The proposed budget includes \$187,000 and three plan review specialists in residential zoning review to meet increased demand as well as the workload associated with the new single family ordinance.*

- **Commercial review** – An additional \$121,000 and two positions are proposed for the commercial plan review area to address issues related to the new design standards.
- **Right of Way Management** – The proposed budget includes \$126,000 for two positions for enhanced right of way management resulting from increased development and the impact of design standards.

Drainage Fund

- **Total 2006 proposed budget** – \$55.3 million. The Drainage Fund supports the WPDRD mission related to water quality protection, flooding and erosion controls.
- **Continues funding** – For 16 positions added in 2006 to address infrastructure and waterway maintenance and flooding and erosion control needs.
- **Capital budget** – The department continues to set aside a portion of its revenue for capital projects. The proposed budget includes a \$17.1 million capital transfer which primarily provides \$3.7 million for multi-objective projects, \$1.2 million for erosion control, \$4.4 million for storm sewers, and \$4.8 million for flood control projects.

Roadways, Sidewalks, Bikeways and Transportation

The fiscal year 2007 proposed budget continues the City's investment in roadway maintenance, as well as the construction of sidewalks and curb ramps and transportation infrastructure. Maintenance highlights include:

- 578 lane miles or eight percent of the roadway network will receive preventative maintenance.
- 74 percent of the roadway network is projected to be in fair to excellent condition, exceeding our goal of 70 percent.
- \$2.2 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.
- \$2 million of new bikeways funding will be used to complete the second phase of the Pleasant Valley bikeways project, the North Acres bikeways project and to fund the matching portion of several previously announced grants.

1998 and 2000 Bond Projects

The proposed budget includes new appropriations for projects approved by voters in the 1998 and 2000 bond elections. With the appropriation

for the Twin Oaks Library, all appropriations of the voter-approved \$339.4 million from the 1998 bond election have been made. All 1998 bond projects are now underway and estimated to be complete within the next three years.

- \$2,973,000 Twin Oaks Branch Library (1998)
- \$5,000,000 Sidewalk Improvements (2000)
- \$4,900,000 Street Improvements (2000)
- \$2,000,000 Bicycle Improvements (2000)
- \$2,000,000 Transportation Grant Matches (2000)

Critical Additions to Central Support Services

As discussed in a previous section, a portion of the critical additions I have included in the proposed budget are related to central support services. The following information provides additional detail:

Law Department – *In 2003 and 2004, 20 percent of the Law Department staff was cut. At the same time, litigation matters are up 225 percent since 2002, contract matters are up 187 percent and employment matters are up 246 percent to mention just a few areas. The addition of one legal secretary and three attorneys at a cost of \$364,000 is included to keep up with this rising demand. In addition, as was mentioned previously, two prosecutors are proposed as a part of the evenings docket program at Municipal Court.*

City Clerk – *The proposed budget includes \$56,000 and one records management consultant to address requests for records management assistance, which have increased over 300 percent since 2003.*

Mayor and Council – *From 2003 to 2006, Mayor and Council budgets increased only three percent, which is less than the growth in salaries, retirement and insurance costs, resulting in an effective decrease in their budgets. In addition, in response to the interest of some Council Offices to convert their temporary employees to regular positions, one additional position per office has been included. The proposed budget includes an additional \$31,000 per office to cover all salary changes.*

Financial and Administrative Services (FASD) – *Resources were added to several areas of FASD. One project manager at a cost of \$60,000 was added to building services to deal with a backlog of projects at City facilities. Since 2002, over 700,000 square feet of new facilities have been added to the building inventory with no increases in staff to handle maintenance projects such as parking lots, HVAC systems or roofs.*

In the Controller's Office, a proposed addition of five accountant and programmer positions and \$307,000 will help to address new requirements associated with the implementation of a new citywide financial accounting system October 1 of this year. During the downturn, staffing was cut 17 percent. These positions will support numerous new applications and support significant changes in processes that will occur as the result of the system. The Purchasing Office, which was cut 24 percent during the downturn, will also be impacted by the new financial system and has one additional position and \$73,000. All of the positions included are critical to successful implementation of the new system and to ensure that bills are paid, vendors are included in the appropriate solicitations for services and the City's books and records are accurate.

Management Services – *One-half support position is added to address customer service and security issues in the management services reception area.*

Human Resources – *Two positions and \$131,000 are proposed to be added to provide training and support to human resources staff in City departments. With the decentralization of certain personnel responsibilities, inconsistencies exist and are growing among departments. This addition will ensure more consistent treatment of employees and application of personnel policies across all departments.*

Small and Minority Business Resources – *Addition of one position and \$47,000 is required to fulfill the City's Good Faith requirements under the MBE/WBE ordinance.*

How Can We Preserve What We Cherish About Our Community?

Austin is a city that works on so many different levels.

A native Texan, I came to Austin 34 years ago and fell in love with the Highland Lakes, hill country scenery and the town's mystique as an eclectic music town with great nightlife. Poised now to rebound after the downturn, Austin's reputation seems impenetrable. With our metro population bumping up to about 1.4 million, we continue to attract people from across the nation with a booming high tech employment center, a thriving motion picture industry, a vibrant downtown and a legendary quality of life.

But as the 16th largest city in the country, we aren't a "town" any more. Facing becoming the size of San Antonio by 2040, the question is whether we can preserve what we cherish about our community? What

we do today – how we invest today – shapes and sets the course for our future.

With this 2007 budget, we continue the process of rebuilding our organization to handle the challenges of governing a city that is transforming itself into a major metropolitan area.

Our economy continues to prosper and our revenue growth, particularly in sales tax, has allowed us to make headway in responding to growth and rebuilding our services and our workforce.

In my 2007 proposed budget, we have provided funding to address the increased demand for ambulance services in our EMS Department and for code enforcement in our Municipal Court. We have also provided additional resources in our EMS and Fire Departments for rebuilding frontline operations and for enhancing our ability to recruit locally from our school system.

In the area of community services, we have provided additional funding in a number of areas: building inspection, zoning and plan review, graffiti abatement, parks and recreation, and other areas.

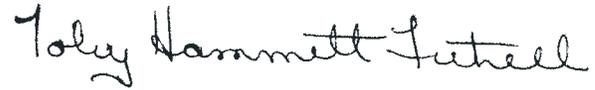
We are also adding resources to our corporate support services functions that were cut back severely during the downturn. These functions are essential in ensuring system integrity and providing critical internal controls, as well as in carrying out the complex service improvement projects we have undertaken, such as the one-stop shop, the 3-1-1 call center, and our new financial system.

While our economic outlook is positive and we are making progress in rebuilding our organization, we should continue to observe the financial policies and practices that have served us well over the last several years, in particular our focus on maintaining structural balance. A structural balance approach means funding ongoing expenditures with ongoing revenue. But it also means managing our cost drivers and understanding that future increases in cost drivers are more certain than future increases in revenues.

I would therefore suggest that while we can be optimistic about our economy and about our 2007 budget, we cannot ignore the fact that our cost drivers are submerged below an increase in new revenue that history tells us will dissipate at some point in the future. We must be judicious about adding expenses to our budget that will further increase these cost drivers.

I look forward to working with Council and Austin citizens on our 2007 budget. My staff and I stand ready to assist throughout the process.

Respectfully submitted,

A handwritten signature in cursive script that reads "Toby Hammett Futrell".

Toby Hammett Futrell
Austin City Manager