

City Manager's Proposed Budget Fiscal Year 2008

July 26, 2007

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

Today I present the proposed fiscal year 2008 budget. Similar to last year's budget, this budget continues to respond to growth in Austin and to reinvest in the internal support systems that are critical to our ability to deliver services effectively.

Austin's current economic outlook is still strong: the revenue recovery that began in 2005 and continued in 2006 and 2007 is reflected in our projections for 2008. This projection is consistent with the economic outlook that was presented with our five-year forecast in May.

In the near-term, both continued growth in the national economy and migration to the region should contribute to growth in the Austin area. These trends, combined with our successful local economic development initiatives, such as Samsung and the Domain, are expected to result in wage and job growth, as well as new construction activity. We have reason to be optimistic about our economy and about the City's current financial condition, yet we must keep in mind that we may not continue to see the same level of growth in revenue, particularly in sales tax collections, that we have seen in recent years.

When I highlighted key assumptions and issues for the 2008 budget during our policy discussion in June, one such issue was whether to prepare the proposed budget at the effective property tax rate or at the rollback rate. Under current State law, the effective tax rate generates additional revenue only from new construction, not from the existing tax base. In a rapidly growing city like Austin, the revenue that results from new construction or growth must be used to fund the costs associated with that growth. This leaves cities that stay at the effective tax rate struggling each year with how to fund or cover the increased costs of existing operations.

Additionally, each legislative session brings potential threats to our revenue base in various forms, including revenue caps, reductions in the rollback tax rate, or even redefining the calculation of tax rates to eliminate the "new construction" exclusion allowed by current law when

calculating the effective tax rate. Each proposed bill would affect cities negatively, albeit each in a different way. Although Austin and other Texas cities have survived such efforts so far, these challenges arise each session in one form or another and could eventually be voted into final law. Property tax is our most stable source of revenue, and cities need the flexibility to administer these funds to offset more volatile sources of revenue, such as sales tax. Because our effective tax rate has been decreasing steadily over a number of years while these types of legislative efforts appear to be on the rise, I believe that Council's policy discussion in June about considering the rollback rate for the 2008 budget is a necessary strategy to help sustain the services needed and requested by our residents.

Therefore, based on the Council's policy budget discussion in June, this proposal was prepared using the rollback tax rate. We project that this will still allow us to slightly lower the current tax rate of \$0.4126 per \$100 of assessed valuation and will bring in \$10.9 million in additional revenue. While this number may seem large, it represents only two percent of our annual General Fund budget of close to \$590 million.

This budget also anticipates continued increases in other revenue categories. Additional funds that will come from expected growth in other revenue categories, along with the additional property tax revenue from the rollback rate, will enable us pay for cost drivers and fund both new core initiatives and the initiatives included in Council's policy priorities, in addition to maintaining our current service delivery.

Since the presentation of our five-year financial forecast in May, much has been said and written about the potential "gap" in the amount of revenue needed to cover projected expenditures. At the rollback tax rate, the gap to be closed was estimated at \$16.6 million. This year's forecast was unusual in that it was the first time we included a number of new core service investments in projected 2008 expenditures that I believe are crucial to our service delivery, both internal and external. We knew that as we moved forward into development of the budget, we would have to close the gap, a process which entails scrubbing expenditures and evaluating our ability to fund these critical needs based on the more recent estimates of the resources we expect to have available.

So, beyond funding our increased cost drivers and current services, revised projections for revenue growth in 2008 and the "scrubbing" we have done to refine the expenditure projections we presented to you in May have allowed us to include many of these new core investments – to continue rebuilding our ability to respond to the increased demand for services that we have already experienced and to position ourselves to better respond to growth that is expected to continue in the future.

The focus of the 2008 proposed budget is one of *sustainability* – adding judiciously to the budget to fund critical ongoing and one-time needs, with an eye to the fiscal challenges we see looking across a multi-year budget horizon. Not losing sight of our sustainable budget goals, including the attainment of a structural budget balance has been crucial to our fiscal success so far. Over time, Council’s policy of not spending more in a given year than we collect in revenue has allowed us to begin prudently re-investing in our city and this organization. This policy was reaffirmed when Council adopted “sustainable economic development and financial health” as one of four policy priorities this past spring.

The proposed budget continues the reinvestment in our workforce we have been able to make in the past few years, primarily by addressing pay and benefits issues. In this proposal, I have included funding for an update of our compensation compared to the Austin market for one-third of our workforce. Reviewing one-third of the workforce each year will help sustain the progress that we achieved through the comprehensive market studies we completed in 2006.

I believe other workforce investments in the 2008 budget proposal will also help sustain a workforce on whom we have been very fortunate to rely during the hard times, as well as during growth periods when demands are high. With the strategic additions to our staffing in 2007, and the core service investments I am proposing in 2008, I hope to help fill critical gaps in areas where staff are stretched thin. Insufficient staffing resources will produce problems over time and can cause burnout in any dedicated and hard working staff, no matter how much they are paid.

The transmittal letter for the 2008 proposed budget is organized into several major sections that can be found on the following pages:

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Sustainable Financial Health: Achieving Structural Budget Balance

A key component of sustainable financial health is balancing the budget structurally each year, which simply stated means not spending any more in a given year than we collect in revenue. Council's commitment to this policy over the years was clearly a factor this past year when we earned the second highest possible rating for our general obligation bonds from Moody's Investor Services, considered the most conservative credit rating agency in the industry. Moody's cited our economic recovery, robust tax base and prudent management of our cash reserves as key factors contributing to the upgrade.

Balancing the Proposed Budget. As I mentioned earlier, our forecast at the beginning of the budget process projected a deficit of \$16.6 million. Since that time, we have continued to record positive trends in our revenue base. We are seeing further increases in our sales tax collections and in development revenue. Our estimates of new property coming onto the tax roll next year are solid, and we continue to achieve a very high collection rate on property tax revenue. Throughout the budget development process, we have also refined our cost estimates and re-examined our priorities regarding potential core service investments. The net result is that these additional revenues and projected savings will allow us to include many of the new core service investments that we submitted for Council's consideration during the forecast.

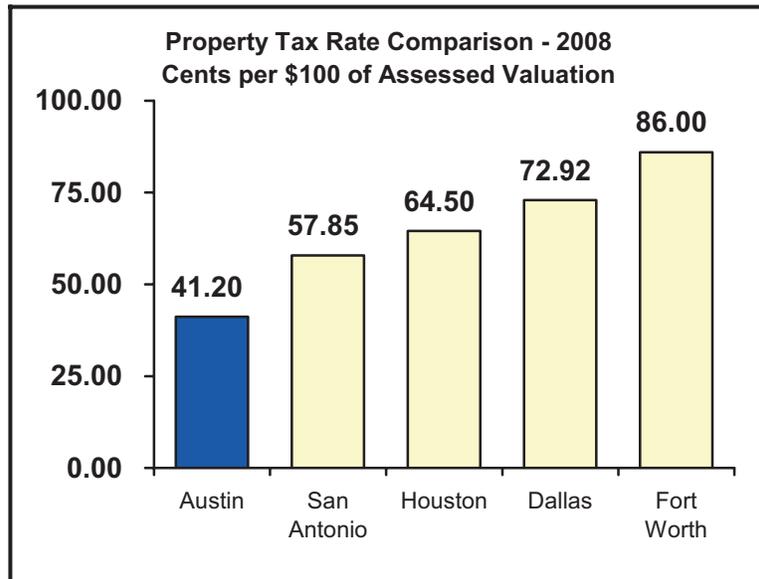
Property Tax Rate. Affordability for Austin residents and the sustainable financial health of the City are key considerations when Council deliberates about the property tax rate each year during the budget process. Property taxes serve as the primary funding source for basic City services, including police, fire protection, emergency medical services, and health and human services. We do not take tax considerations lightly. The principles that guide our budget development process focus on affordability and sustainability. 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.

Due to an overall increase in new property on the tax rolls, we estimate that we can reduce our tax rate slightly below the 2007 level of 41.26 cents per \$100 valuation and still fund our annual cost drivers, as well

as about \$5.4 million of our most pressing operational needs that are crucial to the quality and integrity of our service delivery.

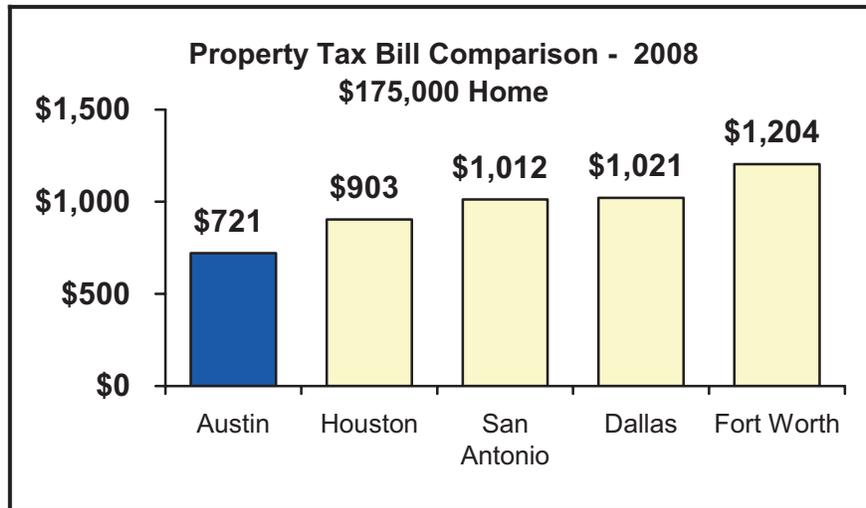
This proposed budget is sound, balanced, and reflects the rollback tax rate based on our policy discussions in June. We do not receive the certified tax roll until the end of July, so as of the date that this proposed budget went to print we do not know the exact rollback tax rate. However, our estimate of the tax rate for the proposed budget is 41.20 cents per \$100 of assessed valuation, a slight decrease from the current tax rate of 41.26 cents. We do not expect significant changes but I will apprise you of any changes in the rate when we receive the certified roll.

The City has acted responsibly with its tax rate over the years, reducing it from a high of 62.25 cents in 1993 to the current rate in 2007 of 41.26 cents. Certainly in the economic downturn of the last few years, we have done the hard work of cutting our General Fund budget even as we absorbed increased costs from our public safety cost drivers. We cut management and administrative costs before cutting any direct services, and we have continued to seek more efficient and effective ways of delivering services before resorting to tax increases or other “quick fixes.” We have administered our tax rate prudently in the past and will continue to do so in the future. The following chart compares our proposed 2008 tax rate of 41.20 cents with the current or 2007 tax rates for the major Texas cities shown. However, even at the current tax rate for Austin of 41.26 cents, Austin’s tax rate is significantly lower.



An additional \$10.9 million in new revenue is expected to be generated by adopting a tax rate equal to the rollback rate of 41.20 cents. What does this mean for homeowners? For the owner of a homesteaded

residence valued at \$175,000, the proposed tax rate of 41.20 cents will result in an annual tax bill of \$721 or \$60 per month, which is essentially equivalent to the tax bill on a similarly valued home in 2007.



We do not yet have the most recent statistics on median home value, but will receive this information when the certified tax rolls are forwarded to us.

Budget Stabilization Reserve. Our financial policies provide 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. If funds are appropriated from either of these two reserves during the course of a year, these funds have to be replenished during the following year.

I am agreeing to a one-time deviation from that policy in fiscal year 2008, consistent with Council’s policy discussion in June. When we presented our five-year financial forecast in May, we noted that the gap between revenues and expenditures was most significant in 2008, due to both our growth trends and a much-needed new investment in our core services. Subsequent to 2008, differences in the estimated gap from year to year are more moderate, based on longer-range growth assumptions. I concur with Council’s policy discussion that using an additional \$5 million in funds from the budget stabilization reserve in 2008 would help smooth out the front-loaded costs of our growth curve, as well as provide the funding we need to continue strengthening our core services.

In the past when we have discussed our balances and reserves with the rating agencies, we have consistently told them that we would be spending some of our balances to pay for one-time costs we deferred during the downturn. Stronger than anticipated revenue collections both at the end of 2006 and in 2007 are expected to result in a projected ending balance of approximately \$50.3 million. Even after spending one-third of this \$50.3 million, or \$16.8 million, for critical one-time expenditures and using an additional \$5.0 million in 2008 to help smooth out projected funding needs, the budget stabilization reserve will end the year in 2008 with more funds than originally anticipated in our 2007 budget.

In fiscal year 2008, we are proposing \$17.3 million to fund one-time expenditures, including the replacement of critical equipment and other one-time needs. Of this amount, \$16.8 million will be funded from the budget stabilization reserve and \$535,000 from unspent one-time appropriations in prior years. This will leave us a balance of \$28.5 million in the budget stabilization reserve at the end of the year to provide a financial buffer in the event of another unexpected downturn like we experienced in 2002, as well as to fund future one-time expenditures.

Reserve Policy Summary	
	2008
Contingency of 1%	\$5.7m
Emergency	\$40.0m
Subtotal: "hard" reserves	\$45.7m
Budget Stabilization	\$28.5m
Total	\$74.2m
Use of Budget Stabilization Reserve	
	2008
Beginning balance	\$50.3m
Less: Capital and other one-time needs	(\$16.8m)
Less: Additional infusion of funds for 2008	(\$5.0m)
Estimated ending balance	\$28.5m

A list of the capital and other one-time needs that we propose to appropriate in fiscal year 2008 is included in a later section of the transmittal letter, entitled "Fiscal Year 2008 Budget Highlights".

Reallocated Funding. In recent years, we have experienced favorable cost trends in our workers compensation fund, primarily due to an increased focus on worker safety. Approximately two-thirds of the annual costs incurred by the workers compensation fund are for injuries that

result in lost time (time away from the job) of greater than seven days. The city uses a standard industry safety measure, the lost time injury rate > seven days, to measure our safety performance, and this measure has improved substantially. For the first six months of FY 2007, this measure has decreased by 26% when compared to the same time period of FY 2006. In particular, lost time injuries of greater than seven days have decreased 50% or more in the Parks and Recreation Department, the Fire Department, and the Emergency Medical Services Department. Similarly, our general liability reserves are trending favorably compared to reserve requirements in our financial policies and we will not need the level of funding required in previous years.

Further, we have been able to fund our annual contribution for rehabilitation of the Barton Springs pool from the Sustainability Fund, rather than transferring general funds to the CIP. The Sustainability Fund provides funding for projects across the City contributing to sustainable economic development, the environment and social equity. The Barton Springs pool rehabilitation initiative is consistent with the funding goals of the Sustainability Fund.

Each year, we assess these and other fund balances in light of trends and estimated future needs, and adjust contributions to these funds accordingly. The reallocation of this funding will allow us to fund other priorities in 2008.

Cost Drivers and New Core Service Investments. Managing our resources wisely to achieve sustainable financial health involves managing the growth in our cost drivers, as well as investing in our core services strategically when funds become available to support those new, ongoing investments.

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. The Office of the City Auditor and an outside consultant are currently conducting a phased evaluation of the operations and administration of the City's law enforcement functions, the largest of which is the Austin Police Department. The project includes evaluation and analysis of operational performance measurements, benchmarking, staffing, assessment of deployment methods and models, as well as cost drivers, barriers and opportunities for reducing costs. The Council's Public Safety Task Force was created in December 2006 to advise the Council on all matters related to public safety and its meetings include regular updates on the progress of this assessment. The City enters into contract discussions with the Austin Police Association in the fall of

2007. In preparation for labor contracts that expire at the end of fiscal year 2008, it is anticipated that this report will provide data and analysis that can help make labor discussions more productive for both parties.

In addition to public safety, our cost drivers also include increased operations and maintenance costs as we bring new or expanded facilities online or undertake additional street maintenance, rising personnel costs, social services contracts and most recently, inflationary pressures resulting from the high cost of fuel and construction.

In the forecast presented in May 2007, our cost drivers totaled \$54.2 million. Since then, as we worked through refinements to each department's budget, we managed to reduce the cost drivers by \$2.1 million overall. The proposed budget contains \$52.1 million in cost drivers as shown below.

Major Cost Drivers (\$ millions)			
	2008 Forecast	Adjustments	2008 Proposed Budget
Public Safety	\$26.6	(\$0.7)	\$25.9
Health Insurance			
• Public Safety	3.8	0.0	3.8
• Non-Public Safety	1.5	0.0	1.5
Pay for Performance			
• Public Safety	6.5	0.0	6.5
• Non-Public Safety	2.5	0.0	2.5
Compensation Review	0.8	1.0	1.8
Accrued Payroll	1.7	0.8	2.5
Social Services Contracts	0.4	0.0	0.4
New Facilities O&M	1.6	0.2	1.8
Additional Street Maintenance	2.9	0.0	2.9
Other Estimated Cost Increases	5.9	(3.4)	2.5
Total Estimated Cost Increases	\$54.2	(\$2.1)	\$52.1

Two categories of personnel costs went up from forecast to proposed: compensation review – to keep employees at market – and accrued payroll. At forecast, we estimated that the cost of implementing a compensation review in fiscal year 2008 would be \$800,000. This estimate was based on how much the last market review cost, which was completed in 2006. However, since the forecast presentation in May, the Human Resources Department has developed a more precise estimate of what the total 2008 cost is expected to be, with a resulting increase of

approximately \$1.0 million dollars for the General Fund. As part of the review process, we plan to identify employees who are incorrectly placed within their pay zones, as well as positions for which the market has significantly fluctuated within the last year.

The City has a two-week pay cycle, which results in 26 pay periods in most fiscal years. However, approximately every ten years the City has an additional 27th pay period that falls within its fiscal year. In order to maintain and report the General Fund balance on a basis consistent with generally accepted accounting principles, the City must accrue a liability and a related expenditure that will allow it to accumulate enough to pay the cost of that additional pay period when it comes due. The amount accrued annually is normally the cost of one day. At forecast, we estimated the cost of accruing one day would be \$1.7 million. However, we have updated that number for all of the other personnel changes included in the budget – pay for performance, market, additional employees, etc. – and have added an additional \$800,000 to the payroll accrual.

Since presenting the forecast, we have also identified additional revenue, including additional sales tax revenue, additional interest income, and additional revenue in a number of fee categories. At forecast, we projected receiving \$33.7 million in new revenue. The proposed budget now includes a total of \$8.0 million in revenue beyond the increase that was projected in the forecast, in addition to the \$10.9 million generated by adopting the rollback tax rate and the \$5 million in additional funds from the budget stabilization reserve. We therefore have enough new revenue in 2008 to fund our cost drivers, as well as to fund \$5.4 million in pressing workforce and operational needs. The forecast included \$7.0 million in recommended new core service investments. However, as I indicated earlier, we realized going into the forecast process that we must live within our means and this would entail prioritizing these critical needs based on more recent estimates of the resources we expect to have available for services.

In closing this discussion on balancing the budget, we must continue to be vigilant in striving for structural balance and, more importantly, in monitoring our cost drivers – future increases in cost drivers are more certain than future increases for the near term in revenues.

Sustainable Growth: Investing in our City

Last year, our budget was organized around rebuilding our services and responding to growth. Looking forward into the future, we expect this growth to continue based on our current economic outlook, followed by more moderate growth in the longer term. Part of what makes any city livable is the ability to manage and sustain growth in ways that are not disruptive. The ability of a local government to effectively respond to growing demands for its services, as well as to help shape and sustain growth, depends on the resources available to accomplish those tasks and deliver services efficiently.

Council Policy Priorities – Shaping our Future

Austin's City Council has been defining its policy priorities since the early 1990s. In November 2006, the Council met to reassess the City's vision and priorities and reaffirmed the long-held vision of Austin being the most livable city in the country. After a follow-up worksession to wrap up the work begun in November, Council adopted four new priorities, supported by strategic goals, in April 2007:

- Rich social and cultural community
- Healthy, safe city
- Vibrant urban fabric
- Sustainable economic development and financial health

Sustainability is arguably the one theme that relates to all of Council's policy priorities. Council priorities continue to serve as an organizing framework for how we do business, providing the continuity and direction needed to develop business plans that build upon each other, year after year, to help achieve our livable city vision and longer-ranging goals.

As part of our policy discussions in June, we presented a report on the status of our work in the Council's priority policy areas and additional funding that would be needed in the upcoming budget year. This report encompassed all City funds. Outlined in the following table is a recap of the Council initiatives that reflects updated expenditures included in the 2008 budget proposal. Our comprehensive status report on all Council's priorities can be found on our website at <http://www.ci.austin.tx.us/vision>.

Council Priorities & Budget Initiatives Additional Resources for 2008 (in millions of dollars)	General Fund	Other Operating Funds	CIP
<u>Rich Social & Cultural Community</u>			
Waller Creek	–	–	\$ 3.5
Downtown quality of life	\$ 0.1	\$ 0.1	\$ 0.5
Downtown Master Plan	–	–	\$ 0.4
Hike & bike trail	–	–	\$ 0.4
Parks & public space maintenance	\$ 0.8	–	\$ 6.9
Barton Springs master plan	–	–	\$ 0.5
<u>Vibrant Urban Fabric</u>			
Green water treatment plant	–	–	\$13.4
Street maintenance	\$ 2.9	\$ 2.6	–
<u>Healthy, Safe City</u>			
Structural water conservation	–	\$ 2.6	\$ 7.9
Long-term landfill plans	–	\$ 0.1	–
<u>Sustainable Economic Development & Financial Health</u>			
Cutting-edge businesses	–	–	\$ 4.4
Small & minority-owned businesses	–	\$ 0.6	–
Climate protection plan	–	\$ 0.8	\$ 0.5
Affordable housing	–	–	\$ 8.8
Total	\$ 3.8	\$ 6.8	\$47.2

Our budget transmittal letter typically focuses on additional expenditures proposed in the General Fund. As outlined in the table above, additional funding for Council’s policy priorities and budget initiatives is also included in a number of other City funds, including our enterprise funds and capital improvement program. Across all City funds, additional funding proposed in the 2008 budget related to Council priorities total approximately \$10.6 million in the General Fund and other operating budgets and \$47.2 million in the capital improvement program. Included in the General Fund resources of \$3.8 million are \$900,000 in expenditures that are also included in new core service investments and are discussed in more depth in the following section.

The Council initiative related to the external audit of the Austin Police Department was fully funded in 2007 and does not require additional resources in 2008. Additional funding of \$3.2 million is included for overtime related to a number of operational areas in the Austin Police Department, which also includes downtown policing in the Council’s

downtown quality of life initiative. These additional funds will provide the ability to target law enforcement needs in key areas, including downtown and other areas of our city such as the south central command area. Our new police chief will be analyzing how these additional resources can be best used as we prepare to enter the new fiscal year.

New Core Service Investments

As has become our practice in recent years, City departments conducted an annual risk and vulnerability assessment to identify unmet operational needs that have become critical due to the demands of growth or pressures from spending reductions in previous years. Our resources continue to be stretched thin going into fiscal year 2008. During forecast development, our department directors identified approximately \$21.6 million of unmet needs. Our management team, working with the department directors, reduced that list to \$7.0 million of core services investments for the forecast, taking into consideration our service goals, key indicators and performance measurements. During budget development, we further reassessed these needs based on available resources and were able to include \$5.4 million in the proposed General Fund budget, including \$900,000 related to Council’s budget initiatives for 2008. Similar to last year, we have grouped these core service investments by major category.

Investing in our City	Proposed for 2008	FTEs
Managing and Responding to Growth	\$4.6 million	66.5
Enhancing Internal Control Systems	\$0.8 million	14.0
Total Core Service Investments	\$5.4 million	80.5

Managing and Responding to Growth

Increasing Demand for Emergency Medical Services – Last year, we included funding in the budget for the addition of a peak load ambulance unit for Austin/Travis County Emergency Medical Services (EMS) that would rove during times and in areas of the city where call volumes are high. Increasing demand for emergency medical services (EMS) has continued, and the addition of a second peak load unit is recommended to add more system capacity during times of the day that are usually the busiest. The addition of a second peak load unit will allow EMS staff to further target the busiest section of our service area, which is in the central district defined as the area outlined by the Colorado River, Ed Bluestein Boulevard and MoPac (Loop 1). Demand for emergency medical services typically builds up across response areas in a predictable pattern. Having another roving unit will allow EMS to quickly move those units to areas where we know the call demand will be intense.

Since 2001, the emergency communications unit had not added staff for call taking or radio communications, yet 9-1-1 call volume has increased by 25 percent since that time. The bulk of the increase has occurred since 2004. Average call processing time has also increased, from 58 seconds in 2003 to 70 seconds in 2007. While a 70-second call may seem relatively short, every second counts when responding to a life-threatening medical situation. The addition of six medics, one quality improvement captain and one communications supervisor is recommended to more quickly and accurately communicate critical patient and location information to EMS and other first responders. The addition of an academy instructor for emergency medical technician training in our high schools is also proposed to expand the successful high school recruitment program begun this year.

Proposed Funding: \$1,114,500 for 15.0 FTEs and \$275,800 in one-time costs for a peak-demand ambulance and equipment.

Growing Maintenance Needs of our Parks Facilities, Trails and Playscapes, Conservation Programs

– The Parks and Recreation Department is responsible for maintaining over 16,000 acres of parkland, over 1.2 million square feet of park facilities and 110 playscapes. As Austin continues to grow, the demands on these parks and public spaces will increase accordingly. The maintenance of parks and public space includes not only parkland maintenance, but also maintenance of many buildings, including recreation and senior centers, and playground maintenance. Funding that was cut during the economic downturn has not been fully restored, yet Austin continues to grow in population and in park amenities that need to be maintained. Investment in this area will help the department achieve the staffing needed to protect and preserve parks, facilities, and public open space at an acceptable level.

Facilities The PARD facilities maintenance group has been in need of additional employees since the downturn. Today, the facilities maintenance division operates with only 28 employees compared to 2000, when staffing was as high as 39 employees. The current staff of 28 employees must maintain over 75 facilities and there are several new facilities coming online over the next few years, including the Turner-Roberts Recreation Center, the Gus Garcia Recreation Center, and the Mexican American Cultural Center and the Town Lake Park. Additional resources would result in a 25% increase in scheduled preventive maintenance, as well as fewer unscheduled repairs.

Playscapes PARD currently has 110 playscapes. State and federal laws specify minimum safety standards that must be maintained in the parks systems. Although these standards are addressed through the efforts of current parks maintenance crews, these crews are stretched thin and additional resources are needed.

Trails There are 100 miles of trails in the Austin park system, including approximately 30 miles of granite gravel trails. The 10-mile Town Lake hike and bike trail has the highest profile and is the most used. Repairing ruts after rains and resurfacing worn areas are accomplished through the efforts of 3 employees and usage continues to grow. Some trail conditions are left waiting for repairs for up to 5 days. The addition of 4 employees will allow ruts to be repaired in half the time it currently takes. These additional resources would also allow trail resurfacing to be completed annually rather than simply responding to spot repairs for trail hazards or heavy rains.

The proposed budget includes funding for 15.5 FTEs for building and grounds maintenance positions to address these needs. The proposed budget also includes 4.0 new employees for implementation of approximately 100 new and complex projects for parks and open space approved in the November 2006 bond election, as well as funds for conservation programs.

Proposed Funding: \$881,400 for 19.5 FTEs and \$126,600 in one-time equipment costs.

Increased Demands for Library Services, Materials – It has been a number of years since we have made some additional investments in new materials, databases and periodicals for Austin’s library system. According to an industry statistical report published about the services provided by public libraries, materials expenditures on a per capita basis for Austin were \$2.24 in the 2006 report. Compared to nine of our peers, Austin invested the least on a per capita basis. Materials expenditures per capita for peer cities averaged \$5.19 per capita expenditures. Further, our funding does not provide for more than two copies of most materials, so customer requests for popular items are routinely not filled. The addition of a librarian is also recommended to manage the materials selection process.

The addition of a webmaster is recommended to serve the increasing number of customers using the internet. The number of web hits for both the library and the history center has grown by over 110 percent since 2001. Both the Wired for Youth and Youth Services websites need to be upgraded to maintain the interest and involvement of teens today.

The addition of a maintenance worker is also proposed in fiscal year 2008. The number of facilities has steadily grown since 2001 without resources added to care for the expanded system.

Proposed Funding of \$866,100 for 3.0 FTEs and library materials.

Growing Community Needs for Health and Human Services – The Health and Human Services department provides a multitude of services with infrequent additions to staffing levels in spite of a growing city and increased demand for these services. The department provides supplemental funding to the Salvation Army to help alleviate the homeless problem by operating a shelter in the downtown area. In 2002, the Salvation Army reduced their number of staffing positions in response to funding cuts, which has led to concerns about client safety. We recommend increasing our current social services funding designated for the Salvation Army by \$122,000 to support five additional employees to work overnight supervising each primary living area in the shelter.

Funding is also proposed for a pilot expansion of immunization services for adults. Medicaid reimbursement will be sought to help cover the cost of the program, as well as additional fee revenue.

Dedicated staff is needed to ensure that graffiti complaints are communicated to teams in the field quickly with the ultimate goal of cleaning up graffiti within 48 hours of receiving a report. A volunteer coordinator and a public health youth program specialist are proposed to enhance and coordinate volunteer efforts, provide case management, mentor youth, and provide dispatch and data entry/tracking for the graffiti abatement program.

Finally, the addition of two sanitarians, one for downtown restaurant inspections associated with Council's downtown quality of life initiative and one position that will be offset with fee revenue to concentrate on interlocal agreements with other cities, are proposed for the 2008 budget. An animal control officer is also needed to enforce the anti-chaining ordinance recently adopted by Council.

Proposed Funding: \$577,100 for 5.0 FTEs and temporary staffing, as well as \$72,800 in one-time costs for vehicles and equipment.

Providing Timely, High-Quality Development Inspection and Review

Real estate and development activity continues strong in Austin, placing continued demands on development review, inspections and other related services. Current wait times in the permit center continue to increase as the number of customers served has risen. One permit review specialist is proposed, as well as the conversion of a temporary cashier to regular status, to better respond to the demand for issuing permits. Time is money for builders and developers when they are at a critical juncture in the development process. Four inspectors and funding for temporary employees were added in fiscal year 2007. In 2008, we propose the conversion of the four temporary inspectors to regular status, as well as adding an additional inspector and three new positions in site/subdivision inspection. A plans examiner is

recommended to address the increased complexity and quantity of commercial plan reviews, while maintaining code-mandated review times. Finally, additional funding is also recommended in fiscal year 2008 for an additional right-of-way management inspector to monitor the growing number and frequency of events and construction projects in downtown Austin.

Proposed Funding: \$498,700 for 12.0 FTEs and \$155,000 for in one-time costs for vehicles, computers, licenses and supplies.

Increasing Court Volumes, Graffiti and Litter Abatement – The Municipal Court and Downtown Austin Community Court continue to experience growing volumes, with a corresponding need for additional resources. Each year, approximately 14,500 insurance certificates are presented to clear “no insurance” tickets. Court staff is currently in arrears in verifying and clearing these tickets off the books by approximately 6,800 verifications, even with the addition of one court clerk assistant in 2007. Similarly, staff spends 25 to 30 hours per week handling requests from individuals who have been incarcerated to process “credit for time served”, which is mandated by State law, and the number of these requests is expected to continue increasing. The addition of two court clerk assistants is recommended to handle this increasing workload.

The number of cases filed at the Downtown Austin Community Court (DACC) has steadily increased over the past two years, primarily due to the expanded east and west jurisdictions and an additional court clerk assistant is proposed in the budget. A rehabilitation case manager is also recommended to ensure that adjudicated adult customers who need social services receive those services, which is expected to lead to a higher level of compliance with the orders issued by the court. Lastly, the addition of a parks grounds crew leader is proposed to expand graffiti abatement efforts coordinated through community restitution services. A position in DACC will also be funded through the Solid Waste Services Department for litter abatement efforts with special emphasis in the downtown area.

Proposed Funding: \$241,400 (6.0 FTEs).

Growing Number of Urban Design Projects and Zoning Activities – The City has embarked on a number of urban design initiatives, including development of the downtown master plan and transit-oriented district station area plans. The overall number of zoning cases also continues to increase. Two senior planners and an administrative specialist are proposed to support these planning and zoning efforts.

Proposed Funding: \$194,700 for 3.0 FTEs and \$8,300 for one-time costs including computers, licenses and supplies.

Growing Fire Dispatch Volumes, Recruiting Future Firefighters – The Austin Fire department estimates that staff will dispatch over 90,000 incidents in 2007, double the number of incidents eight years ago. Adding twofirefighters to the dispatch function will increase staffing to nine FTEs per shift, enabling the Austin Fire Department to respond timely to the growing number of incidents and emergencies.

Funding is also proposed to employ temporary instructors to conduct two simultaneous classes in the junior and senior programs at the Lyndon Baines Johnson Fire Academy, a promising, cooperative effort with the Austin Independent School District to attract future firefighters to the profession.

Proposed Funding: \$160,000 (2.0 FTEs).

Growing Demand for Ballistics Identification in the Austin Police Department – The conversion of a position previously funded by a grant will prevent further backlog of the entry of ballistic test results and related case analysis. There is already a six-month backlog with three employees in this unit, so the loss of one employee will cause us to lose ground.

Proposed Funding: \$67,900 (1.0 FTE).

Enhancing Internal Control and Support Systems

Last year, we reported to Council that support service functions across the City are strained, both within the departments and at the corporate level. While in the midst of implementing critical new systems and managing new facilities, workloads continue to increase.

The proposed budget includes recommended additions to ensure the integrity of internal controls in several of our direct service departments, including:

- A human resource specialist for Municipal Court
- A business systems analyst for the Health and Human Services Department
- A human resources assistant, an accounting technician and a financial consultant for the Parks and Recreation Department
- A financial consultant, two accounting technicians and a human resources assistant for the Austin Police Department
- A financial manager, two payroll-related positions, and a contract compliance specialist for the Austin Fire Department, as well as a fire protection equipment technician to manage deployment and tracking of firefighter protection equipment

These support functions within our frontline departments provide the internal control systems that are crucial to the integrity and well-being of any organization and to the efficient delivery of services to the public.

Proposed Funding: \$822,200 (14.0 FTEs).

The proposed budget also continues to rebuild the foundation of our central support services and includes 22.7 FTEs in a number of key support areas, including building services, finance, human resources, legal services, procurement, the Office of the City Auditor, and the City Clerk’s office. The proposed budget for the Support Services Fund includes an assistant police monitor to help with the growing workload of the Office of the Police Monitor and a senior public information specialist to support Channel 6 news coverage and video production. These additional resources in the Support Services Fund are discussed in more detail in the “Budget Highlights” section.

***Investing in our Infrastructure:
Bond Program***

On November 7, 2006, Austinites overwhelmingly approved the seven propositions included in the 2006 Bond Election Program, totaling \$567.4 million. These investments meet both municipal and regional goals for providing quality public infrastructure and responding to growth in Central Texas. This bond program will be implemented over seven years, and is estimated to add slightly less than three cents per \$100 valuation over that period to the portion of the tax rate that funds debt service. The following table outlines the final bond propositions as passed.

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

In March 2007, the City Council voted to start the 2006 bond program by appropriating the first round of funding, totaling \$85.5 million. This appropriation covered six of the seven propositions, and included funding for projects such as the Public Safety Joint Training Facility, Animal Shelter, Municipal Court, and Austin Film Studios. In addition to these stand-alone projects, there was also funding for various programs

included in the bond package, such as affordable housing, open space and parks land acquisition, street reconstruction, drainage master plan projects, pools, playscapes and building improvements.

The proposed 2008 capital budget includes the second year of funding for the bond program at \$93.7 million. Stand-alone projects included in this funding amount are the EMS Station on Airport Boulevard/Mueller, the North Austin Recreation Center, a new police sub-station in the northeast command area, and funding for preliminary planning of the new central library. Funding for these programs, as well as those included in the March budget amendment, will continue in future years.

Both the March funding and this proposed funding for fiscal year 2008 were approved by the Bond Oversight Committee, which Council established in December to oversee the implementation of the bond program. The approval process also involved a review of the proposed seven year funding plan. This plan is included in the budget document. In developing the proposed seven year plan, there were several factors to be considered. First and foremost was financial - the \$567.4 million must be spread out over the seven years in accordance with the bond program's estimated three-cent increase to the debt service tax rate over that same period of time.

We considered staff workload and other factors that affect the undertaking and completion of a project. For example, because the central library will be part of a larger redevelopment process that will take several years to complete, the majority of the library funding is projected to be at the end of the bond program. Similarly, several cultural arts projects are dependent on private fundraising in order to be accomplished. Given that, funding for those projects are in the middle of the bond program but can be moved earlier or later depending upon these fundraising efforts. Most of the programmatic spending – affordable housing, drainage master plans, park infrastructure improvements, street reconstruction – is spread out over the entire bond program. The seven year plan will be reviewed annually, and in conjunction with the Bond Oversight Committee, revised as needed.

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, upgraded the City of Austin's general obligation bond rating in 2006.

Finally, the proposed budget also includes new appropriations for projects approved by voters in the 2000 bond election.

- \$24,446,544 for street improvements
- \$1,500,000 for bicycle improvements

Sustainable Workforce: Investing in Employees

Last year, we made significant progress toward rebuilding our workforce and I believe this budget proposal will help sustain the workforce on whom we have been most fortunate to rely on during the hard times, as well as during growth periods when demands are high.

Pay for Performance. The 2008 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 continue to receive an additional 1.5 percent increase to base pay for exceptional performance. This budget includes funding to rate 30 percent of the workforce as exceptional, an increase from 25 percent budgeted in the current year. Employees reaching the maximum of their pay grade will receive a lump sum payment for the amount above the maximum.

Compensation Review. In 2006, we completed a comprehensive market compensation review, which was implemented in three stages that year. The 2008 budget proposal includes \$5.6 million city-wide to begin an update of our staff salaries compared to the Austin market, with a goal of reviewing approximately one-third of the workforce in 2008 and continuing into the next two years. This approach will help sustain the progress that we achieved through the comprehensive market studies we completed in 2006. Our compensation review will include a review and correction of pay zone placements.

Service Incentive Pay. The 2008 budget also continues service incentive pay for non-civil service employees, which is based on tenure, as well as the two percent lump-sum payment that was introduced as a service incentive pay enhancement in 2006. To be eligible for the service incentive pay enhancement, a non-civil service employee must have been hired before April 1, 2007, must be in a regular (not temporary) non-civil service position that is not eligible for the public safety premium, and not be covered by a meet and confer agreement.

Medical and Dental Insurance. The City continues to cover 100 percent of each employee's medical and standard dental insurance coverage by increasing City contributions by 15 percent in the 2008 benefits plan. However, due to cost increases from medical providers for dependent coverage, employees will see cost increases this year of slightly less than seven percent for spouse and dependent coverage. In 2007, we introduced 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. Rates in the premium plan are expected to increase based on costs of service, but will continue to be offered in 2008. In 2008, we will also offer an optional, employee-paid premium vision plan, which will provide low copayments for vision needs like exams, eyeglasses, or contact lenses.

Bilingual Pay. We began a bilingual pay pilot program in 2007 that will continue into 2008. The program provides incentives to employees in priority-identified positions where proficiency in Spanish is needed to meet the requirements of the job. In 2008, we propose expanding the number of titles eligible to participate in the program. The annual city-wide cost of expanding the program is approximately \$414,000 and will enhance our ability to serve the Spanish-speaking members of our community.

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 increased by one percent of compensation, paid as a stipend, until we are able to achieve 30-year amortization. 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. Because ERS earned 12.5 percent in calendar year 2006, the City's supplemental funding will remain at one percent in 2008. 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 the system achieves 30-year amortization.

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.

Understanding Community Priorities and Measuring Customer Satisfaction

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 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. Over the years the City has worked to increase the number of minority respondents to more accurately reflect Austin's population. The 2007 survey showed significant progress in this area with only 66.2 percent of respondents being white, and African American and Hispanic respondents increasing by approximately 5 and 7 percent respectively. We continue to struggle to get an adequate representation of Asian citizens in our survey with responses decreasing to 2005 levels, or 1.6 percent. We will focus our efforts again next year at obtaining a larger number of Asian respondents.

Austin's Top Issues

When citizens were asked to cite the top three 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. Mobility issues (traffic congestion, construction, parking, etc.)
2. Growth management

3. Affordable housing

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

4. Crime, crime rate and safety
5. Police services (better investigating, less use of force)
6. Tax related issues (including rates, fees, etc.)
7. Road conditions and new roads
8. Pollution related issues
9. Cost of living
10. Mass transit

Customer Priorities

Residents ranked the priority of City services virtually the same as last year. The current year ranking (with prior year ranking in parenthesis for comparative purposes) is as follows:

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

Customer Satisfaction

Healthy, Safe City

Public Safety. Public safety continues to be the highest priority for Austin citizens, specifically police, fire and emergency medical services (EMS). Satisfaction with most public safety services is still high; however similar to the last several years, satisfaction with neighborhood policing and traffic control and enforcement is low compared to other public safety services. For most public safety questions, the average change in responses from 2006 to 2007 was not statistically significant. However, for questions related to 9-1-1 emergency services, traffic control and enforcement, and effectiveness of emergency police response, satisfaction levels were lower than 2006. As in 2006, minority residents expressed less satisfaction with public safety services than other residents.

While the vast majority of people continue to feel safe walking alone in their neighborhood or downtown, respondents indicated that they felt less safe than last year. Although all four questions related to this issue showed a decline from prior years, the area which showed the greatest decrease was feeling safe walking during the day downtown, which dropped from 83.5 percent to 72.2 percent. These statistics are disconcerting given that from 2005 to 2006 violent crime decreased by 13.6 percent and property crime and criminal mischief decreased by 16.7 percent in the downtown area. The vitality of downtown is a Council priority, and safety is important in maintaining a vibrant downtown. Additional funding of \$3.2 million is included for overtime related to a number of operational areas in the Austin Police Department, which also includes downtown policing in the Council's downtown quality of life initiative. These additional funds will provide the ability to target law enforcement needs in key areas, including downtown and other areas of our city such as the south central command area. Our new police chief will be analyzing how these additional resources can be best used as we prepare to enter the new fiscal year.

Over 90 percent of EMS users over the last year who had an opinion about EMS services ranked their satisfaction levels as good to excellent; however, overall satisfaction has gradually dropped for the last few years from an average of 3.68 out of a possible 4 points in 2004 to 3.58 in 2007. This statistic is consistent with the rising call volumes that EMS is experiencing. The proposed budget includes funding for a peak load unit to rove during times and in areas of the city where call volumes are high. In addition, eight positions are proposed for the communications area where no resources have been added since 2001. During the same period call volume has increased 25 percent. Addition of these positions will enhance EMS ability to quickly and accurately communicate key patient and location information to both first responders and ambulances as well as assist the department in maintaining their Center of Excellence accreditation.

Health. Satisfaction with health and human services programs showed varied results. Communicable disease prevention and animal control showed increased satisfaction while all other areas declined slightly compared to 2006 survey results. Food safety inspections and pest control programs showed slightly reduced satisfaction levels. Proposed 2008 budget additions for Council consideration include an additional sanitarian to address food safety issues.

Rich Social and Cultural Community

Parks and Recreation. Responses to the 2007 survey showed increased satisfaction with virtually all services provided by the Parks and

Recreation Department. This is indicative of the additional resources provided the department in recent operating budgets in both the program and maintenance areas. Further additions to maintenance staffing in the proposed budget coupled with the citizens' approval of the November bond package should help to further increase satisfaction with the appearance of and satisfaction with park facilities in the future.

Library. About 60 percent of all residents use library services during the year. Overall the ratings for library services have increased compared to 2006, with satisfaction related to youth programs and the Austin History Center services showing the most improvement. The average satisfaction rating for each of these areas is up about seven percent from last year.

Vibrant Urban Fabric

This area encompasses considerations such as the livability of neighborhoods, the vitality of downtown, pedestrian-friendly areas, and neighborhood planning and zoning efforts. This year for the first time citizens were asked if they would recommend Austin to a friend as a place to live. Approximately 81 percent indicated that they agreed or strongly agreed with this statement, and 83 percent rated the overall quality of life as somewhat or very high.

Overall, responses to quality of life questions were mixed, with downtown vitality scoring higher, and neighborhood livability and pedestrian friendly area responses showing decreased satisfaction levels. Customers' satisfaction with garbage collection and recycling programs was statistically unchanged from 2006.

Survey results continue to show that Austin citizens consider environmental protection as the fifth most important municipal service behind public safety and affordable housing. Residents continue to be most satisfied with the quality of drinking water. In 2007, satisfaction with almost all conservation and environmental service areas was relatively unchanged.

After showing significant improvement in 2006, survey responses related to road conditions in Austin have declined to 2005 levels. About 62 percent of respondents view road conditions as "good" or "mostly good", down from 70 percent last year. In 2007 the City increased the percent of lane miles maintained on an annual basis from 8 to 9 percent. However, the majority of this new maintenance cannot occur until the summer, after the citizen survey has been administered. As a result, we do not expect to see the result of these investments reflected in citizen responses until next year's survey. The trend of increased funding for maintenance of road continues in the 2008 proposed budget with an

increase in lane miles maintained to 9.5 percent. This increased funding coupled with additional bond funds for road reconstruction from the recent bond election should help to improve road condition scores in the future. Satisfaction with the traffic flow and traffic signal timing on city streets has continued to increase steadily since we began surveying residents. Both of these categories remain in the top ten citizen issues in 2007.

Storms that swept through the Austin area coincided with the administration of the 2006 survey negatively impacting last year's results related to electric service reliability, timely responses to power outages, and tree trimming around power lines. After a great deal of focus by Council and staff on the issue of Austin Energy's tree trimming and emergency response activities, the results in these areas rebounded to 2005 levels in 2007. Austin Energy continues to work 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.

Sustainable Economic Development and Financial Health

Permitting and Development Process. One of the areas in which we focused much time and money over the last several years was the creation of a centralized and streamlined one-stop development shop including a new permitting system. Our investments and the massive amounts of time that staff has devoted to improving these processes have paid off. In 2007 for the first time in four years, customers indicated significantly higher levels of satisfaction with the permitting and development processes. Despite an extremely high work load, the average responses in these areas increased by as much as one-half point (on a four-point scale) or over ten percent as the result of our efforts.

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 on satisfaction are generally higher than 2006. The most favorable ratings regarding affordability are associated with water, wastewater and electric rates which increased significantly from 2006. Citizens expressed higher levels of satisfaction with these rates, despite the Austin Water Utility rate increases to cover increasing costs of materials and compliance with federal mandates. Further, responses to the question "Are you getting your money's worth from the city services you received", showed significant improvement. In 2007 over 64 percent of respondents had high or very high satisfaction levels compared to 51 percent in 2006.

Fiscal Year 2008 Proposed Rate and Fee Increases

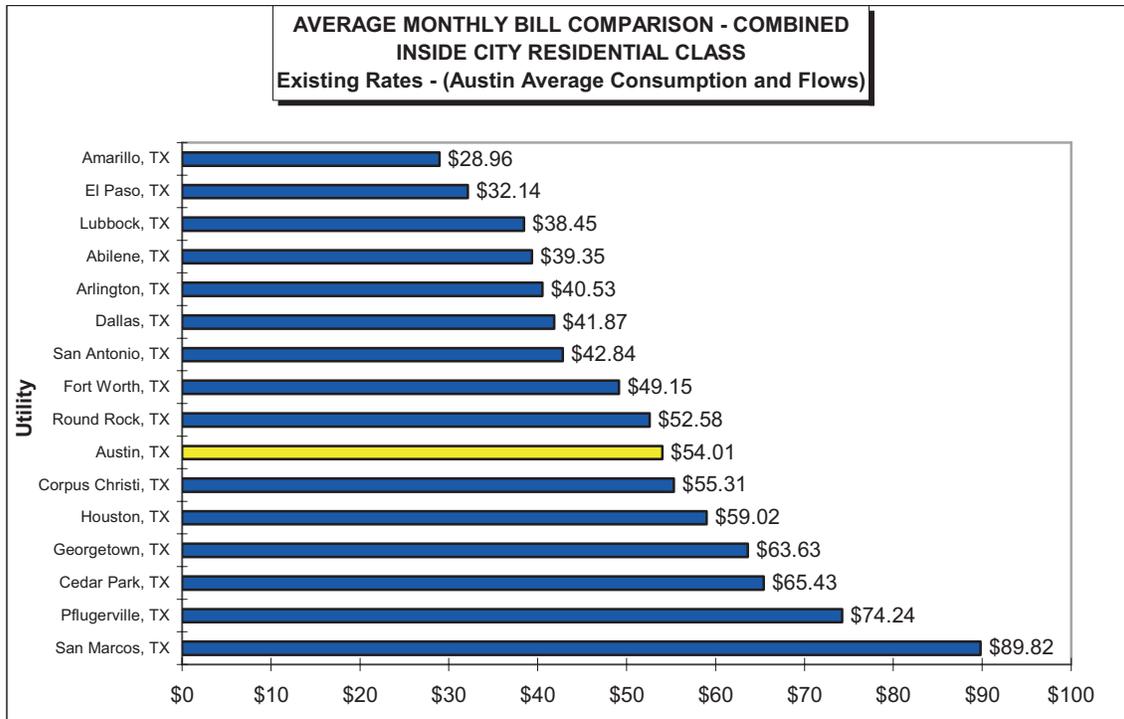
A revenue initiative was completed for fiscal year 2007, which included a review of all fees. The review included an analysis of whether fees had kept pace with inflation. The City's fee schedule is substantially up to date in most fee categories. We indicated to Council during our policy discussions in June that we would review fees generally to determine if any fees appeared to be out of line with our cost of service or other relevant factors, with particular emphasis on development fees. Our preliminary review indicates that in general we are in line with most Texas cities, but may be lower than peer cities in other states. However, because of the state-wide comparability, we would recommend looking at this in more depth before increasing fees, as part of the comprehensive revenue review for fiscal year 2009.

Water and Wastewater Rates. 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 revenue needed in 2008 to cover new capital expenditures and operations and maintenance cost increases estimated at \$43.8 million. Over the five-year forecast period, the Utility's capital plan is estimated at \$1.4 billion.

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 2006, construction costs rose significantly, together with increased inflationary pressures on the combined utility systems operations and maintenance costs. As a result, the Utility proposed a combined system-wide rate increase of 7.1 percent in 2007. These trends have continued into 2007, as well as the need to respond to growth in the southeast and northeast service areas, make improvements to the reclaimed water system and invest additional funds in water conservation and environmental protection. These factors and the Utility's analysis point to a need to revise the combined system-wide rate to 9.8 percent in fiscal year 2008, as presented at our five-year forecast.

Austin's average monthly residential combined water and wastewater bill is \$54.01, somewhat above the estimated midpoint monthly bill of approximately \$43.28 for 27 cities surveyed. The proposed rate increase would increase Austin's average customer monthly water and wastewater bill by \$5.31 per month. The graph that follows depicts Austin's current

average monthly water and wastewater bill of \$54.01, compared to other Texas cities. With the rate increase proposed for 2008 that would perhaps move us somewhere between Corpus Christi and Round Rock. However, there are also likely some large rate increases that are in the works for some of the cities on this graph that are facing the cost of rehabilitating aging infrastructure like Austin and are not yet depicted in monthly bills shown in the graph.



Transportation User Fees. For fiscal year 2008, we are proposing to increase our preventative maintenance goal from 9% to 9.5% through an additional \$2.9 million in transfers from the General Fund, a 12.8% increase to the transportation fee, and increased efficiencies in the preventative maintenance program. The increased transportation fee will generate additional revenue of approximately \$2.6 million and will mean an increase to a single-family residence of only 48 cents per month.

Fiscal 2008 Budget Highlights

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

Police (APD)

- **Total 2008 proposed budget** - \$220.0 million
- **Maintains 2.0 officers per 1,000 residents** – The proposed budget includes funding for 1,515 police officers, including \$3.4 million for 73.0 additional officers in 2008.
- **Meet and confer** – Increased funding of \$8.3 million is included for the fifth and final year of the approved meet and confer contract provisions.
- **Overtime** – To accommodate rising demand for services and higher wage rates, additional funding of \$3.2 million is included for overtime related to neighborhood-based policing, highway enforcement, investigations and professional standards. The total overtime budget for sworn positions in 2008 is \$10.3 million. These additional funds will also provide the ability to target law enforcement needs in key areas, such as the south central command area and downtown.
- **Augments operations support and internal control systems** – *The addition of an accounting technician is proposed in the alarm unit to address increased permitting volumes and the conversion of a ballistics identification specialist previously funded by a grant will prevent further backlog of tracking and analyzing ballistic test results. A financial consultant, an accounting technician and human resources assistant are proposed to support critical internal control and support functions within the department. In total, funding of \$276,000 is proposed for 5.0 FTEs.*

Fire (AFD)

- **Total 2008 proposed budget** – \$116.9 million
- **Funding for operation of all fire stations at enhanced task force staffing levels** – The proposed budget includes funding for 1,079 firefighters to operate all 44 of the City's existing fire stations, including funding for 20.0 new positions to staff the Avery Ranch/Davis Springs fire station.
- **Collective bargaining** – Additional funding of \$6.8 million is included for the third and final year of the approved collective bargaining contract provisions.
- **Overtime** – Increased funding, estimated at \$1.2 million, has been included to reflect actual overtime usage. AFD is analyzing the factors that affect emergency incident responses to better understand how to make operational changes that will improve response and maintain firefighter safety, without significantly increasing overtime hours. The total overtime budget for sworn positions in 2008 is \$3.5 million.

- **Reduces estimated vacancy savings as cadets graduate** – Additional cadet classes will reduce the number of vacancies and related salary savings next year, estimated at \$650,000.
- **Critical equipment replacement** – Systematic replacement of critical equipment will continue with funding of \$260,000 for debt service payments.
- **Sworn positions** – *Adding two firefighters at an estimated cost of \$101,000 to the dispatch function will enable AFD to dispatch timely to the growing number of incidents and emergencies.*
- **Augments internal control systems** – *Five new positions are proposed for 2008 at an estimated cost of \$310,000 to provide additional support and oversight in budget, payroll, procurement and deployment and tracking of fire protection equipment. Over the last ten years, uniformed staff has increased by approximately 200 positions, with little to no increase in civilian support positions.*
- **Enhances future recruitment** – *Funding of \$59,000 has been included to conduct two additional classes at the Lyndon Baines Johnson Fire Academy to attract future firefighters to the profession.*

Emergency Medical Services (EMS)

- **Total 2008 proposed budget** – \$43.0 million
- **Uniformed premium pay** – The proposed budget includes \$559,000 for a two percent public safety premium included as part of annual salary increases for uniformed staff.
- **Reflects current trends in vacancy savings and overtime** – Current trends indicate that the number of vacancies and related salary savings next year should be reduced by \$325,000. Additional funds of \$388,000 for overtime have been included for 2008 to reflect historical operational needs.
- **Critical equipment replacement** – Systematic replacement of critical equipment will continue with funding for six ambulances in the upcoming year.
- **Call volumes** – *An additional peak demand ambulance unit with six paramedic positions at a cost of \$473,000 and \$276,000 in one-time funds for an ambulance and equipment is proposed. Also, eight additional communications positions are proposed at a cost of \$549,000 to address high call volumes.*

Public Safety and Emergency Management

- **Total 2008 proposed budget** – \$6.1 million
- **Employment contract** – Additional funding of \$213,000 is included for the employment contract negotiated with sworn employees in 2007

for a two percent base pay increase in addition to pay for performance.

Municipal Court

- **Total 2008 proposed budget** – \$11.6 million
- **Increased court volumes** – *The proposed budget adds two court clerk assistants and \$89,000 in municipal court operations to assist with the increasing number of insurance verifications and “credit for time served” requests. A court clerk assistant is proposed in the Downtown Austin Community Court to help respond to the increasing caseload and a rehabilitation case manager is recommended to ensure that adjudicated adult customers who need social services receive those services, both at an estimated cost of \$107,000.*
- **Graffiti removal and litter abatement** – *\$46,000 for a parks ground crew leader is included in the Downtown Austin Community Court budget to support the graffiti abatement program with community restitution workers. A position in DACC will also be funded through the Solid Waste Services Department for litter abatement efforts with special emphasis in the downtown area..*
- **Internal support needs** – *The addition of a human resources specialist is proposed, at an estimated cost of \$57,000, to help the current human resources coordinator manage the needs of close to 190 employees.*

Health and Human Services

- **Total 2008 proposed budget** – \$34.9 million
- **Social services contracts** – *A 3.5 percent increase for social services contracts is included at an estimated cost of \$437,000.*
- **Computer systems support** – *The conversion of a temporary support position will be transferred from the City’s central Computer Technology Management to provide data entry into the environmental health module of the recently implemented AMANDA system. A business systems analyst is also proposed as a new core service investment to help support the environmental health module of the recently implemented AMANDA and document imaging systems.*
- **Salvation Army** – *Supplemental funding of \$122,000 to the Salvation Army is included to support five additional employees as overnight monitors supervising each primary sleeping area in the shelter.*
- **Pilot immunization expansion** – *Funding of \$158,000 is proposed for a pilot expansion of immunization services for adults. Medicaid reimbursement, as well as additional fee revenue, will cover the cost of the program.*

- **Graffiti removal** – The proposed budget includes the addition of two positions at a cost of \$100,000 to expedite dispatch of clean-up teams, to provide case management, mentoring, data entry and enhanced coordination of volunteers for graffiti abatement.
- **Food establishment and environmental inspections** – Funding of \$145,000 is included for two additional sanitarians. One position will conduct inspections in municipalities covered by interlocal agreements and the cost of the position will be offset by related revenue. The second sanitarian will provide enhanced services for the downtown area, as part of a Council budget initiative.
- **Animal control** – Funding of \$52,000 is included for an animal control officer to enforce the anti-chaining and other recently adopted animal-related ordinances.

Parks and Recreation Department (PAR)

- **Total 2008 proposed budget** – \$35.8 million
- **Mexican American Cultural Center (MACC)** – Expected to open in late 2007, the proposed budget includes increased funding of \$248,000 for facility operations and maintenance.
- **New parks**– Additional funding of \$201,000 is associated with the opening of Town Lake Park in late summer of 2007 and \$93,000 is related to the Roy G. Guerrero Colorado River Park, which is due to open in September 2008.
- **New recreation centers** – Full-year funding and the addition of one recreation program coordinator totaling \$486,000 is included for program costs for the Turner/Roberts recreation center at Colony Park. Five new positions and \$549,000 are proposed for the Gus Garcia recreation center.
- **Community recreation programs** – Recreation centers, summer programs and other recreation programs are included at constant levels for fiscal year 2008.
- **Parks maintenance** – The proposed budget includes the addition of 15.5 positions at an estimated cost of \$784,000 to provide for maintenance of facilities, playgrounds and trails, restoring critical funding that was cut during the downturn.
- **Parks planning and development** – The proposed budget also includes 4.0 new employees for implementation of approximately 100 complex projects for parks and open space approved in the November 2006 bond election, as well as funds for conservation programs.
- **Enhances internal control systems** – A financial consultant, an accounting technician and a human resources assistant are proposed for workforce and infrastructure support at an estimated cost of \$171,000. As the department's workforce grows to meet the increasing demands for programs, facilities and parks, these additional positions

will provide the needed resources to maintain operational efficiency, adequate financial monitoring, and reliable forecasting and reporting.

Austin Public Library

- **Total 2008 proposed budget** – \$23.5 million
- **Security services** – Funding of \$244,000 is proposed to convert 5.0 temporary security guards to regular status based on incidents at our libraries as reported by our customers and staff that point to the need for these ongoing resources. The number of security incidents totaled 511 in 2004 and rose to 816 during fiscal year 2006. Incidents through the third quarter of the current year total 926, an increase of close to 80 percent since 2004.
- **Library materials** – *Funding of \$713,000 and 1.0 position are proposed to purchase additional library materials, including periodicals and databases. Included in the proposed funding is a librarian to assist with the centralized selection program. Spending for library materials in Austin has generally not kept pace with other Texas and peer cities on a per capita basis.*
- **Support services** – *Two positions and \$153,000 have been included in the budget proposal. A senior programmer analyst will address the increasing number of customers using the internet. The number of web hits for the both the library and the history center have grown by over 110 percent since 2001. Further, both the Wired for Youth and Youth Services websites need to be upgraded to maintain the interest and involvement of teens today. The addition of a maintenance worker is also proposed. The number of facilities has steadily grown since 2001 without resources added to care for the expanded system.*

Neighborhood Planning and Zoning (NPZ)

- **Total 2008 proposed budget** – \$5.3 million
- **Increased demand in urban planning and zoning** – *The City has embarked on a number of urban design initiatives, including development of the downtown master plan and transit-oriented district station area plans. The overall number of zoning cases also continues to increase. Two senior planners and an administrative specialist are proposed to support these planning and zoning efforts at an estimated cost of \$195,000.*

Watershed Protection and Development Review (WPDR)

General Fund

- **Total 2008 proposed budget** – \$15.8 million. The General Fund portion of WPDR provides funding for the City’s One Stop Shop for development services.
- **Building inspections** – *The proposed budget includes \$143,000 for the conversion of four temporary inspectors to regular status and the addition of one new inspector to meet the demand for commercial and residential building inspections.*
- **Site/subdivision inspections** – *Three new positions and \$147,000 are proposed to provide the resources and time needed to review these projects, including project intake and engineering support.*
- **Permit center** – *An additional \$71,000 and two positions are proposed to meet customer wait-time goals, while serving an increased number of walk-in customers.*
- **Commercial building plan review** – *One plans examiner is proposed at an estimated cost of \$69,000 to increase the percentage of initial reviews completed within code-mandated time frames.*
- **Right of way management** – *The proposed budget includes \$68,000 for an engineering technician to respond to the accelerating demand for reviews on permits, license agreements and utility coordination, particularly in the downtown area.*

Drainage Fund

- **Total 2008 proposed budget** – \$59.4 million. The Drainage Fund supports the WPDR mission related to water quality protection, flooding and erosion controls.
- **Critical resource needs** – The proposed budget includes 11.5 new positions to address a number of critical needs, including the replacement of an oak wilt suppression position that will be lost when a grant expires at the end of fiscal year 2007, as well as additional resources for environmental inspections and compliance, water quality protection and bond program implementation.
- **Capital budget** – The department continues to set aside a portion of its revenue for capital projects. The proposed budget includes a \$17.3 million capital transfer, which primarily provides \$2.5 million for water quality projects, \$1.1 million for erosion control, \$2.0 million for storm sewers, \$5.9 million for flood control projects, \$3.4 million for master plan/recurring projects, and \$2.4 million for database/GIS projects.

Critical Additions to Central Support Services

New core service investments that will enhance internal control systems for the General Fund departments were discussed in depth in an earlier section of the transmittal letter entitled "New Core Service Investments". The critical additions that I have also included in the proposed budget for central support services are discussed in more detail as follows.

City Clerk – *The proposed budget includes \$52,000 and one administrative analyst to assist with preservation of permanent records, including coordination of microfilming projects. In 2007, approximately 45 percent of records boxes were eligible for destruction or permanent preservation. In 2008, 75 percent will be eligible and additional resources are needed in this unit.*

Communication and Public Information – *The proposed budget includes the addition of one senior public information specialist and \$79,000 to respond to the increased demand for web services and electronic media productions. There is an increased expectation to utilize public spaces and in turn, multi-media resources (staff, equipment, etc.) for public meetings and presentations. Austin's reputation as a leader in technology poses opportunities to provide corporate communications services with a focus on web-based productions and digital media products, including public service announcements, electronic productions for city-wide events, and departmental training videos.*

Financial and Administrative Services (FASD) – *Additional resources are proposed for several areas of FASD. The Building Services division continues to be stretched thin. 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. A project manager was added in 2007 to deal with a backlog of projects at City facilities, but additional staffing is still needed. Five positions and \$426,000 are proposed in 2008, including a facilities coordinator, a plumber, an electrician, an HVAC technician and a financial specialist to assist with budget monitoring and revenue collection.*

In the Controller's Office, a proposed addition of one accounting associate and \$52,000 in accounts payable will help to address new requirements associated with the implementation of a new citywide financial accounting system in October 2006, as well as increased payment volumes. The Purchasing Office, which was cut 24 percent during the downturn, has also been impacted by the new financial system and has requested two additional positions and \$104,000. A buyer is needed to address increased workload and a purchasing technician is proposed to enhance

vendor support. Two positions and \$110,000 are recommended in the department's human resources division to address staffing ratios and workload issues. There are currently close to 800 employees in the workforce of FASD, including the Communications and Technology Management division, with only three positions in the human resources function to support the department and handle the workload.

Human Resources – Six positions and \$423,000 are proposed to provide centralized support in several key areas. A position is proposed to provide support and expertise to departments without dedicated human resources staff. An employment services specialist is needed to focus on employee development, emphasizing employee career progression. A position is also budgeted to design and deliver an employee education plan as part of the climate protection initiative and to be funded by Austin Energy. Finally, a human resources advisor, a benefits advisor and an assistant director are proposed to provide additional support and oversight as the City's workforce grows to respond to demand for services.

Law Department – The addition of two attorneys and one paralegal at an estimated cost of \$272,000 is included to keep up with the rising demand for legal advice on open records, open meetings, ethics and general government issues. In addition, the budget transfers an attorney from Solid Waste Services to the civil litigation division with no overall fiscal impact.

Office of the City Auditor – The proposed budget includes \$62,000 for the addition of an auditor to assist with the Austin Water Utility audit initiative and will enable the completion of the scope of the water loss audit in 2008 which is now included in the proposed service plan. The proposed budget also includes funding to convert two part-time auditors to full-time status.

Management Services – The addition of an assistant Police Monitor is proposed at an estimated cost of \$91,000 to help oversee investigation of complaints, review cases, monitor the patterns and practices of the Austin Police department, and make policy recommendations to the police chief.

Small and Minority Business Resources (DSMBR) – Addition of five positions and \$266,000 is proposed to enhance outreach and to resume the function of determining and certifying the eligibility of small businesses for participation in the MBE/WBE procurement program. In 2007, internal processes were reassessed and adjusted, and staff has been realigned to provide more resources for vendor certifications and contract monitoring. During this transition, DSMBR has been using temporary employees. The

proposed funding outlined above reflects a decrease of \$69,000 for elimination of the outside certification contract.

Roadways, Sidewalks, Bikeways and Transportation

The fiscal year 2008 proposed budget continues the City's investment in roadway maintenance, as well as the construction of sidewalks and curb ramps and transportation infrastructure. In 2008, we are proposing to increase our preventative street maintenance goal from 9 percent to 9.5 percent.

One of the biggest challenges facing us in increasing the amount of preventive maintenance we do on our street network is our current reliance on one-time funding, including remaining funding from the Capital Metro quarter-cent program and the Capital Metro Build Central Texas program. A further challenge in doing increased preventative maintenance is the mix of maintenance methods available to us. Public Works currently performs about 60 percent of the preventative maintenance program through sealcoat, which costs \$11,000 per lane mile. However, there are no additional lane miles in the network that need to be sealcoated – any additional lane miles in the program in 2008 must be done through overlay, which costs \$61,000 per lane mile on average. In addition, our overlay costs are increasing because we have to rely on external resources to perform additional overlay.

In fiscal year 2008, we will analyze the cost of funding that would be required to perform more in-house overlay, which would include start-up costs: the cost of a new service yard, the cost of additional equipment, as well as additional personnel costs. This analysis will determine the best mix of resources used in the overlay and in our overall preventative maintenance programs.

Highlights related to transportation infrastructure include:

- 687 lane miles or 9.5 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.
- \$32.4 million in 2000 bond funding is available for street improvements, including \$24.5 million of new appropriations and \$7.9 million in reallocated funding.
- \$13.8 million in 2006 bond funding is available for street reconstruction.
- \$1.2 million is available for sidewalk, curb and gutter repairs.

- \$1.5 million of new bikeways funding will be used for the Pfluger Bike and Pedestrian Bridge extension project.

One-Time Critical Expenditures

Outlined below is a list of the \$17.3 million in one-time needs proposed in 2008:

- \$4.8 million for critical technology, including computer replacements, radios, mobile data computer equipment and automatic vehicle location equipment
- \$6.6 million for vehicle acquisition and replacement
- \$4.1 million for departmental equipment (primarily parks and public safety equipment)
- \$724,000 for the two-percent service incentive pay enhancement for non-civil service employees
 - To be eligible for the service incentive pay enhancement, a non-civil service employee must have been hired before April 1, 2007, must be in a regular (not temporary) non-civil service position that is not eligible for the public safety premium, and not be covered by a meet and confer agreement.
- \$1.1 million for supplemental funding for the retirement system to help reduce the unfunded liability to an amount that can be amortized over 30 years

Maintaining a Sustainable Community

In many ways, this has been a year of transition for Austin. We have emerged completely from the economic downturn that began in 2001, we are once again in a period of rapid growth, and we are dealing comprehensively with issues that will affect our quality of life in very basic ways.

This year, we began the process of re-investing in our infrastructure with the successful bond election in November 2006. We also worked hard on issues of regional planning, such as transportation and growth in our extra-territorial jurisdiction. And, we undertook the implementation of an aggressive water conservation plan and climate protection plan to manage and reduce our use of natural resources, arguably the most important global issue facing us today.

Earlier this year, Council reaffirmed our long-held vision of Austin being the most livable city in the country and adopted four new priorities that will help us shape how we manage the rapid growth we are once again dealing with:

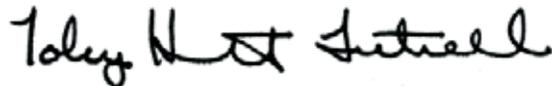
- Rich social and cultural community
- Healthy, safe city
- Vibrant urban fabric
- Sustainable economic development and financial health

Setting these priorities provides a solid framework for planning our future. In turn, successfully managing the growth of a rapidly-growing city like Austin will require the allocation of scarce resources to areas that are not always in the forefront.

When we invest in our ability to plan for future growth and in our management of current growth, we must provide sufficient resources to those core service areas that are the central nervous system of our organization: technology, human resource management, finance and administration.

I look forward to working with the Council and Austin citizens on our 2008 budget.

Respectfully submitted,

A handwritten signature in black ink that reads "Toby Hammett Futrell". The signature is written in a cursive, flowing style.

Toby Hammett Futrell
Austin City Manager