



MEMORANDUM

TO: Mayor and Council

FROM: Ed Van Eenoo, Deputy Chief Financial Officer *EV*

DATE: August 26, 2015

SUBJECT: Concept Menu and Budget Updates

The purpose of this memorandum is to provide you with updates on a variety of topics relevant to the Fiscal Year 2015-16 budget adoption process.

City Council Concept Menu

Staff continues to track and cost out numerous budget concepts that have been brought forward by council members. As of the end of business yesterday there were 115 items on the concept menu with roughly 80% having an associated budget impact analysis completed. Sixty-five of the concepts would result in budget increases totaling \$71 million, 32 of the concepts would result in budget reductions totaling \$92 million, and eighteen of the concepts would result in a net revenue decrease of \$21 million. These dollar amounts exclude the impacts from concepts for which the budget implications have yet to be determined. Staff is working in earnest to complete the budget impact analyses for as many of the concept items as possible prior to your August 27th work session. Later this afternoon, staff will provide Council with a concept menu binder, complete with backup information, which we hope will facilitate your review and discussion of the individual concepts. We will update your binders again in advance of your September 1st work session.

Staff Amendments to the Proposed Budget

As we do every year, staff will bring forward a small number of amendments to the Fiscal Year 2015-16 Proposed Budget on September 8th. These amendments are needed to reflect new data that has become available subsequent to the delivery of the budget to the City Council on July 30th. As of today, the universe of known staff amendments is as follows:

- SALES TAX ESTIMATE: In response to stronger-than-anticipated sales tax payments received in July and August, staff will recommend revising the estimated fiscal year 2014-15 sales tax growth rate from 5.8% to 7.1%. This higher estimate increases the projected fiscal year 2014-15 ending balance and in accordance with financial policies pertaining to the use of reserves, this revision would generate \$867,000 available for potential expenditure on one-time items. Applying the proposed fiscal year 2015-16 sales tax growth rate of 5% to this higher projection for fiscal year 2014-15 receipts results in an additional \$2.7 million in ongoing revenue in the fiscal year 2015-16 Budget.
- POLICE RETIREMENT SYSTEM CONTRIBUTIONS: Updated actuarial calculations have resulted in a reduction in the City's contribution rate to the Police Retirement System from 21.63% to 21.313%, for a General Fund budget reduction of \$1.0 million. The revised City contribution rate remains slightly above the Annual Required Contribution level indicating the system is on a structurally sound actuarial basis.
- TRANSFER TO CONTINGENCY RESERVE: The City's current financial policies call for a General Fund contingency reserve equivalent to 1% of departmental expenditures. Consistent with this policy, the fiscal year 2015-16 Proposed Budget includes a \$1.6 million transfer to the contingency reserve fund. As described in more detail in my memorandum from earlier today, staff has proposed consolidating the contingency reserve fund with the emergency reserve fund in fiscal year 2015-16. The Audit and Finance committee voted earlier today to recommend to the full Council approval of this policy change. If Council approves the proposed consolidation of the contingency reserve into the emergency reserve, the \$1.6 million transfer can be removed from the budget. It is important to note that even without this transfer, total General Fund reserves would still remain in excess of 12% of total General Fund requirements.
- TRANSFER TO ECONOMIC INCENTIVE RESERVE FUND: As described in more detail below, the certified tax roll from the Travis Central Appraisal District (TCAD) came in significantly higher than earlier estimates. This results in a significantly lower tax rate requirement for fiscal year 2016, which in turn has the effect of lowering various property tax based economic incentive payments by a combined \$585,000.

Combined, these amendments to the Proposed Budget result in an additional \$2.7 million of General Fund revenue, an \$867,000 increase in available one-time funds, and a \$3.2 million reduction in the General Fund budget for fiscal year 2015-16. These funds could serve to

address items on City Council’s concept menu, lower the property tax rate, and/or bolster General Fund reserves.

Certified Tax Roll and Property Tax Estimates

On Monday, August 24, staff received the certified property tax roll from the Travis Central Appraisal District (TCAD). After aggregating this data with the certified rolls from Williamson and Hays CADs, total fiscal year 2015-16 taxable value for the City of Austin is \$111.1 billion, representing an increase of 12.5% over the prior year and a \$4.9 billion increase over the amount anticipated in the fiscal year 2015-16 Proposed Budget. These changes are summarized in the table below.

	FY 2015-16 Proposed Budget	FY 2015-16 Certification	Change
Taxable Value	\$106.2 B	\$111.1 B	\$4.9 B
Growth Rate	7.6%	12.5%	4.9%

Due to this increase in taxable value, the property tax rate necessary to generate budgeted property tax revenue has fallen from \$0.4814 to \$0.4598, a decrease of 2.16 cents. Moreover, a property tax rate of \$0.4598 represents a decrease of 2.11 cents compared to the fiscal year 2014-15 property tax rate of \$0.4809. At the release of the Proposed Budget, the rollback tax rate was projected at \$0.4826. The fiscal year 2015-16 rollback rate has now been officially calculated at \$0.4609.

After the release of TCAD’s certified roll, staff were also able to receive updated information as to the median taxable value of a property receiving a homestead exemption. At the release of the Proposed Budget, staff projected that the median homestead would be assessed at \$232,272, resulting—after applying the 6% homestead exemption—in a net taxable value of \$218,336. After certification, the actual median taxable value of a homestead has been calculated at \$217,367.

The tables below summarize the property tax bill impact of the changes described above:

	FY 2015-16 Proposed Budget	FY 2015-16 Certification	Change from FY 2015-16 Proposed Budget
Median Homestead Taxable Value	\$218,336	\$217,367	(\$969)
Tax Rate	\$0.4814	\$0.4598	(\$0.0216)
Annual Property Tax Bill	\$1,050	\$999	(\$51)

	FY 2014-15 Approved Budget	FY 2015-16 Certification	Change from FY 2014-15 Approved Budget
Median Homestead Taxable Value	\$210,279	\$217,367	\$7,088
Tax Rate	\$0.4809	\$0.4598	(\$0.0211)
Annual Property Tax Bill	\$1,011	\$999	(\$12)

In summary, based upon certified tax roll data, the annual tax bill for the owner of a median valued homestead in fiscal year 2015-16 is projected to decline \$12 relative to the current year's median tax bill. It is noteworthy that but for Council's action to enact a 6% general homestead exemption, the projected tax bill for the median valued homestead would have been \$40 higher and an increase of \$28 over its fiscal year 2014-15 level.

Other Potential Funding Alternatives

In past budget cycles, City Councils have considered a variety of alternatives for addressing their budgetary priorities. Some of these alternatives have included increasing the tax rate, taking a more aggressive position in regards to sales tax estimates, tapping into reserves, and issuing debt. While staff does not recommend any of these approaches, we provide for your consideration the below calculations in hopes of further facilitating Council's deliberation of the concept menu.

- **SALES TAX:** The Proposed Budget reflects sales tax growth of 5% for the remaining months of FY 2014-15 and an additional 5% growth in FY 2015-16. Increasing the growth projection from 5% to 6% increases recurring revenue projections by \$2.5 million and increases available one time funds by \$161,000. It is important to keep in mind the highly cyclical and volatile history of sales tax revenues when considering increases to these projections.
- **PROPERTY TAX:** As detailed above, the updated tax rate necessary to generate the amount of property tax revenue included in the Proposed Budget is \$0.4598 per \$100 of taxable value. Increasing this rate to the rollback rate of \$0.4609 would generate an additional \$1.2 million.
- **BUDGET STABILIZATION RESERVES:** City financial policies allow for up to 1/3 of this reserve to be allocated annually to one-time expenditures. The proposed budget allocates \$2.1 million less than the amount allowed by policy. These funds would be appropriate to allocate to one-time items such as technology or equipment. Last

year, Council used reserves to provide one-time funding for several high priority programs offered by the Austin Independent School District. The Budget Stabilization Reserve is not an appropriate source of funding for ongoing commitments such as increased staffing or reduction of the tax rate.

- DEBT: The primary debt instruments available to Council are Certificates of Obligation (COs) and Contractual Obligations (KOs). COs are longer-term debt typically used to fund facilities. KOs are shorter-term debt typically used to fund vehicles and equipment. There are numerous legal and financial parameters to take into account when considering the use of debt to fund budget priorities. Both staff and outside bond counsel are prepared to advise Council further on the appropriate use of debt as a funding alternative as you proceed with review of the concept menu.

As always, if you have any questions regarding this information, I am available to assist.

xc: City Manager
Assistant City Managers
Chief of Staff
Chief Financial Officer
Deputy Chief Financial Officer