

MEMORANDUM

Date: 10/18/24

To: Mayor & City Council

From: Julio Gonzalez Altamirano

Re: Unreasonable assumptions in “Forecast Update and Impact of Tentative Agreement with APA” memo

The Forecast Update and Impact of Tentative Agreement with the Austin Police Association released by the City Budget Office on October 16th, 2024 does **not** meet the staff’s hard-earned standard of providing policymakers with reasonable estimates that feature “conservative” model inputs.

Specifically, the budget staff memo makes **five aggressive assumptions** that render the overall product unreasonable and faulty. While each could be individually defended as being at the border of reasonable and conservative, collectively they add up to a document that embraces substantial modeling risk to project structural balance in the general fund.

To remedy this before taking action on the Austin Police Association (APA) Contract, City Council should request an updated memo with the model inputs recommended below.

1. Over-optimistic Sales Tax Growth Rate

Sales tax growth is \$22.8m of the \$73.7m (31%) added by the Budget Office to the FY2029 General Fund revenue projection since the release of the April Five-year Forecast.

The substantial sales tax growth is in large part the result of staff using a 4% growth rate from 2025 through 2029. Simply put, this is too aggressive a number to be considered a reasonably conservative input. By comparison, here’s what sales-tax-dependent CapMetro included in their budget document: “For FY2025, sales tax revenue is budgeted at \$402.8 million, **3.0%** above the amount forecasted in FY2024 due to favorable but slowing sales tax trends. FY2024 forecasted sales tax collections are \$391.0 million, or 1.4%, less than originally budgeted. Several payments in the first half of FY2024 did not achieve the budgeted year-over-year growth rate of 4.5 percent.”

The memo itself states that City staff are bumping down the initial year in the forecast down to 3.5%. But that is insufficient and can not be described as a reasonable or conservative input given CapMetro’s approach. Council should request a new projection with a 3% sales tax growth rate for the 2025-2029 period.

2. Unsustainable Austin Energy Transfer policy

Growth in the Austin Energy (AE) transfer represents \$18m of the \$73.7m (24%) added by the Budget Office to the FY2029 General Fund revenue projection since the release of the April Five-year Forecast.

This growth assumes that Austin Energy's transfer would be permanently calculated based on 11.6% of three-year average non-fuel revenue, with no cap on growth. That is simply not a reasonable assumption given the many needs and reservations expressed by Austin Energy staff about its cash position, capital spending needs, and its medium-term economics. The AE Five-year forecast presented by Rusty Maenius on May 13, 2024 is a succinct summary of the serious financial headwinds faced by AE.

The inclusion of this revenue growth assumes a permanent long-term consensus about AE's transfer that was not evident from the public discussions Council had this budget round. More subtly, the memo implies that Council's approach to the AE transfer this budget round is comfortable with using AE transfer growth to fund more of "the basics" (APD, AFD, EMS) instead of targeted new initiatives that don't have compounding labor contracts associated with it. Its use in this estimate implies that future Council's would be comfortable with the likely cannibalization of AE's operation quality and rate stability, which in turn does not seem politically sustainable given the perceptions of hostility to public power from the conservative majority in the Texas Legislature.

To achieve a reasonably conservative model input, Council should request that the AE transfer return to being modeled at 2% annual growth.

3. Lack of Reconciliation of Property Tax estimate miss

Additional property tax represents \$28.2m of the \$73.7m (38%) added by the Budget Office to the FY2029 General Fund revenue projection since the release of the April Five-year Forecast.

During your August 8th work session, the Budget Office actually briefed you that the budget staff missed on their growth rate forecast of taxable value in the certified roll by 84% (0.9% actual growth versus 5.3% projected). In their exposition of methodology included in the 24-25 Proposed Budget, staff indicated that "total taxable valuation in Austin is currently projected to rise at 5% in FY 2025-26 before leveling off to a 4% annual growth rate in fiscal years 2026-27 through 2028-29." It does not appear that staff's new estimates adjust their methodology for the significant miss in predicting the certified roll.

Similarly, while the staff indicates that they expect a significant slow-down in new property valuation, the detail provided in the Proposed Budget states model inputs of \$3.9 billion to \$4.4B which are lower relative to the record-breaking \$5.4 billion of 24-25 but still blistering by recent historical valuation growth.

It is difficult for the author to provide more rigorous estimates because the publicly-available staff methodology does not indicate the specific inputs used to create projections or the weights assigned. This also makes it essentially impossible for an independent calculation of the typical forecast error by staff on property tax revenue. That said, Council could request a forecast that features a 2.5% annual certified roll growth rate and a reset to \$2.5 billion in new property for 25-26. These are assumptions that are certainly within the bounds of the aforementioned “reasonable” and “conservative” criteria.

4. No Effort on Sworn Overtime Costs

The projected static \$25m/year for sworn overtime is not reasonable. It will take time to fill positions, adjust schedules, etc.

If staff does not have a more nuanced predictive technique at its disposal, Council should request that staff model it as gliding down from the past year’s \$50m expenditure to the desired \$25m steady-state.

5. Unrealistic Freeze on Per Capita Sworn Staffing

The memo assumes APD sworn FTEs are frozen at 1,816 during the period, plainly stating that there are “no increases to public safety staffing levels”.

This is not reasonable or conservative. Austin’s population will likely continue to grow and there are well-resourced local political actors pushing for (and past Texas Legislature interest) in mandating a 2 sworn per 1,000 resident ratio. A more prudent approach would be to assume growth in sworn per capita personnel that implements the 2 per 1,000 ratio based on the City Demographers population projections.

A New Forecast is Needed

The adjustments to the Budget Office’s forecast suggested above would provide City Council and the public a more realistic accounting of the proposed APA contract’s impact on the long-term structural fiscal balance of the City.