

## Closed Caption Log, Council Meeting, 01/31/12

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[08:04:01]

>> good morning, I'm austin  
mayor lee leffingwell.

A forum is present so I'll  
call this work session of  
the austin city council to  
order on tuesday,  
05  
a.m.

We're meeting in the boards  
and commissions room, austin  
city hall, 301 west 2nd  
street, austin, texas.

So we'll go ahead and begin  
with our briefings.

Council, if there's no  
objection we'll go ahead and  
hear item d 1 first because  
if we run out of time we can  
postpone item b1 until  
another date.

So we'll go ahead.

Before we start the briefing  
1, which will begin  
with the navigant report, i  
want to announce that our  
council meeting on thursday,  
public hearing  
item will be withdrawn, so  
there will be no public  
hearing on austin energy at  
this council meeting.

It will be reposted for a later date.

There will, I believe -- I believe already has been a briefing by Austin Energy posted on the agenda, so we'll have that instead.

So I just wanted to let everybody know ahead of time that that was the case.

So with that we'll go ahead with item d 1 which is a presentation first and a briefing on the navigant report and then other aspects of the Austin Energy rate proposal process.

>> Mayor?

>> Council member Tovo.

while they're coming up would you just -- can you explain who is withdrawing the public hearing --  
withdr  
withdr  
awn by staff.

It's just -- the proposal is in flux at this point and there's no point in having a public hearing when we don't have a concrete proposal.

and will the Austin Energy staff be getting that on their rate review web site and other things?

I know we have a lot of  
community members who are  
planning to come on thus --  
that's  
the reason for announcing it  
today.

yeah, I appreciate  
that, and for those who are  
not watching the hearing if  
they could be made really  
well-known on the web site,  
that would be great.

>> Mayor leffingwell: mr.

We  
we  
iss will tell us what and --  
when and what information  
will be available when he  
comes up here.

So I want to also announce  
that council member martinez  
will not be here today.

He has a family emergency

[09:06:00]

and we'll be following up  
with him.

I had a text from him this  
morning saying that he will  
be able to watch the work  
session but will not be able  
to come.

>> Mayor, if I may.

weiss and elaine  
harez are preparing  
themselves I wanted to  
start out by thanking

council for the opportunity to talk about a number of issues listed relating to austin energy and rate recommendations that council is considering, but I also speak with respect to one of the items in particular, and that is the navigant report.

I just wanted to offer some context for that, of course.

That report was done more than a year ago, and I want you to know that it was originally commissioned by me.

And the reason for that is, of course, you know, early in my tenure we became aware of what we thought were significant, and, in fact, are, financial challenges confronting austin energy and at the time I wasn't confident that I clearly understood, or for that matter, even austin energy, certainly the council, the significance in the order of magnitude and what implications there were for the long-term viability of austin energy.

As such at that time, I did commission this report, navigant actually carried it out.

It was accomplished under the leadership of cfo leslie browder as well as robert goode, who you may recall

was serving as the acting manager at the time, so it was to give us a clearer picture of the financial condition of austin energy, certainly in the relative short-term but more importantly, you know, what austin energy's financial condition looked like over the long-term, over about a

[09:08:00]

five-year period, I think is what we looked at.

The other reason that it was important, from my perspective, is that it, you know, obviously served as the foundation for developing strategies to address those challenges and indeed as the report indicated, there were a number of challenges, and the result of all of that work has resulted in, in part, the recommendation regarding rates that has been under your consideration now for a good number of weeks.

So I wanted to provide the context in terms of navigant.

You know, it's -- it's the case that in regard to a variety of issues in the organization from time to time for purposes of management and administration, we've

commissioned reports that serve as the foundation for work and recommendations we ultimately bring to the mayor and council, and that certainly was the case here.

The navigant report was the foundation for recommendations that are in front of you now with respect to the rate structure and rate recommendations from austin energy.

So with that, larry, elaine, if you're ready.

>> Good morning, mayor and council.

The --

>> let me interrupt you.

I did leave out -- I did leave out one thing.

I wanted to just give you a sense of what the objectives were on that report real quickly and essentially there were three in the scope that we characterized.

One was to evaluate austin energy's current financial condition, to provide assurance that ae is and continues to be a financially viable organization.

As I said before, in both the short and long-term.

Perform benchmarking and program evaluations, major nonfuel operations and maintenance functions to identify any reasons of potential cost saving opportunities.

Compare the general fund transfer calculation, the economic development funding to other municipalities, other utilities, both in to

[09:10:01]

test the reasonableness of the city's methodology.

So those were the objectives defined in the scope that navigant was charged with addressing, and you'll hear in the course of larry's presentation, he will touch on all of those.

So -- sorry for the interruption, larry.

>> No problem, great.

Thanks, mark.

Okay, there we go.

All right.

I'm going to go through at a fairly high level the navigant report highlights.

Let me say that there are, as mark described it very well, and there are a couple pieces of that report that were not made public, were not public, and that has to do with the rules under the ERCOT market and what we can do with our power supply portfolio, how much of that is public and not public, and then we also have a business unit that also we have to be -- you know, so we have competitive matters that we have to make sure that we're consistent with.

Navigant's principal findings was that AE's financial performance has been strong for many years, and then till 2009 the sales growth and increasing revenues were more than adequate to offset rising system expenses resulting in no base rate increase since 1994.

They reviewed the 2011 to 2015 financial forecast, and what was pointed out is that AE's financial condition will deteriorate over time, expense reductions alone will not be sufficient to balance it.

And declining financial metrics would not likely support AE's existing bond ratings.

The rate review fundamental challenge was balancing the



[09:12:01]

multiple objectives to ensure revenue sufficiency, to prevent further deterioration of our financial condition, financing the generation plan and increased energy efficiency and balancing rates across customer classes, and keep ourselves competitive within texas, which, as you know, is a goal, increased reliance on distributed generation and energy efficiency, but the first priority was to be and needs to be revenue sufficiency.

So the conclusion is -- there were several significant actions that had to take place.

Navigant's principal findings were that ae facing a series of challenges driven by the converging factors, the economic downturn that happened in the early part of the 2000s REALLY SET THE Stage.

There is a -- there is a chart in the december 14 presentation that shows ae's revenues and percent of change year to year, and you'll note that in 2000 there was a significant reduction with the dot-com bust and then there was a rebuilding after that.

That's a very important chart to refer back to.

We have -- we have incredible goals here, and through our climate protection and meeting those strategic goals established by the city policy makers.

There are higher costs as well drip.

There's increased transmission infrastructure throughout ERCOT, complexity of managing it in ERCOT and the total system and the initiatives that we have.

And implementation of new technologies that will enhance service and reliability.

And they pointed out the need to increase electric rates and its impacts on ratepayers.

Navigant's principal findings is that we should take a serious look at its initiatives and perhaps focus on one or two items that are most important to the success of us, paring down the number of initiatives for costs.

There needs to be a balance of leadership and its mission of affordability.

[09:14:01]

Ae considered establishing a disin that evaluates the -- investing in new initiatives, capital projects and processes.

The utilities were surveyed in navigant's principal findings were austin energy, georgetown utility services, denton municipal electric, college station utilities, cps and city public service san antonio, and lubbock power and light.

There were none texas utilities that we were compared against as well, orlando, city utilities of springfield, gainsville, , department of water and power, memphis gas and water and nashville electric.

The total transfers compared to the utility revenue ranged in percentage compared to -- excuse me, the total transfers compared total utility's electric revenue compared in percentage, weighted average of transfer was 9%.

Five utilities were less, four utilities were more.

The city of austin has maintained its transfer policy both in methodology and percentages consistently bucketed the transfer below the maximum stated in the policy of 12%, maintained at

1 since 1999, the  
exception being in 2002.

That's a very high level of  
the navigant report, and  
it's -- and its findings,  
and before I have another  
presentation that we want to  
do this morning and that is  
on the reserves and our  
financial policies and if we  
want to take questions on  
the navigant report we can  
do that now and then go into  
that or if it's your  
pleasure I could go on  
with --  
any  
questions on the navigant  
report?

Council member cole.

>> Cole: thank you, larry.

Can you explain this  
statement, while ae's  
reserve levels are currently  
adequate to cover shortfalls

[09:16:02]

through 2015?

Do you know what I'm --  
those numbers, mayor --

>> those numbers, were based  
on the 2011 to 2015 forecast  
and circumstances have  
changed.

They looked at two different  
scenarios.

One was a build the generation plan, construct the new renewables, and one with ppa scenario, and the statement that you just repeated means that at the end of that five-year period there would be no reserves at all.

>> Cole: oh, okay.

>> Either operational or strategic reserve.

ppa  
scenario?

What's that.

>> Let me clarify that.

That's -- in our renewable acquisitions when we buy renewable power, we can do a purchase power agreement, which is a 25-year, buy the power, we have no ownership in the project itself.

>> Mayor leffingwell: right.

>> The other alternative is we finance, build one and operate it and those are the two alternatives we really have.

those  
are the only two  
alternatives?

>> Well, there is a combination of the two, which is complicated and it's called a syndicated

deal, and as far as I know  
austin energy has not  
contemplated those but those  
are done and are very  
complicated but they do kind  
of a combination.

did  
the green power scenario  
include the council's  
adopted policy of  
restricting rate increases  
to 2% a year?

>> The navigant report was  
done before the  
affordability goal was  
passed by council.

so it  
didn't.

>> It did not.

so it  
seems to me that that's --  
that's what we really need  
to scenario that  
limits increases to 2% per  
year, it balances that with  
the need for green power,  
because that's what the  
council adopted.

So at some point we need to  
reconcile that.

Anything else?

[09:18:00]

>> Mayor, can you explain  
what you just said again?

well,  
the council adopted a

generation policy that included all of the original elements, the 35% by 2020, the 800 megawatts energy efficiency and 200 megawatts of solar.

But we also at the same time included in that plan that it would be restricted by two cost control measures.

One would after an initial rate adjustment, whenever that is, this year, presumably, rate increases would be limited to 2% per year, and in addition to that austin energy's rate structure would remain in the bottom 50% of all utility rate structures in texas, both public and private.

So right now we're in the bottom 40%, but there's a little bit of room for negotiation there.

But those are the two cost control measures that the council adopted.

>> Cole: thank you, mayor.

council  
member riley.

larry, I have a few questions about navigant's evaluation of the transfer to the general fund.

First, did -- you point out that navigant -- navigant mentioned that we had maintained our transfer 1% except it was 8.9 until 2002.

Did navigant also consider the transfers to the city outside the general fund in evaluating the amount of the transfer?

Transfers, of course, are not limited to just that -- that 9.1%.

The city does get some -- some revenues from the utility beyond that 8.9%.

>> They do, and the bulk of those are payments for services that other departments provide to us, such as maintenance of our fleet.

They charge us for that.

Purchasing office provides

[09:20:00]

us direct benefit of having nine people on-site to handle our purchasing needs, and those are direct charges to our department because they're services provided to our department.

In the case of fleet, if we were not serviced by the city fleet department we'd have to pay another



corporation or vendor to do that service.

So those are payments -- most of those over and above the general fund transfer are payments for services.

There is a small amount of community program that we do contribute to, but they're less than -- I believe they're less than 750,000.

We've actually reduced those over the last few years.

But they did look at that.

They also looked at what other utilities were providing in terms of economic development support and found that most utilities did provide some funding for economic development activities.

and those economic development activities, is the utilities' support for 1% or is that on top of the 9.1%?

>> It's on top of it.

it's on top of the 9.1.

So we're actually -- what is the number we're actually at if you --

>> well, there's 105 million in the gft in this fiscal

year and there's another almost 50 million, 40-plus million in all the other shared services, so you add those up and austin energy is the department in the city paid for -- described for in all the different pieces.

Egso is part of that feature.

but you're saying our support for economic development is comparable to that navigant saw in other communities?

>> I don't know that they went and compared the economic development activity with the other utilities.

They didn't get down to that level, I believe.

I don't read anything about that.

>> The funding level.

>> Just the funding level.

did they get down total of the transfer

[09:22:00]

formula?

In other words did they evaluate the role of fuel costs in determining the transfer?

>> No, they kept it at a higher level, looking at it generally and comparing us with other communal -- with other -- communal -- with other public power in the united states is really the basis of that.

they didn't probably get into an assessment of the impacts on ratepayers outside the city limits and how that's handled in other cities?

>> No.

No, they did not.

They did not get at that level.

Really -- and I think navigant did a good job for what they were asked to do, and city manager described that really well, and i think that from my perspective when I came here I used that as something to refer to, and I met with them right when I started work here in october of 2010, and really what I saw out of it was really a comparative between what is austin energy doing that is similar to what other municipal public power utilities across the country are doing, are they out of line, basically, and, you know, where are some of their business units.

There's a second part of that report that went through some business units, and if anything, my take-away was I'm pretty impressed that austin energy is a great utility, but at the same time we do get measured between the utilities.

That's public power.

That's the basis of how we compare.

>> Riley: last question.

Did navigant get into the distinction between fixed costs and variable costs in terms of the rate structure?

Did they make any recommendations about rate structure?

>> No.

No.

This was all prior to our rate -- the rate process had started.

, The strategy of developing a new rate had started, but it hadn't gotten to that point yet.

so although this served as a foundation for the rate proposal, that aspect of the rate proposal did not relate to navigant.

>> Right.

Right.

>> Riley: okay.

Thanks.

so do  
you -- just a quick  
question.

Do you know offhand the  
transfer rate used by cps?

>> It's 14%.

so i

[09:24:00]

guess just coincidentally,  
14% of our gross revenue  
would be about \$150 million?

>> That is correct.

so if  
we factor that in we're  
about the same as cps?

>> Right.

And I have no knowledge  
outside of that of how cps  
does it exactly, but I have,  
you know, talked to their  
leadership about it, and  
then outside of that the  
shared service part I --  
and  
obviously -- I don't know  
what their shared service  
component is, but obviously  
you're paying for a service.

You're paying to another city department for those services, so it doesn't seem logical that that should be in any way included in figuring a transfer rate within the policy or beyond it.

Council member tovo?

I have just a couple questions.

I want to say first of all i really appreciate your making this presentation today.

So -- one of the things that council member riley just talked about was the fuel revenue.

It's not clear to me whether this report, it's called austin energy financial and performance review navigant consulting -- is this considered part of the navigant report?

>> Yes, it is.

>> Tovo: it is, okay.

And I had asked the question, it wasn't dated -- my copy wasn't dated but it was done based on the question and answers -- it was done around the same time.

Is any part of this confidential?

>> I don't know.

>> Tovo: okay.

>> Yes, there are sections of that that are.

>> Tovo: of this report?

>> Yes.

>> Tovo: okay.

My copy is not marked so I'm not sure what those are but I'll try not to cross into dangerous territory.

The conclusions on page 15, I just wanted to note a few of them because I think i remember in this part of the report that navigant did look at fuel revenue in answer to your question, chris -- council member riley, and the conclusion was that most utilities include fuel revenue in the gross revenue subject to the transfer percentage.

And then there's -- there is

[09:26:01]

also a discussion about economic development, and the conclusion is the last bullet on that 15.

While it's -- it sounded -- my very cursory member of it, while it's uncommon for utilities outside of texas to fund economic

development, there were other examples within texas where that is happening, and then lastly, somewhere in this document I think they factored in those other transfers, and the conclusion was that it's still lower than the council adopted policy of no more than 12%.

So even -- if I'm interpreting that correctly, even factoring in the other community development money and the services it's still below 12%.

Is that an accurate conclusion?

>> Yeah, let me take this opportunity too, to let you know that, in public power utilities austin energy is the 9th largest in the country, and so there's sort of a small family of utilities to compare against.

Some of those utilities generate a lot of their power with hydroelectric power, so their fuel charge is not -- they don't -- they don't structure it the same way as austin energy does.

We're a thermal-based utilities, we do it with coal, gas, quite a bit of natural gas as a percentage, so our fuel is different than others.



So when you look across the board and you compare public power utilities you have to understand they're kind of their resource mix, and also even us as we go forward, what will what austin energy will be compared against is utilities that have a portfolio of high renewables, for example, so that will become our -- who we get measured against in strategy and so forth.

So it's important to recognize that.

So yes, those utilities that have a thermal-based generation portfolio like we do, the fuel is part of their transfer, to my knowledge -- part of their transfer, and that's consistent with those other public utilities.

[09:28:01]

thanks for that clarification because I know transfer based on our decision point list we made last week, I think transfer to the general fund is part of that and there has been discussion about how the fuel cost should be considered within that and it's helpful to have -- have this sense of context.

I just had a couple quick -- well, I appreciate, too, the bullet points and I think

the couple things that jumped out for me in the navigant report, somewhere in here, and I couldn't put my hands on it there's a very interesting chart that shows that austin energy actually spends less on energy efficiency than comparable peers at that point in time.

Would you say this has changed since the time this report was created?

>> Well, that depends on how you measure it.

If you measure it in dollars, that doesn't really mean a lot because it's per customer, all right?

So some of these utilities, like ladwp, has 3 point some billion dollars in revenue and I know they have a big energy efficiency program so they'll spend a lot more.

So really the metric is how much do we spend per customer?

And I know that when we've measured that and we've presented that before, that austin energy is, I believe, the number is like \$55 per customer per year on energy efficiency, which is just way higher than anybody else in the state of texas.

Now, I'd be happy to go out and measure our peer group

across the united states and  
measure our energy  
efficiency per customer and  
I will bet you that we're,  
if not at the top, pretty  
close.

that's good to  
hear.

Do you remember how they  
measured?

>> In total dollars.

in total dollars  
rather than --

>> that would be my guess.

That would be my guess.

I don't know.

I mean, we can look it up so  
that I'm not guessing.

Yeah.

We can look that up.

actually I did just  
find it.

I think it's on page 15 in  
section customer care.

But anyway, that's helpful  
to know that that is a  
different --

>> that's the real trick of  
this business is you have to

[09:30:00]

be very careful about how they're statistically measuring everybody because depending how they're doing the statistics slants it to one story.

So I've always tried to look at it both ways, total dollars per customer, you know, try to look at it from both directions.

and then the other two, you know, conclusions that jumped out at me that again you highlighted too is that, you know, we've heard a lot of discussion out there that, you know, we haven't -- the austin energy hasn't raised rates in 17 years, but, you know, as you've pointed out in one of your bullet points, for a good number of those years there wasn't a reason to raise rates because austin energy was in a very financially sound position with revenues exceeding costs.

So I think that sometimes gets lost in our discussion about the rate increase.

And two, given some of the concerns I'm hearing out there in the public, and a few of the articles I've read, I appreciate that the navigant report talks about some of those causal factors that led to that gap and it was the economic downturn

and other things going on but not increasing our reliance on cleaner energy, and it sounds like in your discussion you've emphasized that as well, and I think that is another important message to get out there in the public, that it was, you know, the same economic downturn that affected so many businesses and industries.

And then I guess lastly i have a couple questions.

I did ask some questions and I appreciate the really detailed responses i received back last night.

To follow up on one of the -- 16b, I think, gets to -- I'm asking about a page that is confidential, so maybe this is a discussion better left for executive session.

There are some recommendations for potential savings, and i hope if this isn't an appropriate place to talk about it, I hope we can -- i asked about the ones on 22 and I think I received an answer about the ones on 18, so I'll just put in a marker that I'd like to know what

[09:32:02]

of those recommendations on page 22 ae has explored.

And too, since some of the recommendations talked about processes for evaluating capital projects, I wondered if you could address how that project may have changed in the time since the navigant report.

>> Well, first of all, back to 16b, I'm just refreshing myself on it.

again, we can talk about it -- could I interrupt?

We do have the latitude to go into executive session, if you want to discuss -- i just want to let you know that we do, rather than discuss something that might or might not be confidential, we could take it up then.

>> Tovo: thanks.

And again, I'm happy to skip that because I do want to talk with staff about the 17, and we can do that privately.

>> Connected to 22, what you're talking about.

At that time, a climate protection plan had been approved.

There was a generation plan that was pending.

That wasn't approved until the winter of '11, late -- i think december of '11.

I can't remember now, but that was a year ago.

And until that point in time we had a plan to be at 30% renewable, and 35 -- 35% renewable, excuse me.

So we didn't know whether we were going to do that through capital acquisition, by building projects.

We didn't know whether we were going to do that by purchase power agreements, which we've executed with 291 megawatts of wind this year.

So not knowing the strategy for that, and actually the strategy kind of developed this year because we had an rfp in february for renewable projects and what came forward were not opportunities to buy projects and build projects, but what came forward were opportunities to buy the output of projects for a number of years, 25 years, and at the end of that period of time we could elect to purchase the project if we wanted to.

And it has to do with tax credits and it's complicated, but that's what was not known by navigant at

the time or austin energy,  
what was our strategy going

[09:34:00]

to be about acquiring these  
renewables.

And I can't tell you the  
answer to the rest of it,  
but I can tell you to date  
we've made remarkable  
progress on our renewable  
portfolio by using purchase  
power agreements and not by  
borrowing money and entering  
into long-term debt.

I see, and that  
timing is helpful.

In terms of the -- they had  
made some recommendations  
about process for making  
capital expenditures, and if  
I understand what you're  
saying, the generation plan  
provided some guidance for  
those decisions, and you've  
sort of moved forward and --

>> I don't believe the --  
the generation plant didn't  
dive down into the strategy  
about whether you use  
capital to purchase them or  
buy them.

It used it as a whole --  
but it gave you  
guidance for developing  
those internal processes.

Okay.

I think that's it for now.



Thanks.

Anythi  
anythi  
ng else, bill?

if navigant were  
back and they had the  
benefit of knowing how cheap  
we were able to get wind  
power from the coast,  
knowing the things we've  
done over the last year, do  
you think this report would  
be different?

>> Yeah, they would have  
recommended we enter into a  
bunch of those projects.

I bet they  
would.

>> That's a beautiful thing  
in consulting, if you can  
look backwards, like an  
actuary looking in a  
rearview mirror, you know?

Spell generally speaking the  
report says, it seems to me,  
that we're within normal  
limits for most things or  
we're above normal limits  
for a few things, on energy  
efficiency we're doing  
pretty well, on renewables,  
it was a little bit guarded,  
but of course they didn't  
have the benefit of knowing  
what the wind was going to  
cost us.

There are only a couple  
places here where they  
really issue a significant

caution, one of them we've been talking about is you need to raise more money because we're upside down for a bunch of reasons we've discussed.

One of them is what kathie just mentioned a second ago, quote, there needs to be a balance between ae's leadership and its mission of affordability, which i

[09:36:00]

think you've begun to address.

I have one other question, though, and I think the one probably was on the tip of your tongue and that's the one on on-site energy resources.

I'm just looking -- easier to pay attention to the review we handed.

Confid  
confid  
ential?

>> We can talk about it at a general level but we can't go into the business part.

it's not  
redacted.

Mayor, this is a publicly available document, is it not?

The summary that you handed out?

>> I can't see what you have, so I don't know, but --

>> spelman: let me show you.

>> Yeah, that's public.

>> Spelman: thank you.

So the report says, and this is actually what I think brought the report to our attention in the first place, is the -- is the navigant people said the history of relatively weak profitability associated with on-site energy resources.

And I wonder if you could talk about that for a minute.

>> I will say that it is a multi-year, 20-year business plan.

The success of it has to do with the growth of downtown austin.

The project itself is for a utility professional like me is a pretty fascinating project.

this is the --

>> what?

this is the  
chiller plants.

>> Right.

So everybody understands, we  
make child water and send it  
to large buildings -- the  
austinian, doesn't have a  
chilling tower, no  
air-conditioning equipment  
hanging out the building,  
all child with austin energy  
and as downtown develops and  
at the speed at which it  
does, that determines the  
pay-off of the whole  
project.

And as far as we're  
concerned, it's doing very  
well, and it's on track and  
its business plan but that  
business plan and  
performance and everything  
else we've held as  
confidential.

I understand and  
I'm not going to ask about  
the details, but in the  
broad outlines it was by  
design not going to be

[09:38:00]

particularly profitable in  
the first few years of  
operation.

You were betting on downtown  
becoming --

>> yes.

a lot more --

>> and I might add, it takes a peak off our system.

We make ice with it off ours and we use that ice to chill water to manage our peak.

So it has a lot to do with our demand side management program.

So the bigger downtown gets, which isn't our design, but I mean, that's what it was designed for, is if bigger buildings are there, we can then serve off peak energy storage and start building that business, and that's what it's about.

I don't want to ask about anything which you would like to redact or not talk about, but the general outline, we shouldn't be too worried, in your opinion, about the relatively weak profitability up to this point because we're going to be making our money in the future, and we also have the benefit which navigant did not highlight of being able to knock the peaks off, something we -- which is reducing our costs in other places of this budget.

>> Yes, sir.

>> Spelman: okay.

Thank you.

council  
member morrison.

>> Morrison: thank you.

Thank you, guys, for  
sticking with us in all  
this.

I know it's a lot of  
conversation.

I want to go back briefly to  
the part of the navigant  
report about transfers, to  
the general fund and to  
general government.

First I want to clarify, i  
think I heard you say that  
parts of it were  
confidential, but I was  
advised otherwise by staff  
and that it would be on the  
web site.

Do we need to revisit that?

>> No, let me clarify.

There were three phases of  
the work.

The financial review has  
just a few sections that  
have been redacted with  
competitive information.

The benchmarking has two  
sections that have been  
redacted.

There's a piece of the oser  
or the chiller business and  
most of the power supply  
business has been redacted.

The general fund transfer report is entirely public, and all of those reports either redacted or the full report are on our web site.

[09:40:02]

>> Morrison: okay, great.

Great.

So just a couple questions because I know, as kathie mentioned, we're going to be probably delving into the general fund transfer and transfers in general in more detail, and I think that when we do that it's going to be helpful to be looking at some charts that are already prepared but also some other comparisons.

As you mentioned, the egrso transfer is part of the overall transfers to other departments, and to actually see the numbers broken out and compared to, say, san antonio and all I think is going to be helpful, because there's a lot of information in here about the breakdown of other utilities' transfers, but it's sort of hard to pull it all together, you know, being able to look at things in the spreadsheet like you've been with the reserve funds is really helpful and i think really helps the conversation.

So maybe we can work on that when we get to that.

And then the other part of this report that I think is very interesting is it looks at investigator-owned utilities -- investor owned utilities and does discussion that might be analogous to what we do as the owners of our utility, you know, shields and all of that.

So -- shareholders and all of that.

So I'm hoping we'll somehow be able to line all that up.

And I don't know if you in a nutshell can give us a summary of -- at this point of what they said in this report about about investor owned utilities or would you rather wait until we delve into that.

>> Well, I believe you really already said it, and that is that there is a return to shareholders of private utilities and gf -- general fund transfers is a common issue among municipally owned utilities across the country, and that's part of the answer to that.

But you have to remember

[09:42:00]



that you don't necessarily want to measure yourself to a for profit shareholder owned company because they don't have any return and it's based on performance, and I would again bring your attention to slide 6 in the december 14 rate presentation where in the years 1993 to 2000 there was, you know, single-digit performance year to year that improved austin energy.

Those were great years, and gft and everybody was happy.

And then you entered into 2001 with the dot-com bust and 2002, and some of those years where there may not have been any transfers, if you were a private utility.

Now, I don't know.

I'm just giving you my professional opinion about that based on that.

And this is slide 6 that shows the performance there.

And that's really where austin energy started digging the hole, the problem, looking at it on that basis.

But that's an argument that's made, but there are -- there are -- it's not necessarily a parallel.

well, just to point out another element that is not parallel, and that is as a municipally owned utility we have the opportunity to have a broad and wide and deep discussion about the rate design, and we are trying to incorporate community values into that rate design, which is not necessarily -- neither of those things would necessarily happen with a private utility.

So we -- that's a huge benefit to this community that you can't really put a dollars and cents on.

>> That's carrying the american public power association flag right there.

>> Morrison: all right.

[Laughter]  
I think I deserve a 10.

>> We'll arrange for that.

Across the country, municipal -- or publicly owned utilities, which are electric cooperatives, public utility districts, every state has something different, that's always been the core value of that, what you just talked about.

[09:44:03]

And so -- but anyway --  
so you're with  
me on that?

>> I'm with you on that.

>> Morrison: okay, good.

And then one other question  
I have, and that is I know  
that -- as I understand it,  
austin energy somewhat  
recently started paying some  
franchise fees to some of  
the incorporated areas.

How does that play into all  
of this and was that  
considered -- was that  
actually happening at the  
time of the navigant report?

>> That was not happening at  
the time of the navigant  
report.

That was approved later, and  
it's -- I don't want to make  
the -- it sound like the  
money doesn't mean anything,  
because it does, but it's a  
fairly small amount of money  
that we transfer.

It's about a million dollars  
that we collect from all the  
ratepayers and we pay that  
to six or seven cities for  
the amount of revenue that's  
generated in that -- inside  
their city limits.

For example, bee caves, for  
example, would have -- and  
there's a transfer amount  
that goes to there, and it's

3% of those total revenues  
for that city go back to  
that city.

and I'm going  
to guess, but tell me  
whether this is right or  
wrong, that in terms of our  
customers that live outside  
the city of austin, those 6  
municipalities and the  
number of residents in those  
municipalities represent a  
small fraction of our  
outside the city limits --

>> very small fraction.

>> Morrison: -- customers.

>> Very small fraction.

>> Morrison: okay.

Thank you.

>> Mayor leffingwell: okay.

I guess we can go on to the  
next section.

>> Okay.

Okay.

The next section is going to  
talk about reserves and

[09:46:01]

financial policies.

Again, I'll try to go  
through this pretty quick  
and then be prepared for  
questions.

As requested at the quarterly report session i was asked to bring back a comparison of reserve funds with other public power utilities across the united states.

Before I -- before I get into this I might say that this morning at an early hour I just got on the internet and said cast reserves for publicly owned utilities and I got a whole bunch of information that's in addition to this.

It's all out there.

I was looking at the salt river project, which is a -- it serves a big part of the phoenix area, and -- anyway, unfortunately it's not on here, but we'll go through this pretty quick.

This is a collection of utilities.

Some are owned by cities.

I'll point these out, austin energy, of course, the los angeles department of water and power is the largest publicly owned utility in the united states outside of puerto rico.

Puerto rico is actually the largest.

And then you have -- and they -- you can see their

annual revenues and you can say their reserve funds.

Nebraska public power district up to our north.

Jacksonville electric, that is a municipally owned utility, and we took out their water.

Jea runs water for the power and -- and power for the city and we took their aware water out.

Georgia, I would judge it to be similar to an Irca in that they provide power for their owners, but their owners, there are several cities around georgia and what they do is they share in this.

So it's really kind of a joint group.

Plow river power authority, cps, and is that number

[09:48:01]

right for their -- that number is right for their reserves.

I looked at that and thought that's a lot of reserves.

So anyway.

Seattle city light, you can see now -- there's a contrast.

Why would seattle city light  
have less reserves by a  
percentage basis -- well,  
now, there's 100%  
hydrouility.

All of their power pretty  
much is coming from  
hydroelectric plants and  
they have a different kind  
of exposure.

Sacramento communal utility  
district is not a city.

It's a municipal utility  
district like an mud in  
texas and they happen --  
that's what this is  
reflective of.

On a comparative basis  
that's how we look -- the  
top chart you'll see we have  
a red and a blue piece.

That's our maximum amount,  
is the -- with the red, but  
currently we are at the  
bottom part.

And then as a percent of  
revenue that's how we stack  
up.

Again, kind of in the  
middle -- middle of the  
group.

And the yellow is with the  
total amount of reserve  
fund.

So the need for revenues is  
fuel price volatility,  
counter-part risk.

What does counterparty risk mean?

That means all the companies we do business with, whether they be private companies or others, we -- we have to evaluate that risk because if we do a big gas deal, for example, with somebody, they may not show up at some point in the performance and we have to make sure we evaluate that risk.

Generation disruptions, which has been the largest concern I have so far here has been watching some of these with the warm summer we had last year.

Extensive capital expenditures for infrastructure improvement, whatever might happen, significant environmental legislation, and the threat of emergency expenditures and response to a natural disaster, catastrophic weather and deferrals of

[09:50:00]

large deferral amount during a period of capped rates.

Rating agencies, we've talked to you about that before, and how they view this.

And utilities owning generation have a higher risk portfolio.



70% Of cost is generation -- we have a large fleet, a large asset to maintain, and that puts you at a different risk than a utility that buys all of its power.

I can compare a utility -- for example there's large utilities in the northwest that are almost the same size that we do that generate -- they do not generate -- very little of their power.

They buy it all through the [inaudible] power administration.

There are customers that are served by tva, tennessee valley authority and similar.

>> The definition of the reserves, this is in your financial policy and I'm going to let elaine answer any dls detailed questions that you might have, but these are the austin energy -- the city has a financial policy document, and then I think austin energy water and other pieces of the department of the city all have a different piece.

These are the ones -- these are the ones related to austin nrpg.

The operating cash is policy 11, 15, 21.

This talks about the -- what the policies say in a very high level, and we just wanted to point that out today, and do you want to ask any questions about that so far?

Questi  
questi  
ons?

Okay.

Go ahead.

Council member tovo.

I do actually have a question about the replenishment.

I noticed, I think it's policy 11, talks about the replenishment rate.

Let me see if I can find my notes.

Oh, I'm sorry, policy 3 talks about the replenishment rate being one to three years but not

[09:52:01]

exceeding five, and so i wonder if you could just address that for me.

>> Which policy was it?

>> Tovo: 3.

>> 3.

and I think I got  
that language from the  
navigant report.

So I -- I understand the  
interpretation of it being  
three years, but if it says  
not longer than five, it  
seems to me that the  
financial policy  
contemplated a longer  
replenishment period.

>> Do you think it's 15?

>> Policy 3.

Let me clarify and make sure  
I'm answering the right  
question.

Policy 3 says principal  
repayment delay shall be one  
to three years but not  
exceed [inaudible]

>> tovo: right.

And so I guess what I'm  
asking is since it says not  
exceeding five years, you  
know, I don't know what the  
intent was.

I wasn't on the council at  
the time that was adopted,  
but it seems to me that that  
language contemplates that  
it could be as much as five  
years.

>> That is -- that policy is  
referring to when we issue  
revenue bonds that in years  
1 through 3 we can have  
interest only as debt

service to keep the cost lower in the early years but not exceed five years of interest only.

So that's -- that's a guideline for when we issue revenue bonds, and the structuring of the debt service payments over the 30-year term of the debt.

so is that why in the current rate proposal you've structured that replenishment in three years -- replenishment in three years instead of five?

>> This is about debt issuance.

>> Yeah, this is not related we would issue -- let's say we bought a wind project, and we would start a payment when we closed the -- closed the loan, in effect.

We would only make interest payments for the first few years, and then the

[09:54:01]

principal payments would kick in.

And there's a policy on that and you can structure your debt accordingly.

>> Tovo: got it.

Thank you.

I wonder if we could maybe walk through a line or two so I can understand, if we talk about the operating cash, it says the current amount, fy 2012 budget ending balance of 38 million, the target amount is 51 million, and test year revenue requirement is zero.

So does that mean that in terms of creating the revenue requirement we're not adding anything to actually replenish that fund?

>> Yes, that's what that means.

That means that as a fallout of the rates, that would automatically -- the rates would provide that.

So we're not asking for any additional --

>> morrison: okay.

All right.

So would that be the same on the bottom line -- well, i don't know -- yeah, we're looking at the same -- the nonnuclear decommissions, target amount is 55 and test year requirement is 5 million, but we're replenishing it -- that ten years time five gets essentially 50?

>> Yes, and the 8 million is the remainder of the money it would take to decommission holly power plant and the 55 million is our estimate of closure costs -- beginning closure costs for the decker plant and the fayette coal plant.

And so given that they have a longer life, we used a longer replenishment rate.

and then on the strategic reserve contingency, it looks -- I'm sorry, there's very little difference there, so -- let

[09:56:00]

me jump down, then, to the strategic reserve, rate stabilization.

We currently have zero in that fund.

The target amount is 98 million, and the test year revenue requirement is 3, and it suggests replenish rates -- how will that be replenished in three years?

Is some of that going to be replenished through the rates?

9 million would be built into the proposed rates.

The 98 million is a maximum that that contingency would ever be.

We placed a 90-day maximum on that.

So we don't expect to get to 98 million for a number of years.

And we have only put the 9 million in the rate reserve.

so --

>> so that would be replenished in future years, if we had excess revenues from weather, would be one source, other than a rate increase, that you might put money into that reserve.

and then I see that under number of years to replenish in the rate proposal, it says three years.

Is it actually more than three years?

>> All we've -- always built 943 years, so we certainly would not be at the target.

That's just the target.

>> Morrison: got it.

Thank you.

>> Spelman: mayor?

council  
member spelman.

if I could  
follow up on where I believe  
council member morrison was  
going.

The rate stabilization  
reserve exists for exactly  
the contingency we are  
dealing with now.

We need to raise our rates,  
but you don't want a rate  
shock, and so we have a  
cushion there, we can spend  
down the rate stabilization  
reserve slightly to help  
having to raise rates by too  
much in any given year.

Is that about right?

>> Yeah, that's right.

It is a common tool publicly  
owned utilities have, and it

[09:58:01]

can be used at the  
discretion of -- it can be  
set up to be used at the  
discretion of the -- you  
know, austin energy in this  
case to use in a budget year  
to say, oh, we had a bad  
year for a -- some kind of  
rate effect and how it's set  
up, and then you can use  
that to balance for that  
next year, then replenish  
it.



So that's what it's used for.

seems to me the logical way to think of it is kind of a sawtooth.

You build it up, you build it up, okay, then you need it because you have to raise rates, and you drop it down to reduce the need to raise rates by too much.

And so you see it coming up, and then it comes down, and it slowly builds back up again.

Just every few years you need to tap into that for the same sort of purposes we've been using it the last couple years.

Is that accurate?

>> Yes.

so seems to me that the right time to replenish this to a reasonable level, and the right target ought to depend on how frequently we expect to raise rates, presumably that's something that's foreseeable, at least to some extent, and how big that fund needs to be to reasonably prevent that increase in rates when it does happen from being too large.

Does that sound about right?

>> Yeah, that's about right.

That's about right.

>> Spelman: okay.

Do we have a sense for how long it's going to be between -- well, it depends on what we do, I understand, and if we don't raise rates you're going to need to raise rates next year for sure, and I don't want to go there and I don't think you do either, but if we reat raise rates by not quite as much as you are asking for this year, then we're going to need to raise them a bit more next year and the years after that.

I understand that's kind of where we are.

At some point we're going to raise rates to somewhere close to what it is you're talking about here.

How long going forward do you think it's going to be before we're going to need to talk about rates again?

>> Rates again or this fund?

how many times are we going to have to do a rate case?

>> I'm running for re-election.

I'm going to be here for  
another three years, I hope.

Will I have to live through  
another [inaudible]  
I think I see  
what you're saying.

If I understand the question  
right.

If you had a rate  
stabilization fund that was  
big enough.

>> Yeah.

could you use  
that as a shock absorber  
going forward, and --

>> and the answer is i  
believe probably when you  
did this you had a 90-day --  
90 days of operation and  
when you set this metric,  
and 90 days of austin energy  
at that time was probably a  
smaller number at that time  
than it is today.

So that fund would have to  
be a pretty good size to --  
to be -- in other words, if  
we had a big fund going into  
where we are, you could look  
forward and say, well, on a  
cyclic time, is the economy  
going to help us out?

There's a lot of different  
factors, and I -- I don't  
think I really have a good  
answer for your question,  
but it's -- it's -- it's a  
good tool to have, and it

would take a long time from where we are to build it into being used as a good tool, and I think that's what elaine has talked about.

We talked about in our revenue case, only \$4 million a year, and it would take a number of years to build that slowly so that you can use it as a tool.

but we don't have a -- I'm looking at the target amount as based on non-power supply operating requirements.

It sounds like a rule of thumb but it doesn't seem like it's reasonably related to what we're using it for, which is a shock absorber for having to raise rates too much.

Seems to me the target value ought to be based on that other than just how fast we raise money.

The years to replenish to that amount, whatever it is, ought to be based on approximately how often we expect to have to go through a rate case.

>> And at this time I don't have an answer for you about how often that is, but I think what we're projecting here in this rate -- in this business case that we put

forward is that we need to start building a fund and to have that as a tool going forward, and when we can actually use it effectively in a situation like we're in today, I don't know that we have an answer to that.

as, in fact, we have been over the last couple of years, is one of the reasons why we've been able to delay the rate case up until today.

That's correct, isn't it?

>> It is.

>> We can certainly rethink the policy target on that since it will be a number of years before we get there.

We may be able to address your comment.

but in five years or whatever the appropriate length of time is when we do have the next rate case we'll have this available so we have a little bit of flexibility into how much we change rates and exactly what year we do it in.

Let me ask you a more philosophical question.

I'm not familiar with the fund accounting principles in use among the rest of these guys but we've had

conversations about how it is that we structure its reserve policy, and as I understand it, we've got several different buckets of strategic -- well, three different buckets of strategic reserves for three different classes of contingencies.

Is that generally true in public power?

Do we have different buckets for different kinds of contingencies or are they thrown into one pocket like THE IOUs AND PULL IT DOWN When they need it.

>> What Austin Energy is doing is consistent with the three publics I've worked with before and it's consistent with what I know public power does across the country.

There isn't any set guidelines on what you call these buckets, if you will, but strategic reserve is probably a pretty common one, but at the end of the day when we sit down with rating agencies, for example, they want to know in pretty good detail what these different funds are for.

Like the discussion we just had on rate stabilization, for example, but the other funds are set there, and

they're not refunded every year.

Like our rate -- strategic reserves, we don't fund those new every year.

That is money that sits there.

We don't touch it.

>> Spelman: right.

>> And that's consistent with what public power does.

put it in your reserves until you absolutely need them, i understand.

>> Right.

my -- the question that's been put to me and let me just put it to you, shoot the messenger if you must, but I'm mostly be messenger for other folks here, although it's a reasonable question which is why I'm asking it.

If we've got one class of reserves for one contingency and we'll tap into it if that contingency coming comes up, we've got a tornado, we have a tornado fund.

If we have a downturn in the economy we've got a downturn in the economy fund.

And if we are funding each of those reserves on the basis of the likelihood of that one thing happening, then what's the likelihood that we're really going to need to tap into all of our contingency funds at the same time?

What's the likelihood of the perfect storm where we have a tornado and an economic downturn and it's been five years since we've raised our rates and good gosh, we're completely stuck?

And do we need to -- would it not be as reasonable to have a single reserve, which covers all of those contingencies or at least the recognition that if we have a tornado we can always pull money out of the economic downturn fund if we need it?

>> Well, I believe that's an exercise you have to go through when you develop your policies, and so the discussions I've been involved in, you know, setting these funds in the past is you are taking a risk -- you're doing a risk analysis of what possible things can go wrong and what your generation fleet is, and so we're exposed, for example, to a nuclear project and as a generating resource it's very inexpensive and good for us.



So I don't know that I can answer it simply.

I think the answer is you have to go through that exercise when you set these up, and it -- I think the questions that I have heard from some is that you don't need the reserves to be that high.

Well, that's a pretty consistent argument sometimes with customers because what they want you to do is to draw them down now, and they take advantage of that drawdown now, but in the future you make a decision, well, I want to build those back up, and that's kind of where we are on the rate stabilization, is that we want to build it back up because it's been depleted.

And so that -- another way of thinking about the same issue is these reserves are as high as they are because we've been taking money out of the pockets of our ratepayers for years to build them up to the point where they were a couple of years ago.

We've been spending them down because we haven't had the rate case in the last couple years, even though we've been bleeding money.

Do we need to build them back up to the point where they were before, which is going to require that we take more money out of people's pockets and raise rates, and if so, do we need to do that rate now?

I think the discussion we've been having is how long -- how long do we have before we need to get these up to the target amount and how high should the target amount be?

And what I'm asking is, does it make sense for us to have a separate set of reserves for separate classes of contingencies if we have a good -- reasonable belief that we're not going to have to cover all three of those things in the same year ?

>> We have put the whole rate package forward to you consistent with what we believe to be the best policy direct for rebuilding the reserves in a manner that makes most business sense.

And so that's what's inside of our rate proposal, is building the operating reserves, the operating funds back to where it needs to be so that we can operate.

That's the fund that is down right now.

so that  
operating cash is the one  
we're most worried about  
right now?

>> Yes, sir.

>> Spelman: okay.

Last question.

It really is.

On page 2 you've got a  
reserve fund comparison --  
actually it's nowhere near  
the last question.

It's the last question for  
today right now.

On page 2 you've got two bar  
charts, one of which shows  
our maximum cap reserves and  
our actual reserves in just  
plain millions.

, Which doesn't help much,  
because we've got widely  
differing sizes of utilities  
here.

We're just basically in the  
middle of all these  
utilities so there's a good  
comparison group.

The second of those two  
graphs on page 2 shows that  
gold bar of the reserve  
funds is percentage of  
revenues.

Is that the -- is that gold  
bar -- does that represent  
the percentage of current

revenues that contains our  
current reserves or our  
target reserves?

>> Target reserves?

That's target reserves?

>> Target.

>> Target.

>> It's target.

>> Spelman: okay.

That's the target.

>> That's tarring.

>> Spelman: okay.

So our current reserves are  
some fraction of that.

Roughly where on that bar  
would we find our current  
reserves?

>> 180, We'd be about 10%,  
12%.

>> [Inaudible]

>> what he's saying is the  
blue [inaudible] I think it  
would be 12%.

>> Spelman: okay.

About 12%.

>> Okay.

so the way i  
should read that right now

it looks like the gold bar is in the middle as a percentage of total revenues of public power that you are looking at, which is about where it ought to be, that makes sense, but that's the target, that's not our actual position.

Our current position is much, much lower than that and, in fact, 12% is lower than any of the blue bars on this chart and our current reserves as a percentage of revenues are much lower than the current positions of any of other utilities you're talking about.

>> Yes, sir.

>> Spelman: thank you, sir.

>> Cole: mayor?

council  
member tovo.

I have a couple questions and one of them relates to this graph and some of the information that the auditor presented us with.

But first, before I move on to that, I wanted to ask about the reserves.

Can you remind me which of the reserve funds deal with -- well, let me just pose the question.

When one of our -- one question that's been raised to me is I think you described the other day that there were -- there needed to be a transfer over the summer because the fuel costs, austin energy ended up buying fuel costs at a very high point in the market, and it was required to make a transfer from the operating -- operating expenses into one of the funds.

Can you just recap that for us?

>> I can.

Actually what happened was that depleted the operating reserves.

What I was talking about at the audit committee is there could be a situation, if we didn't have sufficient operating cash, that we would have to make a transfer.

In this particular year we had operating cash, but that was drawn down to pay for the additional power supply in august.

But if we didn't have sufficient operating cash, we'd have to have a way to pay for it.

So that would be an example where we would need to rely

on strategic reserve for the additional liquidity or the additional cash to be able to make those payments.

and so that is the strategic reserve emergency?

>> That one is used as a last resort.

That would be the contingency.

the strategic reserve contingency.

So what you refer to as the operating reserve is the strategic reserve contingency and that's what you rely on if there oont enough operating cash.

>> If the operating cash is depleted to zero you fall back to the contingency in the contingency reserve.

is within the rate proposal it is -- part of the revenue requirement does contain the replenishment of that.

Is that right?

>> A very small amount, about \$200,000.

>> Tovo: okay.

Because one question that's been raised is whether or not the increase in the fuel that just happened as of --

what is it, january 1,  
whether that is also making  
up for that payment, you  
know, for that higher than  
expected cost over the  
summer.

>> That is -- that higher  
cost is included in that  
fuel, and that's -- that  
money will now be collected  
from our customers.

In august when we paid those  
additional costs our fuel  
rate did not change, so  
those costs were not passed  
through to the customers  
until january.

so -- but is it --  
I guess are we collecting it  
twice?

Are we collecting it -- are  
we collecting that higher  
cost of fuel through  
increased fuel charges now  
and the replenishment with  
the operating reserves?

>> No.

The replenishment.

Of the reserves and the fuel  
charge are those -- those  
are two separate categories.

The fuel charge only, if you  
will, as a -- is a forward  
looking budget of what your  
power supply is outside of  
your personnel to run and  
everything is strictly fuel.



So -- and if you're buying power from somebody, a ppa would be a part of that as well.

So it's a forecast looking forward and it looks back, so you make up for what happened in the past and you look forward and it's a part of our risk policy, it's very complicated but it does not have reserves in there.

The reserves come as a function of your rates and replenishing through rates.

So there's a disconnect there.

yeah, I understand what you're saying but i guess part of the looking back is recovering -- recovering those higher than usual rates in the summer and part of the replenishment is also due to that higher than expected rate cost over the summer.

So I mean, and that -- in that way they're both dealing with the same incident of higher than normal fuel costs.

>> Well, we underrecovered from august -- there were two -- two options.

You could have had a fuel increase august 1, if you had known you were going to have that additional cost.

We deferred that to january 1, which is our typical date to change the fuel rate.

So we used money out of our bank account instead of collecting it from our customers for -- from august through january.

So we have less money in our bank account, and so when we crafted the fuel factor in january, one of the adjustments as larry says, is we looked forward but then we adjust for what we did not collect that we should have collected.

So as -- from january forward as we collect that money from the customers, that cash goes back into the bank account that it came out of.

right, but also as part of the rate proposal we're replenishing that same bank account?

>> No.

>> Actually, we're not.

If you look at the slide 4 in policy 11, the test year requirement is zero.

>> Tovo: okay.

So it's operating -- okay.

I --

>> they can work in tandem and -- the question is do you have sufficient money in the operating account, which is your bank being.

Look at that -- bank being.

Look at that as your bank account and the contingency as your savings account.

If you're going to overdraw your bank account, you pull from savings, which would require council action to do a transfer from the contingency into your bank account.

So you can't really touch the savings without council approval, but you can fluctuate your bank account up and down for power supply costs that were unexpected and other kinds of things, as long as it doesn't go negative, you don't overdraw it.

so the rate proposal is replenishing, in your language, the savings account and the emergency savings, but the money for the increased fuel charges came out of the regular bank account, the operating cash.

>> On december 14 presentation, there's a slide, I think I showed it at the quarterly report also, it's slide 10, and it shows these funds, and I'll

hold it up for you, but it is this slide, and it's got the blue, and the blue is what elaine is talking about as the operating fund.

>> Tovo: good.

Thank you very much for that clarification.

So then I wonder, I do have some questions about the auditor's conclusion regarding reserve funds, and your conclusion -- and your presentation about the reserve funds, and I don't know if it's appropriate to have the auditor as part of this discussion or not, but what I -- what I took away from the auditor's conclusions on reserve funds is that it is about a quarter of the total revenue requirement that austin energy does have higher reserves than other utilities, and that we are increasing -- that it is a pretty substantial increase, that was my language, not theirs -- increasing the levels of reserves from about 20% to 31%.

So I guess it sounds like you've looked at -- I mean, you have a different set of utilities, so I wonder if you could explain -- explain your rationale and then maybe if we can hear from the auditor about whether or

not those conclusions were accurate.

>> Well, I obviously can't speak for how they developed their data, but part of it i believe might be that, as i said before, all public utilities called their reserves different names.

They have different titles on the buckets, if you will, and so if you're going to compare a reserve fund at austin energy to a utility that has another reserve fund, that you might not find any that have that same name.

But what you really do is look at total reserves that a public utility carries.

As elaine explains, they're really all one big giant bucket of reserves.

They just have different rules as to how you can use them.

So if I set out to look at utilities and compare reserves, I'm going to look at total reserves, because that's really your cash position.

And with rating -- when rating agencies look at it, they look at your total cash position that you have.

I guess I --  
actually, if I could ask  
marry or our other  
auditors just to address  
this, because I do want to  
make sense of this.

Is austin -- on -- you know,  
how does austin energy  
compare in terms of the  
number of -- it's less  
important the number of  
reserve funds, but basically  
how does it compare to other  
utilities in terms of the --  
how much we are saving  
through our reserves and,  
you know, what percentage  
that is of our total  
revenue, and I want to  
understand at least what the  
difference is between the  
charts we have from austin  
energy and the charts we  
have --  
before  
you answer, I want to make  
one very quick point, and  
that is there really are --  
there may be a lot of  
different buckets, but there  
are really two types of  
reserve funds.

One would be for  
emergencies, contingencies  
or whatever, and the other  
would be for budget  
stabilization, as you talked  
to us.

We have the same kind of  
reserve set up in our  
general operating fund  
budget.

But to me the difference is for emergencies, that's something you don't go into to cover your operating expenses.

But the other one is kind of designed to cover short-term shortfalls and could be invaded, so I do think it's important that we make a distinction between the two types of reserves.

And the other comment, I think we had a big discussion on the fuel charge.

To me, I think in very simple terms, which I like to do, is just a pass-through charge despite all the accounting gymnastics that you might go through, basically it's passed through and Austin Energy doesn't do anything with that money except pay for fuel.

Okay.

Go ahead.

>> I'd like to start off first by -- like Larry said, I don't know how they come up with their numbers either.

We haven't had a chance to validate them so I can't really draw a comparison.

The way we approached it is we were trying to identify a judgment sample of some utilities that were aa rated and then we took a look at their unrestricted funds.

That took a little bit of study on our part.

We actually had to go into the description of each one of this is reserves was intended for and it truly was restricted or unrestricted.

We looked for those that had unrestricted funds that could be used and moved across to be used for other purposes, other than one particular purpose, such as debt or other type of covered items nar in there.

So that's why I think ours are substantially different, one reason it would be possibly different than what austin energy has in place, and from that we then did a calculation using the test year, we did not use the actual data, we used the test year information they provided us in the rate proposal to calculate these amounts.

so it's possible --  
am I understanding, it's possible that you were looking yonld just reserves butio -- beyond just



reserves but also other  
unrestricted funds?

>> We we looking at  
reserves.

Like in one situation, which  
I think was san antonio,  
where we had one that said  
it was restricted, but when  
we looked at it, 6% of it  
was restricted.

The remainder was not  
restricted, so we included  
that fund.

So we actually looked at, in  
substance, what was going on  
with the reserves as opposed  
to the title that was there.

>> Tovo: okay, yeah, right.

Right.

In case they had, as  
weiss said, in case they  
had different --

>> we absolutely agree with  
that statement.

>> Tovo: okay.

Today, was that an accurate  
summary of the conclusions  
of your report, that austin  
energy does, based on your  
review, has higher reserves  
than other utilities and  
that what's in the rate  
proposal is higher than the  
reserves that we've had in  
the past and that it  
represents a bigger

percentage of austin energy revenue than some other comparable -- some other utilities that you used to compare?

>> I think that's a key point, that we used a different subset of utilities to look at, and in that case your statement is correct.

As far as the past, I don't think we went much in the past.

It was --

>> [inaudible] we just used the rate documentation that was provided in december and the test year information from that report.

So we didn't look at historical --  
I maybe misstated it.

I think you said that the levels of reserves were increasing from 20% to 31%.

So from current --

>> that's compared to the test year, using numbers from the test year, it's moving from 20 to 31%.

>> Also, I'd like to point out that austin energy did tell us that the comparison that we were doing that was

not one that was normally made.

We felt from just an information perspective it would be useful to the city council to have that information available.

the comparison of the level of reserves -- and weiss -- the level of reserves -- which part of the comparison?

The level of reserves and the percentage of total revenue?

>> I don't think they said -- I'm saying i thought -- you thought it would be useful.

weiss to explain why --

>> well, it's just industry practice, you know, that we compare -- there's audited financials by every public utility in the country, and those are public, and, you know, it's a pretty big job to go through each one and do a full analysis.

I looked for it, but it -- it depends on the -- you know, on the metrics you want to measure.

>> The rating agencies typically look at days cash

on hand as a measure for  
your cash support or  
liquidity support rather  
than a percent of revenue,  
and the two particular  
reserves that we have set  
targets for in the rate case  
that are higher than in the  
past are the rate  
stabilization, which we've  
not really had in the past,  
and the nonnuclear  
decommissioning.

Those are two in particular  
that I believe are much  
higher than what you would  
see historically for us.

well, I don't want  
to monopolize the  
discussion.

I'm sure there are -- I have  
some other but --  
yeah,  
I have another quick  
question, and that is, have  
you guys sat down together  
and talked about this?

Because obviously you're  
using different criteria to  
set up reserve funds.

>> Well, in the beginning --  
i  
think that would be a very  
beneficial exercise for you  
to get together on what the  
numbers are, what the  
criteria for setting the  
numbers are to compare.

If we don't do that first,  
then we're just -- some of

it is apples and some of it is oranges and it's not a valid comparison.

So I would strongly suggest, auditor, that you have that discussion with the austin energy folks and come to an agreement on the actual numbers here on the page.

>> Mayor, we have had meetings.

We had an initial one and we had, I guess I will call it an exit conference when we were about to do the audit finance -- we made the presentation.

And I think we have an honest disagreement as to whether these numbers would be useful or not.

We do not hold these out to be the industry practice.

We don't hold them out to be the numbers you should be making the total decision on.

It was information for your decision-making that we thought would be useful.

well,  
somehow we have to be able -- to be able -- for the comparisons to be valid we have to know what the criteria for the individual numbers to be compared are,

so there should be a couple of big-ol' asterisks by these numbers, they aren't based on the same data.

So let's see if we can do that.

Council member riley.

just a couple questions.

First, larry, on the contingency reserve shown on slide 5, the middle row, the last column on that chart is number of years to replenish in rate proposal, and for the contingency reserve there in the middle, that box says currently deficient.

Help me understand that.

Does that mean the rate proposal is currently disht?

>> There's not enough -- deficient?

>> There's not enough revenue forecasted in the rate proposal to return that back to where it needs to be.

Is that correct?

>> No, I think what that means is that it's currently deficient.

We've got the 200,000 in the rate proposal, so that that

will be -- that would really come out of the first -- should be one to three years, just like the rate stabilization.

All of these in the test year, I think it was an error.

I think it should be for three years.

>> Riley: okay.

So that box should --

>> all of these except for the nonnuclear are three years, and I think it just -- so that box should actually say one to three years?

>> Yes, three years.

>> Riley: okay.

And then lastly, to cut to the chase with respect to the replenishment of all these reserve funds, do you see any opportunities consistent with our financial policies to stretch out the period of replenishment so as to reduce the revenue requirement that we're dealing with in this rate proposal?

We have gotten the suggestion from the community with respect to at

least some of these reserve funds, that if we -- that if we looked for a longer replenishment period, say we went for five years instead of three years, that we could reduce the revenue requirement and then ease the blow of the rate proposal.

Do you see any opportunities to do that consistent with our financial policies?

>> Well, I will say that replenishment of these reserves is not the main driver of this rate increase.

It is not.

And that any -- all of -- all rate proposal has a staged replenishment of that.

And I don't know the answer to your question.

We'd have to go back and look at our proposal and see what the genuine rate impact would be for that, but it is not as significant as our general operating requirements.

but the revenue requirement is affected by the replenishment of the reserve fund.

>> It is.



It is.

And correctly so in some cases, I believe -- cases, I believe, because they look at the entire reserves and understand that that all has to be funded by rates.

That's not entirely -- I've had that discussion with several people.

do you think that you could take a look at whether there is an opportunity to reduce that revenue requirement?

And I realize -- I hear what you're saying, it's not a main driver of the revenue requirement and it may not have a tremendously significant impact, but if there is an opportunity there, then that would be helpful to know, even if -- even if it would only be a modest reduction of the revenue requirement, if we could aim for replenishment period over, say five years instead of three years, then that would be helpful, and I think would be consistent with the council's interest in phasing in the impact of this rate proposal.

>> Yeah.

Okay.

We can do that.

>> Mayor?

council  
member morrison.

>> Morrison: thank you.

I apologize for following up with more questions, but since my colleagues took time I had time to read this chart, and I want to -- actually this is sort of a follow-on to chris's comment, and in terms of looking at what's driving the revenue requirement.

I wanted to focus in specifically on the repair and replacement fund, because the test year revenue requirement is \$20 million, so that's a big chunk of change, and one question -- my first question -- well, my first suggestion is especially because the number of years to replenish that is not specified, that would be a place -- and it's plan in the rate proposal to be replenished in three years, that could definitely be a place to focus in on because there's a lot of funds there and it wouldn't necessarily involve actually changing a financial policy.

But my follow-on question is, if we have -- I just want to understand how this works in the long-term.

If we have a new element of our rates that is going to be capturing \$20 million because we need to rebuild this fund, it's going to be capturing \$20 million each year, and the plan is after three years and the proposal that that would be fully funded, what happens to the rates after three years when we no longer need to be replenishing that fund?

[One moment, please, for ]  
that are proposed, we could get \$20 million for three years, and might not need it for rebuilding funds, but might look at what else would we need to be doing with it.

>> That's correct, because it's tied to the budget and capital planning and what we're going to build and not build and how many substations do we have to build depending upon the grid.

So it depends on what's happening in the future.

>> Morrison: One other facet we're hearing from the public about, if we are rebuilding a fund over three years with our rate proposal, that means it's being rebuilt without the benefit of new industrial contracts, participating in rebuilding it.

So that's sort of another reason you might look at for stretching

it out over longer than three years.

So it's not all borne by the current customers and the current non-contracted folks.

And then another element that we have been hearing a lot about is, of course -- and I think you've spoken some to this, already, today is the cash investment in capital.

With this fund, I see that some large amount of funding over the years, 30 million in 2008 and \$35 million in 2009 were moved to the operating fund for capital improvements.

So is that an example of where we might be using cash for capital improvement as opposed to debt?

>> Yeah, well, I think you've hit on the issue.

The sand hill project expansion there, you know, the financial prosecutions at the time and what the market was and everything else, that was the strategy chosen, to use cash instead of a debt service for that.

What exercise we're going to go through is get more comparisons across utilities to look at on this issue.

I believe 50% is the best business case.

It is an admirable place to be to try to build yourself from, let's say, 20% cash up to 50, is an incredibly steep hill, and i believe you will find that the finest run public utilities in the country are probably really close to 50%.

If not, they try to be, but be at that level.

So the answer to your question is that varied year to year, again, depending on the projects we decide to do.

Right now, we talked about the wind projects earlier, we won't have debt service on those, we'll be paid for those.

So that takes that cash issue off the table.

Otherwise, we'd be struggling to figure out how to finance those unless we were really going to the market with that.

>> Morrison: Sure, i understand.

>> And we have segue into the next section of your report.

>> Morrison: I'd like to make one more comment about that.

I think this example is helpful in understanding how that decision about, you know, what we do with cash versus debt impacts our rate design because we have about \$60 million that was transferred out of here to

do capital investments, and we're short \$60 million, and, so, we're now looking at 20 million, which is about 20% of our projected revenue requirement.

So if you follow all those numbers, you can see that 20% of a projected revenue requirement is a big amount, when we're looking at a big rate increase.

So it's a lot to wrap your heads around and I appreciate this because it helps to form the discussion.

>> One last quick question.

Council member morrison talked about the the industrial contracts.

I asked a question in the q&a about when the contracts were coming up and I think the answer was that the last contract expires in 2015.

>> Correct.

>> When are the first ones expiring?

There are 18 and I appreciate that clarification.

>> They all expire at the same time.

>> They all expire may 25.

>> Tovo: Okay.

It says the last long-term contract but all 18 expire --

>> all long-term contracts.

>> Tovo: Okay.

The last long-term contract.

All 18 expire then.

>> When I say last, it's because they can no longer sign up for them.

Well, we currently have rates that allow it, so when we don't have that, they won't.

>> Tovo: And this takes us into a slightly different direction, but one of the questions I asked had to do with the total revenue that might be realized if those industrial contracts paid at commercial rates.

I think they're at about 6 cents and would need to be a little higher.

>> You mean the regular rate we would be paying on this?

It's about \$25 million.

>> Tovo: And that is currently -- under the current rate?

>> Correct.

>> Tovo: Okay.

>> That's the difference between the continuing contract and moving to a new proposed rate.

>> Tovo: So we're collecting \$25 million less than those industrial users would be paying if they were an individual.

>> Right.

And it's in the december 7-14 presentation as well to note that we have a chart to show when the revenue comes in from the rate increase and it comes in in pieces.

5 and that whole piece of that is the commercial industrial rate.

3% Of total revenue comes in from the industrial customers that you talked about at the end of that contract.

>> Tovo: I agree with the suggestion of looking at the alternative of stretching out the punishment rates and that was one of the notes in the auditor's report that that could enable a reduction in the revenue requirement and I think that's a very good place to look.

>> Mayor Leffingwell: The next section is on revenue requirements, and we thought --

>> the next section is on revenue requirements, and it's related to what we were talking about just a little bit.



But the revenue requirements are here.

You've seen this before.

We refreshed their -- the reserves are added for the reasons they're listed up there, but our total revenue requirement for 2009 is this norm.

Now, when we talk about -- this number.

When we talk about normalize, we have to use an audit year to do this and we normalize it for weather and we take extraordinary expenses out of it.

That's utility practice, what you do when you look at a test year to determine your cost of service.

So, you know, if we had 2010 audit, we would look at that, for example, but the way this was started, at the time it was started, this is what we looked at.

Then this talks about the reserve fundings that we've -- and existing reserve balances that are available for unplanned events, and we just tried to list some of the dollar amounts that these could be and what the possible threats are.

This is really an evaluation of risk, and then we have reserve

fund balances needed for major expansion.

Just an example, some of these larger capital expenses.

Even in here, purchase options for wind farms, for example, might be something that we need to put in there.

And then on managing cash, I'm going to let elaine go through this part of this presentation.

>> Part of managing cash is determining how much cash to use or how much equity you're going to use to fund your capital program, so one of the issues that's been raised in this rate proposal is our debt-to-equity it's currently at 50/50 and we have been recommended to move it to 60/40 by some folks in the community.

We wanted to point out that, typically, if you've got a low debt-to-equity ratio, you will be lower risk and minimize fixed costs.

For a generating public power entity that operates in a competitive nodal market, you'd prefer to have your generation with low fixed costs.

We've made our plants as competitive as possible by keeping those fixed cts low, by using our cash to fund those capital additions to then.

Typically, a higher debt-to-equity ratio would be a higher risk.

As you issue more debt, the debt is not free.

Over time, you know, it's like paying for something with cash versus credit cards.

You pay for it with the credit card and you don't pay the balance, you're going to have to pay the purchase plus the interest.

Well, that does, over time, raise the cost, if you issued more debt, and, thus, you're going to have higher rates and higher cost for your rate payers, ultimately.

So we believe that the 50/50 gives us the flexibility that we need to financially manage the utility, but also is a great benefit to our rate payers on a long-term basis.

And I think one of our earlier quarterly reports pointed out some metrics that I'm going to cover now.

Moody's investors service, which is a credit rating agency, recently issued a report on public power that owns generation, and in that report, they had some metrics that they use as guidelines for rating the utilities, and a aa rating, which is our strategic goal for austin energy, they would expect

you to have a debt ratio in the range of 26-50%.

While we are at the upper end of the range, we are certainly trying to improve our rate to get -- rating to the aa.

And I have another rating agency slide.

It looks at it a little differently.

It looks at your debt burden per customer, and the grass on the left -- let me back up.

The agency does a public power price study on an annual basis and segregates the utilities by generators as well as by their actual credit rating.

So this data is pulled from their most recent report from last summer.

One of the metrics we looked at was debt per customer, and they have a trend graph that shows that, on average, the debt burden to the rate payers is growing, has grown over time.

Where Austin Energy was at was \$3,416 per customer, but if you look at the table on the right, those are all aa minus rated by Fitch public power, and you can see the range of debt per customer.

We're kind of in the middle of the pack.

You know, we've got one that's as high as 9,000 per customer, one as low as 400 per customer.

And again, we compare fairly favorably to the industry median for the aa minus rated debt, which is at 3,265.

So, again, we think that we've got a fairly good debt mixture by getting to those, by looking at these ratios leffingwell question?

Council member tovo.

>> Tovo: Well, again, I'll just say we have two different charts, one from the auditors and one from you talking about how austin energy compares in its debt -- debt issue.

So I guess I just would like you, if you could, to respond maybe to the utilities that were selected in the auditor's report, because austin energy, you know, in that lineup, was financing more of its projects with cash than some of the other comparable aa minus utilities.

You've used almost -- you know, I think anaheim is the only one that appears on both of your lists.

>> Yeah, I think, again, it depends whether you're looking at total dollars or on a per-customer basis.

This is fitch doing this on a per-customer basis.

I just calculated where I used to work and we're about 7,500, and that's because we just acquired several large generating projects, so there are several large capital expenditures.

I think that's what you will see is a spread between a -- as was mentioned earlier, I think our task may be to sit down with an auditor and make sure we reply to their report and can sit down and talk about where we get our performance data from.

It's not right out there.

The rating agencies do it, but they release limited information.

But in the peer group that I'm in, per se, I can make an effort to go to those folks and we can develop as good a set of data as we can when we want to look at information like this.

What's common to be done across the industry is look what rating agencies do.

They release reports.

I think the financial advisors to the city may be able to assist in that as well.

But we can do that effort, I think.

>> Tovo: I think both perspectives are valuable.

It's good to see it on customer basis and how us and others compare.

I wonder, too, we have a lot of information here and there about, you know, how rating agencies make their decisions.

What I came away with is it's a complicated bunch of, you know, factors from having stable financial policies to cash on hand to debt equity.

I mean, it's not a clear cut -- you know, you finance more things with cash than debt and you're moving into the next category.

Mony, I think everybody agrees, at least in terms of the material that we represented, that's a holistic approach.

>> It is.

newman  
is here, who manages our meetings with the bond rating agencies.

If you'd like to ask a question of him, I'm sure he would be happy to volunteer, because it is a complex thing and not strictly a numbers-based thing.

The personal face-to-face interviews, to mix that in with the actual hard numbers and come up with the rating.

Council member spelman.

>> Spelman: I'm with you on the complexity of the interpretation of the numbers because our risks are different.

We've had higher growth than any metropolitan area in the last few years and that will change our position and the cash needs going into the future.

And I'm with you on the difficulty of identifying what reserve funds to include in any kind of a reserve comparison because different funds are dedicated for different purposes, and you want to be sure we get apples to apples.

I don't understand why it is difficult, however, to identify long-term debt, because, at least in my limited experience, is to line in your balance sheet, why would it be difficult to compare the long-term debt per customer for any number of utilities as long as we can get our hands on the cash?

>> I think we can.

We have been working on other parts of this rate proposal as well and it's just a matter of an effort to go out and contact our peers in the industry.

>> Spelman: Okay.

>> It's not something everybody puts out there.

Ours is out there right now, pretty good.



[Laughter]  
but, seriously, everybody knows  
exactly where we stand.

>> Spelman: Right.

>> This is a section that is  
double and minus, in the report,  
report included all public  
power.

We did not design this to match  
the auditor's list.

>> Spell that didn't catch my  
eye because I didn't have the  
list in front of me, but this  
was not designed to match your  
list on slide number one.

We're talking about comparable  
utilities, the only one that  
matches the list is jea,  
jacksonville?

And I think with the possible  
exception of jacksonville, are  
considerably smaller than we  
are, and bountiful utah -- good  
heavens.

I'm not sure whether this is a  
comparison group that makes a  
lot of sense.

>> All aa minus.

>> I would say, looking at this  
group, jea, eugene water and  
electric is a municipal utility,  
but small.

Anaheim, they serve disneyland  
and the whole area.

They've got a big load, and i would say they probably would be close to half our size.

>> Spelman: I would imagine hydroquebec is bigger than we are, too.

>> That's a different animal.

It's looking at aa rated, so aa rated means that, could be big or little and have different requirements, some utilities might buy all their power and some generate.

To do a peer group comparison, we would have to look at utilities like us, thermal gene municipally owned.

>> Spelman: It will be relatively simple to identify long-term debt if we can get our hands on the report?

>> Yeah, there are official statements.

>> Spelman: So this won't require a whole lot of judgment calls on the reserve question?

>> Right.

>> Spelman: Thanks.

>> We have one other slide we want to go through to talk about how the debt service coverage goes up or down, depending on some of these metrics, and then this is our last slide.

>> We tried to create two scenarios.

One is at the top and one is at the middle of the page, and in both scenarios, the revenue, the assumptions were that the revenue and the operating expenses were the same, and the only variable was how much debt you issued for your capital program and how much cash you put into your capital program.

At the top, the scenario is a \$100 of debt, \$100 of cash, so that's a 50/50% debt-to-equity ratio with a debt service coverage of 2.4.

In the bottom scenario, if you increase the debt, issue more debt by \$50, and you lower your equity to 95, your debt equity will go up to 61% but your debt service coverage will go down.

So this is trying to demonstrate how the debt service coverage and the debt-to-equity work in tandem and that they need to be looked at together, not independently.

And these are very simplistic, just to make that point.

>> Mayor Leffingwell:  
Questions?

Council member tovo?

Don't have a question?

Council member spelman.

>> Spelman: So the difference between the top and the second and first part, in the first part we have \$100 million in equity and \$100 million in debt in.

The second part, we have \$45 more in debt and equity together, and somehow our equity has gone down by 5 and our debt up by 50.

How did we get from the top to the bottom slide?

>> We leveraged ourselves more.

>> Spelman: Seems like it would be in the same financial position on the top and bottom, the equity should go down to 95 and the debt up to 105.

It will pay for it over the long term but the current value of the debt will be 105, won't it?

>> When you issue the \$50 more debt, the debt service increases from the 15 to the 20, so you have increased expenses, your net income is lower and affected your equity position.

>> Spelman: But the other thing affected the equity position is we're buying \$45 worth of capital goods and we happen to be paying for them not just entirely in debt, but we're actually reducing our equity and paying for more debt, so we're -- I'm not sure of the proper term, but seems like not an easy comparison between the

first and second because we're incurring more capital goods and also somehow owning fewer of the additional capital goods we now have access to.

Okay.

I do understand it properly.

Okay.

>> It's hard to make it simple.

That's what we're trying to do.

>> Spelman: Want to make it simple?

Another way of doing it is saying here is where we are now.

100 And 100.

Now we want to buy \$20 worth of capital goods.

Two days to do it.

Pay all for it in equi120 and 100.

The debt service coverage ratio will change and you can show the same thing about debt service relative to net income, we is smaller if we're paying for more debt.

So the same effect, but a lot less violent a comparison.

And I think it will be a little closer to the experience of what we're talking about here.

>> And you can look backwards and say I should have done that and we could have been in a different position, but the real track is looking forward.

When you look forward you have to be careful because, if you get in a position where you want to do a lot more capital investment, you need to have the shock absorber, if you will, the ability to do that.

If you deplinnish that and not in a good cash position, you're in a position you can't borrow.

>> Another issue, not to belabor any further than necessary, i feel I need to belabor this one point.

We're not necessarily making decisions right now for the foreseeable future.

We could be thinking in terms of making a decision for the next two or three years, which we could then revisit downstream.

So even if we were to all conclude that we didn't need to spend 50% on cash, 50% on debt for the next 2 or 3 years, but that still might be a longer-term target, which we can work our way back up to, or for -- in the entire totality of our capital improvements could be 50% cash, 50% debt.

Even though, in any given year, leading up to our three, four,

five-year target, we might be at variance from that.

>> Given the size of the capital improvements project it has about a 30, 20 year life?

>> I think what you're right.

We have to look forward in our capital planning on the renewable acquisitions and other things and even maybe a ten-year and you can derive a plan from that.

There is a lot of market uncertainties right now that prevent us being a clear picture of that, but, generally speaking, we are working on the generation strategy now which i haven't even presented to the city manager, which will be done this summer, where we're going in the future generation and that will be a big impact.

>> Spelman: My point is, on a very short-term basis, if we were to put in 40% cash, 60% debt, for a year or two, it wouldn't appreciably change the total amount of our capital improvements that we own, but if we pursued that strategy for a long period of time, that would certainly get us into trouble with the rating agencies.

In a short period of time, we might be able to use that as a partial shock absorber to prevent rates from going up too quickly.

>> It's a little by little each year, so isn't an immediate fix.

That's the caution note I say.

It doesn't fix anything.

The rates don't even fix anything overnight.

It's a long period of time.

>> Right.

>> So you can build a different capital financing position if you have the revenue coming in and you can slowly build to that position.

>> Spelman: If we look downstream and make sure we have long-term solvency and sustainability, but recognizing, short term, people are going to have to pay their bills.

>> Mayor Leffingwell: Council member tovo?

>> Tovo: I think I heard you say, council member spelling, that could affect the bond rating.

The other utilities that have the same bond rating, they have hiring debt.

Would you clarify?

>> Spelman: I'm speaking hypothetically.

At some point, we'll have so little invested in the capital



improvement, we would be causing a problem for the rating agencies.

Whether it's 40/60 or some other number, I'm not prepared to say till we have further information from the auditors and uae till we understand where we stand as to cash versus debt in the system.

>> Spelman: As was pointed out, the actual debt, there may be good reasons for it, they did this or needed to do that.

That's why the rating agencies look at all the details and they see, for example, that you had a high amount of debt.

Well, why is that?

If there's a good explanation for it, then that may suffice.

That's why the subjective part of it is such an important part of the rating process.

Anyout conversation?

Council member morrison.

>> Morrison: Are we through with the presentation?

Because I wanted to make a couple of ch -- comments going and get conversation going about one aspect.

As I understood the conversation last thursday and the target

date for finalizing some things so that we can get into the summer months with a new rate is the beginning of march.

Is that correct?

>> Correct.

>> Morrison: So what I wanted to throw up there is I know there's been some talk for the potential of doing a temporary rate increase, if, in fact, we don't feel we can come to an appropriate conclusion by march 1, and there are also some arguments out there that would actually make sense to do it later.

So I guess my concern is that i think it's important that we keep that option on the table, and if we want to keep that option on the table, what kind of conversation and what kind of work do we need to be doing now to make sure that, when march 1 rolls around, we have the option of a temporary rate increase, if we can't come to a conclusion or decide that it is the right -- it is better to defer?

>> Well, if I might, I think there have been some rumors out there -- in fact, even with respect to what was going to happen today, that we were going to come back with some alternate recommendations --

>> Morrison: I heard that rumor.

>> Obviously, we've not done that.

>> Did you start it?

>> Morrison: No, I did not start it.

[Laughter]

>> obviously, we've not done that today.

However, I have been working weis and his staff goode, but I do anticipate, thursday, offering an alternative proposal that, generally speaking, might offer that kind of solution.

>> Morrison: Great.

I think that's going to be beneficial for us to have that option.

I just wanted to make sure we don't close any options off.

That might be the best way to go.

Thank you very much.

>> Mayor Leffingwell: Council member spelman.

>> Spelman: ott, is there a possibility we'll see better outlines of that proposal until thursday?

>> I don't anticipate being ready till thursday.

>> Spelman: Look forward it to then.

>> Mayor Leffingwell: Council member cole.

>> Cole: I know once you put a proposal out there, like ae put a proposal out there, it starts to be, well, here's another and another proposal.

So I guess I'm wanting to know what kind of flexibility you're going to present with that proposal.

Like, I know council member spelman always has an excel spreadsheet he goes in and says if we have an equity ratio of 8, that's what I would like to think of making before we put a proposal out there.

I would just rather see you spend the time having the option and looking for direction from council about direction that we could evaluate.

I don't know whether we do that in a work session as opposed to actually coming forth, well, here's our second proposal and third proposal, that type of thing.

>> Stating the obvious, I mean, notwithstanding whatever we put on the table, of course, council is the ultimate decision maker, so, you know, certainly what we have been doing since we put our recommendation on the table is

paying attention to all to have the comments that have been offered during the various hearings and meetings and even at this meeting, and it's, you know, with all of those things in mind that I've challenged the austin energy staff and general manager with taking that into account, to provide an alternate recommendation to council that, on the one hand, remains true to what is the best business decision for austin energy and i think we've provided that.

That's the original recommendation.

But we're also mindful of all of the other things we've heard.

So being true to what we think is in the best interest of austin energy, we think, perhaps, to our other paths that are getting there that do not compromise the business requirements of austin energy, and that's what we're working on and going to attempt to provide on thursday.

That's the work that's going on now.

Again, I'll state the obvious, enjoy the prerogative to modify what -- you know, what's offered on thursday, you absolutely do.

You already know that.

Are we going to be in a position during that council meeting to do, you know, what-if scenarios?

The answer is no, and I wouldn't recommend we do that just because this conversation today, how complex that all is.

So that is what we hope to be in a position to provide on thursday, and beyond that, certainly we're at your service to entertain and respond to any suggestions or comments that you have or questions.

>> Thank you, mark and larry and elaine.

I look forward to that.

>> So just to muddy the water a little bit more, when we're having this discussion about the reserves and how many years it would take to replace and how much money went in there out of the revenue stream that maybe we're asking -- maybe we're asking the question the wrong way.

Maybe the question should be asked, if you reduced your revenue requirement by a certain number, say 30%, what would that do to all these variables?

What would that do to reliability?

What would that do to reserve a replenishment, or what other needs you might be, what would that do to our bond rating, et cetera?

It's just a thought that occurred to me now.

I throw it out there on the table so you can ponder it, perhaps.

>> We'll be excited to see you thursday.

[Laughter]

>> Mayor Leffingwell: Yeah.

The hits just keep coming.

[Laughter]  
council member tovo.

>> Tovo: We talked last week about process and decision points and I think, you know, with the proposal in some flex, it's hard to know what we might be best off talking about next tuesday, but I would like to suggest we keep this item on the work session agenda.

I think this is a productive discussion.

I appreciate the concise presentation on the issues that related to some of the topics we wanted the talk about.

>> Mayor Leffingwell: I think we can certainly put a place holder on that.

>> Tovo: Maybe next week we can move on to the general fund or some of the other items on the decision point list we collectively talked about last week.

>> Mayor Leffingwell: All right.

Thank you.

It only took two hours.

So, in anticipation of this lengthy presentation by austin energy, the folks from ems have departed, and, so, we're going to hear their briefing on another day to give us a little bit of time here, a little bit less than an hour to discuss items on the agenda you might want to discuss for next thursday's meeting.

So the floor is open for any of that.

It appears to be maybe the shortest agenda I've seen in a long time.

City manager.

>> If I may, with respect to ems, we will, in the meantime, put much of what they were going to say today in an informational report for you in writing, until we have such time to get back on the this schedule and have some open discussion about it.

>> Mayor Leffingwell: Great.

Very good.

Any items to be brought up?

Council member tovo?

>> Tovo: Just a quick one.



I have an item on the agenda on thursday that relates to the discussion we had at our work session last week and council meeting about the austin fire department, lbj field academy.

So I am looking for help in covering those costs and I think we've got about 300.

The full cost is a little bit higher but only part false within this fiscal year.

Unfortunately, one of my sponsors is not here.

Right now the allocation is coming out of my budget of 300 and I would ask that osars -- i know there was a lot of enthusiasm for supporting that, if anyone would like to support me in that, I would appreciate it.

>> How much are you asking for?

>> Tovo: It would be great to have 100 from a couple other offices.

>> 100,000 Or million --

>> Tovo: We're talking real small numbers now.

>> \$100 Each or from one person?

>> Tovo: I would like two partners for \$100 for a total of 300.

I've got --

>> I don't do fee waivers, but in this case, I'll make an suspension.

>> Tovo: Appreciate that, council member spelman.

100 From council member spelman and 100 from mayor pro tem cole.

>> Morrison: So that's as much as was needed.

>> Cole: I like that.

>> Morrison: Like an auction.

>> Mayor Leffingwell: Just seems strange.

[Laughter]  
any other items?

>> Spelman: Mayor?

>> Mayor Leffingwell: Council member spelman.

>> Spelman: Could the sponsors of item 15 walk through with me --

>> Mayor Leffingwell: Looks like we skipped part of our du-1 presentation.

If we could go back to that.

My apologies.

It's in the fine print.

Auditor, do you have anything to add at this point?

On the customer assistance.

>> I think we've requested to do a presentation on it.

>> Mayor Leffingwell: Come on up here.

>> This is ken moore, city auditor.

At the last afc meeting we had a report that went out on customer assistance program.

We did not present it.

We have been asked by some of the council members if we could present it at this meeting if that's all right.

>> Mayor Leffingwell: Yeah, go ahead.

>> Walt persons is the assistant city manager over that project.

Walt will be making the presentation.

>> Mayor and council, austin energy has several programs where we're assisting customers having difficulty paying their utility bill.

This focuses on two programs, the discount and the plus one programs.

For customers who made certain eligibility criteria, the discount program waives the monthly customer service fee and those customers pay a disranted rate.

The plus one program provides financial assistance through these vouchers to eligible customers through partners agencies.

Our objective for this audit was to evaluate the funding and program structure for these two programs, specifically in light of potential rate changes.

A sub objective was to determine how these programs compared to selected utilities.

Our scope included program activities occurring between fiscal year 2011 and relevant portions of austin energy's pending rate proposal.

>> Mayor Leffingwell: Mayor pro tem.

>> Co COUNCIL MEMBER.

>> Do you have a copy of your presentation?

>> We didn't bring any last time.

>> Spelman: Last time, we didn't bring it with us.

>> Yes, sir, I got it.

>> Spelman: Okay, thanks.

>> Cole: Please continue.

>> Thank you.

The current structure of the discount program does not allow

austin energy to fulfill the programs' intended objective.

Austin energy limits participation in the program to 10,000 customers.

Information provided by austin energy indicates only 38% of eligible are -- or potential eligible customers participated in the program.

Customers who received benefit from certain qualifies assistance programs such as medicade and supplemental security income qualify for the discount program.

However, other groups are not eligible, such as those participating in the supplemental nutrition assistance program or snap, or the child health insurance program or chip.

For persons on fixed income or low utility rates, do not.

The austin energy discount program no longer has an established funding source.

Instead, austin energy is foregoing revenues to provide the discounts.

As I mentioned before, the discount program weighs the customer service charming and applies a discounted fuel rate to participants.

Recently, austin energy provided the discounted fuel rate by supplying participants with energy from batch one of the green choice program.

However, green choice, the energy pledge from green choice, batch 1, expired in march 2011.

At that time, council directed austin energy to continue charging discount program participants the same fuel rate as before even though the lower energy was no longer available.

As a result, austin energy is now giving participants a discount without an identified funding source.

Since the discount must come from somewhere, it's coming from the revenues that austin energy is foregoing.

I'd like to turn now to the plus 1 program.

Austin energy has limited eligibility criteria for participants in the plus one program and, as a result, must be subsidizing customers who are not having difficulty paying their bills.

Austin energy partners -- partners with 16 agencies to operate the plus 1 program.

These partners include local nonprofits, religious organizations in travis county.

During our audit, we interviewed representatives from nine of the partners and found that the criteria used by these partners -- partner agencies varies significantly.

Some of the partners only provide payment vouchers to individuals who already participated in programs that they offer.

At least one program or one partner requires the applicant citizen or a permanent resident, but most significantly, we found that an individual's income is not considered by at least three of austin energy's partners.

For this reason, we conclude that there is a risk, an increased risk that customers who do not have a financial need may receive benefits through the plus 1 program.

Austin energy does have some controls in place, such as reviews to detect if a customer is receiving vouchers for more than one partner, or if a customer has received benefits in the prior year.

However, we did not test the effectiveness of these controls during our audits.

In addition, austin energy does lay out certain criteria for its partners.

For instance, the partners cannot provide vouchers to individuals who have tampered with a meter.

However, there is no standard uniform criteria for establishing who qualifies for the program.

Turning now to austin energy's pending rate proposal.

The rate proposal includes a new community benefit charge for costs associated with the customer assistance program, other services such as street lighting and energy efficiency program.

Austin energy will not determine how it will use funds collected for the customer assistance program for the proposed community benefit charge and estimate collecting 7 million annually from the charge.

Austin energy has not decided thousand use funds collected from the cap program from proposed charges.

Austin energy management said they intend to meet with community groups to develop a plan in the new charge is approved.

>> As noted earlier, one of our audit objectives was to compare austin energy programs to orthoselective utilities.



We surveyed a judgment sample of seven electric utilities.

We found in the areas of types the program offered, funding sources, program administration, eligibility criteria and performance measures, Austin Energy's discount and plus 1 programs are comparable to the programs offered by the other utilities in our sample.

Each of the utilities fund them in their programs with voluntary contributions.

Two of the utilities along with Austin Energy contribute directly to their program.

Denton municipal electric uses late fee collections as a funding source.

Three of the utilities obtain state or federal funding passed through from other organizations, and three utilities use funding from community organizations for their programs.

To address the issues we identified in the audit, we recommended that Austin Energy's management work with council to identify a funding source for assistance provided through the discount program.

And work with the plus 1 partners and community representatives to define what is meant by having difficulty paying bills, as is the purpose

of these programs currently stated, and determine the feasibility of establishing consistent minimum criteria for end recipients of the plus 1 program.

Aunts energy's management concurred with both recommendations.

I'd like to thank austin energy for the assistance they provided during this and the rate proposal audit we delivered last week.

That completes my presentation.

I'm happy to answer any questions you may have.

>> Mayor Leffingwell: Council member spelman.

>> Spelman: I perceive council member tovo also has questions but graciously allowed me to go first this time.

Let me I understand the terms you're talking about?

Slide 2, you're saying because the participation in the cap can't grow beyond 38%, that 38% is 38% of exactly what?

>> That is 38% of an estimate of eligible customers within the austin energy service area that meet their current qualify cases.

>> Spelman: But we haven't got qualify cases because at least

the plus 1 providers are providing it on the basis of very little --

>> this 38% rate is specific to the discount program.

>> Spelman: and medicade?

>> That's correct.

>> Spelman: So if you qualify or medicate, then you're in the pool of people who are eligible for the discount program?

>> That's correct.

>> Spelman: And 38% of the people in that pool are currently receiving the benefits now.

Is that accurate?

>> I think the appropriate metric is 10,000 people are approved for it and we came up with 38 by estimating what the total population was that might be eligible for it.

>> Spelman: So no hard numbers on that denominator.

>> Yes.

>> Spelman: So the hard number we know about is a little less than 10,000 a month and fluctuates.

>> Yeah.

>> Spelman: So if we put in -- if we wanted to fully fund everybody who is in that population you were discussing a minute ago, then we would have to more or less almost triple the amount of money we were spending.

>> Correct.

>> Spelman: Okay.

And that would provide a discount of how much in terms of the size of the entire bill?

>> The discount is reducing the charges -- I can get you that figure, council member spelman.

>> Spelman: I guess what I'm trying to put on the table is we've got a program, now, which reaches a sizable but not overwhelming percentage of a pretty desperate community, 38% of a very small group of people who don't have very much money, and it's paying a certain size benefit, which I think would be valuable for us to establish.

We have three dimensions we can work with.

We just put more money into the same program and have that 38% go up and have exactly the same level of benefit.

Alternatively, we can take the same 10,000 people, put more money in and give them a greater benefit, a larger discount, or do some combination of the two.

How broadly we serve and how much depth, how much of a discount we give to the people in that pool that we serve are really up for grabs at this point.

Did you reach a conclusion or could you offer us any advice as to how broad and how deep this discount ought to be?

>> We did not reach a conclusion on that.

We had discussions with Austin Energy where they are contemplating that very question in regards to the community benefit charge and how to use the proceeds from that.

>> We have a representative here from Austin Energy here, I think.

If you would like for her to speak to that.

>> Spelman: Let me ask another couple of questions first.

I know council member Tovo has other questions as well.

So one of the issues, I guess, was if we could -- we'll have to have a discussion about how broad and deep we want to go, how much it will cost us to get to a certain level of breadth and depth.

The certain question follows that, if we wanted to get to more of that population we are

currently tapping 38% of, say we wanted to get up to 80% of that group, do we currently have in place the instruments needed to find them and to make that discount available or not?

>> Council member, that's not something we did in the course of thought is to determine the answer to bear marketing, so to speak, of the program.

>> Spelman: Well, you don't know whether or not we have a means of automatically identifying them, putting them in the program, keeping it out of the program, anything like that?

>> That's really a question for austin energy.

>> Spelman: Fortunately, someone from austin energy is conveniently right.

>> In response to the first question regarding could we identify the 80% or the percent of customers who would be eligible for our cap program, and we do have a way of identifying those people.

We do have a list of participants in the current federal program in that list -- and that list allows us to understand who would meet the qualify case force our cap program.

>> So we've got a list of people or have medicade or both.

Do we also have a way of crosswalking that list against people who are paying for the utilities through their rent?

>> We don't have that exact information but we do know how many of those customers are account holders with austin energy.

>> Spelman: Okay.

>> And that is the crosswalk that we do each month with that list to understand, of that list, how many are eligible for our cap program.

The cap program participants must be an account holder.

>> Spelman: I can imagine a different class of concerns.

Somebody might be -eligible or receiving and be a member of a household, she or he may not be the account holder, they're a member of the household where the account holder is somebody else.

>> Yes.

We do look at that scenario as well, and we make house visits, position force those situations and may make exceptions in that regard.

>> Spelman: Do we have a general policy on that subject?

>> We do, actually.

The policy really is, in general, that the account holder must be the participant of the cap program.

>> Spelman: Okay.

So, for example, if my wife and I -- I was not eligible for disability, but she were, then we would not be eligible for the program because the householder, in this case, would be me --

>> the account holder.

>> Spelman: -- The account holder would not be eligible?

>> Yes.

>> Well, we could shift the bill into her name.

>> Yes.

>> That would make her eligible.

>> Yes.

>> I wanted to make sure what we understood the numbers were.

So we have a way of identifying all people who are either on or medicare and account holders.

About how many of those people are there, do you know?



>> That I don't know.

>> Spelman: Okay.

>> That murm grows -- number grows and ebbs and flows.

The number, I've seen, as large as 40,000.

>> Spelman: persons was estimating we have 30% of the or medicade.

And I don't remember ask you this, and I don't remember you saying, but you were excluding people who were not account holders.

Your best guess was 38% of the total, is that right?

>> That's correct.

>> Spelman: That would be less than --

>> our approximation was 28,000.

>> But you're talking about 40,000 people completely and or medicade and account holders.

>> Correct, and includes other programs we were considering so that's where that number grows.

>> Spelman: From your point of view, would it make sense to broaden the eligibility requirements?

>> Yes, it would.

>> Spelman: Why?

>> We've worked with the community advocates and community partners that we utilize for this program and have learned that the two programs that we do use for criteria really do not reach the complete need of our community.

We've seen that those two programs, while they reach a broad need, don't cover the complete need.

There is chip -- there is other programs as well that also kind of meet the federal poverty line level that we could consider that is in addition to the two programs that we accept.

>> Spelman: Chip and snap are the obvious cases.

>> Yes, those are the two obvious cases.

>> How many more people would we include if we added chip and snap.

Do you have that?

>> I don't have the full numbers.

We had a study performed by our marketing and research department that they do have numbers.

>> Spelman: They're available, we just don't have them yet?

>> Correct.

>> Spelman: I think this is the last question.

If the proposal in front of us is to double the total amount of money we're spending on this issue, and I can imagine two obvious ways, take the same 10,000 people we've got now and give them twice the benefits, or give the same benefit to 20,000 people, or, of course, we could go in between.

We could go beyond that point to 40,000 people and have a shallower benefit, or reduce the eligibility requirements to, say, 5,000 people and give a deeper benefit.

How do we sort that out?

>> That is the conundrum that we have been in discussions with our community partners and advocates for quite some time.

We've actually had sessions where we prioritize the various criteria and say, out of all the programs which would be the most -- which beneficiary would benefit the most and the second, the third.

We have struggled with that very complex discussion, and in that is a discussion we'll have with our community partners coming forward after the rate is complete.

>> Okay, but we don't have to make this decision as part of the rate review, the decision as how much to spend.

But it would be helpful if i knew where the discussions were going and where we end up at least in broad terms before i had to make a decision as to how much money.

>> Yes, and we can provide that.

We have what we're calling a framework for those discussions and that framework will outline the number of potential recipients that we could serve based on a couple of different benefits -- cost saving options.

So if we go broad and shallow, we'd have a scenario for that if we go keep and narrow then we have a scenario for that, and we have the numbers to support that.

>> Spelman: So your proposal will be kick it back to us and say here's ways we could do this, which one do you feel most comfortable with?

>> Yes.

>> Spelman: Do the community advocates care one way or the other?

>> Most definitely, and we currently have had many conversations with our partners and our applicants as far as what's the right mix, and we

started those conversations even before this rate case.

It harkens back to our 2009 customer advocacy group that we started based on some other issues.

>> Spelman: Is it giving you a sense of which direction the community advocates would like to go, or are they going in several different directions?

>> There are competing directions within the group.

>> Spelman: I'm sure we'll hear about it all later.

Thank you, ma'am.

>> Mayor Leffingwell: I guess we need a clearer definition of what the last question means.

I'm just pulling your leg.

[Laughter]  
council member tovo.

>> Tovo: Yeah, I appreciate this discussion.

I certainly have heard recommendations from members of faith communities and consumer advocacy groups that we look at expanding eligibles to individuals on snam and telephone lifelines and other programs.

So, to me, I think one of the challenges here is to identify more money for cap, and that

does become an issue relevant to the rate proposal, from my perspective.

One of the things that really has come through this is we're currently 38% of those who are right now eligible are being -- are part of that program, and if we expand the eligibility, we're really talking about quite a few more people who are not being served.

So we're not even serving those who are currently eligible.

If we expand the eligibility requirement, we're talking tens of thousands of more families in need of assistance with their bills and if we're contemplating a rate proposal, those families in need will be increasingly burdened by their monthly costs.

>> One of the things that is not clear to me is how the decisions are made.

If you can only serve 10,000, how do you pick which 10,000 are eligible -- not eligible, but enrolled in cap?

>> We do use an automatic enrollment process which allows us to receive the list of participants of the two programs that we -- that meet the criteria today, and that list first service those that are currently on the program, and we seek to validate that they still have the need, they still are

participants of the federal programs.

Once we exhaust the list of current participants, we look at up to 10,000, who would -- who's not currently on the program but meet the criteria, and we reach out to those families.

We've had a waiting list in the past and it's really simply first come, first serve.

Those families will reach out to us various ways.

We have phone calls, letters and/or actually reaching out to them on call.

So it is first come, first serve.

>> Tovo: I guess we've had discussions in finance and audit about automatic enrollment, but seems to me that might not be a strategy for austin energy, because if you automatically enrolled everyone who was eligible we would exceed the budget.

>> That's correct.

>> Tovo: One last question before I turn to the auditor with questions.

There is a lot of discussion right now on the rate proposal and the financial burden for many of our families, and i wondered if you are contemplating any kind of

outreach to our broader community to support the customer assistance program.

You know, I'm not sure there's a lot of knowledge out there, you know, about the program in which every rate payer within austin energy can actually help support it.

This might be a good opportunity, while everyone is focused on this to say, hey, this is a great way for you to offset -- you know, help offset the bills of your needier neighbors.

>> This is the good opportunity to market and we have considered increased marketing.

Today, we currently market through our bills.

It's the utility bills themselves.

Each bill has the ability to contribute voluntarily to the cap fund.

In addition to that contribution, that way of communicating, we also, in our monthly news letters to our customers that are included with the utility bill, we also market the program there.

We don't do any marketing outside of those avenues because, right now, both of those avenues reach every home that has the utility account.



So we find that to be one easy, inexpensive way to reach and market our community, but there are other ways we are considering as well.

>> Tovo: Great.

Thanks.

I have a couple of questions about the audit itself.

On page 3, it talks about those eligible currently and those who might be eligible under snap, and I wondered if there was some overlap in those two groupings that you factored out in determining how many additionally eligible individuals there would be if the eligibility extended.

So, in other words, does that 50,684 who are registered in snap and 98 or 9 receiving medicade, children, are those in addition to those individuals who are eligible in exhibit 2 or, you know, are we talking, i guess, potentially about 70,000?

>> That would be in addition.

>> Tovo: There would be overlap --

>> if there's overlap, it doesn't account for that.

>> Tovo: One of your findings that is of concern, we talked about the scarcity of funds to those currently eligible and we talked about partner

organizations who do not have clearly detailed criteria and that's of concern and i appreciate you raising that to the attention of austin energy and our attention.

Anecdotally as you talked to the organizations, my guess is many are serving the clients who are meeting lesser requirements.

In your discussions, did they say most to have the people who they've given -- that most of their clients tend to reach the financial requirements, it just wasn't something that was verified for the purpose of giving them those funds?

>> Of the organizations we spoke to, they in some cases are using judgment to determine need.

I didn't see any or hear of any particular cases, individual cases that would set off an alarm for us as being perhaps someone who doesn't need those benefits.

But we didn't go to the level of the individual organizations and actually test to look to see who received the benefit and what their income was.

We didn't do that level of work.

This was based on our testimonial evidence from these partner agencies that we've spoken to.

>> Tovo: But that's helpful.

Sounds like many of those organizations did some kind of assessment, just not a formal one, so that money is likely supporting those who have an economic need, it just wasn't quite as formal a process as austin energy uses to determine eligibility.

And I did have a question about one of the responses from austin energy for recommendation number 2, and I guess maybe this is better directed to austin energy.

This is about the plus 1 program, austin energy management will conduct a study, et cetera, taking into account the operational aspects the feedback from community and stakeholders referred to by the program.

So basically you're going to work with the community stakeholders that are part of the group and come up with recommendations for moving forward.

>> That's correct.

>> Tovo: I think that does it for me, now.

Thanks.

>> Mayor Leffingwell: One quick question or comment, and i think this has been raised already, but council member spelman and tovo, we've basically got a fixed-size pie

and the question is how do we divide it up.

It's not everybody gets a slice so big, it's how big a slice for so many people and that will be tough to figure out.

And you alluded to the fact you were already engaging the community, the people who are experts in doing this, and i think that's going to probably be your best source of guidance about how to do this, so I just encourage that very strongly.

>> May I have a question?

>> Mayor Leffingwell: Mayor pro tem.

>> Cole: The question is how big are the piece force a need that is so great.

Wasn't there a public process that already made a specific recommendation?

>> It's the beginning of the rate review.

There was a low-income representative on that team as well as a residential representative and, together, they did recommend an amount for the discount.

Do you remember how much that was?

>> \$25?

>> Director of regulatory and governmental affairs and energy.

>> Earlier this year, we had a public involvement committee that was a citizens committee that we assembled to provide input to austin energy on many of the rates issues.

Four members of the group were citizens including the residential rate advisor and a representative from karatas (phonetic) as the low income representative.

Those came to the committee and made a recommendation that we collect what we presented to you in our rate proposal, which is a dollar per residential bill, and 65 cents per megawatt hour for commercial and industrial customers, we estimate that will 2 million, and in addition, since there are industrial customers on the long-term contract, who will not be affected by the rate increase till may 15, we talked to some of them about making voluntary contributions to the program and we have indication of acceptance of that but haven't ironed it out.

2 million or more --

>> those are the industrial.

>> Cole: Those are the industrial customers whose contract expires in 2015?

>> That's correct, so a minimum 2 million under the current proposal, and suggested a million should go directly to weatherization for customers with high usage and that the 2 million would be set aside for cap discounts.

gutierrez said we'll work with our community partners once we determined what the final rates will be to figure out what's the best way to spread the money for the program.

>> Cole: And approximately how many people does that cover?

>> That depends on what the structure of the discount is and gets back to the question about the question council member spelman had as to how deep or how far do you want to go.

>> Cole: I understand we don't know what happens under a new rate case but what are we doing now?

>> Today, we have between 9,000 and 10,000 customers at anytime in the cap program.

We provide a waiver of the \$6 customers charge, and then, instead of the fuel factor, we substituted a discounted fuel factor of 1.7 cents.

That's about a 2-cent discount on the fuel factor.

>> Cole: And those are medicade, right?

>> As well as the county map and c-ap program.

>> Cole: Do we know how many in the city would be in those programs thus the snap program and -- what other program -- the chip program?

>> We really don't have a hard number for that as there's a lot of overlap in those programs, and we don't know with specificity what the number would be.

>> Cole: Let me ask the auditor because I swear I got a number of 26,000 somewhere.

>> Potential volume eligible under the program, current criteria 25,980 in the austin energy service areas.

>> And also we got a dollar amount, average \$17 for the fuel charge discount, so the total with the 6 is \$23 is the average.

Very dependent on the customer.

>> Cole: So isn't that roughly another \$7 million, if we wanted to -- if we were going from 10 million -- 10,000 to 26, i 5 million, we would go to about 16 million.

Is that right?

>> I can't to the math in my head.

>> Cole: You don't have to do it right now.

If we're going deeper because we're making a rate increase and we're looking at that increase and we should go wider.

If we're in the context of a rate case, what would that dollar figure look like.

>> Right.

>> And you might have to get back with me on that number, but I don't want to leave it off the table because it's not a part of our current budget proposal.

So you can give that to my office.

Thank you.

>> What's the average bill for a residential customer, about \$100?

>> I think that's a fair numb.

>> So we're talking about a coverage and the average reduction is somewhere in the neighborhood off 20, 25%.

>> That's correct.

As you recall.

From the date we presented, there's a lot of diversity.



There's dorse merse with very low usage where the discount goes into the bill and customers with high usage.

So that discount is in average but may not be typical of all our customers in need.

>> Spelman: And if we wanted to provide something more easily distributed to the customers, we would have to rework the way we do it?

>> We have proposed to you a rate design with a lot of different components, and, so, i think in thinking about how we might structure the cap discount in the future, we'll have to think about all those components as well.

>> Spelman: Thank you.

>> Cole: Council member riley.

>> Riley: I want to shift to a different kind of pie.

We have been talking about the cap program in terms of discount off utility bills, but one suggestion from the community is that, beyond doing that, we step up our efforts to assist customers with energy efficiency improvements, like weatherization, that we have been doing, that would lower those bills over the long term.

Is there currently a direct link between the cap program and

weatherization and other efficiency programs?

>> There is a link.

I don't think a direct link.

Both programs serve the same community.

Both programs use the same or similar criteria.

The proposal that we have in conjunction with the rate, the new rate design, further deepens that link and really does make the cap program eligibility and the weatherization eligibility one in the same.

>> One of the purposes of the audit was to determine how the cap compares other municipal utilities.

In the course of doing that audit, did we look at the links between other utilities, cap programs and their support for energy efficiency improvements?

>> No, council member, we did not.

We focused our comparison to the programs other utilities have that are similar to discount or plus 1 programs.

>> Riley: The current proposal includes a line item to support energy efficiency, in addition to the community benefit charge, isn't that correct?

>> That's my understandle.

>> Riley: So if we wanted to to -- tailor a program to support our cap customers with energy efficiency improvements, like weatherization, seems like we could draw from -- conceivably, we could draw from either of that energy efficiency charge or the community benefit charge.

Isn't that right?

>> I think the austin energy would need to answer that.

>> Riley: That's a question for austin energy.

The question is should we be looking at ways of helping people -- in addition to helping people pay their bills on a monthly basis, shouldn't we be looking at ways to step up efforts to enable customers to lower bills over the long term which actually would reduce the cost associated with assisting each customer if it were successful?

>> That is a component to have the program design we're considering for moving forward two the cap program.

We've determined that we can -- or we'd like to include a weatherization component within cap that would target the highest energy users and allow them support in weatherizing their home and reducing the

usage or reducing the need for additional discounts.

But we've built that in as a design component.

Now, how that will clear out in the end with the discussions about the actual discount and how much of the program funds will go towards weatherization, all of that is still in the design.

>> Your expectation is that that support would be provided through the proposed community benefit charge?

>> At this time, yes.

But I have to defer to the rate team.

>> That is our proposal now is a million dollars received from the community benefit charge would be set aside specifically to target weather cigs for high usage cap program participants.

>> Riley: On top of the energy improvement supported by the energy efficiency --

>> that's right.

>> Cole: Council member morrison has questions.

We have questions about the agenda.

We have a 12:00 stop time.

Think about whether you want to go till 12:05.

I'm not going past of that.

>> Morrison: One of the challenges in the weatherization for low income customers is how to deal with renters versus property owners.

Is there a plan for renters?

>> There is a thought to providing weatherization.

To those who are not homeowners it is very difficult because we must work with the facility owner, property owner to get authorizations to make changes within those dwellings.

But there are things we can do appliance-wise, education, habit.

Those kinds of things that will put a small dent in the usage, but the major -- the major impacts really would have to be done in conjunction with the property owner.

>> Morrison: Right.

And I appreciate you thinking more creatively.

I do think there are lifestyle choices and things for -- simple things for windows that are just temporary and also I think that would be a great component.

And this is not my last question.

I have two more questions.

And that is specifically, i understand that it's been suggested among community partners that there be sort of -- I know you're working with them right now, but there actually be an advisory group to the cap program that's a permanent element of the cap program.

Is that something that you all have worked through with them?

>> We've not finalized that recommendation but have heard that recommendation as well and it's under consideration.

>> Morrison: Okay.

Because I think that would be a good idea to make sure we have longevity and the advisory role they can play.

And this is my last question.

I'm not sure if it's for the auditor or austin energy.

When we're talking about these numbers, like 40,000 folks that we know, do we have any -- has it been filtered to reduce it to an estimate of the number of households?

Because, certainly, there may be households where more than one person in the household is eligible for s.s.i. or medicaid.

>> That's the point of research that really is kind of stumps all of us, being able to take the various lists that we receive and cull them down to a finite number of households and/or participants that are account holders.

And, so, that's the work that's ahead of us in the program design.

We don't have that information right now, but we have researchers trying to get at that exact information.

>> Morrison: Because I would think there would be a way to figure out whether at the addresses there is more than one.

>> Most definitely.

>> Morrison: And that may change the numbers in a non-trivial way and will reduce the numbers and help us come to terms with the actual means.

Thank you.

>> Cole: Any other questions on that item?

Let's move back to the agenda.

I believe we were discussing item 15.

>> Spelman: I believe council member morrison answered my question.

I think we should have some means of putting questions for other council members for items for council on a table someplace where we can get at them.

I don't think it would be an open meetings act violation as long as the written questions and written answers were in a public place and might be something we ought to go to some trouble to figure out how to do.

This particular -- this item raised that question for me.

It happened before.

Maybe it will happen again.

>> Cole: Why don't we ask legal to look at that and get back with you.

Karen, did you understand the questions?

So we'll take something like that up in executive session.

We can take that up at anytime because we're posted for open meetings.

>> Tovo: I think that's a good suggestion.

I had a question for austin energy.

I think I had a question about the grant to cover the cost for covering electric vehicles.



I understand that the item is going to be withdrawn.

>> You might have to repeat the item.

>> I promise to read you home for the rest of the day.

Thank you for coming back in.

Item 11 is a grant for electrical vehicle study and the question is whether it covers all of austin energy's cost.

>> We'll have to get back with you on that.

I don't know the answer.

>> Tovo: Well, the answer that was returned to me is it was going to be withdrawn from the council agenda for thursday and I just want to be sure that we're not going to miss opportunities in terms of that grant and our eligibility for it and, so, maybe we can talk about that thursday about the withdrawal of this item from this week and whether or not it's coming back next week.

>> There's a purchasing issue involved with that and I don't know the details of it.

bice  
just advised me there is a bid protest on that so we'll have to look into the details on that.

>> Tovo: Okay.

>> Cole: If there's not any other comment, without objection, the work session of the austin city council is adjourned.

[Rumbling]

Announcer: What if a disaster strikes without warning?

What if life as you know it  
has completely turned on its head?

What if everything familiar becomes anything but?

Before a disaster turns your family's world upside down,  
it's up to you to be ready.

Get a kit. make a plan. be informed today.

Title: CHANNEL6

Channel: 6

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[08:44:07]

I am  
mayor mayor and I will call  
to order of this work  
session on tuesday,  
january 10th, 2012.

It is 9:03 a.m.

We are meeting in the board  
and commissions room, austin

city hall 301 west second street.

So the first item on the agenda is item b1, to discuss a town hall meeting, and the posters are council member tovo and council member martinez.

>> Thanks, lee.

This is just a discussion item number that council member tovo and I are considering.

It is not really a city council meeting.

I am actually glad that someone brought forth potential cost projections, because I think that's important to have that conversation as to what it would cost us to do it, a saturday town hall style meeting.

The way I envisioned it is simply those council members who are willing to or can attend would simply be present for questions and or comments from citizens and respond, if we could, but if we don't have a response, take that through our normal change of requesting staff's assistance later on at a later date and getting back to those citizens.

I don't envision this being something that is on channel 6.

I don't envision this being something that is requiring staff members from the city to attend , it is just allowing a saturday input session, if you will.

We don't have to call it a town hall meeting.

There is really no presentation.

Just a start input session where we give citizens the opportunity to speak to council members outside of our normal procedures, outside of monday, 8 to 5 and outside of thursday's regular scheduled council meeting and, again, it would be something that we would post in case there is a quorum of council members, but obviously maybe not all council members would want to or could attend.

so  
there is no particular topic?

>> Martinez: Absolutely not.

>> Mayor leffingwell:  
Kathie.

>> Tovo: Apologies for being a few minutes late and I may

repeat what some of my  
colleague said.

But the intention -- this  
was an idea that was  
suggested to us by several  
citizens and I think it  
makes a lot of sense.

It is -- having been on the  
other side of this equation  
and planning ahead and  
calling two weeks ahead to  
get on the citizen's  
communication agenda and  
then needing to take off  
00,  
it can pose some difficulty  
for members of our community  
00 or  
during weekday work hours  
and so I think this is an  
opportunity to allow a  
broader cross-section of  
folks to come down and talk  
to us.

And, again, the intent is to  
really minimize the impact  
on staff and city resources  
and so that is why there is  
no particular topic.

It will be broad, wide open,  
so that citizens can come  
down and address on any  
topics of their choice, so  
it will be extended  
citizen's communications  
day.

>> The posting is for  
sometime in 2012.

I would just suggest that  
the springtime is going to

be a very busy time for the council as a whole and some of us in particular.

Maybe we could hold it off until summer time, sometime like.

>> Tovo: Well we -- sorry.

>> That's all right.

I think because it is an open invitation and it is not something that is mandatory, if you are busy, then you don't have to attend.

So I don't have -- we can hold it in the summer.

We can hold it in the spring and the summer and the fall.

I mean it just -- because it is not -- it is not structured like a regular council meeting and because we won't need legal staff and cmo staff.

It is simply an extended citizens' communication session.

We could hold it this saturday if we wanted to.

>> Mayor, can I -- I just want to -- even though it is not a regular council meeting, there is still going to be some requirements when members of the governmental body gather

related to the open meetings act, and so we want to make sure that we have properly posted it, that a quorum is present, and when you are dealing with just having, you know, kind of a general session, currently like citizen communication, we ask most members of the public to tell us what they are going to talk about and under the open meetings act, that gives you, the council, an opportunity to, then, engage in the discussion with them.

For those members of the public who currently don't want to put, you know, the specific topic that they want to discuss during citizen communication, the open meetings act kind of has some restrictions on what you as the governmental body -- how you can interact and I think we've talked about that a little bit before.

It basically says that you can answer them with, you know, a current policy that's in place, give them as an answer but you can't really have a discussion as a citizen or you can ask the staff, to then put that item on a future agenda so there will be some limitations if the members of the public don't identify the topics that they would like to have a discussion with you about.

I know that seems a little more constrictive in maybe what you are anticipating but the open meetings act will still come into play during that type of session.

>> And I think that's an important aspect of it, too, that the topics for discussion -- for discussion would have to be posted, at least 72 hours in advance.

It could not be the kind of free-for-all where somebody comes in and says I want to talk about dogs running loose in my neighborhood, for example, and what do you think about that.

About the most you could say is, as the city attorney said, okay, we have a leash law in this city.

We can possibly post it for future council meeting but it would not be the kind of open discussion on any topic that you might think it would be.

Normally when we have town hall meetings, there is a specific topic for discussion.

>> Tovo: Mayor, maybe the better term, then, here would be a listening session.

I regard this as, you know, a 2-3 hour listening session



with the citizens and  
certainly they -- we will  
receive information that we  
will need to follow up on or  
we will be able to encourage  
them to follow up with.

but i  
understand it will work in  
the same which that citizen  
communication does in terms  
of our ability to respond  
with the public.

i  
think that would -- that  
would be a lot better if it  
were posted as a listening  
session and made very clear  
that there wouldn't be any  
interactive discussion of  
particular items unless they  
were posted in advance on  
the agenda.

Because I -- I don't want to  
create a false expectation  
here.

>> Tovo: That there is going  
to be a lot of dialogue.

for  
people to come in and think  
this will be a lot of  
interaction.

>> Spelman: Mayor, I don't  
know if this is a question  
or comment or both.

If people were able to say  
in advance what they are  
going to talk about and it  
is listed on the agenda and  
62 hours in advance -- 72

hours in advance and it is talking about territories, people want to talk about a particular class of land use issues, okay, it is something we can have a dialogue on.

If having marked out that territory is up for grabs in the discussion, if other people want to talk about the same issue, we can engage with the other people even if they have not posted that item.

Is that the way I hear it?

>> Mayor leffingwell: yes.

That's exactly what we do on every meeting on citizen communication, most people post their topic and we can discussion that and some people say city issues or tba and you can't engage in dialogue on that.

>> Spelman: I am asking slightly different question.

If somebody comes in and says they want to tuck about vmus and we posted that as something that is a topic for discussion and joe comes talks about vmus as schedule and sarah comes in after that and says I want to talk about vmus, too, can we talk with sarah about that because it would be posted.

>> Mayor leffingwell: yes.

>> Spelman: We can do that.

It seems like people who want to specifically talk about something, they can say here is specifically what I want to talk about and that's marking off certain territory we can talk about and if somebody talks about vmus and they can talk about that and have three or four people talk about that and engage in the discussion on that issue.

And I think the other value of that would be that we are also having a concentrated discussion on one issue rather than bopping back and forth between land use, fluoride and god knows what else.

i think it's probably that it's not as simple as it sounds, so I guess I would suggest that maybe the staff law department try to answer some of these questions in writing and set forth a set of guidelines for, quote, a listening session.

>> We are happy to do that mayor.

and come back with a later date for those.

>> We will try to get it out to you before the end of the week.

>> Martinez: I don't understand why it is so complicated, say, for example, the practice, the subcommittee meetings, our subcommittee meetings have citizen communication and we don't know what they are and allowed to talk about and we allow them to sign up that day, right then and there and they ask us questions and we respond.

what  
we are seeing is that is probably illegal.

>> I don't know if it is illegal, mayor.

I wouldn't go there.

it  
depends on the question.

>> I think sometimes those subcommittee meetings --  
[laughter]  
the subcommittee is talking about items on the agenda.

We can work with this and have an open session, as i said, similar to what we do in citizen communication, and like council member spelman said, I think there could be broad topics that we know citizens want to speak on and I think we could craft a listening session agenda that would comply with the open meetings act and also give the council some

flexibility, but I don't want to imply that it is an impossibility.

I want to make sure that the council recognizes that there are some limitations in having this kind of forum, but I think it's doable.

>> Martinez: So the reason I bring that final point up is because my intention is to eliminate the burden of having to presign up and having to prelist the topics.

Literally the intention is if you want to come down on a saturday and say something to us about any given topic, that you have that ability to do so.

So I want to -- I want to make sure that we preserve that opportunity that if some citizen that didn't come down to city hall and didn't sign in advance can still show up on the saturday morning and sign up and say, this is what I want to talk about, even though we may not be able to engage with them.

and  
there is absolutely nothing wrong with that, but another suggestion, just throwing it out there, would be to have less than a quorum of

council members present at these sessions.

>> Martinez: You will be the first to volunteer to not do that?

>> I think that would be a little more problematic and I want to look at that, mayor, so I don't want to go on the record on what i would advise on that but i want to look at that a little closer.

>> Mayor leffingwell: okay.

I think that's what we need to do, is, karen, have your department take a look at what potential problems might be and try to bring that to our attention.

>> Tovo: A question for the group.

You mentioned the timing of it.

Ideally I would hope we could get on a schedule of doing this every quarter or twice a year and my concern about doing it in the summer months is that we are on recess for part of that time and then we are in the budget session and people are coming in specifically talking about budget and i think this could easily be a budget discussion rather than a more open forum, so, I guess I would like to hear

from the rest of you about whether a spring session would work.

I understand some of you are going to be very busy, but there are very few years where that's not going to be the case for somebody on this council and I would rather get start and have this session before we get into the budget session this is summer.

Lee.

>> Mayor leffingwell:  
Sheryl.

>> I would like to make a suggestion that some of the topics we list for our council retreat actually be posted for discussion for the citizens.

I get the idea we want a free-for-all for what the citizens want to hear, but i think the citizens need to know what we are going to be contemplating, and that's of a high urgency for us to hear before -- or even after a retreat.

I guess I am just putting that out there to whoever wants to comment on that.

>> Mayor leffingwell:  
Laura.

>> Morrison: I have a question I am not quite sure I understand.

Are you talking about the topics that are going to be on our retreat, that they also be included in the listening session?

>> Cole: Maybe not all of them because trying to keep it down to 2-3 hour a session but as council member tovo suggested we do quarterly meetings, that if we have nine topics and we post three of them.

That way, there is at least some structure and then we still have it open for the free-for-all, but at least staff has some idea of what we think we are going to hear and we have some idea of items that we are going to be contemplating and so i think it might be more of a useful dialogue.

>> Morrison: And I can see that when we are discussing items at our retreat, maybe that's something we can talk about, is this an item that we really need to have broader discussion and input on and really see which ones naturally evolve into something that we need to be reaching out, and I do want to comment, also, in terms of just in general -- the idea, I appreciate you all



bringing it up because i think it's a good idea.

In terms of doing it on a regular basis, I can certainly see that developing and I think it would be real interesting to do one and get some lessons learned and figure out how we might be able to make them more productive, to sort of do a pilot, and I am not sure if you are contemplating doing this in different areas of town if we do it on a regular basis, but I think it would be certainly something to think about.

>> Mayor leffingwell: okay.

All good ideas.

We are going to get preadvice from the staff and law department and we will have lessons learned from the first one, I guess.

I don't know who put this out, the estimated costs of a town hall meeting.

It just appeared.

>> Martinez: I think we were asked; is that correct.

>> Yes.

>> Of cost?

is  
there some way to cut down  
on this?

>> It sounds like base on  
the description that I heard  
a moment ago about staff  
minimizing or no staff, not  
being televised, you  
know, -- I would imagine  
much of the 3,000 goes away  
and much of the 750 goes  
away and building services  
may be the same, ctm.

I mean there is a  
difference -- I don't know  
if this includes -- it  
doesn't.

It is just a technology,  
probably the mics and those  
kinds of things and so it is  
probably a good number so  
cost wise I think it is  
substantially less than what  
you see here based on what i  
heard in this conversation.

>> Martinez: Yes.

I think at a minimum f you  
back out the city staff and  
channel 6 and this is with  
the assumption we are  
holding it here at city hall  
and that would not be the  
case, that would be \$525 to  
have the building services  
of ctm available according  
to this estimate but if it  
happened in spring, we  
wouldn't need either, not  
security or ctm, literally a  
listening session.

Maybe a pa system, I don't know, but, again, I think we can minimize the cost to be very minimal, if nothing at all and I am more than willing to help fund it out of my own personal income if we need to rent a pa system for that.

we  
will put you down for that.

[Laughter]  
do you want to buy it or rent it?

>> Martinez: Actually, i have two or three, lee.

You can crew use them any time for a small fee.

we  
will come back at a later day with more information on this and go from there.

So without objection,  
council will go into executive session to take up 11 of the city government code and seek legal count to d1 to discuss legal issues related to austin -- to discuss legal issues related to austin life care versus the city of austin et al and roman catholic daises of austin et al versus the city of austin et al.

Is there any objection in going into executive session on the item?

Hearing none, the council  
will go into executive  
session.

Bergstrom,sus  
austin-bergstrom,sus  
test.

we  
discussed legal issues  
related to item d1.

So what is next is anything  
on the agenda that council  
members would like to bring  
up.

>> Morrison: Lee.

>> Mayor leffingwell:  
Laura.

>> Morrison: I guess I would  
like to jump right in on  
item number 68, which is the  
item -- ifc brought forward  
by bill and chris about  
short term rentals,  
proposing an indefinite  
suspension to collect more  
information and it raises  
some concern for me,  
especially because there has  
been a lot of work going on  
in terms of getting  
regulations in place, in  
terms of being on hold for  
adjustment action from the  
current board of adjustment  
ruling and so at this point  
I would like to understand  
the rationale for bringing  
this forward.

>> I will happily address  
that.

First, though, I should mention that making its way around is a slightly revised version of the resolution.

I had a meeting with some folks from the zilker and allendale neighborhoods a few days ago and they brought up a couple of points which I think were well taken and fed back into the resolution.

There are a couple of changes.

Let me back up.

The reason for the resolution, I think, is because this is a case where we have not just a difference of opinion as to what is the council ought to do but a difference of opinion that is almost -- diametric opposition as to what the facts of the case.

I have heard from the board of realtors and particularly zi and allendale neighborhoods.

They have short term rentals that are very short and the short term on their list seems to be located in zilker and allendale neighborhoods and it does haven't a significant impact and the zilker and allendale have a long list which have properties not well kept up and have code violations and

a number of police and fire reports.

We have a few difference of opinion on what the basic facts are in that respect.

I don't know how many short term rentals we have.

I don't know how many code violations we have and how many crime calls and 3-1-1 calls in this area and it seems to pass an ordinance without getting the basic facts of what really is at issue may be a problem.

In particular the neighborhoods are suggesting there is an important distinction between what they are referring to as commercial short term rentals.

They are houses by people using them only for short term rental purposes and owner occupy short term rentals, a person out for a week an wants to rent his house, for example, for south by southwest.

It seems like reasonable distinction on its face but I don't know if the public cost short term rentals are substantially different than owner occupy rentals and either to are associated with the cost of long term rentals or owner occupy single family houses by

themselves, I don't know where we are in this and i have a lot of anecdotal evidence collected mostly from the neighborhoods.

We also have apneck total evidence collected by the board of realtors which is in diametric opposition it seems the best thing to do is rather than pass an ordinance in a vacuum to collect information that we agree to.

Here are facts that we all agree are facts and look at those and then make a decision as to what we ought to do once we have fact on the table that everybody can agree to.

So what this is doing, it is asking for the city auditor who already has some background in the issue, having collected a lot of information about short term rentals that are not paying bed taxes, they have a better list than anybody else does right now.

Improve the list and come up with a list that is fairly universal and then tell us what is going on in these places, how many 9-1-1 and 3-1-1 calls are there, how many code violations are there, to what extent can we believe the class of short term rentals are adding to the cost of the general

public, which seems to me to be the best single basis for making a decision as to what kind of regulation is necessary.

>> Morrison: Okay.

I, in theory, obviously having data and information on what to base our decision is important.

I guess I have a question for staff and that maybe can't be answered right now but come up and give it a try, jerry.

I department want to put you on the spot.

One question is what is the chance -- like why haven't we collected this information already?

This has been a topic of discussion and work by the planning commission and your department, jerry, for how long?

Eighteen months?

>> Jerry from plan and development review, the code ordinance of the planning commission indicated last year, we have been working on, the full commission appointed working group that we held meetings over several months.



The working group came up with a recommendation which was then forwarded to the codes and ordinances subcommittee again, because the ordinance of the subcommittee added some items to the working group's recommendations and where we are at right now is we are getting prepared to bring the item to the full planning commission for their recommendation prior to coming to city council.

We have been gathering data and studying what other peer cities do, but mostly we have been dealing with staffing the subcommittee and the working group and attending their meetings and putting together their recommendations, so we haven't done a lot of the data gathering that is called for in this resolution, because there is -- it is just never.

>> Morrison: Is it feasible to do this data gathering, since there is -- well there is a requirement to register because people are supposed to be paying a hotel tax but we know that's not a good measure of how many short term rentals there are out there.

So is it feasible to collect this data?

>> Yes, I believe it would be feasible to collect this data.

These things are hiding in plain sight.

It doesn't work to have a short term rental unless you advertise it so it is rather easy to find out who it is.

Just a labor intensive task.

Because they are on all different places.

A lot on the internet.

Different websites and to my knowledge, you can gather different places you can find short term rentals and do research on issues that are identified in the resolution.

>> Morrison: And then you will also need to do research on whether the property is homesteaded or not?

Right?

>> Correct.

>> Morrison: To determine if it's --

>> the recommendation in the code ordinance of the subcommittee had a two tier as council member spelman referred to, a two tier set of regulations, one for

those homestead properties and one for those that are not and I presume that would be part of the research as well, comparing the two in seeing if there is a difference in terms of code violations or police calls goes.

>> And then another issue you would need to pay attention to, I understand there is a new law that has taken in effect at the state that makes it -- you have to go through a few more steps to actually homestead a property now because there is a big -- a lot of folks are homesteading a whole bunch of properties so it is not just a matter of whether or not they're homesteaded on tax rules to determine whether or not they are owner occupied place?

>> The other thing is, while the auditor is doing this work which presumably will be done mostly by auditor's office, there is stig thing planning can do, we can work on the ordinance language.

We haven't put the paper yet.

We still haven't worked out among ourselves how we would actually enforce this ordinance or which department would handle what aspects of it, registration, inspection, et cetera, and a

lot of issues haven't been worked out yet and we can keep working on those issues internally among the city departments while the auditor is doing this, so we won't just sit back doing nothing, waiting for the auditor's work.

>> And then that does bring up the issue that, as i understand it, the director had put out a memo that said -- well, just to back up, just to review the board of adjustments, made a ruling of interpretation some months ago stating that, I think, anything that was rented for less than.

>> Ten days.

>> Morrison: Ten days was not allowed if sf zoning and then that has not been ebb enforced so it would shut a lot of these down.

It had not been enforce and the director sent out a memo saying it would be enforced after december 31st.

>> There was two 'em memos, one was a memo to council member which the board of adjustment summarized and then also in discussions with compliance department, ourselves and the assistant city manager office, we decided it would not be a wise idea at this point to enforce that action, one,

because we are talking about over 300 properties in the city, and the -- echcause me, and the planning commission was actively considering a code amendment and they are still doing so, and so 300 plus people -- telling 300 plus people they are in violation of the code and then having the same fine, there is also that the interpretation of that is to change, it seems like follow foolish idea that would cause a lot of unnecessary grief among people reminisce sent of the discussion involving the flood plain and so we don't want to go down that path and the other reason is we have a pending lawsuit that has been filed by some short term rental owners contesting the board's action and whether the applicability of the board's action is city wide or whether it's applicable to one address, whether the board's action was legal, correct, et cetera, et cetera.

Right now the lawsuit is being held kind of as part while the code amendment process goes through.

However, if we were to start enforcing the action we are told by the plaintiffs in the lawsuit that they will get the lawsuit moving and then we will be fighting that battle at the similar

time we are trying to do  
code amendment.

We thought the best action  
to hold steady and wait the  
process to run its course.

There was another memos will  
sent by the director,  
sometimes the director has  
multiple authors but went to  
the two parties in board  
adjustment case, mckell  
meade representing allendale  
and the other with the  
property owners and they  
said they will not pursue  
enforcement but there would  
be a date and anticipating  
this done december 20th and  
start enforcing whatever the  
code was at that time and  
that letter anticipated that  
the code amendment would be  
done obviously before  
december 20th if not, so  
there is a new memo sent out  
by the two individuals but  
said we are continuing that  
enforcement but does not  
have a date pending the  
final action by the council  
on the code amendment.

[One moment, please, for  
change in captioners]  
[one moment, please, for  
change in captioners]

>>i haven't been working on  
the law enforcement issue  
but we can get a response to  
you by thursday.

>> That would be great.

And we also -- I wonder if an auditor might be able to give us some ideas on how long this is going to take and I guess I would have a -- question them for why it's just indefinite.

Why don't we have a particular date in here.

>> Good morning, council members.

Good morning, mayor pro tem.

I don't know why you have the indefinite date.

I think maybe it's because i said it when we initially started talking about it, we didn't know exactly how long it was going to take.

We had some opportunity to take a look at it at this point.

We think probably the shortest amount of time we need would be about three months.

And let me explain why we think that may be the case to look at it.

When we look at the web sites they don't necessarily have an address and we have to do investigations in order to try and identify WHERE THESE ICRs ARE Located.

We've done some of that work.

We had an audit back in june of this year where we identified about 266 of these short-term rentals, and were able to identify addresses at that point of 200.

But that took a team of about six people to actually investigate it, go find it, sometimes even visit the site to identify those short-term rental and we would have to do the same type of thing right now.

The thing about short-term rentals and you're aware of this, is they change over periods of time and we would to verify those are the ones that are there.

The difficulty at this particular point is when we did this it was during the sxsw --

>> morrison: sxsw.

>> Sxsw activity -- I'm so excited about alabama having won last night.

I'm an alabama fan.

Still not over it at this point.

So we had an opportunity, people were putting them on the web site, we had an



opportunity to actually identify them.

That is not the case right now.

We're going to have to, you know, just look for them to be posted and determine where they're at.

So depending on the degree of the universe that you want identified and the information you want available, that's going to take time to get that done.

We can report out when you ask us to report out, it will be the information we have available attachment on top of that we're looking for revenue, we were not looking at complaints, citations, things of that nature.

That would be new to the audit.

And depending how that information is registered and filed, you know, the ability for us to be able to find it and connect it to the actual site, we don't know exactly how much time that's going to take as well.

I guess I have a question about some of the feasibility of actually going after this, because if somebody is -- they live in

their place and they're going to rent it out three times a year when they're on vacation, there's no way you can find that unless it happens to be advertised in the time that you're investigating.

>> That is correct.

>> Morrison: okay.

So that -- I guess the chance of finding the commercial is more likely.

Anyway, so I have -- I have concerns about what this is really going to bring us, and I'm just going to throw out there what my sense of this is, and that is we've done a ton of work already.

I'm not sure this is really going to bring us a fundamental -- a better fundamental understanding of what's going on.

From my perspective if there -- if there are a whole lot of them and the people that are saying there are a whole lot of them are right, then I think we certainly have some issues because I'm real concerned about the sustainability of our central neighborhoods especially, because, you know, just to the extreme, which isn't going to happen, I presume, but to look at it in the extreme, if you have

all of zilker or all of  
allandale commercial  
short-term rentals, you no  
longer have a neighborhood.

And I'm -- and that's a  
policy I would fight, you  
know, having them all do  
short-term rentals.

If they're -- so in that  
case it would make sense to  
have some limits.

And I think the planning  
commission and the working  
group, I'm really pleased  
with the work that they've  
done.

I know it doesn't go -- it  
goes farther than some  
people want and doesn't go  
as far as some people want,  
but it basically suggests,  
and jerry, correct me if I'm  
wrong, that there will be  
a -- that they be  
grandfathered and that for  
new ones that they not be  
closer than a thousand feet,  
sort of like bed and  
breakfasts.

>> Right, and a conditional  
use permit.

and a  
conditional use permit.

If there's a ton of them  
like some people say, then  
that's a problem and we we  
ought to put something in  
place.

If there are very few of them, like others say, then nobody should mind limiting them because there just aren't that many of them.

So to me there's a logical reason that says it makes sense to move forward, especially in light of I'm not sure how much this new data can be complete or really help us understand the problem.

That's where I am on this and I'm certainly looking forward to hearing what other folks have to say about it.

it seems to me like having a good, sound, at least initial database, it sounds to me like right now we don't really have one, a good database on who and where and all that kind of stuff, is essential to what I would consider to be one of the most important parts of this ordinance, which is enforceability.

If you don't have good enforcement, none of this stuff is going to work, and if you don't know exactly who and where and all that, it's going to be very hard, I would think, to enforce.

That's just kind of off the top of my head thinking, but -- laura?

I think the  
point is it's not clear what  
kind of data we can --  
i  
understand that.

you're  
suggesting if we can't get  
data we shouldn't have --  
no, i  
didn't make any kind of  
I'm  
just saying it's going to  
be -- regardless of what  
happens, retaining this data  
I think would be important  
to that aspect of it,  
enforceability.

So regardless of what  
happens, I think that the  
audit should go forward  
whether or not --  
depending -- I don't know  
when it should be  
implemented or -- I'm just  
saying this as a separate  
statement, that the audit  
itself should stand --  
so it could be  
that we would move forward  
with the ordinance and the  
audit wouldn't go forward to  
help us with the  
enforceability of the  
ordinance?

well,  
I think that has to be one  
of the possibilities, yeah.

There could be several, and  
I haven't thought too much  
about that but --

>> cole: mayor?

>> Mayor leffingwell: sheryl?

I have a different line of questions on this, and there is the issue about enforceability of the short-term rental status from a planning and commission and office information that we've received, jerry, from your office, but you've met with the neighbors; is that correct?

>> Yes.

and you've met with the subcommittee of the planning commission?

>> Yes, multiple times.

and you've met with the real estate representatives?

>> For the subcommittee as well.

now, is my understanding that all those groups agree that these entities should be paying the hotel occupancy tax?

>> Yes, that's correct.

and so what I want to focus on is why we can't immediately go forward or on -- maybe in a shorter time period than indefinite, on some ways to start having improved procedures for collecting this tax while we

gather this data and work out these thorny issues.

I don't want that left open.

So I guess I'll first lob that at the auditor.

>> I think you can do that.

I think we did an audit early on the year where we identified some of these short -- shortages in the approach to short-term rentals and made recommendations about working with the industry, working with, you know, the vendors that are actually offering it, and I think that work is in process.

When you talk about getting the whole universe, I think you're right, it's unlikely we'll ever have the whole universe because there's going to be some one-offs we're not going to identify.

I think when you look, you know, at the overall issue that I think you all are addressing, we can probably get a majority or, you know, maybe 70%, 75%, or even more of that identified.

We'll never know what the right percentage is until -- we just won't know what that is, but what I would -- you know, if I'm asked to do this I want to give you the best data that I can get

given the constraints around what we're trying to do, and that's what we would aim at.

Now, with regard to the code enforcement, you know, if we don't know who they are, unless you receive a complaint, it's pretty difficult to go find them and get the revenues coming in and --

well, I want to put the code enforcement issue aside and those that we don't know, but those that are currently classified as short-term rentals, I believe you all have presented some recommendations and audit and finance, and I'm sure there are more, especially through their web site, that we could immediately start to implement to have improved collection of the hotel occupancy tax.

>> I think that is in process and it's ongoing.

When we do the audits, we also try to educate the short-term rentals.

I think the industry representatives are providing training on how to do this and do it properly.

I know the controller is working on trying to improve the web site and provide easier means of them



reporting and registering  
with the city.

I'm not going to say that  
it's 100% complete because i  
don't know that.

I doubt that it is at this  
point, but it is improving.

And I think the efforts are  
under way at this point.

And I think we've also had  
some discussions with code  
compliance.

I'm not quite sure, you  
know, everything that went  
on, but we're trying to work  
together as a city team to  
get it done.

>> Well, one of the  
recommendations of the  
subcommittee and actually it  
was a staff recommendation  
very early on in this  
process was to create a  
registration so that if you  
were doing this, you had to  
register with us, that would  
make it easier for us to  
check to see if you paid  
your tax.

So if you said you were  
doing this, you're  
registered as a short-term  
rental property, if  
you're -- it would be  
simpler for us to compare to  
see if you had paid your  
hotel tax.

So that's one of the very,  
you know -- recommendations.

as far  
as council member cole's  
direct question, going ahead  
with collecting these taxes,  
that's ongoing.

>> Yes, it is.

that's  
ongoing anyway, sheryl.

I guess what I'm  
wanting to do is to amend  
this resolution because i  
know that it is ongoing, but  
I also know that nothing has  
happened, and I don't think  
the compliance issue needs  
to hold up those efforts,  
and we need to be very clear  
with city staff, the auditor  
and the short-term rental --  
and they all agree to this,  
that we want to have  
immediate implementation of  
the registering procedure  
together with the  
recommendations of the audit  
and finance -- I mean, the  
audit tour together with the  
recommendations of the  
comptroller for improved  
collection procedures, and  
I'd like know the thoughts  
of council member spelman --  
or council member riley.

council member  
riley is not here -- well,  
now he's back but since i  
have the floor let me pursue  
this.

What, ken, were your suggestions for any changes in procedures for collecting bed taxes from short-term rentals?

>> I'm not sure I can remember them all at this point but I'll do my best.

We did recommend -- we worked and recommended that we work with the vendors and get them to contact all of their short-term people and make sure that they did the filings and paid their taxes.

We worked with the industry representatives and worked on setting up training and provided information from the industry perspective to do the same thing going forward.

We had discussions with the controller in trying to improve the web site and actually, you know, continue to provide that information.

There may be other recommendations at this point and I cannot recall them.

have you gotten help on on this from the industry?

>> I wouldn't get help as the auditor but I think the city is getting help and they've done training.

I think council member morrison may have had some of that information provided to her directly that I may not be privy to at this point.

I'm sorry to put you on the spot, council member.

I'm not sure what you're talking about.

I know that there was a special session held.

Is that what you're talking about?

>> Yeah.

and invited,  
was it a board that held it  
or -- I can't remember.

>> I think it was -- I think it was in your office as a result of the audit where we had industry members come in.

I was there, you were there, we had the discussion.

I think diana thomas was also there as well.

And I know -- what i understand is that there was follow-up to that and there was actually some training that went on and some outreach on it.

yes, yes, and i  
think that that has  
continued.

>> It has to continue.

I think it's the kind of  
environment we can't -- you  
got to continue auditing,  
you got to continue doing  
outreach and grabbing these  
people as they start  
offering their homes for  
short-term rentals.

Not just one time.

Must be ongoing.

so from your  
point of view, ken, we're  
actually in progress doing  
the things that you were  
recommending?

>> That is my understanding.

We'll probably come back on  
a follow-up on it as well.

>> Spelman: I understand.

Jerry, that's your  
understanding, that we're in  
the process of implementing

[10:46:00]

that stuff?

>> Yes, what I was  
addressing before was the  
code enforcement side of it.

There's never been a suspension of the revenue collection.

As a matter of fact I was referring to there's been an attempt to improve that.

So no one is in disagreement right now about the fact we need to be collecting these taxes now.

nobody is in disagreement.

I understand that.

Conceptually people owe us money, we'll try and collect it.

But are we changing our procedures, or are we doing anything proactive to make sure we're getting the taxes that are owed?

>> My understanding is the auditor's office has been working with the controller's office on smoothing out that process.

and i agree with the auditor that it's not a one-time deal, that you have to continually add and subtract names from this list, so it will be -- it will be a process that goes on and on.

But it's important to get it done initially too.

>> And mayor, others is we continue the -- on the otheride is suicide is we continue the audits, we're doing two to four audits a year, to comply.

>>> Kathie?

>> Just to kind of sum up, your office has been working on this issue for, what would you say, at least a year, trying to collect revenues from the short-term rentals that are not occurring paying hotel/motel tax?

>> We focused on the short-term the past year, 2011.

Prior to that we've done many audits with regard to hotel okayancy, which may or may not have included what could be defined as short-term because there's a range, obviously.

But short-term, yes, one year.

so we've got at least a year's worth of numbers looking at how many there are in this area, would you say?

>> Yeah, we did two audits on it.

The first audit was really what was the condition, and they really didn't look at

numbers at that point and we had recommendations as a result of that, which ended up in, you know, some of these other organizations getting involved and correcting the problem.

The second audit was actually looking at the numbers along with hotels, we put them together, so we're looking partially short-term, partially at the

[10:48:00]

hotels but also always the tax.

So really one audit of numbers at this point.

but in essence you've already done what is being asked for.

You've taken a look within the time you had to get some sense of how many there are in the city so that you could begin to collect taxes from them?

>> From the tax perspective that is correct.

From citation, violation, et cetera, we have not looked at that at all.

and I want to get to that point in a minute because we have done -- my staff has talked a little bit with code enforcement



about what the viability is of getting information or data from code enforcement that's actually going to be useful in this regard, but i just want to make the point that, you know, for about a year the auditor has been collecting numbers that we can use in making our decision on this ordinance when it comes forward from planning commission.

So I -- you know, I guess i share council members' concerns about a further delay because I'm not sure that that delay is going to get us any different information than we have here today, or that we'll have here in a few weeks.

And I think it's also worth emphasizing that, you know, this is a process that began more than a year ago, but i mean, eve heard concerns about short-term rentals from communities where they are being converted from residences to what many people regard as a hotel/motel use.

I've heard those concerns for a couple years.

It's only been a year since the planning commission has initiated a code amendment process, but it has been, i think, jerry, just about a year.

I know those meetings, those stakeholder meetings started early in 2011.

>> Yeah, I think it was april.

Look at some of the documents in my folder.

so by the time -- things don't always move quite as quickly around here as you think they could, but for a whole year almost people have been -- the planning commissioners have been studying this issue, looking at it, meeting with stakeholders, taking input and considering best practices or what other

[10:50:00]

municipalities have done and there's a wide variety.

Environmental, we have municipalities around the country that have banned them.

We have municipalities that are proposing some kind of regulation and as council member morrison said, we've got a recommendation that the planning commission is going to be considering that really, I think, doesn't go as far as some people want and goes too far for others.

So that I may be a good sense that, you know, it's

somewhere in the middle,  
because no one is -- we  
don't have 100% consensus on  
it but it represents in some  
people's minds sort of a  
middle position.

So again, I guess back to  
the delay, I'm really quite  
concerned about it.

>> Council member, I want to  
make sure that I have not  
misled you.

We've worked on it but it  
was a limited look and it  
was limited to the sources  
we looked at and the number  
we looked at from a revenue  
perspective.

So we were looking at, you  
know, where is the beef with  
regard to the amount of  
revenue we could collect.

It was not a universe type  
or attempt at a universe  
type study to identify all  
of them.

you were looking  
maybe less at how many but  
which are the high -- which  
are maybe the ones where you  
might get the most revenue  
from initially?

>> That's correct.

and your numbers  
were in the 200 range.

I know we've received  
information from home away

suggesting that they've got  
370 registered in this area  
so it's not like we have no  
information on this subject.

>> And we did look at home  
away and we were not able to  
identify addresses for all  
of those as well and some of  
these were not within the  
city.

We think there may be up to  
6, 7 or more hundred that we  
could identify but that  
would not be the austin  
number.

That would include people  
outside the austin city  
limits.

and we could  
certainly cycle back to home  
away and ask them where  
there are 300 in the city  
limits or outside.

I think we'll still be in  
the ballpark of some  
estimates of how many we  
have in our city.

rusthoven, my  
understanding of the

[10:52:00]

information we have  
available from code  
enforcement, is when code  
complaints come in they  
haven't always been logged,  
being related to a  
short-term rental.

So can you speak to that issue?

Are we going -- there's not a search one could do that's going to return a big list of code violations that are logged to short-term rentals.

>> I'm sorry, I'm not aware of how compliance organizes their data.

that's my understanding.

It wasn't a direct conversation I had.

It was one John Harden on my staff had.

But maybe we could get something from code compliance here on Thursday and I guess my point in raising this is I don't think even with more time, even with an indefinite amount of time, that we're going to get information from code compliance that's going to be thorough or comprehensive in terms of how many -- you know, whether short-term rentals tend to have more or fewer code violations.

I think we'll have -- we'll have violations that are out there that weren't logged to a short-term rental and short -- you know, anyway, council member?

if I could  
address that very briefly.

I wouldn't want to  
second-guess how ken is  
going to do his work, but my  
best guess is if we've got a  
list of addresses, we can go  
back on an address by  
address basis and see how  
many violations or what was  
the nature of the violations  
we had at each individual  
address, and even if the  
code's folks did not have  
breakdown by long-term  
verses short-term or vacant,  
even if they didn't have a  
clue as to what was going  
on, if they had an address  
and we knew it was a  
short-term rental we would  
be able to break it down.

So I think there's a good  
chance we'd be able to  
collect some decent  
information as to what was  
going on at those addresses  
so long as we can get that  
universe of addresses, and  
it's my understanding that's  
what ken and his people have  
been working on for the last  
year is to come up with that  
list.

So I think we can collect  
better information than  
we've got right now.

Whether it's going to be  
sufficient to change your  
mind or anybody else's mind  
is something I'll leave to

[10:54:00]

you, but it would certainly be very useful information for me.

>> Morrison: mayor?

>> Mayor Leffingwell: Laura.

Mayor, just to that point, that raises a concern what you're talking about for me, just having to base it on the address, because structures are sometimes short-term rentals and sometimes not, and so what we're talking about is giving -- we're not getting really data.

We're just -- we just need to be real clear what the data is, and that it's not necessarily going to be telling us what we think it's going to be telling us and that gets us into dangerous territory.

>> Spelman: in what sense?

Just because there is an address that we have some address is a short-term rental today, it might be a short-term rental on and off, it might fit in long-term rentals when the call was made, if -- let's say there's a code compliance code to the particular address on a given date.

We don't know the status of what that structure was on that date.

we may be able to find that out.

I don't know.

you mean you're going to go back in history and say, on march was that being rented at a short-term rental?

no, but we may be able to find out if that had been used at a short-term rental on and off starting on a particular date.

we could potentially be able to find that out but likely we won't be able to for some of the assesses so we're getting into a rely/ -- we're getting data that's not going to be telling us what we think it might be telling us and then it's going to be -- for me it's worse to have wrong data than it is to have a lack of data.

for me it's worse to have no information to making decision blind and I feel like that's a decision I'm in right now, having no information about what the public costs of any of the short-term rentals are, commercial, private or otherwise.



so you're  
looking for public cost of  
the short-term rental?

that's what  
we're focusing on here, the  
enforcement issues, 911 and  
311 calls, code enforcement,

[10:56:01]

911 and 311 calls are what's  
listed in this resolution  
and that's public cost  
issue.

>> Morrison: okay.

And I get that, but I really  
have to question whether  
we're going to be able to  
line up and get information  
about compliance issues for  
known short-term rentals  
because we don't know if  
they were short-term rentals  
or not.

They might at some time have  
been short-term rentals when  
the compliance issue arose,  
but we don't -- we don't  
know that, so we're just  
going to be getting into  
having to argue about  
whether or not the data  
means anything.

Because it may well have  
been a compliance call  
against a long-term rental,  
and we will have no way to  
determine that, we'll only  
have suggestions that  
sometimes this structure was  
used as a short-term rental

so it may or may not have  
been a short-term rental  
call spell I can't  
second-guess the  
persuasiveness of ken's data  
in advance.

From my point of view, i  
think there's a good point  
of view we can get data  
which will be persuasive to  
me.

If it's not going to be  
persuasive to you, it won't  
to you.

You'd have to vote against  
the resolution, I guess.

just to be  
clear, it's not clear it's  
going to be data, it's going  
to be suggestions about this  
property had a compliance  
call and sometimes it was  
used as short-term rental.

that doesn't  
mean it's not data.

It just means it's not data  
that you're not persuaded  
by.

no, it just  
means we need to be real  
clear about what the data  
is.

>> Spelman: sure.

I think clarity is always a  
good thing and it's one of  
the reasons I'm happy the  
auditor is willing to take

this on because they are extremely clear what it is that they can and can't say.

clarity  
is always a good thing.

Kathie?

>> I agree.

I want to follow up to the issue of public cost, and i appreciate that, that we do need to take into account public cost of short-term rentals, but this does not address that -- that public cost you're mentioning doesn't address the public costs of the sustainability or lack thereof of our neighborhoods, which is another issue.

[10:58:00]

it's another  
issue.

do you think you could provide us with backup information that you already have in terms of the number that your audit found when you looked at numbers for the purpose of collecting hotel/motel tax?

>> I'm sorry, could you say it again?

>> Tovo: sure.

Your office has done?

Work in collecting numbers  
on hotel/motel tax.

I wonder if you could  
provide us those backup  
materials for our meeting on  
thursday with some numbers,  
you know, how many of those  
your data returned and maybe  
by zip code?

Is that something that's  
feasible between now and  
thursday?

>> We can try to do it by  
zip code.

We looked at, I think, 11  
zip codes -- excuse me, 30  
zip codes, the ones we  
thought were the most likely  
ones, and we actually  
located 246 of about 266  
addresses were identified in  
the short -- in the study we  
did over those several  
months, but there's  
potentially a lot more out  
there that we need to look  
at.

So, you know, we've already  
provided that in the audit  
that was released this year,  
I believe it was in june --  
excuse me, last june 2011,  
so we can certainly provide  
that informa.

If you want more detail it  
might take a minute to go  
into the work papers, the  
aca and auditing charge have  
left the city.

One retired and the other  
went to chicago.

Why I don't know but he went  
to chicago.

Okay?

So it would take us a minute  
to make sure we've got the  
right information, depending  
on what the question was  
that you were asking us.

>> Tovo: okay, thanks.

>> I do need to say of those  
amounts we didn't look at  
246 in the audit because  
when we do the audits we  
have to go in and look at  
all the, when they paid it,  
when they didn't pay it, all  
the paperwork so we normally  
do maybe 30 to 35 in each  
audit because it takes a  
long time first of all to  
get the information from  
them.

Short-term rentals aren't  
the best at keeping their  
records, and when we do get  
their records quite obvious  
oftenthey can be incomplete so we  
have to work with them over  
a period of time to get that  
information.

So I want you to know even  
though we have that many we  
didn't complete a lot of  
them.

They're going to be done  
over a period of time.

but do you have  
addresses for about 246 of  
the 260 that you identified?

>> That's correct.

and so we could at  
least see where those 246  
are and whether they're  
spread across the 30 zip  
codes or whether they tend  
to be located and he can  
do a lot of evidence or to  
suggest in the central city?

>> Well, they would be in  
the central city because the  
zip codes we selected were  
the ones we felt were most  
likely to be renting for the  
kind of events that you  
would do that for.

So it's already biased  
toward that.

>> Tovo: got it.

So -- I was going to wrap up  
my comments from earlier  
saying, you know, I think  
that the benefit -- the  
additional information we  
might receive with a delay  
is not going to be any more  
helpful than the information  
we already have, in my  
opinion, and this is a  
multi-year issue that is  
involved -- involved  
probably hundreds of  
stakeholders at one point or  
another coming to meetings  
to participate in this  
process and for me it is a  
fundamental land use

decision and we make them with some regularity.

It's a planning decision about what -- you know, whether -- what our central city land uses should be and why it is appropriate -- what is appropriate within a single-family use neighborhood.

Were we're talking about -- what we're talking about in my opinion is taking structures out of their primary function as a residence and converting them into something that's more like a hotel/motel use and I think that really should be balanced against our goal, our city-wide goal of trying to reverse the trend of families moving out of our central district.

It's a serious trend.

We have to take strong actions if we want to see any measurable reversal of that trend and converting residence in our central city neighborhoods which are losing families with children, converting those into hotel/motel uses that are not going to be serving families with children in our community, is not something we should continue to delay.

I think we do need some form of regulation and I think

delaying is not of great benefit.

so

1 under your directive here, which is to distinguish those short-term rentals where a homeowner lives on-site from those where the homeowner does not live on-site, I'm assuming that means distinguish between buildings that are permanent short-term rentals and those that are only rented out occasionally, and seems to me like that's a very important thing to know but also seems like it's going to be really hard to determine.

What are your comments on that?

>> We have not done that in the audit that we've done so we'd have to go back and we do that on these ones we've looked at -- the ones you've looked at have all been like permanent?

>> We have not made that distinction.

you have not.

>> No, whether someone lives there or doesn't live there.

It was just whether it was short-term rentals, do they owe the money.



It was a simple, focused audit so we would have to go back and look at that.

With enough time we can do just about anything.

We'll send people out there that when we did this particular project we hired a consultant to identify and then we had a team of interns headed up by our audit staff to call, visit and do that kind of work.

So we can go out there and check that kind of information, investigate it --  
it  
seems to me like that's a really, really important thing to know, if it's at all possible to be able to know that, that would -- because if it's a permanent str, then that truly is a land use decision, without question.

>> The only thing I can suggest, and I don't know if this would meet the needs of all the city council members or a portion of it, but we can try to do it on a sample basis, which would make it a much smaller project for us, and as long as you are willing to accept a valid statistical sampling as opposed to an attempted universe, that might be a better way of approaching it.

But that's something you all need to consider in determining if you want to do that or not.

>> Mayor leffingwell: chris?

assuming that at the end of this process some short-term rentals are still allowed, even if it's just residential short-term rentals, someone leaves town for sxsw and rents it out.

Your office would occasionally be expected to look at the compliance in terms of paying the appropriate hotel/motel taxes with those.

Isn't that right?

>> That has been the direction of the city council from the beginning and that's why we continue to do this, from a -- from a monetary impact to the city, et cetera, it's not the largest amount we could be looking at, but because of the importance of it city council has indicated they want us to do that, and we've been doing it for several years.

but to date i think what I heard is you haven't really done an exhaustive assess him of the short-term rentals that are out there in the city.

So what I'm getting at, is it -- it seems like taking some time now to do some work, some additional research to cast a wider net and figure out where all the short-term rentals are -- it seems like that would be valuable information to have regardless of the outcome of this -- of this whole discussion.

Whatever we decide to do with short-term rentals, it seems like if you have built your database based on the work that's proposed with this resolution, seems like that database would put you in a much -- in a significantly improved position going forward in terms of your ability to stay on top of the short-term rentals that are out there for purposes of ensuring compliance with hotel/motel taxes in the future.

Isn't that fair?

>> That would be useful, yes.

>> Rile this would be a valuable exercise.

It's not just getting additional information in order to make sure we make the right decision on this issue.

This is about us in the best think so that we're able to conduct appropriate enforcement and monitoring of short-term rentals in the future.

>> I would say it would be useful for us, we don't audit everything in one time but it would be useful information for the controller as well to monitor whether they're registered or not.

So --

>> riley: okay.

Thanks.

>> Tovo: mayor?

who's  
first here?

Laura?

Go ahead.

just a couple  
comments in response to this most recent idea of going out and trying to get an exhaustive -- exhaustive database, and clearly one is needed for enforcement of hotel tax payment.

About you to me that's not necessarily -- to have our auditors and their resources used to go out and find that, which is going to be a pretty difficult challenge,

is not necessarily the most cost-effective way to do that, because if we can get this issue settled and then do some outreach to the community, I think that there will probably be many people who would just voluntarily say, yeah, I'm here and this is what I do, you know, I rent my house out twice a year or whatever.

So -- but it does bring me to the question of the amount of effort.

You mentioned the possibility of just doing a sampling, a statistically valid samp.

I'm not sure how you do a statistically valid sample if you're not quite sure what the size of the universe is.

But there are a lot of complications like for instance there are homes that are [inaudible] like for instance a garage apartment is used as a short-term rental full-time, so -- and then that's a different situation from when you might have a single residence being used as a short-term rental three times a year.

But my question is, you mentioned before that

previously it took six of  
your investigators, what --

>> well, it took two  
auditors and interns from  
ut.

to do the most  
recent effort that you did.

So -- and then you also  
mentioned that the shortest  
amount of time you might be  
able to do this effort is  
three months, and how many  
people were you thinking  
that would be working on it?

I guess I'm trying to get a  
sense of the amount of  
resources you're going to  
have to expend in gathering  
this information.

>> I think it would be a  
similar number of interns  
and auditors, plus we would  
need to use some of the  
consulting money we have in  
the budget to hire the  
consultant we used  
previously.

And yeah, the three months  
would not be -- first of  
all, I don't believe I can  
do an exhaustive -- it's  
just not possible, because  
there are outliers that I'm  
never going to find, even if  
I did try to do it but I  
think we could probably get  
a very substantial number of  
them so that --

>> mayor leffingwel99%  
would be enough, I think.

[Laughter]

>> I'm not even sure I can  
do that.

Probably somewhat less than  
that.

But yeah, there would be a  
gap between what you say  
would be an exhaustive, and  
the sample would be based on  
the known universe that we  
identify.

and so do you  
have an assessment of the  
hours that this effort would  
take?

>> Can you define what the  
effort is for me again?

Because I'm a little  
confused about --  
let's just say  
what's written right now in  
the --

>> well, right now, you  
know, we think at a minimum  
three months, depending what  
we run into, particularly  
with regard to, you know,  
what the files are in code  
compliance and the police  
department.

We need to find out how we  
can pull that data and dot  
matching.

three months  
and how many people?

>> It would probably be a  
couple of my staff plus some  
interns that we'd be  
working, probably four.

so maybe -- i  
guess you'll probably be  
bringing forward a fiscal  
analysis for this by  
thursday?

That will give us the dollar  
amount?

>> I can do that, I wasn't  
going to do that but I will  
do that.

[Laughter]  
well, we get  
them on and off for various  
[inaudible].

I'm not sure when it's  
determined whether we'll get  
a fiscal analysis or not,  
but it sounds like it's a  
nontrivial amount of  
resources.

>> It would require some of  
our resources, yes, and i  
want to get an estimate what  
we think it would take for  
the three-month period.

>> Cole: okay.

Colleagues, any other item  
we want to move on to or are  
we ready to move on?

Council member tovo.



sorry, I did have  
one follow-up question,  
really for council member  
riley.

I guess I'm still struggling  
with where we're treating  
this differently than other  
land use decisions.

We don't typically survey  
how many bars there are  
across our city or other  
kinds of land uses before we  
decide, you know, that we  
need a classification  
specific to that land use.

So there's no doubt that the  
auditor is, and I support  
this effort, going to  
continue to try to find them  
to make sure that they're  
paying their hotel/motel  
taxes, and that can go on  
independent of a delay here  
and will go on independent  
of a delay because we want  
to be sure they're complying  
with the requirement to pay  
hotel/motel taxes.

But I -- if you would just  
sort of talk me through why  
you feel that a delay would  
be necessary when what we  
are making is a decision  
about the kinds of land uses  
we want in our residential  
neighborhood, and we  
certainly didn't do this  
kind of analysis before the  
council decided to have some  
regulations particular to  
bed and breakfast, for  
example.

that was a whole different thing.

We could discuss that at length.

With respect to this decision, it's -- I think there is a fairly basic disagreement about the extent of the problems posed by short-term rentals.

You have one side as council member spelman was saying -- you have one side saying there is no problem here, that in general short-term rentals are maintained better than longer term rentals and have not presented issues for code and compliance.

You have another side saying it really is a problem.

You've got all sorts of issues there.

So just from the standpoint of making a well-informed decision, there is value in having good data.

Beyond that I think there is significant value in having a -- a working base of information about the short-term rentals that are out there for purposes of ensuring that we're collecting appropriate taxes in the future.

And I think taking a little bit of time now to make sure that we're making a good decision will have benefits in the future in terms of our ability to actually make sure that people are paying appropriate taxes.

So it just seems like -- i don't -- I would not expect this would be a very lengthy delay.

I heard some -- I heard three months suggested.

I don't know if that's -- if that's the best estimate of how much time we're looking at, but if we have to take three months to make a well-informed decision that will put us in a good decision going forward, then it seems to me that that kind of delay would be worth it.

council member, are we ready to move on to other items?

I immediately have a 66, spops sponsored by council member morrison, council member tovo and mike martinez.

Can you explain to me what the peak hour surcharge is and how that works?

well, before we do that I wonder if our legal department wants to

talk about the fact that  
these both need -- that  
66 and 65 need to be  
postponed.

>> Cole: oh, okay.

because of the  
posting issue.

>> Yes, council member,  
deborah thomas with the law  
department, 65 and 66 lack a  
little bit of clarity.

[Chuckle] and so we have  
recommended that we post post  
postpone those until the  
26th agenda to give us time  
post those.

>> We will remind the mayor  
and anyone listening knows  
they will be postponed.

>> It will be in the  
announcements in changes and  
corrections at the beginning  
of the meeting so people  
will know that's going to  
happen.

>> Next item, council member  
riley?

the point is if we  
got resolutions related to  
taxicabs it would be helpful  
to use the word "taxicabs"

when we're posting.

>> Yes.

if I could just  
add, in fact, this is a

little bit of a failure of our process because we had one resolution covering both items originally.

That's how we had drafted it and it talked about taxicabs in the posting, and then when they got pulled apart the word taxicab fell out of both.

So live and learn.

deborah is here,  
if I could.

On the same subject, if you could take a look at the posting language for 35, 36 and 37, these are not quite as random.

They happen to be together because I think it's a similar kind of a problem.

In 35 we're authorizing award and execution of a contract [inaudible] single lots of detail on exactly what kind of fiberoptic cable.

Sounds like [inaudible].

What kind?

Fiberoptic cable.

But we're not saying what the devil we're going to use it for.

It might be helpful to say here's the department that's

going to be using the  
fiberoptic cable and very,  
very roughly put what the  
reason for it is.

>> Council member spelman, i  
believe these are purchasing  
items.

>> Spelman: I understand.

>> And I just want to let  
you know that we have an  
attorney right now assigned  
to purchasing it and we are  
looking at these kind of  
templates, how we post for  
other departments that have  
lots of items, looking at  
having templates that, you  
know -- more specifically  
tell you what we're doing,  
of course they meet the open  
meetings requirement, about  
you they're uniform so that  
you know, you know, when you  
see this item, particularly  
what it might be about  
because you'll have a  
uniform template.

We're working on that.

the template  
we're working off specifies  
what and how much, which is  
really good.

If we could add to that for  
whom and for what.

>> We'll write that down.

I think that lawyer is here  
right now in the back.

[Laughter]

>> spelman: thank you.

>> Mayor, I have another question for deborah.

council member martinez.

deborah, i wanted to ask on 65 and 66, who drafted the posting language?

>> Council member, I'm not quite sure where it came from, but the law department reviews all the posting language.

and so if we have these posting requirements that council tries to meet and staff had the proposal ten days prior -- the wednesday prior to this coming thursday, how can we not have fixed it in wednesday and friday saying we need to work on this posting language?

I mean, once we as a council member submit something, obviously we've put our best foot forward to drafting and/or contemplating whatever the item is, but we submit it specifically for legal review and staff review to tell us if there is something wrong or if there's concerns or if there's edits or additions and yet we heard nothing.

>> Let me just take that,  
council member.

I think there was a mistake.

We had -- this is no excuse.

There is a new lawyer that  
was working on this, and  
she's, you know, getting up  
to speed, but we also have a  
team, and everybody just  
missed it.

So we apologize for that,  
but I think we have an  
obligation to pull it down  
when we don't believe it  
meets the requirements of  
the law, but we just missed  
it.

right, and i  
certainly am not asking that  
line of question to deborah  
to try and point fingers.

I'm trying to respond to  
council member riley's point  
that, you know, the word  
taxi should be in there, and  
what I'm trying to emphasize  
is we did have it in there,  
and, you know, it should  
have been captured when it  
was split apart into two  
different items.

>> We agree.

>> Martinez: thanks.

could  
I just real quickly bring up  
item no. 50?



Because I think we have some folks here that could answer just a quick question, maybe bert.

I'm assuming that's grant money we're spending?

It's just a big number.

I just want to be clear that ...

>> Carlos rivera, director health & human services.

Yes, it's grant money.

It's from cppw, communities putting prevention to work.

>> Mayor leffingwell: okay.

That would be a handy piece of information to have in the posting language too.

That's all I have.

Laura?

could I just add to that before you guys go away, it does look like a big number going to an advertising firm but i imagine a lot of that money is for the media -- media buys themselves and do you have any breakdown of that?

Could you fill us in?

>> I don't have a breakdown with me, but we can provide that.

The grant is coming to an end.

It ends at the end of march, so this is our last significant media buy for this campaign.

The total grant was 7 1/2 million.

>> Byron johnson, purchasing officer.

Yes, in the backup, the -- excuse me, the contract amendment has \$833,425 is actual media placement, and that's in the backup on the agenda item.

>> Morrison: thank you.

council  
member tovo.

just a quick  
question about that.

The backup talked about the deobligated grant funds, that these are deobligated grant funds.

What does that mean exactly?

Are they deobligated in the sense that these are grants that could be shifted to other health & human services issues or does it need to stay within the same grant but it's deobligated for the purposes for which you had initially intended to use it.

>> I'm not familiar with the  
"

sort of new to me  
too.

i  
never heard it either.

>> But I do know that it  
was, I guess, repurposed, i  
guess would be the --  
generally the same thing.

It's meant to be for this  
particular grant.

It can't be moved to any  
other campaign that we have  
in the department.

So as long as it is related  
to tobacco cessation, use it  
as such.

but you could use  
it for any purpose within  
that overall mission?

>> Yes, council member.

Part of the grant funds,  
it's part of the stimulus  
programs and as the funds  
are being allocated out  
around the country,  
unallocated funds come back  
to that programs that are  
able to use it and the city  
as part of our live free  
tobacco program these funds  
are allocated back to us.

>> Tovo: okay.

So it was deobligated from another municipality to -- okay.

I gotcha.

So it could be used for anything within this grant -- within this program, not necessarily media buys?

wong is  
phil wong  
is responsible for the prosecuting and in his -- program, and in his determination would be best used -- I suppose we could have used it elsewhere but in his determination -- the highest -- okay.

Thank you.

other  
items?

Okay.

I assume there are no questions on any other agenda items.

Kathie, are you checking or -- okay.

Okay.

Go ahead.

I just want to throw out a quick question.

You know, we have -- on our agenda is an item to set a public hearing for january 26 to make a decision about the austin energy rates, and I guess i would just -- I wonder -- that date could be changed on the dice.

on the 26th or on thursday -- it will be changed day after tomorrow.

>> Tovo: sure.

Well, what are your general thoughts?

I mean, to me that seems pretty quick, and I think -- I think -- my general thought is it seems pretty quick.

>> Tovo: okay.

Thank you for that feedback.

Others -- will we have an option what would a more appropria on the dais?

yes, we will.

Council member martinez?

go ahead -- i know there are a lot of

people who want to talk  
about the electric rates,  
and that's -- the public  
107 on our  
agenda, it's the last item.

Given that the last item,  
like all public hearings,  
could be held anytime after  
--

I've  
already set it for 6:00.

It will come out in changes  
and corrections.

00 or actually  
since we usually have  
proclamations and live music  
30 we might put it for  
30 since it's unlikely  
we'll get started till 6:30.

i  
don't think it makes much  
difference but we could get  
00 and 30  
minutes --

>> spelman: flexibility.

Okay.

Good.

>> Mayor leffingwell: katie?

I have some  
questions for the sponsors,  
mayor, or council member  
martinez.

Could you just talk for a  
70,  
the resolution for the  
waterfront planning advisory

board, what you envision coming out of that and what your resolution -- well, basically what this addresses is the fact that boards and commissions generally can't have work sessions in the bylaws, they either can't or they have very limited work sessions, and I had a request from the chair of that group saying that they had this important work to do and they would like to have some work sessions.

So that's all this does, is allows them to have work sessions until they complete this mission.

>> Tovo: okay.

Great.

>> Mayor leffingwell: mike?

>> Martinez: thanks, lee.

I didn't really have any questions, but I do want to publicly acknowledge and thank the city manager for his efforts to resecure funding for weatherization at the mount carmel -- we've gone through this issue for the last few meetings.

I realize that the minority participation opportunities are limited because much of the additional funding that was secured is for actual

hvac replacement, but I do  
appreciate the efforts of  
you and your staff going  
back after those funds to  
make sure that those needy  
families are taken care of  
this winter.

Thank you.

>> Mayor leffingwell: yeah.

Anything further?

Without objection we stand  
adjourned at 11:25 a.m.

[Rumbling]

Announcer: What if a disaster strikes without  
warning?

What if life as you know it  
has completely turned on its head?

What if everything familiar becomes anything  
but?

Before a disaster turns your family's world  
upside down,  
it's up to you to be ready.

Get a kit. make a plan. be informed today.

[Rumbling]

Announcer: What if a disaster strikes without  
warning?

What if life as you know it  
has completely turned on its head?

What if everything familiar becomes anything  
but?

Before a disaster turns your family's world  
upside down,  
it's up to you to be ready.



Get a kit. make a plan. be informed today.

Title: CHANNEL6

Channel: 6

Recorded On: 1/17/2012 12:00:00 AM

Original Air Date: 1/1/1900 12:00:00 AM

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[08:12:00]

>> we have one of our euc  
commissioners, commissioner  
day, I believe, is on the  
line, on the telephone line,  
that she'll be able to hear  
everything that we talk  
about this morning and also  
to participate.

I assume we can verify that  
commissioner day is on the  
line at this point.

Okay.

Thank you.

There's a voice from  
somewhere, and --  
[laughter]  
we're glad to have you here  
swells other commissioners  
from the euc.

And we will advise  
commissioner day, who will  
lead the minority  
presentation when we get to  
that point.

So just a couple of  
housekeeping items.

This is a special called work session, which means the work session rules apply as opposed to the council meeting rules, which means that we will not be taking public testimony.

We'll only be taking testimony from people who have been invited to come here and testify, and i don't have before me a list of those names, but I would sure like to get one, if i can be provided with such.

Thank you.

So we might as well go ahead and get started.

30, and i don't know if we want to go directly into our presentation from the electric utility commission, philip.

Are you ready to leave that discussion?

Go ahead -- lead that discussion in go ahead, we'll have questions to you and your associates and then we'll hear the minority presentation.

>> Great, and I have [inaudible] statement, and i think the other commissioners all as well.

I believe barbara has as well.

So if you would, if we can  
all go through those first.

I will try to monitor my  
time.

I've written maybe too long  
and if it's too long I'll  
stop and we can move on and  
I'll cover it later.

And I will offer that at the  
end of my presentation I'm  
happy to take a pay cut of  
50% of my pay.

[Laughter]  
I wanted to talk to you  
today about four principal  
themes.

One is there was a whole lot  
more consensus than conflict  
at the euc level, and I want  
to draw that out and talk to  
you about that.

The second is that the  
utility company as a whole  
really needs to be operated  
more as a utility and less  
as a department of the city,  
and that is a fundamental  
point I hope you take away  
from this presentation  
today.

The third is the importance,  
if we want to achieve the  
goals that the city council  
has given to austin energy,  
the importance of unbundling  
the rates so that the fixed  
charges come through fixed  
fees and the variable

charges come through  
variable fees.

We're never going to achieve  
our goals that you set for  
the austin energy if we  
don't take that fundamental  
step.

And then the fourth, and  
maybe I'll cut this one off  
for time, we'll go there  
later, is there are some  
other ideas I've had since  
the euc on new ideas to  
explore to find some common  
ground.

But let's go with the  
consensus versus the  
conflict.

In honor of mlk day  
yesterday I thought, well,  
what common ground did we  
have at the euc?

We had 27 issues that we  
have to go through to reach  
a decision on, and out of  
those 27 issues, we had 21  
of them where we had a vote  
of either 7-0 or what i  
would call broad consensus  
of 6-1.

Let's go through those real  
quick.

The first one was to achieve  
the revenue requirement.

The austin energy staff  
recommended to collect  
revenues from all customer  
classes sufficient to fund

core functions in the amount of \$111 million.

The euc position on that was to concur with the austin energy staff subject to the following caveats.

One, delete funding for the economic growth and development services organization in the amount of close to \$10 million per year from the revenue requirement and the austin climate protection plan which are employees that are not controlled by austin energy.

Two, to remove any portion of the general fund transfer based on fuel revenues.

And 3, to remove an additional 6 million from the revenue requirement.

That motion passed on a vote of 6-1 with only commissioner day voting no.

The second item was to set policy bounds on customer class alignment --

>> do we stop as we go for questions and will we back up and do all that --

i

think it would be best if you need to ask a question of clarification, you don't understand what was just said, ask it now.

philip, you talked  
about the core functions  
that were kind of unanimous  
in your recommendation,  
deleting funding for es --  
ergs.

But what I didn't get is  
what you said about the  
employees and [inaudible].

So will you tell me that?

>> Oh, sure.

There is a growing habit to  
have austin energy pay for  
city of austin employees  
that do not report to austin  
energy, which we feel is a  
bad management.

And so one of those new  
developments is to have  
austin energy fund the  
austin climate protection  
plan employees, even though  
they don't report to the  
general manager of austin  
energy.

And so we ask that the cost  
to pay for those employees  
be removed from austin  
energy's revenue  
requirement.

And the other is the  
recommendation that we've  
made, I think, on the  
[inaudible] basis since 2007  
to the city council, which  
is that the general fund  
1% of  
the revenues austin energy  
receives for fuel, even

though fuel is a  
pass-through for austin  
energy and they don't make  
any money off of it so  
they're paying a percentage  
of money that's a  
pass-through to them.

>> Cole: okay, thank you.

and that's the  
source of the  
6 million is those two  
things added together, is  
that right?

>> No, that was an  
additional  
6 million that was  
actually recommended by the  
residential rate adviser and  
you're going to stretch my  
memory as to what actually  
it applied -- I believe it  
applied to some  
decommissioning reserves  
that they recommended were  
too aggressive and we  
incurred -- through  
decommissioning that we  
concluded would be removed.

>> Spelman: gotcha.

just one quick  
point of clarification.

What you're doing right now,  
these points that you're  
going through are all  
identified in what I think  
we have as appendix a --  
we've several received  
several times.

I'm referenced it as  
appendix a and -- a little  
easier --

>> thank you.

Yeah.

If this is redundant to you  
guys, if you guys have read  
this -- my sense was there's  
a perception that there was  
a whole lot more conflict in  
the euc than I believe there  
really was.

and I didn't  
want to suggest that i  
thought it was redundant or  
that you shouldn't go  
through it.

It's a lot easier, because i  
know it's a lot of  
information, at least for  
me, to have it in front of  
me as you're walking through  
it.

>> Gotcha.

and  
one more question.

>> Sure.

you  
mentioned the sustainability  
office should also be either  
not funded by austin energy  
or placed under the control  
of austin energy.

I believe that's correct.



So I remember at the time the sustainability office is not that old, and when it was established the idea was that it be not under the control of any of the utilities, august energy, austin water, solid waste services, so that they could be independent and make their recommendations and studies and efforts independent of the organizations that they were recommending about.

And so I just wondered if that factored into your thinking on that.

>> I think that makes total sense.

In that sense every agency that's governed by the sustainability office should be paying a share of those costs, versus austin energy paying 100%.

>> Mayor leffingwell: okay.

Gotcha.

Go ahead.

>> Mayor?

>> Mayor leffingwell: chris.

>> Okay.

The next one.

>> Riley: one last question.

Did you talk about the debt service coverage ratio?

>> Yes, we did.

I'll get there.

and you agree with staff on that, that the current debt service coverage ratio level is appropriate?

>> 2.0, Yes.

>> Riley: just 2.0?

My understanding is more currently some were closer to 2.7.

>> Yes, because we've been 0 for the last two years.

6, i believe, so I think there needs to be some catch-up there.

is there any savings associated with 27 to 2.0?

I mean, doesn't that knock something off the revenue requirement?

>> I don't know -- I'll -- I don't have those numbers.

don't our -- I'm sorry --

mayor  
pro tem.

just a quick  
verification.

I'm support of five of  
consensus and I want -- but  
I want to point out that it  
looks from our matrix as if  
there were various subpoints  
within this achieving the  
revenue requirement decision  
point, and that there were  
different -- different  
positions.

It looks like commissioner  
fast joined with  
commissioner day on certain  
subpoints, and as we get  
down to, for example, system  
sales and reserve funds and  
debt service coverage, it  
looks like it was not a 6-1  
vote.

>> Absolutely, and I'm not  
suggesting otherwise, but I  
am suggesting that if  
council is looking for areas  
of common ground on which to  
build a proposal, I think it  
makes sense to start by  
looking at where was there  
common ground at the euc  
level.

>> Tovo: okay.

So you weren't meaning to  
suggest that there was  
consensus around debt  
service coverage, some of  
the subpoints related to

debt service coverage and some of the other cials.

>> What I'm saying is out of the 27 other issues that we marked through and voted on, on 21 of them we had a vote of either 7-0 or 6-1.

Coffee coffee and one of them -- one of the 27, though, was achieving the revenue requirement, which seems to be broken down into a series of subpoints about which there was some disagreement beyond 6-1.

Is that right?

Am I reading this correctly?

>> Yeah, I'm telling you the first one on the achieve revenue requirement, with the motion that I just described to you, that passed on a vote of 6-1.

okay and that was strict ri the collect refuse nuls from all -- news -- revenues from all customer classes, et cetera, et cetera.

>> In the amount of \$11 million.

I guess we'll let you proceed on although it looked like mayor pro tem had a question and maybe we can nail down to the system subpoints, which are

subpoints of this first  
decision point.

>> Absolutely and I intend  
to address those.

I want us to start from the  
perspective of where do we  
have consensus rather than  
starting from the  
perspectives of where do we  
have our conflicts.

>> Tovo: I understand that.

I'm just trying to keep all  
our ideas here.

Okay.

>> Mayor leffingwell: sheryl?

I just wanted to  
follow up on council member  
riley's point that we're  
going to drill down more  
into debt service coverage  
we might do that then, but i  
thought that our financial  
policies, and I'm not sure  
that's in our report,  
required us to at least have  
a 2.0 debt service.

>> Yes.

That's correct.

so are we in  
violation of that policy?

>> We have been the last two  
years, yes.

Okay.

I'm just -- all I'm going to do, I'm going to go through the items where there was consensus.

I'm going to can the rest of my opening statement and I'm sure later on it will come up.

The next one is to set policy bounds on customer class alignment and with cost of service, which was to set the residential, secondary [inaudible] less of 10k w in lighting customer class charge at 95% of cost of service and set all other customer classes at 104% of cost of service.

So that means that residential and secondary voltage, the smaller users were set at -- they would only pay 95% of the cost it takes to serve them.

Everyone else would pay 104% of the real cost it takes to serve them.

Our motion was we concurred with austin energy on a motion by commissioner smallhoff, seconded by webber.

That passed on a 7-0 vote.

At the subsequent meeting i will say commissioner day did request that her vote be changed to be reflected as no.

But let me tell you the importance of this item here.

There is a lot of discussion about base load, intermediate peak, how do you calculate the cost of service, base load intermediate peak versus average, excess demand.

I'm sorry, I'm a bit of an outcomes-oriented person.

When you look -- when you apply this formula to the cost of service methodology that the staff recommended, the average excess demand, the result for the residential customers is that they're paying 7/100th of a penny more per kilowatt hour than they would if you use the base intermediate peak formula.

So when I heard that I became a lot less interested in debating the theory of base load intermediate peak versus average excess demand simply because the overlay formula that staff applied brought residential customers so close to what it would have been anyways, what a waste of time to sit around and talk about theoretical issues regarding cost of service.

>> Spelman: mayor?

>> Mayor Leffingwell: bill.

I hate to  
interrupt your flow, philip,  
but --

>> no problem.

this is an  
important point, I think.

You're talking about  
residential customers,  
basically whether we use 95%  
of aed or 100% of bip, it's  
the same number, basically?

>> Correct.

are there some  
other classes that are going  
to be paying more or less as  
a result of movement from  
bip -- or the difference  
between bip and aed?

>> I know small commercial  
users using the -- this  
formula, are paying less  
than they would if you used  
bip.

>> Spelman: okay.

My apologies for being so  
pedantic but who's paying  
more?

>> Large commercial.

>> Spelman: okay.

>> Industrial.

Who else is paying more.

Yeah, I mean, it's really  
every other class except for



residential and small commercial.

>> Spelman: okay.

So again --

>> so those are being subsidized and everyone else is paying the subsidy.

but the subsidy, we're only talking about 5%.

>> 5%, Yes.

at a maximum point.

>> Yes, and I will point out that we had an interesting discussion at euc about if we wanted to alleviate the impact of the rate adjustments on residential, maybe what we should do is change the 95% to 90%.

And I -- we asked the folks who were testifying on behalf -- on behalf of the large commercials that question, they said that's a possibility to explore.

They were more interested in exploring that possibility than they we abandoning using average and excess demand as a methodology.

>> Spelman: okay.

>> So I think there's some room for compromise there.

>> Spelman: okay.

Briefly, as you understand it, why is it more important to keep aed plus or minus 5% than to go to bip?

What's the value in that?

>> There are -- honestly, i don't really know.

I know the representatives of the large commercial users and the industrial users are very committed to having the aed, and I think it becomes a political question more than anything else.

>> Spelman: okay.

Even though, as you put it a few minutes ago, under aed plus and minus 5%, they're probably paying a little bit more than they would under bip, and the residential customers are paying just about as much as they otherwise would.

>> Correct.

>> Spelman: thanks.

>> I think one of the issues from their perspective is it brings austin energy in line with most other utilities in the state.

>> Spelman: right.

>> And that allows them to do better comparisons between austin energy and other utilities.

the theological point of view bip may make more sense but aed is used by the state for the most part.

>> Right.

>> Thanks.

4 on this list was to mitigate impacts within customer class.

No residential customer electric bill below 1500-kilowatt hours should increase by more than \$20 a month on average and transition nondemand secondary commercial customers to demand rates.

The euc position was to concur with austin energy on a motion by webber, secked by smallhoff, passed on a 6-1 vote with day voting no.

This is an important issue to consider regarding the affordability of this rate case, but the underlying tenet is if you're below 1500-kilowatt hours, you're not going to be paying more than \$20 a month extra, and the people who focus on the percentage increase on the fixed cost I think are playing with numbers,

because the bottom line bill is just a \$20 increase versus the percentage increase of their -- that they're talking about.

I think that's really important to firm.

And -- important to remember.

And it's also important to remember that the proposal, the first two tiers of electric -- of residential electric usage the cost has actually been reduced from the current tiers, so how often do you have a product that over 17 years the cost has actually been reduced for the first two tiers of usage?

I think it was pretty impressive.

The second -- one quick question on that point.

If you have a \$20 cap for that one class, how does that -- are they still in the 95% -- are they still at 95% cost of service after that's applied?

>> Yes, and that's the whole underlying structure of the rate proposal.

By using that 95%, we're able to accomplish the fact

that if you're a small to moderate user of electricity, your bill will not go up by more than \$20 a month.

well,  
I would like to see a little more analysis of that, i mean, what's a person using 1,499-kilowatt hours versus somebody using 1,501 -- what the difference in their bills were.

>> Sure, and staff -- i mean, they have produced probably four or five scenarios of different bills for all the different types of users.

That is there.

That's available for you to look at.

I don't have it available at my fingertips.

>> Mayor leffingwell: mike?

what I'd like to see is the impact to customers who are lower income or heavy conservation customers who would see 100% increase or significant increase in their overall bill as opposed to just this \$20 cap.

Some of our customers may be consuming less energy and only see a \$20 or less increase, but it could

reflect a higher percentage of their overall bill on a monthly basis.

>> Yes, on a percentage basis you are correct.

and that to me is significant.

Specifically, if you're lower income, \$20 may not sound like a lot to you, but to some folks it is, and so I just want to see those numbers -- before we start throwing out --

>> I understand.

-- adages that say it's only 20 bucks and nobody will go up by 20 bucks, I get that.

For me that's not a big deal, but for a lot of folks it is, and I would like to see the true impact of that.

>> I understand.

Yeah.

Okay.

>> Tovo: mayor?

>> Mayor leffingwell: kathie.

>> Tovo: I completely agree.

To me that's not playing with numbers.

I think we've heard from lots of customers out there for whom \$20 is a hardship and it does represent a significant percentage increase, and that's, again, as council member martinez said, it may not for many of us in this room that may not be an issue but for tens of thousands of people who are served by austin energy it is.

You made a comment about rates going down.

I didn't completely understand the last point you made about --

>> when you look at the lowest two tiers of rates for the rates for the first -- I believe the first thousand kilowatt hours and up to 1500-kilowatt hours, but I don't have my numbers right here, those rates, when you compare them to the existing rates that are now being charged by austin energy, per kilowatt hour, are being reduced, are being proposed to be reduced in this rate case.

>> Tovo: okay, thanks.

>> Mayor leffingwell: carol?

so under what you just said I'd like to know if this is possible through conservation or other measures because you're

using so little energy, for you to actually raise your rate but lower your bill.

>> I'm not following the question.

well, we have a lot of weatherization programs, and what I understand you to just say, when you get down to low numbers, you know, a thousand kilowatt hours, the rates go down.

>> Well, let's remember, the average user uses about a thousand kilowatt hours.

The average user.

So that is not so low.

>> Cole: okay.

So is it possible, and i just want to put this in the range of possibilities because I mean, I know we're all concerned about raising rates and what impact they have on our customers and especially low income customers.

Is it possible for us to target in such a way the very low income customer that is also a very low consumer and conservationist so that although their rates go up, they're not seeing this type of increase, or less of an increase, or even no increase in their bill?



Because a lot of times we're talking about rates and we haven't lined out, you know, all the different kilowatt hours and what the average is and what the average could be under different scenarios, but if we focused on being able to say we're going to meet you halfway, if you meet -- we're going to meet you halfway with conservation, we're going to meet you halfway with education, and we need you to continue with that conservation even more so.

And we've got a possibility here of even raising your rates and still lowering your bill or raising your rates and your bill is going to be \$5.

>> Mike webber, utility division [inaudible].

Some data with that.

As a part of the concern for what might happen to poor users or people who don't have a lot of money is a doubling of the programs.

[Inaudible] rate cases is a lot more money to help the customer with bill management, spreading bills out over many months, weatherization, energy officials.

So what you're asking for is already incorporated into the proposed rate structure.

It's -- I won't say it's 4 1/2 million but \$9 million.

So substantial increase in investments to help lower rate users deal with the -- is it possible for us to run that scenario to say we have -- and I don't believe we have it now or else council member morrison would have pointed it out already.

[Laughter]  
is it possible for us to run that scenario on what we expect the increase of assistance to be, what we expect or have seen with the weatherization increase and then what we are about to do on a lower income customer?

>> So I think the increase is already built into everything we voted on and everything you've seen, so there's already an increase of investment for customer assistance, for example.

What that will do and whether people take advantage of it I think is scenarios -- I don't think we know exactly.

So part of it would be letting people know, hey, there's more help if you

need it, we have more help with weatherization, more help with bill payment programs.

So austin energy already does that.

We'll have to do more of that because there's more funding available for that support and that funding has been doubled particularly because of euc and other concerns that lower income classes will be hit by a rate increase.

And so there's money to deal with that.

And I think a point that philip was trying to make also in there, that there is -- there's a big difference between low use and low income.

They are not the same.

A lot of low use people received [inaudible] because they have solar panels and I'm not interested in looking out for his financial interest but the low income low users as a class can be helped for these other programs that austin energy is -- double the amount of money for that.

we can focus on that later, but I'm

particularly intood in the  
low use low income.

>> In that program, they're  
double, specifically for low  
use, low income people.

>> Well, I think we need to  
watch out there because i  
believe a lot of low income  
people are in very  
inefficient homes, and it  
makes it very hard for them  
to actually be low use when  
they tend to be, in fact,  
relatively high use, and i  
think that's a changing  
phenomenon that we're  
witnessing.

and I think we need  
to focus on both before we  
actually land on the number  
of the increase, because if  
we're able to focus on low  
use/low income and see what  
we can do for that customer  
class in terms of a rate,  
and then we're able to focus  
on high use, low income and  
what we expect to become --  
or we need to go forward  
with weatherization for that  
customer class, then I'm not  
so sure that the push-back  
that we see on the rate that  
we've adopted we can  
actually challenge more  
whether it's necessary for  
your inability to pay.

>> Tovo: mayor?

--

there's

two people in front of you first.

But if I could respectfully suggest that we limit our comments during the presentation to questions about clarification, otherwise, we're going to be time limited this morning, we might not have time to get to the minority report.

So it's just a suggestion, and I think it would be a benefit to all of us to try to get the entire presentation before we begin a generalized discussion.

With that said, laura?

thank you,  
mayor, point well-taken, and just for my own clarification and as we work through this, there's some additional information that would be really helpful for me to have because i understand the considerations that have been made and the recommendations for low income folks, that one of the differing pieces of information I've been getting has been about what is the average usage of low income folks, and it would be really helpful if we could have an estimate of the distribution of usage of low income people because our responsibility, while we need to move toward

mitigating these rates for low-income folks, I want to have a realistic assessment of what the reality of the impact is going to be, because even though we're doubling the cap investment with the recommendation, that really only goes from one-fifth to two-fifths of two-fifths of the people that need it.

So that distribution would be helpful.

>> The day that we've been -- data we've been given to address that issue show use and consumption and the data I've seen indicates that the average energy consumption for low income people, people that are participating in programs that the utility is actually higher than the average energy consumption for people who are not participating in those programs.

and data that we were given last Thursday said that the average for low income was much lower than the average for the state.

From a very reputable person, so we just need to get all that sorted out.

>> Mayor Leffingwell: Kathie?

I concur with your suggestion.

I'm getting a little concerned we may not have an opportunity to hear from minority members of the euc but also I want to remind my colleagues that we have a good number of other people in the audience today who have offered to be here to share their testimony and some of them do work -- [inaudible] knows a lot about the customer assistance programs and we have others, so if we can kind of proceed and hear from everybody but then sort of move to the issues in a way that -- as we talked about initially, work session rules will not take general comments from the public, only those listed on the.

that's what you've listed.

I'm not sure that everybody has the list in front of them as to who is available to speak, so I just want to point out, we have a representative from the school district here to speak to that.

We have josh houston and McCALL JOHNSTON, WHO CAN Speak to the impact of the rates, and some of their suggestions in terms of congregations.

We have carol bejitsky and linette a cooper, who linettea cooper can speak to revenue requirements and a variety of other things in great detail.

Carol can talk about -- we have other experts available to us too.

>> [Inaudible] looking at low income, high use.

There's not one reason.

Some of it could be due to energy inefficiency, which is -- there's a process by which that's being remedied through monies and austin energy is out there trying to help retrofit.

Another could be size of family, and another could be just wasteful use.

So, you know, because of whatever the family -- the individual family is doing, as far as their own appliances and everything else and lifestyle.

So I think looking at this, you're not going to find one answer to the whole thing, but there is a -- built into the rate cases, commissioner smallhoff put it, [inaudible] as far as what is due to housing stock and try and mitigate as many bills as possible.



yeah,  
I think that is an important  
concept to keep in mind as  
we go through this.

This is not any kind --  
there's not a direct  
correlation between income  
and usage.

In fact, it may be exactly  
the opposite.

If you're very wealthy you  
can afford to invest in the  
kind of things that would  
reduce your usage where if  
you're not you wouldn't be  
able to make those  
investments.

Judy?

>> Mayor, in the interest of  
time, I'm judy flare.

May I suggest that you have  
the decision [inaudible] and  
if you want to ask questions  
about any of them, do so,  
and otherwise I'm sure  
there's a whole lot more  
dialogue that needs to take  
place.

that's  
a good point, and -- but,  
smant is making his  
presentation now and we're  
going to try to get through  
that and go to a minority  
presentation and hear from  
some of the other folks that  
are on this list here, and  
then engage in a general  
discussion.

So as quick as --

>> I'll talk about -- I'll just talk about one more and up up's the dais.

13, apply residential customer charge.

The city staff recommended raising the [inaudible] central customer charge from \$6 to \$15 a and to remove this portion of the charge from variable energy charge.

Euc voted to condition cower with the residential rate adviser and instead elected for a \$12 customer charge with additional fixed charges of the a line extension hook-up fees, and that passed on a vote of 6-1 with day voting no.

This is the kernel of unbundling your rates.

The city council has asked austin energy to reduce through energy conservation, reduce usage by up to 800 megawatts by 2020.

That is a great goal, but that is a very difficult goal to accomplish.

Austin energy's current capacity, generating capacity, is 2700 megawatts, so you're essentially telling this company, reduce your sales by roughly 33 to 40% in the next eight years.

What owner tells their company to go out and reduce sales by over a third?

And how can you possibly afford to do that?

That -- we're pointing the utility in a direction where they're going to lose substantial revenues in the next eight years.

I'm sorry, really quick question, michael, if i could just -- I'll just put this on the table and you don't have to address it, but maybe think about it as a part of the fixed fee, did you consider -- did you write any scenarios on the concept of including within that fixed fee a certain number of kilowatt hours, 2 or 300, something like that?

>> Absolutely, that was commissioner fass's suggestion and I think the euc as a whole wouldn't have a problem with doing that.

Let me tell you why in the end we didn't go that direction, or what I think is a reason, and that has to do with transparency.

The euc went through six months of increasing transparency for austin pricing and policies being and we thought it was more intellectually honest

and more transparent to the rate payers if we say this is your fixed fees and these are your variable fees.

If we open the door to saying there's an area here that's somewhat fixed and somewhat variable, that door is going to get opened wider and wider in the future, we believe, to where it's going to be hard for people to track what's fixed and what's not.

But the concept was fine, but it was the issue of transparency that led us to say, probably won't work doing it that way.

more  
discussion on that concept  
to follow.

Laura?

>> Absolutely.

I have a quick  
question for you.

I think we all understand that the fixed costs are the lion's share of the utility's expenses.

Was there any discussion about target for the percent of revenue that would be fixed, overall, out of the \$.1 billion?

Was there a target set?

>> That was dictated by the cost of service study, which broke things into category of fixed versus variable, so that's an empirical question, and when the studies were done on the cost of service there were some expenses that were fixed and some that were variable.

To say that 2 it should be 60 20/80 is variable --

>> you're saying the proposal should essentially match up that the variable expenses will be coming in with variable revenues and the fixed expenses will -- so it's -- it should theoretically be 100% aligned with --

>> that would be the objective.

It's important to keep in mind the large chunk of one's bill is variable cost and it's fuel.

So it's definitely not the case that the majority of the utility's expenses are fixed.

Roughly half of the budget ends up being fuel.

>> Since we've got a number that is like \$45 for residential customers and fixed cost, and right now

\$6 of that is recovered -- the current rate structure, the austin energy proposal is to cover \$15 in fixed form and we passed 6-1 it would be \$12.

The average cost I believe is -- what i summarized is incorrect.

It's not 100% alined.

There's a judgment made as to how much -- just as we deal with the water utility, we know that it's more than -- it's not aligned with the --

>> it's not -- -- with the breakdown so there is a judgment call.

Do we have an idea of what percent that that proposal brings in in terms of fixed?

>> My recollection is that roughly half of the fixed costs that could have been recovered if we had been strict in the economics are what came through to the proposal here as the, you know, fixed customer charges.

Roughly -- it's roughly half of what it could be on a pure model.

>> Let me just say that by -- by increasing the

fixed charges you are opening the door for austin energy to really be a unique utility in the country in meeting its conservation energy goals.

If you don't do that I'm afraid you are, in fact, closing that door and going to make it very difficult for them to ever accomplish those goals.

On top of that, the rate proposal has what would be the most progressive inverted block rates in the state of texas so that the highest energy users would pay the most.

The people that are saying it's backwards or sideways or whatever I think is missing the value of unbundling these rates and getting this energy utility to accomplish the goals that you have set forth on energy conservation.

Let me just say one more thing on the revenue requirement on the issue of the utility needs to be more -- treated more as a utility.

We really need to be careful that we're not trying to -- we've got four -- we've got two commissions, we've got the city council and we've got the city manager who all oversee austin energy, and i

don't think either one of them does it effectively.

You're being advised by a volunteer board that meets once a month to review a \$1 billion a year corporation.

I think we need to move off of that and to have a discussion on the best way to manage this utility, and in that connection I urge you with regard to the revenue requirement not to do it on a political basis.

We've had four separate financial analysts review the revenue requirement, and they've all come back and said, it's correct within a few percentage points.

I mean, two of them had some quibbles, but very, very minor.

I think it's extremely dangerous for some of us to start putting a finger in the air and say, well, maybe we'll [inaudible] 50% of the revenue requirement or 60%.

That I don't think is a responsible board of directors of a utility, when you've had four independent analysts review it and advise you.

And I'll stop right there.



further  
questions?

>> Philip, when you all were talking about the fixed charge, did you look at practices of other texas utilities?

Some concerns have been raised about the prospect of austin energy becoming an outlier on the spectrum of fixed charges applied by municipally owned utilities.

>> Absolutely, we will be an outlier, and that's actually a reason to do it, because this is -- we need to do things differently than we've done things in the past.

If you continue to force austin energy to recover its fixed costs by the sale of energy, well then, guess what?

They're going to try to sell more energy.

They're not going to try to cut that back by 800 megawatts.

They will not be able to do that.

They won't be able to financially survive.

at our hearing  
last week we heard some concern about the prospect

of the puc reviewing the rate case and in particular the notion that the puc would not look kindly upon fixed charges that are so far out of line, to the rest of municipal utilities in texas.

>> I can't advise you what the puc will do or not do.

I can advise you on what i think is the right direction for this utility.

And if puc slaps us down, then the puc will slap us down, but I do think it's the right direction to get this utility to meet the 800-megawatt goal.

And in the long run, the people who are complaining the most about this i believe are the ones who will be benefited the most because they will be saving a lot of money by avoiding expensive generation, by building new generation.

If we can, in fact, reduce 800 megawatts, that's 800 megawatts we didn't have to build.

That's a great long-term investment.

[One moment, please, for  
]  
so in my world, this was a whole new world, and i

didn't know anything about it.

She came on board, september 1, with the euc rate case, and then december we had the city council rate proposal.

But anyway, I will follow barbara.

>> And I think barbara is out there somewhere.

[No audio available]

[10:52:23]

[no audio available]

[10:56:10]

>> I'm sorry to interrupt you, but I have to announce that your voice is not coming through on channel 6.

Everyone of course here in the chamber can hear you loud and clear, but we're working on it, it's technical difficulties type thing, we're trying to correct it, but I wanted to make sure that everyone viewing at home didn't think we were just sitting here twiddling our thumbs.

So go ahead.

>> Mayor, could I interrupt?

Barbara, thank you for that.

I know this seems to be a critical fundamental issue from a policy point of view, and I wonder if there is some way that staff and various members of the public could help us sort through this.

What is the real difference?

What is the impact?

And help us understand that not right now, but I think it's a fundamental issue, and it's a philosophical issue also.

>> Agreed.

And when barbara gets through with her presentation, I assume everyone has this list, we can call on anyone that you would like to call on.

>> And I plan to address that too when I get to -- thank you.

>> Sure.

[10:58:00]

[No audio available]  
it has become apparent now that the school [inaudible] to the low-income, one of the other members spoke, [inaudible] council should take plenty of time to look at.

..

Future expenses and the historic adjusted downward revenue, and I think that needs to be looked at much harder, and the -- I think the solution to that is to redo the revenue requirement part using 2011 test year.

That would be a complete year of operation through ERCOT, and use actual numbers.

The revenues from system sales, which means Austin Energy's home customers have been adjusted downward in the original case that was looked at by the EUC, the adjustment downward was 6 million, and they did that through a, quote, normalization of weather, by saying that 2009 was an extraordinarily hot year and it wouldn't be normal or replicated in the future.

Well, we know that is not true because of what happened this past summer.

But surprisingly, when the case was filed in December, with council, that number with us adjusted by -- was adjusted by \$20 million more.

So now they have adjusted the system revenues down by \$29.6 million.

No explanation.

This no carrying connect 57600  
actual revenue that Austin  
energy realized  
was taken out of the total  
revenues because -- and the  
argument was that those  
sales wouldn't necessarily  
continue.

So there's --

>> they didn't represent  
normal operating, because  
the weather was extreme in  
2009.

That was their rationale for  
it.

>> And as you pointed out,  
you know, we had the same  
situation this year except  
the number was 30 million.

So the revenue was lowered,  
the forecasted, instead of  
using actual costs, they  
used forecasted costs  
because they were switching  
to the nodal market, so the  
costs were not exact.

They were forecasted costs  
and then the off system  
sales of 2009 were also  
adjusted out.

So is that --

>> just about--

>> -- simplified version of  
what you said?

>> It is in general, but there are some slight differences.

One is that although the original weather adjustment 6, austin energy, when it refiled the case in december with you, with council, they increased that 6, so they've adjusted even more revenues out for weather adjustment.

I don't know why.

They did not say why.

And, yes, the off system sales were also adjusted out.

They removed \$33 million from the case that was at the puc, and they've increased that, and removed now another ten million dollars, they've removed \$43.8 million.

So revenues are understated, and expenses are overstated, and the expenses that are overstate really not due to the nodal market necessarily.

>> And so the --

>> but, yes, the principle that you are stated is correct.

>> Commissioner davis, to get to the bottom line of

that, in 2009 we had more revenues than we're considering here, and fewer costs that are being considered here.

>> Yes.

That would be correct.

>> And so that -- that is -- those are numbers that factored into the revenue requirement which is the basis for the rate increase.

>> Correct.

>> To get back to what the mayor was saying about, you know, whether or not it's appropriate for us to look at the revenue requirements, I would say absolutely we should be looking at the revenue requirement, because as you've shown through this point, but also some others, you know, those are the bases for how much revenue we're trying to collect through a rate increase, so if those numbers are wrong, we're in danger of increasing individuals' rates beyond what we actually need.

>> Yes, I think that is correct.

And the residential rated a visitor's latest report to you -- I'm sorry, december, I don't know the -- I think it's maybe 19, he has



pointed out in that report this very phenomenon, not with numbers, but the principles of it, and he has pointed out, and stated a concern that austin energy has used forecasts and projected numbers for expenses but have not projected revenues for corresponding period, and --

>> I believe lara has a question for you.

>> Thank you, mayor.

Sorry to interrupt, commissioner day, I just want to -- the points that you and summarized by councilmember tovo are making, I think it's critical we put those in context, because what you've listed is potentially, let's see, 60, \$70 million in understated revenue, and the total amount that we're working on in terms of an increase revenue that we're looking for is I believe 101 million or 124 million, but then you take some off for the underreported.

But anyways, about 100 million, if you found \$70 million under the table, that would decrease the extra amount of money we need to get with this rate increase to 30 million instead of 100 million.

That is a significant difference, and I know that there are other -- so that would have -- that would hugely change the proposal that we would be looking at in terms of rate increases and fixed fees and all of that, and the additional issues to consider here are have we chosen the right debt service coverage, because that folds into the revenue requirement.

Have we appropriately identified what our reserve funds should be?

That also folds into the revenue requirement.

Whether our capital expenditures should be as heavily cash financed or not, and whether we should be looking at a change in impact fees.

So I whole heartedly agree with you, mayor.

I think that this is absolutely the fundamental driver of why we're here in the first place.

>> Leffingwell: Thank you.

And I just want to say -- emphasize once again, I'm not saying a is right or b is right, I'm just saying this is a question that we have to resolve and we have

to gain consensus on what that resolution is.

>> I agree.

And it's -- it's not only -- I mean I think it's so important because it has such a significant impact on our future actions.

>> Leffingwell: Go ahead, barbara.

>> With regard to the debt service coverage, that is another area that is driving the revenue requiremen and, and it has been state bid austin energy that -- they stated I guess three different ways.

They've stated at one point that they've only achieved 66 time coverage in another place within their filing they stated they 81 time coverage for the same year, so there's something going on with the way it's being calculated.

I was hoping that the auditor would be looking at that and I don't know when you are going to be hearing from the auditor on that, but I am very hopeful that he has looked at that and will be looking at it.

In fact, your bond covenants, the bond issuance 57600no carrierringconnect 57600

nobody  
that I'm aware of at this  
point is suggesting that  
your bond coverage should be  
lower than two times.

That is with -- that is your  
range.

That is the stated financial  
policy, and I think  
everybody has come around to  
accepting that you should  
have two times, but austin  
energy newest filing in  
december to you has included  
37 times, and  
then I think in the third  
44  
times.

Now, remember that your bond  
25  
times.

And the rating agencies  
consider that 25% bump up as  
a cushion, but you have  
chosen to be conservative  
and go with two times, which  
is very, very generous, and  
it is a conservative number.

But austin energy has  
produced in this filing the  
revenue requirement they've  
37 and then  
2.44 in the third year.

So another way to look at  
this is to scale that back,  
make that calculation, and  
that was included in the  
memorandum that I sent to  
councilmembers.

>> Leffingwell: And  
barbara --

>> played out how it's down.

>> Leffingwell: Barbara,  
for planning purposes, we  
have a couple of other  
people, your shooting wants  
to say a few words also.

About another ten minutes or  
so, if you can plan on that,  
so we will have time for  
discussion before we  
adjourn.

>> And then what I would  
like to jump to are the  
charges, and then I will  
pass it over to trudy.

Customer charge is currently  
\$6.

The euc has recommended  
doubles that to \$12.

For the 100 or so years of  
utility regulations,  
customer charge is a very  
small group of charges.

It's billing and it's  
metering and customer  
service costs of operating  
your phone banks.

And it's always been that  
way.

There has been no study by  
austin energy to show that  
those costs have increased.

In fact their filings shows that those -- that small group of costs has decreased.

So I see no reason to double the customer service -- the customer service charge.

In fact I see no reason to change it.

Austin energy is using it simply as a source of income and as a source of money.

But since it doesn't -- they haven't shown that those -- their costs for servicing the customers have increased, I'd see no reason to do that.

Again, it's a -- it's a rive charge.

Anything done on head count as opposed to usage is a regressive charge.

It harms the small user the most and sends the wrong signal as far as conserving energy, because people have no control over it by their usage.

The delivery charge, as i think the mayor's office has already pointed out.

We -- no other regulated utility in the state of texas has a delivery charge.

The only one that I'm aware of is pedernales, and it has not been appealed to the puc, so it has not been -- it's the only one that has a delivery charge.

Again, this is a very regressive charge.

It's done on head count and not on usage.

So if I'm using -- well, let's say that customer a is using 500-kilowatt hours a month, and customer b is using 5,000 kilowatt hours a month, each of those customers, under this proposal, would pay the fixed, flat fee.

And yet, the customer that is using 5,000 kwh a month is using much more of the distribution system than customer a is.

And so it is inherently regressive and unfair.

Now, I understand the argument, well, we want to collect more of it in a fixed charge, because we don't want austin energy trying to sell more power.

But this is not the way to get there.

Definitely not the way to get there, because you are putting the costs on in the wrong place, and you're not

collecting it, as it's being imposed on the system.

You have -- austin energy has always collected the distribution charges in the kwh charge, and it should continue to do so, because that is the way the cost is imposed.

And it imposes the costs on those customers who are imposing the cost on the system.

Now, somebody has talked about -- or a couple of people today have talked about, well, gee, the low-income people are not necessarily low-use customers.

They're actually high-use customers.

That -- I dispute that, and there was one -- I think austin energy put out one study on that, but I know that cooper and paul robins did analysis of that, and looked carefully at the low-use customers and the low-income customers, and came up -- came to a different conclusion.

So that I caution you not to take that to the bank.

That is in dispute.

That may be something else that you would like to have



really resolved before you make your final decision.

A final thing I want to say, and I have addressed this in a memorandum to you, but I was very surprised that Austin Energy raised its fuel charges effective January 1, and the increase on the residential class is 16%.

That is a pretty large increase, and in combination with a base rate increase is going to be very hard for working class people to accept and live with.

And I would ask you to look at the procedures that you have for supervision of Austin Energy on these fuel charges.

As I understand it now, Austin Energy itself makes the decision without coming to the EUC, without coming to council for approval, and while I'm not suggesting a particular procedure, I am suggesting that you look at this process and change the procedure because I think there needs to be some supervision.

We're at a time where fuel costs are dropping, dropping, dropping, and it's the gas costs which is usually a proxy or fuel cost for the utility business have gone down, so it's not

at all clear what is driving this fuel increase, and i think we need to understand that.

We need to have some supervision of austin energy.

They need to answer to council or to some representative appointed by council before this -- before changing the fuel factor.

I'm getting the idea that council is very focused on the impact and the practical in this, and I applaud you for that.

This cannot be done strictly on a theoretical basis.

We have to look at, and i know you are looking at the impact on all the citizens of austin, and outside the city limits.

But I also encourage you to look -- keep in mind very big picture if you have the right revenue requirement, you scale this request back, then you don't have to provide so many subsidies, because no one will be hurt as badly as the way austin energy has structured it now and is requesting it.

I encourage you to take more time to look at the revenue requirements and ask austin

energy to utilize a new test year.

Thank you for letting me participate on the phone.

(One moment, please, for ..)  
s.

>> -- 39% Of the total revenue and the commercials paid 40% and so even though they are many, many times more than residential than commercial, the revenue input is roughly equal.

And now look down to the fourth series of numbers, the cents per kilowatt hour.

6  
cents per kilowatt hour.

The commercials are paying 9 kilowatt hour and at the bottom, the industrials are paying 6 cents per kilowatt hour.

And that's -- that's mainly those long-term contracts that don't expire until 2015 and of course, that is another story, but the other thing is the cost of service modern dolg.

Methodology.

The other paper has three columns and we are talking now about cost-of-se methodology.

And this is something that meryl did us for, and I have known him

20 years and he used to do cost-of-service methodologies on his home computer in the late 1980's and he took two columns -- three -- no, two -- out of Austin Energy's comparison of AED and the key thing is the last column.

96% decrease and then it goes on down the way.

And the big story is those last three primary voters people under AED they get further reductions of 10%, 12%, 14%.

And that is what a lot of this discussion this year is about cost-of-service methodology because when they do rates for the 2015 increase, this is where -- and I say just give us 96% but if you don't address moth dog methodology today, you're going to be stuck with -- and then the next time you do rates, this is what they want and you wrote y'all a four-page memo, and I watched all five hours of it and the only person that ever spoke with methodology was the man touting AED and this is why, this is why.

And they want their foot in the door and they want y'all to say oh it doesn't make much difference.

You just use AED when it's wrong.

And in that respect, I asked our residential rate advisors, very recently, were you able to verify that the consultants properly did aed and bib and he said, no.

He said they kept changing the numbers and he was never has able to verify it and so I have three requests for y'all today.

One of them is to hire contract with a local consultant named diversified utility consultants.

They live here and they practice here, but they practice nationally and they represent only municipal and co-ops.

And they have helped us two or three times on past rate changes, in the 80's and probably the '94 -- I'm not sure.

And it takes an engineer and a financial guy to do this and you get the engineering data for each generator and then the numbers and the load curves and everything.

But diversified was one of the bidders on this contract, and i don't know anything about the staff evaluations but they were not recommended.

And I will say that all of these -- well, I would say 90% 0% of all the consultants that do rate cases they make their living off of representing investor-owned utilities.

That is where the money is, and these people -- I don't know how many there are, but they are wonderful guys and I haven't talked to them in several years and I'm not trying to make them to the commission or whatever, but if they studied the proper computation of these methodologies, I would believe it.

And until that time, I don't believe it and our rra told us that he was not able to verify.

And so I think that is very key.

Now, another thing -- and my second request is I wrote y'all a four-page letter because i could not come to that five-hour meeting and on the third page i asked for a study request of us austin energy to just make four charts.

And sheryl, and the other councilmen, you were told about impacts.

Well, in september we had a one-page chart of the rate proposal for all the classes and a one-page thing that showed the bill impact on the various consumption levels and those charts included fuel.

And so when they did the december proposal that came to council, they didn't have fuel; they just had the base rate numbers, which is better, but the bill proposal had rates on a chart and the impact has a

graph, and I would say if you would have them make four charts and use base rates without fuel and put them all on charts then I think you would all know what we were trying to talk about.

Even I would know what we are trying to talk about, because you can't -- you can't -- you can't assess this with so many different things.

And the december charts had a fuel price spread across the middle of it, and they didn't have fuel in the numbers but they had a fuel price three point something, and then about a week later they announced it 61 higher than whatever they had there.

And then my third request is to please allow the uc to go back and study more on time of use, rates, the small commercials, the religious facilities and -- so there is a -- the third question is that we now have a nondemand general service rate class.

That is the commercial people that use these than 20kw.

And so what I don't know is how many of them -- you know, there are 40,000 something commercials and I don't know how many customers are in that general service nondemand, and I don't know what type businesses they are.

I strongly suspect they are very diverse and they are little guys trying to get along and they don't have a lot of options about where they can do this or that.

They are just trying to serve the customers and make a living, but if we had a who many and who they are, we would have a better idea of what you're talking about, and the uc unanimously recommended that you start commercial demand charges at 20kw.

And so you have that class already isolated under another name, but there are no demand charges.

The demand charges also bring look something called a power factor adjustment.

And I don't know how many of those little guys there are, but I have a vivid picture of the wonderful people at austin energy trying to explain to the little restaurant owner or repair shop owner what a power factor adjustment and what a demand charge is and all he wants to know is what is the bottom line on my bill.

This utility lives and dies by its system load curve, its overall system load curve.

It's lower in the spring and fall and higher in the summer, and blah, blah, blah.



But these people -- those demand charges and power factor adjustments are to try to encourage the customer to improve their load factor.

And my contention is those little guys don't have -- they have enough diversity that they don't have squat influence over what the system load curve is.

And so now as far as religious facilities, we didn't -- we didn't talk about those and we didn't make a recommendation.

I listened to it and I think time-of-use is something very important.

And I don't know if we have time-of-use optional rates now for anybody, the residentials and I think small business.

I don't know whether it adjusts in the summer time or just on week days.

I don't know what the deals are, but there are different ways of looking at it.

And there is a facility -- as I understand it, all but the sanctuaries are already in the commercial rates and so these -- the sanctuaries that have services on Saturday or Sunday, and that is generally in the morning.

And they may have to heat that building the rest of the day, but if the load curve is lower

on weekends, I don't know whether it is or not -- if the load curve is lower on weekends, then you have time-of-use rates for week days but not weekends.

And we didn't talk much about that.

And I don't know much about it.

You need a lot more data and discussions.

And I've got, let's see, a few more.

About the fuel charge, I was shocked too, with natural gas prices in at a low to get that half-cent increase on january 1 and I do want to say that for nine and three-quarters years from 1988 until april -- yeah, january 1, 1988 to april 1 of '97 we had a monthly fuel charge.

It was a three-month moving average.

The actual cost.

They had the last month we got the bill, we knew what we spent and then a forecast for the next month and then they adjusted it by what they estimated, over or under the previous month and so you were getting actual charges.

What we do now is we overcharge -- it helps some people in the summer, but some people would object to knowing that austin energy is being big

poppa and overcharging for fuel  
so you don't have to pay as much  
in the summer.

I'm not going to get into that,  
but anyway, there is such a  
thing as monthly fuel charges  
that we could find out where  
this came from.

Residential rate design, in this  
letter I wrote.

And I've talked to larry weis  
and I think he agrees with it.

And I've talked to the mayor,  
and I mean there is a good  
possibility that instead of  
that -- we want a fixed dollar  
customer charge and instead of  
the delivery charge we want what  
I learned this from austin  
energy in september, a bundled  
charge -- a bundled charge, and  
it's so many cents and it covers  
whatever it ought to be.

In september they proposed a  
bundle charge for the first 300  
kilowatt hours at \$30 fixed  
charge.

Well, I looked at my bills for  
the last two years and half of  
my bills were less than 300 and  
so I used to save 150 or not  
over 200 but that way, it may  
not be as transparent as our  
wonderful chairman likes to talk  
about but it could effect the  
bottom line of a bill and thank  
is what most customers look at  
and I would recommend the bundle  
charge at not more than 200, i  
think that is a little high and

I think we can go back to the 201 census and find out how many thousands and thousands of unoccupies dwellings there are in our service area that maintain electric service while trying to rent or sell the house and a few people are on long-term overseas and they've been getting away with a \$6 customer charge and hardly any usage and so they have just had a gravy train for all of these years and if you had a bundle charge it would probably be 19 hours of whatever charge you get and that would take care of the unoccupies dwellings.

>> Commissioner, I have a question about that.

You're suggesting that the delivery charge would go away --

>> yeah, yeah.

>> -- And be replaced by that.

>> And the city could get its fixed numbers, and probably an even 19, and they want -- 23 [inaudible] and they do 19 or 20.

20  
at 200 and if there is one person living in a small dwelling in an apartment or house and they don't have air-conditioning but have lights and a refrigerator, a tv, lighting and some fans and i don't know how much they use.

And that is what we are talking about.

>> And I wondered, do you have any other thoughts philosophically speaking about a delivery charge --

>> oh, I'm totally opposed.

I use my house as an example.

We built our house in 1965 in a little subdivision in a neighborhood and the last house, and when we moved in, the wires or down the street and the wooden poles were in, and what they were saying is this was to pay for what you put on the system.

If I had been paying \$10 a month since 1966 to deliver my electricity, now I know that is extreme, most people are not as blessed as I am to live that long, but what these fixed charges [inaudible] type ratepayers are being asked to subsidize and it's the same issue.

Barbara didn't talk about it but on debt service coverage, austin energy does 50/50, and your financial policies say you can do anywhere from 35 to 60% cash versus debt.

Well, most people think if you did 40/60 instead of 50/50, that is how much cash you would save every time you go out and build a new gas turbine or substation

or you know, a high-dollar capital improvement.

>> And just to be clear, that is a part of making up our revenue requirement --

>> that's right, that's right.

>> Okay, thank you.

>> [Inaudible]

>> yeah, yeah.

I think I'm through.

>> Thank you, appreciate that.

And before we go to questions from the group listed here, i would like to give other duc members an opportunity, some of you or all of you.

>> [Inaudible] study this not not only austin but throughout the nation, and one comment is about the revenue needs and how much we need, and this is actually not a number we are going to figure out.

All you can do is predict and guess and come up with a model that makes sense and the answer is rough any \$100 million plus or minus.

To be honest, we are like from zero to \$200 million --

>> you're not helping us --  
(laughter).

>> But the point I want to make is we are arguing about whether the revenue needs have been overestimated and I think we have underestimated because natural gas prices could double and we could have a power plant or stp go off line for environmental or other events and we could have other new environmental issues kick in, and [inaudible] a cost of some sort.

We have potential downing of lines due to hurricanes and all sorts of things that I could think of that would cost tens of millions or hundreds of millions that are really not a part of the conversation.

And I worry that we are underestimating.

And I don't think we are overestimating.

And I just want to make sure that you hear that.

Another piece and I want to give a four-year perspective and when I first joined four years ago, roger duncan said we are going to run out of money in about three years and a year ago he said we are about to run out of money, and now he says okay, we are really running out of money.

This is like a slow-moving train, and we've been warned for a long time and it's very predictable that the revenues are not going to be there

because of rising costs like the cost of health care and things like that.

[Inaudible] I don't think we're going to come up with a really good number in all honesty and whatever number we come up with will be wrong by tens of millions and we should accept that and I think we need to raise revenue.

And another issue on the table [inaudible] I think that is the fundamental philosophical question at hand.

Our only plan was invented about 100 years ago and it's what has led us to -- run out of money.

If this is the plan that the whole nation uses it's not a very good one.

And [inaudible] energy efficiency -- these are all novel things for the business model that bring on efficiency and they have better financing and they are cheaper in the long run because it avoids expensive power generation -- mark.

And if we think the rate increases are expensive, piecing buying power from the market is even more expensive and building is -- than many of the obvious choices that a traditional business plan goes through and it's also traditional goals and a mix and smaller -- that is the n model and it has rate adjustments in it.



The older models make us bankrupt and also putting austin energy in the middle of the pack -- [inaudible] philosophical fundamental question -- I'm pretty convince it's not working and i say that not only as a team member, but we are grappling with the same issues.

-- Natural gas -- retail prices are going up.

There is no question retail prices are going up nationally but they are not only a function of pricing but smart meters and new poles and all of the other things we are debating.

Retail rates are going up and wholesale is dropping and we are a part of that revolution and we have to figure out if we want to lead on that or not.

My last comment is recognizing how this rate plan makes a lot of people very angry and it was arrived at in a very deliberate and slow process but I want to remind including us on the uc this was the least ire we could come up with, and if we -- it's going to make other people angrier.

And I hypothesize that what we have now is a least angry mix.

And if you know what I mean -- a lot of people are angry but then in we shift things around to subs this or that class, we

are going to make other people angrier.

And so this is my thoughts on what we've been through [inaudible]

>> thank you, I appreciate those points, and what I'm hearing you say about you know, changing the business model, none of that really addresses if I understand you correctly, the issue of the [inaudible] or was there something implicit.

>> It doesn't address it, the different models address peak costs differently than other models and the residential and the commercial consumers are where we see the largest -- with the large industrial -- so they have different exposure on the calculations of the cost and whether you care more about total or peak consumption depends on whether you're worried resiliency rather peak problems and the commercial and -- [inaudible] driver of the base consumption.

And this methodology affects how your pricing -- load versus user -- and then the new business model is more peak oriented and you're putting higher real-time prices and we are not debating yet but the newer models that open up the door for real-time prices impact 00 in the afternoon users more than -- [inaudible] hope I answered your question.

>> I think I got it.

Aed is more about incentivizing a flat load, flat usage where this is more about identifying the use of less --

>> I don't know if they are incentivizing but they are looking at costs and looking at what the actual costs are today.

And I think -- they produce roughly the same answer, and i don't think there is a huge departure in all honest, and i don't see much difference -- again, they kind of give the same answer --

>> but it looks like some of the information that that is not quite true when you look at businesses costs and we'll leave that for later --

>> I think the industrials are far more sensitive to this and see how they are hit by the assessments more than the others --

>> well, some -- gains, that is one of them -- [inaudible]

>> different.

>> Karen, can I make just a quick comment in front of the fellow engineer?

>> Yes.

>> In my day, if somebody gave me a number that was specific to digits, I would assume that

number was very accurate, eight of those digits were very accurate, and I'm wondering if it's that much of a stab to \$100 million, if it's plus or minus \$100 mi shouldn't that be somewhere in the equation?

Would you care to comment, and i engineer and I'm only a b.f.

>> And we all know what b.f.

is -- when students turn in a paper to me with a number bar and no arrows they lose points, and so error bars are not required as a part of the assessment.

I believe probably the first two digits, maybe 110 million, or 90 million, but I don't believe the next seven digits.

I think it's a pretty big error bar, but it's not a part of the assessments to include that, and they added up the cost and they had a clear methodology, but they are not clear error bars.

>> Okay.

>> -- Nine digits.

It's the ones on the right that are accurate, it's the one on the left that you can't count on.

>> I have a question.

>> Feel free to use it.

Michael, we have had barbara largely contradicted what philip said and I think it's something that we've been hearing so many contradictory statements and hope that you can help us to move the ball forward in terms of what I can say about this and that is that the whole business needs more than we've been giving it, and so how does this work.

>> So let's call austin energy a drug pusher.

They selling drugs, electricity and the more they sell the more they make and in addition you have fixed costs.

If they had their fixed costs covered and their revenue was based on existing as opposed to how much they sell, they intention to sell would be lower.

The more they sell, the more money they make and if we give them more fixed charge, their incentive to sell is lower and that makes they can make money selling efficiency or conservation and could be a financial stakeholder in the process and a winner.

Right knew they do efficiency by a social mandate but it's a money loser for them, but not exactly.

Because they make their money based on sales.

And if you recover more for fixed charges they don't have to be a drug pusher anymore.

>> I think I understand that and I think most people would understand that wonderfully from the suppliers side, how about from the demand side.

>> If you prepay for your drugs you are going to consume more, and if you make the fixed costs too high, its does not -- [inaudible] and so if the actual fixed recovery costs are \$45 per customer and you charge the whole thing, people say i prepaid for \$45 and I might as well use it all, and so actually you have higher fixed costs better for the utility and worse for the consumer and at the present you don't find the accommodations -- pretty good compromise to that, one that brings on some of the conservation measures --

>> would it be accurate to say that my choice of how much to conserve -- whether I turn the thermostat to 72 or 74 should be driven not by my total bill but by the amount I'm paying for the difference between 72 and 74?

>> It depends on the information that the consumer has, most are driven by total bills but if you have a higher fixed charge and start to see more clearly what is the connection between your decisions and your bill, especially if it's hourly, and so we are almost there, and

people can start to -- but the estimates will be clearer i think.

>> In the way that the rate structure before was set up you pay fewer cents per kilowatt and that increases as you go further and further down and the conservation argument would be that last kilowatt hour is the expensive one and if I back off, that is going to reduce my bill by more than if it was just a flat fee all the way through.

>> What we are missing is this inverted block structure which has good incentive for conservation and it will be good for the grid but also not just the worse generator [inaudible] it has better than marginal -- better than average marginal benefits for the environment and resiliency and cost.

And so we can get -- fish ti of efficiency o utility -- save money in the long run -- I guess that is good news --

>> probably is.

Going to be more effective for people with large consumption like the industrial and commercial --

>> yes.

>> And I don't know the answer to this question which is why I'm asking and I don't know if you know the answer either but seems to be that a lot of the

value that inverted block structure comes only if we can make information available to consumers as to what the consequences of their decisions are.

Right now I don't know what that looks like.

Is there something on the horizon --

>> giving real-time information to the consumer.

Right now when you get a bill, that is consumption from 45 days ago and your payment is not in the time of your actions and if we get that real-time it's must have closer in time and so people can recognize oh that decision is expensive, I will do my laundry later or set my thermostat lower.

And what it looks like is you give more information to the consumer and better thermostats exist, and -- it's like at the gasoline station when you're putting gas in the car you watch the money particular, and we don't have that with electricity and that would solve a lot of problems, if people had that information, they would figure it out quickly and save money.

>> I have it like the theory on my telephone.

Don't touch that dial, you're about to increase your monthly bill by \$10 or something.



Is that likely to happen any time soon.

>> We are not debating that piece -- part of the new business model -- set the stage for that to happen -- real-time pricing -- where we are headed -- within two years if we want it to be, and we are a national leader -- [inaudible] we would like to keep that going but that structure, a big piece of that puzzle --

>> so even if that inverted block structure is not before us today, but it's not just of academic interest.

It would actually have practical value once you can get the information in people's hands which we are likely to be able to do in the future.

>> It has practical value -- public health benefits this is the most important thing we do in terms of the resiliency of the grid -- real economic and public health value to the inverted block structure.

>> But to be clear, the inverted block structure is before you --

>> one of the few parts that is not controversial.

>> That correct, and we are just celebrating that we have it --

>> I'm with you on that, thank you.

Sheryl?

>> Thank you, I just wanted to go back to the inverted block structure, I think they have something that says -- forgot they started that -- do you see us being able to do that because I think 99% of the people that are angry, they are not just angry proposed rate.

They are angry because they cannot figure out what is going to be on their bill.

And because you can budget for it -- I mean, take it away from very low income customers and I think the premiss that oh, \$15, \$20 is not that much a lot of it is I can't deal with it when I don't know what it is just like I can go get a full tank of gas or I can go and get \$5 worth of gas.

Is there any plan -- could we do it on a pilot basis --

>> I think the only approach to that is the suggestion from the public of possibly slowly introducing the higher rate structure while people are getting used to it and while the numbers are coming home to roost.

>> Inverted blocks have been done in dallas and irvine, california and that itself is not highly controversial, that utility roll-out, in austin for water, and it's been done, and I don't think it needs to be

piloted because it's not necessarily that novel, although I recognize that [inaudible] i think we need to slow it down and make it less confusing --

>> so how long does it take to roll out the inverted block --

>> rate case.

>> We have had an inverted block since 1981.

The first 500 is cheaper year round and then it goes up and above 500 goes up more in the summer than it does otherwise, ..

>> Very quickly, we've only got about 20 minutes left.

>> I don't think that we need do it on any kind of a pilot basis.

It's a very good message to people, but remember that it doesn't have to be done in combination with a fixed charge.

By itself, it does the job.

>> Okay, thank, kathie has a question.

>> Yes, I wonder if it's appropriate at this point to move beyond our list?

It seems to me from the comments that I have heard that the inverted block structure is not what is causing the controversy, that there is a lot of support for that, as I think everybody

has spoken to it today has talked about it how it is a value to increase conservation and decrease usage but I think there is -- I have heard controversy about whether the fixed fees are so high that they get the inverted block structure off track.

cooper  
who is on the list might --

>> I'm sorry --

>> thank you.

>> Okay.

>> Speak and then we'll go to speakers.

>> I drew the short straw and so I'm going to bring up a difficult topic.

I've been on the aec to four years.

I want to talk about the question of transfers from the utility to the city because it's kind of the large elephant in the room.

A large number, I'm coming up with roughly \$150 million a year in 2009 time frame and other folks have come up with \$170 million.

That ends up being roughly double the national average for transfers for a publicly owned utility to its city.

And this is a very large number.

This number has been growing at the rate of between 5 and 10% per year for as long as I've been involved and it goes back quite a ways further than that.

One of the effects of this -- I'm looking at the utility and noticing two major problems.

The first is that reserves at the utility have been drawn down.

I saw 257 million in reserves and it's probably going to hit zero and that is roughly \$50 million a year of drops in reserves and it hasn't been going to pay for the things it was intended for.

It's mainly been traferred into the city budget, and revenues are running roughly 10% less than expenses and the issue is that the expenses and the fixed overhead of dealing with transfers to the city are very high.

And I guess I want to make sure that you understand that it's totally possible to reduce rates for any class that you would like to have, but there is a limited number of places where those dollars can come from.

You could take a dollar from the transfer.

You could take a dollar out of the generation plan and climate

protection, or you could have customer pay that dollar, and that is how the dollars are going to be working and I realize these are policy and political decisions but the level of transfer is extremely high and we have been talking for years about it and it's up to you to make some decisions about how you want to proceed, but complaining about rates, you're also complaining about the level of transfers because the level of transfers is in part driving the rates.

If the utility needs an incremental 100 or 110 million, whatever the number is, keep in mind that the transfers to the city budget for utility are roughly 15 170 million and it's dwarfing the size of the rate increase.

>> I understand what you're saying and I've been saying for this for years especially the fuel charge which has become such a big part of the total revenue, 35% plus, is that about right?

>> Roughly any two-thirds of the transfer are implicit in the general fund transfer --

>> I'm talking about the 1%,  
1% is off of gross revenues which includes a pass-through charge basically that is about a third of the total.

And I think we have to address that.

And that being said, address the entire issue, but I don't think that it's practical to consider addressing it in one year.

We need to get on track to start making that adjustment but it would be I think traumatic to our city budget to try to take \$150 million out of it in one year.

Mike?

>> Just I want to agree with you on that point.

I do appreciate the recommendations that counterso come in regarding the transfer and understand that we need to contain our costs but we also need to understand that is a benefit to the citizens to own our utility.

If it was a public company, that would be passed on to the shareholders and here the citizens of austin are the shareholders and we are the board, and if you want to cut that, tell me which 15 fire stations and which 20 libraries you want to close but that is the reality of where those funds go, they pay for critical city services.

Not all of them continue to be justified.

We have to ween ourselves nzs in some regard but there is a benefit to owning a utility and I don't want that to be lost in treating it as a business, but because not only is it a corporation but it's an asset to the citizens.

But I just wanted to keep that in mind.

>> I couldn't agree with councilmember martinez more, and also we get those resolutions every year and not only -- there are sources of revenue that we need to make -- that are available to the city for park, for library, for police, and for fire, and for sidewalks.

It's sales taxes which we cannot control and it's property taxes and user fees and it's a transfer from the utility.

So that is a very real hit when we talk about not making that transfer, and I don't think it's any of this conversation -- and I am so glad that keith has brought this up and we have really put on the table the pull push-pull of this decision, that it's not only about raising the rate or only about austin energy.

It's also about all city services.

Thank you.



>> Okay, so part of what I'm going to say is a bit redundant but let me reshape this.

First of all, the rate increase is necessary and there is a counterintuitive mission going on here.

Austin energy is no longer long tasked with selling as much energy as possible, it's charged with cleaning up the environment and the air by selling less over time.

And so saying that we can just grab the money as it comes is tough on the utilities and there has to be in my eyes some recovery of fixed charges to acknowledge that as more energy is distributed and the costs put on solar panels on people's homes, austin energy doesn't own the physical plan to get a return on investment.

There has to be a way for them to recover the charges that are out there and established.

And even the residential rate advisor indicated this needs to be reworked.

Right now in collecting money off of a pass-through as every acknowledged it is on the fuel charge is akin to the government saying in I'm sorry that your inventory costs have gone up but we are increasing taxes because of it.

Austin energy is not making money from the fuel.

And I don't think there is an argument that there is a place for a general fund transfer.

It has to be fair and has to be sustainable and has to be, just from an accounting stand point, legitimate.

And I've been on since '09, and by the way again, bernie, the commissioner, sorry.

>> [Inaudible]

>> but before I came on board they were also trying to get the city council to acknowledge the need to rework it and we received absolutely no response and I think that is why the voices have grown louder because we felt like we were being ignored.

The whole issue with the general fund transfer is a part of this.

Paying money as if they are making more profits which in fact they are not and the other gso and other city services another 50, 60 million in expenses and the argument over the legitimacy of the expense is an issue of where it's coming from.

The issue in the past has been that it's prop ae to share the bulk of the burden because we they are getting more customers and -- so since it

benefits the public at large,  
this is the main thrust behind  
the argument that it needs to be  
sitting in the general fund.

How you pay for it, obviously is  
a difficult thing.

All right?

That is why you're paid for your  
job more than i, but it is an  
issue that the fact that it's  
been done incorrectly is the  
past is no argument to continue  
doing it that way, and so that  
is the discussion there.

\$50 Million to \$60 million above  
and beyond the funds transfer  
chunk out of the 126  
million that austin energy feels  
it's fallen short.

I believe if these issues are  
addressed, if there is actual  
work being done on reformulating  
the general fund transfers, if  
expenses are allocated and shown  
in a proper set of books, one,  
the people who are not living  
within the city of austin will  
you are serviced by austin  
energy that are threatening to  
take this to the tec, that will  
mitigate a part of that  
argument, and if a serious  
effort is made by council to  
address that, I think the tec  
will look more favorably on  
whatever we are trying to put  
forward, and at the end of the  
day, austin energy is going  
through enough to cover expenses  
wi taking the political  
flack for something that is

beyond its control, which is how the city takes the funds.

And so putting a task force to get this dealt with and I will bring up the methodology.

I think a number of us agreed -- well, first of all, we questioned when austin energy was supporting this and then changed its mind at the last minutes.

I didn't get an answer I was happy with, but when the residential advisor showed at that point there was not much of a difference at the end of the day that is why I think we decided to agree with going forward with that methodology.

There is certainly room to argue going forward and I'm willing to consider my decision in light of new numbers but I would just ask the city council to aside what it brought up seriously pern may .>> may I just say a couple of clarified at the public meeting and -- gave -- customers per square mile in the versus austin.

And the -- general fund transfer, that money outside of the transfer, part of it is what they call shared administrative expenses and austin energy legitimately owes its proper share of administration, ip,t, vehicles, and find out what all they are, but the allocation factors have never been very clear.

We've asked about it and we scuttlebutt that a few years ago they said we have to have examine amount more and we'll fix it next year and that never happened.

So that is something you need to look at.

Whatever our proper share is, ought to be charged but not more than our proper share.

>> I agree again that this is something we need to be doing and credit for several years just happened to be coincident where a major recession swept the country and we have not been able to make that adjustment and it's --

>> [inaudible]

>> we are the easy cash cow.

Well, we could use a couple of others.

>> One other note on redoing this on the general fund transfers recalculation, all of the shares that energy does is based on what the definition of the revenue is.

And if the argument that I'm using is that the revenue that is being used is not correct, that skews everything else that austin energy is saying whether it's for shared expenses and anything else.

And so if we can get a revenue number that is correct and supportable, then I think the argument over what our percentage share of those expenses should be will be dealt with in a more supported way going forward because it won't feel like we are being sacked.

>> Totally agree.

And kathie -- I think everyone has had an opportunity on the commission to make remarks and you had a question from one of the other folks on your list.

>> I do, and now I have another question for these guys and I'm aware that we only have eight minutes, six now.

If I could just ask for a quick answer.

We have heard a lot about the audit and we have received it but not had an opportunity to discuss it -- you have had an opportunity discuss it?

One issue that I had like a quick answer and I think this is a subject for further discussion, one of the items in the audit is a common sense one that austin energy be asked to reduce expenses particularly in discretionary spending.

Have you as a commission had an opportunity to determine the degree to which that has been implemented in the years since the audit --

>> absolutely not.

We only received the audit in the last week, and we didn't even know it existed.

And to the folks overseeing austin energy, the city manager, had that report, but we did not have that report, we are very interested readers but my take-away is different from your take-away.

You could just as well say that that report shows that austin is spending too much on reliability.

>> Sorry, what?

>> On reliability, and the report makes that statement, that maybe austin en should be spending less on reliability, more on.

>> And just a point of clarification, I'm still determine what is my take-away is, but I think we should discuss it as a council and thank you -- the question I was asking earlier about is the vertical block structure and if cooper is willing to provide input, that would be useful.

>> [Inaudible] -- pull that mic up really close.

>> We've talked a lot about cost allocation but the cost allocation we've been talking about is how much each customer

class to have to pay for the utility.

Rate design is the cost allocation within the residential or the commercial class and that is one thing that is really missing here.

A lot of the statements I've heard is there is this assumption that all residential customers are alike but it's contradictory because the next thing they say is we need inverted block structures.

I passed out this exhibit at the rate hearing and it shows the rate adjustment impact on the residential class and it tells several things.

First of all, austin energy says it costs more, costs more the more we use.

Well if you look at this, when they say the bill is the cost of service, they are saying that large commercial customers cost less on a cents per kilowatt basis than small users.

That makes no sense.

That is a 1960's mentality, large users cost more and the only way you can show that is i have highlighted one of the sections that says estimates kilowatt u per month because usage and kilowatts is the same, it's just a different side of the coin.



Usage is how we look at it and how we want it, and kilowatts is how the utility looks at it as what we need and so it's the same thing.

And there is no other customer class -- except lighting which is always this weird stepchild, no other customer class is being asked to pay a fixed distribution charge.

Why?

Because usage is a responsible cost driver in distribution costs.

If we were just to take the current proposed small business distribution charge, which is about \$2 a kilowatt hour and applied it to this chart, what we would find is someone who uses 250 kilowatt hours as a business customer would be charged about \$1.

Instead, austin energy wants to charge them \$10 and they are not the ones driving the huge costs into the distribution system.

The residential class was assigned based on kilowatt usage means that the bigger users have a lot more cost to be assigned to the residential class, and so who was in the residential class should pay for that increased cost?

Well, it should be the people who cause that cost to come and that is the large user.

Now, I gave y'all a memo, I'm not going to go over it, there are like six or seven other reasons why I say you should not have a fixed distribution charge.

It doesn't make sense.

And here a another one.

On december 14 -- stood before you and said low load factor customers are more costly to serve than low load customers.

Small users have high low factors and large users have low lode factors and when I asked for this study, they have not done them within the commerce class, they are once again assuming that every kilowatt hour a customer uses is the same cost to the system when it's another contradiction.

Load factors are more costly to serve and they should pay more.

And another assumption, they keep on talking about fixed cost.

Well, that is a five-year planning horizon.

We should be look at incremental costs this is why we have energy efficiency.

We want to keep the usage the same or the lower if we can get it.

And I looked at the historical data and the oldest I could get was 2003 and if you compare august rates with august 2011 you see there is a 20% increase because of fuel and I agree that is one issue that y'all should be looking at more seriously because I'm very concerned about that, but the second thing i found very interests is they took last year's kilowatt use this and for 2002 the average user was 1303 and for 2010 it was 1336.

36 More kilowatt hours and if you compare february, what you see is that actually in february 2003, less kilowatts were used -- well, in 2002 -- that in 2010.

And so we are a very weather-oriented customer base.

I'm not trying to discount that but what we are trying to do with energy efficiency is make that more consistent and bring ta load factor better, and it doesn't help by having a rate design and if you look at the billing analysis that creates a declining block rate until we get to about 1500 kilowatts.

Until you get to 1500 your bill on a cents-per-kilowatt hour declines.

And this is why I think we need five tiers.

I don't know how much clearer i can be, but I think we have one

of the most prerogative rate designs in the country.

I think it's a good one and you might want to consider adding a another tier, I five is very confusing and the last time you look at your telephone bill it's just very confusing.

You try to keep it simple for people -- and if you want your customer to really understand it, I think breaking out all of the costs is really more confusing and I think it hides our efficient a company is and i think that is another problem of breaking out all of the costs.

Another big problem I have with the rate design is because of the special contracts, we have some that continue the old way and they want to c some of those and I'm concerned that that may be a situation where we'll be moving more costs and we'll be bearing more of the costs for what the industrial should be paying and I hope that you look at the rate design because they have done significant changes in the rate design.

And I don't know if I have anything else --

>> thank you.

And I think you make a really good point about the complexity of billing.

I know my telephone bill is five pages and it's hard to stumble through that, and I don't think you want to get into that.

>> Mayor.

I have a question.

>> Sure.

>> One of the things you mentioned in the enormously long public hearing last thursday --

>> nawb.

>> [Inaudible]

>> in five and a half hours i think I missed a few things but one of the things I recall hearing you talk about were hook-up fees and whether they have too high or too low and what they should be.

>> They did not look alternate at many of the rates that affect people and particularly people of low income.

One thing with advanced metering is we should be seeing huge reductions in customer costs because automating that, and so why is the customer charged that when the automation should make it significantly less and we should certainly get rid of the same day connection, disconnection of \$50, and there are a lot of folks in austin making \$10 an hour and that is half day of fee because they could not get the money that

week before the disconnection notice, and that to me is a problem but they did not look at the disconnection fees or the impact fees and I think those are very important fees because austin's new business model is asking current rate payers to pay for future development.

More so than they have ever done.

When the utility started out we had a debt equity of about 80/20 and that is a good thing.

And if you were a private investor they would not have dead equity, there is no construction in progress that rate payers pay, unless a utility shows they are financially distressed.

And so you have to put all of the construction costs in the rate all right through dead debt service and then it becomes important to see are we using current rate payers to pay for tomorrow's service and we are in we have debt service that puts a whole lot of current cash in and so I agree with the commission that we need to really seriously look at this debt service.

And in their past spending, at paper 14, since 2006 even if we use 50/50 as a cut-off, they spent \$67 million more in cash and so they are coming here telling you they are starving to death but then you look at how they are carried throughout

financial policies and even under 50/50 they are spending more.

So we need a efficient utility that cares about their rate payers and that puts the future costs on future rate payers.

This is an important issue of their financial policy and their rate design in making sure that current rate payers only pay for their fair share of the cost of utilities.

>> Thank you.

And obviously we're going to have a lot more public testimony, the next public hearing is scheduled for the february 2 council meeting and i think there's least an outside chance there may be public hearings beyond that.

With that, thank you all for coming today.

I think it's been very helpful and useful testimony.

Without objection, we stand adjourned at 12:37.

[Rumbling]

Announcer: What if a disaster strikes without warning?

What if life as you know it has completely turned on its head?

What if everything familiar becomes anything but?





So if you're here for that,  
we will not be discussing  
that this morning.

The first item of business  
is to go into executive  
session.

And without objection of  
council, we will go into  
closed session to take up  
one item, pursuant to  
071 of the  
government code, the city  
council will consult with  
legal counsel regarding the  
to discuss  
legal issues related to  
austin lifecare for city of  
austin and the roman  
catholic diocese of austin  
and the city of austin.

Is there any objection to  
going into executive  
session?

Hearing none, the council  
will now go into executive  
SESSION. 231][v:tv][C483]

[09:42:00]

[Rumbling]

Announcer: What if a disaster strikes without  
warning?

What if life as you know it  
has completely turned on its head?

What if everything familiar becomes anything  
but?

Before a disaster turns your family's world  
upside down,  
it's up to you to be ready.

Get a kit. make a plan. be informed today.

>> We're out of closed session.

In closed session we took up and discussed issues related to item .

Now we will move to council items of interest, and the first item is discussion of potential times and locations for off-site public hearings on proposed austin energy rates.

I beli does everybody -- rudy, he's here.

Does everybody have a copy of potential items for council retreat?

That's the next item.

I want to get that passed out.

Then let's talk about potential times and loabsz for hearings on proposed austin energy rates.

The council retreat item is second.

Any comments on the austin energy rate discussions off-site public hearings?

>> Tovo: You want to talk first about locations?

>> Yes.

>> Tovo: I don't know have feedback on locations but I want to talk about decision points we

need to make space for as part of the council discussion.

>> Cole: Let's land on times and locations.

I think it's important we have locations around the city, in particular I think we should try looking at our timetable.

Larry, can you go ahead and come up?

You might be able to help us.

I know we haven't set a date to vote, but -- assistant city  
MANAGER michael McDonald?

>> One of the things, as you deliberate on locations, one of the things that will be important as you deliberate in having it in different locations throughout the city is whether you'll want to televise it or not.

Then, of course, very certain locations that will probably present challenges to us versus other locations, you know, that are city facilities that may be equipped to help us along those lines.

That's one of the areas you may want to think on as you decide.

Once you get to specific locations, we can weigh in as to let you know what we think is accomplishable or not.

>> Cole: I would like to suggest we consider austin community college because they have all the media equipment that we have and I don't think that that would run nearly the cost of what we sometimes continue plate of doing off campus, and they have large facilities.

So I would like to direct staff, as long as it's not -- I mean, without objection of the rest of my colleagues, to look at the austin community college east view and to look at austin community college south, i believe it's called the pinnacle, and we can bring up any other locations after that.

>> Morrison: I would like to suggest that wherever we have off sites they be televised.

This is so important across the city.

>> I would agree with need to be televised.

Council member martinez?

>> Martinez: Does anybody have any idea how many we'll have and what days?

I'm curious as to what peoples' thought process are.

I firmly believe we should go out into the community and hold these input sessions and town hall meetings and briefings, but when you start talking about the

pinnacle and east view campus,  
obviously, somebody will get  
left out.

Where do we stop?

Do we go to runburg, northwest  
austin, the delco center?

Where is there a stopping point  
in at some point, we'll have to  
make a decision.

>> Are we not using first names  
now that lee is gone?

>> I'm practicing!

>> Morrison: That's a good  
point.

One of the things I'm wrestling  
with is not only does it make  
sense to get input from  
different parts to have the  
city, but, also, you know, i  
think that there are, as kathie  
mentioned, there are specific  
nitty gritty things we need to  
talk through, having received  
the input.

You know, you have about six  
broad areas I think that are  
policy areas that are embedded  
in this, so I don't know how  
that plays into moving around.

Do we want to have the  
discussions as part of the  
hearings or are those going to  
be separate discussion times for  
us?

>> Mayor pro tem.

>> I think we should be talking about timing.

We're scheduled to vote on SEPTEMBER 22nd.

I don't think we'll be ready as a body or community to make those decisions on february 2.

It might make sense to have internal discussions or work sessions around policy discussions around decide what our long-term gain is.

Are we going to ask for revisions and then come back and have public hearings or do we want to continue to have public hearings around a rate proposal that we may all agree need very significant revisions.

So to come extent it might make good sense to have focused policy discussions as a council.

But I think we need to give the community a sense of our time line and whether it's still on the projected vote on february 2.

>> I'm pretty sure we moved the february 2nd date to a final vote.

>> We've not done that as to date.

It's set for february 2 but we can certainly do that.

February 2 is the next public hearing with potential action.

That's on the timetable, but we can certainly shift that as we're feeling we need to continue this discussion.

>> Morrison: I wonder if we could work backwards a little bit.

If my goal is to make sure we have some kind of rate change in the budget next year, whether it be an interim or something that's proposed but adjusted, what's the last time period that you can get approval from council and still get that implemented in the system for next year's budget?

>> General manager, austin energy, larry weis.

That's a very good question.

It depends on what time, so it's good to answer that question.

I want to make sure we don't encumber the public process and the decisions to get there.

We have a new billing system that's up and running and in place, we have the -- the timing is part of our plan.

We would have liked to have gotten it before the summertime, but it depends on the rate structure design a bit, what the timing is.

So right now, all we have on the schedule is a place holder for

the 2 of february and one for  
THE 9th.

>> Sorry for interrupting.

It's not for next budget cycle.

It's ideal to implement it  
before the cooling season.

>> So the rate structure as  
proposed could be implemented --  
the reason I'm thinking back is  
when we talked about adjustments  
to the water rate structure, the  
building couldn't handle that  
it.

There was going to have to be  
changes and that was going to  
delay it.

If we were just to do  
adjustments to the rate  
structure now or adopt the new  
rate structure, all of that  
could be implemented before the  
summer and I presume that there  
would be a deadline of the final  
numbers you would need out of  
council.

>> Right.

The last question that I asked  
of her cc&b team at austin  
energy for the building system  
is is there any dependency on  
the timing for the new building  
system to do it and the answer  
was no, the new building system  
is ready when the rates are.

>> If we passed a new rate or  
interim rate by march, would



that give you time to get it running on the billing system?

>> I would have to check on the date.

As far as I know, there isn't any impediment for a new billing system.

>> I was wondering what the delay would be between when we passed the rate and when it would be up on the billing system.

>> I don't know the answer, the timing or the actual days to take it to make it happen.

>> We'll get the answer to laura's question.

>> And one last thing, if we want to do it before the summer season, what's the start date?

What's the goal for that?

>> I would want to confer with the city manager on that to make sure we have the information for you.

>> But it appears there is leeway beyond february 2?

>> Yes.

>> Great.

>> I think that our goal all along and the timing of all the rates was to try to get them in place.

That's behind our schedule is to get them in place before the cooling season.

>> Yes, and I remember that, i apologize.

>> I just wanted to add to kathie's comments.

I think she makes a really good point in there's a healthy balance between public input and what austin energy has taken back from the input and what we are contemplating from a policy standpoint.

So it could actually help answer a lot of folks' questions in their minds out in the community as opposed to having, you know, an eight-hour public hearing, when we already are hiding in a certain direction, we're already thinking about certain things that's on the public's minds, so I agree with kathie that there should be some good, healthy policy discussions with austin energy staff and among us as council members in anticipation of going out and hearing furtherer from the public so they will know what we're contemplating and what direction we may be heading and maybe ease some of the tension out there.

>> Maybe we can come to some conclusions if you would talk to the city manager and try on thursday during your quarterly briefing of the financial report for austin energy to let us know based on what you think is the

financial position of the utility, the deadline that we need to make a decision, we would appreciate that from you, just like you suggested the 2nd and 9th, there was rhyme or reason behind that, so if you tell us thursday what the date is.

It's wide open when you say before the cooling season.

Well, what are the financial implications of that?

When do you need us to make a decision?

Then we can back up into dates and how many places we'll go.

I think if we cover eastview and austin pinnacle, that's good, but there are additional places the council wants the go, we can, and we heard we want that to be televised.

>> Any other comments on austin energy hearing and rates bill?

>> I want to throw this out as a possibility.

Since larry is scheduled for a briefing on thursday and we have a lot of unanswered questions, would that be a good opportunity for us to ask larry and staff about questions about the background of the rates or should we hold that off for a different meeting?

I'm not sure whether it's a legal or a practical question.

>> I think the posting is pretty broad.

I think it's an austin energy quarterly update.

So I think my understanding of the presentation he gives to you covers a whole host of different issues and I think it would be appropriate if you had questions that related to rates from his quarterly update th I think you could ask those and have a discussion about those issues.

But I think the posting brought enough for you to have those discussions under that matter.

>> I think it might be a good opportunity for us to clear the air and at least begin the discussions we were talking about.

>> Cole: I'd like to suggest, either if we do it here or thursday, it would be --

>> Morrison: It would be helpful to have discussions with council going out and delineate topics that we'll address in each of the work sessions.

I don't know if the rest of my colleagues are interested in doing that, but I think that we, in addition to asking questions, if we can sit around and roll up our sleeves and delve in and make decisions about the revenue

requirement and all the pieces there and the general fund transfer and all of that.

So I'm not quite sure how we would create that schedule.

>> Okay.

Let me see if I can help.

We're posted today to give the quarterly briefings on the financials.

We're posted tomorrow to get that in audit and finance and posted thursday to get the quarterly briefings.

I think the posting brought enough to consider a number of topics, such as reserves out of service -- I mean, out of sustin, rate payers, and yang of much else that wouldn't fit in that if you want to quantify those and ask for those at a subsequent time.

>> And it's not that I want to ask questions about those.

I want us to have a focused discussion and I think it would make sense if we landed on some decisions about, for instance, how do we want to handle capital investments with austin energy, what percentage will we be using cash versus debt.

That's a policy discussion we need to have and it's not just a question and answer.

[10:44:00]

So I wanted to capture all of those topics every one thinks we should have and have a focus on each one.

Especially through the hearings, we have been hopping from topic to topic and not coming to what might be a consensus on how we want to handle each of these issues that then drives the rates.

>> I think the posting is fine but I would suggest to eektaably participate in that.

If you lay out a few items thursday you'd like to focus on for the next public hearings that we could have a discussion about or anybody could lay those out.

In autumn finances day, maybe we can divvy up the topics.

>> Tovo: I took a stab at information we heard conflicting information about in our public hearings.

I'll say that I've requested we have a short briefing about the audit.

I think that will inform our discussion and I'm told there hasn't been a grieving about the navigant report and there are areas where I certainly have questions and others may as well.

>> Let's hold that up till we bring up austin energy in the quarterly report and move to the council retreat, because we'll bring these guys up if you can stay right there.

>> Tovo: So don't want me to run --

>> no, public hearings and proposed locations.

>> Tovo: I thought we were mempleg merging.

>> No.

>> I misunderstood the agenda.

[10:46:01]

I don't believe we'll actually get a briefing today.

We'll get a briefing tomorrow at afc and thursday.

>> We'll have a briefing but it is posted on your agenda.

>> We bring it up but --

>> correct, but sit on the agenda.

>> We can talk about it.

>> It's item.

No 59.

We can talk about it.

We're not going to have a briefing.

Let's move on.

I hope everybody has a discussion of the potential locations and agenda for the council policy retreat.

The first one was from council member morrison.

Expectations of how the comprehensive plan will be utilized for policy, guidance and planning.

>> Morrison: There is a lot of effort that went on in the past two years for the comprehensive plan and theoretically that will be providing a road map and guidance to us as council as well as the community add a lot of the things we do for the next 30 years, and, so having worked through it in conference of planning and transportation committee, getting stuff going, and there is an implementation section of the comprehensive plan.

I think a lot of people have maybe different ideas about what it's really going to do for us, how we'll use it.

I thought it would be interesting if we could maybe make sure that we're sort of up to speed, number one, on what the "priority programs" are that are being recommended, what the implementation plan is and how we might see that play out in the way that we do our jobs as council members.



>> Okay.

I think that is a great idea.

The next one was from council

[10:48:02]

member riley, current council  
and committee structures.

>> Riley: A lot of our work,  
obviously, is in council  
committees.

In the almost three years I have  
been here, we've never stepped  
back and talk about what the  
committees are and how they're  
structure.

I think it would be interesting  
to talk about the committees  
we've had in the past, the  
current committees and if we  
want to consider changes as it  
currently stands.

There has been changes in  
membership and it would be  
helpful, as long as we're having  
a retreat, to survey the council  
members and see if there's any  
interest in adjusting the  
current commit as and we can  
talk about membership of the  
committees.

It's just something that the  
rest of the general public may  
not have mat much interest in,  
but we obviously have a real  
interest in that, and, so, a  
retreat seems like an opportune  
time to talk about that.

>> Thank you.

The next is encouraging development that provides community benefits and support, community priority such as housing and sustainability.

>> I think the description sort of captures the main idea and I'm -- I added another one, too.

And, you know, if we need to tighten up, we can certainly tighten up around this one.

But it struck me, as we talked about cure and the downtown plan, that it might be useful to have a more global conversation about community benefits and what are some of the city's priorities and how might we get there.

You know, in particular, I'm interested in affordable housing, and I know that's a stated priority of the council, and also family -- promoting family friendly divide and how we get to the point where we are meeting the city's stated goal of being the most family-friendly city in the nation.

So community benefits are one way of talking about those.

[10:50:00]

In general, it was kind of a broad discussion about sort of different philosophies about what community benefits we want

to encourage and how we will encourage those.

You know, what the different perspectives are, encouraging them from requirements on one side.

>> Thank you.

Any comments?

The next and final item was city support and collaboration of school district that fall within the city of austin boundaries.

Do you want to comment on that one?

>> Sure.

The city staff and the district staff have done great work at looking for opportunities of collaboration.

A few of those moved forward, and I think will be successful.

Some of the others are worth, i think, considering and talking about.

But this is designed to be an opportunity for us to get a presentation about that work through the staff.

I've done a pretty detailed matrix of opportunities and it would provide us with an opportunity to go through and talk about them.

Some things were returned as impossibilities for the city to participate in and I would like more information and an opportunity to talk about why those might be legally impossible or whether there are other opportunities out there.

>> Cole: Very good.

Laura?

>> Morrison: That's a great thing to consider.

If I understand you right, you're talking about the financial collaborations that were done.

I wanted to mention that, with our joint subcommittees that the mayor and kathie and are on, there is been good collaborations and we have opportunities of setting new projects to work on.

So I'd like to broaden this to include a quick rundown of what we have done to get the full council's ideas on things we might collaborate on.

[10:52:01]

>> Tovo: The other thing I've talked with our city manager with are discussions going on around use planning and the way the city and county and district might further collaboration in that area and that belongs in this area.

So it's a good opportunity to bring that up to talk about some of the successful collaborations that have taken place at joint subcommittee and potential for the future and maybe get feedback at which are priorities for the council.

>> Cole: Shows would be subgroups under agenda items we'll propose for the meeting.

Do you want to tell us the details of where it's located and time and place?

>> The location will be at the palmer event center.

We'll have a meeting room there.

Scheduled -- it's actually up for council action on 26th this week.

Item 18.

To move the date to february 29.

So that's pending council discussion and approval.

At this time, we're scheduled from 9 to 4:00.

We talked about a facilitator.

The facilitator is rubina jackson from group solutions.

>> Cole: Bill?

>> Spelman: We have a list of topics.

I wonder how bound we are to be circumscribed in our discussion.

We talk about the comp hence offplan and how to use it for policy.

It could open up individual department plans, lead us to talking about the capital improvement plan generally, it could lead us to talk about what ought to be on the bonds in november and wondered how careful we need to go stay inside these boundaries when we're discussing this.

>> Cole: Give that to legal because I think it's a posting

[10:54:03]

issue.

>> Morrison: What we would do to give you as much flexibility as possible is we would take these items here and try to broaden them so they aren't so specific to give you that flexibility.

So I guess, off the top of my head, comprehensive plans and any other plans related to guiding the city's planning or something like that.

So we'd have to work with them, but what we try to do is not to be so specific but allow you to have a very broad conversation about any of the things that ordinarily could be an offshoot

of those discussions you want to have.

But I think some of these are very specific and we will tinker with them to make sure that they are as broad as possible.

>> If we continue the specific conversation, that would be fine, but I can imagine one thing leading to the next.

All of a sudden we talk about plans and departments.

I appreciate that.

I would like for us to be able to do that.

>> I definitely think the bonds should be covered within that specifically.

I think the november bond election should be included within the comprehensive plan as council member spelman pointed out.

I would just be sure to check with the authors of the topics about whether details -- yeah.

Okay.

>> We will work with each of the council members listed to make sure we adequately captured the nature of the discussion they want to have with the council.

If there are other issues, send them our way and we will get them posted.

>> Okay.

That leaves us to other items on the agenda.

We've already had some discussion about austin energy

[10:56:00]

and I know that we want to have a lot of robust discussion while we're already here.

It would be my preference to go ahead and take that up, unless you guys -- and then go in order through the agenda.

>> Okay.

Austin energy quarterly briefing is number 59, but, larry, why don't you come on up.

Kathie, I remember you wanted to talk about that, particularly.

>> Tovo: Thanks.

I wonder if you could give us a short sense of what you will presenting thursday and if you'll have an update about the rate proposal and I wanted to have areas I wanted to highlight as discussion area.

>> Larry weis, general manager austin energy.

We did not plan on having a rates discussion thursday.

What we try to do in the quarterly briefings is go to the



resolution and what was passed by council, and that is to do financial update.

So we'll have an end of year financial report, and then the other part of it is our generation plan and where we are in a different generation pieces and components are.

So I know that, in that presentation which I was editing just as late as last night, there was our solar rebate program.

We have presentation on that, where we are with some of our wind acquisition strategy, and others.

So those are the only two components that we have in there.

But I also have a pret -- pretty cognizant a couple of questions might come up about rates and so forth, but we don't have anything prepared.

>> Tovo: It was my understanding there was a presentation last night.

Will you be prepared maybe thursday to tell us if they are having continuing deliberations about the rate proposal?

>> There was no presentation to the eeuc last night.

[10:58:00]

There was just an update about the calendar as to where we are.

There was also a discussion, some of the members wanted to have more discussion about the rates, but the year of the euc pointed out we're kind of past that now and what we need to work on is the calendar and where we are.

So I gave that update last night.

I didn't give a lot of specifics because, as you can see, we don't have those.

That's where we are with that last night.

>> Tovo: Calendar with regard to the rate proposal?

>> With regard to the rate proposal.

Specifically, I told them I have to sit down with the city manager and go over various options we're working on and, with his permission, and so forth, we'll figure out where we go next.

That hasn't been done yet.

>> Tovo: And I think based on our earlier conversation, do you think you might have an answer back from the technology folks by thursday about how quickly the turnaround time is for implementing a rate proposal?

>> From the technology?

Oh --

>> you will be able to tell us on thursday.

>> Should be able to by thursday, yes.

>> Tovo: As I mentioned, seems clear from my perspective we need more time on the raid proposal.

We've heard very compelling testimony from lots of different stakeholders and I'll just kind of get to what I see as policy discussions that we as a council might consider having in terms of thinking through the timeline and what it might take us to get there to a final decision.

Allocation methods is kind of top on my list for having a really in-depth discussion about the different allocation methods and whether or not the one that's been used in this rate case -- in this rate proposal makes the best sense and offers the most protection to different customer classes.

The revenue requirement is the second big issue, and then i broke this down for me into the areas that I would like to see more detailed discussion about debt service, reserve funds, whether low-income users use more energy or less.

I think there is conflicting information about that.

That, for me, relates very directly to fixed fees and whether or not fixed fees are a good approach or whether they are -- have too much impact on our low-use customers.

And then test year, what is the appropriate test year?

You used 2009.

We've heard some folks say there is -- that using post market test year might make better sense.

General fund transfer, I think we've gotten a lot of questions from the public, so I think it might be useful to have some discussions.

But allocation method, revenue requirement, and then underneath that debt service, rate funds, fixed fees and impact on low-income and low-use users and then test year.

So I'll just throw those out as some of the issues I would like to explore and I think maybe we can talk about a council about how we can carve out time in tuesday work sessions or quarterly briefing on thursday or create some other time for focused discussions around some of those issues, if they are -- if they are decision points for the rest of y'all as well.

>> Deputy city manager michael McDONALD HAD A RESPONSE.

>> I think the council member answered my question.

The list of questions and the list as we move forward, as you have your session before we go into the community meetings and you do your deliberations, those are the things you're wanting to cover, but, you know, there's no expectation on thursday for us to be prepared to go into all of that, is there?

>> Well, I think that probably these are all big enough discussions that we will want to break them down.

If there's a consensus among the rest of you these are topics you want to talk about, I would suggest we take them in chunks, debt service and so forth, in one discussion.

We might want to talk about it next tuesday because there is significant discussion in the navigant report.

The other thing I'm open to, i haven't completely figured out whether it makes sense to have another public hearing and talk about.

I'm open to either one.

We want a lot of public feedback at the rate proposal more than on the calendar at present, but I think we probably could make some decisions as a council that will reflect the public's testimony we've already heard.

To  
get us in a different position.

>> Morrison: I wanted to add,  
I agree with all of those as  
topics and maybe wanted to  
expand them a little bit.

Under the revenue requirement,  
I'd like to add the financial  
policy for capitol expenditures,  
cash versus debt, because i  
think that that apparently may  
be a driver for the revenue  
requirement.

Is certainly, the allocation  
method is critical, and I would  
like to make transfers a  
separate topic, because I think  
that the whole -- there was a  
very interesting report that  
really sort of eliminated the  
topic for me from fox and  
smallens (phonetic), is that the  
name to have the company that  
did the report under navigant on  
transfers and did research about  
what other utilities do and what  
happens with private investors.

There is a lot of complicated  
considerations there.

So it's the transfers to our  
general fund to, economic  
development, to the other  
special trams, and that gets us  
into a topic of rates for  
non-city residents, which we  
heard from representativeworkman  
workman and a discussion of  
whether to fall under the  
regular tier or the other one.

I would like to, as part of this discussion, if my colleagues agree, I think it would really make sense for us to ask staff to put on the table an interim rate proposal as was suggested by the residential rate advisor, because we do get into timing with the test year issue and perhaps other things in terms of special contracts being over and all of that.

So under test year and under timing issues, I think that, actually, starting a conversation about it doesn't make sense to have an interim would be important.

With regard to fixed fees, I think that that's a very important issue to discuss, and it's not just about, you know, impact on low users.

I think that, as per the water utility, we should really sit back and talk about do we want to have a goal of what percent of our revenues come from fixed fees.

We know that 57% of our expenditures are fixed, so how do we want to play that, and then how do we deal with that in term volumetrics, so that's important.

This might be too ambiguous, but I'm interested in how our plan for renewable and efficiency plays into and is treated by our rates design and how we need to take special care with that.

>> Okay.

I want to be clear that what we're kind of doing is teasing up from you guys the topics and subject areas, but I want us to be careful not to get into too much discussion while mayor Leffingwell is gone.

So we can continue that process, but I just want to make sure that he can hear that and be a part of that discussion because I know he's been real active.

>> Sure.

>> Bill.

>> Spelman: We had a couple of things to talk about.

One came up in the public hearing, the assignment of religious institutions to one category or another, perhaps coming up with a separate wait rate for religious institutions that came up a lot.

We need to talk about it at least.

The other one is the amount and usage of the cap program funds, who is entitled to get them and how will we spread them out in such a way that we're holding the poorest folks as harmless as possible.

And one piece of that that I think works to the fixed fee issue is if we could actually get not just the average for --



average usage for poor families or households, but the entire distribution, so we have a sense of who are in the group of very lowest users who are or who are not poor.

I think that will help us understand whether the fixed fee really is as bad as it "pierce to be on paper or whether it really doesn't matter that much.

>> If I could comment on that, i would remind you that we have given you these vast volumes of information and that there is a distribution of bills and numbers of customers, a lot of that is inside of there.

>> I understand that you've given us a lot of information and there's two issues here.

One of them is sometimes we'll need a little indexing help, where we'll find all this stuff.

And the other thing is we need to have a conversation about what it means.

Thanks.

>> Along those same lines, bill, as it relates to the cap, we'd love to continue the discussion of eligibility and automatic enrollment so that folks don't have to necessarily sign themselves up if they fit into a category of eligibility, they're automatically signed up.

>> Spelman: I agree completely.

>> Along the lines of what Laura was saying and hearing the different topics that are being brought up, this is going to be a lengthy conversation, and I'm certainly open to creating or contemplating some type of stability for a short period, meaning 12-16 months, so we can have this very detailed decision and hopefully come up with a fix that's permanent and not kick the can 17 years down the road for some other council to have to deal with.

I think we really have an opportunity here to do something really special with Austin energy and customers, so I'm open to that suggestion that we put stability into place for now but then we go into drilling into this and coming up with policies to affect all the areas we're concerned about.

>> Riley: One item is to add the value of solar rate, would shift us from net metering to the value of solar rate.

Some questions about the add kweisi and proposed rate in terms of its likelihood to get us to the goals for developing solar.

So I think it would be worth spending time to talk about that rate and whether any adjustments would be appropriate.

>> Morrison: I appreciate, Larry, some of your folks will come to our committee tomorrow to talk about solar so we can delve into it and out of that might come broader policy issues we want to discuss about solar, because I think there are other things on the table including values.

>> Mayor pro tem, if I may.

>> Cole: Go ahead, Robert.

>> ,Is a complicated subject that needs a lot of time.

It was just a financial report and we weren't prepared and I don't think you are for that kind of dialogue in a council session.

Perhaps you agree to have that as your topic in the next work session is how do we get with you all and have this kind of in-depth conversation rather than -- I mean, we knew these were already swirling around and we were working on how to give you more data and how we can help, but the question, probably, is how and when and what do we want to do to engage you all with this conversation, and I do suggest that I think you all talked about that earlier.

If we can talk about that together, that would be maybe where we take out the public, then, for public hearings is the

next decision point, and you seek more input.

Because you all have gotten an awful lot of input, already, on this, so now we need to do something with it.

You all need to do something with it.

That's probably the conversation is what next step do we take with you, then, to roll up our sleeves and have these great conversations?

>> And I think -- I guess we've heard from everybody.

Let me try to add a little context.

I think, from listening to everybody, clearly, this council has made a decision that they're going to make a decision --  
[laughter]  
-- and that is step one and is a huge decision.

This has been 17 years.

And I also think, from the desire to have more public discussions and from the public discussions that we've had thus far, we've not done a very active role in explaining to the public why this decision is front and center before us.

And I hope to do more on my end just to address that.

And the question of an interim method, a phase-in approach, i think those things haven't fully been vetted, but it's hard to get there without answering the other policy questions that everybody has put on the table.

For me, I considered these in a little broader classes that may help or anybody can comment on.

First, I would like to hear about our financial policy and what is or is not in play, what is or is not -- have been violated or may be violated if we don't act within a certain period of time, because that was created by prior council, and we have the bond rating we have now because we stuck to that.

And, so, we have opportunities to go out for bonds to have debt, to do some of the wonderful things we do because we stuck to those policies.

And that includes our capital purchases, that includes our debt service rating shield, that includes our bond rating, that includes our transfer policy, because I don't want to see us bite off just one piece of the financial picture and not have a good discussion about what it means to every thing else.

So I would like to see that one be front and center and maybe just a special work session or whatever the mayor or anybody else decides we have to discuss that day, because I don't think

the public senses the potential urgency of this decision and why we are focused on it and especially when they come before us, it's clear we don't want our rates raised, and we understand that.

But we have another asset on the other end that needs to be taken into consideration.

So I see the financial part needing to be on the table in whole, and then I see the whole issue with -- out of austin rate payers and the legislature and what we're going to do with them and a decision needing to be made on that just front and center and clear.

And then I really appreciate the question that council member morrison raised about our renewables and I would just, you know, expand that to include the climate protection plan because I know, back during those discussions, there was lots of discussions about the push and pull between that policy that we have, and we've adopted it, and I don't know of anybody here that doesn't want to stick behind it, but if we are going to stick behind it, what does that mean, and does the community that stood behind that plan, are they ready to come and stand behind it now.

And, so, I think that is a major discussion to have.

The whole issue of churches, schools and low income, I think, needs to be explored all together in the context that they can't afford the rate increase that we are anticipating and just what can they afford and what does it mean to our weatherization policy and what else could we do or offer to lower those rates, but in the different categories.

We know that the churches have changed the way they operate over the last 17 years.

The schools have definitely done that.

The whole question that kathie brought up and mike brought up earlier about a low-income payer versus a -- and their use of energy as compared to a low-income payer and their use of energy, does it make more sense to offer customer assistance, weatherization, or what?

Where are we going to get the best bang for our buck?

And, so, I kind of see those in those broad kind of categories.

Does anybody want to add anything?

Okay.

Kathie?

>> Tovo: I don't know if i need a sponsor to put something

on next week's work session agenda, and if I do, I will be dilated.

There is a good section in the navigant report about the financial policies, and so that might follow naturally from our briefing next week on tuesday's work session.

>> I would just add to that, to the extent that there is information in the navigant -- we want a briefing on that, but sometimes I think we get briefings we ask for and we don't get counterpoints.

You know, like, to the extent you don't agree with it, don't just read it.

Tell us why you think it's inaccurate and you should also a member maybe pro and con from the euc present to help with that if they want to comment, because I found them very, very helpful.

But we know there is lots of reports out there you've done and lots of reports that we've received and lots of visitors and we're just trying to get our minds around which one is right and we know that there is some projections and estimates in this, but we need to do the best we can.

>> Okay.

Let's go back, if there's no other comments, to see if there



is any other items on the agenda that council would like to discuss.

>> I have a couple of reasonably quick ones.

Do you want to take them in consecutive order?

>> If we can.

>> Tovo: My first question is about item 38.

I had submitted some questions and I guess I have questions about the responses.

So this is an item regarding parking.

>> Yes.

>> Tovo: And I had asked the question about whether the state of texas is going to charge the city for use, but I didn't get a response to that in the response.

I did get a response, but didn't specifically answer that question.

Is the city being charged by the state of texas for the parking?

>> Parking enterprise manager, no.

>> Tovo: And then, let's see.

You said there is no cost comparison.

Could you summarize the responses about how it's going to be used, what revenues will be collected and why there are charges at certain points, not others and what the relationship with the state is with regard to setting the costs or the fees.

>> Sure, would be happy to.

This is in reference to the two surface slats under i-35.

1 million  
on resurfacing the lots and the light strands.

And those lots are free up until 7:00 p.m. each day.

That was requested the city uses these for municipal court visitors.

Some city employees and also there is some federal, state highway employees that use the lot.

00 monday through thursday, we charge \$7, and this is primarily used for visitors to the sixth street area.

And this is something the state asked us not to have excess charges, but to have charges that would be able to pay back the construction dollars we spent on these two lots.

>> Tovo: So the arrangement with the state is that the fee is being charged to anybody not be excessive?

>> Yes.

>> Tovo: Monday through thursday, the charge after 7:00 p.m. is \$7?

>> Monday through saturday.

>> Tovo: Okay, did say that in the memo.

Monday through saturday, if you park there after 7:00, it's \$7.

If you park after that, it's free, and the fees are used to pay back the cost of the reconstruction?

>> Yes.

>> Tovo: Okay, thanks.

>> From the backup, it looks as the fees have been approved by the state and the federal highway administration.

>> That is correct.

It might appear in the future some adjustments or changes to the rates would be warranted.

Could you describe what steps could be taken to do that?

>> Yes, I would then go back to and ask them what increases we would need to cover those.

>> Supposed we saw a surge of daytime uses and suppose the parking lot were filling up first thing in the morning, and

the visitors to the municipal court weren't able to find a parking space because you have a bunch of people parking there and storing vehicles there all day, typically, some fees have been assessed not so much to gain revenue and to pay off expenses, but actually manage the re ensure a turnover occurs so people could secure a parking spot.

The way you'd get there is to monitor the utilization of the parking lot and adjust fees accordingly.

Seems like we'll int somewhat constrained in that as far as these rates seem for more or less written in stone until we go through some procedures to get there.

>> These are not written in stone.

They have given us the flexibility to go back to them and discuss the rates.

They just wanted to make sure they weren't excessive, depending on the market rate and that type of thing.

>> Would further council action be necessary in order to change the rates?

>> That would no be necessary.

>> So straitively, you could go to the state and get approval for an adjustment rate?

>> Yes, sir.

>> And that could be up or down.

>> Yes.

>> Supposing in the evening we're finding that the costs were so excessive nobody was using a lot, made sense to bring it down more in line to respond to the market and you could talk to the state about reducing the fee in order to --

>> that's correct.

>> All right.

So you have flexibility there.

>> Very much so.

>> Okay.

Thanks.

>> Steve, what percentage of the spaces are filled before and after 7:00?

>> I don't know have before and after 7:00.

Thursday, friday, and saturday, they're 80% filled.

Monday, tuesday, wednesday, about 10%.

>> So nobody goes to sixth street on monday, tuesday and wednesdays and parking on the lots.

Do you have any idea how full the lot is filled before 7:00?

>> I don't.

I could run statistics on that if you would like.

>> Spelman: I wonder if it's full or close to full.

>> It's municipal court.

The visitors to municipal court fill that up.

>> I think it would be municipal court visitors, but council member riley, there may be people who work in the city and don't have use of a parking lot to store their vehicle.

I can see an argument for a moderate charge for folks who weren't going to municipal court to regulate the use to make sure there is space pore those who are using the court.

>> Would you like for me to get back to you on that?

>> Spelman: That would be good and to council member riley, too.

>> My interest is making sure we're keeping an eye on the lot to make sure the spaces are used appropriately and there is parking for people at the municipal court and not being used to store vehicles at the expense of the state.

We need to keep an eye on it to make sure we're managing it effectively.

>> Okay.

We'll do.

Thank you.

>> Any other items, council?

Laura?

>> Morrison: I have a question on a couple of items.

Item 10 about the new central library, there is an extension and expansion for a contract for pre-construction.

I the city manager there.

Basically it's an amendment to a contract for preconstruction services for the new central library, to add 450,000.

So it seems like quite a large an expansion of the contract, and then there was some discussion in the back of about why the different tasks and the scope was expanding.

I wondered if you might be able to discuss that a little bit for us.

>> We have John Gillem from director of facilities with the library that can give you the detail, but, as you recall, to give you background and context, part of this will have to do

with the actual time frame through which we went through the process where we had the \$90 million and had to identified the add its thele funding sources to be able to get to the point where we could actually have the full amount of funding to move on with the conceptual design of the facility.

So a part of that was built into that extension of timepiece, and then when john gets here --

>> Morrison: He's right behind you.

>> There he is.

Part of that is the time extension based on that delay, and then I think john can talk about some of the other specifics as well.

>> Thank you.

>> Mayor pro tem, council members, city manager, assistant city manager, the new central library project is a home for the creek development district, and we're also driving a bit of other bridge and street expansion or extension project is really a dovetailed project.

And our construction manager at risk has been awarded the construction contract for that project as well.



We have a number of design issues, as you might imagine, to deal with in the redevelopment of this formerly pretty utilitarian area of the city used for waste water and electrical energy production, and the construction manager at risk is really proven to be -- i can't tell you what a help they have been for us.

They have the capacity to help us with scheduling and with modeling of the design we're trying to put together to interface with the park development and street and bridge and that's essentially the reason for the request to enlarge their contract and the design phase for this project.

>> I think a big objective of this project is to fully integrate into the site with not only the second street, but as you recall a big element that we added was also the creek because, you know, we have a lot of different components like the hike and bike trail, you know, the opportunity, really, to integrate the use of the creek into the facility itself as well as just making sure that, like, for example the second street piece was in place when the facility gets eventually constructed.

So I can tell you our team has been really looking at all of these pieces and making sure that we keep that in mind before this facility gets finalized.

>> And I think that's great,  
that completely makes sense to  
make sure its well I want  
grated.

I guess, since we had to search  
around and be creative about how  
we were actually going to fund  
the total project, it sort of  
raised a flag for me.

We obviously need to make sure  
that we're going to come in on  
budget after we've already  
increased the budget or beyond  
what the bond covered.

So I just wondered if this is at  
all a flag that the -- you know,  
the total project is going to go  
beyond the scope or beyond the  
cost that we've already got  
budgeted.

>> We understand what the bottom  
line is, and it is a very  
complex project with other very  
complex projects tied into it,  
but we very much understand what  
the total amount of the budget  
is, and we do not think this is  
going to exceed our budget when  
we deliver a new central library  
to you in 20:15.

>> That whole integration and  
the downtown commission and  
design commission are looking at  
that pretty carefully, and, so,  
I can see that it's a risk  
because we are trying to do the  
whole integration and to do it  
right.

So thank you.

>> Any other questions,  
colleagues?

Chris?

>> Riley: Not on this one.

I have questions about the one  
right before this one, item 9,  
which relates to the williamson  
creek blarewood storm drain  
improvements.

I don't know if we have anyone  
from watershed here, but I just  
want to raise the question  
generally.

This relates to a bunch of  
improvements -- actually it's  
\$6 million contract for storm  
drain improvements along  
williamson creek and includes  
work like stream bank  
stabilization and a bunch of  
gutter replacement, repair of  
culverts and so on, and my  
question relates to whether we  
have explored -- whether there  
are any opportunities for  
promoting a trail along the  
creek.

There has been a lot of interest  
in a trail along williamson  
creek.

I know both in the oak hill area  
and further east between, say,  
manchak and i-35, in the flood  
plains, there are opportunities  
for trails and existing trails  
along segments of williamson  
creek.

When we do stream bank stabilization and culvert repair, there are opportunities.

Recently on riverside, when we were doing some repairs along williamson creek, even though there's not a trail -- not williamson creek -- country club creek, even though there's not a continuous trail, we had the foresight to put in a path under riverside and its there now.

No connections north or south.

Whenever we get the connections in place, we'll be glad we had foresight to anticipate a trail under riverside.

So I wonder if there are any opportunities as we do repairs on williamson creek whether we contemplate pedestrian areas in the future.

I wanted to raise that question.

>> We have your question and make sure we get back with your office as soon as possible.

>> Riley: Great, thanks.

>> Cole: Any other questions?

Kathy?

>> Tovo: A couple of quick ones about item 12.

I apologize for going backwards after we specifically had a discussion about going forward.

>> Dug fowler, chief of austin fire department.

>> Tovo: A couple of follow-up questions.

I'm not sure if there is a fee schedule attached to the online agenda.

So my first question is the fees -- looks like the fees associated with these are the drill field are 350 per four-hour block with abestimated \$700.

Do you know how often they are contemplating using the drill field?

>> It's most frequently used in the fall, one to three times a month in the fall.

In the spring, much lighter.

The seniors will be going training and the juniors still have classwork.

So once a month in the spring, but the fall has the heaviest use.

>> Tovo: If you know if the backup information for the site spells out how many?

>> It does not.

>> Tovo: I apologize.

I know, colleagues, you've discussed this academy in some

detail in the past and I wasn't part of the discussions, so I'm probably asking things you've already covered, but was there any discussion about the city either waiving that cost or having that be their in-kind participation.

Is there any cost to the city use the fields on that day?

>> Yes, ma'am.

Typical we have instructors that participate so we're just recuperating costs, trying to for the instructors who have to be there to operate certain areas of the drill field.

>> So the \$700 is for instructors to help operate the drill field?

>> Yes, ma'am.

>> Tovo: And there was a response in the second question that talked about the fire department had anticipated absorbing any and all remaining expansions including funding for instructors for the senior and instructors for the Saturday drill skill field days.

So I guess if that was the intent, I'm wondering why there is a cost being assessed to AISD.

>> The costs that we're incurring above and beyond is

for the supplemental instructors when we have skills that are a high student to instructor ratio such as live fire training.

We committed we were going to see the seniors through and we have this spring semester and then we're done with that.

But in the future, aisd will be responsible for those supplemental instructors.

>> Tovo: I guess I'm having a little trouble matching up all thew these pieces of information.

Sounds like aisd is funding instruction for junior and senior classes.

>> Yes, ma'am, and we help out with supplemental instructors for some of these skills that we have to have.

More instructors in the classroom.

You can have one instructor operating in the class.

When we move out into the drill field, we need to have the mentors and supplemental instructors depending on the skill they're working on.

>> So the 51 thousand-dollar are the anticipated costs to be absorbed by aisd are the instructors that you talked about, the funding of the

instructor for the seniors that are not the supplemental?

>> Yes, ma'am.

Most of that was spent in the fall.

We anticipate another 16,000 in the spring and then will be done.

>> Tovo: What I know of the program, sounds like, you know, a really unique opportunity, and I just applaud the school district and the fire department for working together on it.

Seems like it has a lot of potential and we ought to be continuing the city's investment in it.

But I know, again, that there have been previous discussions about that that I wasn't a part of.

So I'm not sure of the range of considerations that went into this.

But I do want to ask a question about the extent to which data is being collected.

There were a few questions I'd asked about -- and there was information back -- the response back was we don't have any numbers regarding the number of students that went on to take the EMT national registry exam, and then sounds like only anecdotal information about what



happened to students once they graduated.

Seems to me, if we're trying to assess the value of the program and sounds on the surface it would have great value, to the students, the city, the community, it's hard to quantify the value if you aren't collecting information about what the students are doing with their training.

Are there plans in the works to collect that data and get some of that accounted.

>> Once the spring is over with, officially the austin fire department is out of it.

We will be happy to ask and they can look it up for us.

But part of the difficulty is this last go-round to applying for the austin fire department was the first opportunity in this existence of the 6-year program they could actually apply.

We talked with the mentors, both austin retired firefighters, to get a sense of what they're hearing, but there is no official contact list to go back to the people who started as early as 2006 to find out did they apply or going elsewhere.

That part is difficult.

The other part is when the emt portion is completed in the

spring -- and that's for the seniors -- the seniors graduate and move on and we give them the information to take the national registry exam to get their e.m.t. certification.

But it's completely up to them, and we've lost contact at that point with them.

Again, it would be nice to know if we could follow up and find.

So far, all we have is the one firefighter that works in esd4, and we know there are two seniors in the current class that have been accepted to eastern kentucky and their fire prevention degree program, which includes they work as firefighters as part of the program on campus.

>> Okay.

Thank you.

Chris?

Laura?

>> Morrison: I have a question on a different item.

Mike, you might be able to help me.

Item 29, approve a contract with citele group to secure a security initiative training exercise for the office of homeland security and emergency management.

And, so, basically, what this is a -- we're going to be hiring a company to help us put together an exercise, which is a complicated issue, 350 thousand-dollar, and we do this with the city of austin, city of round rock, travis county, -- travis county, williamson county and hayes county.

I could be wrong, but my understanding before was that the uac was mainly funded through federal funds and perhaps some of those have been cut, now, and, so, I wonder if this is -- if I'm accurate about that and if this is indicating a shift in the way we're going to be funding this organization and whether or not, for instance, with this contract, other -- the other entities will be participating and paying for it, also, or if we're capturing the full cost of it.

So those are basically my two questions about that.

>> I believe although the funds are being cut, this is still part of some of those funds, the federal funds.

>> Morrison: So the funds came into our budget and we're just spending them?

>> Right.

>> Morrison: So maybe byron has the answer to that.

>> Byron johnson, purchasing office.

Yes, he's exactly correct.

These are funds that we got.

This is an exercise that meets the parameters to have the funding, and it's -- parameters of the funding, and it's an exercise done in other communities, and it would be fully funded through the grant program and the extra costs funded through our partners.

>> Right receiving the homeland security fund, we would have some exercises, you know, similar to this regionally and we'd get with our partners and everyone would participate in putting that exercise together.

So that's the way we did it prior to the homeland security funds coming in.

>> I see.

So -- and then I know I've talked with the city manager about this idea before and that is the concept of, at least at some point, having elected officials be part of training exercises for disaster response in general.

I think this is previously terrorism.

So do you know if elected officials are going to be part

of this or that's just a different topic to discuss?

>> Well, not part of this particular exercise, but, in fact, today a memo is going to be going out to mayor and counsel for city manager.

We became aware last friday of an opportunity that will involve elected officials that will take place next week.

We apologize, it will be short notice, we just found out about it, but it's going out today and will take place next week on the 2nd or 3rd.

But we'll get that information out to you.

That's one opportunity.

Moving forward in the future, the city manager talked with homeland security and me about, you know, taking advantage of some of those federal opportunities that come in where you eat gore to virginia or they -- you either go to georgia or they come in and do a wide-scale exercise to involve elected officials and staff.

>> Council member morrison, there is a recent attorney general's request for a quorum of council members to maybe participate in these activities.

We don't have guidance on that now but we'll work with the

manager's office if some of you want to participate.

>> Morrison: I appreciate that.

That's important for this or just in general.

The experiences over the past year with the wildfires and all, for all of us to have a sense -- I think some people have more than others just because of background on this council, the way things works during a disaster.

It's critical we understand that so we don't get in the way, number one and, number two, so that we can help to make it more productivity and play a particular role.

So whether less than a quorum or whatever, and in the future i think that's very important.

>> Yeah, again, I apologize for the short notice, but a lot of what's going on now is you have different vendors and everything trying to spend the homeland security funds up.

So they got in touch with a short notice.

Of course, we'll take advantage of the opportunity and get that information out to you today.

>> Is it on thursday, a council meeting day?

>> I don't think so.

[Laughter]

>> other items, comments?

>> Briefly, item 46 is sponsoring significant events, a pretty significant event for us a.

The halojeology society secured funds to help us roll out the red carpet in for three days, one day of seminars, one day of parade, which is what we're sponsoring, the parade, and one day of unveiling the monument and festivities around town.

Certainly invite the community out and hope you consider supporting this.

It should be a pretty significant event for austin that weekend and looking forward to sharing it with all of you.

>> Any other comments, colleagues?

No further comments, I'll entertain a motion to adjourn.

>> Second.

>> No objection.

We're adjourned.