Closed Caption Log, Council Work Session, 03/21/12

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>> Mayor Leffingwell: I'll call this city council work session to order on wednesday, march 21, 2012.

At 2:10 p.m.

We're meeting at the council chambers.

We have one item on the agenda, andly turn it over to austin energy staff for discussion.

>> Good afternoon, mayor and council, I'm elaine hart, the interim c.e.o. for the city.

At this afternoon's work session, we'll cover the general fund transfer and other payments austin energy makes to the city.

Here is our agenda this afternoon, for the general fund transfer answer council requested, we'll be giving you an overview of the transfer policy in the history of the amount and options for future calculations we'll also do a separate presentation following the general fund transfer on the other payments that include our city-wide allocated costs, the economic growth and redevelopment services office cost and other payment.

We will break in between these two sections to allow the council to have time to discuss the recommendations we're making in each section.

To give you an overview of the total of the payments made including the general fund transfer, and this number has been out there in the press, and the list has been provided to security council earlier in the week.

5 Million, the total amount.

And the pieces are broken down, general fund transfer represents two-thirds of the total, 158, and the transfer for 12 of the $105 million.

The next largest piece is the city-wide allocated costs at 17%.

Economic growth redevelopment services at 6%.

Street lighting at 4%.

Street services, which is fuel -- fleet services which is fuel and maintenance for the crew that service austin energy and custo for outages amounts to about 3% and 4% is community programs and other payments and we'll go through a detail of what's in each of those in the presentation.

This pie chart gives you a sense of the total payments.

Here is a trend graph that shows you how they have changed over time and shows how they have been relatively stable over a long period of time.

And this graphic 2003 to 2012.

When you look at the general fund budget, you want to look at the revenue sources that make up the transferris.

The transfers amount to 20% of the general fund total resources which is what this pie chart is.

Total resources are $692 million.

Of that, the utility transfers are $138 million.

105 Of that is from austin energy.

We also have general fund transferris from the austin wire utility that amount to $33 million.

Of note here, property tax.

Sales tax 22%.

They represent elements of revenues.

It's interesting to note the utility transfers at 20% are almost as much as sales tax represent as a percent of revenue.

However, the utility transfers are more stable over time than the sales tax and the property tax.

Public power systems provide direct benefit to their communities that own them, and most of these are in the form of direct payments or contributions.

This is typical for public power system.

For austin, general fund transfer payments have been made since 1946.

So the policy for general fund transfers have been study add number of times, obviously, since 1946.

The graph here shows general fund transfer history, the amount in two fashions.

The red line at the top is the general fund transfer is a percent of the general fund total revenue.

And that indicates the general fund's reliance on that revenue source as a percent of its revenue.

You can see that the percentage has declined over time and has been very stable since about 2000.

That's the trend that you would like to see.

The blue line is the percent of the general fund transfer to your utility revenue, and this is austin energy, not the combined utility.

And there again, you can see it starts out a little bit higher IN THE EARLY 1990s.

And it tapers down in 1999.

And then it fluctuates or flutters a little bit.

Those flutters are not based on the transfer rate, which has maintained stable.

It's based on economic growth, economic conditions, weather conditions and fuel pricing.

The decline from 1990 1999 is change in policy which took place in 1999, which will talk about.

Some key points that I'd like you to consider when looking at the policy.

Municipal government may earn a fair and reasonable return for risk of running an electric utility.

There is a risk.

The higher risk than typically the water department or a transportation department.

So you may earn a reasonable return for that.

With general fund transfer, the dollars stay in the community, unlike dividends paid to investor-owned utilities.

Their shareholders may be all over the world.

The transfer dollars stay in the community to support community programs, regional services and benefits that folks in the region participate in.

They use our roads and our cars.

Changing in the general fund policy can affect the credit quality of both the general government and utility.

So for that reason, and the attention that the rating agencies give to the policies -- the transfer policy, any changes require the collaborative efforts of both the city as well as utility managers in making recommendations, considering the financial needs of both of the entities.

Appa does a study of the different payments and contributions of its members every two years and relying on their study, here is a list of the transfer methods typically used in public power.

Their most recent study was released in april of 2010.

It was based on 2008 data.

And at that time, they showed that the percent of revenue method was the most common method.

Their survey is for distribution companies, not a vertically integrated company that includes generation, transmission and distribution.

So their risk profile is a little bit different for a distribution company.

But of the utilities surveyed, 22% use the percentage of cross revenue method, which is a percent of revenue.

Other methods used are a flat amount paid annually, property tax equivalent usually called a pilot payment, payment in lieu of taxes.

Assessment of the individual utility and city budgets every year.

Thus, you might set a different amount every year, which is not a method that the rating agencies like to see.

A fixed rate per kilowatt hour and percent of net utility plant and service, percent of income, even net operating total, and typically they would be affected by the gap adjustment you sometimes see on the fund summary and that's not a method we would want to use here at the city because it introduces variability into the calculation.

And then you can see combinations of these methods at some of the utility.

I've mentioned the appa study and they do it every two years.

The graph at the bottom shows ten years' worth of their survey data.

Again, it's for distribution company.

For the 2008 data, they surveyed 340 public systems.

45 Of those public systems have revenue over $100 million.

And then they had 23 public systems that were in the west-south-central region which is arkansas, louisiana, oklahoma and texas, and that's the region austin energy is in.

All utilities surveyed are the bottom line, are the green line, and you can see the trend there is fairly stable.

The utilities with revenue over $100 million annually is the blue line or the middle line in the graph, and that again is stable.

You can see that the red line, which is the region that we're in, has declined somewhat over time, and that is probably typical here because we have gone through some deregulation in our state, and there has been some utilities that have actually decreased their rates over time.

For that region that we're in, the median transfer rate is 6.7%.

And 50% of the utilities transfer between 3% and 10.3%.

1% is well within the typical range, the 50% of the utilities.

With respect to our policies on the transfer, we've had a long-standing policy.

The initial policy developed in 1992 and the language hasn't changed much.

Maximum transfer rate at 12%, it sets the three-year average to smooth out volatility in the revenue base and it states that our calculation will include two prior actuals and the current year estimate, so this is the basic guideline for the methodology.

1999, However, the council adopted a resolution changing the transfer rate and setting a 1% of revenue.

Remainder of the methodology has remained the same with the exception of the transfer rate.

This was adopted in response to legislative actions that were taking place at the time to deregulate the electric utility industry nationally and, in fact, here in texas.

1% consistently since 1999, except for the year 2001, when it 2%, and our current policy is the 9.1%.

Council's seen the formula before.

This is the mathematical formula, the two year prior actual flus current year estimate divided by three plus the transfer rate and that gives you the amount for our general fund transfer.

I'll talk a little bit about this slide because it raises some interesting questions and it is one that we'd like -- we've based some of our recommendations on.

It's a little bit busy, so I'll talk about the graph first.

The grey area at the bottom is the general fund transfer portion that's related to the non-field revenue.

The yellow portion is the general fund transfer related to the fuel revenue.

And the dark line at the top is the total general fund transfurcal calculation.

So you can see the amount for each of those portions and the total amount in the graph.

You can also see that the grey area has been relatively stable, but has grown over time, as you would expect, with changes in economic conditions, new customers, weather-related sales, and those kinds of things.

What you can also see is that from 2000-forward, the fuel portion of the general fund transfer has grown fairly significantly.

And that is really based on the FACT THAT, IN THE 1980s AND THE 1990s, YOU REALLY HAD Very, very stable fuel pricing, especially with natural gas.

It was the $2 per btu for that time and we've seen much more volatility since the year 2000.

We had spikes in 2001, 2003, 2008, we had spikes following two hurricanes that shut down production in the gulf.

So we've actually seen our natural gas pricing be more volatile and rise over that time period.

In addition to that, within the last five years, our rail contracts or transportation of coal expired.

We had very favorable long-time contracts.

They expired and, so, the cost of transporting coal increased in the last five years.

That's part of the increase in the fuel portion of the general fund transfer.

At the bottom, you can see a breakdown of -- by decade for THE 1990s.

The years '91 through 2000, and then for the most recent decade, 2001 through 2010.

Of the total transfer, the ae transfer and the water transfer.

So you can see over time how each of those components have changed.

And these are the average annual for the decade.

The average annual for decade for the general fund transfer was $103 million total made up for $81 million for austin energy and $22 million for austin water.

In looking at alternatives for the council to consider in changing the calculation of the general fund transfer, we have three options for you to consider.

Continue your current policy as it's stated, consider changing that policy.

The first alternative would be to change your policy to the 12% maximum on non-fuel revenue only and establish a floor for the general fund of $105 million so that the general fund is protected, mitigates the drop in the transfer, until that non-fuel revenue would grow to the 105.

Then it would continue growing.

The second alternative would be 1 transfer rate on all revenue.

However, you would cap the fuel portion of the general fund transfer at the 37 million it was at in 2012 which you saw on the prior slide.

We'll go through each of these and talk about pros and cons, and then I'll show you some results, some numbers and estimates on these.

This slide is maintaining the current policy, the pros of that certainly are the consistency in following the same policy and the rating agencies are very favorable with that consistency.

The cons are negatives.

Austin energy will not retain 100% of its fuel cost recovery.

Currently, when we bill for fuel, we pass through the cost to our customers.

There's no profit on it.

However, when you transfer based on the fuel revenues then austin energy doesn't retain 100% of that cost recovery.

9% Of it is given back to the general fund, and that is a cash requirement for the utility, and that is an issue that the electric utility commission has raised.

So if you maintain the same policy, you're, in essence, telling the electric utility commission to table their concern.

There is less certainty in the forecast using this method due primarily to the fuel volatility, and that makes your general fund transfer forecast more difficult to predict.

Altentative 1 is a change to the 12% transfer rate on non-fuel revenue.

It eliminates the volatility for fuel revenue.

It also sets a floor for the general fund transfer of $105 million until the 12% on non-fuel revenue is at the 105 or greater.

The pros, we revert to the original policy of the 12% maximum transfer rate.

The general fund transfer increases in the future with this method reflect -- excuse me -- reflect true revenue growth.

That's growth from new customers, economic condition, weather-related sales and rate increases.

It improves our certainty and our forecast by removing the fuel volatility.

Austin energy would retain 100% of its fuel recovery under this method and addresses the euc's concern with the fuel in the general fund transfer.

Establishing the floor of 105 million mitigates the impact on the general fund of changing to the 12% and it's a less complicated calculation.

However, there are some negatives.

The optics, in the public's eye, will be increasing the rate, it will be said you increase from 9.1 to 12%.

However, the actual dollars will be more stable with that fuel volatility removed.

Because of the optics on this method, because it's a departure from past practice, you will have to educate -- provide some education so folks understand that the increase in the transfer rate was not designed to increase the amount of the general fund transfer.

1% on all revenue.

However, it caps the fuel revenue portion of general fund transfer at the 2012 rate, or the 2012 amount of 37 million.

I chose that amount, but that was just the amount that was elected for the presentation.

It could be a different amount.

Pros, the optics are better because you're keeping the same 1%, although you're keeping it on non-fuel revenue.

The general fund transfer on the fuel revenue will continue to fluctuate.

However, in the calculation, it will be maintained at the 37 million.

So it will reduce the fuel volatility in the forecast because it caps the general fund transfer on fuel.

It also addresses the euc's issue on fuel.

The negatives or the cons, it's a more complicated calculation and will retain less of 100 of fuel cost recovery by $37 million.

So let's look at what the numbers really look like under these scenarios.

These columns, the first column in the salmon color is the 2011 actual.

The 2012 budget is in blue and the five-year columns to the right are all estimates based on these proposals.

Alternative one, which is the 12% option on non-fuel revenue -- well, in each of these cases, the actual budget does not change.

They're there for reference.

The white area, the numbers will fluctuate and change.

So for the 12% transfer on non-fuel with the floor of 105 million, you see that, in each year until 2017, you are protected by the floor of 105 million.

By 2017, with these estimates, the general fund transfer would grow based on the non-fuel revenue only.

It's to 106 million.

Alternative 2 which caps the general fund transfer on fuel at 27 million and continues to 1% transfer shows $107 million for a transfer in 2013, 110 in 14, 110 in 15, 117 and 122.

The last two options are the current fuel rate, and I put those at the bottom because they're the same methodology, 9.1% on all revenue.

But one is with a low fuel forecast, which is the third -- that third line, and the very bottom line is with a more volatile, higher fuel cost.

Actually, the fuel cost increases at 5% a year.

And you can see that, with the low fuel forecast, you would be at 103, 103, 100, 103, and then the last year at 109.

Under the fuel cost increasing at 5% a year on that base, you would be at 103, 105, 106, 113 and 120.

In making our recommendation today to the council, we have consulted with pfm, our city financial advisors and they have a representative here if you have any questions for them.

We are recommending that we consider alternative 1 which moves to the 12% transfer rate as the best option for the city and the utility in the long-term.

Reasons for doing that, the general fund transfer will then grow based on real or true revenue growth.

It will improve the certainty of our forecast and remove fuel volatility, which we expect will very likely be volatile in the next few years.

Austin energy will retain 100% of the fuel cost recovery.

It establishes that floor that mitigates the impact on the general fund by changing to the 12% and it's a less complicated congratulation.

Complicated -- calculation.

We'd like to break here for the council to have some discussion.

I do have a slide in the appendix for you that's a little bit interesting, if we could go to slide 44.

This is the same historical slide I showed you earlier.

[14:34:00]

However, it applies the alternative 1, the 12% transfer rate historically to the non-fuel revenue.

It's the exact same slide, but you see the red dotted line is where you would have been, historically, if you had not used fuel revenue in your general fund transfer calculation, and you can see by this graph that in the years 1999 through 2005, you would have been at the exact same rate -- or same amount for your general fund transfer.

And because fuel is about a third of the general fund transfer now, increasing the percentage from the 9% to the 12% gets you very close to where you would have been.

This is a different look than where you would have been using this alternative rather than looking at the future.

That concludes this portion to have the presentation.

We'd like to give you an opportunity to discuss our alternatives, ask questions, and then, when you give us the go ahead, we'll go into the next section.

>> Mayor Leffingwell: Why do you expect fuel volatility in the next few years?

Do you have some rationale for that?

>> Well, yes, we do.

Right now, it's looking like gas prices will be stable.

However, we have not had the environmental legislation passed, which could affect our fuel plants, our coal plant.

We are overdue for a hurricane, and we have seen significant fuel volatility in the gas prices when we've had hurricanes.

So there is that risk out there that the volatility will happen.

>> So that risk is there anytime, not just in the next few years?

>> Yes, sir.

>> Would be the same risk in the

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next 100 years, really?

>> Yeah, that's right.

If you -- larry weis, general manager, austin energy.

If you go back in history, it's always pretty accurate, that if you go back in history and look at that, there have been several reasons gas has taken a swing one year or the other.

In the fuel, besides natural gas, we have purchase power agreements for wind contracts or coal, other fuel resources.

Primarily, the big swing since 2005 to now has been natural gas pricing.

>> Mayor Leffingwell: Any more questions?

Comments in council member riley.

>> Riley: Help me understand the general fund transfer for the $105 million I thought we previously talked about having a cap of $105 million.

Help me understand why we would be talking about a floor of 105.

>> In looking at that, our recommendations that you would not want to limit the general fund transfer in the future, if the growth in the non-fuel produced a higher general fund transfer rate.

And, so, we are proposing that it be a flue, not a cap.

-- A floor, not a cap.

>> Riley: Help me with scenarios where that would come into effect.

>> Let me try it this way.

The proposal we made was to put 105 million at the -- and freeze it or cap it for a number of years.

That's really -- no finality was ever made about how long that would be.

But this recommendation, the one recommendation that's up here,

[14:38:00]

the idea is that the general fund transfer would increase but only with real growth of the utility, not fuel.

So as the utility gained more customers, had more revenue from customer growth and from -- you know, primarily customer growth and revenues, then the gft would go up.

But what has been a concern of the euc and the forecasting difficulty is that when you have fuel on top of that, we had a difficult time knowing, frankly, where the future was going to be of that.

So that's the concept behind it.

>> So you want the transfer to be able to increase as non-fuel revenues go up?

>> Correct.

>> So why shouldn't it be allowed to decrease if non-fuel revenues go down?

>> If non-fuel revenues went down, I guess we don't contemplate that happening.

>> Riley: Why do you need a floor if you don't continue contemplate that happening?

>> Because at the outset you would be at the red line, if you switched immediately to the 12%, you would lose -- that's about 15 million in general fund revenues that you would lose.

>> Riley: It's a matter of helping smooth the transition.

>> Yes, it is.

>> Riley: And helping it get through sort of an artificial boost to the transfer?

>> Correct.

And I guess we didn't think through or forecast what the future would be if our actual revenue went down.

We didn't -- I mean, we're not forecasting that, frankly.

But I understand your point.

>> But the real reason for it is not because you're concerned about revenues going down, it's because we need to get through the next few years to wean ourselves off the transfer by continuing to get $105 million in the next few years?

>> It's really trying to solve no impacts to the city with

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austin energy and trying to make that work together in that fashion to try to smooth that.

That's right.

>> Riley: Okay.

One other set of questions that's out there relating to whether -- how the city customers should be -- should be relieved of the burden of the transfer.

Are you expecting to be able to save that discussion for the work session on out-of-town customers rather than covering it now?

>> Yes.

>> Riley: Thanks.

>> Mayor Leffingwell: Council member spelman.

>> Spelman: Mr. mayor.

I've got a lot of questions.

I won't ask most of them.

I'll just hit the ones I really feel the need to ask right now.

On your slide 6, you've got that pie chart where you're looking at all the sources of revenue for the general fund, and identified the 105- -- about 15% of the total general fund comes out of the transfer.

I'm persuaded from many years of watching the budget, this is less volatile than sale and property taxes.

I wonder if you could comment on the lack of the volatility to our ability to provide services on an annual basis.

>> Well, certainly, when you have four main revenue sources, you don't want all of them to be volatile and based on economic conditions, while the transfers do have some economic impact on the utility revenues, our policy, having a three-year average of the two prior year actual and the current year estimates, moves some of that volatility out in our transfers and that's what makes them a little bit more stable than your

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property tax and your sales tax.

>> So we've got weather spikes up and down, but because we're using a three-year moving average, those spikes get evened out.

>> Yes.

>> And, as a result, that transfer is pretty much the same from year to year and is highly predictable.

In fact, I know you predicted in the middle of the year because you don't actually have the actuals for the fiscal year, year zero, when you're doing that through your moving average, but I've never seen it be too far away of the number it would have been had you had perfect information, is never too far away from the actual number that it really is.

And if we did not do it this way, would it be just random volatility or would it actually go up and down with the business cycle same as sales and property taxes did?

>> It would go up and down with economic conditions and change in fuel prices.

If you consider san antonio's policy, they have a higher percentage transfer rate but they do not use the three-year averaging.

And if you look at the history of their general fund transfers, they're all over the board.

>> Spelman: Okay.

>> Increases one year, decreases the next year and, so, their transfer revenue to their general fund in san antonio is enough more volatile than ours is and it's really the difference in the two policies.

>> Spelman: So the key to the lack of volatility is not just you're selling the same amount of electricity year in and year out, you're really not, but we decided as a matter of policy to use a three-year average for determining how much that gft eight town?

>> Yes.

>> Spelman: On slide 9, you talk about a muted apparently used by public power all over the country to make -- to determine what that gft aught to look like.

Let me back up.

It is some sort of a transfer to the general fund.

>> Yes.

[14:44:00]

>> The community owning public power takes a profit the same way the investors would.

>> Yes.

>> Got it.

And you say by far the largest of these methods is taking a percentage of revenue?

Is that taking a percentage of total revenue or a percentage of non-fuel revenue?

What's embedded in that?

>> Well, first of all, the supply is not just all public power but municipally-owned.

>> Spelman: Okay.

>> A lot of electric owned by cities do not have any generation so, therefore, they do not have a fuel component.

>> Spelman: Okay.

>> For example, if you were a city that took the delivery of wholesale power from lcra, you would not have any generation, staff, component fuel, anything of that.

>> Spelman: You have a lot less volatility if you're just a wire company.

>> Correct.

>> Spelman: What percentage of the mou you took the survey from were just wire companies?

>> I would have to get that information.

>> This is a survey of distribution company, of wire businesses.

The survey is specific to distribution systems.

>> Not including any of the generators.

These are only distribution companies.

>> Spelman: Okay.

Do integrated utilities have systematic means of determining transfers back to the public?

>> I'll let elaine answer part of this.

I appears from what I've worked with over time that this is a local issue, it is not standardized around every city has come up with what they feel is best for their consumers and the public and I do know that i have been sitting next to those discussions, having not been in

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them but sitting next to them, i realize that it's really a local decision.

>> Okay.

>> Yeah.

>> And as we determine our first transfer back in 1946, the way it's done in various cities is probably why it's done the way it is, it's probably lost in time.

>> I wouldn't be surprised.

>> Spelman: Of these -- looks like percentage of revenue somehow defined is the most obvious wefn doing it, if we wanted it as close as what you do on investor in utility, I'm guessing.

Did you spend much time considering the other alternatives but are they so clearly not fit they're not worth paying much attention to?

>> The other ones on page 9?

>> Spelman: Yeah.

>> We have looked at those in the past and I've had discussions with the prior cfo on many of these.

Property tax equivalent is not really appropriate here.

A pilot, much of our service territory, 50% of it, is outside the city limits.

That's only one aspect of what a private utility in austin would be paying.

They would pay property tax, franchise fees and also have a dividend they paid to their shareholders, so we threw that out as not a full scope general fund transfer for the city of austin.

>> Spelman: I'm not sure what that is.

You get a percentage of the total property tax amount and that's how much we transfer every year?

>> You'd calculate an equivalent.

You'd value your property within the town lake center building, the power plant, you'd value them and apply a property tax rate to them and calculate a property tax rate equivalent.

>> Spelman: If we would tax ourselves, determine the amount and that's how much it goes.

>> So we thought that was not appropriate.

The flat amount, annually,

[14:48:02]

doesn't really meet the needs of both the city and the utility, as the utility revenues grow, and you still have the risk of owning that utility.

You'd like shareholders or owners of it to get your fair return, your fair return on that.

So we threw that out.

Assessment of budget each year was a method that we've used in THE LATE '80s AND IT WAS NOT Viewed favorably by the rating agencies.

And actually, in 89 or 1990, we fixed the transfer at a flat amount of $49 million for four years until a study could be completed, and the 1 1992 policy resulted from the study.

So we have at some time in the past fixed the amount but i don't believe that's appropriate now.

>> Spelman: How do you go about figuring it out, by assessment of the budget?

>> We would look at the austin energy fund summary and the general fund summary and we would look at whether the general fund had a gap and how much it feed to balance the budget and could they afford to pay the extra.

And then negotiate that.

That's just not -- that's not the kind of consistency that the rating agencies like to see.

>> Spelman: Well, the term i remember hearing most often was rating.

IN THE EARLY 90s, APPARENTLY, The stownls would look at the gap, figure out how much money they needed and put the a and get the utility to transfer enough to true up the budget.

Doesn't make any sense.

>> Prior to the year where they fixed the amount for several years and developed a new policy, that was the method for a number of years.

>> Spelman: Yeah, okay.

How about a fixed rate per kilowatt hour?

>> Fixed rate per kilowatt hour is one that I personally like.

[14:50:02]

It still allows you to have the growth based on customer growth.

You still have the growth from weather sales.

That kind of thing.

The difference here is you just take your current amount and calculate that in a per kilowatt hour value is how do you determine what's the right value and then how do you look at it on the customer bill.

>> Spelman: Right.

>> In prior discussions with the former cfo, that's not a method we could hash out.

>> Spelman: Doesn't take into account conservation losses and would give you further encourage meant, if you needed any, to sell more electricity.

>> I was going to point that out that our business model of unbundling and moving forward with very aggressive energy efficiency would run a little countero that and that the kilowatt hour sales and revenue that we're talking about in this one option are really the same kind.

If you want to look at it that way.

>> Spelman: Percent net utility plant in service?

>> I personally have never seen that used anywhere of any utility I know, but I trust the survey that someone is using it and, you know, that's an historical cost.

It's a number off your balance sheet.

I don't think that's the basis for us to be making transfer decisions.

>> Spelman: Yeah.

>> For our city or our utility.

And the percent of income i mentioned, those are affected by gap adjustments that sometimes create some volatility.

For instance, if you had a refunding and you actually add present value savings from the refunding but had an accounting loss based on it, that limit your transfer, but you had an economically good, sound refunding, you just had an

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accounting loss.

That's not an appropriate means of making a transfer.

>> Spelman: And, of course, there are combinations among all these ideas which are probably not very good for us and probably doesn't matter much.

Fundamentally, from your point of view, there is only one idea on this list which has any legs, a percentage of revenue somehow defined?

>> Right.

>> Spelman: Okay.

I wanted to clear that shrub beryout of the way so it wasn't something we needed to spend time thinking about.

On page 16 where you actually talk about if we apply the 12% transfer rate for the non-fuel revenue, which seems not a fairly unreasonable idea, you think it's a less complicated calculation and occurs to me you're taking the three-year moving average part out of that.

Does that stay?

>> We're leaving the three-year average in.

We're just changing the definition of revenue to non-fuel revenue.

>> Spelman: Same calculations, just taking a different line?

>> Right, but you don't have the two pieces to look at.

>> Spelman: The two pieces?

>> The fuel and non-fuel piece.

>> Spelman: What authority do we have to change our fuel factor?

1% to our fuel factor and charge our customers 1% so we avoid losses that way?

>> My understanding in prior discussions with legal counsel is that in texas there are restrictions on the fuel tariff.

They have to pass through a cost and you cannot tag on the general fund transfer.

Los angeles department of water and power actually has a fuel tariff.

They're in california, though.

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The tariff says I'm going to charge my customer the fuel cost plus my 8% general transfer fund rate.

So they tack it on but have different laws out there.

So I have been advised we cannot do that.

>> So any fuel factor which will be about a third or fourth of the total charge, anyway, that we can't make any profit at all on that, which is the genesis of your basic alternative.

Okay.

Is there a way we could -- some people, as you mentioned, are going to say you're charging me 9%, not understanding or wanting to understand, pulling a third of their total bill out of the equation.

Is there a way we could publish, as a matter of course, with every budget, we're taking 12% of the non-fuel revenue and here's the number.

By the way, if we calculated that as a percentage of total revenue, including the fuel factor, which we're not going, but we couldicle calculate that 2, 7, something like that, and that would be a portable number we could use to compare the IOUs OR OTHER MOUs THAT ARE Including the fuel factor in their calculations.

>> Wouldt be an effective personally?

>> Spelman: Exactly.

And the percentage is done on a year by year basis, hasn't changed, we're just using a different set of calculations with the 12 but you aren't paying any more than you would be.

Seems like one way to do it.

And that's all I have.

>> Thank you very much.

>> Mayor Leffingwell: I think it would be interesting to see what it would like, putting it on the customers' bills, the equivalent would be under alternative 1 as compared to what we're doing right now.

>> That is the effective

[14:56:00]

percentage?

>> Mayor Leffingwell: Yeah, effective.

And one more quick comment, option -- back on page 6 -- yeah, it's 9.

I'm just curious, I'm going to preface this by saying I do not favor privatization, but it would be interesting to see what that number would be because that would be -- that would counter the argument, well, if we privatized the utility, we would exit x amount of rev more or less than right now.

Do you see what I'm saying?

>> I do.

In years back, we did that calculation.

It's been more difficult since we've deregulated in the state of texas because the big utilities -- private utilities were broken up into generators and transmission companies and distribution, but when we were able to do that calculation, we looked at their property tax bill, we looked at the city of dallas, looked at the property tax they received from txu at the time, texas utility.

We looked at the franchise fee that they paid to the city of dallas, and we looked at their dividends for that one holding company.

1% was very, very close through what they were paying, the franchise fee was 3% and I don't recall the property tax, but in years' past, we've done that calculation.

We recently answered an rfi, i believe, on the roe on private investor rate increases, and they're in the 10% range.

So between those -- the old study and the new granted, they're all over the country, you know, outside of texas as WELL, ROEs THAT ARE BEING Granted in rate cases nationally being in the 10% range, we think

[14:58:04]

9.1 on total.

>> Mayor Leffingwell: So my guess is that's probably the rationale used at the time to arrive at 9.1%?

>> I think that's right.

>> I don't know but I assume.

>> Mayor Leffingwell: I'm assuming it, too.

I don't know it either.

1% is an odd number to pick out of thin air.

>> I know as late as 1998 to 2000, we were still looking at that kind of calculation.

>> Mayor Leffingwell: I'm not sure I'm exactly clear on the page where you compare different methods of gft.

I'm not sure I understand that.

I thought I heard you say this was for distribution systems only.

Is that right?

>> Correct.

>> Yes, sir.

>> Mayor Leffingwell: So if you say it that way, then austin is not included because we're not a distribution only system?

>> We report in the survey but primarily the focus is on distribution system.

>> Mayor Leffingwell: So even though a utility might be integrated this reflects only the distribution.

>> And all the business in between, so it wouldn't include the employees, the labor and all the fuel necessary to run generatorring plants.

>> Mayor Leffingwell: This is for all over the country?

>> Yes, sir.

>> Mayor Leffingwell: I'm not asking you to go out and do a whole lunch of work, but have you looked at how we compare in the state of texas?

>> I can give you some examples.

San antonio, as you mentioned earlier, is at 14% of gross revenues and capped at 14%.

It does not use a three-year average.

The utility in college station uses 10.5%.

Brownsville public utility uses 10%.

And you've got lubbock power at the lowest rate but they're up in a deregulated area at 5%.

>> And these are all percent of revenue, some form of revenue?

>> They are, yes.

>> Mayor Leffingwell: Smb tovo and mayor pro tem next.

>> Tovo: I have a few questions.

The first is for you, mayor.

You said something about having the effective rate, that it would be interesting to calculate the effective rate, but I didn't completely understand the context.

>> Mayor Leffingwell: That was based on the property tax equivalent.

And I believe, to me, you gave an answer that was very clear.

It was basically was trying to compare if austin energy were a privately-owned utility, what revenue would the city get from that privately-owned utility through taxes on their property, through the franchise fees and any other fees we might collect from them, how would that compare to what we get in the general fund transfer as it is now publicly?

Does that make sense?

>> Yeah, thanks.

I missed a few of your sentences.

>> Again, I'm not advocating.

>> No, I just wanted to understand the discussion.

I have just a few questions.

In looking at the report that was done, the austin energy financial performance review that was done with navigant consulting and fox melon associates, it seemed to me the general conclusions seemed to be at austin energy is basically in line with other peer utilities in terms of its transfer rate, in terms of how it supports economic development, and I know that's our next subject here today, but also with regard to how fuel factored into the transfer rate.

And I know this was prepared in 2009.

Do you feel that that's still fairly accurate assessment?

>> Well, I was just going to say, I don't know exactly what utilities they compared to, but, in our region, in texas, austin energy's size and cps in san antonio, that size typically is where the comparison lies, and then the other -- some of the other municipal utilities that elaine mentioned, that's the market.

So it's a rather small market here in texas of comparison.

>> Well, as I'm looking at page 7 of that report -- where is the line I was looking for?

Only one of those surveyed and it was denton municipal electric was the only utility to reduce gross revenue for fuel, so sounds to me like the others were including it as part of their calculations.

As a few years passed, I wasn't sure whether that was still pretty typical.

>> I think it is fairly typical, council member.

Again, as larry mentioned, these transfer policies are set on the local need of both the city and utility.

So as we move into areas, sometimes you're addressing an issue for the local community that another community may not have.

But I believe the result is still consistent.

>> But in terms of the fuel, that's still -- I mean, this is not -- austin energy doesn't have a particularly -- you know, its policy in terms of calculating fuel revenue in that general transfer doesn't sound like it's an outlier in terms of that policy.

>> It's not, but what we would have to do to do an accurate comparison is you would have to drill into each utility to understand what their fuel is.

In our case, we're exposed to quite a bit of natural gas relative to our size, whereas another utility, I know in that comparison has a lot more coal and nuclear than we do.

So we might be more volatile in our generation next with natural gas than another utility.

Also a lot of other municipal utilities may have a fuel charge but that may be for the purchase power and the purchase power may be from a firm priced product that may not change over time.

So our volatility hinged on natural gas and or generation.

>> Tovo: I appreciate having more alternatives than the one you proposed in the revised proposal because I think the cap of 105 would have been a very difficult transition for the city and this gives us more options.

So in one of the requests for information, I had asked a question that related to this report, and I'm not sure if we'll be able to soar it out today -- sort it out today, but there was a comment in the same report I just talked about that refers to the policy that gainesville regional utility has of paying 3%o its net wholesale revenue as a transfer to the city of gainesville, and I don't understand that well and wondered if you might comment on it and if it's something we need to take up outside this conversation, we certainly can.

>> Well, we could go and do some investigation on that.

I will tell you that florida had a different market than in texas, first of all, so that's fundamental.

And they may have high motivation to be in the wholesale generation business and there may be a high motivation for them to be successful from the city's point of view and, so, putting some belt in incentives that that's the rate of return they're going to look at for the city, I'm going to take an educated guess that's probably something that works there locally for their situation and that market in florida.

But every market around the country is different, so we have to be careful when we compare.

>> Tovo: And then I think my last question for now and to some extent bridges into the next section, but one of the things fox mellon did was to calculate the percentage of transfer just beyond the general fund transfer.

It looked at the general fund transfer, the corporate services and any other spending that was transferred to the city and that percentage still came well within the range of reasonable compared to other peer municipalities but also seemed to be in line with the city's set policy.

It looked like I'm maybe not completely clear.

>> I'm with you.

>> Tovo: I wondered what that looks like for 2011.

One says other transfers and spending is included in there.

Are we still within the range of reasonable compared to other peer utilities and do we still fall within the council's policy on that in that regard?

>> You don't fall one the council's -- within the council's policy of 12%.

I was trying to recall what they said in their report, frankly.

And calculations that we've done at the utility indicated that in the 14% to 15% range, if you include everything.

>> Tovo: Okay.

>> However, some of those payments are for services that if not provided by a city department would have to be procured or self-performed by austin energy, so I don't think it's reasonable to include those in that calculation.

>> Tovo: Right.

That's a good point.

>> It's a mixed bag there.

It's a question of what would you include and w do you not include.

Because they're not just transfers, they're payment for fleet fuel and fleet maintenance and things like that.

>> Tovo: And administrative services and again this is something we'll take up in a minute.

Our calculations with it came out about 14%, too, and I didn't know if that jibed with what you've done.

And just as a point of clarity, the fox me llon report talks about the weighted% is 9 and 2 taking into consideration transfers, other fundings, ae's percentage of 5% is below the weighted average of 10.

So at that point it was firmly within the council policy as well as being reasonable compared to the other peer utilities.

Okay.

That's it for me for now.

Thanks.

>> Mayor Leffingwell: Mayor pro tem.

>> Cole: Thank you.

Elaine, did I hear you say that 50% of our service area was outside of the city of austin?

>> Yes, that's service area, not customers.

15% Of the customer base is outside the city of austin limits.

>> Cole: So when we talk about out of city customers, can you name for us the few of the cities we're talking about?

I know lakeway, westlake.

>> Yeah, I can do it.

I think the smallest is mustang ridge, and so I do know where that is.

It's on south 183.

But I gets to lakeway, bee cave.

We have part of round rock, westlake, rolling wood, sunset valley and part of cedar park.

>> Cole: Thank you.

I just wanted to get a flavor for that because I know we're not going to discuss that here, but that has been linked with the general fund transfer discussion.

But the information I've seen would be helpful as we look at that is to know the types of relationships that we have with those cities.

Like I don't know if any of those cities also sit on the campo board with us, and we have joint policies and transportation.

I don't know of those cities, if we know, maybe through their chambers of commerce, how many of those cities actually have a workforce that is substantially employed in austin so that we really get a feel for the services that we are providing to t of austin as the largest city in the region, how reasonable it is to presume that people who don't actually live in the city aren't using any of those services.

I just think the information on that could be helpful for us and for the community at large.

Now, I think you brought this information to us about the transfer rate because you were looking for a little bit of guidance on your recommendation of going to 12% versus the 9.1.

Am I correct?

>> Well, yes, and I think that, principally, one of the ideas that we've heard from the electric utility commission, from my understanding, is that it has been for some time is that they've watched a very volatile fuel situation.

And again, not all public utilities are the same.

Austin is very unique in a lot of ways, so we have more exposure to that, as I talked about earlier.

So electric utilities concern was is that we have these pass-through fuel spikes that it would unduly cause a gft to go up, and that's where this really started the idea of it started was to try to figure out a way to smooth it, make it continue to go up in a reasonable way with utility grow, but not cause the harm at the same time.

We're all one family here and we have to make sure that the city itself is receiving a benefit and there's a way to project what that is in the future, and I think that the forecasting ability of everything we do is very important.

And if we can go ten years, 20 years and look and see what our future is and it's easier to do our business.

And that's kind of where it came from.

>> Well, I want to be clear that I think that your recommendations could go -- could basically take the volatility of the fuel cost out of the equation and move from 1 to the 12 with the understanding that council member spelman brought up that really is almost an effective rate of what we had before.

It's just because to have the fuel charge that it looks like we went up, but, in reality, we haven't gone up very much at all.

So -- and I do think that we should do that calculation and make that as clear as possible.

Thank you, mayor.

>> Council member morrison.

>> Morrison: Thank you.

To follow up quickly on mayor pro tem's comments, I think it's important to keep in mind that we probably have many, many customers that are in unincorporated areas.

>> Correct.

>> Morrison: We will be looking for ways of measuring that and getting a sense of use of the resources.

In whatever way possible to include that, also.

Because I think that's a very good point that we want to be able to keep in mind.

And then in terms of the issue of trying to remove the volatility, I agree that it's a good thing to do and I can say, when we're doing the budget over the past few years and the news comes to us, oh, hallelujah, it's been really, really hot so the transfer rate is a little high.

So to find a way to smooth that out is a good goal that I'm interested in following and i appreciate you all laying out conceptually different approaches to computing a transfer.

One of the things I noticed in the residential rate advisor report which came out ions ago, was they mentioned somebody asked them to come up with a couple of alternatives.

Pgh [one moment please for change in captioners]

>> comparing that recommendation is that really what we're talking about is taking the fuel component out so I think it's the same thing.

Just a subtle difference there.

there must be some subtle difference because then they go on to suggest a second alternative, which is to remove the fuel and purchase power costs.

But we we do count the purchase power cost in the fuel.

>> In the fuel, so it's really isn't a second option.

they go on to throw out some questions that might need to be answered if we take that approach, and I'm not sure i understand the question, but maybe you can help me.

It says, for example, should only recoverable fuel expense be removed.

What is recoverable versus unrecoverable?

>> Nonrecoverable fuel prices.

I'm -- we could get back to you on that, find out what that is.

>> Morrison: okay.

It also -- uranium?

[Laughter] that was the mayor's -- mayor's --another one.

How should the cost of green power be treated?

How does that --

>> well, we put all of our renewable resources into fuel, if it is purchase power.

If, for example, we got approval from you to do a large debt issue for a wind project, for example, the labor for our employees and the debt service would not be in fuel.

That would be in our o&m budget, so that's the distinction, between doing a purchase power agreement versus buying a piece of generation and running it with our employees and with our debt.

>> Well, and with purchase power, since we're purchasing the power, we're sort of paying for what would be the capital expenditure a little bit at a time.

Is that a fair way to look at it?

Because --

>> it's -- I think you're right.

I mean, we don't know the other side of the equation for that who we're buying that power from and how their business model is set up.

So -- but I think you're not far off, is that obviously included in the purchase power we buy is somebody's labor and somebody's cost of capital, and recently we've done really well on our wind acquisitions.

So -- well, and it -- because our purchase power -- those are fixed costs, right?

So we're buying --

>> right.

-- a certain amount per kilowatt hour.

>> Right, they're usually longer term fixed prices.

>> Morrison: fixed prices.

So we don't really experience volatility with that element of our fueled factor, except for the fact that we may sell more or less.

>> Right.

And if you look at our fuel portfolio, as I talk about earlier -- talked about earlier, austin energy's portfolio is different than everybody else's so you have to really compare -- you can only compare with yourself.

We have a nuclear component that's pretty stable.

We have a coal component that's relative stable, but those are small amounts of our power supply.

The rest of it comes from natural gas supply, and that's where our volatility is.

So we have, relative to other utilities, pretty good exposure to natural gas.

let me just throw out these other questions that are in the report, and I don't know if they'll be meaningful or not.

Should power costs be net of all system sales?

>> Well, in my head they always are, but -- and they are in the rate case and they are in the 2009 test year.

And anytime you have -- i think one of the -- since the energy market exploded in 2000, the projection of wholesale revenue into utility has been as big a guessing game in this business as I've ever seen.

So what we try to do is really take that out.

We try to take that out of it, because we can't forecast it.

I have no idea, for example, this summer what kind of wholesale revenue we may or may not make based on the market in texas.

Just don't know.

It's very difficult to know.

and I know we have the opportunity, i think that's on our work sessions schedule somewhere on-line, so you'll be able to tell us that again.

[Laughter]

>> right, and how it works and how we adjusted for it and everything else.

That's correct.

and then there's one other question here.

It says, if unbundled, i assume it means unbundled the fuel from the -- from the other revenue in calculating it, should a portion of customer costs be assigned to the production function?

>> Should a portion of the customer costs -- and let me just get this on the table.

I'm not really sure what that question means.

>> Well, and when it says "production," -- for the production function.

>> Right, and there's -- some utilities budget for their production separately.

That's not the way it's done at austin energy, so I'd have to dig into that.

I'll talk to the rate adviser and see what he meant, why that --

>> morrison: let's see.

I do have a question.

If we -- I don't know if this is something you can really answer off the top of your head.

Are there -- I'm curious about how different ways of calculating the general fund transfer impact different customer classes, and so the question -- I'm just -- I'm wondering, when we hear from residential folks or industrial folks or churches or whatever, what are they going to say about this idea that we're -- we're tossing around here with your recommendation?

>> Well, if you're taking it off the gross revenue, then whoever uses the most electricity is paying more of the piece of it.

And so my presumption is, is that the customer -- our largest customer is probably going to care more than our smallest customer in terms of the weight of what their contribution to the city's profit, if you will, from the utility.

but changing from gross revenue to nonfuel, what difference -- how does that impact.

>> It shouldn't be a difference, I don't think.

There shouldn't be a difference in the impact, but we'll go take that question back and think about that and make sure that I'm right about that.

well, and i think that if there is a difference in the impact we'll probably hear about it.

>> Probably.

>> Morrison: yeah.

And then what -- I think i just have one last question, and that is if we were to compute $105 million of our non- -- if we want to take our nonfuel revenue and take a certain percentage of it to get $105 million now, what would that percent be?

I assume it would be above -- above 12 --

>> it would be above the 12%.

>> Yeah, it would --

>> it would be --

>> I'm doing the math in my head.

I think it would be close to -- over 13%.

About 13%.

But, you know, still, the number, if I remember right in our chart -- in the chart that I was looking at, is that if we do the 12% on nonfuel, it comes in about 94 million, so you need to make up the difference between 105 and 94 and adding that $10 million in there gets to the higher percentage that you're talking about.

But the effective percentage of it is still at that lower number.

>> Morrison: okay.

Thank you very much.

council member tovo.

I wanted to ask white meyer, our residential rate adviser, if he would mind just coming up and clarifying if he has any clarifications to make on that -- on the questions we just talked about.

, Or the questions council member morrison just asked about.

>> I'm sorry, council member morrison.

I'm not exactly sure which part of the report you were looking at.

That might be helpful.

>> It's going to be on the revenue retirements page.

and I apologize for putting you on the spot --

>> oh, no problem at all.

No problem at all.

gary goabl is here with me and I'm going to let him answer that.

>> Good afternoon.

Could you point me in the direction of the section you were talking about, please?

sure, it's the top paragraph there.

There's a second section -- second half of it lists out -- it says specifically the other alternative is just to do -- remove fuel from the calculation and then there are several questions that are left open.

Are there two sides to that paper?

>> I'm sorry, council member, we're going to get back to you.

>> Tovo: that's okay.

Yeah, yeah, we can continue this conversation.

We've got, I think, ten other work sessions,.

[Laughter] so we'll catch up.

>> Only eight more.

oh, okay, unless we add more at the end.

We're adjusting our schedule next week, I think.

So I do have a question if you'd like to maybe talk about this another session and we'll let these folks -- we can get back.

>> Okay.

we can get back to it.

I just wanted to follow up on one thing, mayor pro tem, that you mentioned or that you suggested.

I think it is really important if we are -- as we move forward through that discussion about out of city rate payers, which I know we're not discussing today but it is related to the general fund transfer, i would like to get some sense of how -- of those out of city ratepayers, you know, what kind of usage can we document of other city programs?

And I did actually submit a couple questions today asking, you know, can we quantify how many out of city ratepayers, for example, are included within the customer assistance program or are included or have maybe used some of the rebate programs at austin energy or some of the others programs that austin energy has?

But I think it would be very useful and I submitted a question along these lines too, can we quantify to what extent out of city ratepayers may, for example, sign their children up for swim lessons or reserve facilities like the zilker clubhouse.

So that might help us build a picture of the extent to which out of city ratepayers do benefit from the many programs and services that our city offers of which the -- you know, which benefit from the general fund transfer.

So maybe we can all be thinking collectively about how else we might, you know, get some good evidence that shows -- that paints us all a picture of, you know, who benefits from the services that the city of austin provides, because my hunch is that it's not just those who reside within the city limits proper, but it's, you know, many of us in this region.

mayor, I'd like to respond.

mayor pro tem?

I appreciate those comments, council member tovo, and I am asking them in not so much a -- charging staff with making a specific breakdown, and I understand that information can be useful also, but just recognizing that we are not a group of cities, but we are a region, and functioning as a region there's going to be benefits that are provided by the city of austin that other cities and even cities that aren't -- and people outside of austin benefit just like there are benefits that we benefit from in the region also and in the whole country, and that's the whole premise of the interstate commerce rule.

And so we have to come to the table with a good collaborative effort with our out of city neighbors.

Thank you.

yeah, and I'd just like to say, since mayor pro tem has sort of weighed in with her preference, that it seems to me that your recommendation on the 12% begins a gradual acceptable phase-out of the fuel charge, which I think is very important, because right now what we're doing 1% of the fuel charge plus the other revenue.

1% on something, basically, that you don't have.

It's like paying a tax, an ad valorem tax on something that you don't own, because that's something you're passing straight through from the vendor to the customer, and it makes no sense that any -- that anyone, including austin energy, should pay basically a dividend or interest on that particular amount of money.

It will -- you cut it off, i believe, at 2016 or 2017, but at some point that is going to begin to grow again and reflect the true growth yiewlt, not the volatility.

And I think that's what we have to get at, that's the important thing to address.

So at this point in time that makes a lot of sense to me.

So I guess we can go on to part 2.

>> I'd like to ask ed venino to come up and join me and he'll go through the rest of the presentation.

And then at the end of that portion of the presentation it will be time again for ...

>> Good afternoon, mayor, mayor pro tem and members of the council, ed vanino budget officer for the city.

I'll give you a brief overview of economic development activities across the city, talk a little about how they're funded and also offer for your consideration some alternative funding options, and we do have staff here from the economic growth and redevelopment services offices should you have any specific questions about their activities.

So the economic development portion of what we're talking about here today, the -- of the total transfers and other payments made by austin energy is about 6% of the pie, a little bit less than $10 million, and on the next slide you can see where the dollars are allocated.

3 million goes to fund the economic development program of egrso, another 9 million is for small business development # 3 that funds cultural arts and music division, workforce development programs of $1.2 million.

Those go to funding skill contracts with skill point alliance and capital idea.

The economic outreach 4 million, that provides funding for the various chambers of commerce in the city.

Also funds opportunity austin, the texas facilities commission and a couple technology incubators.

$900,000 In support services, that's the office of egrso's administrative staff, and $800,000 of transfers and other requirements with the largest pieces of that being funding phil our supplemental requirement, which is a cost that all city departments are contributing to, and there's about $250,000 in there for legal services related to economic development activities.

In total for fiscal year 2012 their approved budget 8 million, and that's the funding that's represented in that -- that 6%, that green portion of the pie chart.

A second component of the city funding of economic development activities, a component that oftentimes is kind of lost and not talked about as much as egrso is economic incentive reserve funds.

This is the fund that provides funding for the city's chapter 380 economic assent agreements, with the largest agreements being with samsung, the domain, the mueller and seaholm developments and you can see where the funding comes from.

In total economic incentive programs come to 8 million with the vast majority of that coming from the general fund, $13.1 million.

One of the things we would like to present, and this is not how we presented it in the city's budget, we present egrso and the economic incentive reserve funds as separate funds in the city's budget.

One thing we'd like to present here today is what a combined fund would look like, combining these two activities into a single fund summary provides, we think, a clearer picture of the economic development activities offered citywide and how those activities are funded.

You can see here looking on the right column of numbers, the total requirements for egrso and economic incentives combined in 2012 1 million with funding coming in the form 1 million from the general fund, 2 million in the energy utility and 300,000 from the austin water utility.

That difference between the available funds and the total requirements really has to do with how the economic incentive agreements are structured, and a lot of those agreements are structured so there's a lag between the times that revenues are collected and the time the incentive payments are made.

There's a one-year lag in a lot of those agreements, so that's why there's a difference in the two numbers.

So just in short we think this presentation provides a clearer picture of all the economic development activities that occur across the city and how those activities are funded.

As part of preparing for this we were asked to look at some potential funding alternatives for economic growth and redevelopment services, and we have two to present for your consideration.

The first would be to look at allocating a share of egrso's budget to other city funds.

One of the pros of this would be that it would share the cost of economic development more equitably between departments and would lower the cost burden with ultimately -- depending on the allocation method chosen.

The cons would be it would reduce funding for other city programs and/or increase rates in other areas.

In regards to this alternative, there is another factor that should be taken into consideration, and that is the sustainability fund and its funding sources, and let me explain to you how we figure that these two are interrelated.

The sustainability fund was established in 2001 to provide additional funding in support of the three e's of sustainability, that's the economy, the environment and equity.

The fund was established in 2001 and since that time it's received funding from a 1% transfer of gross revenues from the austin water utility, austin resource recovery, the drainage fund and the transfer -- transportation fund.

You'll see that austin energy has not contributed to that fund historically.

Instead they have funded egrso with a transfer rate 9% of their gross revenues in fiscal year 2012.

So we think it's important when we're looking at developing an equitable distribution of these types of services, that is services that provide broad community benefits, we feel it's important to look beyond just economic development and also take into consideration these programs that have historically been funded by the other city utilities out of the sustainability fund.

Another funding alternative to consider would be to take a look at funding the cultural arts and music divisions of egrso out of the general fund and/or the cultural arts fund.

The pros here would arguably be creating a better alignment between funding sources and program outcomes.

It would lower austin energy's cost burden by $1.3 million.

The cons would be that it would obviously reduce available funding for cultural arts contracts and/or general fund programs or also potentially result in increases in the property tax rate.

In regards to the cultural arts fund that's currently funded out of a one and a half penny per nine cents of the hotel/motel tax.

1 1/2% Goes into the cultural arts fund in the 3 million, so there are funds that could be allocated to this with the down side of impacting the amount of cultural arts contracts that could be awarded by the city.

So let had me just include with a recommendation before I turn it over to the city council for discussion.

First staff would recommend establishing egrso as we move forward as a stand-alone department and to create a combined economic development fund.

We feel this would more accurately reflect egrso's functioning as an independent department as opposed to part of austin energy and it would more transparently show all the economic funds dedicated to economic development across the city.

Second, we would like to look at ways of identifying alternative funding sources for the music and cultural arts division, with the general fund or the cultural arts fund being the likely sources where the funding would make sense in terms of aligning with the outcomes of those two functions.

And third, develop an equitable cost allocation model that takes into account existing funding sources by enterprise operations of the sustainability fund as well as existing funding by the general fund of the economic incentives reserve fund, you know, with -- with the thought that potentially after we did that work, and looking for that equitable model and taking everything into consideration, it may not look that different from what we're currently doing, but we certainly would want to explore what those funding alternatives might be and what a reasonable allocation model would look like.

So that would be our recommendation, and with that I would stop here to see if there is questions from the city council.

Questi questi ons?

Council member tovo.

I had some questions.

So looking at -- again, back to the fox mullen review of other utilities, it sounded like economic development is a very commonly funded program, at least commonly funded through utility departments.

Is that correct?

>> Yes, it is common.

and are there any other examples out this where they've parceled off with piece of economic development in the way that alternative 2 contemplates?

The cultural arts division, for example.

>> From the utility side?

from the -- from the transfer, basically, are there other utilities that fund economic development but parcel out cultural arts -- the cultural arts division and don't fund that.

>> Not to my knowledge.

I don't think they've parceled out the music and the cultural arts.

Generally they have supported economic development by building infrastructure to supply the power to large customers like samsung.

In the deregulated areas now they're really not providing the funding for economic development.

They're providing this benefit to large companies, primarily through lower rates.

And larry may be able to help.

>> Uh-oh.

I'm out of wires over here.

The -- the range of funding by utilities for a variety of different things is really -- my experience with it probably [inaudible] is everywhere.

It's really a matter of policy where a utility may be -- I mean, within public power you're -- the idea is you're owned by the customers you seven, and so -- you serve, and so the range of contributions to the arts, to music, to the parks, to whatever it is that you do, my experience with the different utilities I've worked for is that we do all kinds of things and we were not owned by a city, but yet we still sponsored economic development and a variety of different activities, and it was really from kind -- almost set at a budgetary standpoint.

In other words, have a budget that allows for different activities for the community's good, for your service area's good, and you can, with some discretion, use that money to support different activities, whether -- and try to make them for the better of the entire service area, if you want to think about it that way, rather than just the city.

And everything I see that we we've done in the past here has been consistent with trying to grow and maintain austin energy's service area, not just the city but the service area, and be fair and equitable about supporting a variety of different things, whether the long center or egrso, the variety of things that are out there.

What I see is consistent with what public power does.

>> Tovo: thank you.

And I'll just say that i am -- I have grave concerns with the alternative of parceling out the cultural arts division and our music division.

I think it's a key element in our economic growth and redevelopment services, and I would like to see it continue to be funded at the same level, and I think that will be a real challenge if it's under alternative 2.

I would like to hear -- i know we have a lot of representatives from economic growth and redevelopment service here today, and I know that they have prepared a white paper that deals with this issue of economic growth and redevelopment and its relationship to utilities, and so I wonder if I might invite one of them up to give us a sense of what's in that paper.

I've misplaced my copy but i understand we're all getting copies at some near future --

>> kevin johns, director of economic growth, redevelopment services.

Rodney gonzales, who prepared the white paper.

Yes, I'll be delighted to answer any questions.

I think all of you have seen the white paper we did last year, and so we have begun to update the analysis.

But basically what it does is it shows the return on investment of egr, so for every dollar that's put in it by austin energy, we generate about $6 back in revenue.

So it shows that there's 8/10 of 1% is our cost, but the return on investment is 7% of austin energy's revenues.

And then it pretty much weis said, that it is universally accepted, so we have documented around the united states how other utilities operate and what they fund.

So it's a breakdown of what the current kind of state of affairs is for economic development.

It also shows that from the fitz rating service, which rates energy companies, it shows that economic development is a key component in that rating system and how that affects the support of the companies' request for rate increases.

And lastly, the report does a quick history lesson.

It shows that the egrso was created, I think in 2002, 2003 by the mayor's task force, in the dot-com bust, a bad period in the economy.

And there was a blue ribbon panel put together that created a new strategic economic plan that also included the creation of egrso and the fundamental alignment of how it should be funded.

So there's kind of a snapshot of egrso and austin energy as it exists today.

thank you, and thank you for that quick summary of the findings of that.

I look forward to reviewing it again.

Have you had a chance to look at the different alternatives, the different funding alternatives from austin energy?

>> Yes, we began looking at them today.

I think we've known some time what the city was looking at, and I think that alternative a does subsubstantiate -- makes a case for continued work with austin energy, but from some support -- with some support from other utilities, and i think that makes very good sense.

do you have a sense of how alternative 2 might impact the work of, in particular, the cultural arts division?

And I know it's very -- you haven't had much time to really review it.

>> I really do not have that -- I don't have an analysis for you.

My gut feeling is we've been working for a couple of years to train all the cultural arts organizations organizations to generate more tourism and to be more business savvy and we think we've been extremely successful in that area.

So I see them as partly of our economic system as opposed to the kind of previous thinking of arts and culture as distinct from the creative industries.

But I haven't -- I haven't done an analysis of what that would mean in terms of our long-term funding.

and I would guess, based on the discussions we've been having over the last couple weeks about the value of those industries to the austin economy, that our cultural arts contracts are really a vital part of our -- of the economic health of our city and certainly contribute to the quality of life here.

>> Excuse me.

Yes, and I know that mayor and council are looking at what to do with those policies and how to capitalize on that.

And so we'll be happy to be part of those discussions with our cultural arts and music divisions.

thank you very much.

>> Sure.

council member morrison.

>> Morrison: thank you.

weis, I think this is for you and maybe you've already answered this question once before, but could you just help me put it in -- back to basic sort of terms of why an energy company is interested -- has a vested interest in economic development?

>> Well, fundamentally, public power utilities are very interested in attracting jobs.

Jobs means more homes, more customers, stronger utility.

It's a synergy that public power is very interested in.

To the standpoint where public power association actually offers a training course every year for utilities in economic development, recognizing, of course, that not all public power is owned by cities, so there are a lot of public power across the country that are publicly owned by the electorate, but it's not necessarily cities.

And so they're particularly interested in it because they have very large service areas and they're viewed by their consumers as not only the provider of electricity but also the provider of economic stimulus and an advantage to certain industries that might want to come to the area.

So it's really interwoven across a variety of utilities, across the cou.

As to what's the standard?

I think that's going to be very, very hard to find.

I believe that's done on an individual basis by the policy makers that are involved.

in terms of the number that are --

>> yeah, in terms of the raw statistics of how much and what, but I can say I do know that nonmunicipally owned utilities that have great involvement in economic development, also, if they don't do it themselves with a couple of staff members, there's usually a regional economic development entity that's not -- that's -- like a chamber forum or a county forum, and usually the utilities contribute substantially financial dollars annually to those organizations.

so fundamentally, at the ground level the power companies need to have a healthy economy to be able to continue to be healthy themselves?

>> Right.

Exactly.

>> Morrison: okay.

And so when we're talking, for instance, about cultural arts and music, we -- the reason it's in our egrso is because we know that it is part of what makes this a healthy -- healthy economic environment, for instance, how many millions that came -- that floated into town last week.

But I'm wondering if that also -- that same rationale also goes with some funding by city service providers or public power of what we call our sustainability fund.

And that is to go to environmental equity and economic health as a community.

Can you talk to that a little bit, about whether power companies do that?

I know we don't specifically have austin energy contribute to our sustainability fund, but --

>> I'm not aware -- I'm not aware of any contribution directly to a sustainability fund, but remember that our -- our goals and our generation plan and everything else is a big part of generating an economy in green jobs, solar energy, energy efficiency, contractors that do energy efficiency.

That's a very large part of what our programs stimulate.

So from an economic development standpoint you have to also think about everything austin energy does within our energy programs is job stimulation and economic stimulation.

So that's the only discussion I've ever had regarding sustainability.

well, if we -- if we include -- I guess we -- I gather -- do we include like workforce development, skill point alliance and things like that in our sustainability fund?

So in some ways it seems to align with what you're talking about.

>> Uh-huh.

I'm not intimately familiar with sustainability fund.

>> Morrison: all right.

Thank you.

And I appreciate getting the numbers on all of this, because I think it's important for us to sort of weigh overall, citywide, where our contributions are going and if -- you know, how they measure up with what other cities and other companies are doing.

council member riley?

to follow up on those questions about the sustainability fund.

Ed, I think this is a question for you.

Can you articulate a conceptual basis for having austin energy pay into -- support egrso and having the water utility and other departments pay into the sustainability fund?

I mean, they're serving similar purposes, but then yet there's a complete divide between the two.

And I'm trying to understand the conceptual basis for that.

>> Both of these were created about ten years ago, and I believe the rationale behind setting them up the way they were set up is just generically to have a community benefit come out of -- of the community owning these utilities, whether it be the energy utility or the water utility or running our own resource recovery department or drainage utility, like elaine was talking about, there's an inherent risk in running some of those operations, thran should be a benefit -- there should be a benefit back to the community of us owning them as opposed to them being privately owned.

So I think that broad rationale is the same regardless, and the way the sustainability was set up about, you know, creating a more equitable community with a healthy economy and, you know, a strong environment, the three e's of sustainability, well, if you really look at it, the sustainability fund has over the years really been focused on social equity, helping to fund social service contracts.

This last year it was able to bridge a grant in gap funding that we lost from the federal level that allowed us to keep our community services run by the health department open that otherwise would have had to be scaled back with that drop in f funding.

And it really has not been focused on the economic portion.

That economic portion has been really focused out of egrso.

And so I believe, you know, at some time back in the past the thought was that economic development activities really aligned more with the energy utility, and that would be viewed more favorably from a rate-making perspective than some of these other activities would, and that's why, you know, these were over time really created as two separate entities, with this group of enterprise operations, funding sustainability at about 1% of their gross revenues, and austin energy funding economic growth at slightly less than 1% of its revenues historically, and following up on the skill point alliance, the workforce development programs, those are contracts that could be funded out of the sustainability fund but they were specifically contracts that had a nexus to economic development, they're job skills type programs that help support the economy, and so those why those particular programs were funded through egrso and austin energy funding as opposed to the sustainability.

So somewhat of a rambling answer.

I hope it got to your question, though.

yeah, yeah, that is helpful.

If we can go to your recommendation, which was set out on page 28.

First you recommend establishing egrso as a stand-alone department and creating a combined economic development fund.

And then second is identify alternative funding sources for music and cultural arts divisions.

Do you have any -- any thoughts -- have you identified any potential funding sources for those?

>> Well, I think when you look at cultural arts and music and look at it alternative to -- relative to the department of a mission and look for alignment, I think you can certainly make the case, as council member tovo has, that there is an alignment between those creative arts and our local economy, particularly in the city of austin.

That brings a lot of tourism here, it helps our hotel industries.

There's a lot of tech companies that I think come here that are related to the music industry.

So I think you can make that alignment.

Is the alignment as strong as economic development -- specific economic development activities and small business activities?

You know, I don't know but, you know, the thought would be, and when we were looking at that, is where is the strongest alignment between the outcomes of those services and the missions of the offices, and we can certainly look across other funds, the general fund in particular, and the cultural arts fund, and see where there would also be a strong alignment between the outcomes of the music programs and the cultural arts programs and the missions of those funding sources.

So I think while you could certainly make an argument for keeping it within egrso, if there was a desire to look for alternative funding sources I think those would be the two most logical ones.

>> Riley: okay.

And then the third recommendation is one that seems like it presents the most difficult issues.

The third recommendation relates to developing equitable cost allocation model but it takes into account existing funding by enterprise -- and existing funding by the general fund of the economic incentive reserve fund.

Now, that -- so that would rework both sustainability -- the funding for the sustainability fund and i suppose that -- that egrso is not mentioned in that recommendation but I assume that that would relate -- the egrso would be within the same scope of that recommendation.

You'd want to identify an equitable cost allocation model for egrso as well.

>> That's right.

That's why we worded it that way.

We think when we talk about looking for a different allocation model for egrso, at the simplest level you would say, there's other enterprise operations and the general fund that benefit from economic development activities, and so how can we share the costs more equally.

I think in looking at that discussion we have to consider that other community benefits are currently being funded by other operations in the general fund and that needs to be taken into consideration as opposed to the simple route of taking let's take egrso's budget and allocate it to the various departments, with the cost driver when some of those functions are already contributing some of their gross revenue to other important community benefit programs.

So I don't think it's a -- i don't think it's a simple answer and that's why we're not proposing a recommendation here as much as we're trying to facilitate a discussion about the -- with the council about how you might like staff to proceed in looking at these issues.

I certainly think we could make a strong case that the current funding model that's been in place for over a decade is quite equitable when you look at the benefits being provided out of sustainability fund, community level, when you look at the benefits of economic growth and development and job creation on a community level, and look at how those functions are being funded with a 1% transfer from the water utility and other enterprises for the sustainability fund, and the transfer from the energy utility of about, you know, 9/10 of a percent for egrso, I think you could make the case that what we currently have have is equitable but if there's a desire to look for additional funding for egrso, we could come up with alternatives.

I think we would just need guidance from the council to come back with something that was meaningful to you.

is the idea that the sustainability fund and the economic incentive reserve fund would be subsumed along with egrso in the -- well, would be subsumed into a combined economic development fund?

>> Yes, and that would be regardless of funding, really.

This -- you know, this picture of our economic development activities citywide I believe is a more transparent and accurate depiction of all the things we're doing in the city to incentivize and bring job creation, economic development to the city, and actually the bulk of it is currently funded by the general fund through the economic incentive grants that we provide to, you know, businesses such as samsung, which is the largest user of electricity in the city, the largest user of water in this city, and so those are, you know, good businesses to bring them to the city, they help the -- they help the community in regards to job creation, they help the utilities in regards to, you know, electricity usage and water usage.

So, you know, we just think it provides a more accurate, transparent, clear picture of all the economic development activities in the city and how they're funded, so we would like to do this regardless of, you know, looking at different cost allocation bases or different funding options for the music and cultural arts divisions.

>> Riley: I see.

So you would set up a -- egrso would become its own department.

We would have an economic development fund, which subsumes other -- which subsumes potentially all existing economic development efforts, and that economic development fund would support egrso.

It could also support the music and cultural arts divisions?

>> It certainly could.

and the details on the allocation of costs for that economic development fund could be -- well direct staff to proceed with developing recommendations, and based on what you're saying, I take it that the recommendation could well result in cost allocation that's not too far off from what the -- the revenue that's currently being drawn from each department for these different efforts?

>> That's right.

If we were to set this up as a combined fund right now, it would look like this.

If there was a desire to have the music and cultural arts division funded out of the cultural arts fund, you would see a line item added to this fund summary that would show a transfer in from the culture arts fund 3 million and austin energy's contribution would go down by that amount.

It would provide a clear picture of what we're funding and how if we were to create it in this way.

So this structure is not dependent upon the allocation decisions.

We just think it makes more sense.

and the goal would be that all departments would be -- would -- that the cost of supporting economic development would be more fairly distributed among all departments, for all different types of economic development?

>> I don't know if I'd use the word fairly.

I'd say they could be differently allocated.

I mean, again, I think you could make a very strong argument that the current allocation of these costs are done fairly, but if there was a desire to allocate more of egrso's cost to different funds, the general fund, the cultural arts fund, the water utility, we could capture that and reflect it in this combined fund summary very easily.

>> Riley: okay.

Just one last question and i think this may be for larry.

Is larry still -- yeah, larry is still back there.

One concern I've heard out of the euc relates to the fact that egrso is not actually housed together with austin energy.

Egrso is here in city hall, and the perception is that egrso employees are kind of outside the tent and that austin energy is being relied upon to fund these folks who are doing -- who are -- who are doing stuff that no doubt benefits the utility but they're not directly under the supervision of the utility.

Have you heard those sorts of concerns out of the euc?

>> Well, I've been asked the question and I've heard that -- I've heard that comment.

My reaction is from our perspective it really works fine the way it is.

There's -- I certainly don't have any need for more responsibility directly or anything like that, but i think again, that other contributions by public power into economic development organizations in large regard are to a regional entity that no one has really control over the individuals.

It's really like a membership, like a chamber, if you will, that kind of thing.

So I find this situation a little bit unique, and i think it works, and I -- the euc's concern is basically that austin energy is funding and not receiving back its equitable portion of what it's funding, and i think that's a pretty difficult argument to really take apart and make sure that that's right.

It's hard to do.

And kevin and I have talked about it quite a bit and i think that they're working in concert with our efforts to bring good, stable jobs and help agree our electric utility service area, and that's my perspective on it.

and I know there are historic reasons for why egrso exists in the way it does, and I think a good case could be made that it operates more effectively as a separate entity than if it were actually housed with the utility, that it actually -- that particular model works very well, and may well reflect an improvement on past practice.

Is it your sense that -- i hear what you say about other utilities that support regional economic development efforts.

By that are you saying that it's not uncommon for utilities to support economic development through the efforts of -- through efforts that are actually distinct from the utility's own management?

>> That's correct.

That's correct.

that the utility may -- will often provide financial support for economic development efforts that are largely outside the control and supervision of the utility itself?

>> That's correct.

That's correct.

And sometimes it's even done on a state level.

>> Riley: okay.

Thanks.

let me follow up on that, if I could, larry, just for a second.

When you say that there are utilities that support economic development, that's just municipally owned utilities or public power, or does that include investor owned utilities too?

>> It involves investor owned utilities too.

>> Spelman: okay.

Is it roughly similar in proportion or percentage of REVENUES OR ARE THE MLUs Generally speaking spend more?

>> I'd have to do some research on that to get the answer to that.

>> Spelman: okay, thanks.

Ed, let me play devil's advocate with you for just a minute.

And I'm not sure I agree on this position, but I feel a need to present it.

We're talking about taking money out of a particular utility and putting it into a particular fund to pay for a particular thing, and we're doing that with all of our utilities for different purposes.

Some of it is for sustainability, some of it for economic development.

Could we not instead just recognize that economic development is something important which we ought to be doing and so is sustainability, take those two -- the value of those current funds, just put it into the general fund and then have egrso just be a general fund department, which is paid for out of same fund as parks, libraries, public safety and everything else.

What's the value of having a dedicated fund for egrso and a dedicated fund for sustainability?

>> Well, I don't know that there is a value.

I'd ask elaine to help me here, but my understanding is down in san antonio, is they used to fund their economic development out of their utility, and they did much the same things, that they chose to put the economic development activities back boo the general fund and just increase -- back into the general fund and transfer the payment to the general fund and cut to the chase, so to speak.

So we could certainly structure, you know, the budget in such a fashion to do that.

In regards to the pros or cons of doing it one way or the other, I think at least in some of the discussions I've been in, some of it may be optics, if we were to do what I just said being you're doing basically the same thing but it could be viewed as you're increasing your general fund transfer 1% to 10% because of 9% that I've been talking about.

>> Spelman: right.

>> So that's kind of what you're talking about.

Do you want to fund it out of general fund and have the transfer to the general fund be 10% or do you want to fund it out of austin energy and have the transfer to the 1%, and --

>> spelman: right.

>> I think it's six of one and half a dozen of the other, but, you know, I do think there's, you know, some safety in trying not to change things up too much and try to, you know, stay with the tradition of how we've been doing things because there is an optics that we have to be cognizant from from the rating agencies as well as the community.

let me continue with my devil's advocate position for just a moment.

In a way what you're suggesting is that the ratings agencies are so shallow in their examination of our operations that they are not noticing that we're playing games like this.

And if we stop playing a game here and we're a little bit more direct in the same way san antonio has, they'll see a difference which really isn't a difference.

Again, I'm not sure i believe this.

I'm just having -- feeling a need to put this forward.

>> Sure.

No.

I'd like to clarify what san antonio is doing.

>> Spelman: okay.

>> By bond ordinance their general fund transfer is capped at 14%.

Anything else that they contribute to the city of san antonio is paid out of the total 14%.

My understanding is that they do contribute 1% now to economic development, but that is carved out of the total 14%.

>> Spelman: okay.

So there is some fiscal discipline associated with that total 14%.

>> Yes.

if we were to 1% and, say, add 9% or whatever it costs to get to a 10% net effective, and we do the adjustment for the fuel factor, we're talking about 1.3 or something like that.

That kind of a number could have the same -- exert the same kind of fiscal discipline on us that the 14% does on san antonio.

But it would then conceivably go back into the general fund and then the council would decide how to spend money on egrso or on sustainability or cultural arts or anything else in the same way it makes decisions about public safety, flood control and everything else.

>> However, typically here at the city when a transfer is made, it's not specified as to what program it's funding.

>> Spelman: right.

>> And so I think that to -- it would merely be viewed as an increase in the transfer rate by the rating agency.

The way that ed has suggested as a separate fund, it is -- it is clear and transparent that the utility would be -- would be funding economic development activities that are typical for utilities to fund.

including investor owned utilities.

>> Yes.

>> Spelman: okay.

So this is well-known to the rating agencies that utilities do and this utility happens to be doing it all by itself.

If it just goes into the ocean of money in the general fund you couldn't make that same claim.

>> That's correct.

>> Spelman: okay.

>> Therein lies the problem.

>> Spelman: okay.

I see your point.

Any other questions on this section?

I see it's a little after -- go ahead.

I just wanted to point out one thing, again from the fox mullen report, that I think -- I think council member spelman i heard you ask a question about that related to other utilities and their funding of economic development and the fox mullen report does talk about that ae's funding 67 67 and lubbock estimated that 3% of its electric revenue would be used to attract development and it provides information about some of the other utilities.

So it sounds like again we are somewhat in line with the other utilities surveyed in a city like lubbock -- lubbock is spending more on economic development.

making up for that low 5% general fund transfer.

right, because lubbock does have a smaller -- yeah.

I'm ready to move on.

okay, I think i am too, but let me get a sense of this.

We have gone through two of the four sections you were talking about, and I suspect these are the large two, and the last two are probably fairly quick.

I don't want us to lose our quorum and we're within one council member of losing a quorum which is why I as mayor pro tem pro tem pro tem am chairing the meeting.

[Laughter] [one moment, please, for]

>> -- and if we didn't do the payroll centrally, they would need their own payroll people.

There is a cost efficiency to us doing the operation centrally as opposed to every department having their own payroll function and we allocate those costs out to the departments.

The big categories, there's a pie chart you're talking about 17% of this total pie we're here talking about today is the city-bide allocated piece.

There's four chunks.

The support services fund, which is the fund in which reside the financial services department, management service, autodepartment, human services, building, offices of auditor as well as mayor and counsel, $76.7 million.

Allocated throughout the city.

Austin energy's share of that is 6 million and that share is determined through an annual cost allocation plan, which I'll talk very briefly about kind of the basic methodology we go through in doing that.

Communications and technology management is another big piece.

That's your ctm department as well as ctecc and wireless communication, a combined budget 8 million with austin energy's allocation come 5 million based 5 million based on an annual allocation plan.

Liability reserves for funding settled liability claims andlesses throughout the city, 7 million with ae's 5 dollars million, allocation determined on previous years experience and workers' compensation for medical expenses from job-related injuries.

3 million budget, based on number of employees, with ae's share of $1.6 million.

Going to wrap up this section really quick.

I went through that it from quick.

The big pieces are the support services fund, a little over $70 million, community technology.

We have plans to allocate the costs to the departments with the purpose of the plans to identify as closely as possible the cost of services at support departments provide director and receiving departments within the city.

The general methodology at a high level is to determine the cost of specific support activities and we splice it up into cost centers.

So, for example, personnel and resources would be one of those activities.

And then we look for reasonable aid to allocate corporate departments that correlate to each activity to receiving department usage.

We allocate that to the departments based on the number of full-time positions.

If you do a lot of recruitments, you will get a bigger share of the corporate h.r. costs.

Then we credit back to those receiving departments any direct billing.

So there may be certain situations where a department has a number of specific positions that are just dedicated to their operation for one reason or another and, you know, just playing with this example, austin energy had three that they funded directly.

After they got their allocation, they would get a credit for the fact they already fund three people so they're not being charged twice for those.

Cost allocation plans have been used in the city for at least 30 years and run into a point where even the people who have been around a while can't remember how long we have been doing things, so I was able to find somebody to go back 27 years and confirm we've had cost allocation plans before we got here.

So we're saying at least 30 years, we have been doing cost allocation plans in the city following the general methodology I just outlined.

Those plans are updated annually.

I would also just add it's one of those ubiquitous things across jurisdiction.

Everybody's doing it and following the same general methodology which is largely laid out through o&b circular 87.

You know, it's a very standard way of allocating central costs out to their departments.

Pgh [one moment please for their -- pgh [one moment please for change in captioners]

>> Morrison: Is it a much higher level standard?

[Technical difficulty]

>> Morrison: We're getting some input from folks that are suggesting that things are not fairly allocated come to you and ask you what is the basis for our allocation and see how things --

>> we can provide you a tremendous amount of detail.

>> Morrison: I bet you can.

>> It's like a lot of things where, you know, where energy utility where reasonable people can come to different conclusions.

I wouldn't say it's an exact science.

You can look at a cost center and say that should be allocated BY THE NUMBER OF FTEs AND Others say it should be allocated by the number of computers you have in your office.

The cost of scare footage you HAVE VERSE THE NUMBER OF FTEs You have.

The ability gets down to us being ability track data to allocate costs.

And the value of spending staff time to try to track the hours.

Obviously the most accurate thing to do would be to have every employee walk around with a stop watch.

I'm here talking about austin energy.

As soon as I'm done I click the stop watch.

When I start talking about water utility, I start that stop watch.

That would be the most accurate way.

>> Morrison: That's what lawyers do.

>> That's where we need to strike a balance and I can definitely provide you with more information and tell you we have a reasonable plan well within the standards.

>> Morrison: And we have people around who have seen other cities and have a sense for what's acceptable.

Thank you.

>> Mayor Leffingwell: Go ahead.

>> Real quick on these last things.

These other payments including community programs, we have street lighting, about 1 million funded by austin energy.

That's only for streetlights and traffic signals in the city boundaries and also within the austin energy service area.

Fleet charges are paid by all city departments for fuel and vehicle maintenance services provided by the central fleet.

A variety of community programs 7 million, includes the winding down holly good neighborhood program, technology opportunity grants, hispanic future conference, harvest foundation, clean air force that we fund out of the community programs.

The utilities have a complete list of community programs they have been funding over time.

The 311 call center, $1.7 million.

Austin energy share up till 2011, the entire had been funded by austin energy and started spreading the the costs among the water utility, the general fund.

Austin research recovery gets a piece of the cost because they have over 50% of the calls.

-- They still are conducting the services so the funding has remained out of austin energy.

$900,000 Is for apd homeland security.

That's security patrols that are provided in the power plants.

That's something that was set up as a service following the 9/11 terrorist attacks and continues on today.

You know, miscellaneous payments.

Just, you know, for a variety of other things, totaling $1.4 million.

This includes present on the kramer lane facilities for the one stop shop.

Green building program energy inspections for their sure of the debt and atd air quality initiative.

That was moved to the austin energy transportation department in 2012 as that was moved out of awrnl and consolidated under the sustainability officer.

This little piece went to the I believe that's the last of our slides.

>> Mayor Leffingwell: Questions, council?

>> Tovo: I wanted to ask you about the community program and really how these decisions are made.

Some seem to be small amounts, $500 and under.

Other are larger amounts like the long center for the performing arts sponsorship, i think there are a couple of years where there was a $50,000 expense under that line item.

And can you give me some sense of -- do these come to council for consideration?

Are they austin energy decisions?

How are those decisions being made?

On which of the community programs get this kind of support and at what amount?

>> Certainly if they're over the council limit they do come before the city council for decisions.

>> Tovo: Can you remind me what the council limit is.

>> I think it's 58,000.

>> Tovo: So I guess none of these would have come before the council.

>> Many of the larger ones listed on the sheets that you have been given are long-standing funding, and, so, the decision was made a long time ago.

For instance, the motor oil marathon, that was related to a large outage that we had in the area that affected them, and they came back to us.

They incurred significant costs during the outage and asked us to sponsor their marathon for a few years.

They're a really large customer.

We get lots of usage from them as well as their employees, so we agreed, for a period of time, at the utility, that amount was less than the council level, so the utility agreed -- upper management decided we would fund that marathon for ap period of time and that ended.

That was where a decision was made within the department.

Some of these were decisions that we were asked to pay for things by corporate offices that have been in our budget for a long time.

>> Tovo: So corporate offices, for example the lung center might have approached austin energy and asked for that?

Corporate offices outside, basically the organizations requesting funding approach austin energy directly?

>> Some do.

Some are done through the budget process.

Like I said, they're long-standing funding programs, they're minor programming.

The funding in all is 700,000.

The holly neighborhood program is a long-standing pollsy.

That's a million of the 1.7.

So these are much like -- you could call them corporate sponsorships in some cases, like the clean air force.

Some are contributions to community programs.

Like the grants for technology opportunity.

That one we funded since 2002.

There are a number, as we said, the decision was made a number of years ago and the county said they kind of come down through -- we don't know exactly how the decision was made.

They have been just been in the budget for an awful long time.

Some of the smaller ones, we get requests sometimes directly at the utility, and a gentleman by the name of jeff bice handles most of those and works with our management and city management to make sure that we get those decisions made properly.

>> Tovo: I'll maybe follow up bice about some of that.

It sounds as if most of these are not really coming through council, unless they were some of the longer-standing decisions, and I guess I would be interested in knowing how one gets a picture of what those long-standing decisions are as they go into the future.

In the last few years, I got a sense of what some of the ongoing funding -- there are several who have received funding over a series of years that I assume are part of that.

>> They are.

Actually, since 2002, we've provided funding for the clean air force, for the grants for technology opportunity, for the leaps program, which is the city's leadership education/public service program, and, again, the holly program is another one that there has been long-standing funding for.

That was actually directed by council's resolution.

>> I'm familiar with the holly and that's about a million of the figure in front of us, right?

>> Yes, it is.

>> Tovo: I know this year, it's about 689, but it has been higher in pr years.

I thought I saw a year where it was several hundred thousand dollars higher.

So it's not a fixed amount.

I mean, that community program is not a fixed amount from year to year.

>> It's not faxed amount.

However, we include a line item budget at austin energy when we're proposing our budget every year and we provide a detailed listing of the budget, what we expect ongoing programs to cost us, and we put in a portion for undesignated because we get requests during the year.

But certainly the council approves that budget along with the bigger budget for austin energy.

And we have, over the last couple of years, looked to try and reduce it.

It did spike in 2010.

I don't recall why, but we have looked to try and cut back in that area in the last year's budget.

>> So you include, just to be clear on that gets to my next question about how you budget for those kind of expenditures.

You kind of recap what the ongoing commitments are and then include some extra for other organizations or companies that might come forward.

And, again, those decisions typically are made by austin energy.

Is there a matrix or some criteria that you use in making those assessments?

I assume they have to kind of support some of the city's visions and goals.

>> Yes, they will help us with the details on the decision making of what we fund and don't of the unspecified dollars but i know from total budget standpoint, we do look at that ongoing program funding and add a portion that's for undesignated to handle the requests that come up during the year, and then that's forwarded in our total budget to the city's budget office.

But we can get you more information on that.

>> That would be great.

Thank you.

And I guess, also, if there are organizations that are interested, how they would begin a process of applying for those funds.

Is there a cap on that?

A ceiling on those funds?

Does it typically stay within the budgeted amount or have there been years where it's exceeded what's been projected in the budget?

>> I'm sure, just having been there, I'm sure there are years it went over the amount of the budget.

However, the budget limit is the total budget of the department.

But we do budget these activities in a separate unit so that they are tracked individually and I used to get monthly reports, I still get the monthly reports and detail of the spending, so we keep good records.

>> Tovo: Good.

Again, just to clarify, if it is a large expenditure and it's one that recurs, basically, does that require a council approval?

>> Yes.

>> Tovo: For the ongoing ones, likely there was a council decision to fund, say, one of the $30,000 or $50,000 expenditures over the next five years.

That would be reflected in some kind of council resolution.

>> If they're over the council limit, yes, they would have come before council.

>> Tovo: I guess my question is about those that are large but a multi-year expenditure or a multi-year commitment.

If it's say a $30,000 or a $50,000 expenditure but it's one that re every year, is that something that would have required council approval at some point?

>> They haven't been brought to council that way because there is no contract with that organization to provide the annual funding.

It's just the way they handled our budget.

>> Okay.

Thank you very much.

>> Mayor Leffingwell: Council member riley.

>> Riley: In the last session we talked about city-wide costs and the allocation model for divvying up the cost among the departments.

The costs we are talking about now are outside the city-wide allocated costs but have application to multiple city departments.

For example, central fleet charges.

Even though that is available to multiple city departments, that's not considered a citywide cost that would be subjects to an allocation model.

Initially, help me understand why that would be, because those costs are easier to trace to a specific department?

>> Yeah, they're not allocated.

They're a specific charge.

So if austin energy has a vehicle in the shop for preventative maintenance, they pay for that.

>> Riley: Each department pays its own way?

There is no need to divide up common costs, you're paying for whatever you use.

And with respect to the 311 call center, austin energy contributes -- or as of this year, is contributing 1.7 million.

Or was that last year?

Are these figures for --

>> that's for 2012.

7 million out of the total costs.

What does that number represent?

Calls that are somehow related to austin energy?

>> Well, this was the first year that we spread those costs out beyond austin energy and we started talking about having a cost allocation model and then we came up to, you know, a few good points.

One of the points was that that call center has a value to austin energy as a backup data center and the energy utility had done some exploration of what it would cost for them to have a backup call center, they had a contract to have a backup call center so, if there was ever a problem, they could still get through to their customers and get that work done.

They put that value at $1.7 million.

So when we were trying to determine what would be a more fair and equitable way of evaluating the 311 costs, we gave austin energy the share of the cost center that was the value of being a call center for them.

Because half of the calls come from austin resource recovery, so we gave them half of the cost of the call center, most people asking questions about the trash pickup, et cetera.

So they got half of the costs.

We were about $2 million short to fund the rest of the operation, and, so, the water utility and the general fund each put a million dollars in towards the call center.

And, so, that was admittedly the ad hoc basis we went about, looking for a way to fund that program in the manner other than austin energy paying for it all.

For fiscal year 2012, austin energy funded all the costs of that center.

>> Riley: There has been discussion about allocation of the 311 model?

>> We started having the discussion last year about allocating the cost out based upon call volumes, which maybe wasn't the most ideal method.

They had other, you know, things that we were looking at and this is just what we landed on and we were trying to find a way to incorporate into the model the value of the call center to the utility as a backup call center and this is the model we came up with.

You know, we certainly could have come up with a more complica that allocated costs to operators such as the convention center or airport or other areas.

>> Riley: With every call, you could put each call into some category and then at the end of the year tally up how many calls were attributable to each department and allocate the costs accordingly.

>> And as he said, sometimes it's a matter of the recordkeeping that you'd have to do to keep track of the calls, like if you get a call to 311 and they say, I want to call elaine hart, you mark one on the list for financial services.

How much workload is there in keeping track of every call like that.

>> Riley: I noticed there is no recommendation for this session.

Do y'all -- and yet, I sense that you're not -- I'm not hearing that we've arrived at a perfect model for funding the 311 call center.

Are y'all -- is that still under consideration?

Is there some different cost allocation method under consideration or do y'all feel like this is the current approach to funding the 311 call center is what we should stick with?

>> You know, I would say that we think that the rationale provided to us by the energy utility is not funding at all but having the energy utility fund the value of it as a backup call center to them made sense, and for the remainder of the allocation, if we could come up with a way of allocating out based upon data as opposed to something as ad hoc as, you know, half the cost by austin research recovery and a million-million for the rest, that would be preferential and something that we can certainly explore for you and see if, you know -- you know, we made the decision relatively late in the 2012 budget process and had to come up with an allocation model and have time to get through all the work and trying to come one a data source we felt was reliable and reasonablable for allocating those costs, but we wanted to do something.

At least for 12, we came up again with an ad hoc approach, but if we could come up with something more databased and driven where the data is reliable, we would like to do that.

>> Riley: About the sustainability, austin energy does not contribute to the city's sustainability fund but we -- but austin energy supports the office of sustainability.

Isn't that correct?

And we -- austin energy provides $1.1 million.

Do other city departments also contribute to the office of sustainability or is that solely funded by austin energy?

>> Only funded by austin energy.

>> Riley: We're the only ones that don't contribute to the sustained -- I mean, austin energy is the only -- austin energy doesn't contribute to the sustainability fund but they're the only ones funding the office of sustainability.

Have y'all considered any other -- I know we talked about a different approach to funding egrso and the sustainability fund.

Did y'all consider whether the funding stream for the office of sustainability would be affected by that shift?

>> No, but we can certainly look at it.

We've not come up with a recommendation on that at this point.

>> Riley: Okay.

Thanks.

>> Mayor Leffingwell: Council member morrison?

>> Morrison: I just have to share that I'm surprised that half of our 311 calls are about austin resource recovery.

>> Is it a trash day or trash and recycle day.

>> Morrison: Is that what it is?

Or is it a problem of missing houses in pickup?

>> I think some of it is that as well.

>> Morrison: Interesting.

But really, I just wanted to ask about streetlights because we haven't talked about that yet.

Austin energy is, under streetlights, you're talking about streetlights that we think of as well as traffic signals.

Is that correct?

>> That's correct.

>> It's the electric service that runs the lights that we're paying for.

>> Morrison: That eeks the walk-don't walk signs that some people ignore and things like that?

And I think I heard you mention that we pay for it in the whole service area.

So that's not just a city of austin coverage.

>> In the right proposal, they're recommending a separate charge for that.

That would be a service-wide program as well.

>> Morrison: And can you remind me?

Is it individual -- everybody's bill will be paying a little bit of the street light cost?

>> Yes, that's my recollection.

>> Morrison: Okay.

>> They're currently paying for it in their base rate.

It's just we're separating it out as a separate charge in transparency in the proposed rate structure.

>> Morrison: Okay.

Thank you, that's all.

>> Mayor Leffingwell: May we reasonably conclude, elaine, that the appendices are self-explanatory?

>> Yes, they're for additional information.

If you have questions, I'd be glad to take them at anytime.

>> Mayor Leffingwell: Good to know.

Any further words from you guys?

>> Thank you for your time.

We appreciate it.

>> Mayor Leffingwell: There being no further business to 44, we are adjourned.