

City Council Special Called Budget Work Session Meeting

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[9:39:49 AM]

>> Tovo: Good morning. We are in the boards and commission meeting. I am mayor pro tem Kathie tovo. We had a quorum, we have a quorum again. Mayor Adler is out on city business this morning. He will be here closer to 10:00 so we're going to go ahead to convene this meeting to order this work session. It is 9:40. We're going to start with Austin water, Mr. Meszaros. We have five departments to cover this morning. Mr. Van eenoo, are all departments going to present?

>> They are all here.

>> Tovo: We'll start with Austin water.

>> Thank you, Greg Meszaros and David Andrews, chief financial officer. Austin water provides water and wastewater services to the community. We continue to be recognized for the quality of our drinking water. The effluent that we treat, our drought response and conservation programs continue to be recognized from a performance metric, we're accomplishing our goals for permit compliance and reduction in water demand and other related measures. We have the graphs there. We do have revenue streams from other sources of income. We have a small amount of revenue from our reclaimed water utility. We have a dedicated second reserve fund that we've been creating. We also get some revenues from various other sources such as land developments related transactions. On the uses of fund perspective for 2016, we have our operating departments, operating uses of the funds. We've really done a focus job at reducing costs there.

[9:41:50 AM]

We had reduced costs this year 30 million, we're carrying over the bulk of that. We're forecasting a small increase next year for about less than 3%. A large percentage of our usage funds goes to debt service and the debt service is going down with our refinancing that was recently completed. Some of our transfers out are going up and that's a combination of various factors that we'll go into including increased equity funding of our cip and transfers out to other departments and the general fund. On the budget highlight perspective, this slide here describes some of the specific areas that are changing, and as I mentioned we're increasing the amount of cash financing, our cip is financed through cash financing or long-term debt and we're proposing to increase the percentage of equity financing as opposed to debt financing. Austin energy costs for customer care is going up. We're also having an increase in bad debt expenses that we're writing off for 2.1 million. General fund transfer is increasing 2 million per formula. We're increasing the cash transfer to our reserve funds and our debt service is forecasted to go

down 14 million, which was a nice outcome of our debt refinancing. On the cip side we're forecasting or budgeting \$154 million cip and associated \$40.9 million increase in appropriations. The bulk of those investments are going into rehabbing existing facilities, replacing worn-out facilities, pipe, both distribution and collection system, relocations for transportation projects. We'll invest in reservoirs, pump stations and lift stations. We have over 150 small facilities of that nature.

[9:43:56 AM]

Vehicles, some annexation investments and reclaimed water and some dollars going for transmission infrastructure. On the rate and revenue side, we're forecasting rates and revenues increasing for water and wastewater systemwide, 4.8% on both water and wastewater from a revenue perspective. We're forecasting that we're going to continue in stage 2 water use, which is one day per week, and that's over the long term continuing our trend of dropping water demand. We've seen water demand drop about 20% over the last four years. On the reclaimed water side, we're forecasting a 15% rate increase. We've been trying to get reclaimed water rates to 40% of the potable rate. It's a below cost utility to kind of get people to convert and we're slowly reducing the amount of subsidies to that reclaimed water system. In general, the big focus of our rate increases is on firming up our financial metrics. Because of some of the declining water demand over the years, we've seen our financial metrics drop below council policy levels and accepted levels for bond ratings. Particularly our cash balances have continued to dip negative on the water side and with this rate plan we hope to stabilize that and begin recovering on the cash balance side. Also from a debt service coverage ratio, we've been well below council policy and bond rating recommendations and we're looking to shore that up. Our bond rating agency's placed us on a negative watch a year ago, we've remained on negative watch for down grade and we're hoping with this plan we firm up those metrics and maintain our bond ratings. This slide here provides a comparison of a typical residential bill.

[9:45:58 AM]

Residential customers vary, this is a typical mid point kind of bill. 5700 gallons of water use, 4,000 Dallas -- gallons of wastewater use. At forecast time in the spring, we had forecast that level of use would go up about \$5.92, but with our debt refinancing here at the budget time, we've been able to reduce that about a dollar per month from 5.92 to 4.94, which is 6.7% variance for the kind of customer that would fall into this typical use. And again, that's a high level overview of some of the big pieces of our 2016 budget. We would be happy to answer any questions that you may have.

>> Tovo: What questions does anyone have for Mr. Meszaros? Councilmember Casar, you have a question look on your face.

>> Casar: Thanks for presenting today. I'm pretty familiar with on the Austin energy side we have an affordability role and rank ourselves to other cities whether it be their rates or the typical bill. Do we do any similar measurements at the water utility and where do we fall currently if we know that information with the changes in this year's proposed budget? How would that make us -- how would that impact our residents' bills relative to other residents in other parts of Texas?

>> Well, a few thoughts there. One, we don't have a specific affordability goal like ae. We do have several affordability metrics, one similar to ae. We have a customer assistance program where customers that meet the income eligibility requirements are automatically enrolled.

[9:48:04 AM]

We waive all fixed fees for those customers, fixed monthly fees as well as provide some reductions to

their variable usage rates. We have grown that program from about 5,000 customers a few years ago, we're currently at -- David is it -- over 20,000 and we invested a little over 6 to 7 million dollars in that cap program and that's been very effective at keeping our rates affordable for the most vulnerable customer class that we have. From a rate comparison perspective, our residential rates are set up on a heavily inclining block rate. We have the most steeply inclining block rate of any large utility in the nation so if you use a small amount of water, you pay very little cost for a thousand gallons of use. As you increase use, it increases substantially up to what we call block 5, which is now above about almost 14 gallons per thousand Santiago. Our rates are very competitive and low compare I comparatively to others, but as you use your water your water bill goes up rapidly.

>> Casar: That answers my question and provokes two followups. One is I would be interested in those lower two tiers, sort of you mention that makes us very competitive on the afford ability side, considering those lower water use tiers which people can choose to conserve water and pay at those rates, and then second as far as the cap program goes, I know that the energy utility as of last fiscal year there were folks still on the waiting list.

[9:50:05 AM]

Do you know if half the water utility people are on the waiting list to be on the cap program?

>> Ae administers that. If they are also an Austin water customer, they are automatically enrolled. If they haven't been enrolled in ae's program, my assumption is they are not enrolled in our program.

>> That's correct.

>> Casar: So the number for cap program wait lists at Austin energy is the same as the wait list at the water utility.

>> Essentially, although the two utilities do serve a -- their service areas don't entirely overlap so it's potential you could have customers that are ae customers but a different water provider.

>> Casar: Understood. I'll follow up with energy utility and thanks for that clarification.

>> Tovo: Other questions? Councilmember pool.

>> Pool: This doesn't relate directly to rates for setting rates, but could you give us an update on the drought situation? And our lake levels.

>> Obviously the drought has been the central issue for the utility over the last four years in particular. The -- the Lakes are currently -- the combined reservoirs, Lakes Buchanan and lake Travis, are at slightly above 75% full, which is a substantial improvement of where we were just a few months ago. Obviously we had a very wet may and June which provided substantial inflows to the Lakes. It's turned dry again and, you know, this stretch from July through August has been quite dry and Lakes have started to drop again, albeit slow. The forecast is for an el Nino pattern, a strong el Nino actually into the fall and winter and spring.

[9:52:07 AM]

Historically el Nino patterns make the likelihood of a cooler, wetter weather higher, that we would expect a chance, a good chance of a wetter fall and winter and spring which would hopefully continue to fill the Lakes up. It doesn't guarantee that, but it is a higher probability so we remain cautiously optimistic that the Lakes will -- will be stable or perhaps rising as we get out of the summer months and into the fall and winter.

>> Pool: Thanks for that. I just wanted to stick my support for the city manager having recommended or stating we should continue with our stage 2 water restrictions. I think that's a good idea. It's hard for folks to ping-pong back and forth in and out and I actually think having been in stage 2 water restrictions for a while has had a really good effect on the kind of landscaping that people are putting in. It's much

more sustainable and it's actually in a lot of ways more interesting to look at as well. So thanks for that and I appreciate your good work.

>> Thank you.

>> Tovo: So before we get too far involved in this conversation, I've been reminded to focus our questions and our discussion here today on budget because that's what we're posted for so certainly if there are followup questions on this, I think they are appropriate if they are budget -- budget focused. Councilmember Zimmerman.

>> Zimmerman: The subject was brought up so I guess that cat is out of the bag, but this is an important issue for a lot of our constituents that are having landscaping die. We had a huge rain and everybody is oh, the drought is over so they started replanting dead vegetation, they planted new trees, flowers, vegetation destroyed over the drought. The drought of 2012 had stage 2 restrictions at 900,000-acre feet. Is that right?

>> In the drought contingency plan?

[9:54:09 AM]

>> Zimmerman: Table 2 on page 5. When the water drops below 5,000 you impose stage 2.

>> That's correct.

>> Zimmerman: Commensurate with that is the provision for lifting stage 2. So for lifting stage 2, the authority that lets the city manager impose stage 2, it also has a requirement for lifting stage 2. And that would be 1.1 million-acre feet for, say, four -- in four months where it doesn't drop below 900,000. We have easily satisfied that constraint such that stage 2 should be lifted. In fact, we're up over 1.5 million-acre feet. We're above the trigger for stage 1 water restrictions. And my point is the whole purpose of a reservoir is to store up rain when you have heavy rain so that you can provide -- you have water when you have drought. We have a couple of months of drought, the summer is going to be over here in a month or two. I think it's inexcusable we haven't lifted the stage 2 restrictions.

>> Tovo: Councilmember Zimmerman --

>> Zimmerman: It was off topic.

>> Tovo: We have to be careful we stick within the posting limits. I know that's posted on the message board and that would probably be an appropriate place for that conversation to take place unless you want to bring forward that resolution to council. Councilmember Gallo, do you have a question?

>> Gallo: First I have a thank you for whoever set up the room to give us additional space during the budget. We have big notebooks and they spread out so thank you to whoever was responsible. This is kind of a general -- and thank you, good morning. A general question. It looks like revenues with increased rates will be up about \$19 million. But it looks like we're also looking at a budget increase of \$9 million. I'm trying to understand why we're -- income is going up so substantially but we're still looking at a budget increase also.

[9:56:11 AM]

I know that's kind of a big picture, but if you could help me understand the simple answer to that.

>> I think a few things. One, our rates and budget goals for next year, a lot of that is targeting improving these financial metrics. Our cash balances have remained very low on the water side so with this -- with this plan we're hoping to store more cash just to get from staying above zero on the water side. Our water cash balances have been very low so some of the additional dollars are going to go to that. The other big financial metric is our debt service coverage. That's a calculation that's done taking kind of our gross revenues. Council policy is 1.50 of debt service coverage, so 1.5. We have been well below that. Last year we fell to 1.25 in debt service coverage, which is the absolute minimum per our bond

covenants. The rating agencies have really given us very clear feedback that if we want to maintain our current credit rating, that that coverage is going to have to increase not only to get back to 1.5 but to get higher than that, 1.7, 1.8 range. So a big part of the focus of the budget in 2016 is improving that metric. And by improving that metric, you produce a little more cash, and again, the extra cash would go to help finance some of our C.I.P. With cash as well as saving it in our cash balances. On the expense side, some of our increases -- the utility's operating expenses are increasing about 3%. Other parts of our expenses are increasing a little bit more than that.

[9:58:18 AM]

We pay Austin energy for customer care and billing services, and those costs are forecasted to go up. That's a part of our expense increases. We have some other various transfers, our general fund transferring is going up a bit. We're transferring cash. They set up a policy establishing a revenue reserve fund, a second reserve fund. Historically we've only had one fund, our operating fund, but because of the various volatility and changing risk profile, council directed the utility to set up a secondary fund which is funded in part by a charge on customer bills, and when we have cash, we try to transfer some cash to that. I know it's kind of a complex answer to your question, but that's some of the areas that are kind of really driving next year's budget.

>> Gallo: Thank you because I think where we'll start getting questions from our constituents is when they see the water bills going up 6, 7, 8% and then they say the income stream going up because -- stream is going up but the expenses are going up. I think we have to be really knowledgeable with an answer to the constituents to say why because as we all know people have -- have shouted fairly loudly that both property taxes and utility bills cannot keep going up every year.

>> A few thoughts on that too. Just as I mentioned, this year's budget we reduced \$30 million. If you compare our 2014 to our 2015 budget, it's \$30 million less, actually hard less. And the bulk of that is still being carried over, although we have modest increases. A lot of them the employee pay, health insurance, all of that applies to Austin water too. That's a big part of our -- of the small operating cost increase that we see next year. But by and large a lot of those cost reductions, which was done with the help of a very intensive citizen review last year, the bulk of that is carrying forward into next year so we're very mindful of the concerns about rising costs and affordability.

[10:00:31 AM]

>> Gallo: So if we were not to increase the rates to the customers, how would we deal with that in the budget? How would you do that?

>> I think the number one thing you would go to is you would reduce our debt service coverage. You would say we're not going to raise that debt service coverage level to the -- to the -- to the amount that it needs to be to maintain our bond ratings. I think essentially that's the biggest thing you could do to change rates. If that's the interchange with this budget is if you want to drop that metric and reduce rates, which it could be done, the tradeoff is you would likely trigger a credit down grade.

>> Gallo: And just I'm sure it is in here somewhere, but could you tell me what the cost to reduce that debt service coverage is in the budget?

>> Our forecasted debt service coverage for next year based on this budget is 1.69.

>> If I could just mention that, you know, maintaining that debt service coverage to maintain the bond rating, I mean it -- it's critical to our -- to the -- to our borrowing rate so to be downgraded is going to require higher borrowing rate in the future which would affect future rates. It all does tie together in regards to impacts to future ratepayers if they are having to pay higher debt rates to service the debt. Water is a very, very capital intensive operation, a significant portion of their budget goes to debt

service to pay for all the infrastructure requirements and keeping those borrowing rates down, keeping them low is a big part of how they manage their rates over time.

>> And I think that's really important, but I was trying to kind of put a number with the costs to keep us at the best potential place for bond ratings. So the 1.69 million is what you've estimated to --

>> That's the ratio.

[10:02:31 AM]

We probably have to follow up with more details of the exact dollar amount that how that breaks down. David, unless -- any comments on that?

>> Yeah, we would probably have to follow up and take a look at what we would have to reduce to bring down that -- that debt coverage. But one of the things to keep in mind as well is as you reduce rates in one year, then those rates that you increase in one year really are ongoing for every year thereafter. So as you reduce that, what it will tend to do is increase the rates for the following year to get you back to the same or even a sustainable debt service coverage ratio.

>> Gallo: Okay. Thank you.

>> Tovo: I have a quick question, I think. One of the cost drivers that you noted was the increases in the costs associated with the billing system. And I don't have that sheet but it was in -- it was over \$2 million, as I recall.

>> That's correct.

>> Tovo: One question I would have is are you experiencing increases in costs related to the billing system that Austin energy is not experiencing? I don't recall seeing that as a cost driver in their budget presentation.

>> Well, I -- the increase in the billing system is \$2.6 million. About 1 million of that is just increased costs in -- costs associated with -- that's right, in handling the billing system, and that is all done through Austin energy, allocation of their costs associated with managing the system and then each of the departments that use that, a portion of that. That's going up by a million dollars. But as part of the 2015 budget reductions that Greg mentioned earlier, the \$30 million that we reduced last year, part of the reduction in this line item was about a million and a half dollars that the Austin energy basically kept their increases flat, and then they also gave us a credit for some green choice for a million and a half, and that was a one-time, one-year deal.

[10:04:48 AM]

So the other part of this 2.6 million is the million and a half increase for that portion going back to the Normal level.

>> Tovo: Thanks. So that was actually a cost you would have experienced last year, but for the decision to delay some of those --

>> They gave us a million and a half credit to try and reduce our rates last year when we were increasing it so much.

>> Tovo: So why the \$1 million increase in the allocation?

>> You know, some of that --

>> Tovo: Allocated costs.

>> There's different costs associated with the billing system itself. Some of the programming and -- or whatever those, as well as just -- you know it's very labor intensive with call center and those kind of things. So health insurance, pay increases and all those kind of increases are then allocated to all the customers.

>> Tovo: Okay, thanks. I'm going to turn this back to the mayor. Mayor, I believe we're nearing the end

of the questions for Austin water utility, but you might just verify.

>> Mayor Adler: Mayor pro tem, thank you. Any further questions? Yes. Mr.

>> You know, with all this rain, all this water we have in our Lakes, I would like to know what would be the impact on the budget if we did go into -- did away with the phase 2 restrictions. See how much money it would generate and how much money -- I mean how much water would it use on the lake if we get there. I mean how far with the lake level drop if we implement -- ease the restriction on stage 2 and [inaudible].

>> I could respond generally and we would have to follow up with more detail, but if you were to go back to two day per week water from one day per week watering, I think over the long run you would expect to have more water use and increased revenues.

[10:07:03 AM]

The question is what would be the impact in the short run. We've been in one day per week watering for four years and a lot of people have really adapted and changed their behaviors. Our stance in the short run is in we would not see a -- it may go up, but it probably will be a slow increase over time. We would still recommend even if we went back to stage 2, two day per week -- excuse me, stage 2, two day per week watering, that we not change our approach to forecasting revenues for next year. So we could follow up with more details for you, but that would be a general sense. I do think over the long run it probably does lead to people watering more, but in the short run it may not change. The other aspect is we're still weather influenced heavily. And that's the other unknown next year. If the el Nino pattern holds and it is a very wet year next year, that alone will suppress water demand even if we are in two day per week. So from a budget perspective, I would again recommend forecasting lower water sales rather than higher even if we came out of one day per week watering.

>> Mayor Adler: Related to that question on water usage, you are projecting that water usage on the -- from the average home will go down over the next five years, that it will continue its drop. Is that right?

>> Yes, our assumption over the five-year period, mayor, is water demand will continue to slowly drift down over that period. Now, our assumption was that we would likely stay within one day per week watering.

[10:09:04 AM]

If that changes, that may change our assumptions as we look into the future.

>> Mayor Adler: And do you anticipate that in the el Nino area that we're in right now that it will be wet and --

>> Yes. At least over the next six months as we get into the fall and winter and spring, they are forecasting a strong el Nino pattern which significantly increases the probability of it being wetter than Normal.

>> Mayor Adler: I think that when you made the original projections for the budget because of the budget process we have, you had to identify Numbers perhaps as early as the spring where we sit right now, there's an estimate of what you have of what the actual water use age will be by the average home through the end of the fiscal year. Would you expect the water usage next year to be lower than what the average usage was this year?

>> David, do you want to --

>> By the end of the year, in our projections we assumed that an average or a typical residential customer would be around 5800 gallons at the end of this year. As we've updated that through the last - through may and June when it was really wet, we were seeing that might be actually a little lower by the end of the year, but then as we were in July and August, then we're recovering on that. So we still

see that we're going to be around 5800 gallons by the end of this fiscal year.

>> Mayor Adler: And then how much lower if we continue the trend? Back up, how much lower do you think it would be looking at it now as opposed to looking at it in spring? If you had an opportunity now to look at what you would anticipate the Numbers to be next year.

>> For next year as we continue to get additional information each month, we would assume that we would be right around that same 5800 gallons for next year.

[10:11:08 AM]

Obviously, you know, with el Nino it's sort of hoard to know from a weather perspective but that's what we're projecting at this time, around that, possibly a little lower.

>> Mayor Adler: But your five-year conjecture continues to move down. If next year was consistent with your projections, how much lower than the 5800 would you anticipate it would be next year?

>> I think that's something that we would have to look at specifically and we can definitely get back to you on that and where our current projections are for now, but it would be within 58 to 5700. I believe in 2020 as we were looking through our projections earlier this year we were assuming that around 2020 we would be around 5400 gallons. So it's going to be, you know, it's not going to be as deep of a decrease as we've seen over the last two or three years, but if we were to stay in stage 2, that we would have sort of a leveling out and slightly reduce each year, but between that 2 and 300-gallon range over the next several years.

>> Mayor Adler: And I would appreciate it if you would do that because I know you look at projections back in the spring, you have a lot more data now. If it's going to be about 5800 for the actual number this year, I would like you to take a look at it now and tell me how much below 5800 you would anticipate it would be next year. If you could get that number, I would appreciate that. Further questions from council? Mr. Zimmerman.

>> Zimmerman: Can you tell us about the wholesale water customers? There's a PUC case that the city has lost with some of the M.U.D.S in the northern part of the city. A lot of those touched my district. And it looked to me like the city had the indefensible budget practice of charging the community benefit charge, transfer fees to wholesale customers that are outside of the city. And the P.U.C. Has ruled against the city so I can't understand why the city ever presumed it had the right to take money from M.U.D.S outside the city and use that as part of the transfer funds to shore up the budget.

[10:13:19 AM]

We're talking millions of dollars.

>> Mayor Adler: Mr. Zimmerman, this is a matter in litigation.

>> Zimmerman: There's a budget question here too.

>> Mayor Adler: There is, but it goes to questions probably asked during litigation so it would probably be inappropriate for this witness to do this in a public setting right now. We can discuss it in executive session.

>> Zimmerman: So would it be fair to say as part of next year's budget, since there's litigation involved that the budget should account for taking out these things that we shouldn't be depending on next year?

>> Mayor Adler: I think that you can ask the question about how the budget is treating those variables this year. I think that is a fair question.

>> Zimmerman: That's the way I want to frame my question. Thank you.

>> Mayor Adler: We'll leave the value and assessment out and say how are you treating that in the budget. Perfect question.

>> For the wholesale customers that petition the city and challenged our rates, for those four customers on the water side, the current budget assumes a 2012 rate level. The rates we had in effect in 2012 for those customers, we are proposing on the water side to move those customers back to the 2012. We feel that is consistent with some of the proposals for decision that have come out. As far as on the wastewater side is something that at the time of the budget we weren't quite ready to do that and so the 2016 rates for three of the wholesale customers that petitioned, one of them doesn't receive wastewater services, but those three are at the 2015 current levels so there's no increase. And it is something that as we proceed through the budget process, it's something that we would probably come to council and potentially propose those back to the 2012 levels depending upon outcomes.

[10:15:22 AM]

But the wastewater is currently at 2015 levels for this year and for next year.

>> Mayor Adler: Further questions? Gentlemen, thank you very much.

>> Thank you, mayor.

>> Mayor Adler: That gets us to Austin resource recovery.

>> Greetings.

>> Mayor Adler: Good morning.

>> Bob getter, Jessica, our finance manager and power point for fiscal year 14 for Austin resource recovery. As a department overview, we start with our department mission. This was a council adopted mission for a department in 2011 to provide excellent customer services that promote waste reduction, increased resource recovery and support sustainability efforts so.

>> Renteria: Waste goals may be achieved. So with that mission in mind, we form our budget towards those goals. Our major accomplishments in this past physical year, we engaged in a waste composition study of the material going to the landfill and observed some valuable insights on types of recyclables that are going to the landfill that we need to capture in our blue carts.

[10:17:25 AM]

We also finalized plans for phase 2. Phase 1 was recycling oriented towards small businesses and commercial enterprises and phase 2 geared more towards multi-family and larger complexes. The universal recycling ordinance is to be fully implemented by 2018. We also managed the additional workload of two significant storms that caused a bit of delays on our yard trimmings collection and I'm happy to say we're caught up on our yard trimmings collections as a result of those storm events. Some of the key performance data that we look at in measuring our performance, two major ones, three major ones that I look at, the diversion rate towards our zero waste goals. We're looking at a 42% estimated diversion rate for this year and 50% goal set by city council that we are underperforming on. And working to change our operations to reach that 50% goal. I also looked pretty carefully at the customer satisfaction surveys. We consistently have been averaging 86, 87% customer satisfaction on our surveys and we're reaching for 90% plus on our satisfaction. Working on different ways that we respond to 311 calls and particularly looking at how we responded to the yard trimming S delays and have some learned lessons on how to manage those situations. I also look at safety in the lost time injury rate and definitely trying to target zero. We had an unfortunate injury last week and it is a challenge -- our drivers drive every single street of the city every week and so there is some challenges in safety out in the field, but it is a very high priority of our department to reduce injuries, reduce accidents, increase safety.

[10:19:37 AM]

Source of funds, the department is asking for a request in a rate increase on our residential and commercial customers and that bumps up the anticipated revenues for next year. We're looking at \$1.70 per month for the average customer on the residential fee, moving the revenues from 52 million to 57 million. We're looking at slight bump up in commercial fee increase in revenue, clean community fee slight increase. Recycling sales are fairly flat but still there, not diving. And \$3.6 million in earned income. And other fees a slight bump up there. On the use of fees, on the expenditure side, we have a reduction in the cost of our collection services. It's primarily driven by fleet and fuel reductions, and part of that picture is reduced mileage on the road. We're constantly trying to refine our routing services and reduce the amount of miles that we're driving out there. But we also have experienced some field decreases. We are converting from diesel to cng and that's been very beneficial financially for us. Slight increases in litter abatement. As we enlarge our trash and recycling collection downtown and on the clean Austin program and operation support, waste diversion, support services are all standard cost drivers and fte growth that I'll mention in a minute. And transfers from other departments are increasing. The most significant part of that bar there is moving from debt financing to cash financing of our vehicles. We are attempting to borrow less and cash finance on replacement vehicles.

[10:21:41 AM]

And we're in that transition period which does impact the budget. Our budget highlights, the 15 new positions that we are requesting on our budget for fiscal year 16, it reflects a 2.1% increase in our customer base and it also reflects some pinch points within our operations as we attempt to increase customer service. Five positions in support services, primarily to engage in better customer service, better financial management and so forth. Four positions in litter abatement. That's for the expanded central business district activity as well as the clean Austin program. Four positions in the waste diversion programs. All four dedicated to the universal recycling ordinance implementation. And two positions out in the field to deal with our customer base in our trash collection services. The transfers to cip for equipment and vehicles is cash financing and I mentioned that earlier, \$5.5 million in cash transfers for equipment and vehicles, 1.1 for the land payment. Both of those are cash rather than debt finance and parts of the picture of that 1.5 is a technical upgrade of our vehicles, 1.5 million is included in that 5.5. We are also looking at pre-engineering for our landfill office. We have a 30-year commitment to post-closure care of our landfill and also have cart repair and cart storage at the landfill there. And the reduction is the reduction in debt payment. As we increase our cash financing of replacement vehicles, we are reducing our debt payments.

[10:23:45 AM]

This is a recap of some of the cip that I was mentioning, vehicles and equipment. Through our spending plan on cip on debt financing, this is new equipment, not the cash financed replacement equipment. Public space receptacles are the containers for downtown service. Those are recycling as well as trash containers for the downtown service area and facilities increase and expense there. I lost the power point there. There we go. Rate and revenue highlights. As mentioned earlier, we are requesting \$1.70 monthly base increase. It raises \$5.2 million in residential fees. 262,000 in commercial fees. We have 187 standard residential customers on carts and 2,500 standard customers on carts in the commercial sector. Our clean community fee, we are not recommending any increase for our clean community fee, but we are looking at a commercial fee increase on clean community to assist in the paying for the implementation of the universal recycling ordinance. Organics is included -- organics collection is included in this budget proposal and will be more extensively discussed at the public utilities committee

this coming Wednesday. The organics collection, we currently collect yard trimmings at the curb weekly for our 190,000 plus customers. We are attempting to transition to a food waste and -- this does require a swapout on carts as well as vehicles. There is an expense, we look at a 15% diversion bump at full implementation.

[10:25:55 AM]

In order to manage the cost of this transition, I'm proposing a five-year rollout of this organics collection program from 2016 to 2020. In 2016, fiscal year 16, the financial impacts of this proposed organics collection is less than 100,000 in fleet maintenance, debt service for new equipment that we plan on purchasing, and the purchase in the cip category of vehicles and carts as well, .8 million. The major impacts of the program are in the following four years, fiscal year 17 through fiscal year 20. We are looking at a final annual operating cost of the organics collection at \$9.3 million a year. It would require, if approved, moving towards food waste collection of a final impact on the utility bill of \$4.10 per month. That is in increments over the next five years, an average of around a dollar a year in the last four years of implementation of this program. So it's not 4.10 at one time but over time that's the cumulative effect. And crew positions for operators and supervisors to manage this program. This is our last major growth program for zero waste. We are looking at fine tuning our recycling collection and gaining some momentum on diversion on recycling, but to reach 75% diversion by 2020, which is a council adopted goal, we are proposing this major expansion of organics collection, food waste. It has been discussed very extensively in public meetings, probably more than a dozen public meetings it's gone through the zero waste advisory commission for recommendation and it's now time to plan it in the budget.

[10:27:55 AM]

So this is part of the budget proposal. And I would also note again that it will be discussed more extensively in the public utilities committee on Wednesday. And that concludes the power point and some contact information at the end there.

>> I have a question on slide 5. It says four positions in the litter abatement program for expanding services within the central business district. And I guess because I understand needing more staff as, you know, neighborhoods get bigger, but is the central business district getting bigger?

[Inaudible].

>> No, actually that deserves a little more explanation. Not a growth in number of customers in the central business district, just an enlargement of services beyond the small core around city hall. A couple weeks ago we had a press conference chaired by the mayor on our new blue dome recycling program downtown. This is an enlargement of that program to many more blocks downtown. So for the pedestrians, the visitors, the parades, the walking traffic that's downtown, that's what these dollars are dedicated for.

>> Okay. Thank you

>> Mayor Adler: Further questions. Ms. Gallo.

>> Gallo: I notice you have 500,000 in technology fleet upgrade. Could you explain what that is?

>> My justification is based more on safety, but it also is on customer service. The fleet technology upgrade will be coming to council next summer. It's going through a very elongated process of development of specs and will be bidded out, and the final price tag is largely unknown, but this is the prep expense in the budget for this rollout.

[10:30:11 AM]

What the fleet technology upgrade entails is new gps systems on our vehicles that can also -- it has new sensors that can gauge whether we service a cart or not. So if your cart -- if your cart at your curb is still full at the end of the day, we can look in our records with this technology upgrade, we can look at our records and determine whether the truck passed that cart or not and whether it serviced that cart or not. We would have precise detail. We could tell a customer your cart was picked up on Wednesday at 7:54 A.M. And it gives us great amount of detail as to the route driven by the driver and the service and why our driver has missed a street or not. So it creates a customer service accountability system. It also includes cameras on the vehicle that will allow to us document accidents and injuries. And as I mentioned on safety earlier, we've been in certain situations where it's unknown whether our vehicle and our driver was at fault or not. And the cameras will aid us in that documentation. In general the fleet technology upgrade just gives us a lot more data to work with in creating more operational efficiencies.

>> So the cost of 1.5 million is the estimated cost of the program and implementation?

>> That's a good question. There is two components to the cost. There is the initial implementation of hardware on the vehicles and then there's ongoing support costs. And I'm estimating 1.5 million in the installation cost. We will know with the bids that come in next spring what the annual operating cost will be in operating this system. But I'm estimating 1.5 in the actual hardware installation cost.

>> Gallo: Do you have a ballpark idea of what you think the support cost service might be?

[10:32:14 AM]

>> I'm looking at a five-year contract. It's approximately a million dollars a year in video storage and data management system cost.

>> Gallo: And how many vehicles would this be on?

>> About 225 vehicles.

>> Gallo: Thank you very much.

>> Mayor Adler: Mr. Casar?

>> Casar: I'll withhold my questions if others have questions.

>> Mayor Adler: Mr. Zimmerman?

>> Zimmerman: Thank you. This to me is typical of the kind of project and expenditure that I would like to eliminate out of the budget. So what is the most effective or efficient way for me as a district 6 fiscal conservative to go about striking that from the budget?

>> Mayor Adler: At this point what I would do is I would send a request to include in the concept menu the impact on the budget if we were to eliminate the program or whatever you would like to eliminate. Mr. Van meanio, would you like to comment on that?

>> I believe the comment you posted on the message board, we're in the process that it would require a co-sponsor to have an item added to the concept menu.

>> Zimmerman: Now we would need two people to -- you said it was an impact question or request.

>> Mayor Adler: Pink there are two things you could do. The first is just by yourself could pose a Q and a request of the office so that you could do that. We're also keeping tabs of expenses and I think at this point to get it put on to the concept menu you would just get someone else to join with you on that. That would not stop you whether you had anyone else to participate and whether or not you asked for it on Q and a. When we were together as a group on the 27th and on September 1st and on September 8th, from raising that issue to the council and making whatever proposal you would like to make for budget.

[10:34:27 AM]

>> Zimmerman: Okay, thank you.

>> Mayor Adler: I have a question for -- okay. Quick question to concern the fleets. Ed, it might be for you more than Mr. Gerhart. The policy to move to pay for -- to cash finance as opposed to finance something like a vehicle that has a life of more than three years, could you speak to the policy there?

>> Sure. I mean, generally when we're looking at debt issuances for vehicles we're looking at, you know, if it's -- if it's really a recurring expense. So in other words, like maybe every five years we're having to replace vehicles or in the case of police vehicles we replace those about every three years. And every year you're going to be replacing quite a number of police vehicles. Our preference is to do those types of purchases without debt because if you're replacing, say, a fifth year fleet every year with debt you end up paying the principal and interest as opposed to if you cash fund those things you save the interest expense over time. So when it comes to vehicle when we're looking at debt it would be to try to manage spikes more so. So if we have a year where we need to replace five quints in the fire department and they're 1.2 million each and there's a big spike in expenses we may issue contractual, but we are looking to replace vehicles on an individual basis cash funding as opposed to debt financing them.

>> Mayor Adler: Mr. Renteria?

>> Renteria: I have a concern. When you say that you're going to combine the yard waste trimming with the solid organic waste, you know, I personally have had my yard trimming waste there for the last two weeks ready to be picked up and no one has come by and picked it up.

[10:36:30 AM]

And I'm going to be concerned if you're going to be putting organic waste out there, if you have an emergency somewhere else and you can't get to it, I've seen what people are -- they say the heck with this, I'm throwing all my trash into the big can and that's it. And they don't want their yard clippings out there in the street for two or three weeks before someone comes by and picks it up. So we're having a lot of problems with that kind of service. Here we're financing these programs with our hard earned fee money from our utility there, and then we don't see the services and you wonder how come there's not recycling. They think why should I leave it. I'll throw it in my big trash can and forget it.

>> What you're talking about is customer service and reshuffling of priority assignments. We're looking at what went wrong. We had executive storm events in March and April and then of course the memorial day flooding and it impacted all parts of the city. And we were understaffed and underprepared. We went two, three years of drought without those storms and through operational cut backs we did not staff in preparation of major storms like that. In retrospect we trimmed back too. The learned lesson we have moving forward is assigning the yard trimmings routes to the same level of service as trash collection. We're not experiencing that backup on trash. We are on the yard trimmings. We need the proper vehicle and trash -- proper vehicle and staffing levels that match the trash collection. Our commitment in moving towards an organics collection is that we would treat it exactly that way.

[10:38:36 AM]

That we would increase the service level and make sure there's no backups in service. We also have a learned lesson on how to respond to an emergency by reassigning staff internally from other service networks and a positive learned lesson. So that the next time we have a storm we can respond much more quickly.

>> I'm glad to know that I am I'm really concerned because when I'm hearing about and reading about

people not participating in these programs and here we are using some of our money, our hard-earned money to fund these type of programs, and then seeing and reading that it's not being done, there's a problem and we need to go after and fix that problem because people are just not going to take advantage of those kind of programs. You will just have -- we will just be wasting our money.

>> I definitely have heard the message that you're delivering. I have heard that from our customers as well. Customer service is a major, major focus of ours in the future. In this budget proposal we are attempting to make these reassignments and that redirection towards better service, particularly on the large trimmings.

>> Mayor Adler: Ms. Troxclair?

>> Troxclair: The \$1.70 monthly base increase for residential fees, how did you arrive at that number?

>> I think I'll have Jessica answer that question there.

>> So we do a cost of service analysis to determine what the rates should be. So we look at all the services that that rate should pay for, so the fee pays for recycling, yard trimmings and pickup. We look at the projected cost of those services for the next fiscal year and compare that to the number of customers and the amount of revenue we expect to bring in from that.

[10:40:40 AM]

So last year we focused heavily on our residential and community fee in making sure that that one was where it needed to be, but as we transition from the base customer charge and the trash cart fee. As we transition from a throw everything in the trash can to throw everything in the recycling and yard trimmings, those expenses a lot of times were covered by the trash cart fees because the larger the trash cart the higher the increment fee is. So as we try to reduce what's in the trash cart, we try to make sure all those expenses were covered and they weren't. So this increase will balance us out and for the cost of service and then additionally we had a pretty large fund balance over the last couple of years that helped cover those expenses going forward. So we didn't want to raise the rate to match the cost of service just to have the money subpoena sitting in our fund balance. So we've been kind of eating away that cross balance and we're where the money is running out and the revenue is not matching the expense.

>> Troxclair: Okay.

>> What was the increase in customers from last year to this year? And if you have it last year to the year previous.

>> We do have those Numbers. As she's noting for that I would look for our cost of service, our standard cost of service for this year for trash collection is \$11.55 per customer per month. On recycling \$9.14. Recycling does cost less than the trash collection. And to raise the point to the yard trimmings, our cost of service is \$3.17. So the we are low if funding the yard trimmings and that's noted in our cost of service.

>> Troxclair: Okay.

>> And on the customer cart, Jessica?

>> You wanted to know about the cart customers specifically?

>> Troxclair: No, I wanted to know the total increase in customers.

[10:42:42 AM]

>> Okay. So we have two customer bases. One is the curb side customers that use the trash cart for recycling and all that. And then plus multi-family and commercial customers that get charged the clean community fee. So there are two different customer bases. The residential cart customers from 2014 was about 187,000 and we're projecting for fy 2016 to be at 191,000. I'm other, that was 15. 18191 is

current fiscal year and one 96 is projected for 2016.

>> What was projected for 2016?

>> 196,000.

>> Troxclair: And what was it for the year before?

>> '14 was 187,000.

>> Troxclair: Okay.

>> The clean community total is about 375,000. And then projected is -- 358,000 residential and about 25,000 commercial.

>> Troxclair:.. And do those customer increases compare relative -- are they relatively similar to the customer increases that our -- that Austin water, Austin energy are seeing?

>> So our customer bases are -- they overlap, but they're a little bit different, so yes or no. Austin energy and Austin water have a little bit broader service area than we do, so I would expect that theirs would be larger, but we would have to ask that specifically.

>> In the standard we're looking at two to two and a half percent increase in customer base per year as a standard assumption.

>> Troxclair: Okay. And I'm asking because that gets -- that leads me to ask why. I know Austin energy and Austin water, I don't think either of them are proposing to add new ftes. But y'all are proposing to add 15 new ftes to keep up with the increase in your customer base so I'm wondering if those utilities are seeing similar increases they're able to manage the customer increases without so many new ftes?

[10:44:57 AM]

>> Part of the answer is that we've held back on fte growth in previous years. And we've reached some hinge points in our service and we recognize that there is? Need for some support services and some field services. The point of comparison that I look at is our customer count compared to our fte. So ftes per 1,000 base customers, five years ago in 2010 it was 2.195 employees per thousand base. 2.195. Our proposed budget year for 2016 is 2.185. Fairly close, slightly under our comparison for 2010. It's a pretty straight line across the years, but we're attempting to match that service level that the customers are asking from us.

>> I guess I see the \$1.70 a month increase and I see the program impact of the organics, on the organics slide is \$4.10 a month on customer bill by 2020. And those together -- it sounds like our commercial customers are going to be seeing increases, even higher than that, but those two combined are \$70 a year for the average customer, which is a really big number, especially again when you consider the really deep and conversation that we've had about the homestead exemption and how we're ending up with 20 million reduction and average persons taxes per month. So I just -- \$70 for one - it's a lot.

[10:47:01 AM]

It's a lot. And it seems like the cost of service we're not -- we keep adding new programs to this particular department. I know some of that is council directives, but we keep adding more and more programs. So then of course when you look at the cost of service of course the cost of service is going to go up. So I'm having a hard time reconciling those two things.

>> A quick answer, but I recognize what your statement is. The Oranges collection would impact only -- the organics collection would only impact the residential. Your noting that the powerpoint is over five years, it's an aggregate total, that is important to look at, but it's not a single year impact. And lastly, we're following the direction of our master plan from 2011 to add food waste collection. It a council value judgment. The cost versus the new diversion. What we mean by diversion is diverting it from

landfills into recovery of material either in recycling or composting. And with the food waste there is a lot of negative impacts of landfilling food waste. There is tremendous positive effects in composting the material, collecting and composting material. Yet it is a council value judgment as to the cost of that program.

>> I understand the -- that it has been a value judgment in the past. I just -- I don't know if when those decisions were made we had the affordability crisis that we're facing now. So although those programs are great, it doesn't really matter if you have to move to Buda because you can't afford to live here.

>> More discussion on this topic on Wednesday.

>> So mayor, it is very appropriate to discuss it at this time. I think that Mr. Gedert and perhaps Mr. Goode talked about the equipment.

[10:49:07 AM]

And that was essentially the first step towards this program and pursuing that goal. So this really is an appropriate time for this council to decide whether or not you share that value to the extent that the previous council did. Because what Mr. Gedert is doing is perceived based upon the value and policy decision that was made by the previous council. So it is yours to decide.

>> Mayor Adler: Mr. Zimmerman.

>> Zimmerman: Thank you, Mr. Mayor. Councilmember troxclair, I appreciate you bringing this up. When I ran for office the concept was reducing city government and this is a great place to do it. So if you would like to strike these additional expenditures, I'd love to join on to get some control over the cost here. I don't think the value is there, as you point out, people are leaving the city because they can't afford it. We're suffering the death by a thousand cuts. This is another one of the thousand cuts. I'd love to see this cut.

>> Mayor Adler: Ms. Gallo?

>> Gallo: Good morning. Could you speak a little bit about the four additional positions for the litter abatement program for the cbd and then what the program is?

>> A couple of expenses, one is we're establishing a trash and recycling route for the downtown cans. We in previous practice we took litter collection crews off of litter collection to service twice a day. There's a service deficiency in downtown area. So we're increasing our collection to like seven A.M., noon and five P.M. And that does require some staffing and vehicle assignments for that area.

[10:51:10 AM]

The second increase in that area is an additional staff person on clean community fee. The clean community -- I'm sorry, the clean Austin program, which is an off cycle bulky collection throughout the city, trying to cleanup illegal dumps and large bulky items like mattresses and sofas and so forth, so part of that is the attention to that area as well too.

>> Gallo: So help me idea the reason why areas of downtown are needing trash picked up three times a day? Are those your tourist areas? Are they your event -- special event areas. Are they just Normal businesses? I mean, help me understand. That's a lot of trash.

>> It really comes down to pedestrian traffic. It is a walkable downtown area. A lot of visitors, but also a lot of office workers, pedestrians in the downtown area. In a positive way we are seeing less trash on the streets and more into the street containers. That's a change in behavior downtown. It does require us to empty those cans and they do fill very rapidly.

>> Gallo: So if a component of that -- and I love people are walking downtown, that's wonderful. If a component of that visitors, does our hotel tax help pay for the cost of that additional cost to downtown?

>> It does not and I would love to explore that.

>> Gallo: Okay. I think that we have such a great reputation as a tourist destination and there are a lot of positives to that, but I think if we have the residents of the city of Austin pay for the cost of that, we need to be very proactive about ways to fund that to help keep these utility bills from increasing for the rest of the citizens.

[10:53:16 AM]

So I'm not quite sure how to proceed with that discussion because it seems like it would be part of a budget discussion if we could allocate funds for that. So does that come as a cost question or does that come --

>> I think you could. It might be good to tee that up. We could certainly talk about that at any time. The whole economics about how downtown works in terms of whether it's a net contributor or a net revenue take is probably a conversation that we should have as a council as well. Mr. Renteria?

>> Renteria: On that subject, I'm wondering do we recover anything from the downtown tif for this kind of service?

>> We do not. We do have a contract through the daa, downtown Austin alliance for some direct services to the downtown businesses. That does not fully offset the cost that we're talking about here.

>> Renteria: When you wrote up the contract it did not include that.

>> It did not include the downtown containers.

>> Renteria: I would like to revisit that for sure.

>> Mayor Adler: Further questions? Ms. Garza?

>> Garza: I was just looking at the downtown Austin alliance, it's a P.I.D. Is what assesses that extra fee on downtown, people -- downtown business owners. And it says that it is -- it says it's to address cleanliness. So what does that fee go to?

>> Our downtown contract through the daa and we have a tremendous positive working relationship with bill price, it includes all the alley containers. We have trash and recycling containers in the alleys. They're shared service by the businesses.

[10:55:18 AM]

They're not identified per business because the alleys aren't big enough for all those containers. So they're shared service and we do alley cleaning in the morning. We have litter collection crews from 230 to 7:00 P.M. in the downtown area. All of that is paid for through that contract and reallocated back to the businesses that benefit from that service. It's primarily alley service and street curb cleaning prior to seven A.M.

>> Garza: Thanks.

>> Further questions? All right, thank you very much. We're trying to hit that hard stop at noon today. We have three additional reports to get. Ms. Kitchen?

>> Kitchen: At the right time, assuming we have time, if you could talk more about the concept menu? I think -- I just want to encourage people to put things on the concept menu and not wait until the day of.

>> Mayor Adler: Yeah. I think the intent of that was if you look at past council meetings, budget sessions, there is so much that councils try to accomplish on the very last day. And what you have then are ideas coming out, staff was running out of the room to make calculations, running back in. Councilmembers are changing things on the fly. It always seemed to me a miracle that there was good budgets at the end of the process. We're trying really hard as a council to elanguage gate those discussions, the consideration of ideas. So again the concept menu is a place for ideas to be parked. You put something on the concept menu on are put something on the concept menu does not mean that you necessarily

support it or that you're urging the rest of the council to adopt it.

[10:57:20 AM]

It's a place to put an idea that becomes then part of what is available to be considered. Mr. Van eenoo sent that out on Friday and will be sending it out daily as it changes. It's a catalog of ideas broken into three categories. Additional revenue opportunities, cuts from the proposed budget or additional spending that could be added to the budget. As we discussed as we get closer to September 1st and eighth it will get harder and harder to put them on. It will be two people this week, three people next week, four people the week after that to get it put on the list, but I think it's just a place -- and ed will aggregate the ideas and the concepts. The purpose of this was as we got closer was to prevent the staff from having to run around and do things. So I may have misspoken before when I said that you could just ask in the question and answer period for something to be costed out because it would tweet the purpose of what we're doing to be able to any one person to put something on that. I think by extension the same rule would apply. That doesn't stop you from asking that or bringing it up in debate, what what we're trying to do is as we get closer to the budget, have less and less of chasing down.

>> If I'm understanding correctly we're not going to wait until the eighth to discuss the concept menu. We're going to bring it up for the first time on the 27th and the second time on the first and then the last time on the eighth, is that right?

>> That's correct.

>> Mayor Adler: That's correct. We're not going to take action on the 1st, but we could.

>> Kitchen: Why not? Why can we not take action on the 1st?

[10:59:21 AM]

>> So the schedule, you will have budget hearings on the 20th and 27th, the public hearings people will come. After that the hearing will be closed. And you all will be able to talk about the budget on south first, but not take action until you actually adopt the budget on the eighth. But you can continue to have the conversations.

>> Kitchen: Why can we not take action on the first to start working our way through the budget?

>> After you close the public hearings then you need to adopt the budget. So there's a team where you can talk about it, but you don't take action until you adopt the budget on the eighth.

>> Kitchen: I understand that's the practice. My question is is there something in the law that says that we have to spend that 1 day going through everything and deciding what we're going to do. Why can't we stairstep it?

>> So after you close the public hearing you have to adopt the budget. You can't take any further action until you have adopted the budget.

>> Mayor Adler: That's my state law?

>> Kitchen: I don't understand what you mean by that. We're closing the public hearing on 27th, are we not?

>> That's correct.

>> Kitchen: So we've got between the 27th and the aides to adopt the budget. Is there anything in the law that says you can't adopt it in pieces? Why do we have to adopt it all in one sitting? I know right now we have the 8th, 9th and 10th to go over it. Why can't we do part of it in the eighth, ninth and 10th? >>

>> Mayor Adler: I think the question is what is the language in the statute that says that when the public hearing is closed, we couldn't do things like narrowing down the choices that are in front of us.

>> You can certainly give direction, but you can't take a vote on the budget then.

>> Mayor Adler: Can you give us the language?

>> I'll find it for you.

>> Kitchen: I don't understand the difference between being able to vote on the eighth and being able to vote on the first unless there's some time period between closing the hearing and being able to vote.

>> I understand your question and I will get back with you. You need to close the hearing and adopt the budget and I think we add that day in there, but I'll find the language for you and get back to you.

[11:01:22 AM]

>> Kitchen: Yeah, I would like to understand the timing because I think from my perspective, anyway, I would like to not be having a marathon session, and that's the first time we get to vote on what we're going to adopt. I think it makes more sense from a process standpoint to have more time than that.

>> I think that's why the mayor has suggested this concept menu so that starting before now you can add these items on to cost out and so you can sort of winnow down the things that are important to you all.

>> Mayor Adler: And to Ann's question, and it's a question that we had and I think we need to give council time. I think she understands the issue. What we're trying to do, even though we won't take final action to approve a budget until September eighth, we need to be winnowing down so that on September eighth everything is not in front of us. The more formal we could get to that the easier it's going to be for us to do that. If we could actually pull things up with kind of an interim vote, recognizing that there's nothing to stop someone on September 8th from proposing whatever it is that they want to propose, but to the degree that we can winnow it down or even take final action, that would be good. At the very least, Ms. Kitchen, we will be working with a sense of the council to achieve that because I've heard the concern, but so that we could all understand it if you could get us the statutory language that you're relying on that would be helpful.

>> Kitchen: I would like to understand that because from what you're saying it doesn't sound to me that specific. Obviously you know it better than I, but I would like for us to think broadly and see what we can do even if it's sort of like boding on first or second reading before then. Thank you.

>> Mayor Adler: Okay. Manager?

>> Ott: So budget adoption is not just one day. Of course, it's scheduled for the 8th, 9th and 10th. I think just given how this conversation was being had, I just don't want the public to understand, I trust you understand, that budget adoption can occur over those three days.

[11:03:30 AM]

>> Kitchen: Why not over the 1st? That's my question.

>> Ott: I recognize you all have had that conversation and Ann is going to answer that question. I'm just - because the conversation this would focus on the 8th, I'm just indicating for public consumption that budget adoption has three days set aside, 8th, ninth and 10th.

>> Zimmerman: Mr. Mayor, I think this is an important conversation because it looks like to me that this whole process is completely backwards. There should be a few days or a few weeks for staff to make proposals followed by months of deliberation by the council, kind of what councilmember kitchen is referring to. There should be months of time for us to work on, not a few days or a few hours, right up to the deadline for when something has to be adopted. The whole process is backwards. I think we need to fix it for next year. I'm with councilmember kitchen. I just -- I feel like we're being crammed into a box here and everything is being delayed until the last minute. So today already we've had kind of our typical meeting where staff comes in and just expenses. We need this, we need this, we need this. We don't have other voices, we don't have other people complaining about the high cost of living here. It's just one-sided information. And this has been going on for months, one-sided information. So I hope we

can fix this process.

>> Ott: Mayor, I just say I disagree with that characterization of the staff. I don't think that that has been our behavior. I don't think it reflects our behavior at all. This is not the first time that we've presented the budget, it's not the first time that I've presented a budget. We've done it professionally, we've given you the benefit of our best collective judgment about a fiscal plan for the next fiscal year. And I resent your characterization of our motives in bringing a professional, fiscal document to the council. I don't think it reflects our intent, our work or the document, the recommendation that's before you. The process is what it is.

[11:05:30 AM]

There are some constraints associated with that timeline that are not reflected in your remarks just a moment ago. This isn't designed to minimize council's opportunity to discuss, deliberate and consider, as it is your job this recommendation before you for this fiscal plan. So I do not agree what you said. I do not think it reflects our intent or the budget in front of you nor the reason behind the process for your consideration.

>> Mayor Adler: I think as we move forward -- this is our first time to go through the budget and I think we're going to learn a lot about the process. And staff has come forward on several different budgets, the initial forecast budget, the proposed budget. There will be opportunity for the public and for other stakeholders to weigh in and give opinions on that. There also have been proposals that have been made with respect to how we can change the budgeting process going forward and I think we're going to be considering some of those after this budget session is over. And I think there are opportunities for us to craft that process to something that works well for us. But I think that everyone here, staff, council at the table and the public, all want to get to the best place that we can get to. We have a limited amount of time left for the three areas that we have left. Ann, if you could get us that language just so that we could see what flack we have, that would be helpful. And we'll call the next group now, the human services, the internal service departments.

[11:07:45 AM]

>> Good morning, mayor and council, Mark Washington. Interim city manager, but joining me is Joya Hays, our acting human resources director, and Judy Wallace, our assistant director. And because much of the change occurred at the time in which I was in the HR department proposing the budget, I will lead the discussion and ask the staff to support any discussion today. What you will hear is a response to many of the questions, issues that have been asked of the human resources department. We've gotten several budget questions from various offices. We've seen several council proposals. Go outside of the budget process as well as just meetings that we've had. So our intent is to be responsive to your request to address all of the areas that you're interested in outside of just our department, but enterprise-wide for the workforce. We've heard that on numerous occasions. And so today will be a presentation in three parts. I'll relate areas that discuss compensation and pay. There will be a natural break after that and then we'll begin the discussion about benefits and finally there's also been some discussions about pensions and retirements. And so that will be the third part. So it's quite a bit of information. As I mentioned it might be an opportunity for three natural breaks during the overview. Just to provide some context to our pay, we do want to provide competitive wages that help to attract and retain and develop our employees, but the end result of whatever we do as an investment in the workforce is to have an impact on the service delivery for our citizens.

[11:09:46 AM]

And Austin has been rated or the city has and the citizen survey, of providing good customer service or a high level of customer satisfaction. Ed van eenoo had highlighted that in his overview. And much of that is due to the caliber and kind of employees that we have in our workforce. In order to continue that level of service and that kind of service delivery we have to continue to make those investments in our workforce and make sure we can recruit and track the best and deliver the best service to the public. I will highlight a couple of things that are key to the presentation proposal. We have heard the discussion about the various concerns about the amount of wage increases that's in the budget and I will share with you various salary sources that affirm what the proposed budget increases is. As well as talk in a little more detail about questions that we've heard about the market and about a third of the jobs are undermarket. And also put in context the need for us to be competitive. I think chief Acevedo talked about this earlier when he talked about the challenges in recruitment and the fact that we have a booming economy in Austin and we are seeing record low unemployment. I think the three percent unemployment rate was as of the end of April, but the most recent Numbers are about the same, about 3.3 percent. And because of that competitive economy we are seeing turnover increase and last year our turnover rate was about eight percent and we're estimating it to be eight and a half percent, an increasing turnover. And we have jobs that are well in the double digits that are highly above the average turnover for the city. We want to be mindful of that and coupled with we have a workforce that over a quarter of our employees are eligible to retire within the next five years.

[11:11:56 AM]

So we have to find a way to retain those employees. And we survey our workforce, our constituents, our employees, every year to hear what their concerns are and we send out a survey to all employees and we've gotten this year we're in the process of finalizing it. And over 4,000 employees responded and about 57% of them are dissatisfied with pay while there are increasingly more employees that are more satisfied with benefits. So with that in context you'll see the turnover trend as compared to the unemployment rate over the past 10 years, and I alluded to this earlier in my comments that there's an inverse relationship between the unemployment rate and our turnover rate within the organization. And as the unemployment rate continues to go down we see turnover increasing. So for that reason we want to make sure that we are competitive. I've also shared with you some other published compensation, salary and data reports that supports the projection for three percent. And these are widely known throughout the industry used by major employers, major industries, consulting firms, our professional society for human resources. As external published data. And many of them from world at work to towers Watson, the hay group and is the economic institute, support increases that are around the amount being proposed in the fiscal '16 budget. Also I have highlighted in addition to those third-party published data reports some of the plan discussions that are occurring with other jurisdictions around us.

[11:13:58 AM]

Now, these Numbers change just as our discussion has several evolutions around what was proposed and has varied from .8% to a tiered approach. These are moving targets among other jurisdictions as well. You will see that several of them are proposing adjustments around or above three percent and others are somewhere around two, two and a half percent. And there are a few who are at the lower end of our benchmark study that's proposing lower wage increases. I do want to point out or clarify metrics that have been discussed about is appropriate to consider in terms of wage adjustments, and there's been some discussion. I think the pending council proposal that is before this body is using -- is

based on a factor, not only a tiered approach, but also a factor of knowing that the average wages in Austin increase .8%. And I do want to acknowledge that data is based on information that was derived from the labor of bureau and statistics, but I will point out that is aged data showing the median wages for 2013 as compared to the median in 2014 for the Austin metropolitan statistical area. We found that's not a methodology that's commonly used by other employers as the bls is commonly used for indexing rate as well as other economic cost drivers for employment, but it's typically not an index that employers use to forecast and anticipate market changes.

[11:16:03 AM]

If it were we would not be as aggressive with the market as I showed you, not only with the national published data, but also local entities. I would like to highlight very briefly from an annual view. What we've done is trend our increases over the years since 2005 compared to their increases. And you will see for most years the city has been under what the average pay increases have been for public and private employers. Last year we were able to make up some ground, but because of the years in when we were not as aggressive and particularly what happened in the great recession in 2008-2009, we did not provide any wage increases. We did eliminate vacant positions as part of our economic belt tightening, but other cities took more drastic measures and had layoffs and reduction in forces in part of their way of maintaining productivity was while they were laying off conversely what we went back and looked at was they increased wages for those that were around because it was -- it resulted in more work for feature people and they wanted to reward the employees that were there. And so because of the historical lag, if you will, over the market, over the years, that has contributed to us being behind in general as well as when we look at our market comparison. So if you will, I know that there's been a lot of discussions about how we determine our market competitiveness. And I will share in context back in 2008 the city engaged prior to that in an external salary survey and the plan was that there was a significant number of employees that were behind the market and because the city did not want to take the bite all at one time, that there would be a three-year plan to adjust wages.

[11:18:19 AM]

That one-third of the workforce based on the study that was done in -- based on the study that was done, one-third would be implemented in terms of market adjustment annually and there by every three years the entire workforce would have been evaluated through the market. As I indicated earlier there was an economic downturn in 2008 right after the first phase, and so because of the belt tightening that occurred within the organization we were not able to continue the market implementation. We did recognize that we were losing competitiveness in specific industries, Austin energy for example, the utility industry was still pursuing aggressive increases in compensating their workforce as well as the technology industry. So as a result we did not have a citywide market since 2008, but we did make special adjustments to certain jobs. So will end result is we should have reviewed our workforce about two and a half times, but we've only done it one time. So I know there's also been a lot of discussions about pay for performance, and merit pay, and we certainly would not disagree with that. That is ideal. Most governmental entities would prefer that, but the problem is unlike the private sector that is profit driven, most governmental entities have difficulties committing to funding pay for performance based on profit motives or the lack of profit motives. So we would like to do it, but if the merit pool is not significant enough and we can't keep up with market, then is it really defeats the purpose of having a performance based pay plan when the jobs themselves are not competitive.

[11:20:29 AM]

So what we have done since 2008 is based on the limited funding is provide enough money to account for cost of living adjustments, giving the affordability discussions that are occurring in Austin, our employees also are part of the consumers of the services of this community and likewise have affordability issues as well. So we've been mindful of that and have done owe teen that into consideration with the cost of living adjustments. As well as it also allows us to make minimum adjustments to all jobs to keep up with market lag. And this is an approach used in our public safety departments as well. Very briefly, you have the proposal before you that talks about the tiered base wage increases based on different salary levels. I'll just point out I think some of the concerns that I heard as part of the council meeting some time ago, and would just like to elaborate on that a little bit. When you have arbitrary breaks in the salary levels, there can be compression with either lower employees catching up with either supervisors, crew leaders or less experienced or qualified employees making as much as others that are more qualified than them. And that can cause some pay dissatisfaction and concern among employees and it is not necessarily the best practice that we have seen with other pay plans and employers. And it may have some disparate impact on some employees.

[11:22:32 AM]

And I'll give an example. So slide 11 has happen employee who makes 9.11 an hour and based on the pay increase it would be three percent. And another employee who makes more than them, 15.03 an hour and their adjustment would be less than that. And employee a could be -- employee B could be a lead person, a crew leader, someone who is more qualified an employee a. Employee B could be a person who is in a protected class, and we've talked about some of the issues with pay disparity. So when you establish the artificial salary breaks within the organization, there's the opportunity for unintended consequences to include inversion and conversion. Part of the pay proposal for this year is the living wage -- recommendation to increase the living wage for the lower paid employees has been included from 11.39 to 13.03, and that was primarily based on feedback from the stakeholder group, the manager adopted as part of his budget recommendation. There was questions asked by the council what would be the cost to increase that wage floor to \$15 an hour. Let me clarify that the adjustment to 13.03 only includes the regular members of our workforce and not temporary employees. If we were also to adjust the salaries for the minimum for temporary employees to 13.03, that would be adding an additional 1.7 million in cost. If we were to adjust the wage flare to \$15 an hour, the cost for regular employees would be approximately \$11 million in additional cost for temporary employees would be three million dollars. I think the recommendation from the stakeholder group was to slowly make adjustments over time so that we would get to that point.

[11:24:40 AM]

Finally I would like to highlight in general, we sent a report to the council offices highlighting in more detail the review of compensation among our workforce and pay disparities. And similar to a directive in the previous council resolution to look at our data compared to national averages, we evaluated the city's position relative to the 2015 study. And the average wage for females in the workplace was 82.5% for -- as compared to male wages. Within our workforce we had performed much better than average. Non-sworn employees was about 96% on average, the wages as compared to fee males as compared to males in public safety was also varied varied and it's detailed in the report. What I will point out this year differently than last year, we had an opportunity to delve deeper into the data and not just the aggregate information. And we looked at every job classification within the workforce that had at least one male and one female. And termed the differentials in salaries. Sand that resulted in a review of

about 445 jobs. Of those -- 475 contractions. Of those 445 classifications, you will see that in 206 of those,, if you can pull that back up for me. 206 of those we had jobs in which females were made -- earned more than men. And 16 of those classifications they were earning about the same. And 223 of those classifications they were earning less. And the differential rate was above the national average.

[11:26:43 AM]

And in seven of those classifications they were earning less, but it was below the national average. We'll continue to monitor and review those.

>> Kitchen:.

>> Kitchen: Why don't you finish. I think a lot of us have a lot of questions about this whole section. Why don't you go through it all first.

>> I'm through.

>> Kitchen: Do you have a last page, if you want to summarize?

>> So the summary is -- summarizes many of the recommendations that I've highlighted.

>> Mayor Adler: We'll now open it for questions. Ms. Kitchen?

>> Kitchen: I'll just ask a few because I know others have questions too. I don't want to monopolize the questions. So I'll start by just asking about the pay disparity. So I have some questions about the report, and I'll submit Q and a too, but I think it would be helpful to understand both the median and the range because the average -- average doesn't tell me how many women and how many men are in each classification. So I think that that is something that would be useful to know unless you -- well, that would be another piece of information that you would need to provide. So I'm also just curious, and I wouldn't expect you to know this off the top of your head. This might be another Q and a question, is I'm wondering what these classifications are. So I'm wondering particularly in the seven classifications that females are earning below, I'm wondering if that's one of the classifications which is primarily women versus -- you know, versus men. So I think what's going to be important to understand is the range, not just the average. The range and the median and how many women and men are in each of the classifications because I think those pieces of information will be helpful to us.

[11:28:51 AM]

And then finally I'm just concerned about the-- in the study itself, I understand the source of the limitations on the study, but I'm not understanding when we will be getting the additional data. So I'd like to understand when the next phase of the study is going to be done because if I'm reading correctly, there's a lot of caveats in this study about the ability to be able to draw reliable conclusions. So we need data that will help us draw reliable conclusions. So what's the timeline for doing the next? I would hope that would be soon. A.o.I. I'll try to address some of the comments and questions.

>> Kitchen: Okay.

>> We do have the details. We're happy to provide the incumbency, each of those job classifications in more detail as well as whatever additional analysis you would have about the range, but all of our -- all of our jobs are within a confined range between the entry and the maximum pay. And so that is very predictable so the average is -- is reflective of what was in acceptable range and so not to be skewed by outliers. We'll be happy to look at the median as well.

>> Kitchen: Maybe I should be more specific. So if your range is from here to here, how many women at this -- at this level and how many women at this level and what's the median? Do you have that kind of data?

>> We do have the actual data, yeah, we have the actual data. We're happy to provide any other details. Skipping then to your last question about the limitations, the information that is being compiled is very ,

very intensive and manual. In fact, I talked to many of my colleagues around the state as well as the country and we're pretty advanced in terms of our discussions that we're having on pay disparity specific to this level of detail that's been published.

[11:31:26 AM]

However, one of the limitations we have is our inability to go beyond just the descriptive statistics and look at the qualitative data that tells us the actual qualifications, education, experience, knowledge, and make sure that there is equal pay for equal work as well as those that are similarly -- are equally qualified to do it when they are performing work of the same qualifications. We can do that, but that is manually going through each of the 445 classifications. What we have acknowledged prior to this issue of pay disparities and just in order to manage a workforce as large as ours is a need to have a more robust information resource management system. Human capital management. And so without having that capability, I don't have a commitment -- I'm unable to commit when we would be able to specifically go through those 445 job classification, and how many employees does that represent? That's thousands of employees within those and I don't have the exact number with me now.

>> Kitchen: Well, maybe you could bring us back a time line because that would be helpful to understand. I really do appreciate the work you all have done and my questions are not a reflection on the work that anyone has done. I'm just trying -- I think we have to dig deeper to nod. I think it's great -- to understand. I think it's great we're higher than the national median. But the national median is not good enough. We should be a leader in terms of pay disparity and what concerns me is my questions and I can't tell from that data who we are talking about. I can't tell where it says in seven classifications fee mails are earning below the --

[11:33:36 AM]

>> I just didn't spend the time to go through that in the briefing, but it's in detail in the report.

>> Kitchen: I know and I read the report but what the report doesn't help me understand, are those particular jobs primarily women or men and where are they in the range but I think you said you would answer those kinds of questions so that would be helpful. I have a few more followup, but I will defer to someone else.

>> Mayor Adler: Ms. Gallo.

>> Gallo: I just have a followup to your question and I think we talked about this several months ago and wanted some extra information and I just want to make sure I'm understanding what you are asking and that we're all on the same page. So what would be helpful to me because I think we want to see at different income levels the disparity.

>> That's right.

>> Gallo: Classifications are good, but if we could break down the income levels of our staff and show the number of women versus men and those different income levels, I think that's what we're really looking for is to see where we are equal and there is equality and where we're not equal and there is disparity in what we're paying. To be a little more specific, if we could break it down into maybe \$25,000 income levels through the entire staff levels, that would be very helpful to see.

>> Thank you for that. And there is a budget question in response and I was asking the staff to verify, I think that was -- that very question was asked and I know the work has been done. I'm not certain if the response is yet to be submitted, but that has been evaluated and we'll make sure we get you that information.

>> Gallo: Thank you.

>> Mayor Adler: There was also a question. You stopped before you got to the section on benefits.

>> Yes.

>> Mayor Adler: And there was a question about -- earlier, I think it was by councilmember pool, but probably others about what was the place we needed to be just to hold employees harmless as to the increased health care costs.

[11:35:51 AM]

That you are going to take a look at. Have you done that work?

>> We have done some of that and I just pause, mayor, at the end of the compensation section and I'll cover that in the next portion of the presentation.

>> Mayor Adler: Then I'll hold off on that question then. Ms. Garza.

>> Garza: I did notices how these Numbers show that we're higher than the national, but the national data is a median, from what I can tell, and our Numbers are averages and those could be -- why didn't we use a median to compare these two?

>> We -- we -- for simplistic purposes of getting the information compiled sooner. It was easier for us to compile averages. I have asked the staff to go back and take a look at getting the median information and they are working on it. It's just a matter of time that we've had to look at the information. But we are working on that. And for some of it, I do think we have earlier results and the median is not too statistically different from the average. Judy, did you want to address that?

>> That is correct. There's not much of a difference between median and the average, but we do have staff going back to review all that and we'll be reporting back on that.

>> Thank you.

>> Mayor Adler: Further conversation? Ms. Troxclair, then Mr. Zimmerman.

>> Troxclair: I just -- I guess especially in the context of the conversation that just happened between councilmember Zimmerman and our city manager, I was really frustrated with this presentation. I, you know, you -- we depend on you to give us factual, unbiased information and over half, ten pages of this was dedicated to making an argument against a resolution that is currently before the council. And with no argument as to what the alternative could be.

[11:37:55 AM]

I think that, you know, you've heard consistently from the council that -- maybe not from all the councilmembers, but at least some of the councilmembers that we're really concerned about the cost of living and the tax rate. And the 3% across the board pay increase is one of the biggest cost drivers that we're facing in this budget cycle. So I think that it is -- I think it is perfectly rational and actually I think it's incumbent upon us to look at that cost driver and to have a serious conversation about what our options are when we're talking about wage increases. And so I don't know, I was really frustrated by this -- this felt very biased. I didn't see an argument to how this could lower the cost of living by lowering the tax rate. I didn't see an argument for the number of jobs that we have that are over our market value. Only the number of jobs that we have under market value. I didn't see an argument to how we could come up with maybe -- use a different approach. I don't think -- I'm not necessarily, you know, married to the approach that I have put forward. I think that it was -- like I said, an arena option for us to -- a reasonable option for us to consider. But if that's not the way forward, what other options do we have that could save us \$6 million in this budget? So I just -- I just had to voice that opinion. So I would be curious in your suggestions. I think the proposal in front of us would save \$6.2 million is the number we're looking at and so I guess I would ask that you would come back to us with other options of how we could see at least that if not more if we do want to address the pay wage in a different way.

>> Thank you for that point. I have -- I have yet to have any discussion with this body about the

perspective of appropriate compensation for the workforce. This was our first time to have that discussion beyond the budget proposal.

[11:40:02 AM]

And so what I was sharing with you today what I thought was an understanding of why the staff was recommending the budget proposal in the fiscal year 16 budget. And that's what we were asked to do and we understood there was questions along the way. But all the alternatives that have been generated prior to our briefing as we were not asked to bring back another proposal, but to simply explain what was -- the rationale for what was recommended in the proposed budget and the manager submitted. If the council is asking now for the staff to develop alternatives and is making that directive of the manager of the budget office, we would be happy to come back and offer what we think would be options. And I know that there have been discussions that labor has been concerned about the discussions that have occurred among the council and has also offered some alternatives, some of which I think for cost efficiencies would result in some savings, but we were -- today's briefing was about what was proposed in the budget.

>> Troxclair: And I understand that you are not necessarily to bring forward alternatives, but in -- the living wage, one page. This is the situation, this is how much it costs, this is the different income levels, pay disparity, here's the summary, the facts. One page on both of these. Then we had ten pages of why we should adopt a 3% across the board pay increase. So I understand that this is the first opportunity you've had, but I just had to voice that frustration. And I guess I would ask -- I do have a couple of specific -- well, I guess on that topic, I want to -- you said it's hard to have pay for performance, any kind of pay for performance when the jobs themselves are not competitive. And, you know, to me that kind of gets at the matter of the -- the issue that municipal or -- that government employees or government employers having versus private employers, you are right, we don't have, you know, sales Numbers, we don't have, you know, recruitment or whatever other private businesses, those benchmarks that they use to pay their employees for performance.

[11:42:22 AM]

But I don't think that that means that we don't have performance measures. I don't think that that means a manager of any department doesn't know which of their employees really, you know, go the extra mile or put in extra effort or provide really great customer service. And so I don't -- I don't think -- and I guess, you know, the -- the thought that the jobs themselves are not competitive kind of gets to the heart of it. I think in any situation in anything you are going to have -- if you don't have competition, it's going to -- the service is probably going to be more expensive and less efficient. This actually I think the pay for performance issue would be a way to -- to have an aspect of -- of -- you know, not competitiveness, but to inject a little, you know, that -- a little extra effort. I think that we are always talking about morale, for me, you know, I've never worked in a job that I had automatic pay increases. It's always depended on -- in my real estate business it's completely dependent upon myself and, you know, how many hours I put into it, what kind of marketing perspective I take, et cetera. In other jobs, in other government jobs when I worked for the state of Texas, I also never had automatic pay increases. But I think from a morale perspective, that's also what motivates you. I don't want to be in a job where I get, you know, the same, I can work as much or as little as I want and I get paid as much as the person next to me. I just think that's a serious aspect that's lacking from government in general. So I -- and then I guess my question is, going back to the chart where you have the 2016 public sector benchmarks, you said the city of Houston, you -- they are doing 520 to 1150.

[11:44:27 AM]

Do you have more details about what that means? What are they considering?

>> They have a union agreement that they negotiated with their organization for public employees and I think they made some concessions on the lower end and adjusting the living wage, if you will, for them as well as provided other lump sum -- correct me if I'm mistaken -- lump-sum adjustments and so it varies. It varies from what we understand and there's other details, we just don't have them fully outlined yet, but we know that they are making some adjustments more along the lump-sum level and it's by either job -- job level or pay grade. So -- and if I could, your earlier comment about pay for performance, as I indicated, I'm certainly not -- we're not opposed to pay for performance. As a matter of fact, this organization had pay for performance prior to the economic downturn. The merit pool was not always sufficient but it's a matter of whether or not the organization can fund the merit pools.

>> Troxclair: Okay. And I know I asked this question before, but if we are going to continue the conversation, I think, you know, we have heard consistently that 30% of our workforce is below benchmarks. But a 3% across the board pay increase does not solve that problem. It does not target the 30% that is above -- that is below the bench mark and it doesn't address whatever percentage of the workforce we have that may be above bench mark. So I guess if you are thinking -- if you are going to think about other ways that we could address this, I would be curious and actually looking at the problems that we have, actually looking at the positions where we are having issues attracting qualified people and making the -- making the adjustments that we need to make.

[11:46:38 AM]

I mean, you know, when we're looking at the vacancy report, I know there's some very technical positions that have been vacant for a really long time and it's because they can find higher paying jobs elsewhere. So I mean I think that since we know -- if we're identifying issues that we know we have in attracting certain positions, we need to come up with a plan that is going to allow us to fill those positions. And I don't think that a 3% across the board pay increase does that.

-- Does that.

>> And you are correct, the 3% does not address the market. That's the reason we do have proposed funding in the budget to address the costs to adjust those 30% of the jobs that are under the market and it's a half year's cost at \$5.8 million. And so that would address that component. But if I could also clarify, even if we don't do the market too to catch up the jobs that are 30% behind and if we don't do 3% across the board or some kind of wage adjustment at that level, the market will move at least what we're showing you other entities are doing and so if we do something less than 3% and the market moves -- if other entities do that, implement what we understand that will be the market will move that amount plus whatever demand occurs for hot skills and talent. So -- so it is -- it is a moving target. It is a moving target.

>> Troxclair: And I guess we could talk about this at length and I know we are pressed for time so I'll try not to be too much longer, but I also don't understand that argument. If we're consistently, you know, looking at these other entities and saying they are doing 3% so we have to and somebody else looks they are doing 3% so we have to.

[11:48:39 AM]

It's a domino effect. Just because somebody, another entity is doing it doesn't mean it's the right thing for us. A lot of these cities do not face the same kind of cost of living challenges that we're facing in Austin right now. A lot of these cities don't have the benefit of people wanting to move to Austin

because of our quality of life and because of a lot of the things we have going for our city. So I just -- you know, if -- I don't like the -- it's important to understand what other cities and other municipalities are doing in order for comparison, but I don't necessarily think -- I think it's just a domino effect. If we keep looking at each other and saying they are doing this so we have to do it, I don't think that gets us anywhere. I also want to point out on this slide, a lot of entities are doing something less than 3%. I mean aisd, university of Texas, state of Texas, the city of Fort Worth and the city of San Antonio are all doing -- are all looking at something that could be as low as 1.5%. And again I'm not saying that's right for the city of Austin, but I feel like, you know, the argument that you are making is we have to do at least 3% if we don't want to fall behind. And actually it looks like the majority of these entities on this sheet are considering something less than 3%. So I think that it is something valid that we need to talk about and I don't -- you know, I think we need to talk about it in a text we want to give city employees a raise. I think you all do such an amazing job to the city and to councilmember Renteria's point the other day, some of you all work -- we make you all work an embarrassing amount sometimes so this is not about how valuable, you know, or invaluable -- it's not -- this conversation is not -- we want to give every employee a raise. And in fact the proposal before us does give every single person working for the city of Austin a raise.

[11:50:40 AM]

So I just -- I hate this context that if we don't do at least this much then we're not valuing our employees when that's absolutely not the case. But there are other ways that we could possibly approach this issue and I hope we take the next week or two to have a more indepth conversation about it.

>> Mayor Adler: Mr. Zimmerman was next and then Mr. Renteria.

>> Zimmerman: Thank you, Mr. Mayor. To kind of clear the air, I appreciate the city manager's passion, I'm kind of passionate too. I was not reassigned over here because I wasn't getting along with my manager. A quick question on page 7 of the presentation on historical annual pay increases. And at -- yeah, at the bottom, Austin average increase in green and in blue the public and private budget for pay. It to me looks like the apples and Oranges against. Why didn't it say Austin average increase, public and private increase. Why weren't we comparing increases to increases? And I don't know, what the public and private budget for pay and where do those Numbers come from?

>> Let me clarify. So it's essentially the same comparative. Those -- that blue line is based on the world at work data on slide 4 -- excuse me, slide 4. The published data that shows public and private sector information. And so it is essentially the proposed pay increases from a third party source that we're using as a comparative on that.

>> Zimmerman: Okay, world at work.

>> World at work. It's one of the reputable published reports used by employers to get industry and bench mark data.

>> Zimmerman: Why wasn't -- it's apples and Oranges.

[11:52:41 AM]

I'm confused as to why are we talking budget for pay and then increase. Why didn't we compare budget to budget or average increase to average increase?

>> We went back and we looked at their reports over the same time period and that's what the results were.

>> Zimmerman: Well, if their report is in terms of -- they are calling budget for pay, there's a distinction here. There's got to be a distinction or else we could be comparing apples to apples. If the world at work data was in terms of budgeting for pay, why didn't we put in the Austin budget for pay?

>> I'll ask [inaudible]

>> Zimmerman: I would like to see a revised chart.

>> Councilmember Zimmerman, those Numbers from world at work are actual increases for those years, so that's basically a correction that we need to make on this slide. We'll go back and clarify that and get that --

>> Zimmerman: Thank you. I appreciate that.

>> Mayor Adler: Mr. Renteria

>> Renteria: Yes, mayor. Thank you. You know, when we looked at aid 1.5, it wasn't because they wanted -- they were getting paid too much. You know, Austin aid has a severe problem of having to give money back to the state, over 220 something million this next year, but they just couldn't get -- they don't have enough money to pay their employees. Their teachers right across the street from me have all left and most of them are working at del valle because they pay higher. You know, Austin aid is restricted, they can't generate any revenue. Those poor employees, I mean I go down there and even at Austin high the percentage of the people that work there can't even speak English.

[11:54:44 AM]

They are taken advantage of. They are decent employees. It's sickening what we're doing to our employees at the school district level and I would hate to ever see that happen to our employees here at the city of Austin. You know, and that's the way I see it. You know, and I also want to thank you for -- and I'm going to let you know that I support that added person for your youth and family service. I took advantage of an intern from east side memorial and she turned out to be one of the greatest interns I hired and I want to thank you for giving us the opportunity to have someone as talented as that.

>> Thank you.

>> Mayor Adler: Mr. Casar? Ms. Kitchen.

>> Kitchen: I have a question about the living wage and I think it may be already in your questions, but I note the difference between the 63,000 cost for bringing regular employees up to living wage, whereas the cost for temporary employees is 1.7 million. And that just -- that just points out to me one of my ongoing concerns about how we have a lot of temporary employees and it appears from this, just on the raw Numbers, that are being paid relatively low. So I would also like to know -- I'd like to drill down some more on that data that how many of those are full time and how many are part time. And then I would like a breakdown how many have been working for the city over six months. So to see what -- to see what those dollar amounts are, just to drill a little more into the 1.7. From my perspective, you know, I'm very concerned. I think that -- I'm concerned about -- I hate to use the word "Equity" because that word gets thrown around, but I'm concerned about where we are with our lower paid employees and our concern -- I also share the concern with a lack of a pay for performance type of program, and I'd like to hear back -- I've heard you say that we don't have a big enough pot.

[11:57:02 AM]

Well, I need to understand what that means in terms of how much you think we need and why for pay for performance because I think we need to get to the point where people are rewarded for the work they are doing. I think that's very important. So and I also from my perspective, I think we've got to get to the point where we're paying attention to our lower wage workers because continuing -- and I'm not saying I'm opposed to the percentage increase at all, I'm not saying that. But what I'm saying is a percentage increase not only does it not get at the things that councilmember troxclair mentioned in terms of targeting where we're having trouble recruiting, it also doesn't address the -- our lower wage workers. Because what we're talking about right now is charging additional amounts for health

insurance, and then if we have the same percentage across the board for everyone's pay, that's going to impact our lower wage workers worst. I'm letting you know what my kind of concerns are and so -- if you could provide that additional information on the living wage, that would be helpful. And related to that then is -- when you are getting -- I understand you are getting more information about the other jurisdictions. I'd be curious about whether or not -- I think it was both El Paso and the city of Houston, if that indicates a flat amount, the same amount for everyone as opposed to a percentage amount, I'm curious about whether that would address some of the concerns you raised about the tiered approach.

>> Well, if there were flat amounts across the board, yes, that would adjust everybody's pay equally, wage band. I think El Paso is more of that nature. I think Houston differentiates on the amount. And so we've done something like that similar here with -- I think a combination of percentage increase as well as a flat amount before.

[11:59:05 AM]

>> Kitchen: Have we done that in the past?

>> Yes, yes, we did that 2013 and fiscal year 14, I believe.

>> Kitchen: So in 2013 and 2014 instead of a percentage increase we did a flat amount?

>> We did both. We did a percentage increase, 1.5%, and then flat amount midyear adjustment.

>> Kitchen: Oh, I see. Okay.

>> Or a dollar amount midyear adjustment of \$750, if I recall correctly.

>> Kitchen: So I'm looking back on the slide that shows our history of what we've done --

>> And that's why it averages 2.1%.

>> Kitchen: Okay, so in 2013 it wasn't got to [inaudible] That's an average.

>> That's correct.

>> Kitchen: It was a combination of 1.5 plus -- the flat amount, was that the same amount for everyone?

>> Correct.

>> Kitchen: Okay. And did you say -- so that was 2013. Was there another year like that?

>> Not in -- not recently, no, I can't recall.

>> Kitchen: Not back to 2005?

>> No, I don't recall we've done that flat amount -- prior to 2008, there were pay for performance opportunities.

>> Kitchen: If you could provide us some more information about the previous pay for performance program, how it worked, that would be helpful. So that was prior to 2008. But all these other Numbers that go back to 2005, they represent a percentage that everyone got?

>> On average. That's an average increase for the workforce, those years.

>> Kitchen: I'm not understanding because what we have proposed right now is the same amount for everybody. So if -- if that's not what we did all these years, I would like to understand exactly what we did in these years.

>> We can provide that.

>> Just real quick, 2008, 9, 10, 11, 12, 14 and 15, those are all just the across the board percentage increases.

[12:01:15 PM]

2013 we already talked about.

>> Kitchen: Yeah okay.

>> And 2005, 6 and 7 were pay for performance so the average increase would be what you see there, some would have gotten more, some less depending on their performance raise.

>> Kitchen: When the pay for performance was done in those years, was it a combination of a percentage amount for everyone and pay for performance on top of that or was it only pay for performance?

>> The amount of increase you received depended upon your performance.

>> Kitchen: Okay. So it was purely a pay for performance and that was 5, 6 and 7.

>> That's right.

>> Kitchen: Okay. Thank you.

>> Mayor Adler: Mr. Casar.

>> Casar: We have submitted questions for the temporary employees with their hire dates. I think hopefully within the next format we'll be able to not just have staff tell us -- we can plug in eight months and see how long the employees have been around. But my question that I hadn't thought of until you brought it up is the part time versus full-time question. When you list the \$1.7 million for the living wage to apply to temporary employees, is that a full-time temporary employees or include temporary employees who may be categorized as part time?

>> If I recall, it includes all temporaries with the exception of the summer youth employees. Is that correct? That's correct. So it's full time as well as less than full time.

>> Casar: So then I may amend that budget question, ask for councilmember kitchen's -- categorized as part time, full time. Perhaps if we aren't able to get there on living wage, perhaps we could see temps who have worked here six months and we could do our best -- I know it may get complicated, but if you would bear with us.

[12:03:21 PM]

>> Absolutely. And later on in the presentation where we talk about the medical benefits, we do some analysis of the contingent workforce but it's not based on living wage so the Numbers are a little different.

>> Casar: And can you just remind me part time at the city, how many hours do you have to work less than per week or per year.

>> Less than 30 is part time.

>> Casar: Okay. Thank you.

>> 20 to 30 I think is the categorization.

>> Mayor Adler: Ms. Testify Ms. Testify -- tovo, then Ms. Pool.

>> Tovo: I wanted to talk about aviation and Austin convention center, those are two that offer pay for performance program. Is that how those work? I'm looking over the budget question I submitted and I submitted questions over the last years about this program because for one thing there aren't any other departments that participate in it and so it does seem a little bit unfair that if you work for the convention center you are very likely, most of their employees get a bonus every year. If you work in, say, neighborhood housing, you won't. And so, you know, to me that is not an equitable practice across the workforce. It looks like you had something he wanted to respond, but anyway, I'll just say question number 2 in this year's budget process also talks about -- asks for some information about that. But if you look through the last few years of budget questions, there's more extensive responses to the questions I asked in particular about the convention center. But between I guess aviation has paid out 587 in fiscal year 2013, 564 in fiscal year 2014, the convention center paid slightly less than that 2013 and was about 530,000 in fiscal year 2014 was about 550.

[12:05:23 PM]

So those -- and then I have a followup question.

>> Let me just offer some clarification. Those programs are more like gain sharing programs. And I do recall Ms. Tester indicated that it is based on the overall performance of the department, not an individual performance level, but if the department achieves certain goals, then the -- every employee in that department regardless of classification, job shares equally in the reward. So it's a gain sharing program based on pre-determined goals, quality, performance metrics, customer service indicators. And so that's the gain sharing program. I think the program in the aviation department works similarly so it's not individual based, it's team based, which is what a lot of organizations are moving towards, some of the most Progressive ones because the reality is no one person really can do a job by themselves. It takes a team to do it and so those are good programs. I wish we had the opportunity to fund more of them throughout the organization.

>> Tovo: Thanks for that clarification. When you say more organizations are moving toward those, do you mean municipalities or are you talking about private organizations?

>> Private organizations that have the ability to fund them based on profit motives. Both of those are enterprise departments and so they are able to -- when they maximize savings they are able to share those with their employees.

>> Tovo: So when I look at, say, the convention center, I see 216 of 254 employees received that gain sharing bonus, it sounds like those who didn't receive a bonus didn't meet the criteria for employment or something like that. They hadn't been employed for a long enough period of time or what's the gap if it's not an individual bonus but an overall department bonus?

[12:07:27 PM]

>> I think there is some eligibility for time with the city and time and job. I don't know off the top of my head but we can get that information.

>> Tovo: I think I'll submit followup questions because it looks like aviation has different criteria, four temporary employees and five in the next fiscal year who meet the criteria in the gain sharing program. I would be interested in know what the criteria are for both of those departments. It may be that -- it may be one of the previous budget questions I've submitted in previous fiscal years includes the criteria for the convenes center, I'm not -- the convention center, not sure it included the aviation. I had another question. It will come back.

>> Mayor Adler: Ms. Pool.

>> Pool: Thanks. I think, did you say you were working on the Numbers for what I was calling the hold harmless for the employee insurance cost?

>> Yes. We do have that in the presentation since it's been asked a couple times. I'll see if I can find that while you ask your question.

>> Pool: Because my intention in asking the question was to fund that increase so that any pay increase wouldn't simply be eaten up by the cost of the insurance. It also might give staff an opportunity to have a broader selection in that plan for items they can spend their insurance money on. One of the items that I wanted to make sure that staff was including in the presentation when you compare Austin as an employment center with our cities in the state as employment centers is the cost of living. I think it's more expensive to live in Austin then it is in El Paso. So if we're looking at a 3% raise in El Paso, there would likely be a different percentage that would be equivalent for the city of Austin.

[12:09:34 PM]

If you could do that calculation, that would be really helpful if we're going to compare against other cities, I think we should also include that axis on that comparison. And then I just wanted to say on pay for performance, that's not always a fair process. It does rely on the managers to do the extra work to

justify a pay for performance, and while one would expect that would naturally flow from a job performance process, it doesn't always. And so I would like to see if we are in the past if we've done pay for performance, I want to make sure that would have been implemented in a uniform matter which is how -- that's what across the board does eliminate is any preference or bias. Pay for performance doesn't introduce a little bit of bias, it also pushes for performance, but that depends whether your performance metrics have been lined up properly in the beginning of the fiscal year and you know that's what you are going to be measured on when you get to this point in the year for salary increase and that seems unfair to the 1256. And -- the staff. The last thing is the bonus program on aviation and convention center, I would like to dig into that and deconstruct those programs. I would like to understand the state laws that regulate the programs and keep the money in those enterprise departments. It's a closed system and there may or may not be any real impact that the staff has on what's considered a profit. I think what we're really seeing is that the city is a hot destination. And that may or may not reflect the level -- the high level of professionalism that our staff bring to the table, but just the fact is the people are coming to Austin. And so I would prefer to have increases as a part of staff pay so that everybody shares in that.

[12:11:35 PM]

Because again, I think there's some bias introduced. And remove the bonus program, but I want to understand all the state laws that regulate that and what we can and can't do. And I know there's plenty of them. That would be really helpful.

>> We can get that.

>> Tovo: And I would think with aviation there's also federal laws because the profits have to stay within a certain area. I remembered my followup question. And I think the answer is yes, but I want to verify. Those gain sharing bonuses are in addition to any increases that staff would receive in their salary for market adjustments. Those are on top of.

>> That's correct.

>> Tovo: All right. Thank you.

>> Thank you. I'm going to go back to the tiered wages because one of the things I think all of us have talked about is that -- and we'll use that inequity again, but the -- particularly the lower wage scale trying to figure out ways to continue to increase those so that that part of the population can still have a chance to live here in Austin. You know, and before I say what I was going to say as far as some comparisons, I just want to say being -- having lived in Austin so long, I remember very clearly and it still happens when my friends and I were all graduating from college and trying to make the decision of what jobs we were going to take and where we were going to live, I think people still have to make those decisions here and people choose to live in Austin because of lifestyle choices and the type of community that we are and often are willing to give up high salaries because of that. You know, the people that wish to do the high salaries go to New York, they go to Los Angeles, and I don't know that we always need to compete to be the highest paid in the country because we give things as benefits to our community and allow people to make those choices.

[12:13:38 PM]

So I always want us to understand that whether it's teachers, which are still, you know, people that graduate from U.T. Or one of the schools in Austin and want to be a teacher in Austin, they are willing to stay here and make less because they want to live in this community. That's not right or wrong, it's the way it's been for decades. My concern with where we are on wages is as councilmember Houston always says we have a tendency to look at things in silos and I think this discussion with tiered wages

also has to look at pensions. So we pulled some information from employee contributions to pensions and if you look at your sheet, which was page 5, which shows the across the board, and once again I'm always more for a merit increase than I am across the board increase because I think that always gives an incentive to people to do the best job they can. We already have a wonderful city staff, but, you know, you never want to stop giving those incentives. But when you look at page 5, you look at the entities I think we compete with here in Austin which would be the state of Texas, the university of Texas and aid. Those are the government-type employees that we as the city of Austin are competing with. And you look aid is at 1.5, university of Texas is 2 and state of Texas is 2.5, all below the 3 that we're proposing. Then if you take it one step further and you look at the employer contributions to their pension funds, teachers are at 7%, employer contributions -- let me back that up. Austin is at 18%. If, for some reason Houston is at 23%. We're asking that -- I don't know why they are there, but the next highest is El Paso at 14 and Dallas which is 13. But if you go back and look at these entities I think we compete with in Austin, you see teachers that an employer contribution of 7%, the state of Texas at 8%. So not only are we higher at 3% for wages, we're also higher in the employer contributions for those same groups too.

[12:15:45 PM]

So I think as we have this discussion, it's not just wages, it's not just pension, but it's the combination of the two and it's who we are competing with in Austin for those wages and employees. I just wanted to throw that out as part of the discussion and continue to remind us that I think it's the combination of both of those that we need to look at.

>> Mayor Adler: I hate to leave because this is such a critical conversation. I made a commitment to speak so I'm going to go and if you are still running, then I'll come back past the time. I have one real quick question. There's a survey question where you ask employees how they feel about their salary and how they feel about pension and I think the salary number was 45% are pleased and benefit was 80 some odd percent.

>> Right.

>> Mayor Adler: Do you ask the combined question? What was the number for the combined, how do you feel about your pay scheme --

>> We asked how do you feel -- how satisfied do you feel with your total compensation package. And 70% of the employees feel satisfied with their total package.

>> Mayor Adler: All right. Thank you.

>> So it's lower than the benefits, higher than the pay. Ms. Pool and mayor pro tem, if you would please take over.

>> If Mr. Van eenoo or Dr. Washington could speak to why the employees pension has that higher percentage, we are trying to return that fund or put that fund in actuarial soundness which has specific impacts again on our financial rating. Mr. Van eenoo, are you --

>> We actually have a section in the presentation where we're going to be speaking to that. I don't know if the desire of council is to have us bounce around or to -- there's a section that we still have to get into on benefits and at the end of that we're going to talk about retirement. But you are correct that the 18% city contribution is the amount that's needed to meet the actuarial requirements of the fund.

[12:17:54 PM]

>> Pool: And how many years ago was the current plan put together in order to get us on that track?

>> I think it was in 2012 I believe when we went to the two tier system. So it wasn't just an approach of throwing more money at the issue, it was also increasing the city's contributions creating a second tier

with a lower benefits structure for new employees and the combination of those two things has the fund on good actuarial standing.

>> Pool: How far down had that fund dropped?

>> It was into the low 60% funded status and now we're almost at 70%.

>> Pool: And what is the goal?

>> Obviously you would want to be at 100% funding would be ideal.

>> Pool: Right. And we are on track to get there, I think in the next 26 years we will have increased up to what percentage?

>> It's 24 years is the current amortization period for paying off that unfunded liability.

>> Pool: So we'll be at 100%.

>> That's the intent.

>> Pool: That is where a good pension fund would hope to be, correct?

>> Yes.

>> Pool: There's a followup question.

>> Some funds would be satisfied if they had funded ratio of 80% to 90%. I think what we had, defined benefit plans underfunded had to make changes in order to get on the Texas pension watch list. I think those changes made by the plan and got us into a finite funding period accomplished that.

>> Pool: And what's the -- what happens when you are on the pension review board's watch list?

>> You have several opportunities to give accountabilities in front of the legislature or the review board in terms of what plan changes you are doing, reporting on investment outcomes and anticipated plan changes and increasing employer funding.

[12:20:05 PM]

It is just another way of holding governmental entities accountable for the commitments they made to their employees or retirees.

>> Pool: Because they don't want the government to use the moneys for something else. Can you tell us what the funded liabilities are for the firefighters pension and the police review board -- police review pensions in comparison?

>> We put together slides for each of the three retirement systems. We have one for civilian employees, which we just call ers, one for police, prs, and one for fire which is frs. Here you can see the financial metrics for the city of Austin's civilian retirement system and some of the Numbers we just talked about, a funded ratio of almost 71%. Amortization period 24 years. That's the language for how long we're projecting to get back to 100% funded status. The arc is the actuarial contribution. You see the annual required for the ers is 17.63%. That's just for the city's contribution. And our contributions at 18%. We're really right in line with where we should be. According to the actuaries. And then the employee contribution is 18%. We have two tiers, as I mentioned. For the police retirement system, they are at 66.4% is their funded ratio. That amortization period 28.9 years. You can see again there arc versus what the city's contribution is, their required contribution 20.3% and they are a little above that at 21.63%. And then finally for the fire department their fund is in the strongest condition, 91.75, almost 92% funded ratio and amortization period just shy of 11 years.

[12:22:06 PM]

And their arc is 21.7% relative to the city's contribution of 22%. In all cases the funded ratios vary. I think the more important metric, not that the funded ratio is not important, but the more important is what is your actuarially required contribution to keep the fund solvent over time and are you meeting that requirement. In all cases we are.

>> Tovo: Councilmember Garza had a question and then councilmember kitchen and then councilmember Zimmerman and Gallo. We have two more departments to get through today. And we -- pardon? And after we conclude this, I think we should talk about whether or not we're intending to do that. We have a long, very long committee meeting starting in a few hours.

>> And there is a whole section of this presentation we haven't even touched about employee benefits and I know there's a lot of interest in the benefits and different aspects.

>> Tovo: Then let's pause here and reevaluate because we have staff members for ctm and fleet waiting for us should we at this point acknowledge that we're likely not going to get to them and they should come back on Wednesday? Does anybody object to that? Okay, then let's -- councilmember kitchen.

>> Kitchen: I don't object to that I'm questioning whether or not we're going to get through the rest of this presentation. We still have benefits and pension and I don't know if there's another section and it's 12:30 and I for one, I don't know about others, but I'm going to have to leave in about 15 minutes.

>> Tovo: Sounds like as a starting place there's no -- I don't see any objection to allowing ctm and fleet to leave and come back on Wednesday. So thank you staff. I'm sorry we didn't realize that earlier today. I guess the other question is whether or not we're going to finish this presentation. It sounds like we may not. What are the other time constraints that people have?

[12:24:09 PM]

>> I was able to miss my subcommittee in cap metro because there's a quorum, but I have a 3:00 I believe in here.

>> Tovo: Councilmember kitchen has said she's got about 15 more minutes. I would sure like to be done by 1:00ish at the latest.

>> We can continue to receive information, right?

>> Tovo: And I assume that we could also start Wednesday's with this information since we're now missing the mayor, councilmember Casar, councilmember Houston and soon to be missing two others. I think that we ought to plan on stopping at quarter to if that's all right. Councilmember Garza.

>> Garza: And for that reason I'm sorry this is more of a comment, but there's been several comments about the wage increase and I just -- I guess I want to get my comment in there as well because I'm very concerned about, with all due respect to Sherri, who I love, if we say that, you know, we're a city and you choose to live here, that really worries me because not everybody worries me. There were families that were born and raised here and this is their home and it's becoming harder for them to live here. And my husband is an austinite and his family can't afford to live in Austin anymore and I think that is why we need to be a model employer in the city and not -- I'm not a fan of comparing us to the state's because as a former state employee where the turnover was -- you would have a different staff every three months because of the turnover and the morale was so low. I cannot support any kind of decrease in the percentage of these salaries because of what we ask of our city employees and what they pay here. So I appreciate the conversation and we were each elected to be voices for our constituency, but mine is one where a lot of them are austinites, they didn't go to U.T. And make their choice, but this is their home.

[12:26:16 PM]

I will not be supporting any decrease in the amount of pay for our city employees.

>> Tovo: Thank you, councilmember Garza. Councilmember kitchen, did I say you were next or Zimmerman?

>> Kitchen: I just have a very quick question. The mayor had asked for more information about the employee survey. And so I'm just interested when you provide that, I would like to know a breakdown

by the wage level, not exact wage level but in general I would like to understand if the lower paid employees are exhibiting less -- if there's a difference in the results based on wage level.

>> We can take a look at it. It's an anonymous survey and so we do have the demographics of each participant, but we certainly can take a look and see what we can provide.

>> Tovo: Councilmember Zimmerman.

>> Zimmerman: Thank you, mayor pro tem. I think this is a straightforward question. Let's talk about social security. I believe some of the municipalities that have these pretty generous pension plans, they don't pay social security. And I guess our sworn employees, the firefighters, right, they don't participate in social security? And so we have about what, 30, in rough Numbers, \$30 million is going to social security payments in addition to the 18% we're contributing to the retirement plan, right, for the nonsworn. And so we're not obligated under law to participate in social security, are we?

>> I think the opt out provision was in the late '80s to opt out of the social security administration funding if you had your own defined benefit plan and so I think we're past that opt-out period. So the other cities that do, I know Fort Worth is one of them, but yet to opt out, I think it was 1986 or '88, I'll need somebody to help.

[12:28:28 PM]

>> Can I get a legal opinion? It was my understanding that we're not obligated by law since we have the defined benefit plan, we're not obligated by law to pay the social security benefits. But we'll check into that because that's about -- that's over 30 million, isn't it, just that payment right there.

>> I don't know that number, but we could report back to you.

>> Zimmerman: I think it's over 30 million. That could go a long way towards, you know, getting these budget cuts we desperately need and I don't understand why one group of workers would be entitled to two defined benefit pension plans, social security plus city retirement system. It doesn't seem fair to the I could just ask that, I think one reason that the firefighters and the police receive a higher tension is that it takes into consideration the amount that potentially is being received by the regular employees who are paying social security and paying into the retirement system. Is that correct, Mr. Van van eenoo?

>> Yes, there are two tiers in the civilian system. For the higher tier it is three percent for the higher service and the lower tier is two and a half. For the police system the.

[Multiple voices] Player is 3.2 and for fire it's 3.3 and if you're a firefighter you can retire at a much younger age. You can retire at age 50 with just 10 years of service. So they are more expensive plans in that regard. And then just one last thing on the defined benefit. We have what's essentially a contract with our employees to provide the retirement to them. And if we were to defund the elements of the retirement system it wouldn't change the fact that the people already in it would still have to -- a guaranteed pension based on their years and contributions and the city's contribution, is that correct?

[12:30:40 PM]

>> Because of pension reform, the pension or the benefits accrued are still owed to the employees. So we could not change anything retroactively. We would have to essentially do what we did in 2012 and develop a new tier and change moving forward.

>> Pool: As someone who receives a pension from the state of Texas for the many years that I worked there, it's not a huge pension, but it's enough to be valuable to me. And while this dais doesn't receive any pension from the stingers, the people who work for us do and folks sitting out here do, and I support the defined benefit. I think this is a really important aspect of our benefits question and the fact that spoke highly and valued our benefits component versus the pay, it's not that the -- it's not that the

retirement is so rich because it's based on your pay and we do not have rich compensation for people for the majority of our staff. I think what they're really saying is it's something that's guaranteed to them. It won't be taken away. And when they check all the boxes for years and age, they know the amount that they're going to receive. The fact that it would ever increase, Colas have been very few and far between on the stingers. I think it's been owe correct me if I'm wrong, I think it's been 10 years.

>> Last one was in 2002.

>> And we know the present value of that pension is a lot less today than it was 10 years ago. So I strongly support continuing with the program that we have established over time. It's shown to be something our employees value highly.

[12:32:42 PM]

>> I think in terms of our competitive edge when we recruit employees having a defined benefit plan, and particularly in those instances in which we can't be as competitive on the pay side does help in the recruitment and the retention as well. The other thing I do want to point out they had mentioned during earlier discussions, we do compare to other cities in terms of our pay practices, but it is not just making sure we stay competitive with other cities. It is the other private sector employers who are also interested in recruiting some of the talent we have in our workforce. For that reason we're mindful of what's happening not just in the government space, but in the private sector as well.

>> Tovo: Thank you. Councilmember Gallo, did you have a question?

>> It's only the sworn fire employees who don't pay into social security. Other employees do.

>> Renteria: And I also receive a pension from IBM. It's not very much, but it's enough to keep me living here in Austin. When I was -- I guess when I retired, you know, and I had to -- I retired early at 62, but it was just enough to keep me from having to move out of this town. And I think it's very important. And I know I look forward -- unfortunately IBM did away with their pension plan and started encouraging their people to go to 401, but I've seen -- not everyone is smart enough to handle their investment the right way and I've seen them where some of my colleagues that was working that just -- they did away with the pension and gave them a lump sum, and it was disastrous for them.

[12:34:44 PM]

And the insurance that -- health insurance took almost all their money away from them because they were families with kids and they were paying over a thousand dollars a month. So, you know, it's very hard to live in this country now without, you know, a pension. And unfortunately there's a lot of people throughout that, you know, would love to have -- to have that benefit of being able to work and have a pension. So that's why I support it. I always support that. We should really just keep this benefit program because it does encourage the employees to stay there.

>> Councilmember Zimmerman.

>> Zimmerman: Just a quick follow-up on this. Councilmember Renteria is correct, companies are moving away from pensions, owing to the uncertainty of the financial markets and the competitiveness of that so-called global economy. So yeah, they are moving away from pension benefits to try to maintain the solvency of the business, but let's talk about Detroit quickly. Detroit also had a pretty generous pension plan for employees. Part of the motivation for bankruptcy is they couldn't meet their obligations under their pension plan. We've been trying to investigate what the courts did or what the liability actually was, who held the liability for those pensions when the city's bankrupt, they can't pay. Is it the federal government bailout? Is it state bailout? Is it a reform of what the pensions are based on economic realities? You have guys looked at that at all as far as what the legal liabilities are for these pensions in case of financial distress?

>> I'm going to defer the legal question to Ann but the public sector is the guarantor.

[12:36:50 PM]

>> What would be the taxpayers of the city. The people who are paying the taxes to support the payments for the pensions. They're the ones liable? Are they liable legally or -- help me understand that. I'm looking forward. It's not -- it does affect the budget today because what we do today has an effect in the decades to come.

>> Councilmember Zimmerman, we'll be happy to look at that. The Detroit bankruptcy was part of the news that I certainly followed like many people did, and it had an interesting mediation involved with it, but I'll be happy to look into your question.

>> Tovo: Are there further questions at this point? Staff, does this seem like a natural ending point before we go on to those next sections of the presentation? So perhaps on Wednesday we can start with those next sections. Apologies that we didn't get through all of it. We appreciate you being here today and last week and Wednesday. And hopefully we can move a little more quickly on Wednesday.

>> I believe we're only on your agenda for three hours on Wednesday or two and a half, from 9:30 to noon. We have five enterprise departments on the calendar. At this point in time I would suggest that we don't even have ctm and fleet come back. I think there's almost no chance we will get to them, but that we would start off on Wednesday with the benefits section of this presentation. We didn't get to that yet. And then we would move into the enterprise presentations.

>> Gallo: I still would like to hear from ctm. I don't want to see them go off the radar.

>> Kitchen: And I would like to hear from fleet.

>> I think realistically you might -- from the pace we've been going, you might get to three departments in addition to this pay discussion, but that might be pushing it. I don't know if there's a preference for which one -- we can go in any order you want. You have the list of departments in front of you. I'm hearing fleet and ctm for sure.

[12:38:51 PM]

>> Kitchen: I think that the employee benefits is longer than usual because it's a major area.

>> Tovo: I concur with Mr. Van meanio, if we are stopping at noon and I think we have some time constraints that day as well because there are council committee meetings scheduled that afternoon, I would suggest that we make some -- I guess we can't make a decision, but we could offer some suggestions to staff about what we might cover so that we don't have -- otherwise we'll have staff from six different departments sitting here all morning and we're very unlikely to get to all of them.

>> Kitchen: Is there a reason we're starting at 9:30 instead of like 9:00, for example?

>> I think Mr. Van eenoo and I discussed that this morning. I think it's an historical holdover from previous budget work sessions. And that it might make some sense to start some sense to start at 9:00, however I think it may be too late at this point to post it. I think it's a moot point for this week.

Councilmember Zimmerman.

>> Zimmerman: I have a suggestion on this. Could we not just give ourselves time constraints and make time certain presentations? Maybe on the hour. And just limit our questions so that staff knows when they're going to be up. Because we can always do follow-up questions offline. So would that help to do time certain?

>> Tovo: Well, I think that would be a super idea, however we still then need to figure out within two and a half hours how to schedule six departments. So --

>> Seven.

>> Tovo: Seven departments. Maybe staff could -- if that's an interest of council, then -- and we're all

going to agree to limit ourselves to just that period of time, what does that work out to be per department.

>> 20 minutes?

>> Tovo: 20 minutes. Is that what we want to do on Wednesday, assuming the mayor is in agreement that that's a good plan?

>> Garza: Do we have no flexibility for adding other days?

[12:40:52 PM]

I know people probably don't want to hear that, but these are important discussions and I hate -- I think that this forum lends itself to more open discussion.

>> Tovo: We can ask staff to look at that to whether or not we can add a day and then maybe in advance we can let staff know which departments we want to be represented at that work session. And I think too as somebody said earlier, the question and answer -- I agree that the discussion -- your questions may prompt other questions from other people, but we also do have the question and answer process and probably need to utilize that as well given the time constraints and the fact that we all -- we need to move quickly toward adoption here. Councilmember pool.

>> Pool: I would ask that September 3 not be considered. Since we don't have a council meeting that day I've used that day to try to catch up on a number of meetings I haven't been able to make because of our additional budget work meetings. So if September 3 could remain in violate, that would be great.

>> Kitchen: I think we need to do it before then.

>> Tovo: I think at that point we're starting to pose questions to one another. If we have an interest in trying to find a day for a Q and a type discussion with staff it probably does need to be pretty soon. Mr. Van eenoo, can you -- initiate that discussion or ask the appropriate staff member to initiate that discussion?

>> What about next Monday? Do we have conflicts with next Monday in the morning?

>> Garza: Ann and I have cap metro.

>> Tovo: Let's try to do this outside of this group. And otherwise is that what we want to stick with for Wednesday, try to do all seven departments with 20 minutes each? All right.

>> But we'll pick up with this conversation.

>> Tovo: Sure. And I guess we have 20 minutes. All right.

[12:42:53 PM]

Thanks very much. So this meeting of the council budget work session stands adjourned at 12:43 on August 17th.