

## City Council Work Session Transcript – 12/6/2016

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[9:14:30 AM]

[Mayor Adler]

Alright Council Members it looks like we have a quorum. I am going ahead and convene this meeting of the Austin City Council Work Session meeting. Today is tuesday, December 6, 2016. The time is 9:14 a.m. We are in the City Council chambers at 301 West 2nd Street. In Austin Texas. Council members as you know. We have two meetings that are set at 9 o'clock in the morning. One is the Work Session and the other one is a Special Called meeting to deal with The Grove. The Grove is also listed as a item for discussion and in the Work Session. So we can discuss the Grove as a part of the Work Session as well.

We told the community that we will take up public testimony on the Grove this afternoon. Sometime after 1 O'clock. We also told the public that there will be an opportunity for the public to testify

[9:16:45 AM]

after 6 o'clock tonight. For those members of the public who are not able to make it during the day or the evening. So that we hear from both people who can't be hear in the evening and those people who can't be here

during the day. We should also know for a house keeping matter. The Mayor Pro Tem will be representing us we were selected as the only, United States city on a international program. She will be heading to

represent us as a part of that. Unfortunately she has to travel all that way to Paris to get that done. So thank you for taking that bullet for the rest of us. (laughter) We also know that, I think we lose Miss Houston today. At 2:30 half of the balance of the day. Miss Garza I think. I don't know if you are out of one for the rest of the day. Or out of one by coming back. The hope is by the end of the day. We will be able to pass on second reading. The Grove matter. At some point I want to get a feel for who's going to be here and able to vote on the matter. Yes.

[Houston] I should be able to come back at 6 p.m. for the public hearing, if your going to take the vote after that. [Mayor] That would be great. That would be helpful. OK. OK. So, we are the Work Session element.

I want to begin with the presentation. We have asked the Travis Council Appraisals District. To come make apresentation for us. This is something which I think is a really important and a big thing. That is happening.

[9:18:30 AM]

>> MAYOR ADLER: THE ISSUE OF APPRAISAL AND THE APPRAISAL SYSTEM THAT IS BEING USED IN THE STATE OBVIOUSLY HAS BEEN A MATTER OF CONCERN IN OUR COMMUNITY.

IT RAISED QUESTIONS.

THE COMMUNITY HAD QUESTIONED ABOUT THE FAIRNESS AND EQUITY OF THE AD VALOREM TAX SYSTEM, ESPECIALLY WITH THE THE APPRAISAL DISTRICT HAVING TO ENTER INTO THIS WITH HANDS TIED BEHIND ITS BACK WITH NOT ENOUGH RESOURCES TO BE ABLE TO REALLY GET THE DATA NECESSARY TO DO THE WORK AS BEST AS IT COULD POSSIBLY BE DONE.

AS YOU RECALL WE ENDED UP FILING A LAWSUIT THAT'S WORKED ITS WAY THROUGH THE SYSTEM. MOST RECENTLY WE'VE HAD AN APPELLATE COURT OPINION TELL US THAT THE RESOLUTION TO THE QUESTIONS WE WERE ASKING NEEDS TO BE HANDLED BY THE LEGISLATURE, AND I WOULD CERTAINLY HOPE THAT THEY WOULD HELP WORK TO INSTILL PUBLIC FAITH AND TRUST IN THE AD VALOREM TAX SYSTEM.

BUT SEPARATE FROM THAT EFFORT, THIS IS AN EXCITING PRESENTATION TODAY AND AT A TOP LINE LEVEL WE'RE GOING TO HEAR WHAT THE APPRAISAL DISTRICT HAS DONE WITHIN THE RESOURCES THAT IT HAS, TAKING ADVANTAGE OF THE ADDITIONAL RESOURCES THAT THE CITY AND OTHER ENTITIES HAVE PROVIDED TO THE APPRAISAL DISTRICT TO TRY TO DO WHAT IT CAN DO IN RESPONSE TO THOSE COMMUNITY QUESTIONS, AS WELL AS DEALING AND I THINK THIS IS REAL IMPORTANT AND A REAL SIGNIFICANT TAKE AWAY, ALSO TAKING A LOOK AT THE TAX ISSUE WITH RESPECT TO GENTRIFYING NEIGHBORHOODS, MEANING THOSE NEIGHBORHOODS WHERE SOME PEOPLE HAVE LIVED FOR 20, 30, 40 YEARS, AND THEY'RE WATCHING HOMES AROUND THEM BEING PURCHASED AND REFURBISHED. , WHICH RESULTS HISTORICALLY IN THEIR AD VALOREM TAXES GOING UP AND DIFFICULTY IN BEING ABLE TO STAY IN THOSE HOMES, AND OUR APPRAISAL DISTRICT HAS COME UP WITH A FIRST IN THE STATE WAY TO TO APPROACH IN A WAY THAT ADDS FAIRNESS AND EQUITY TO THE RESIDENTIAL SIDE OF THE APPRAISAL PROCESS.

SO FOR BOTH THOSE THE ADDITIONAL GROUND BEING MADE ON THE COMMERCIAL SIDE AS WELL AS THE ADDITIONAL GROUND BEING MADE ON THE RESIDENTIAL SIDE.

THIS IS JUST REALLY GOOD NEWS.

YOU'RE TO GO CONGRATULATED AND THANKED ON THIS AND I WANTED YOU TO HAVE A CHANCE TO BOTH TALK TO THE COUNCIL AS WELL AS THE MEDIA INSOFAR AS WE PROVIDE THAT FORUM AS WELL. SO

[9:20:45 AM]

>> THANK YOU.

THANK YOU, MAYOR, I'M MARYA CRIGLER, CHIEF APPRAISER OF TRAVIS CENTRAL APPRAISAL DISTRICT. MY COMMENTS WILL BE BRIEF.

I'VE BROUGHT TWO STAFF MEMBERS TO TALK MORE SPECIFICALLY ABOUT WHAT THEY DO IN BOTH THE COMMERCIAL AND RESIDENTIAL DIVISION AND SOME OF THE PROCESS THINGS WE'VE IMPLEMENTED IN RECENT YEARS THAT I THINK HAVE BOTH IMPROVED OUR ACCESS TO DATA THAT'S NECESSARY FOR US TO ACHIEVE OUR JOB AND ACCOMPLISH OUR MISSION OF APPRAISING PROPERTIES AT MARKET VALUE.

But also to ensure that we are doing it in a fare and equiable manner. And what I think you will see is based on the data. We were able to get. Our ability to accquire additional data without legislative change. There is a building filed currently that would insure sales disclosure but we wanted to look at what we could do without legislative action.

I can't depend if that is actually going to happen. So we made a lot of efforts to acquire more data. Not only sales data. But also other market data and data from other sources. One of the things we depended upon a great deal is permitting information that we get from the City of Austin and I can tell you in my experience the data we are getting from the permitting division has increased. In terms of its timeliness for liability to the point we are able to rely on that. To a great extent and property characteristics that influence market value. So it has been a tremendous benefit to us. In the recent years to look at the permitting data. What you will see in this presentation, it is not only we have been able to deal with in an ever increasing volume of work load.

[9:22:16 AM]

>> In some cases it's doubled, sometimes it's tripled. Some cases gone up fivefold but we're able to handle that volume in a shorter time frame, and often doing it early and we have increased the accuracy of the appraisals that we present and I'm pleased to tell you that this year we're actually doing it under budget so we will be crediting money back to the taxes entities because we were able to come in under budget this year. So I've got two of my staff members with me today. I've got Michael Kasper, who is residential, and first up I have Lonnie Hendry, who is my director of commercial property and I will let them explain what they've been doing.

>> Mayor Adler: Thank you.

>> Thank you, Marya. Thank you, Mr. Mayor, council, I appreciate the opportunity to come before you today and give you a little peek behind the curtain at what we do. So we've titled our presentation today Travis cad process initiatives and that's what we'll give you an overview on this morning. So we'll start off by looking at some of the initiatives that we've undertaken over the last few years. One thing that we started with was the -- recognizing the need for additional staff to handle the increased protest volume. We have a slide a little bit later that shows the dramatic increase in protests that have happened from 2012 through 2016. Much. There's a number of reasons why that's happening. And we'll talk about that later in the presentation. We've gone to the entities and to our board of directors and asked for an increased funding for litigation. As our valuations getting closer and closer to market value, litigation costs also increase proportionate. In fact, sometimes disproportionately so. We'll see there are some numbers behind that in terms of the total volume and in terms of lawsuits filed as well as the volume and value under litigation. Some of the process initiatives we've undertaken to deal with that and increase our efficiencies in dealing with it. Additional funding for market data and research positions, as mayor Adler described, our biggest challenge at the appraisal district is operating in a state that's nondisclosure, which doesn't require property owners or their representatives to disclose to us or any other governmental entity what they buy their sole property for.

[9:24:26 AM]

When you're required to be at market value, which by definition is willing buyer, willing seller and a price that's achieved in the marketplace, but you're not given that price. It's very difficult to do your job under Normal traditional data mining techniques. So what we've done is try to incorporate some additional outside the box thinking and look at some additional sources for data and that required additional people in order to do that because we still have to function on our Normal statutory requirements. Fee appraisals, which is something we've done since 2014. We've gone to the marketplace, to third-party fee appraisers and had them do some work for us on a contract basis to determine how close our values are relative to the market appraisals that they would do when

commissioned, so this is a test of reasonableness for us that allows us to calibrate and adjust our models based on third-party objective opinions in the marketplace. So we talked a little bit earlier about the protest volume. This chart gives you a really good graphical representation of what we're dealing with in terms of protest volume. In 2012 we had a total of 76,000 and some change on the protest. You fast-forward to 2016, we set a record in 2016, over 115,000, almost 116,000 protests. One thing that's very important to remember with this is that our statutory deadline to approve the records does not change based on the volume of protests. So whether you have 75,000 protests or you have 115,000 protests, we still have to complete our objectives by July 20. So the only way to do that without increasing dramatically the number of staff members is to increase your efficiencies on your processes and so we've done that. For 2016, as I stated, it was a record number of protests. One thing that we'd like to pat ourselves on the back with a little bit is for the commercial division. We completed all of our improved commercial property protests by July 1. It was the first time it's ever been done that quickly. We certified the appraisal roll two days early, our statutory deadline is July 20.

[9:26:28 AM]

We certified on July 18. And we certified at 95% of the roll having already gone through the protest process. So we only have 5% of the roll outstanding. What that means to the entities is that there's that much more certainty for them when calculating their budgets and their tax rates heading into that cycle for them. The mandate for us is to be at 90% by July 20, so we far exceeded that at 95. Were he completed all protests inclusive of residential and business personal property by August 31, which again was a record for us and our average wait time when someone came into the building to talk with an appraiser this year was 9 minutes. So for a governmental entities dealing with 115,000 protests you can imagine the foot traffic and volume that comes with that. We were able to service the taxpayers in an average wait time of 9 minutes, which we're very proud of. We talked a little bit --

>> Mayor Adler: Hold on a second.

>> Thank you. I have a question. So it looks like there were 9,000 additional new protests this year compared to last year.

>> Yes, ma'am.

>> But my guess is some of that -- I want to understand how many additional properties were added to the tax rolls in 2016. Do you have any idea? I mean, so I'm trying to understand, do we have -- see that increase because there is more of a concern about values or are we seeing that increase because we're actually adding a lot of units to the tax rolls?

>> Sure. I don't have the specific number for you. I could get that, in terms of new construction that was added to the roll. I would say that we're getting a tax base that's more and more informed in the process. They're becoming more educated in the process, and as that happens through our town hall meetings and so forth that we do to get the word out about what we do and what we're required to do, that by itself increases people's awareness of the ability to protest, and then you couple that with the fact that we've seen on residential double digit increases in value for the last four years, that's a pretty good recipe for seeing a increase in protest volume. I will say that with the challenge from the city, the publicity that came from that, we got a lot of increased phone calls, we got a lot of increased activity from that just because it was in the marketplace, and so people were reading about it, they were concerned that maybe they hadn't fulfilled their obligation by filing a protest, et cetera.

[9:28:43 AM]

So I think it's a combination of all those factors.

>> Gallo: Okay. Thank you. And mayor, I'm noticing, we don't have the closed caption showing up on our screen.

>> Mayor Adler: Okay. Is there a way to get closed caption up that would be a good thing to do. Let's go ahead and work through this.

>> Okay. So litigation, we talked about a little bit earlier.

>> Mayor?

>> Yes.

>> I have a question.

>> Mayor Adler: I'm going to recommend we try to get through because we have a lot of presentations. We have the grove issue we're trying to get to before we lose council members, so my recommendation would be let's -- if we can -- I'll let you go, but here after let's go through the presentation and see if there are questions -- those questions are answered --

>> I thank you for that, and what I'll do is I'll toss my question out there and then you can dig into it because you may be planning to do it.

>> Yes, ma'am.

>> Pool: But I was looking at your metric for -- on the previous slide, the nine minutes per wait time. Is that -- or is that the amount of time that you spend with each protest?

>> Yes, ma'am. That's actually wait time. We have a queue process when you come in the building to speak to an appraiser. You're required to sign in so we keep electronic records of anyone that's come in, and then the appraisal staff has a queue mechanism that allows them to check them in once they've taken them. And so that number is strict 4re just how long it would be -- strictly how long it would be before they sign in until they get to meet with an appraiser. We don't have a metric on how long it takes because our objective is to get the value right, once we're sitting with someone, in an expedient manner but we don't want to force people in and out, so we don't track that like we do getting them in. I will say that based on the volume and the date in which we finished, that those times have been reduced, but I don't have a specific metric for you on that.

>> And if I could, it might speak to your question a little bit to realize that we resolved in residential about 95% of all of our protests informally, so although they did not have to go to an appraisal review board hearing, so while I know we're no homeowner's favorite place to go, we did work together with partners in the community to try to resolve these issues, we only couldn't come to an agreement on 5% of our formal protests at an informal level.

[9:31:02 AM]

>> Than I think that piece of information is helpful. Thanks for bringing that up.

>> Volume from 2012, we had a total of 125 lawsuits filed, the ag vat Val from those lawsuits was about 3.4 billion. You fast-forward to 2016, up over 700 lawsuits with an ag vat value of 23 billion. Those are strag ring numbers in terms of numbers and value. So as we get along in the presentation we've talk about some steps we've taken to make our litigation process more efficient, both for the staff and for the stakeholders involved with the litigation process.

>> Mayor Adler: And with respect to the timing of the presentation that you're making, you're doing great stuff, managed really well. What I really want you to get to this council on are how appraisals are being handled in terms of valuation on commercial area and residential area. If we could get to those two things most quickly, that's really what I want the briefing on today for the council to understand those two things.

>> Yes, sir. Thank you. So let's get to that. So the biggest point for commercial is we talked about it, was the lack of data or data being a supplement for us. What we've done for the commercial valuation while we're seen such a large increase in value the last two years is data mining techniques we've

implemented at Travis cad that aren't being implemented other places. Austin specific market data that's been derived from the data mining techniques, and then modernization of our litigation process. Let's talk a little bit about data mining. That's the nuts and bolts of the presentation for the commercial side. I actually worked at the appraisal district for nine years, tarrant, and was given a presentation on data mining, ran into Marya at Travis, taught a two-day seminar for them in 2014, an opportunity presented itself in 2015 for me to work at Travis so when I came I brought those data mining techniques I had been working on at tarrant. In 2015 when I got here, we used those data mining techniques, which primarily are increasing our data through research on commercial mortgage-backed securities, and also through documents that are traded through the sec to file some documents.

[9:33:24 AM]

So while not required to disclose sales prices to us through Texas law, if they're a publicly traded entity a lot of times they're required to give that information to investors. We've been looking at those types of documents to get data. In addition to that on the mortgage-backed security side what we've been able to do is acquire a large value volume of refinanced appraisal data, which are use (indiscernible) Based on a law in 1989, financial institute reform recovery enforcement act so we can use those appraisals basically at sales prices. So it's greatly increased our data collection, which has increased our contrast accuracy and increased values accordingly. It's increased staff knowledge, confidence, et cetera. In terms of the Austin market data, what we've been able to do is supplement what we've had instead of using large scale surveys at a macro level, they've drilled down to Austin specific database based on the research we're using. This is an example of what we're putting together in terms of an evidence packet. We've created an evidence packet for the commercial division. If you look at this it has a lot of market specific metric data, citywide vacancy, general market overview. So we've been able to take the data we collect, put it in a comprehensive packet we distribute which allows us to discuss these as talking points when folks come in and want to discuss their value. This is an example of an equity grid that we've presented for one of our premier properties here in downtown, one of the large office buildings, which is currently -- was on the tax roll for around \$327 million for 2016. This property actually came into a settlement conference yesterday and was resolved, finally signed off at 320 million. It represented 2.15% reduction over our value, which on a \$300 million property will take all day. So our range on that was from 316 to 327.

[9:35:25 AM]

We ended up settling at 320. So we wanted to use this kind of as a point of emphasis for the council, and for you, Mr. Mayor, to show in real terms on an actual property here in Austin that's a premier property, what this data is allowing us to do is keeping the range a lot tighter for us.

>> Mayor Adler: To underscore that issue, what -- the problem we've had historically and it continues is that without the data, it's hard to get the right number and be on it to be able to defend the number from someone that might want to challenge that number, and what happened here is Marya went out and found and recruited and then brought to Austin the best data miner in the state, who's now using lots of other data sources and places where you can find that data to the point now where you're able to feel a lot more confident about being able to defend the numbers that you --

>> Yes, sir. And then just briefly on the litigation, you saw the numbers in terms of lawsuits filed for 2016, was over 700. We realized that in order for us to process those that we were going to have to revise our processes internally and then gain consensus among the plaintiff attorneys that filed the lawsuits for the property owners. So we've worked very diligently with them, had several meetings with the attorneys, come up with a process that allows us to schedule them, much like arb hearings. So we

actually give them a date, time -- time and date certain with the order in which we plan to hear the settlement conferences. It has allowed us to work through a dramatic number of protests of -- of litigation, excuse me, in a short time period. We actually hope to have all of our litigation current and prior year done by June 31 of '17 so what that means to the city and other entities that those accounts that are still under litigation are a liability because there's potential for refund on that with interest. And so it's in our best interest and the entity's best interest to process those as timely as possible to avoid that liability on the books.

[9:37:26 AM]

This is some statistics for you. From August 1 of 15 through December 1 of '15, we resolved 322 lawsuits at 2.4 billion. You can see our increased workload from August through December of 2013. We resolved 569 lawsuits to date with a value of about 10.4 billion. So I think that speaks to the volume and the speed at which we're trying to process these.

>> Mayor Adler: Has this also resulted in an increase in what the assessed commercial value is?

>> Yes, sir. So for 2014 the commercial property rolls saw an increase in on an average of about 35%. In 2016 the commercial rolls so an increase, of 1%. So you have a 30% and 35% year over year increase.

>> Tovo: Could I ask that you repeat those percentages by the year?

>> So 2015 on average for all commercial properties was about 35% increase.

>> Tovo: Commercial or residential?

>> Commercial, commercial only.

>> Tovo: And then stwix you 2016 you said it was 30?

>> Just over 30%.

>> Mayor Adler: That would represent two things, it would represent a rising market, one, but it would also represent an ability with the better data to better hit what the market value was?

>> Yes, sir. My opinion on that is that while we would all acknowledge that we're in a rising market, what we've been able to do with the data is actually capture the rising market, the full effect of the rising market. In the past if we had been in an increasing market of 30%, with the limited data we might only be able to support a 15% increase. Whereas now when the market goes up 30% we reflect the full 30% increase. We've been able to do that for the last two years. And as you can see, the column there under percent, the 6%, that's the aggregate value lost through the litigation process. So we're within a 6% range throughout the process. That's --

>> Mayor Adler: So you've been able to do two things.

[9:39:26 AM]

You've been able to make up the stagger that that report that we had seen that had brought to the council two years ago, was suggesting what exists in the spread between market value and ad valorem value, appraised value, but not only that, but because of the additional data, not only have you increased and made that stagger, but you're better able to hold on to it in litigation because you're better able to defend the ability that you have and both those are real good news.

>> Thank you.

>> Mayor Adler: So congratulations.

>> Yes, thank you. So that pretty much concludes the commercial side, and I'll turn over to Michael and I appreciate your time. Thank you very much.

>> Mayor Adler: Thank you.

>> Morning, everyone, my name is Michael Kasper, and based on my role with the appraisal district I like to start every conversation.ing out I'm not only an Austin native but an east Austin native. So I didn't cause the problem.

[Laughter] But I do carry that context with me in everything that I do. So let's look at -- I'm going to be as quick as possible. First, I have to cover two terms that my presentation will make no sense if I don't cover the terms. Then we're going to look at the neighborhood life cycle and residential properties. Why are we going to look at that? Because we now have transitional neighborhoods in the Austin core. Why does that matter? We want to look at what is the effect of those transitional neighborhoods on the market. Lastly, what is the appraisal district doing to reflect this new phenomenon that we haven't experienced in Austin past, how are we dealing with it, and that will be market segmentation 2.0. I always start with the exciting stuff so we have two terms or a term and a concept to cover, and that is an appraisal ratio. Everything we do, one of the tools we use to measure our accuracy is the appraisal ratio. It is the ratio of our appraised value to an independent indicator of market value, which is usually a sale price, it can be a fee appraisal. Now, how do you calculate the appraisal ratio is really what matters for our conversation. It is our appraised value, in the case of residential divided by the sale price of the property.

[9:41:31 AM]

So an appraised -- appraisal ratio of 1.0 at 100% would be a perfect appraisal. Happens that way every time. But what you really need to understand moving forward is that if the appraisal ratio is less than 100%, it means the property is undervalued compared to the sales price. If the ratio is greater than 100%, that property is overappraised compared to the sale price. Then the concept we need to understand, that everyone could get a better understanding of, is that the appraisal district does not set out to raise or lower values. The appraisal district is merely a group of real estate appraisers who reflect the market. We do not define nor set values. We simply reflect them. With respect to lowering values, which homeowners are mostly concerned about, you don't need an appraiser to determine the presence of a characteristic on a property, but when you look to lower value, you do need an appraiser. Why? If you live next to railroad tracks or next to mopac or some other environmental influence, you don't need a real estate appraiser to tell you that's there. What you do need a real estate appraiser is to tell you is that characteristic that's present a market premium, market neutral or a market deterrent. So those are the two emphasis of our discussion and let's go from there. First example on how the appraisal district reflects the market and how we have to look at the market effective characteristic. Map you're looking at is urban core neighborhood and the teal colored or blue colored line is the 100-year floodplain, and the Orange rectangles are sold homes. For the purposes of our conversation assume the homes are completely the same in every way except their exposure to the floodplain. Also note that none of the properties have a reduction for floodplain exposure. You can see that two of the six -- see that two of the six have some exposure to the floodplain, the two at the top. One of them is mildly affected and one of them is essentially submerged.

[9:43:32 AM]

So was the presence of the floodplain in two of the sales of market premium, market neutral or market deterrent. Common sense tells you you have to reduce the value of that property completely submerged in the floodplain. Everyone thinks that way. It's an understandable conclusion. But let's look at what the market tells us and what the ramifications are if you don't listen. First we'll look at the for sales out of the floodplain. Remember we're going to look at the appraisal ratio, not the sale price. So what these numbers mean is that we appraise those properties and then they sold within 5% of our



appraised value, which is fairly accurate. That's what the 96 to 102. So what -- what about the two in the floodplain? The one that's mildly affected falls well within that same range. There was no market effect on that sale. If you reduce that property for being in the floodplain arbitrarily, when those properties sell, the rest of that sale price that you took away from that downward adjustment gets transferred to everyone else in the neighborhood in terms of appraisals. That's what people need to understand, that there are two sides of this coin, not just the subject but what are you doing to everybody else around them. So let's look at the property that's completely submerged in the floodplain. Surely it sold for less. In fact, no, the 92% appraisal ratio means that property we had -- we had missed the sale price by the greatest amount and we were undervalued by 8%. How in the world can that happen? It just so happens in this neighborhood and what you need to understand about the elasticity of demand in Austin's urban core is in this case scarcity of supply far outweighed the effect of the floodplain. The buyer didn't care it was in the floodplain because they wanted to live in this neighborhood. So what we have to do is reflect the sales data. We cannot arbitrarily raise or lower property values. We simply reflect the market. Floodplain is a real easy example to demonstrate.

[9:45:33 AM]

Some neighborhoods it is a market deterrent, and we reflect that. Some neighborhoods such as this, it is market neutral, and we do not make any adjustments. Again, if we did, when those properties sell with reductions on the appraised values, that sale price that's much higher distills into the rest of the neighborhood. One more example so we understand that we reflect the market. These are two odd shaped lots. They're about 20,000 square feet apiece, so not like my lot in Elgin. They're oddly shaped and the first thing you're going to say if you're the owner is you have to reduce my value. Look at the shape of these lots. You can't build on them. Then you add in the fact they happen to slope from back to front 120 feet so they have a steep terrain and odd shape. You have to reduce my value. I can't build here. That's what it feels like. That's your common sense reaction but when we add to the conversation the fact that the one on my left happens to be at a crest of a hill in west lake hills, you now understand that you have a lake view to one side, a downtown lake view to one side and hill country to the other side. So, in fact, would you reduce the value of the property based on characteristics that are present, terrain and shape, without realizing that you'd be reducing what is literally a million-dollar view. Then the other property happens to be close to mount Bonnell, and again, you have a lake view, the bridge out the back, downtown panoramic view one side and hill country the other side. What's to understand about this is as a real estate appraiser we have to look at the fact, yes, those characteristics are present, but are they a deterrent? In this case no. The shape of the lot -- let me start with, the terrain creates the view. You're higher than your neighbors. Shape protects the view in perpetuity because no one can build in your way. So this would, in fact, be not a market deterrent but it would be a market premium.

[9:47:34 AM]

Now, one more term and then we're here for all of the neighborhood life cycle and market segmentation. I will not go into great length on the slide other than to say standard market segmentation basically refers to drawing a neighborhood. You draw the physical boundaries of a neighborhood, the streets, where the school is, and then you walk away and you value the neighborhood and you're done. That is the way you usually conduct yourself in mass appraisal. But at the appraisal district based on our increased resources, based on our increased access to data, and especially because the market has changed, we have a new phenomenon, we have to take our market segmentation one step farther. So we are now looking if the market tells us that there is a market within a market within a neighborhood. So we need to divide them into submarkets. The market tells us to do

this, and I'll show you how. It's important to remember that with this new market segmentation we have to review this every year, because if these conditions are not present in a given year, then there's no longer need for extra segmentation.

>> I have a quick question, mayor.

>> And I promise I'll take questions at the end too.

>> It's a definitional question, when you refer to the market segmentation as new, do you mean that's an entirely new term or simply new here in Austin that we have not seen this before here but other cities have?

>> Parsing my words, I'm not aware, in my research, I am not aware of anyone else in Texas segmenting the and I that we will be segmenting. However, most of Texas doesn't have the market we have and they don't have the transition we have. So....

>> Pool: But the approach that you're taking is that's something that you have come up yourself or have other cities in other states used it?

>> I wouldn't say we come up with it ourselves. We came up with a process to better reflect the market, but it's all just part of looking at what the market tells you, but yeah, the actual physical process of segmenting within a market to our knowledge is new to us.

[9:49:35 AM]

We didn't take it from anyone else.

>> Pool: Thanks.

>> Okay. Let's look quickly at the neighborhood life cycle. I'm sure you're all familiar with it but it's integral to the conclusion of our conversation, and what we are going to look for is evidence of homes side by side that happen to be in different parts of the neighborhood life cycle, and what is the market effect of that. So here's growth, stability, decline and revitalization. These are the steps of the neighborhood life cycle. In the growth stage that's a new neighborhood, demand absolutely exceeds supply. That's why you're building. In stability, you tend to have price point uniformity, not necessarily uniformity of the same houses, but price points are fairly uniform, and supply and demand are reaching equilibrium. In decline, especially in an urban core, you tend to see that this happens when populations begin to migrate to the suburbs. At that point supply exceeds demand. At certain points prices drop to the point that the market comes back and you have revitalization, so then you have new construction or old made new side by side with properties instabilities or in decline. At that point demand exceeds supply. So we understand the neighborhood life cycle. Where do we find this happening? Well, it's not in the outskirts of the city or the outskirts of the county. It's in the urban core. We included this slide just to help understand where our realization is of this effect. It tends to be in the urban core. We would define it loosely at 183 to the north and east and then the river to the south -- I'm sorry, it's two Lakes, but the river to the south and west, and then I-35 goes through the middle there, for reference. It's important to note again each stands on its own. Well have to review this each year, but this is where we find this phenomenon. So what is the market effect of these transitional neighborhoods?

[9:51:36 AM]

Again, we only reflect the market. This is probably the most important slide of my presentation and so I'm going to take just a moment. This is how an appraiser, especially in mass appraisal, looks at a neighborhood to determine value. This is called a sales array or a neighborhood profile, and what you have is you have two columns of analysis. Rem stands for remodeled properties that sold, could also be new, we just trawng trunk -- truncated and I stands for original. And in the case of where the median level of appraisal is, our job at the appraisal district is to set every property at the median level of

appraisal in order to meet our requirement for equal and uniform. So what are the numbers? Those are the appraisal ratios. If it is less than 100%, remember that means that the property is undervalued according to the sale. If it's over 100% the property was overvalued compared to the sale but we have to put everything to the median. So you have two different neighborhoods. In the column that says segmentation, this is the evidence that the market shows you to say it must be further segmented. You can see the distribution of the appraisal ratios is substantial, from 82% to 126%. It's a pretty wide margin. Furthermore, you can see the remodels are grouped together and the original unremodeled are grouped together. What's that telling us? That tells us people are paying a different premium for remodeled or new home than they are for the original. When you see that data it tells you you have a market within a market. You don't have the same people buying one as the other. In the column on the right that is a distribution you would see if there is no evidence of market segmentation. Even though you have original and remodeled properties side by side the market is not recognizing a premium for the remodeled properties. You can also see the distribution is much more narrow, from 96% to 103%. So on the column on the left it tells us we have more work to do. The column on the right tells us no further segmentation is needed.

[9:53:40 AM]

That's very important to understanding the process. This was an actual neighborhood and I want to be very clear to everyone in allandale that for 2016 we did segment. But how we saw that we needed to do this as a trial project was we -- this is the actual sales array, looking at appraisal year 2015. You can see the appraisal ratios. In the left -- my left column you can see all of those properties that are 82 to 83%, means they were undervalued compared to the sale prices. Those were all heavily remodeled, without exception. On the right you can see the 118 to 123% ratios. Those would be overvalued compared to the sale prices. Those were all not remodeled. So it tells us there's a market within a market. So what did we -- what did we look at? This is what we see from the outside when we go for the permit. This is what we see. What we don't know is inside of this quaint home you had a complete remodel. This is especially prevalent throughout the urban core. And if we had not segmented, which we did, we would have sent out an appraisal that was 17% below the sale price. Another example, again, you can't really tell from the outside, this is that property as it sold inside, and again, had we not segmented we would have appraised the property low. On the other side, here is a property that's relatively original. If you like blue, we have the home for you. But if we had not segmented, we would have sent this property out 20% over the sale price. So we -- it is anecdotally true that when the homeowners in some cases point out that they're being unfairly compared to new -- remodeled or new properties, in some neighborhoods they are correct that that does have an effect. One more example, again, if we had sent this one out without segmenting it would have been 24% -- appraised at 24% over the sale price.

[9:55:46 AM]

So those are the pictures. So what did we do? After we analyzed this market factor, which is again new to the Austin area, for 2016 we bifurcated the neighborhood into two, if you prefer, neighborhoods or markets, terms used universally, to reflect the market segmentation. What was the result? The original or unremodeled homes, and we have our technical definition there is what the market told us, they sold for a premium still. We don't want anyone to get the wrong impression. Property values did not decline in allandale after segmenting. People still paid a 55% premium over the replacement cost of the home to live in allandale in the undermodel -- unremodeled houses but in the remodeled houses they played a 93% premium over the replacement cost of the home to live in the neighborhood. So we segmented in the two neighborhoods and only compared them to the sale of like properties. What was the effect for

your constituents? Well, obviously this will create more fairness in appraisal, which is what all appraisals should have. The new and remodeled homes were appraised at their full market value and homeowners of old or original homes were not burdened with that undue contributory market value from the remodels. But visualize, wasn't a decline in total property values. It was more like this, where the remodeled homes accounted for greater value and the original properties decreased in value, relatively speaking. But again, I just want to make sure I emphasize, there was no depreciation in at endale. They just -- in allandale. They just didn't appreciate at the same rate. What was the effect? This would be the original allandale neighborhood as we see it. The important thing to remember is the physical boundaries were the same for both markets and we saw price ranges from 275 to 850,000 for 2016 in the original enabled, and then in the bifurcated new and remodeled neighborhood 520,000 to 1.2 million. So they're on the same street, side by side but two very different markets.

[9:57:52 AM]

For 2017 and beyond, how are we going to apply the market segmentation when the market tells us it's needed elsewhere? We're back to the urban core. We have a work flow and a process to now statistically analyze these markets for needed bifurcation. We've become quite good at it over the last two years. We will now be reviewing every neighborhood that we appraise this year for market segmentation. If the market tells us it must be segmented based on the ratio study like the one I showed you, we will segment then. It will be reviewed each year, and it's perhaps most important to note, since allandale is west of 35, we are extending the market segmentation into east Austin where needed for 2017, and there are many neighborhoods where it will be in place. So I hope that was concise and short and I'd be glad to answer questions. Thank you for your time. Congratulati congratulati ons on that. I think that what you're doing here reflects a lot of what we're hearing from the community, so there's something that rings really true about recognizing that in neighborhoods that are gentrifying. There are some people that are active participants in that gentrification, and the values are going up, but yet there are other people living in the neighborhood who are watching the gentrification go on around them and then their homes have a different value, as you have seen in the marketplace. That's what we've been hearing from them. Again, I think this is great work. I want to congratulate both of you, Marya, I want to congratulate you on this. We have dick Levine, who chairs the board, the tcad board. I think this is great work. I want you to thank the board as well for this work. You know, we filed that lawsuit in response to a community interest to help get commercial values more in line with property values. This seems to be this seems to be real responsive to that community request and seems like it may have made up, not only made up a significant part of that gap but also in a way that enables us to hold on to it.

[10:00:03 AM]

Second with respect to the residential it seems like it's a much fairer way to do that that brings renewed equity to the system. So I'm excited about that as well. I would say that I think there are still legislative issues that I hope our legislature stays with. I think you may have done as much perhaps as we can possibly do here locally to be responsive. I think the -- we're all waiting for the legislature to help ensure the system is in fact fair. And I would point out an additional issue. I want want the legislature to take a look at. That is as Travis county does a better job of ensuring that our valuations are equal to market value, we make it fairer within our county. But to the degree that there are other counties around the state that are not as closely tracking or reflecting market value that ends up statistically with the taxpayers of Travis county paying a disproportionate amount of the overall property tax burden. So I would hope that the slaughter would take a look at -- legislature would take a look at that as an additional element of fairness within the property tax burden. Again, thank you. Wonderful work

>> If I can comment on that, Mr. Mayor. Mario, and myself are actually working on a white paper right now we hope to have ready after the first of the year to point out some of the issues you brought up in terms of our valuation methodology relative to other counties in the state so that's something we are working on.

>> Mayor Adler: Thank you. I love that we are, again, leading the way and helping to facilitate the statewide conversation. Councilmember kitchen.

>> Kitchen: Yes. Thank you very much. This is very helpful. I just have two follow-up questions. The first one -- and I know you said this. I just want to make sure it sinks in. Tell me more about how you define remodel.

[10:02:07 AM]

>> That's a good question.

>> Kitchen: How you define what goes in that category, I'm sorry.

>> Excellent question. I realize it's a subjective term. Like all things we let the market data tell us. For example, we do not bifurcate the neighborhood until we see the separation between the premium paid for the two. If you have a light update where someone painted cabinets, upgraded their flooring it doesn't bring a premium. We analyze it neighborhood by neighborhood, look at sales together without bifurcation and see where to draw that line. Usually in most of the neighborhoods we see it has to reach a level structural remove but not in all cases. People want an open floor plan so the thing to are bearing loads and so forth. It is important to note, however, that for every example I used, the fingerprint of the home was not -- footprint of the home was not changed. They did not add on to the home. We treat that as new value. That's another conversation. That's really -- we -- it gets treated a little differently than a remodel. Every example I used it was strictly a interior remodel generic help me understand. For the central area y'all will be going back to analyze that whole area and then you will determine whether or not there's segmentation within -- you haven't yet determined if there's segmentation. This is the area you're going to consider whether to do segmentation in. Is that right?

>> That's right. All the appraises are gathering facts right now. We will do the analysis and valuation starting end of January and of course between then and the time notices come out. That's when we will look at every single neighborhood. We do have a work flow. It is labor intensive. It's probably why folks don't like to do it. However, we do have a very efficient process for the market to tell us and we will not miss a single one.

[10:04:13 AM]

>> Kitchen: Then of course there will be more details to ask about that because once you determine that a neighborhood is -- the segmentation is appropriate for a neighborhood, then I assume that individuals will have their own questions about whether -- which category their house falls into because there's a lot of gray there.

>> Correct.

>> Kitchen: Or whether something is remodeled or not. So do you -- so is that need to be set more according to the neighborhood or is that a uniform definition across all of them?

>> I can understand where folks would have a question about which segment of I being placed in.

>> Kitchen: Right.

>> With regard to homeowners, there's not a universal answer but I can say if you are a homeowner and you saw that our neighborhoods are always defined with an alpha and then a number, for example, y4000, if a neighborhood ends with all zeros -- and people will see that on their information. I believe it's included. Is it in the notice? It is in the notice of appraised value. If it ends in all zeros, then the original --

they're in the original neighborhood. So it's one way to see if you receive your notice and you're concerned that you may be being compared to remodels or new property in a segmented neighborhood. If it ends in all zeros, they are not in the remodeled neighborhood. We don't universal code for the segmented neighborhood because we're running into naming conventions but that's one general rule of thumb.

>> That information is available on our website so property owners will be able to look at their own property but also those properties surrounding them.

>> Kitchen: And a property owner could appeal if they thought they were put in the wrong category.

>> They can.

>> We must have the characteristics of the property correct and compare them to like sales.

>> Kitchen: I don't know how you'll see the inside of every house. Different question. I'm curious from a macro level, you know, in terms of what difference this makes.

[10:06:14 AM]

In a dollar amount across a neighborhood. I can see that what you're doing is doing this.

>> Right.

>> Kitchen: You know, so that means that for some -- for a more fair comparison. But I'm wondering what that impact is from a financial standpoint on these folks and on these folks. So I'm just curious, is that at some point in your process will you have some kind of report that can give us an idea of that?

>> Yeah we can run reports to show what the bifurcation does in terms of both appraised values for those properties, original remodel relative to those properties that are in a different state or position on that neighborhood transition and life cycle. We can report that. We cannot tell you that, you know, definitively that it's going to result in X amount of tax dollar savings or anything like that but we can give you some sort of indication relative how the values are being shifted.

>> Kitchen: I think that's useful information because if we're talking about a \$5 shift or \$20 shift that makes a difference on affordability for people. And so this is a good tool. It just helps us understand the order of magnitude of the impact of the tool. Does that make sense?

>> Yeah. You know, for the appraisal district, our objective is to make sure that we're at market value. We're not looking at this in terms of creating --

>> Kitchen: I know.

>> Yes, we're trying to make sure we're doing the things that will make the system fair.

>> Kitchen: You have a different purpose than we might.

>> Yes.

>> Kitchen: Not with regard to your function. I don't mean that. Just in the broader sense of things, you know, one of the things that is of concern from where we sit --

>> Animal.

>> Kitchen: -- Is affordability so that just helps us understand what the impact --

>> And we hear it from the property owners that are coming in as well when they come in to protest, they're protesting I can't afford my taxes and we want to talk about market value.

[10:08:19 AM]

Our goal is we want to make the system fair so everybody is doing the right thing and we're making it fair. I will address the point regarding how do we identify the properties that have been remodeled versus those that haven't when the footprint hasn't changed. We rely heavily on the data from the city of Austin permitting that gives us the greatest indication that remodeling has occurred and the data that has come out of the permitting department is much better than it has been in the past, more accurate,

more reliable data allowing us to do these advanced techniques. I'm not saying that it's perfect. There's unpermitted work that goes on and we're going to have to rely on property owners and the neighborhoods to let us know when that kind of thing happens so we can accurately reflect those changes in our model, but it is much better than it has ever been in the past and something we now rely on pretty heavily.

>> If I may help to put that into context, not everyone knows how many protests we've had but we will and in excess of 37,000 properties this year just in residential so you have a very highly trained and passionate staff of folks who are very dedicated to getting it right.

>> Kitchen: One very last and we then I'll let it go for someone else. But when you're talking about remodel, is there a time period that you're looking at? So, in other words, if -- for some of these neighborhoods, depending on their age, they may have been remodeled, you know, ten, 15 years ago.

>> Yes.

>> Kitchen: Is that still --

>> Sure. Without getting too technical we capture the date of the remodel, the property begins a depreciation process from then to whatever value was added back into the home. It's basically a saw tooth pattern. As your property depreciates you tend to replace the short-lived components, value goes back up again and starts to depreciate again. We do have a system in place that begins again the depreciation process back to the floor that reaches from that date.

[10:10:21 AM]

>> Kitchen: Okay. Thank you.

>> Garza: Thank you for that presentation. It was -- I like pictures. So it was really great and thorough. With regards to the segregation, you're/segmentation, you're able to tell that segmentation because what have that house sold at, right? So if -- if there's a home is not for sale and wrongly appraised -- the segmentation helps people who protest because then you have been able to tell that there is a neighborhood where the segmentation exists and there are the originals and the remodels, and so then I as the homeowner am an original and go show the pictures I'm original. You're like, yeah we see this phenomenon in your neighborhood and, yeah we're gonna go down. So it doesn't help the homeowner that doesn't protest? They could be appraised at a higher value?

>> I would respectfully degree. Everything we do is based on sales data so that we're at market value. However, we apply that analysis to all properties. What you see is we do have an appraisal based definition for the condition of a home and so we put all homes in that condition. And it's usually somewhere at close to average. So what we see is if people don't start to pay a premium until you reach, for example, good plus or excellent, then we are only gonna compare those average properties to the sale of like properties. And that's a dramatic improvement. We're able to show a homeowner, whether they protest or not, that if you look around at the homes that are like yours, you're valued in line with those homes. I think that was everyone's concern. You know, I have a mansion next door. I'm nothing like that. But when we point out here are the sales -- we can show you the sales that we compared you to. And you can see them on your street and you probably know some of them.

[10:12:23 AM]

And if they are properties that are like yours, then they're valued in line with those properties.

>> Garza: But does that adjustment happen after the neighborhood is analyzed for segmentation? Because, you know, the slides show that there were homes, the original homes were overvalued 126, 125, and so that created the motivation to --

>> No. Actually, that would be the numbers if we did not segment, but we did. So we did not appraise those properties at 20% over or 13% under. That was -- that would be what the appraisal would be if we had not segmented. The segmentation is done prior to receiving your notice of appraised value. It is not triggered in the protest process. Everything that we discussed here today applies to people who do not protest. It's how we developed your market value number that comes in your notice of appraised value. When you protest, it triggers us to zoom in and look at you individually and say, do we have the characteristics of your property correct and did we compare you to the sale of like properties to see if that notice was correct. But all of that analysis and data is translated into the notice of appraised value, even if the person does not protest.

>> Garza: I'm just still not understanding because I thought the presentation said -- it gave the example of the pictures and said this is why this home was marked for overvalue, because of the --

>> I would say -- I think I said specifically had we not segmented, which we did, we would have appraised this property at 14% under the sale price or 23% over the sale price.

>> Garza: So you appraised it without even knowing what the inside looked like?

>> No, no. We knew. That's why we segmented. I was giving a what if. The pictures were all accurate. The pictures were available at the time of the appraisals. But the box that gave the appraisal ratio was a what if. What if we didn't segment?

[10:14:24 AM]

What would be the effect? In fact we did segment. I apologize. I probably should have included what the appraisal ratio was after, but those are what ifs if we had not segmented, which we did.

>> Garza: I'm still trying to understand if you don't protest how do you know what the inside looks like? And --

>> Well, if you are a homeowner who hasn't had a building permit and the property hasn't sold in 30 years we assume it has reached maximum appreciation so you get the benefit of that assumption.

>> Garza: You said you're checking for segmentation in every neighborhood, not just that map?

>> Correct. What you probably won't see in places outside of that oval, but we will look everywhere.

>> Garza: Okay. Because I would argue that it is in a lot of places down south. There's people buying homes for 220 in my neighborhood and flipping them and remodeling them and selling them for three sound there's situations where a different family could have bought the two tent and be fine without it being remodeled and now it's being sold for 320. Isn't that the phenomenon that starts the segmentation basically?

>> I understand what you're saying. It's important to remember that's why we didn't look at sale prices as much. If the characteristics change we make changes to reflect that, the condition can change, square footage can change, year of construction can change. There are other ways that value gets add into a remodel value other than market segmentation. You only use market segmentation if the data tells you these are not the same market. And if we do see that in other places, it will be applied.

>> Garza: I'm just concerned that main lower income neighborhoods -- I admit I might not understand it all. Maybe low-income neighborhoods could be being hurt by this. Because if there's -- if most of the sales are happening where the flips are happening, all those sales are happening at higher values.

[10:16:30 AM]

So then, you know, if the appraisal district is seeing all these homes being sold in this one neighborhood at higher values, I guess my assumption would be every other home in that area is gonna start being valued more because all the homes in that area are being appraised at higher values. Is that --



>> If homes like yours, to use an example, if homes like yours are selling for more, then your value will go up and the segmentation will have no effect on that. That's why I was saying they're appreciated in general, just not at the same rate. And I think it's also a good time to just mention that we didn't have enough time to discuss land values, but when people are paying \$400,000 to tear down old houses and rebuild, that's pretty much what the land is worth. And that's not something -- we are merely reflecting the market. We cannot change or arbitrarily shield anyone from the market. So when those characteristics are present we have to reflect them. We're doing everything we can to make sure that you are compared to a house that is like yours. Whether it sold for more or not.

>> Garza: I want to dig in more because I'm concerned about if all the homes are being sold higher how it affects all the other homes. They haven't done anything to their house. I understand the land value has probably gone up as it should.

>> Each year folks are paying more for their homes. They will increase in value whether you've done anything to them or not. That's not anything we can change.

>> Garza: Yeah, okay. Thanks.

>> Mayor Adler: What it does, as I said, in the two classes of properties that you've identified, the ones where people haven't done anything, their values go up just because the market is going up. But what they're not getting caught in is the higher value that the one that got fixed up for now sold for the 300,000 under the old system this property was getting caught in that and now they're detaching that from that so it's not getting caught in that last bump. Some people haven't talked yet. Ms. Houston.

>> Houston: Thank you. First of all, I want to thank you all for doing this.

[10:18:32 AM]

It's been amazing to listen to and the creative thinking that you've done to try to come up with some solutions to what is and has been an ongoing crisis in our communities. On behalf of the people and I see 78721, 78702, where I live will be in the next phase, and so we appreciate that. For me, who lives in a house that's 50 years old and have several \$1.5 million homes right around the corner, it's killing me, to be honest with you. So you've talked about remodels but you didn't talk anything about new construction. Does that help with segmentation? Are you just looking at the remodels?

>> It's a good question. In areas where segmentation is present, they are remodeled and new construction neighborhoods. I think the best -- one of the best examples of that would be the deep Eddie tarrytown areas where you literally have a '30s house where somebody bought three lots and built a sprawling complex. Those are completely separate market segments. Yes, ma'am.

>> Mayor Adler: Okay. Mayor pro tem.

>> Tovo: I had a -- let's see. Two questions, I think. Can you talk -- and I think this gets back to what councilmember Garza was asking about. Can you explain one more time the comment that the value -- about the value being distilled throughout the neighborhood.

>> Sure. We wanted to communicate at that point we must reflect the market. In the two cases I used if the market is not recognizing a reduction of sales if you are in the floodplain, if we reduce the value of all homes in the floodplain in that neighborhood without market data, when those properties sell, which they will, they will sell for considerably more than we have them appraised at. And that is where the growth you're concerned about comes from, is when properties sell for considerably more across a whole neighborhood than appraised at the values go up.

[10:20:43 AM]

What we wanted to make sure we point out is it seems almost common wisdom to lower a property for a characteristic being present but if that market data is not there you will actually in the long-term pass

on that reduction in a backwards, in an inverse way, by increasing the values of the other properties when those sell that were reduced. It's not necessarily related to market segmentation.

>> Tovo: I see. So I think -- thank you. And that was very -- that was a very illustrative example that you showed with regard to the floodplain. What I think I'm not clear on, though, is is it just that -- that it gets distilled all at once? I mean, or is it --

>> Not necessarily.

>> Tovo: Or does it get -- I mean, wouldn't those other properties increase incrementally?

>> Over a period of years, probably. Of course there's a lot going on here, the difference between your market value and assessed value based on homestead caps. There's a lot going on that homeowners don't disseminate the difference. Keep in mind that we're required to place every neighborhood to the median level of appraisal. So we go right to the middle. That sale that's most representative of the neighborhood, what premium did they pay over the current value to move into that home? And every home in that neighborhood is adjusted to that level. So --

>> Tovo: How would it -- I'm sorry.

>> So if you have properties then that sold that are arbitrarily reduced, it's going to transfer a greater portion of that sale price to the neighborhood that it should if they were not arbitrarily reduced.

>> Tovo: I think I'm still not understanding why it wouldn't -- how that happens exactly.

>> For example, if a property in the floodplain were underappraised and indicated that the properties in the neighborhood should be raised 20% to get them to the median level of appraisal but it's only specifically because we arbitrarily reduced that one, then that 20% gets applied to all properties in the neighborhood.

[10:22:47 AM]

So that error in the data translates to all properties within the neighborhood. Whereas when we can clarify and lien up and not misidentify properties arbitrarily create an adjustment where one really does not exist per market data, then we ensure better equity and fairness in the system.

>> Tovo: Thank you. Because of the median. Now between the two of you I think I understand. Thank you very much for going over that again. I wanted to look back. Because it came up during our budget discussions I just wanted to circle around to a question that we had -- that we had raised, and I think we actually got the information maybe even after we concluded our budget process, but that was related to companies that participated -- are currently participating in chapter 380 agreements. We had asked the question of which of those had appealed their property values. I wanted to call my colleagues' attention to question 215. Our staff did get back to us and indicated the companies that had appealed. And I think it speaks to some of what we heard today from our tcad representatives. It looks like hid global, apple, Samsung, and the domain, two different segments of the domain all appealed their property tax valuations, but -- and I think this may be different from previous years. The only -- of that list the only ones that were successful were the domain. So, you know, I think that just -- I mean, that's anecdotal and you've offered a lot of additional evidence but that shows that the additional money you're putting into litigation is helping. It looks like helping be more successful in defending the valuations and the careful research that you're doing up front on those commercial properties.

>> Having the data makes a world of difference and as Lonny often says in the past when we didn't have the data they would come in and protest it was a battle of opinions, my opinion versus your opinion. Now we come in and setting -- at either protest or settlement conferences and we're able to present this is the data. And it's a lot harder to argue against true actual data than it is to argue against an opinion.

[10:24:52 AM]

>> Tovo: And I just wanted to add that all of us here frequent concerns about increasing residential appraisals, as you know. This year for the first time I got a query from somebody with a commercial property in the downtown area and they indicated that they were surprised by the percentage increase on their property. And it was -- it had an extremely low valuation before and, you know, the valuation now is a little closer to market, but I thought that was -- actually showed success that some of the work that you're doing to really get those commercial properties closer to their valuation is working. And I'm happy to say when I explained -- you know, when I explained some of the work that we've been doing and that that actually was really showing that our central appraisal district is now trying to get the data and is doing more research and really helping get those commercial property values closer to where they are in the market, that that was -- you know, became an interesting part of that conversation with that property owner. So really I want to add to my colleagues thanks. I think the work you're doing is terrific and I'm really so pleased with the progress that's been made on this conversation about commercial and residential valuations and how we really do what we can absent changes from the legislature, which I hope will see this session, but absent that I really appreciate and applaud the work you're doing on this front. Thank you for coming today to explain these issues.

>> Thank you.

>> Mayor Adler: Councilmember pool.

>> Pool: I wanted to add my thanks for a really clear discussion, especially on the residential piece, which was really helpful. One question. When you are moving all of the properties to find the median, is that state law requires that everything go to the median? Is that where that piece is coming from?

>> Yeah, we've got two statutes we operate under. First we have the statute that all properties must be appraised at market value and then there's an equal and uniform provision that all taxation must be equal and uniform.

[10:26:59 AM]

Part of that provision is properties must be appraised at median level of appraisal within its segment. Sometimes they're conflicting statutes and we do our best to merge those to get a true, honest reflection of fairness and market value in our system.

>> Pool: And I did go on to Travis cad to see the designation for neighborhood, whether it was original or not, and I was able to find it on some of the properties. So just by a general looking to see where it is so I can also refer constituents to that designation, too, if they have any questions to try to help them understand. Thank you so much for coming today. And offering this really helpful overview.

>> Mayor Adler: Yes, Ms. Gallo and then Ms. Kitchen.

>> Gallo: You know, I really also want to thank you, too. You have a challenge in front of you. It has been such an escalating rapidly appreciating market we've seen all across the board from residential through commercial. I know it's been a challenge to keep up with that. You made two points that I just kind of want to restate. One is those that are familiar with real estate know that it truly is the market that determines the market. We don't determine the market. You know, another external force doesn't determine the market. But it is the market that determines. And you also made the comment that the rapid appreciation you're seeing in many of the neighborhoods is certainly the result of the lack of supply, the increased demand in those neighborhoods and the lack of supply of properties in those neighborhoods. So that certainly is one of the ways that council can address that, is that as we help with our policies and incentives and encouragements to help increase the supply of housing in neighborhoods that we can help keep that rapid appreciation from happening continuously. So thank you for bringing that to our attention also.

>> Mayor Adler: Ms. Kitchen.

>> Kitchen: Just a quick question that you touched on earlier. The segmentation does not affect the land value.

[10:29:00 AM]

Is that correct?

>> Indirectly, that is correct. But I have to point out that our charge is to have the total market value in line with sales of like properties. We do not segment them individually and you can't protest them individually. Yes, the land value is going to rise based on the value of vacant land and the improvement will have its value it contributes toward the sale of improved properties. Yes, the land will be independent of segmentation for properties that are zoned the same and so forth. However, it's the contributory improvement value that you see attached.

>> Kitchen: Okay. What of a -- of a value -- of the total value, what percentage is the land? Or is that vary.

>> It varies dramatically in Austin based on that supply issue.

>> Kitchen: Okay.

>> A lot in zilker or tarrytown is going to be better part -- a lot more than a lot in del valle or Elgin or somewhere on the outskirts.

>> Kitchen: Help me understand what determines what percentage of the value is land versus the structure.

>> Sure. We would love to get into a long conversation about it.

[ Laughter ] Let me briefly say first we look at vacant land sales and where there are no vacant lots where people tear the house down to build a brand-new house is a good indicator. However, we look at -- we extract the value of land on an improved sale by subtracting the value of the improvement. So whatever is left as land you look at that across a spectrum and it gives you a land value. That's how you get at it into developed neighborhood.

>> Kitchen: When you appraise a property you're appraising the land separately from the structure?

>> We actually are not really. You have to delineate on the notice of appraised value but it's very confusing because we're -- only charge is getting the total market value. The land is valued independently, does carry its own value based on the analysis. What we do is set land values first.

[10:31:03 AM]

Then we go to the median level of appraisal to get the total property value in line. They are valued separately but as long as the total property value is in line we've met our requirement.

>> Kitchen: That process is not changing with segmentation?

>> No.

>> Mayor Adler: Mr. Renteria.

>> Renteria: Could you explain to me about, you know, we have some of these short-term rentals, type II, which basically are operated as a commercial but it's in a residential area, and I think these people are actually, you know, inflating our value because they're going in there and buying property at \$300,000 and then tearing down the house, building two big units and renting them out and earning over a hundred thousand dollars a year. Have y'all looked into seeing how y'all are gonna take that into account?

>> Sounds like you need more rental properties. But one thing we do look at is what is the contributory value of a secondary improvement, which is what you're describing. There's a main improvement and a secondary improvement. So we do look at does the second improvement have the same contributory value as the first. However, in the example you gave, if a single-family home is purchased and torn down

and two homes are put up that land value for the neighborhood will still increase because those are the same lots as a single-family home. The home values are gonna be done differently but the land will track the same.

>> Renteria: That's what I was afraid of.

>> Mayor Adler: Ms. Garza.

>> Garza: Just to extend is the use of the home part of the appraisal? Because it's a higher valued home if you're using it for commercial reasons so you're getting more of a return as opposed to just a homeowner.

>> In some cases. In some cases not necessarily. For example, in many neighborhoods a duplex next to a single family residence, other things being equal will sell for less.

[10:33:10 AM]

It's just the utility -- the scarcity of supply contributes to that. But I would add if it is -- we value them the same not based on their current use, but based on valued as fee simple piece of real estate. What is it zoned? What's legally permissible, financially feasible, et cetera? I will say of course if you have a homestead exemption folks should know we must value as a residential property if you do have a residential homestead for the homeowners who may not know that. There's a statute that requires us to value not like commercial property but a single family residence that's being rented is still a residential property. And it depends on the neighborhood whether a cash flow analysis will support a larger sale price than someone who is looking to buy their homestead. But it is different in different neighborhoods.

>> Garza: But I would argue a long-term rental is different from -- than a short-term rental. And that's why there was such a discussion about short-term rentals because many of those people were investors who were saying -- who said they get more as a short-term rental than they would as a long-term rental. Anyway, I had a question about is there a way to monitor, like, the flip phenomenon? So is that something that's analyzed when -- can you notice -- do you notice a trend in a neighborhood where homes are being sold and then being sold again six to eight months later? And then my assumption would be that would be a trigger to check if segmentation is happening in --

>> We do treat the two sales as independent data points. So if the conditions were different based on the -- this is another thing Mario has given us, the data and resources needed, that's a lot of analysis and we treat the two sales as two different data points so detach them independently and the characteristics of the property with the first sale are attached to that sale price. If that one sold in happen shabby or original condition that carries its own data and then if flipped in a remodel that carries its own characteristic -- so you do see a lot of that in segmented neighborhoods, yes.

[10:35:25 AM]

Because that's the elasticity of demand need to get a profit from doing that, that demonstrates the fact there are two markets. So you're right.

>> Garza: But the answer is you don't have the ability to track the flip to alarm you to check out that neighborhood for segmentation?

>> Well, we will review the neighborhood for valuation and when we look at the ratio study it will tell us that segmentation is needed based on -- that's a factor that contributes to it, but there are others. Yes, we will see that that is occurring.

>> Garza: Okay.

>> Mayor Adler: Ms. Pool.

>> Pool: So between the commercial valuations and the residential valuations, are there different criteria that you use in order to arrive at what the value of the structure is on the property between commercial and residential?

>> Go ahead.

>> So primarily in residential they're valued based on sales comparison the theory of intrusion. What would a willing buyer pay for property A if they can get an equally substitute for property B. They're gonna buy the cheapest one. In commercial it's a little different, investors purchase based on the income they can produce and the future income of that income going forward so we value based on an income approach, all the way down to net operating income and use a capitalization rate which converts that income into a valuation. Those capitalization rates are derived from sales so there's a component of the sales comparison approach in the commercial valuation module primarily commercial properties are squat sold based on the income they can produce. What we've seen over the last few years is a dramatic increase in rental rates. Therefore, an increase in the NOI and, therefore, an increase in the valuation. And people are hoping that those rates continue to increase and so if they buy a property with a holding period of three, five, seven, ten years, they're anticipating being able to generate more revenue over that holding period.

[10:37:30 AM]

May be willing to pay a little more than what the revenue suggests they should pay today based on the fact that they expect a financial return over the holding period. There's some components that are similar but the two approaches are distinctly different in the fact that income-producing properties and commercial are value based on income potential and residential properties are generally valued based on a sales comparison approach.

>> Pool: Is there any blurring of the lines, or do you have a bright line between residential use of a property or commercial use of a property if it is -- if the structure looks like a home and it's in the middle of a neighborhood but it's being used for a short-term rental, which type II short-term rental means that property does not have an owner living there and it's used for income producing purposes, which is what my colleagues to my left here were talking about? So the short-term rental is -- you could say like a hotel, but it's in a residential setting. So the zoning --

>> Air b&b, stuff like that.

>> Pool: So it's not a -- it's not strictly residential because people aren't living there. They're staying there like a hotel. So how do y'all handle those?

>> So those are properties that are fairly new to the marketplace. That's something that we're going to have to adapt with as the market adapts. If we start seeing those properties sell for income-producing purposes, for commercial use, then we will start valuing them under a commercial model. Generally speaking, if anything has more than four rental units, so anything that's five units and above, would be valued on a commercial schedule if it's four units or less, then it's gonna be valued on a residential. The short-term rentals are something that's somewhat new. I can assure you those property owners that are using them as short-term rentals are not running to the appraisal district and bringing us their income information to say, hey, I'm using this as an income-producing property.

[10:39:33 AM]

If we can gather that data, if we can start finding some sources to aggregate that and make sense of it so we can use it as a valid methodology for valuing them commercially then we certainly will do so. At this point, though, we have very limited information on that and we have very limited market data for us to be able to reflect the market at this point.

>> Pool: Some of the reforms that we made on the commercial short-term rentals was to put a moratorium on adding any of them, but they do have permits, they're supposed to have permits from the city so we do have listings which I'm sure we'd be happy to share.

>> Sure.

>> Pool: But the other piece is that they would be phased out by, is it 2022, I think? So that the ones that are commercial enterprises that are in the middle of a residential area should go away by then. So we are trying to address that fact. But we do have some data that --

>> If we can get data on those because that's one of the obstacles for the appraisal district, just the fluidity of those and being able to do discovery to identify them becomes problematic for us. There are other concerns. Somebody could, you know, do a short-term rental but still have that property under homestead protection because there are a lot of temporarily away for up to two years and that limits and binds the hands of the appraisal district in terms of the appraisal method we're allowed to do or use in participation that property. While -- it does not necessarily mean we will be able to appraise them all in that manner. It will be circumstantial and unique for each individual property.

>> Pool: I agree it would definitely be case by case circumstantial, thanks.

>> Mayor Adler: Thank you. Ms. Houston.

>> Houston: Yes. Thank you, mayor, and, again, thank you. I just am amazed at all the work you've done over the past two years to try to help us understand the phenomenon going on. Councilmember pool mentioned permits. Can you tell me what kind of data you received from the data regarding permits for remodels and how do you get that and how does that play into what you're doing?

[10:41:41 AM]

>> We have a very good relationship with the city of Austin permitting department. And they actually provide that data to us electronically on a regular basis so we get a data download monthly of all permits issued by the city and current status and updates as well as we access your online information and we also get any building plans that you have come in, they are actually physically transported to our office and we use the building plans as well in our work.

>> Houston: One other question. You have an original house and we just proved the ability for accessory dwellings, so you have an original house and then you have an accessory dwelling. How would that property be appraised? You've got the original house and then a new accessory dwelling.

>> Mario may have more to add to this but we start by everything in -- everything in residential starts with land value and then how much would it cost to replace that home with a home of the same utility with an equal amount of direction. As soon as you add a second dwelling we add on to the appraisal based on how much would it cost to replace that dwelling. Then you look at how much they sell for. So we do add the value of the dwelling. Based on the structure of them. Some of them don't have kitchens and bathrooms. Some of them do. The planning information and the permits and the plans are key to us getting that correct so I would certainly want to stress that. That that relationship is vital to our work. But that's where we start.

>> Houston: So --

>> That might be something in the future where secondary dwellings on a property might be something that indicates additional segmentation, separate market if properties with a secondary dwelling or unit start selling differently, substantially differently than all other properties. Then we would look at maybe segmenting those. At this point there's not enough of them for us to make that market determination or analysis. Also depending upon the use of that secondary unit may or may not be entitled to homestead protection for the secondary units.

[10:43:48 AM]

If they're renting it out they're not getting the benefit of having the homestead cap and protection on that portion of the property that is being used for rental purposes, whereas they would get it for the remainder of the property. However, if it just becomes somebody's man cave and they're still using it as all they would still get the benefit of the homestead protection for the entire property. Again, it's 'nother situations that a case by case examination that we have to do on those properties.

>> Houston: Okay. One last question is that I've heard a lot of talk about supply and demand. Do you have any data that tracks where most of these transitional areas are? You've got -- I guess you call them transitional. I've forgotten now.

>> Yes, ma'am.

>> Houston: The transitional areas, primarily now in your opinion are around downtown, around the downtown --

>> Radiate out from downtown proportionality, yes.

>> Houston: Are you trying to begin to collect data on how far out this transition is happening?

>> Yes, yes.

>> Houston: Further into the county.

>> If there are other pockets other than downtown, a lot of cities have two downtowns, secondary markets, we'll be looking at it across the county but right now predominantly we see in the urban corridor so we are focusing on the urban core but looking to expand that countywide. We don't know we'll see a lot of it countywide but there may be occasional pockets that we'll see. The other question about how do we discover particularly if there's not permitted work, one of the tools that we've got that we utilize particularly when the footprint of the property changes is we've got a third party vendor that does a technique called change finder and they look at aerial images year to year and identify for us and flag for us those properties where the footprint of the property has changed and that's another tool we use to go if they add -- don't take a permit out on it, we'll be able to use those change finder tools to identify those properties and pick that information up.

>> Houston: That's great. We trust that people are doing the right thing and yet we know in many areas they're not.

[10:45:50 AM]

I've got one property where they put a trailer on the front of the house, no permit, and so those are the kinds of things that you can look at through this aerial finder.

>> Yes.

>> Houston: Thank you so much.

>> Mayor Adler: Thank you. Before we go to mark Washington to talk to us about the search process, I want to include by saying thank you -- concolide by saying thank you again. I also want to say it's my opinion and will be my recommendation that we not pursue the appraisal district lawsuit further. And I do that because the filed lawsuit we intended to try to bring commercial tax values more in line with actual commercial market values, and I think that the steps that have been taken by the appraisal district subsequent to the following of that lawsuit have addressed much of that issue. We filed the lawsuit to improve fairness of the appraisals generally. I think the new procedures you've adopted with respect to the residential property is a step, significant step, I think, in that direction. Especially as concerns gentrifying areas. We also filed the lawsuit to make sure the tax values and market values generally were more in line. The courts have told us that that is to the legislature to enact that final measure of fairness. And the burden I think is now on the legislature to act in that regard, and I hope that they -- and I hope that they do, as well as the issue that you're gonna issue your white paper on,



which is to ensure that all appraisal districts do as you have done to promote fairness because absent that, the system generally is not fair. So I want to thank you for the work that you've done. Ms. Garza.

>> Garza: I'm sorry I have a question because of what councilmember Houston asked. It's an interesting discussion over if an Adu is used -- if it gets the homestead exemption because much of the conversation in allowing ads was to allow families to be able to stay in place, so the cost of improving and the additional taxes would help them stay where they are when essentially if we're -- if you're building an Adu, you could not enjoy the benefit of a homestead exemption which could affect the investment you thought you were making.

[10:48:18 AM]

I guess that's -- so my question is, is that a policy.

>> It's by law.

>> Garza: The law says if you add something to your homestead and rent it out for income, you are --

>> You are only entitled to claim a homestead exemption on the principal residence that you are utilizing. If you are utilizing it for any other purpose other than residential use for your own personal use, you have to own it occupy it personally, you're not entitled to the homestead exemption. So there's a carveout. Say, for example, somebody, you know, splits their house in half and run a business out of the secondary half. They're only entitled to the homestead exemption on one half, not on the half they're use to go operate the business. If they're renting out to somebody else, they're using that to generate income and it's not entitled to the homestead exemption. That's just by law how we have to apply homestead exemptions.

>> Garza: That's interesting, the conversation about whether a house -- a separate house, extra house is used on a different lot as a rental income is not treated any differently than if it's short-term rental or long-term rental but in -- I know it's not an apples to apples comparison, but what policy change would it be at the state level that would change or does just tracking with regards to whether, you know, we use income potential for commercial. We don't use it for rental -- for residential. What would have to change to use it for residential as well? Because I've also -- I also know that many banks on a lot of single-family homes so they're enjoying this amazing investment that banks have made and they're getting -- you know, they're short-term rentals or they're -- so what would have to change to track that better?

>> It would require a statutory change. The legislature has tried to address that in part by granting the homestead exemption so that property owners of that a property that is a residential homestead get the benefit not only of the exemption amount but also the protection of the 10% limitation on appraisal increases whereas properties that are used for non-residential purposes that are rental properties don't enjoy that same benefit of the exemption amount, nor do they enjoy the benefit of the appraisal limitations going forward.

[10:50:30 AM]

That's been addressed partially by the legislature. But in terms of a single unit being bifurcated and used for multiple purposes we have to split that out and carve that non-homesteaded portion out of and not apply the homestead portion to that. That would require a legislative change in order to make us able to do that.

>> Mayor Adler: Okay.

>> Pool: I have one follow-up on that, just one, just one. Is that unique to Texas or is that homestead exemption professor something that is national?

>> The ability to have the homestead exemption in general? Homestead exemptions are pretty common across the industry. And across the nation. The limitation is something that varies from state to state. In Texas we've got the limitation for homesteaded properties, whereas other states in other places, they may have what they call an assessment rate or a village rate, which means they would appraise them at some other percentage rather than hundred percent market value so we're kind of accomplishing the same circuit breaker goal, you're just kind of doing it in different ways.

>> Pool: Thank you.

>> Mayor Adler: Okay. Thank you very much.

>> Thank you.

>> Mayor Adler: Again, congratulations. Councilmembers, that took a little longer than I had anticipated that that would. We're gonna lose some councilmembers today at 1:00. I suggest we work on the following order, I think we have mark Washington come up and talk to us about the manager search process because I think there's been a lot of interest in that in the communities. We can discuss that. I then see us hitting some of the work session items that are important and that people need the council here to be part of that, and the grove, both those items, especially for those people that will not be with us for the rest of the day so they have a chance to address the council. Then I see us going into executive session to take up those items, coming back out of executive session with further briefings and for the further work session items and then for the grove so we can take some public hearing this afternoon as well as this evening.

[10:52:43 AM]

>> Kitchen: Quick question. I was thinking we wouldn't be starting the grove until 1:00. Are you saying we'll start the grove before 1:00.

>> Mayor Adler: We won't take public testimony before 1:00 but if some of the councilmembers aren't going to be here with us and want to address the council on improve this would be their only opportunity to do that.

>> Kitchen: Do we expect to break at any point for lunch?

>> Mayor Adler: I see us breaking for executive session and coming back hopefully at 1:00. See how much we can accomplish between now and noon or thereabouts and then break for executive session and come back.

>> Kitchen: I should be more specific. I have to step out from 12:00 to 12:30.

>> Mayor Adler: That will probably be in that executive session. Mr. Washington, if you want to talk to us and mayor pro tem if you can take the dais.

>> Tovo: If I could could we get some sense of -- I appreciate that list. My guess is that there will be so many questions about this that this could really take up a couple hours. Maybe we could set some expectations about when we hope to get to the work session items. I think I heard you say we would break -- we would try to get to the grove -- I'm trying to figure out how we have time to do all these things between now and 1:00. Maybe we could break down how much time we think each piece of that is really going to take.

>> Mayor Adler: The search issue item, is that on the agenda for Thursday?

>> It is.

>> Mayor Adler: That's a work session item for an item coming up Thursday. The other work session items that we would pull up I think we would do them -- I don't know, no one has pulled any other work session items. I know that you have a couple that you want to talk about.

>> Tovo: And my comments will -- I can conclude in five minutes.

>> Mayor Adler: So my hope is to between now and noon to discuss the executive search item for you to be able to address in five minutes for any councilmember who will not be coming back with us at 1:00 to

talk about the grove in the event there are any and want to address that publicly so they have a few minutes to be able to talk to the council and then I see us breaking executive session.

[10:55:03 AM]

In other words, I see breaking for session as close to noon as we can but if it was 12:30 we would break then and then go.

>> Tovo: Then we may be a bit late coming back at 1:00.

>> Mayor Adler: May be a bit late coming back at 1:00.

>> Garza: I just wanted to comment. I had no idea this was going into the evening. I don't know if I missed something. I've talked to other councilmembers. Councilmember troxclair is saying she didn't know. I know this is a special, I guess, meeting, but it would have been -- I would have appreciated if -- I will likely not be here for the vote on the grove if it's past 6:00, and so I hope in the future we can organize this better and talk to council offices and put something on the bullet continue board that says this is expected to go into the evening. But I unfortunately will not be here for the grove vote.

>> Mayor Adler: Okay. All right. Mr. Washington, you want to start. Mayor pro tem, if you'd take the dais.

>> Thank you, mayor, council, mark Washington, assistant city manager. We're here today as the mayor alluded to to brief you on an item that is recommended for action on Thursday for the search firm services. We have a recommendation. We know there's been a lot of questions around this, and this is gonna be a very important decision for the council as it is important to the community as well. And we have learned as recently as today that we also have another major Texas city who is in the process, as you may be aware, the city of Dallas is also searching for their city manager and they are a little bit further down the road then we are here in Austin. They have announced their group of finalists for their candidate search. With that what I would ask is our purchasing officer, James Scarborough and our director of human resources Julia hays to provide an overview of our solicitation process, the evaluation and the recommendation that we have provided for the council's consideration.

[10:57:15 AM]

>> Thank you very much. Good morning. At this time as Dr. Washington stated we're gonna take you through a very quick time line of what we've done thus far, provide you some details relative to the process that took place for the procurement, and provide you justification and information at your pleasure relative to the actual recommendation. So as you remember, we began this process in August with a work session, talking about options for consideration as we go through the process of the city manager selection process. And staff provided you some information relative to what we've done in the past. Some of the past practices. We also provided each of you some information relative to the icma recommendations relative to that process. And to utilize as best practices in that process. And so we had an opportunity to walk you through that information on August 23rd, we had a special called meeting. The mayor posted on the council message board some potential information relative to a process that y'all will want to follow to include potential processes that include stakeholder feedback. As we talk through that process one of the things that was communicated by this council was a desire to bring the search firm onto ensure that you had an opportunity to work through what that process would look like. And ensure you had a real clear understanding as to what you wanted the profile of your new city manager to look like. So we took that information. We also spoke, again, to you at the September 1 council meeting relative to -- and I walked you through rel 70 to scope of work we are recommending to put in the actually rfq that went out so that process took place at at this time once we got through that

meeting September 1, we finalized the scope of work information very clear to what we provided to you at that September 1 meeting and began the procurement process.

>> Mayor pro tem, councilmembers, James score borrow, purchasing, good morning.

[10:59:18 AM]

September 16, we were provided with a draft of the prospective scope for a new solicitation to be conducted for the purposes of bringing on a law enforcement firm, recruiting --men firm, recruiting service for the new city manager position. Staff reviewed the requirements of the scope of work and the human resource department confirmed that the appropriate process, if we were gonna see competition would be the request for qualification services, which is a qualifications based evaluation only, not based in terms of the scope, we wanted to provide a general description of the activities that would be performed in order to evaluate experience and qualifications, you need to have some context with which to conduct your evaluation, so we included a description of the types of services that would be provided by the contractor, including creating a position profile, sourcing and evaluating the candidates, determining the finalists, doing background screenings, facilitating interviews and assisting in negotiations. So on September 29 we sent the completed solicitation over to smbr to review it for mbbe subcontract goals. Smb reviewed the scope of the intended contract and determined that it was too narrow in breadth to assign subcontract goals to it. So with that we proceeded to release the solicitation on October 4. As is common for other open competitive process, the processes associated with publicizing the -- include posting it to the Austin web site, which is Austin finance on-line. We also publish twice in the states man, and we also send automated notices to applicable registered vendors, so when a company registers with the city, they tell us who they are and what kinds of notices they would like to receive, and they do this through the selection of commodity codes, and in this case we used commodity code 91885, ich is for personnel employment consulting.

[11:01:40 AM]

So anybody who registered for that particular code was sent an email just notifying them of the existence of this particular solicitation. In addition to the automated notices we also sent notices to vendors who were recommended to us by hrd, so -- and discussing their desire to broaden the net, so to speak they wanted to make sure that national firms that specialize in public, profit and nonprofit were included. So we added those companies to the emails that were sent out, notifying the public of the availability of this particular solicitation. October 13 we had a presubmission conference. We conduct these fairly regularly, particularly with rfps, request for proposals, and rfqss, request for qualification statement, in order to review the contents and solicitation, discuss the process, answer any questions. November 1 we opened up the responses. We had a pretty good response to this particular process. We received ten responses from the firms you see listed there. November 8, we assembled an evaluation committee composed of various members of city leadership and technical experts, and they evaluated the respondents based on the criteria stated in the solicitation, and as you can see listed, the most highly rated firms are the three you see listed here, Ralph Anderson associates, and afflon public and govhr.

>> At this point I'd like to talk to you about our recommended company, Ralph Andersen & associates, and address some of the concerns that have come up relative to the process. As you -- as just communicated to you by James, hrd did attempt to reach out to firms that we thought were best in industry. We looked to our partners in tcma, icma and tried to identify firms that had a reputation for being able to do both public and private sector nonprofit type executive recruitment and also had proven track records relative to searches for city managers.

[11:03:47 AM]

Now, understanding that, we also had a very broad search, as James also indicated, in terms of our posting and marketing, and we received ten, many of which were not ones that were actually recommended to the purchasing office for the advertisement, and so we're very, very excited. As we went through these firms, what we tried to do as the team is to go back to what was clearly communicated to us from council relative to the key components of what you were looking for in a search firm, a very proactive company that had a span of experience that would allow us the broadest amount of candidates for your review. You also wanted a company that had the capacity to come in and deal -- meet with community and work very closely with our stakeholders to ensure a process that was fair and transparent. We also addressed concerns and our desire to see a firm that had a level of experience relative to diversity, not only in race and German but also understanding the needs of community as we went forward. And so in looking at that the criteria we used for the evaluation included references, and it little included demonstrated applicable experience from that perspective, and personnel qualifications. And the company that we're bringing forth today was not a company that was on the list that hr sent out but it is a company that has been looking for work with us in the last year. Ralph Andersen & associates was very impressive to us for a variety of reasons. I want to kind of start with some of their experience. I know there's been some questions in the last 48 hours relative to whether or not they had comparable experience. They actually just in October completed the city manager search for Charlotte. We included some information relative to other cities that they had worked with and the backup information, but I also wanted to just talk you through some of the municipalities that they've worked with more recently that had similar populations, Cincinnati, Ohio, and you'll see this in another slide. Cincinnati, Ohio, Greensboro North Carolina, Kansas, Missouri, Los Angeles, California.

[11:05:54 AM]

As you see these cities here we also wanted to bring to your attention that this company truly did have experience relative to that, but I also kind of want to talk to you about some of the other key components to why we selected this company for your review and recommendation. They had extensive experience in community engagement. Not only is this company well-known for their executive search, they also do a great deal of management consulting. They engage organizations, public organizations, counties and universities relative to key management components, and so they have an extensive background relative to dealing with community, and that stood out. They also had technology that supported their public engagement with their on-line surveys, and so we thought that experience would be very applicable to the needs of this council. They do their own background checks, and so that's not going to be serviced out to another entity, which kind of increases the integrity of the process and information. They also had diversity in executive level placements. Company actually provided us an extensive list of all of their diversity placements, including women and minorities and executive-level positions since the company started in 1972, and they gave us a very thorough list, which was very impressive relative to identifying their capacity to hiring executives with that level of experience. They focused also on diversity. Also with that they had cleared identified to us their core team. One of the things that was important to us from a human resources perspective is having the staff capacity to prioritize this search and address the needs of council. They not only provided the core team in terms of number, but they provided us detailed information relative to the experience base of that core team, so we would get a core group of people who all had experience in executive-level public

sector recruitment, and they also had very extensive background in executive searches. The project director that they identified, Mr. Nelson, also had -- I'm sorry, is there a question?

[11:07:58 AM]

>> I have one and I'll wait till --

>> I was just going to note that the project manager that they identified in their proposal is a gentleman who actually has -- was one of the co-founders of a human rights commission for one of the cities, and so having someone that had that level of community engagement also with an extensive level of executive experience was impressive to the committee for review. And that was the point we were making relative to that.

>> Pool: Could you go the slide right before this one, please? And then you had a slide that had a list of positions fit that one there.

>> Yes.

>> Pool: And that's -- that looks like a different -- I don't think we have that page.

>> So I think right before we came up there were some other cities that Dr. Washington asked us to add, so I think we added about three or four cities to this. So your copy may not have those additional cities, but he thought it was important for us to add some additional cities. We can provide that to you separately, and I can provide you a extensive list if you so choose.

>> Pool: That's fine. So my -- so my questions relate to that data, but I'll let you continue, if you'd like, or if you'd prefer.

>> It's at your pleasure. I do have some statistical information relative to the cities on the screen. I'm available to answer questions if you have them.

>> Okay. I'll go ahead and ask. So the two questions specific to this screen that I was interested in, those are the populations of the city, and I'm assuming is it smsa or is it city specific, and what is the budget size for these cities and then what type of government do they have? Do they have a strong mayor or a strong city manager form of government?

>> So I believe -- I don't know the exact information relative to the form of government, but I can tell you for the Charlotte north Carolina, the population, I think it's city specific at 827,000-plus people. It was a city manager placement for 2016. For Cincinnati, Ohio the population was 298,000, city manager form of government, 2014.

[11:10:07 AM]

Greensboro, North Carolina, 285,000, city manager, placement in 2012. Fairfax county for Fairfax --

>> It's a county manager --

>> Is county manager, county executive, 2011, for the state of Nevada, population 2.9 million. They hired the director of legislative council for the bureau, and for the state of California, it was a population of 38.8 million. They hired multiple positions for executive level for the state of California. They did not list the executives in detail. Also for Broward county, Florida, also for that -- I mean, that county, let me find it on the list. The population was 1.9 million. They also listed multiple executive-level recruitments. They did not give us the details of the actual executives. For the university of California, the population is 28,390. 2,940 students. They hired the chief of police in 2016. For Kansas City, Missouri, the population is 475,000. They hired multiple positions. They did not list the actual executives they hired for that particular city. For Cincinnati, I stated 2014 city manager. In Oakland, California they hired a city administrator for that city, and that was 2011, with a population of 4,406,000.

>> And do you have information on the budgets of each of these entities?

>> I do not have that information available to me at this time.

>> And you talked about the type of -- the hire, the strong mayor versus strong manager piece.

[11:12:07 AM]

>> I think they've had a variety of experience over time. I could also provide you a more thorough list of their placements, what they've done, different types of city government. This particular entity had over 100 placements of executive-level positions that they listed for us, many of which were detailed to us based on those that were minority and women, so we can certainly get a more comprehensive list for you relative to that. But I don't have at this time an existing list that identifies the actual budget size of those cities and the actual form of government.

>> Pool: So I think that's really important. I also would suggest with Anderson and associates, you don't have to go back to 72, obviously they would have a lot of placements in that long a period of time but maybe the last five years or something, and I am looking on-line and I see current recruitments. They did, at least the six or five that are listed here, they're all chief of police or a city manager, and that was Sacramento. So I'm looking for some good information to show that the types of hires that they've done at the size of the community for instance that we have, that the profiles are similar so we can make sure we're going in the right direction. There have been some questions raised about that and I want to really have sufficient information so that we can answer the questions.

>> Sure. We'll get that detailed information and try to have it for you as quickly as we can, hopefully before Thursday, to try to provide that additional information for you.

>> Pool: And then will you talk later in your presentation, address the four firms that were suggested by some of the community members? Can we talk about those?

>> I think we can do both, address that in context as well as making sure that the quality of the search firm is consistent with other cities our size, and let me start with the last question you brought up. In terms of city manager form of governments, there are only four other cities that are larger than Austin, even though we're the 11th largest city, all the other cities have a combination

[11:14:16 AM]

(indiscernible) City manager form of governments. Of those 4-2 of them are in Texas, Dallas and San Antonio. And if the concern is are we getting the caliber of search firms that allow us to be competitive with some of the other larger cities, several of the firms that have bid on our process also performed the placements for other cities larger than ours. So to address the issue whether or not we have a quality pool of consultants that bid, I think the fact that they've helped cities our size or larger before has been the case. Unfortunately the two larger cities that have been helped by other consultants, that firm finished no. 2, so this is the second firm on our list. They helped Dallas -- they're currently helping Dallas and they helped San Antonio previously. Relative to your question about the four other firms that I believe I read in the monitor's article and some other information from some of the community, we -- we have -- you know, we've known that those money have renowned reputations internationally and world wide and if -- worldwide, and if it were a international company and we're recruiting for jobs internationally. That would help. They also help on state side organization that either recruit highly paid board of directors or highly paid positions like chancellors and vice presidents of very high-paying institutions, and had we known we had a checkbook from the council to have a broader budget that would allow us to afford some of the services of those companies, we would have relatively solicited them. So when the solicitation went out we did not notice them directly. However, as large as they are, and one of them has helped one of our institutions locally conduct an executive search not long ago, and I think the tune was over \$250,000 to that public entity, they liked like the firm we're recommending also an opportunity to bid on the project.

[11:16:38 AM]

So we did not solicit them proactively, but again, we did not -- it just was not in our expectation after briefing the council, talking about the budget that we maintain with the police chief search and staying around a total cost, what we're recommending today is only the cost directly to the search firm, the total cost around \$100,000, we as staff did not anticipate the council and its willingness to allow us to spend significantly more on the search firm.

>> Pool: It occurred to me that the top four that were mentioned, that it was a dollar figure situation that would have kept them out of our rfq. Is that what you're saying? That they cost more than some of the other firms?

>> Well, let me be clear. The rfq -- we did not make a decision based on cost. There was no cost proposal -- cost proposal submitted. We made our decision based on qualifications. What I shared earlier in terms of active solicitation, because staff knew that the range of our budget was, you know, right around \$100,000 or more total cost, we did not actively solicit them to bid but they could have bid if they chose to.

>> Zimmerman: I'm sorry, this is a little frustrating, Mr. Washington, because I was in Hess these public meetings and meetings behind closed doors and budget never came up. You know, I always bring up the cost of things. I'm kind of well-known for bringing up the cost and value. We never talked about cost.

>> Council member Zimmerman, that's not my recollection. I remember us talking about the cost for the police chief search, and Ms. Hays provided that information, and we talked about that in general. We didn't --

>> Zimmerman: It was never a metric in any of these decision-making roles, and I heard you just say that staff, that would be you, made the decision that we couldn't afford these other firms that were mentioned by admiral innman.

[11:18:48 AM]

I thought I just heard that from you, they were too expensive and that's why they weren't considered.

>> That's not exactly what I said. What I said, we did not solicit them proactively, but that didn't preclude them from being -- proposing a response. However, our reasons for not proactively soliciting them was for the very reasons I said earlier.

>> Mayor Adler: Ms. Troxclair Ms. Troxclair R.

>> Troxclair: So this is obviously an important issue to all of us and to the community, and I am -- with the divisiveness that has surrounded the city manager position in the past, it would be great to get off on the right foot with the community this time. What are -- I understand that the firm you're recommending might be less expensive than some of the other more prominent firms, but I guess in my opinion, if it's a difference of, you know, a hundred -- \$100,000, my priority is making sure that we get the absolute best candidate pool possible, and if it costs us an extra \$100,000 to get the right person in this position, I think considering the level of compensation that -- the level of compensation that the city manager will receive and the size of the city that they're expected to lead, I -- from my perspective that would be an important and necessary investment. So what are our options? Can you explain to us, if there was an interest in the council having a solicitation from the -- from other firms and having the city proactively reach out to them, because I understand that they weren't precluded from applying, but at the same time if they don't know that the search is happening it's hard for them to proactively submit something. So I understand that we're on a timeline here, but if we wanted the city to go out and accept solicitation from those firms and then, you know, you could -- you can still take into consideration



everybody who's already submitted a proposal and cost, you know, could be presented to council as -- as an indicator or as a criteria to look at.

[11:21:01 AM]

But what would the process be if we wanted to go ahead and include those four firms or any others that you think might be interested?

>> Council member, the process that we conducted is a request for qualifications, so it is qualification-based evaluation only, so there was no -- there was no financial consideration based on what the contractor may charge us. If we determined the most qualified and then we invite them to provide us a technical proposal and determine that in looking at what they would actually perform, it was outside of our budget, then we would have to set them aside and go to no. 2 and what have you. At this point we have described a process in the solicitation that if we now deviate from it, we're kind of deviating from the process described in the solicitation. But that doesn't mean that you can't entertain any other approach. These are professional services. They are exempted from Texas state procurement statute. The process that we provided is a time-tested, open and competitive process, but you're available to source the recruiting firm however you wish to do so. Staff is here to provide you with the approach, the resources that would meet your requirements. I believe that the earlier exchanges with council led us to believe that you sought a competitive process, but at this point if we then reached out to specific companies and asked them for, you know, things that may or may not be consistent with what we asked these other companies for, it would be a hard -- it would be a hard circumstance to make sense out of for us to explain. If that's what you wanted to do, I would recommend that we cancel the solicitation and that you entertain proposals from whoever you wish to request them from.

>> Great idea.

>> Mayor Adler: Let me follow up on a question too because I'm not quite -- I'm not sure that the question was would you ask for something different than what had been requested from these people but to indicate to some additional people that we would like to hear back from them consistent with what we have already handed out.

[11:23:05 AM]

So the questions would be the same, the evaluations would still be the same. When we had talked earlier from the dais about this and had talked about this process, we had talked about the possibility of having two different firms. We had talked about the possibility of -- because we -- in the discussions we knew that there are some firms that spend a lot of their time dealing with recruitment for public administrators, and there's certainly benefit in having someone -- an agency that is doing that a lot because they may know who wouldn't respond to an ad but might be a little bit restless or they might know who it is in the country that's the real superstar that wouldn't have thought about coming here, isn't restless, until we actually step out to recruit them to say, you may never have thought about this and you may not want to do this at this point, but we're interested in you, we want to engage in that conversation. So knowing the players, knowing the people in that industry, I see how that has great value or having gone through a public process, which is kind of unique to what we do, is an important thing, but we had also talked about having a firm that would be with us that didn't have those things at all but would have reached to perhaps C level executives or public policy planners or an academic world or just a whole different kind of group that would not be in the Normal course, and we had talked about the possibility of having two firms, maybe one firm that had the primary responsibility for taking the whole length of the project but maybe having one that would also serve as an adjunct, and we had

talked about having conversations with those kinds of firms to see if they might be willing to work with one another and having firms that might be willing to participate in such -- such an exercise.

[11:25:16 AM]

So the question I have is similar to the one that I think council member troxclair raised, without start over again, an issue in what would be the same request for qualification, because it hasn't changed, but reaching out directly to those four people and proactively reaching out to them, as we have proactively reached out to others across this process, because some of the people that participated were not in the original hr list but were identified, and there was proactive reaching out to them. Could we proactively reach out to those four and say, is this something that you think might help? Do you have a group of folks that you know about or have channels to that might be good to be part of this process? That's -- you know, there are some things that have been raised by the community threin ad of red herrings. There are a lot of people on the list and there's been a lot of criticism by some of the people about some of the folks that were invited to participate but of course they were invited to participate because they had been notified to be signed up for these and they were entitled to be notified and it was our job and our responsibility to notify them. It didn't mean that we thought they would be the best, but they're entitled to get that notification. But on this issue, can you speak to whether or not it makes any sense to pause for a moment and reach out to people proactively that might not have themselves thought that they would be a good candidate for this job because they don't know and didn't know and might not could have known that we were trying to expand the breadth of the (indiscernible).

>> Mayor, council members, from a regulation perspective, from the statute and code and regulation perspective, there wouldn't be anything to prevent the city from doing that. We wouldn't have any procedural knowledge and we would have to really think outside of the box in terms of harmonizing the things that we articulated in the current solicitation and then what we would be doing at this point.

[11:27:28 AM]

So there's nothing that would prevent it, but it would be -- it would be a very -- a new and untested approach, something that we -- we do not believe, unless we consult with our colleagues at law, that there would be a legal or regulatory prohibition to taking that route.

>> Was there a time frame in the solicitation that's passed or is it still open?

>> The period of time that the responses are good, so to speak, has not passed.

>> And if I could, council, I just want to give you a little bit more information that's very relevant to your current information, because I just think it's necessary. We did have three firms that were private sector firms that responded, so as you have the conversation relative to the private sector, I just think it's important to point out that there were three private sector firms that did participate in this process. I would also share with you that upon hearing the information from community, our staff did attempt to reach out to do some additional research on the four companies that have been listed. Two of those companies responded back to us, and if that's the direction that we are going in, we can continue those dialogues and attempt to see if those entities are interested in working with the city in any way.

>> Mayor Adler: For me, I think I'd like to have that conversation, consistent with what we had talked about six to eight weeks ago, to see whether or not that would be a value add in our process, whether they would reach to a different group of people that might otherwise be caught in the net or identified as someone we could reach out to. I would hope that it could happen without a significant delay in the process that we're on right now. Ms. Gallo, then Ms. Houston.

>> Gallo: And I agree with the comments that you said so far. I think it is critical that we find the best firm, regardless of price, to help us through this process. This is a really important decision.

[11:29:30 AM]

It is -- it is a decision that the result of will last for multiple years as we hire a city manager, and they typically stay for a while. And so I think that the amount of money, when you extrapolate that over a longer length of time, is insignificant. The thing that is important is that we hire the best firm that can get us the best qualified candidates. I do have a -- so I agree completely with expanding it, however we need to do it to be able to get additional respondents. But the question I had -- the mayor asked, or I think you responded or asked the question, how much more time do they have for the response. How much more time do they have for response?

>> Do who have for the response?

>> Well, the question was asked, is the time frame closed for responding, and so my question is, how much more time is there for responding because I think that's critical in knowing whether we can gain additional respondents in that amount of time or not.

>> I understand. What you're contemplating is not an established process, so there's no time frames, there's for procedure associated with it. We're going to have to come up with something that accommodates these -- these objectives, and we would need to some way communicate to those that you're interested in having something submitted from, some basis of evaluation. We stated in the solicitation that respondents were going to be evaluated based on three criteria. If you're going to maintain those three criteria, then the respondents to this solicitation would know that they would be compared similar to others. But if you're going to compare them based on some other criteria, then we really should set aside this process and just --

>> Gallo: Yeah, that wasn't my question. So we put out a solicitation. The respondents have a certain amount of time to respond, and the question was asked, have we passed that time? And your answer was no, and my question was, when is that time? How much more time do respondents have to --

>> Okay, thank you. I'm sorry.

>> Gallo: No, no, no.

[11:31:31 AM]

>> We wouldn't bring it to you unless the solicitation is already closed and we open up the responses. We closed it back in November.

>> Gallo: So that was a different answer --

>> I was interpreting how long the responses are good, and so that's what I was answering to. You were asking when were the responses due. They were due back in early November.

>> So if the council wants to start the process over you could certainly do that and the same people who applied could apply again.

>> Yes.

>> Mayor Adler: Do we have to start the process over?

>> To add more people in? Since we closed this solicitation, and we'll double-check that and have the answer before Thursday, but --

>> Mayor Adler: Let me ask a different question. Eventually we might have to do that in order to start over to do that. Because I think we in our conversations talked about having two firms and making sure that we had investigated that opportunity as well as people that were outside this track. So I think we created publicly on this dais this community expectation. What if the appropriate response of the thing to do, since you're going to have to have one firm that's in charge anyhow, probably would be a firm

that can do the public engagement process -- what about talking to the firm before we contract with them and see if they'd be willing to subcontract with, and seeing if one of the firms that might fill that additional category would be willing to be subcontracted with so that they could be part of the process. I would have seen us heading in that avenue anyhow because you can't have two people that are in charge. They have to be able to work with each other, but maybe before we decide to start the thing over again, there's an opportunity to still have that conversation and see if it fits within the parameters we're working now. Is that a doable possibility to discuss, both with this firm and with those other firms?

[11:33:34 AM]

And if that doesn't work where they say, we think we'd be really good but we don't want to subcontract with them, we can talk about starting over again to put everybody on the same place.

>> We can certainly bring that up with the company to say if they have relationships or can work with one of these four firms.

>> Mayor Adler: Ms. Houston?

>> Houston: Thank you, mayor, and I want to thank staff for the work that they've put into this. I too agree that we need to, as you said, cast a wide net, but I disagree on a blank check. I mean, there are some limits to what the city can afford to pay an executive search firm to do the work, and it's important that we have the best city manager candidates that we can possibly have, but we don't have unlimited funds. And so I know that sounds strange coming from me about fiscal responsibility, so I see council member Gallo smiling, but when I hear things like it's -- the sky is the limit, it puts fear and trembling in my heart. One of the things that I'm most concerned about is how much these new firms, whatever those new firms may be, have done as far as community engagement, and as far as looking at -- and working with and getting feedback from diverse communities. Many of these firms that we're talking about only talk to boards of directors and not community, and it is so critically important to me that the community is engaged, not the community that advocates for and is paying attention to what happens in city hall, but those people that are not paying attention, that they have that kind of opportunity to communicate with these executive firms about what they see the needs of a city manager are. So that's my thing, is if they only have relationships with boards that look like you, Mr. Scarborough, and not like me, then I'm going to have a problem with that.

[11:35:35 AM]

I need to know that they have those kind of relationships in the community with diversity and they also are comfortable going out, outside of their comfort box to get feedback from people who live in this city and will be paying for this new city manager. And their fee, by the way.

>> Mayor Adler: Okay. I know this is set on our agenda for Thursday. Perhaps you could take a look at this and may see if it makes sense for us also to set it for the following Thursday, in between then, to be able to have that conversation, either with this top choice or with the one that's one down, but to add this additional element and see if we can bring that broader net or expertise into our process.

>> The only comment I had was that we were fully prepared in this staff briefing, understanding the dialogue that had taken place prior to looking at multiple firms, to provide you details relative to all of those who had applied. The complexity came when there was some community input relative to four new ones. I want to clarify we were very understanding of your desire to fully understand the larger scope, not just the recommended company and provide you those details, and so we were prepared for that today, but certainly as a team we will go back and provide this additional information as quickly as possible to bring back to council.

>> Mayor Adler: So that extent, then, I don't want to deny you the opportunity, it would be helpful to discuss that, and while there are some people from the community that have suggested four firms in particular, I don't think you should be -- or feel bound by that list of four people. And the question that you asked about bringing in someone else as a subcontractor, being part of the process, could possibly include the other firms that have responded, not just those four. You shouldn't feel limited to them. They're just additional ones to consider, and the question there would be your belief as to whether or not if you affirmatively reached and proactively reached out to them, they might be a better fit than the three or four that did reach out to you.

[11:37:41 AM]

>> Okay.

>> Mayor Adler: Mr. Washington. Did you want -- you moved to the mic -- Mr. Zimmerman.

>> Zimmerman: Thank you, Mr. Mayor. I want to go back two years ago. I know you ran a very good and successful campaign, with a slogan of a new way forward. Obviously I'm not going to be here for this new city manager, but in my book a new way forward would be to bring in a manager who has experience dominated by private industry success, private experience, so satisfying constituents and customers and consumers. And that's a very, very different executive from a government executive, who has decades of experience in public sector or in city government. So what I'd like this council to do is have two firms, one of them focused on bringing in a person with successful experience dominated by private industry and making consumers happy, and then another person that would come in, dominated by public or government experience, and then you would have a choice to compare, contrast, you know, management styles and background and experience, and give the community a decision. Do you want someone with a lifetime dominated by government experience or do you want to bring in a manager who's worked in private experience and had to satisfy constituents and consumers. That to me really is the question before us, do we want an executive that's in the same pattern of decades of government experience and running a successful organization defined by, you know, an organization of, by and for bureaucracy, or an organization of, by and for customers and constituents. That really is the decision for council.

>> Mayor Adler: Okay. Ms. Troxclair?

>> Troxclair: Okay. So what are our options going forward? Now, I guess -- well, I guess one question really quickly, the subcontractor option, that the mayor mentioned, is that going to be the most expensive option? Because that's -- I mean, are we going to end up paying two search firms if we do that?

>> We don't know until we ask them, and whether or not there's even interest from the other firms in doing that.

[11:39:44 AM]

It's going to be very interesting to have firms that normally compete with each other for talent bid on something like this. So we don't know what the outcome of that conversation will be, or the cost.

>> Troxclair: Okay. I guess I would just say that I -- I think that my interest is in at least being able to consider a proposal from a wider range of companies that offer this kind of service, and so I am willing to do a new rfq, if that's what it takes, if they think that it can be accomplished efficiently doing some kind of other method, like what you mentioned, but that's my interest. I don't know if we need to take a vote to give direction or what the next step is here now.

>> Mayor Adler: Today it's just on for a briefing. It's set on Thursday, and my sense is that if we wanted to take the recommendation or take another

(indiscernible) On this, we could act on Thursday. My understanding was if we wanted to say, no, we want to get proposals from people who have not applied, our choice at that point would be to shut this one down and say reinstate a new one, and what I was suggesting was something in the middle, not saying that we would do that, but let's at least check to see whether that would enable us to move forward without having to start over again. So I just wanted that information back, and then I further said if we couldn't have that information by this Thursday, which is the day after tomorrow, we could put it back on the agenda for the following week, before we would make the decision on direction.

>> Troxclair: Thank you.

>> Mayor Adler: Ms. Pool?

>> Pool: Yeah, the piece about subcontracting, I would really be interested in knowing if these firms would even have any -- if they've ever done it before, subcontracted, just an interesting kind of a proposition, and I think if there is a way to expand the universe of those people who got the rfq affirmatively, that we sent it to them, I think that would take care of that piece, because the question is why didn't we send the rfq to in particular these four firms, why weren't they on our list to begin with.

[11:41:57 AM]

And that's a question that if you can answer that today, that would -- or one more time, that would be helpful.

>> Again, I think the firms that we announced were those who have a reputation in helping cities successfully hire chief executive officers. The firms we did not include, the four, were ones we have not used in the past, and for a variety of reasons did not think of noticing them in this process.

>> Pool: And because -- and I think you mentioned this earlier, and because their net is primarily international, and you were looking primarily national?

>> That's one of their areas of specialty, and the fact that they work at very high levels in the corporate world, and when we looked for examples of them working within government, it was still far more costly than what we had paid before in previous searches. But we understand now that there is more flexibility by this governing body to consider other proposals that may have a higher cost and we'll talk to them and see.

>> Mayor Adler: Okay. Anything else? Thank you very much for this briefing. Thank you. Okay. At this point we had talked, lunch by the way will not be with us until 12:30, so we're going to continue to talk here. Mayor pro tem there were some other items other than the grove that you wanted to raise on the agenda.

>> Tovo: I do. Thank you. I appreciate the opportunity to do that. I want to also just say I appreciate the mayor explaining that I'll be out of town this week and miss much of today as well as Thursday's council meeting.

[11:44:01 AM]

That's not something I do very often. I think Thursday will probably be only the second council meeting I've missed in the five years I've served in office. I make it a practice not to miss council meetings, as I know we all do. But the mayor explained, this is something our staff has been working on a long time and submitted a proposal last spring to participate in this international global summit on government and our staff have worked very, very hard, as the council has too, over the last few years on various open government initiatives, and it was important for the city to have representation not just from our staff but also from someone on the council. And so I really appreciate the opportunity, thank you, mayor

Adler, for inviting me to represent the city in that way, in addition to ceremonial things, I'll be serving on one, maybe two panels. I'm hoping to get some clarification on that before landing tomorrow afternoon. So thanks again for the opportunity just to address a few things on the agenda. There are something like a dozen items that are happening in my district that you all will consider on Thursday, and several of the developers have reached out and said, do you want us to postpone because you're not there? And I really appreciate the courtesy in asking but it's my goal to see as many of those move forward as are ready to do so, and so I thought it might be useful just to spend a couple minutes talking through some of those. 30 and 31 I believe are going to be postponed, but as you may remember, I'm recused on those anyway. There are several historic zoning cases, 46, 47 and 48 happening within district 9, and I'm no strong support of those. Item 45 and item 43 are two issues about which we're still gathering some information. I think one of the Zones cases, my senior policy advisor joy, had asked about their conversations with the neighborhood and I'm not sure those are taken place and I expect -- I don't know that there will be any issues or questions or concerns, but just know that if we hear any through that research, we'll post on the message board so that you all can be apprised of that.

[11:46:04 AM]

>> Mayor Adler: What number was that?

>> Tovo: 43.

>> 43? Thank you.

>> Tovo: Or 45. That's 43 and 45. We're still sort of talking to people and hearing if they have any questions or need any additional information about that.

>> Houston: And mayor? I have a question for mayor pro tem. You're going so fast that it's --

>> Tovo: Oh, I'm sorry, I was trying to keep within my commitment to do five minutes. Sorry to talk too fast.

>> Houston: On 43 it says it hasn't even been reviewed by the planning commission. So would we -- do you want us to vote on that?

>> Tovo: Oh, my bad, sorry. That one is postponed. I must have noted the wrong number. Thank you for that. Yeah, generally -- I guess my general point is if they're ready to move forward, I hope that you will move forward with them, and if we hear any concerns about any of the items it looks like you're about to move forward, I'll post on the message board and try to apprise you of those if our folks aren't in the office. We have two flood plan variances in district 9 for this week. It's my understanding that 56 will begin be postponed. We had an opportunity to hear some of that public testimony in the staff presentation on that at a prior meeting but they have revised their plan as some of you probably know because I know the applicant has been meeting with a lot of our offices but that's going to be postponed Thursday, regardless. 55, let me note that I have met with the property representative. The representative for the property owner, and I do have some concerns about that. I imagine you all will hear from the staff, and again, that's not something I'm asking you to postpone. I'm just sharing with you that I have some concerns about that and would have loved to have heard the staff presentation. I haven't had an opportunity to do that. But 55. 55. That's a floodplain variance within Hyde park. So that's the zoning, as I said, it's kind of unusual -- it's both unusual for me to miss a council meeting and it's unusual for me to have quite so many items happening within district 9.

[11:48:10 AM]

That's what it is. I want to make a comment about several of the items that on our agenda related to the aid rfp. I really regret missing the opportunity to discuss this on Thursday. As you all know, this was an item that I co-sponsored along -- or I sponsored along with several members of this dais. It was also the

one where I need to acknowledge again that mayor Adler was also drafting a resolution at the same time so we both had exactly the same resolution, more or less, drafted, so I regard that as something I'm more or less co-sponsoring with you, mayor Adler. But I'm very, very supportive of our moving forward with those proposals as our staff have described to us in executive session, and I really urge you, my colleagues, to move forward with those as well. I know there will be questions that we need to have answers to and continued dialogue if we are able to submit those proposals and engage in that conversation in a formal way with aid. I'm also very supportive of the resolutions on our agenda to support the other good projects, item 6 and 7 are -- are resolutions of support to -- for community groups that are also engaging in that rfp process. I think between the proposals that I hope our council will submit and the ones that foundation community and habitat for humanity are 134eu9ing, or -- submitting or intend to submit, I can we have the opportunity to do great things, great partnerships and create some community benefit from some of the lands that aid have determined they don't need to use for school purposes. So I'm really going to be watching with bated breath to see how -- how that resolves itself on Thursday, but I just really hope -- I hope that this council will move forward with that process. And please, if you have any questions, as I've mentioned in our executive session, I serve on the joint subcommittee but I also serve on the work Guadalupe group of the joint subcommittee that has been advocate for this and working with staff.

[11:50:13 AM]

And I'll keep my eye on the board in case questions arise. So thank you, and thank you for the opportunity to run through those items.

>> Mayor Adler: And thank you for representing the city. I think it's important that we're physically there given the honor as well as the subject matter. So thank you for doing that.

>> Houston: Mayor, while we're talking about district 9, before you leave going on your trip, on the nonconsent items, agenda item no. 16, you didn't speak to that, and I'll have some questions about the flooding that has happened prior to now. So I just wanted you to know that I have some flooding issues about that land.

>> Mayor Adler: Okay. All right. Thank you. Does anybody else have any other pulled items on the agenda other than the grove that they want to talk about at this point? Let's call up the grove then. Let's talk about that. Again, we told the public that there would be an opportunity to speak at 1:00. There was a question that was raised while we were discussing it about providing an opportunity for people to discuss who could only discuss in the evening and whether they would be cut off. We said we wouldn't cut off anybody from being able to speak, and I'm sorry for any miscommunication that happened on that. But this was obviously something that the public was really interested in speaking about, and on second reading we said we would give everybody that chance. My -- and we can open this up for people to talk about it. My sense is, is that we have -- that we ask the neighborhood and the developer to try to mediate and come to common agreements or new ideas for us to consider.

[11:52:16 AM]

They've done that. I'm real pleased that they've come back together with something they can propose to the council. Obviously we're not bound by that, and at the time they went out they were told that. I certainly give it significant weight. My understanding is, is that council member Gallo today will be moving to adopt on second reading the proposal that would come jointly from the neighborhood and from the developer. I understand council member pool is going to second that motion to approve it on second reading. And at this point let's how I will vote, and I hope that we do that. We could certainly discuss other amendments or changes to that, which I would anticipate we would be considering and



discussing over the following week, but that today's action I hope would be -- my recommendation would be that we take that agreement, codify it at second reading, adopt that and allow the process to move forward and then decide next Thursday whether or not we want to proceed on third reading but have that -- third reading but have that option available to us.

>> Very quickly because I have to step out from 12:00 to 12:30 but I'll do whatever the decision is. I have a motion also that I will -- that I put on the message board and that I'll describe at the appropriate time. It works within the existing agreement. It's based on the employer assisted housing program that I've been talking about for some time, and it's a pilot program. So I'll describe that at the appropriate time.

>> Mayor Adler: Okay. Yes, Mr. Zimmerman?

>> Zimmerman: One process question. Is there a reason why the council might want to vote today instead of Thursday on that second reading?

[11:54:19 AM]

Day after tomorrow? And then have potentially the third reading on the 15th?

>> Mayor Adler: Yes, the reason to do that was when we -- it's to enable us to have the option to actually vote on third reading in December. So there needed to be a sufficient separation between the second reading approval and the third reading approval.

>> Zimmerman: So one week would not provide a sufficient --

>> Mayor Adler: Originally I proposed back on December 10 back on that day, I had proposed consideration of doing a meeting on the 5th and on the 19th to have that spread, but the staff indicate -- spread, but the staff indicated they could do it with the spread from the 5th to the 15th. So we kept that spread. Yes, Ms. Gallo?

>> Gallo: Just so that council members can review, we've passed out the yellow sheet, which will be the motion which will be made. It's my understanding that council member pool will be seconding that, but it is taking -- it is taken directly from the mediated agreement.

>> Mayor Adler: Okay. Ms. Pool?

>> Pool: One of the things that I think we have discovered in looking at the proposal from the mediated agreement is that it's -- it's complicated, but then the entire process is complicated. And so that shouldn't be a surprise to anybody. And so what I want to absorb to our staff, it is more important for this city to have a good ordinance, good clean understandable ordinance than it is to do it in a particular time frame. And I know that if -- if we are to get to third reading next Thursday, that means that we have to have an ordinance ideally by Friday so that it would be in the backup so that we could spend time with it. And so it's my hope that the quality of the document supersedes any time factor that may be -- that you may be thinking that you're looking at, and I think that that frankly should be a lot of the conversation at any time, because the policy that we come up with is really more important.

[11:56:39 AM]

Secondary would be the timeframe that we do it in. So I just offer that up as a general exhortation.

>> Mayor Adler: Thank you. Further discussion? Yes, Ms. Garza.

>> Garza: So we're just speaking about this and then going back to executive session? Is that what you said?

>> Mayor Adler: Yes. Once we've done these things, and then we would come back. After lunch we have one more briefing we haven't done on the affordability profiles, and then we also have then the group to have the public hearing Garcia.

>> First I want to apologize for the sharp criticism I gave earlier. I knew we were having an open testimony but I thought it was starting as close to 9:00 as possible. So I do have to leave at 1:00. I could

come back at 3:30, but then I cannot be here in the evening, and so I -- I assumed this would be done by 5:30, if we had started at 9:00, which was my assumption, and especially there's been a -- we haven't been pulling as many items, but I apologize for the sharp criticism. I just would have liked to have been here for the vote on this, and I'm going to try my best to return. I just generally want to say that I really appreciate that there is an agreement, but I -- I also want to say that, you know, we received an email from, I believe, a gentleman that lives in this area, and he -- I'm always open to criticism. We take that as council members. And the -- basically it was, what I read it as, you guys need to represent us, and if you don't represent us you're not doing a good job. But, you know, the other side of that is so does that mean if I don't agree with the party on the other side I'm not representing the other side correctly?

[11:58:46 AM]

I also think it's important -- when 10-one was discussed there was so much concern about wards and will council members be able to make decisions based on the city as a whole. So obviously this is not in my district, but it is important for policy moving forward, and it's important when I make this decision, I look through the lens of what is important, what is affecting people in my district. And so I think it's great that there is an agreement, but I hope the public also knows that we are -- each council member is looking at this through a different lens, and what I see the middle class, working class families working in my district, having to leave and to go to pflugerville and to Kyle, my goal it is to get as much affordable housing in this pud to keep our working families here, to keep the people that, you know, come to city hall and work in city hall and clean our offices, they should be able to afford to live here. And so it's going to be a really tough decision weighing that and see how this all plays out because I want to respect the agreement, but I also represent a district that is having a hard time staying in Austin. And so my top priority is the maximum affordable housing we can get and get the support behind it, and that changes this agreement. And so I hope that the community understands all the different things that each council member is weighing here and what they set their priorities on.

>> Mayor Adler: Okay. Yes, mayor pro tem?

>> Tovo: I really very much appreciate, council member Garza, your comments. I indicated at last hearing that I too am really excited about the mediation that's going on, and I'm really excited to hear that there was resolution reached on so many points. As I indicated, I might still want to make some changes, depending on how that affordable housing piece came back, and I just want to signal that I am looking over -- I'm still trying to make sense of what's in the agreement and what's in the ordinance and what are additional amendments, that as I understand the applicant intends to make outside of the agreement, and I likely will have a couple of my own to offer.

[12:01:06 PM]

One thing I would just point your attention to is that it looks to me from the ordinance as if we are poised to use property tax dollars that are expected to come from this site back into the affordable housing piece, and so while I am absolutely in support of using our property tax dollars from this development to fund affordable housing, I brought the resolution that made that point clear, I am going to really have to weigh whether or not we use it to help to defray the costs of what is noted as one of the superiority elements for planned unit development. So that is -- that is a point that I know I've raised in our previous conversations about the growth, but it wasn't clear to me really until this morning that the ordinance actually has -- has that happening, has that shift happening from the property tax dollars that are anticipated to come, have that help fund some of the affordable housing, which is part of how the development is meeting its superiority elements. So we can have more discussion about that later. I hope to be here for a good portion of this afternoon and can raise that when we have a fuller discussion,

but I just wanted to signal that those are some of the things that I'm looking at, and I commend the developers for increasing the affordable housing provision that is -- that's great. Now I want to talk a little bit about how some of that is being paid for, and frankly whether a zoning ordinance can even make that change to how we spend our property tax dollars. That's unusual. I don't recall seeing that in a prior zoning ordinance. So more discussion about that later, but just a heads-up for those of you who are maybe leaving earlier, I might miss that portion.

>> Mayor Adler: Well, let's make sure before too many people leave that we ask the developer to come up and actually walk us through the housing component of that so that people can ask questions. Ms. Gallo?

>> Gallo: , You know, and I think what would probably be the best benefit for the council is as we go through all the different provisions, and once again, I want to say that I really applaud the neighborhoods and the developer for working together to get closer together and to get to a place that there was an agreement on a lot of the really important issues that were topics of discussions and get to an agreement in a positive way on this.

[12:03:28 PM]

You know, this basically gives us more affordable housing, more parkland, some reduction in traffic count, the -- the environmental issues that everyone was really concerned about, the reduction in the commercial, which will also help reduce the traffic. So -- but it's complicated and there's a lot of moving pieces. I kind of envision as we go through this that both the applicant and the neighborhood, the bcr, will come forward when we're talking about each of these components and talk about the reason that they came to a consensus with what we have ended up with, and so I think that will be really helpful to the council members also to understand and know how the two different parties have come to those agreements. So as part of the presentation I hope that we will see that happen too as we go through these. So I think that will be real helpful for everyone.

>> Mayor Adler: Okay. Is there further conversation about the grove? Do we want to take the presentation on affordability at this point or do we want to ask the property owner to talk to us about affordable housing on the grove?

>> Tovo: Mayor, I would just suggest that we take that up at 1:00 when the public is here for that piece. I had added it as a work session item, in part because I wasn't sure if I'd be able to stay to lay out any amendments. So I appreciate the opportunity to kind of talk through it at the council level, but I think if there are presentations I would just suggest we wait till the 1:00 time certain.

>> Mayor Adler: We could go back to executive session now, even though lunch might not arrive for 30 minutes, we have a full executive session, that would increase our chances of coming back out at 1:00. Yes?

>> Could we consider not having the briefing that's scheduled? I mean, it just seems like that we ought to do our executive session with the goal of being back here at 1:00 to start what people are going to be arriving. We have a tendency to say we're going to do something and then it gets delayed, and I just think that the briefing sounds like it could be something that could be done at a different time and, you know, let's commit to getting into executive session and getting back here at 1:00.

[12:05:39 PM]

>> Mayor Adler: We could certainly come back at 1:00. I don't know how many people will be here to talk, and my fear was that we would end up taking a recess till 6:00 and we would have a block of time, and if that's the case, then I don't want to lose that block of time when we could do the -- we could do the briefing.

>> Gallo: What about if we held the briefing in case we end up with the grows discussion before 6:00 and needed to fill the time up?

>> Mayor Adler: That's what I'm saying, I have no problem starting at 1:00 back with the grove. That makes sense to me. Ms. Houston?

>> Houston: Thank you, mayor. I want to let you know that many members of our staff of the city auditors have been here since 9:00 this morning, so it would be helpful for them to know when they're going to come up so that they could either go back to their offices or take a nap or whatever, but not be sitting here while we're waiting for a briefing that we asked for.

>> Mayor Adler: I think that point is well-taken, and I'm real comfortable with the auditor staff not sitting here and we'll give you no sooner than 35 or 40 minutes heads-up if it looks like we'll be able to get back to it. That way you'll get the call. Will that work? Good point, Ms. Houston. If that's where we're we'll go ahead and take a recess and go back to --

>> Gallo: Mayor, do you want Ta talk about plans for later? Could you lay out the whole day?

>> Mayor Adler: We're coming back at 1:00. We're going to talk about the grove. We'll see if people are here who want to speak publicly on it. We'll give them an opportunity to do that. We'll have the applicant talk about and the neighborhood, if they're here, or they can talk at 6:00 if they'd rather talk at 6:00. So we're going to do the grove. At some point we will run out of grove stuff to do. We -- if there's time before 6:00 we will have the auditor's office come back to make their presentation, and if there's time we'll then take a recess and come back at 6:00. So that the public can speak at that point, and then at the end of that I would hope we have a vote.

[12:07:46 PM]

>> Gallo: Not to micromanage our meeting but I think the public appreciates when we can fine-tune things down to a time frame. So we are saying we'll start back at 6:00. Are we planning on having a dinner break? Not planning on having a dinner break? Will people show up at 6:00 and we'll be gone for dinner?

>> Mayor Adler: My sense is we'll run out of things to do this afternoon so I would say us going to dinner at 5:00, coming back at 6:00, so that at 6:00 we can start with people having the chance to talk to us. Ms. Pool?

>> Pool: And we did talk in work session about starting the discussion about grove at 1:00.

>> Mayor Adler: Yes.

>> Pool: We're still going to do that. So people who are here at 1:00 and want to talk to us, they don't have to wait until 6:00?

>> Mayor Adler: Correct.

>> Pool: But there may be people coming later and we should also be here to hear from them.

>> Mayor Adler: Correct. So city council will go into closed session to take up three items, 551.0086, government code, city council will discuss the following items, E 2, related potential contract for electric services, certain state of Texas electric facilities. In addition, pursuant to section 551.071 of the government code will discuss item E 3, which are legal issues related to the acquisition of certain real property. And pursuant to section 551.072 of the government code, we'll take up item E 4, which also concerns the acquisition of real property for that same -- real property interest for that same property. Item E 1 has been withdrawn. Hearing no objection, we will move into executive session on the items announced.

[Executive session]

[2:22:05 PM]

>> Mayor Adler: All right, we are back in from executive session. While we were in closed session we took up and discussed the public power utilities competitive matter, item e2, and also the issues related to e3 and e4, the real estate acquisition. Matters. That gets us back out to the dais in the work session meeting. I'm going to recess the work session meeting so that we have the opportunity to be able to get the briefing late this afternoon, if that opportunity is available to us. And I'm going to recess.

[4:16:30 PM]

I'm going to recess the Special Called meeting and I'm going to convene the meeting of our work session. I'm now going to adjourn the meeting of our work session today at 4:16 P.M.