Audit and Finance Committee Meeting Transcript – 11/20/2019

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[9:39:08 AM]

>> Pool: I'm going to check with the chair to see if she would like me to convene the meeting. Hang on one second while we do the magic of the text. Truly magic. Truly magic. >> Alter: Good morning. I'm Alison alter and I'm chair of the audit and finance committee. It is 9:39 and we'll call this meeting to order. I'm joined on the dais by councilmembers Flannigan, tovo and pool. We will start with our first item of business which is approving the minutes.

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>> So moved. >> Alter: So moved and seconded. If there are no objections, we will approve the minutes. We are going to take up a few of the smaller items before we get into our large presentation so we hope some of those folks can -- or staff can move on. So we're going to take up item 4, which is the lobbyist compliance audit. From city auditor's office. >> Thank you. As required by code, this audit was conducted with Patrick Johnson as the manager and Rachel as the auditor in charge and Rachel will present. >> Good morning, councilmembers. In September 2016 city council passed new lobbyist provisions that went into

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effect in June 2017. Additional updates were made by council to the ordinance in June 2019. Since 2017 the amount of people to register for on lob uses for the first time has declined. For our audit we generated a random sample of 12 lobbyists, 11%. And one lobbyist registered on behalf of a nonprofit. We reviewed their quarterly reports and counseled them all in compliance. One compliance was filed late and late fees were assessed and collected by the clerk's office. We also renewed three new registration and found them all in compliance with city code. The code requires lobbyists to disclose status when meeting with city officials. We sampled three departments and two council offices to determine if they were making lobbyists sign-in

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sheets. To determine if they were making lobbyists sign-in sheets available for visitors. We found all departments and offices that we sampled were complying with city code. Because of an anticipated change from the current paper system to an electronic filing system in 2020, we feel that another audit of lobbyist compliance will be most useful once the clerk has transitioned to their electronic system and therefore we suggest we wait to perform this audit again until 2021. Thank you. >> Pool: So 16 new lobbyists but the total universe of lobbyists, do you have that handy? >> I think it's between 90 and 100. We had 30 people terminate in fiscal year '19.

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>> Pool: Do we know why they terminated? Did they change jobs or job duties? >> It's not in the termination form. >> Pool: And then with regard to taking a pause on reporting lobbyist compliance activities for a year, next year is an election year for council so I'm not sure that's a wise course of action. So city auditor, I would like to -- let's have an in-office meeting to have a conversation about that. >> Certainly. >> Pool: And I welcome anybody here that would like to join me on that. As in here in the audit and finance committee. >> Tovo: Is that a decision that we're making today? I want some time to think about that too. I'm not sure I'm comfortable at this point. >> I think at this point we're really flagging it as -- our concern is we haven't seen any compliance issues. We do know the system is changing and we want to make sure it's working once the

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new electronic system is implemented. At this point every time we test we come back and say it looks pretty good, maybe somebody filed late and paid the appropriate fee. >> Tovo: Let me ask, are you able to provide us with detailed information -- did you say 30 lobbyists terminated this year? >> Yes. >> Tovo: That's a lot. Can you provide information for us? >> It's also available on the clerk's website. >> Tovo: I'll just find it there. It's just in the area where it talks about -- I know how to search for those who are registered. There's just a link that says lobbyists who have terminated? >> We'll provide that information. >> Tovo: Thank you. >> Pool: And I would end by saying I think it's great we have such great compliance, but that's what this is for, it's to test and make sure and remind

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everybody that -- some may view them as stringent, but we have rules and I'm glad that we have what looks like complete compliance. I wouldn't want us to view that in a in a way that looks complacent. >> Flannigan: There's a search termination on the website so it wasn't that hard to track down. >> Alter: Thank you. Do we need to take any action on this item? >> We don't have recommendations. If you want to accept it, you can, but it's not required. >> Tovo: I move that we accept the report. >> Alter: Seconded by councilmember pool. Everybody is in favor so we'll move on. Thank you very much. So we're going to take up

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item 5, which is the integrity unit report which you postponed or -- oh, I'm sorry. I'm sorry. I don't see anyone on my sheet. One citizen signed up to speak. So Mr. Robbins, I'm sorry about that. If you want to come up for citizens communications, please do. You'll have three minutes. >> Council -- >> It's on. >> One more time. >> Mic? Council, last week I spoke about the upcoming Texas gas service rate case and mentioned four reforms that

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would not affect the gas companies' profits. These were, one, the creation of Progressive gas rates that charge higher costs for higher consumption levels, two, creating an adequately funded customer assistance program for low-income ratepayers, three, the need for conservation programs that are cost effective, and four, the creation of a renewable energy research fund. However, there were several issues and questions regarding the increase in gas rates itself that need attention that I did not have time to address. These issues and questions include the fact that gas rates rose over 50% above inflation between 2008 and 2018, at least for residential ratepayers.

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Another issue is it is highly probable that unlike Austin energy, the gas company does not have full capital recovery fees and this would also mitigate rates for existing customers. And three, it is unknown if Austin ratepayers are subsidizing the service area that is outside the city limits. These issues have been obscure in the past and I hope you will raise the transparency of them in the new rate case. I want to make one other recommendation. During the rate case proceedings and deliberations, there needs to be some consideration to equal time. Texas gas service has every right to make their case.

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However, one of its representatives has a habit of clutching the microphone with the same determination that NFL players clutch a football after a forward pass. And again, they have every right in the world to make their case, but I hope you'll give me at least one -- at least one minute for every four minutes that they spend talking about their points. Thank you. >> Alter: Thank you, Mr. Rob bins. I would just ask you share your remarks with my office. >> Sure. >> Alter: Thank you. I think we'll move on to item 6 -- or item 5, sorry. >> Excellent. Integrity unit report. We do this once or twice a

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year depending on the year. But Brian Malloy is chief of investigations and will present briefly. >> Good morning, committee members and thank you for the chance to speak today. As corrie mentioned, my name is Brian Malloy and I'll be going over the integrity unit activities. Specifically I'll talk about allegations trends, the investigations we completed in fiscal year 19 and what investigations we have ongoing. So fiscal year 19 was a very busy year for my team. We had 333 allegations, a 21% increase from 2018, the largest number of allegations we've received over the last four years. The most common allegation we saw over this year were H.R. Related issues. That includes harassment, discrimination, retaliation. Second most Monday was operational issues. Both groups are outside our jurisdiction so what we do when we receive those is log them in our case management system and prepare referrals to get them to the appropriate people. The most common we had

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alleged to us this year was misuse of city resources and there was 33 of those. Testimony came in with 26 allegations. That can comprise cash theft, inventory theft or time sheet theft. We had 15 waste allegation, 14 bows allegations and 14 conflict of interest allegations as well. When we looked at who was making these reports, 71% chose to report anonymously and that seems to back up industry best practices that if you want to have a robust reporter hotline, you need to allow people to report anonymously or they will be too scared to reported. You also have to make it easy to report so we have several avenues to get ahold of our office. The most common was our online reporting form, that was

42% of reporters. Second most common was our whistleblower hotline over the phone with 23% of our reporters using that method. We completed 14 investigations over fiscal year 19. Majority of those ended in a sub stanch I eight finding.

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Nine were sub stanch I eight and turned into public reports either shared with the city manager's office or filed with erc. We also had four substantiated diminimus and one inconclusive finding of the of the nines, seven went through the city manager's office, two went to drc and out out out of nine resulted in accountability action. We have 13 open investigations, span 11 city departments and they focus on a lot of similar issues we saw in fiscal year 19, waste, gift solicitation, inventory theft, abuse of position and misuse of city resources. I'd be happy to take any questions on fiscal year 19. >> Alter: Thank you. Colleagues, anyone else have any questions? Councilmember tovo, your mic

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is not on. >> Tovo: I just had a comment. Thank you for this report and for your continued work in this important area. I just want to flag that as the most common allegations as I understood your presentation are discrimination, harassment and retaliation, and that these are then referred out >> Correct. H.R. Issues are -- include other things besides harassment and discrimination and retaliation, those are a sub set, but those on the most common and they are primarily referred to human resources department, but sometimes to the individual departments if they have their only internal H.R. Function. >> Tovo: And to be clear, the most common allegation are H.R. Related, not necessarily discrimination, retaliation or harassment. >> Correct. >> Tovo: Or many of them are. >> So we tag -- there's a tag for harassment, discrimination and retaliation separate from H.R. Personnel issues so we

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group those together. When I say the most common, it's a combination of those two different categories. So I think to answer your question, harassment, discrimination and retaliation is just a subset of overall H.R. Personnel issues. >> Tovo: Which are the most common, the general category or -- or the subset? >> I believe it's H.R. Peonnel issues is more. >> Tovo: Thank you. Colleagues, we are continuing to monitor the provisions that we've put in place to have an outside -- an outside independent counsel for individuals who are filing these complaints. I don't think we yet have a robust program at the city that offers that, but this is going to prompt me to revisit that and see where we are with developing that. So thank you for that information. >> You're welcome. >> Alter: I don't think that's the universe of H.R. Complaints, those are just the ones that get sent to the auditor's office that

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get forwarded on. So there's another universe we might look at. Councilmember tovo, we're looking at issues with municipal service commission and their ability to hear the cases that are coming in fast enough so that folks really get their complaints addressed, which is outside of the scope of what you guys are investigating, but is related to the H.R. Questions that are referred. I just want to point out that, you know, allegations are increasing. >> Uh-huh. >> Alter: In the auditing world, I'm not sure in this case if that's a measure of something going right or wrong. It may be people are more comfortable reporting or there's a better atmosphere in which to report, but it can also mean there's more bad stuff going on. So I don't know if this is a question for you or the auditor, but how should we be reading those numbers in that regard? >> I think based on the information we get at any given interaction when

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there's an allegation, we can't definitively say is this stemming from more bad behavior going on or is it stemming from we're doing a better job advertising how to report and people feel more comfortable. If we're trying to get to that answer perhaps on our various reporting forms we can add a question or add additional questions to maybe help us determine a better answer for that question, but at this time I don't think we have a definitive answer. >> Alter: Thank you. Auditor, if you can be sure to be taking a look how long these investigations are taking and if we're getting more of them, what that's doing for resources that are needed in the auditor's office to be able to respond to this, I think it would be important for us to have that information through the budget process. >> We will bring that. >> Alter: Thank you. Any other questions on this item? >> Thank you very much. >> Alter: Thank you. Do we need to move to receive this? Okay. Then I think we'll take up

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item 6. Is that what you had recommended? The Texas gas service natural gas utility rate making. I'm not seeing any speakers specifically on this topic. Is that correct? Good morning. We can pass it around. Good morning. >> Good morning. >> Good morning. Thank you. Good morning, councilmembers. Larry graham with Texas gas service, and I'm joined by Stacy mctiger, our director of rates and regulatory. We appreciate the time to talk to you today. If you may remember, we were

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at city council discussing our energy efficiency tariff almost a year ago, and a number of councilmembers had questions about rate making and we were asked to come back and talk to you about how we do rates before we filed our next rate case. So that's why we're here today. We have a presentation to explain kind of how we -- how we currently do our rates, talk a little about the rate case we're going to file, but we also think it's just a good chance to have a discussion with you and an opportunity to answer questions that you all may have as we -- as we go forward. So real briefly, just a little about who we are. So Texas gas service is a division of wild gas headquartered in Tulsa, Oklahoma. What one gas is, they have three natural gas utilities, one in Oklahoma, one in Kansas and here in Texas.

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In Texas we have a little over 75% of customers split between Austin and El Paso, but we're also in some other small areas. The central Texas service area, we have about 220,000 customers inside the city limits of Austin, about 18,000 in 15 other incorporated cities. That includes adjacent cities, rolling wood, west lake hills, cedar park, and then also some other cities just south of here, luling, Lockhart, cuero, down there. And then the service area also includes 22,000 customers in unincorporated Travis county. All the customers have the same rates. A little about our Austin footprint. We have about 350 employees here. We've had a service center at avenue F and Koenig next to the Leif Johnson Ford dealer, been there since

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1960. Stacy and I work at Barton skyway, mopac and we have a training center in south Austin on St. Elmo. I think you know we're pretty active in the community. There's a picture of us with meals on wheels, habitat for humanity this spring. A little about us. Let's move into the rates. So just a couple facts here to kind of set the stage. For 20-some years we've participated and provided information to Memphis gas and light, a survey that they do. And I believe Austin energy and the water utility also participate in the survey. So in this survey that came out last year, we had the seventh lowest residential rates out of 41 cities. On the commercial side, we were either the 14th or the 11th and that depends on different levels of consumption. And then last year the average monthly residential

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bill over the course of the year, if you average it out, was $37.85 net of taxes and average consumption of 33 ccf. So in our world, we measure gas consumption in ccf, which is 100 cubic feet of gas. Average monthly bills $25, average winter bill 62. So obviously one of the things we're going to talk about is consumption drives the bill and weather drives consumption. Reminder, as you know, we have an energy efficiency program. Last year you approved a three-year budget. In fiscal year 2018 we gave over

$2 million in residential rebates. One thing I want to flag, we gave 160 free natural gas appliances for elderly, low-income customers. And our partners on that program are Austin energy and meals on wheels.

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They give us a lot of the referrals. Again, customers pay a flat 119 a month to help support that program. So the regulatory process. So we will be filing a rate case with the city late December, and we wanted to remind you about a couple things. So cities in Texas have original jurisdiction over natural gas utility rates for customers within their city limits. And just as an interesting side note, Texas is the only state that does that. So in our sister utilities in Oklahoma and Kansas, they work with the state agency, the corporation commissions, and the corporation commission sets statewide rates for all the customers in the state. So Texas, of course, has to be a little bit different. The railroad commission of Texas also plays a role, I mentioned a minute ago we have 18,000 customers in

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unincorporated Travis county. So the railroad commission has original jurisdiction for their rates. And in addition, if a city were to deny a rate increase, we could appeal it to the railroad commission. So the appellate. The railroad commission also has statewide responsibility for pipeline safety, rules and some other things about safety. So when we go -- when we start the rate case, we want to remind you the objectives of the process, of the rate regulatory process. This is set out in state law. So the two objectives are really to provide the utility with an opportunity to earn a reasonable rate of return and also ensure the customers are charged a fair and reasonable rate. So what we really ask the regulator to do is strike a balance between these two things. Okay, we're going to get into an actual bill to show you what's on the bill. And what you see is actually

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my bill from October, and I live in councilmember pool's district. I have a pretty average sized house, thank you. So we're going to go through some of the line items on the bill. So the first one is the customer charge. So this is a fixed charge, right now it's $18.81, so all residential customers pay this. And when we talk about rate design, what we're talking about is how we allocate the charges between the customer charge and the delivery charge. Those are the two pieces of the bill that we keep, that we get. And so the delivery charge is a -- it's a volumetric rate and it's about 12 cents a unit of gas, a ccf of gas. So October was pretty warm, I didn't use much gas. And so you can do the math, 12 cents times the 10 ccf, you get $1.21. Cost of gas. This is an important thing.

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We purchase gas from third parties. All we do is distribute the gas. We purchase the grass from third parties and the customers pay what we pay. So in this, that's for the commodity itself, okay? And clearly this is a charge that gets a lot bigger in the winter when people are consuming more. We change the rate every month based on what the market is doing. And it's kind of interesting, the 20 years I've worked at the gas company, I think this is about the lowest I've ever seen natural gas prices. The good thing is the customers benefit from that. When the pryings of gas goes down, the customers are paying less for that commodity. -- Price goes down. As I mentioned, we have this delivery charge and when we set the rates at the last rate case three years ago, the rates are designed to

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generate the required revenue. What everyone agrees to. The delivery charge assumes normal weather. Excuse me, it assumes normal usage, okay? Usage is affected by weather. And so it's always a little bit different. And so weather norm, all it does is it keeps us whole. It either makes that higher or lower depending on -- on the weather. So if it's colder than normal, customers get a credit. If it's warmer than normal, then there's a charge on the weather norm. As I mentioned before, the fee to support the energy efficiency program is $1.19. There's four cents for pipeline safety. We have federally mandated testing that we have to do on our transmission lines. And since the amount and the level that testing changes from year to year, it's not embedded in the rates. So that's to recover what we spent in 2018. Franchise fees. So this month I paid $1.32

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to the city of Austin of we essentially pay the city 5% of our gross revenues. And the franchise, it's really a lease. We get to put our pipe in the city's right-of-way and in return we pay the city a franchise fee. And I think the last four quarters that was in the neighborhood of $7.2 million is what we paid the city for the franchise fees. The next item -- >> Alter: 7.2 million or billion? >> Million. >> Alter: I thought you said billion. >> Million. That would be a lot. The next one is the -- is what the customers pay, we collect for the state of Texas. It's equal to about 2% of the bill. The last item is the city sales tax, which is equal to just about 1% of the bill. So the city does get the franchise fee and the city tax. And then you notice in October the total amount was 26.78, but I'm on what's

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called the ABC, the levelized bill plan so I pay a little more when it's warm, but I'll pay that amount in January and December as well. So levelized bill payment. So with that, I'm going to turn the next part of the presentation over to Stacy, who again, is our director of rates and regulatory. >> Great. I'm going to talk about rate design. As Larry said, the goal of the regulatory process is to determine a reasonable amount of revenue for the company to earn to bring in each year. And rate design is the process of designing customer rates to collect that approved amount of revenue. And a few times recently in the past the city council has had some discussions about rate design. You know, wondering how different rate designs work and how different rate designs affect different types of customers and wondering what's best. And so that's why we're here. We're hoping that we can

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give you some info that will help you all out as you think that through and give you an opportunity to kind of think about those things and talk about those things some ahead of the rate case. So our current rates are, as Larry said, 18.81 -- residential rates, 18.81 customer charge, which is fixed. And a 12 -- a little over 12-cent volumetric rate, which is a rate per cubic -- per hundred cubic feet of gas, ccf. So the first thing we did to try to give you some info to help you think about this is to show some bills. And so what you've got here is two bills for the summer, two bills for the winter, and two bills for the spring and the fall when usage is middling. So it's low, average and middling. Each season we've showed a

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low usage customer and a high usage customer and defined that as the low usage customer is at the 25th percentile of usage. And a high usage customer here represents a customer at the 75th percentile. That's how we defined our categories. So you see their bills for each season. And then we've used color to sort of show you what's in the bill. The different components. And so you see the blue is the customer charge, which is fixed so it's the same for every bill every season. And then the Orange is the delivery charge, and so it tends to be rather -- it's volumetric, it's based on usage, it tends to be rather small in the summer, gets a little biller in the spring and fall and at its largest in the winter. The cost of gas also volumetric usage based, so

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it tends to be small in the spring and fall, gets bigger in the winter. Then the extra adders, the conservation adjustment, the pipeline safety fee that Larry described. We left taxes out of this particular calculation. So one thing you can see when you look at this is for low users, their bills range from 20-something to about 40-something through the whole year. So for low users, their bills are not sky high. 20 to $40, 40-something over the course of the year. Larry said earlier that the bills are driven by usage and usage is driven by weather and you can certainly see that in this bar chart. The highest bills are in the winter when it's coldest. And the last thing I want to point out that you can see when you look at this is we've heard it said recently that our rates are regressive and lower users

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pay more. And if you look at this, the lower user pays less than the higher user in every instance. Especially in the winter. But in the other seasons as well. Higher users pay more. So it's not accurate that lower users pay more from our rates. So there's been a part of the discussion that's gone on at council has been about customer charge because there's a situation where the lower user is paying the same as the higher user with a customer charge, and questions about, well, is that fair, is it right, would it be better if a customer charge is lower, who would it be better for. So we tried to put together some information that would help you think that through. And so what we did here is we took -- this is an average user in all cases. It's just average use.

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And we said what if we came up with a hypothetical rate design that had a lower customer charge. So we took the rates we've currently got and the revenue that's generated by those rates, and then we designed a different hypothetical set of rates that would collect the same revenue but have the higher volumetric rate. We can compare the impact to a customer. That's what this shows you is for an average customer, the impact of the higher customer charge and lower delivery rate, that's our current rate strucre, versus a lower customer charge and a higher delivery rate, so that's sort of the hypothetical rate structure we came up with here. And so what this shows you, so you've got a current and a hypothetical for each season. And so what you see is that

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it does benefit the -- the average customer to have this lower customer charge, higher delivery rate in the summer. Certainly does benefit them. Probably about by five bucks. And in the spring and fall, you can see it's almost even. It looks like the hypothetical, the lower customer charge may be a smidgeon lower, but it's about even. What you see in the winter is the lower customer charge, higher delivery rate really drives up bills for customers in the winter because when you have a lower customer charge, you by definition have a higher delivery charge and so it's really going to impact customers when their usage goes up. And so you've got, looks like more than a $10 increase per month in the customer bills in the winter. If you went with this lower customer charge rate

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decline. That doesn't mean the lower customer charge rate design is bad. Some people, some people like it, some people don't, but that's just an important factor to notice about it, it's definitely going to put more on usage which is going to put more cost on the customer in the winter. So one thing I just wanted to put in a plug, one thing that customers can do about having low bills in the summer and high bills in the winter is they can sign up for this ABC plan that Larry is signed up for, which levelizes your bill payments. And so we just look at your history like over the past year, divide by 12, charge you that amount every month and then at the end of the year true up if your usage was a little different this year than last year. So you pay the same amount every month. And that would really help customers on a budget. So we really recommend that

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to people. Does anybody have any questions about the stuff, on the information that we've presented so far or want to think or talk about that before we move on? >> Alter: Councilmember pool. >> Pool: If somebody wanted to sign up for the average bill calculation, is there a link or the url on the bills? How would they go about applying. >> They can visit our website and they can call our customer service line and both of those are on the bill. Yes, that's right. >> Alter: I wanted to ask something about the chart with the locust America charges. -- Low customer charges. You have summer, winter, spring and fall and you show the difference between the high customer charge and the locust America charge. What did you assume in this chart was the usage? >> This is average, average usage, so I believe it's at, like, 33 ccf.

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>> Alter: Does that change any if you use a lower usage? I know we've been looking at that with Austin energy too incentivize using less and we haven't had a lot of conversations about why we might want to encourage less use of natural gas. How does this chart same with lower usage? >> The same person exists, but at different usage levels. If it was helpful, we could prepare a similar chart at different usage levels. >> Alter: I that I that would be helpful. >> Yeah. >> Alter: What I'm understanding you saying is the same pattern where you have lower customer charge happens regardless of usage levels. >> Right, but yeah, you can gauge how impactful that is to different customers if you look at it at different usage levels, and that might impact, you know, your assessment of how good or bad that rate design is. >> Alter: Thank you.

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One last question. I know you said that the Texas approach was different than in terms of regulation than other states, but in terms of this breakdown and this approach, is there variation, much variation across jurisdictions in terms of how this is approached? You just gave us one example of the customer charge, but, I mean the whole system could be different somewhere else. How much variation is there? >> In my experience for residential rates, this is pretty much what you see everywhere. Sometimes you see block rates, which I think maybe the city of Austin might have for electric. >> Stepped rates. >> Stepped rates. Sometimes you see that. But not as often. Usually it's the customer charge and the usage charge. >> In El Paso, and Stacy can correct me, I think for a number of years the residential customers had a customer charge and no volumetric charge until they

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hit 200 ccf, less than 1% of the customers. The idea is that it helped them in the winter months. I don't think we have that anymore, but we had that for eight or nine years in El Paso. >> Alter: And why was that Diskind for a reason in El Paso or -- -- discontinued. >> It was -- I think it was our last rate case that we changed that rate design, and we still have a fairly high customer charge and a low delivery charge in El Paso, but I don't remember why exactly that changed. >> Alter: Okay. Thank you. Any other questions before we move on? Mayor? >> Mayor Adler: The -- I just want to make sure that I understand because we've all gotten something that indicated that the -- that the rate, just liking at the rate which I recognize is just one component of the overall bill, that the rate goes down with increased usage. Is that correct?

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>> No, the rate is the same for every level of user, the rate is the same. >> Mayor Adler: So you don't pay by volume. >> You do pay by volume, but the rate is the same. >> Mayor Adler: The chart given to us isn't so correct in so far as it suggests the more you use, the rate changes. >> If you take -- because there is a fixed portion in the bill, if you take the total bill and divide by the -- by the amount of usage, then your sort of weighted average cost per volume will change as the bill goes up or down. Because a portion of what you are dividing into is fixed, right? >> Mayor Adler: Right. >> So if someone uses 10ccf at 12 cents, that's a buck 20 and there's a $18 customer charge. If you take the buck 20 and customer charge, add together and divide by the

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10 ccf, yes, you are going to get an implied cost per ccf that's quite high compared to a customer who had, say, used 30 at 12 cents and add that 360 to the 18 -- >> Mayor Adler: That's because the customer charge. >> It's because of that fixed customer charge that causes that. So if you are looking at the -- >>

Mayor Adler: I think I understand. >> -- The average cost of the total bill on a per ccf basis, that chart is right. But the conclusion that you should draw from that chart is not that customers pay more -- customers who use less pay more. >> Mayor Adler: I understand. >> Right. >> Mayor Adler: And as I recall, just by way of footnote because we went through this when we were doing the electric bills, some people make the assumption that the -- that there's a correlation between economic position and usage. And what we found with the

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electric bill is that was not the skies. That some of the lowest uses are really in some of the air tight places. >> There's a lot to think about about the customer charge and how much of the bill should be fixed, and different people do come to different conclusions on that. So we've spent, especially because of you guys' conversation about this, we've spent some time thinking about that. And our sister company in Oklahoma, and this kind of gets to your question about different states doing different things, our sister company in Oklahoma has a very successful residential rate design that actually offers customers a choice. They call it the ab rates. And the a rate is a lower

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customer charge and a higher volumetric rate, and the B rate is higher customer charge and lower volumetric. In Oklahoma I think it's a fixed customer charge and zero volumetric. So it's just a flat bill. And this has been in place there for 15 years and it works very well for them and the customers like it. And so we were going to propose that in our upcoming rate case. So the rates are designed so that the customer, we will -- we will do the calculations to put the customer on whichever rate design works best for them based on their average usage last year. But then the customer can choose. If the customer doesn't like whichever one our calculations show they are best served by, they can choose the other if they

[10:24:57 AM]

want. And they would have to make that choice once a year. They can't go back and forth, back and forth. But once a year, they can choose which of those rates they want to be on. So we would like to make that a proposal in our upcoming rate case and that would be something else for you all to think about as you consider all of this. Maybe one way to go at it since different people have different views on this rate design is to let people choose which they feel works best for them. So we hope that that will be responsive to those concerns and the customers will like it because they have choice. Any questions about that? Thoughts? >> Alter: Will you be providing us with those calculations so that we can see what that means in practice? >> Absolutely. >> Alter: As how much choice -- >> It will all be part of the rate case stuff when we file it. >> Alter: I'm just concerned because we have our next council meeting

[10:25:58 AM]

after you file is January 23rd and we only have until the 24th by the time limit you set out to respond. And so if there are any -- if there's any confusion or desire to pause and think more about it, I'm not sure how that plays out. >> Right. >> Alter: Given our schedule at the moment. >> Let me alay your concerns. Let's go to that last slide real quick. So our plan is to file on December 20th, and the city has 35 days to act. Which sounds alarming, but usually what the city does within that 35 days is they suspend implementation of the rates for an additional 90 days. So you don't have to make a decision in the 35 days. You can suspend implementation of the rates for 90° which most cities do. And I believe that Rhonda already has that on the agendas for January. >> Alter: Thank you.

[10:26:58 AM]

That helps. >> So then you've got 125 days by the time you add that 90, and that takes you to April 23rd. >> Alter: Okay. >> So just real quick, let me talk a little about the process for the rate case. The city council has the authority to approve the rate increases. We generally -- you all work through the office of telecommunications and regulatory affairs. Which is Ron Della Hawkins, and her office coordinates the review of the filing and gets a recommendation to you, gets information to you as it's needed. Her office works with the city manager and the city law department. And typically they will hire an outside attorney or outside consultants to help. They don't have to, but frequently they do. And they will -- we will work with all of that group of people to facilitate the review of the filing.

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And then the results of that review and recommendation will go to y'all for approval. And then as we said, the time line is by January 24th, you all need to take action to suspend implementation of the rates by April 23rd. You I don't will need to take final action. And that is all that we have. Any additional questions? Yes. >> Thanks. I had a question for Mr. Graham, just sort of an informational piece. Back on your slide, I think it was 9 where you were talking about regulatory jurisdiction in Texas, cities with original jurisdiction over rates, handle their own handle their own rate setting within the city limits and other folks are handled by the railroad commission and I was just curious, is that due to the number of customers in Texas or like the geographic coverage

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that Texas gas services has in Texas? Like is it different in Oklahoma or -- or is it just you had mentioned that is unique to Texas. >> I think it is historical accident is a lot of it. And Texas was later than a lot of states or later than many -- than some states to get a statewide commission for rates. >> Uh-huh. >> Texas utility commission. >> Uh-huh. Well, the railroad commission didn't used to set rates. >> Okay. >> It used to regulate the production and that sort of thing. >> Okay. >> The public utility commission that regulates rates for electric and -- they used to water, I am not sure they still do. They were formed in the seventies, so for many, many years when other states had utility commissions, Texas didn't, and so even the authority for electric rates was delegated to the cities. >> Okay. Is that maybe why it took so

[10:30:03 AM]

long for the rural parts of our state to get electrification, that was a big deal under lbj, right? >> Yes. It was. You know, I don't know about that. It could be. It could be if there had been a public utility commission they might have pushed more for electrification. >> Okay. That's really interesting. >> Yes. >> Thanks. >> Thank you, mayor, did you have a question? >> No. >> One of my colleagues just reminded me we are actually extending the requested effective date for our rates when we file, so we file on December 20th, and instead of 35 days 0 we are going to propose 48 days and the reason being is to get through the Christmas and new year's holiday, so actually you will have even an additional two weeks on top of the normal time that is set out in the statute. >> Thank you. So this is -- we are setting rates for a three-year period through this process, correct?

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>> Actually, for normal utility based rates they are good until the next time you set rates, which could be one year or it could be ten years. >> The last time we did it was three years ago. >> That's true. The last time we did it was three years ago. >> Okay. So one of the things that I am interested this is what opportunities there are for us to inject environmental concerns into this process. >> I am concerned about increasing our usage of natural gas through decisions that we are making some of which may fall in the rate process and some of which may fall outside of the rate process incentives and rebates and other things that we may do as a city. So can you tell me what opportunity we have to inject environmental concerns into how we are approaching this? >> I think that -- I think what

[10:32:10 AM]

will be best is for maybe Larry and I do visit with your office or with your staff and work out some times for you to tell us what it is you are looking for and what you would like, and you all are the decision makers and so you can bring those thoughts and concerns into your rate setting function, but beyond that we might even need a separate proceeding for some of your ideas and stuff. And you all have the power to start that proceeding if you want, but we also would be happy to work with you and to initiate a proceeding on some of these things that you are interested in. Okay. >> I think I would like to get that information on how we interject that stuff and maybe some information on what other jurisdictions have done. There is a lot of movement across many cities with respect

[10:33:11 AM]

to natural gas and we are still doing our homework on it and I don't know what is appropriate at this point in time, but I am concerned about how it intersects with some of our climate change goals. I don't have a preset, we should do X at this point, but I do want a better understanding of how we can leverage this opportunity to achieve some of our environmental goals in light of our climate emergency that we have. >> Right. And to the extent that setting the rates is part of that, that is absolutely a natural fit into this filing. >> Thank you. I appreciate that and I hope you guys can be a partner in our efforts with that. >> Great. >> Thank you. I think unless you have another question. >> No. >> Okay. Thank you very much. We are going to move on -- we are going to move on. >> Thank you very much. >> Thank you for being here. >> We will move on to item number 2, please. >> Which is follow-up to the annual pension update on the city's three retirement systems from the financial services department.

[10:34:13 AM]

>> Good morning. >> Good morning. Elaine hart chief financial officer, joining me is Belinda weaver and Ed vanino had to leave so he could attend the police retirement system meeting this morning. He will be sworn in as a trustee as my designee. .. We are here today, thank you, council members, to follow up from a September 26 presentation that we did, an annual pension update on the status of our three pension systems. Today we are going to do a recap of that. Just for background, for the audience and council, talk about the history of how past pension adjustments have come about, why they were needed and how the

[10:35:14 AM]

council staff recommended and how the council made them, the need for current pension adjustments for both the police system and the employee system. Recent experience of certain large Texas cities with respect to their pension systems, our recent legislation affecting local government pension systems and then talk a little bit about the city manager's 2020 initiative to address the long-term financial stability of our police and employee system. Turning to slide 3 -- turning to slide 3 you will see a recap of the three contributory defined benefit retirement systems. There is one for city employees, one for police officers, and a third for firefighters. We covered this material at the prior meeting, substantially all full time employees are covered

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by these systems, including cadets in the police department. Each is governed by an independent board of trustees that is administering the plan on behalf of the city, which is the sponsor, sponsoring agency for these. The employees have a five-year vesting period and police and firefight versus a ten year vesting period. And at the bottom of the page are the retirement eligibility requirements and you can see there that for the employee system we do have a two tier system, we have group a employees who were hired before January 1st, 2012 and we have group B for employees who were hired on or about January 1st of 2012 and they have a different benefits structure. The second slide really takes all of the numbers in the prior report and puts them on one-page for you. I would like to point out the kind of middle of the chart is

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the amortization period, all of these facts are from actuarial valuation reports as of December 31st of 2018 for each of the systems, for the employees, the amortization period is 32 years, for police it is inat this Mitt, which is a pension term that means that we don't know at this point when our assets will be sufficient to pay for the actuarial accrued liabilities and for fire fighters it is 17.9 years. These numbers change every year based on the actuarial valuation. And I would like to define unfunded actuarial liability, which is the uaal, if you take the actuarial accrued liability and subtract the actuarial value of the investments, that is the number, that is the uaal so that is how that is calculated. Towards the bottom of the screen, you see a comparison of the actuarial assumptions for each a system for inflation rate, which affects both the

[10:38:19 AM]

investment rate as well as the payroll growth rate, so you see inflation, payroll growth and the investment return, and at the bottom I just noted the last cost of living adjustment for each of these systems, 2002 was two and a half percent for the employee system, 2007 was a one percent cola for the police system and 2019 was a 2.3 percent cola for the firefighter system. So how did we get here? What was the need for the past pension adjustments? I am just going to kind of talk through story of this. This system was really over funded or at 100 percent funding all through about 2001 and if you will recall, in 2001, that is when the 9/11 attacks happened, a couple of years after that we had the dot-com bubble, and so if you take a break at that point investment

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income was really dropping off at that point. If you look at the bottom right-hand side, we had very high investment returns from 1995 through 1999. We had negative returns in 2002 through -- 2000 through 2002, which is about when the dot-com bubble started. If you take 1995 through 1999, that's a 90 percent increase in your investment balance. Negative 17 percent for the next three years. During that same time period when the fund was 100 percent or more funded, many benefit changes were adopted. The multiplier which is a factor that is in the calculation of your final retirement annuity increased from 2.3 percent in 1997 to three percent in 2002 for the group a employees. That's a 26 percent increase over that time period.

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So as we came into a period and came off of the period of very high investment incomes the benefit increases were -- had been applied retroactively and were active so when we have that switch to negative returns, those -- those benefits became much more expensive and the system actually ended up with an infinite amortization period and stayed there from 2002 through 2010. So that's kind of the backdrop, during that same time, based on our actuarial valuation of 1231, 2002 we enended up on the pension review watch list. So that's the backdrop, and how, over a period of time from really 2002 to 2010, the city addressed the funding issue and the pension adjustments for the employee system, midyear, mid fiscal year in may of 2005,

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staff approached the council with a proposed supplemental funding plan that was to bring amortization of the unfunded liability back into a 30-year amortization period. We recommended that we subsidize our city contribution level of eight percent over a period of time up to a maximum of 12 percent and this change was adopted by the council in may of 2005. In addition, the council changed the policy on future house of living adjustments for this system and they would be granted only in the future with the city's approval and with respect to the supplemental funding plan, no board or legislative action was taken. It was only action taken by the city council. So between the dot-com bust and the great recession we never really saw investment returns returning to those -- not

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consistently to the double-digit positive increases. So by the middle of calendar year 2010 we started realizing -- well, actually right after the work began right after the great recession on the next supplemental funding plan and the work continued for about 18 months. So with the budget that was adopted for fiscal 11 -- '11 in 2010, the council amended the supplemental funding plan, replacing the old one and increased .. The subsidy to a maximum of 18 percent over a period of time. All three systems in 2008 had double digit negative returns on their investments, so by 2010, this was really needed at the same time, with this change, the council approved a new benefit tier or the group B tier for the

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retirement, employee retirement system and that required both the approval -- the approval of the board of trustees, the city council and the 2011 Texas legislature, house bill 30, 33 was with taken to the legislature in 2011 and it was passed and the new tier has been in place since then. No changes were recommended at the time for the other two systems since they were in a better financial position. The chart at the bottom of this slide shows you how those supplemental systems worked. The first one increased starting from the base of eight percent contributions. The first plan added one percent to contributions each year until 2010, and the second plan added a two percent over the next three years to get us to the 18 percent. Again, this was designed to amortize the unfunded actuarial accrued liability over a 30-year

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period. Here is where we are today. Our 2018 actuarial valuation for cores or the employee system, the amortization period grew from 30 years to 32 years. We are -- we have an experienced study underguy see if our actual experience, how that differs from our assumptions. We expect that new assumption recommendations for more conservative assumptions will -- especially with our investment income rate. So we are expecting a lowering of the inflation rate, which affects the investment return the payroll growth assumption which is currently at four percent for the employee system. All of those, if you reduce the -- will increase the amortization period. So the experience study will likely be finished in December, subsequent to that, the board of

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the employee trustees will make a decision about assumptions. Once those assumption changes are made, which we are fully expecting, the actuarial report for this calendar year will be received in probably February to April time frame, and that will reflect the new assumptions and then we will Mota point, we will know at that point what the reality is that we are dealing with .. We expect that the funding period could increase to as high as 50 years, which is considered infinite by the Texas pension review board. I have listed the current assumptions you will see the investment assumption -- the investment return assumption investigate seven and a half which is higher than the fire fighters and currently the police is using a 7.25, 7 and a quarter percent -- in addition,

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we need to look at a pension adjustment for our police retirement system. It is a little bit ahead of our employee system in this process. They have already completed the experience study. They completed that earlier in the year. They adopted the trustees adopted more conservative assumptions which is a good thing, in may of 2019, lowering many of those assumptions that would affect the amortization period. The ones that had the most impact on the amortization period were first the reduction of the investment return rate from 7.7 to 7.25, the second that had the most impact was the use of a mortality table that reflected longer life spans, and then the third was the payroll growth change. The actuarial valtion based on

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these new assumptions was delivered to the city -- to the trustees in mid July, and it decreased the funded ratio from six-point -- 65.8 percent to 58 percent. And again, 100 percent is fully funded. It also increased the amortization period from 35 years to infinite. So based on those results and the guidelines that cover local pension systems we have reported our actuarial valuation report to the Texas pension review board. If we have these kinds of results with infinite funding periods for three consecutive reports, then we will automatically have to prepare a restoration plan and provide that to the -- and that is a plan that is prepared by the

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system and its sponsor and that is filed with the Texas pension review board and it has to provide getting your amortization period below 0, at or below the 40 years within the next ten years. And so you will be on -- you will be on a watch list and be on regular reporting to the state for oversight. >> Just some high level information. I won't cover this but the amortization period and the funded ratio are two key, two key metrics for these pension systems. This is data from the Texas pension review board. It is dated as of 2017 so it is a little bit old but I wanted you to have it so you could see how we compare to some of the large Texas systems. San Antonio employee system is -- they participate in a

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statewide system and the Texas municipal retirement system so their employee system is not on this list. And the only other comment I want to make here is that although the restoration plan needs to bring you back within 40 years, the pension review board guidelines prefer a 10 to 25 year funding period. And again, this is just information so you can compare funded ratios among the big cities. I talk a little bit about dallas-fort worth and Houston and their experience. I am not covering all of their pension systems. I am just highlighting I think ones that you probably heard about. Dallas has two pension systems. They have an employee retirement system. They also have tier a and tier B like we do, and then they have a combined police and fire pension system. Here I am covering the combined police and fire system.

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They are subject to a funding soundness restoration plan that was triggered at the beginning of 2017 due to a 44 year amortization period. They have a ten year time to implement this plan so their goal year is 2017. And as of -- excuse me -- this summer the system is working towards that 40 year -- 40 year goal. Just to kind of tell you over time what happened in Dallas, the Dallas -- and this is not on the slide, but the employee system for Dallas as early as 2014, they were doing their experience study, and based upon that they reduced assumptions. Two years later in 2016 they reduced assumptions again that

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affected their two key performance goals. And between the first assumption change and the second, they had a vote in November of 2016, their voters actually have to approve changes to their pension system because it is written in their city code, so they had a positive vote of their citizens that allowed for the establishment of their tier B in 2016. Subsequent to that in early 2017, both Fitch rating and moody's downgraded the debt rating of Dallas's go, general obligation bonds due to its over funded -- underfunded Fitch obligations. At that same time, what was occurring in the police system, there had been rumors the police system was running out of assets and there was a panic among the police and fire pension contributors or the members. And so if you look at the

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topograph and you see that blue line which is distributions, you see the in 2016 it goes off the chart. You may not be able to read the number but that tall 20 -- well, that tall blue line shows you the difference in the distributions from the pension system that year. And during that year, police officers and firefighters made one time withdrawals from the pension assets amounting to about half a billion dollars, $500 million which created a significant liquidity problem for the police system. As a result of all of that activity between these two systems, in 2017 the legislature passed house bill 3158, and so this was really coming on the heels of all of these publicly -- public problems that Dallas had been having. So the bill reormd this system, the police and fire system, the

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belief was that tier B was fixing the employee system, so this bill actually focused just on the system here and it had been underfunded in 2014 and 2015. But anyway, the legislature actually amended their benefits structure, their contribution structure and their governance structure. They now have seven years to kind of right the system and there will be a stress test of this system in seven years, and if the numbers are not better, then additional reductions would be made. So her still under the oversight of the legislature for this system. Fosht worth was in a little bit of a better position, not necessarily financially, but their solution was easier because they have a seasonal that covers all employees. They only had one system that they were working on. Again, they were on the watch

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list. They had a restoration plan in place that the trigger date on it was December 31 of 2016, so this was going on at the same time the Dallas pension issues were going on. And the system was working back toward -- they are working back toward a 40 year amortization -- excuse me. Their goal year is 2026. But they got the option via legislation, house bill, in 2015 they began working with the legislature and 2015 house bill -- I am missing a number there. Anyway there is a house bill, it is on the other slide that allowed Fort Worth to work out their own plan. So that legislature didn't implode -- impose a solution on them, they allowed the city of Fort Worth to work on their own plan. So from that time on, they

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worked, the council, the pension board, the staff, worked towards a solution and in December of 18, just last year, the council approved increasing both city and employee contributions eliminating the service credit for future accruals of sick leave. That is future accruals of sick cannot be converted to service time and also made changes to their cola provisions. This required a vote of the employees of the city of fort Worth and that vote took place in February of 2019. It wasn't a successful vote and contribution increases started in July of 2019. [It was a successful vote] So they had .. A much prefer solution. The employee increases varied between the employees, police and fire, fire were staggered over a two-year period but generally they increased from one to percent percent of the employees. And the city contribution was

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increased by four and a half percent. The city of Houston also has legislation that I won't say was imposed on them but it was a negotiation. Their mayor was leading the charge, apparently, when he came in -- Houston has had pension funding issues since 2001 like many systems, when the mayor came into office there was an $8 billion unfunded accrued liability that they began addressing in 2016 and 2017. And again, this was negotiated, but there was a bill passed in 2017, senate bill 2190 that covered all three of Houston 0's retirement systems, and it reformed the benefits structure for them it included the benefit restructuring actually reduced

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the unfunded liabilities by 3 billion from the employee side, what the city side put in was a billion dollars of pension obligation bonds so the 8 billion roughly was reduced by 4 billion and they did fix an amortization of 30 years, so now the contributions will vary from time to time based on what it takes to achieve 30 years, and there is a risk sharing program between the city and the employees, so the city doesn't have to make the full needed increase. Again, that was negotiated at the legislature. >> The next two slides just cover some important legislation passed -- well, since 2008 it does have the correct bill number for po Fort Worth. I want to point out from this,

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and I don't cover all of 0 this but what is highlighted in red -- I am sorry. This is the additional oversight that has been placed on local pension systems, in 2008, they added the requirement that city should conduct an actuarial audit every five years. In 2015, they are now requiring from that time an actuarial experience study, once every five years, that bill also established the funding soundness restoration plans and the process for that, that also covered Fort Worth, then the next two bills cover the city of Dallas and city of Houston retirement systems. And this last legislature, they did also add a requirement that the public retirement systems except for statewide systems will have an independent firm evaluate their investment practices and performance and

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outlines the requirements for that, and then in addition they are requiring that public retirement systems adopt a funding policy that outlines a plan for getting to 100 percent funding and that is supposed to be filed by January 1st of 2020 and all three of our pension systems are expecting to file that with the state. And lastly, as you know, we have talked a number of times about our initiative to address the financial stability of our pension systems. We are working closely with our partners and boards of the pension system, the executive directors, they were both here, I think, Patty, the police system has a meeting at noon and so she had to leave, but I wanted to be here. Oh. Sorry. Good. Patty Featherston for the police system and Chris Hanson is here. He is the executive director for

[11:00:50 AM]

the employee system. I appreciate their assistance on this powerpoint and their support in this process. We did put funding in our current year budget for consultants we have engaged them through amendment of a contract. They are currently working on identifying some options for us, certainly looking at dallas-fort worth Houston, what they did with their systems. We will gain some ideas from there, and once we have the optionsly begin working with either the benefits committee for actuarial committee of the pension systems as well as their executive directors on way we want to tack until terms of a recommendation back to council. We will also have, identify a multidepartment team that will include financial services, law, human resources, the labor relations department in the event we have to open any contracts, as well as representatives of some large departments that have both low

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wage employees and high wage employees, a range of employees. And then there will be a time period where we seek input from stakeholders, including retirees, taxpayers, our own employee unions and others who may be interested in this issue. But I appreciate your time and I think I kind of ran through that, but I think it is important to look at what happened in some of the other cities, staff position as well as the executive directors as we want to solve our own problem and not ask the legislature to solve it for us. And so we are very serious about identifying some options that we can bring back. We appreciate the interest of this committee and we will come back with future updates, any ideas you have or anything that you would like us to look into, we would be glad to hear from you, but again we appreciate

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your support and are ready for questions. >> Thank you, Ms. Hart. I wanted to just clarify one thing in the presentation. I am having a system problem today. I wanted to clarify one thing in the presentation with respect to the response for the funding policy that is due January 21st of 2020. So we also received a letter from aprs saying they were preparing that and there was a vote happening that the retirement system, before then can you tell us a little bit about what the city's role is in that letter and what actions we have to take as a city in advance of that being submitted by the pension system and how detailed or set in stone that kind of response might be? I know it is a new retirement, so it could be anything, but I

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am just trying to understand that timing and it not really finishing us with our finishing our due diligence in finding the best way forward with the stakeholders. My understanding is that it is a pension system funding policy, so it may not require anything from us, but help me if I am wrong. I know the employee system has had a funding policy for a while and they will have to probably tweak that a little bit to get it in line with the state requirement but I don't know, I don't believe that we have a role in it, it is something we are with expecting from our police fire and ems systems. It is very likely a letter that they will send to us. >> So is that more like a financial policy than like how we are going to fix the system? >> It is. It is. >> It is not the plan to fix the system? It is just a policy that governs the choices that they are making? >> That's my understanding.

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>> Is there anything you want to add to that or is that correct? >> I think that's very accurate. The bill as written is very vague, no particulars. The pension review board has attempted to provide some guidelines of what best practice funding policy should include. Ours has not been drafted yet and presented to our board. We anticipate doing that at their mid December meeting, and I think Elaine described it correctly that when the board approves it we would send it over to the city. We would welcome any input though from the city and that is what I have conveyed. If there are ideas, but it is going to be pretty broad. Clearly we don't have the answers of how we are going to solve our dilemma so it is going to be very broad policy statements about goals to get there. >> Thank you. >> Appreciate that. And so as I am understanding the conclusion from this briefing is we have a team at the city as well as consultants who are on board to come up with the options that then will be considered by all of the

[11:05:57 AM]

stakeholders, in the council, included and what is the timetable for when we might expect some of those options to come back? >> We are looking at hopefully having something at least no later than April, but understand we have to get the options, go through them as staff, see on our financial side what that would do for us but then also get with the pension systems and start working with them to see -- see if they are amenable to some of those options or not. I know that having been on the police a trustee on the police board there are some options that the board itself can take that don't require legislative approval so we will want them to come to the table with those things as well, so we do have some collaborative work we need to work through in the next few months. Understand the last time we did this, the city was in the driver's seat and took all responsibility, but it still took 18 months to come up with a

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solution. I don't think we can wait that long and we are not -- neither side is wanting to take that long because that would put us I think this the direct eyes of the legislature and we would like -- >> I imagine there are scenarios we are facing in options and there may be some things that we as a group as stakeholders must agree we will want to do and will need legislative approval to take those steps. >> And we won't have actuarial reports for the employee system until probably late February or March, so that -- the timing of when we get data is also a factor in some of that, the police is ahead of the employee system. And the employee system is the largest of our three systems by far. >> Great. Thank you. >> We have one other presentation so if there are no other comments at this time I will -- does anyone want to comment? Go ahead. >> Just very briefly I wanted to say that I am very interested in our next presentation, but speaking of police retirement we are starting at 11:30, so may

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not make it to the end of the presentation. I do have some questions that I will have to submit to staff between now and when it comes to -- I do have -- I the do have some concerns about elements we need to contemplate within this. >> I just want to make sure if Mr. Hanson who is the executive director of cores if he has anything he would like to offer or add, this would be an opportunity. If not that's cool too. >> Okay. Great. Thanks. Sure. >> Am I reading these two slides right? One that says that the senate bill that requires a funding ratio equal or greater to 100 percent, senate bill 2224, but earlier it says that the Texas pension review board prefers a ten to 25 year funding period which would be less than 100 percent funding, right? Because 100 percent funded would be zero funding period?

[11:08:59 AM]

Because it would be fully funded so is there a conflict between what pension review board says is a guideline and the senate bill that was recently passed? >> Yes. >> Thank you. [Laughter]. >> Okay. Before we do the report I want to point out we also have the social service contract. These are some big media items I am not saying we are pulling them up. I am just saying if we have agreement to go ahead and postpone the social service contract one -- from council member pool and seconded by the mayor, all in favor so we will do the pid now and postpone the social service contract. We may not be able to get through everything and if we need to we will bring it back but I think it is very important given what we are hearing that we begin to surface this in the public what is being considered. I think you have met with all of our staff and/or council members

[11:10:04 AM]

in advance, so I don't know if you have to go into every detail that is on your slides and I apologize for the timing. We have a lot of important stuff on our agenda today. Thank you. >> We are here to discuss the city of Austin revisions that are recommending. I am Brian Rivera deputy treasurer and joint with weaver -- treasurer -- Briseno -- and Nicole -- with economic development. We also have Stephanie -- with -- who is our bond council for any pid related transactions that come forward. >> So today's presentation is broken into three separate sections I am going to provide a brief over view of what action -- what a pit is. The types of pit that the city currently has, the revenue that supports these districts, and lastlily explain how we kind of arrived at the revised policy that we are here presented

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today, Melinda will walk through the policy revisions related to development pids and any goal is going to walk through policy related to the maintenance and operate pids. >> So a pit is an economic development tool to 0 provide supplemental services in defined geographic area. State statute allows for both a city and cocounty the create these special districts and the creation of this -- of a district can only be considered by council once a formal submission is presented to the city clerk which encompasses signatures from 50 percent or more of the owners among that defined geographic area. So the source source of revenue that it is paid by the property owners within the define geographic area. It is important to note the assessments levied against the properties are in addition to ad valorem taxes and the county

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rates, so on and so forth. It is assessments do have a defined period of time with the developed pids, that the defined period of time is associated the special assessment revenue bonds that are issued by that particular district. And then with the maintenance and operation pid the annual assessment is levied basically on an annual basis. And lastly, one important thing to note is that these special assessments do operate in the same manner of property tax when it comes to delinquency so foreclosure is an avenue that the city could be faced with to recoup any delinquent special assessments. >> At the time petition there is typically on one or a couple of -- more often than not it is proposing a particular

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development on, and the special assessment that are levied against this particular property are the revenue that support the special assessment revenue bonds that are issued by these districts. The debt is used to pay for the capital infrastructure that is going to support the defined yes graphic area. Next we have the maintenance and operation pids so when these petitions are brought forward, 0 to perform these particular districts it is to develop land so there are multiple property owners that have to sign on for this particular petition for a district to be created and the special assessments go to pay for ongoing services that supplement city services within that defined geographic area. I know there are a lot of words on this slide. This is just kind of a brief overview of the various council action items that would be

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brought forward in relation to each public improv district. Some of the items do occur occasionally whereas some are annual items that have to be brought forward so if thecally obviously the council would approve the creation of a particular district the assessment read for a develop pid is tied to the special assessment revenue bonds so that rate is typically brought forward before the special assessment revenue bonds are issued by a development pid and with the maintenance and operate pid this estimate rate is brought forward to council on an annual basis, along with setting the assessment rate, city council will have to set and conduct public hearings related to levying the assessment. And lastly, there is a service and assessment plan that is brought forward to council to kind of give a brief overview of what is going on in that particular district and what services are planned to be unsupplemented so that is kind of a brief overview of what we

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would be bringing forth related to each district. Mid the fact that the time on development pids were fairly new to the city of Boston Austin and limited exposure to them. Staff kind of identified a need to go ahead and revise our policy. There is a lot of lessons learned along the way with creating and authorizing the development pids and issuing the bonds, and there is also been best practices implement bid various counties and cities throughout the state of Texas. So at the beginning of this year, there was a pid review committee or pid policy working group that was convened with multiple departments on that particular -- on that particular working group to kind of revise the policy one of the things we did do was review other Texas county and city pid policies to

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gauge items that we preferred and items we didn't really think pertained to the city of Austin we engaged external stakeholders so on the development steak side we met with with the development council to see what they would like to see in our revised policy and on the may not fans and operations side there was meetings held with the management entities that oversee the current maintenance and operation pids and also an internal stakeholders that we met with, city management, council members, mayor, and then like I said there was a cross departmental collaboration effort, all of the departments listed on this slide were represented in some form or fashion in the pid policy working group. One thing to note is that these same departments will make up that pid review committee that is going to be talked about in a few slides, so I thought that the same working group would kind of be held together moving forward. There is what I --

[11:17:12 AM]

>> To interrupt could ski a quick question. >> Yes. >> Did you say there are council members who are part of the working group? >> No. I said we met with -- we met with city management and council members to kind of get their take on the policy revisions that we were going to be providing. >> Can you remind me what time period those conversations happened? >> Council member meetings took place over the course of last week, I want to say. >> I am sorry. I thought that was -- I thought you were suggesting the meetings happened during kind of a -- >> No, no. It was just relatively soon, yes. >> Okay. So that's my portion of the presentation. I am going to hand it over to Belinda and go over the development pids. >> Thank you, good morning. As he stated there are two distinct public improvement districts that have been created by the city. They are the development,, what we are referring to as development or capital pids along with the operation that will pids and although they are governed by the same statute

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they are functionally and operationally very different, so we did think it was west to, best to have it within the same policy but have them separated within the policy in their own separate sections so I will be going through the development public improvement district section of the policy, and we will not be discussing the policy in its entirety. It is almost 30 pages long, it will still be a high level overview highlighting areas we believe are important and throughout the policy. And one thing I did want to note within the development public improvement district policy section it is primarily surrounding creation of the development pids, so the process is requirements going into creation is what we will be discussing mainly. The first area I would like to discuss is the minimum requirement section of the policy, and these requirements are necessary to be met for pid petitioners to be considered for creation of the pid.

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The first one notated is a fairly intuitive that they meet all requirements of statutes. The next one is that the development pids will not overlap the boundaries of another development pid. This is fry mairl due to the complexity that would be associated with the assessment methodology and apportionment if we had two development pids on the same parcel of land. Next we have that the developmen shall be located in the cities full purpose jurisdiction. The primary motivator for this was the 2017 legislative senate bill six that now requires voter authorization for annexation so if there is a pid petitioner coming forward that is looking for creation of a pid in the city's etj we will be asking that they be annexed prior to creation of the pid. The next couple of bullet points, just improvements shall be superior to the city's

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development standards, that is expected for any public improvement district. We do also notate that they shall promote development in accordance with the city's comprehensive plan, and the city's comprehensive plan that is defined within the pid policy itself is all-encompassing any approved plan by city council so that would be anything from I imagine Austin to the strategic direction or strategic mobility plan. And then finally Austin water shall be the water and wastewater and utility provider for the public improvement district. We do also have another minimum requirement that the development pid confer special benefits on the property within the pid. This special benefit section is in addition to those required by statutes, and we have intentionally left them broad in nature so as to allow for flexibility P for the pid petition to propose benefits targeted for those designated

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areas and also allow for collaboration with the city on those special benefits. We do have a requirement within the policy that the special benefit that there will be multiple special benefits, excuse me, included in with the pid petition that is submitted to the city so these examples, they are all listed here are to generate primary employment, affordable housing opportunities, enhanced parks. Oh, yes. [Off mic] >> So I just wanted to point out that it is my understanding that those are covered in the development pid but not in the -- are they covered in the -- in both types of pids or just development? >> We do have special benefits listed here for both the development pids as well as the M and O pids and I think -- will

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address those. >> This slide is actually mirroring what we are suggesting for the M and O pids as well. >> Okay. So transient and anti-modal would be covered under -- >> Absolutely. >> Thank you. > >> So next is notice and disclosure and this notice and disclosure are required notifications and disclosures to property owners, essentially informing them that their property is located within the public improvement -- a public improvement district. Certain information on here like the landowner agreements are by statute but we have additional requirements here, conveyance of property requirements when it is sold from one property owner to the next, along with signage requirements at the main entries and exits of pid boundaries, promotional materials for if there are new home construction or new commercial property sales, that would be applicable if there is a property owner's

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association we are requiring that annual disclosure of the pid and financial obligations be included in that as well. The reporting and transparency section of the development pid portion of the policy .. Is in relation to reporting transparency for property owners, bondholders as well as city council, for all bond transactions a continuing disclosure agreement is required to be entered into, and required disclosure of information by both the city as well as the landowner. These disclosure requirements do vary by bond issuance but there are quarterly and -- requirements associated with that. And then I do have listed our service and assessment plan update that Brian discussed earlier. This is brought to council annually and it is approved by resolution by city council. It essentially provides project level construction status updates, the status of block

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sales, just essentially developments for this abandon improvement district. >> For this public improvement district .. The financial requirement portions for the development pid section of the policy, mainly surrounds bond issuance, since we do issue bonds for these development pids. The first financial requirement that we have is that city's pull faith, credit and taxing power will not be pledged to the bonds. Only special assessments levied on the property or pledged to the bonds -- and I do want to make clear, though, that these are city of Austin issued bonds, so although our full faith and credit and taxing power is not pledged to the bonds, the bonds are issued and in the name of the city. We do require a minimum of three to one appraised value, the lien ratio on the land and that is essentially because the value of the land is the backstop on the bonds, if it doesn't occur so if for some reason development does not occur we would at the city

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sell the land and then make those bonds holders whole. We have a maximum maturity on the bond for 20 years so the city has a financial policy for our general obligation bonds that have a maximum of 20 year maturity on those bonds, and the majority of the improvements that will be going into these public improvement districts we would generally issue general obligation bonds for. So we felt like those maturities should be in line. And then we do have or propose a minimum amount of each bond issuance of 7.5 million, that is strictly due to the extensive amount of work and costs that go into each of these bond transactions. And the final item I have listed here is the maximum assessment limitation. And this is essentially just an affordability aspect to limit the tax burden on the property owner, and our maximum assessment limitation is twofold. The first is that the annual pid

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installment and ad valorem tax burden will not exceed $3 -- on the property. And the second requirement is that in no circumstance shall it exceed the city's equivalent tax rate at the time to the assessments are levied. >> Brian touched on the pid review committee a moment ago as far as composition. The pid review committee will be convened upon pid notification to the city as well as pid petition. I do want to highlight that with the pid petition the pid -- the pid review committee's roles rules will be for verification and compliance of the city's pid policy as well as statute, and then they will be advising city council on the merits and considerations of the creation of the pid as well as make a recommendation on that creation. And then the final section I would like to cover is pids established by a county. There is a requirement in statute that a county may establish a pid unless within 30

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days of the county action to approve the district, a -- object to its creation, so there is only for those pid that is being created by the county that are in our etj or full -- jurisdiction. If there is no action taken by city council then those -- those county pids are created, if there is council action to object then that creation is stopped. The first two points we have here are just notification of the county a's intent on creating these pids within our etj as well as full purpose jurisdiction, and then the final point I have is that we are proposing an interlocal agreement to be entered into by both the county and city prior to the city undertaking work on behalf of the pid, and this interlocal agreement will list the roles and responsibilities of the county and the city as well as applicable fees to be paid to the city for anticipated work on the pid.

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So currently the practice right now is that the county, when they are looking to create a pid they do involve city stakeholders, they invite us to multiple meetings, they provide us documentation to review. However, the time of the city -- the time that the city spends on the county created pid is not reimbursed whereas the county's time is reimbursed by the pid petitioner. So we are requesting that as part of the interlocal agreement that applicable fees relating to payments for city working on the pid be included. And the final point I have is that we are proposing if an interlocal agreement is not entered into prior to the 0 county's pid creation that city staff will recommend objection to creation of the pid >> And now I will pass it over to Nicole to go over the maintenance and operation. >> Thank you, Nicole with

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economic development department. So Belinda covered the minimum requirements for the development pids. Many of these are duplicated in the minimum requirements for maintenance and operation pids. A thing to note as Brian noted there was a policy in 2008, that particur policy is specific to development pids and this would be the first policy specific to maintenance and operation pids. Outline goal throughout the creation of these policy items is really to increase transparency, disclosure, consist cyst and in equities among the pids, current and in the future as well as we looked at best practices and lessons learned within Texas communities and beyond. Looking at minimum requirements, some of these mirror the ones that Belinda mentioned for the development pids. The ones I will call out here, we have made a recommendation to not overlap the boundaries of another M and O pids. We have a current M and O

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pid within the boundaries of downtown. We also have the sixth street pid. In this case one pid values assessment on properties under 500,000, while another pid values the assessment above 500,000. In the future we look at this to be kind of administratively burdensome as well as in this case they do off set by having that $500,000 cap, but in the future if one were to overlook without that cap we look at this as an afordabilitying challenge as well as chances to cohesive for a particular area. We're looking at adding a recommendation to be self-sustaining and not have the city incur any costs coming from the pid. This will allow the city not to hold on to the obligation of doing maintenance on improvements that a pid puts into place. Financing improvements are services outside the pid geographic boundary, a new recommendation.

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We are supportive of this occurring as long as it's in line with the statute legal requirements as well as making sure that city council knows that this is an expense that will be part of the annual assessment. City-owned property within our pid boundaries will not be subject to M and O assessments. Currently we do have city-owned properties in all three of the pids and there is a fee in lieu of assessment that is allocated for some of these properties. Going forward we would recommend that we would not provide any sort of fee in lieu of assessment for those city properties. For properties that are county or state, we are open to those pid entities, also working with those other governmental entities looking at an interlocal agreement for any sort of pid assessments on those particular properties. Our improvements that are funded through the special revenues, we are asking through a recommendation that those be fully funded within five years. The state statute is set up

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so that annually a pid is to identify the improvements that are needed, estimate the cost and then determine the assessment rate. We understand that sometimes projects can be of larger magnitude and also require funding for years in advance, but to ensure good stewardship of funding and the additional tax we would recommend that those projects be projected out within that five-year period and be completed within that five-year period. Belinda covered the special benefits for development pids. These actually are the same -- it's the same slide and mirror the special benefits that we would be requesting for maintenance and operation pids and is inclusive of the multimodal notation that we talked about earlier. Notice and disclosure, again very similar to our development pids. This is just ensuring that the properties that are being taxed in these areas are well aware of what the improvements are, what that tax is.

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We get several calls weekly about what is this pid tax on my tax bill. Both entities through our one on one conversations agreed that we both could be doing a better job making sure folks have a landing page on a website or there was ways to disclose this through property ownership transition, so this is a recommendation that we would continue to support that's also in line with state statute. So for reporting and transparency, currently the city of Austin requires our pids post-creation to come back for reauthorization period. This reauthorization is either at a five-year basis or at a ten-year basis. We are recommending that this reauthorization be removed. The current reauthorization process requires our pids to go back out to all property owners within a pid geographic area and secure 50% of signatures. In lieu of doing that reauthorization, what we are suggesting is at the point

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of creation, you would still follow the standard procedure of creating a five-year service plan. But we would ask that you come back in at that five-year increment. We also go through the annual process where council does review what improvements will be adopted through the annual service and assessment plan, but this would be in addition at that five-year period of time where then you could -- we could reevaluate the contract. The city of Austin does not entertain indefinite contracts so this also would keep us in line with our purchasing items that we need to keep track of. So at the five-year period we would do a five-year projection of revenue. This would also give us a chance to look at how revenues are increasing based on pid assessment value for year to year. Additionally, we are looking at the maintenance contract to be updated at that five-year period of time. Expansions would still continue to require a petition so any new properties that would be

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added into a pids existing boundaries, if it was a single property it would require a petition with that person's or that property's signature, but if it was for multiple properties, this would have to secure that 50% of the new properties within that particular area. So our financial requirements on this end, this is for transparency and disclosure component as well as honoring the statute requirements of making sure that we are identifying improvements, then identifying the cost, and then setting the assessment rate. So the financial requirements now have mainly been managed through our management contracts but have been inconsistent over time. Right now we are seeing an uptick in refunds and delinquencies. People are protesting their property taxes. So in the past we've had several pids that have not completed a 100% collection, so we are recommending that the city reserves the right

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to be able to retain a reserve fund up to 15% to account for those refunds and delinquencies. When the pids come in and let's say they want a million dollars, if we only collect 800,000, we will have a shortage, so this reserve fund will allow to account for that. Currently within our pids most of the operating pids are collecting at 90% and above, but we are seeing an uptick again in those property protests. From a pid management perspective, this would account for contractual obligation should a pid dissolve. Anything greater than that would be subject to city council approval. You all look at the annual service and assessment plan so this would be an opportunity to bring those pids forward as a greater dollar amount than the three month to one quarter. The annual pid assessment

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total shall be expended in totality. We are regularring we align with state statute and annually if there are expenditures that are going to exceed that one or that one-year period of time, that we just note this and it's subject to city council approval and noted in the annual service plan -- service and assessment plan. The assessment rate currently can be adjusted per city council approval and this would also be done during the annual process. And our additional recommendation here is that 25% of the annual special assessment revenue, plus any sort of government contributions, some of our pids do get a contribution from the city, would be capped for administrative fees. And this would be subject, again, and approved annually, so if a pid came in and they wanted to increase that administrative percentage, they could do that through the council adoption process at the annual assessment, service and assessment plan.

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We are currently charging our applicable fees so this is in line also with the development pids. And that has been in effect for about two years. We are suggesting through recommendation that our method of assessment not exceed 20 cents per 100. Currently all pids are below the 20% treasure hold that we are recommending. And the last recommendation we have under financial requirements is that when a pid is created, that the assessment value is equal or greater than 500,000. In the past we've had pids that have not been able to generate enough revenue to actually institute improvements that the statute wants. So this would allow us to set that threshold to bring in pids that have the financial wherewithal to be able to do specific improvements they see fit for their geographic area. Our financial items that we listed before would require

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some key actions from city council. We would recommend that our sixth street and our south congress pids be able to continue to operate under that $500,000 value. Our south congress pid will reach above 500,000 assessment value in the next five years. We would also recommend that the sixth street pid and downtown pid continue an operations outside of our recommendation of no overlapping pid so we do not disrupt current operations of those two pids. If we go forward with removing the reauthorization of pids, this would legally require us to go back and amend current ordinances to adjust all of our M and O pid expiration dates. Currently we have expiration dates in each of those ordinance, or we would have to do a hybrid where we would ask those pids to go through current reauthorization one more time and adjust the ordinances at that time.

[11:40:38 AM]

>> Alter: Councilmember pool. >> Pool: Really quick and I'm going to ask this because councilmember tovo had to step away, as you know. She wanted me to please ask this question. And she asks the development pid does not appear to require those developments to comply with current code. And she asks why and then says pair Renteria anestheticly, this allows developments to develop under older code if they are grandfathered. If you could speak to that, thanks. >> So we are requiring that all of the development pids moving forward will be part of the full purpose jurisdiction of the city. So those codes that are in place for the pids moving forward would be under those requirements. If she's talking regarding city code or development code. >> Pool: Yeah, she just says current codes, so probably development. But I was looking, you have the grandfathering for the maintenance and operations pids. Is that also in the development pids? >> That is a recommendation

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that we have. We have development agreements and financing agreements in place for our three existing development pids, so it would be our recommendation to grandfather those three existing pids. >> Pool: Okay. All right. That just wasn't on one of the slides. Great. >> I would like to clarify if they are building any improvements that will ultimately become a city asset, they do have to build them to our specifications. >> Pool: Okay. >> So that may address her question also. >> Pool: Okay. Good. >> Alter: We don't have a whole lot of time for additional discussion today. I did want to encourage staff to make sure that you are -- now that you presented this earlier to the -- this week or last week to some of the stakeholders who actually operate our existing pids and I think it would be useful before this comes to council for you to circle back with them and now that they've had some time to digest it and react to see what some of those concerns might be. Because I know you've been

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really working hard to get this to be the right policy for us to improve our oversight and our accountability and make sure that we're getting benefits out of these and that the taxpayers' money is being spent well. But I would like to make sure that you have some additional conversations now that they've had a chance to digest and work with them before it comes to council, whatever the timetable ends up being for that to happen. Thank you. Is there anything else that we need to conduct today? Terms of our business? >> I don't believe so. We have the items at future meetings, but I think that's just the item you postponed today, plus items that we expect to come in the next -- >> Alter: Thank you. With that, we'll adjourn the audit and finance committee at 11:43. Thank you very much.