Audit and Finance Committee Meeting Transcript – 10/21/2020

Please note that the following transcript is for reference purposes and does not constitute the official record of actions taken during the meeting. For the official record of actions of the meeting, please refer to the Approved Minutes.

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>> Alter: Maybe we can go ahead and if they are not on at the point we start the audit, we can after we hear from the auditor in the department. Will that work for you? >> Just -- yeah, just call for them at that time and I'll let you know if they are here or not. >> Alter: Okay. Thank you. Other folks can help me remember that. Good morning. My name is Alison alter. I chair the audit and finance committee. It is 9:31 on October 21. I'm going to call this order together. Together with me are councilmembers tovo, pool and Flannigan. Good morning, everyone. Our first item of business is approval of the minutes. Can I get a motion to approve the minutes? Motion by councilmember pool. Seconded by councilmember Flannigan. Without objection, those minutes will be approved. Great. Thank you.

[9:32:44 AM]

Our next order of business is the code repeat offender program audit. We have two speakers. I understand they are still not on the line. Is that correct? >> That is correct. I'm still waiting for them. >> Alter: Okay, great. I think we'll go ahead, Ms. Stokes, with the code repeat offender program audit and we can rope those speakers in as soon as they come in and if they are still planning to come on and we can wait to vote until after the next items. >> This is the code repeat offender audit. It was led and managed by Katie Houston. Andrew kegan was involved, but he left us and Katie is going to present today. If she can unmute. >> I think I'm unmuted, but

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I think we have slides also. >> Oh, yes, we do have slides. And I see that our representatives from management have been able to join us also, which is great. There's our slides. >> Great. Good morning, everyone. You can go to the next slide here. Austin's repeat offender program aims to ensure Austin renters are living in healthy and safe properties. It was created in 2013 partially in response to some structural failures at multi-family housing. Properties are required to register with the repeat offender program. I think we're on the next slide. When they meet certain criteria, which is essentially a certain number of code violations have been noted. If the property owner fails to fix violations in the time allotted, the code department can escalate enforcement using one or more of the escalation tools

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listed on the slide, suspension, administrative hearing, taking a case to district court or submitting it to the building and standards commission. Next slide, please. Overall we found the repeat offender program has not consistently achieved the desired goal of ensuring Austin renters are living in properties that meet minimum health and safety standards. And that's partly due to Austin code not escalating their enforcement efforts. We looked at the most frequent repeat offender properties and found 10 represent 5% of the program registrants but over 30% of noted violations. In details relating to enforcement is here on the slide in this colorful depiction here. Of these ten properties, three had no escalated enforcement and four had June one action. That's a suspension, admin hearing and so on. This is especially

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concerning as many of these properties have been in the program several years. Four have been in the program since its inception. Next slide, please. Escalating enforcement for frequent repeat offender properties is important but may not be the only solution. Incentive I'veing action may lead to improved and safer housing in Austin. Here are some examples incentives cities can offer landords to encourage them to address code violations and improve property conditions. It essentially boils down to improving access to city resource and tenants, providing training or direct and indirect financial assistance. We think these are a good idea because an incentive program could be a way to get landords to voluntarily offer tenant protections, making renters third-party beneficiaries of good landlord agreements between the city and property owners. Lastly, it's important to note as we discussed this

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finding that enforcing the city's repeat offender program ordinance is a balancing act given Austin's competitive housing market. Properties that deteriorate and develop code violations are often less expensive to rent. And because of that many of the tenants of the repeat offender program properties are low-income and especially vulnerable to displacement. Next slide, please. Secondly, we found that the process used to identify program eligible properties is inefficient. It does not always result in eligible properties becoming part of the program when they should. You can see in the graphic here on the right that this is the criteria property needs to meet to get into the program. But in order for code to confirm the property meets this criteria, the department has to check a number of sources and systems and perform a series of manul reviews for each potential registrant individually. There isn't an automated way to conduct all these verifications and to confirm

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all the related data sources are accurate and up to date. Code staff indicated that they had improved this process and automated some of these checks so it should be more efficient going forward. In addition to the process limitations, the repeat offender name may be contributing to properties not entering the program when they should. We heard from external stakeholders that the term repeat offender often used to describe people in the criminal justice system, may make renters and tenant advocates less likely to report complaints about rental properties and that's really the starting point for a property getting into the program. And that's an issue if even the name is functioning as an impediment achieving objectives. For our last finding we found large properties take significantly more time and resources to inspect, issue violation and escalate through the various enforcement mechanisms when administered compared to smaller properties. For example, a 500-unit

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apartment complex the typically inspected once per year and it takes one to two weeks to do the whole review, log the issues, send the notices of violations, so on. In the inspection for smaller properties is essentially the same in terms of the property elements the code staff review, but these inspections don't take as much time due to reduced size. These reviews take about a day or two to complete according to code staff. Despite this all properties pay the same $372 annual fee for the program registration. Next slide, please. As we conduct our audit, we note two additional observations. First we attempted to identify peer programs that regulate rental properties based on complaints bike Austin does and found the Austin model to be an outlier. One notable exception is that most landlord regulatory programs that we identified require all property owners that rent properties to register with the city and pay a nominal

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fee. Because we couldn't identify a comparable complaint driven model like Austin's, we couldn't conduct Lee liable peer city analysis. Secondly, while completing the audit, we received a copy of an internal evaluation of Austin code which identified many of the same issues we detailed in our report. The results of this were communicated to code management in August 2019 and it was finalized in April of this year. Austin code appears to have taken some action in response to this report, but many issues remain unaddressed. Next slide, please. Last slide, I think. So in response to these findings, we made several recommendations to the director of the code department first to develop a voluntary landlord incentive program,en crease enforcement and escalate case and work with law department and city council to revise the ordinance. And if indeed the ordinance is revised, we more specifically recommended the city consider requiring full

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rental registration across the city, renaming Austin's repeat offender program, and proposing an alternate fee schedule that accurately reflects the greater enforcement costs we incur from larger properties. And we also recommended that Austin code work with ctm to streamline pro settings used to identify properties that may be program eligible and Austin code agreed with these recommendations and submitted an action plan that includes actions they are going to take to address these. That concludes my presentation and I'm happy to answer your questions. >> Alter: Thank you. I want to welcome mayor Adler to the virtual dais this morning. Good morning, mayor Adler. If you don't mind, I think Kathy did you want to -- councilmember tovo, did you want to ask questions right now or do you want to hear from the code department first? >> Tovo: That's fine. Hearing from the code -- whatever your -- hearing from the code department is fine.

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>> Alter: What I would like to do is have us hear from code department and if our speakers are online, then speakers can ask questions. If we can hear from the code department, please. Is the director here? >> Good morning, committee members. This is Jose Roy interim director for the code department. Daniel has been working with the auditor's office in this report. And we thank you, Kathy listen corrie, you've done a great job in this report. And we do agree with the findings. One of the things that we've been doing recently, we are escalating [indiscernible] Of the registration and it's been working fairly well with those properties and plan of action to deal with these situations. The internal evaluation that

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we had in the department actually kind of matches the findings on the audit report and came up with 48 recommendations for enhancements on efficiencies so we are rye prioritizing the low hanging fruit. Working with city to automate the system. Even if we do this, there's a lot of manual -- once we get that reporting it's going to help us out. We're also working with stakeholders and I know recommendation number 3 will take more time because we're going to have to sit down with the law department and the stakeholders and take a look at the ordinance and see what needs to be done to actually make this program an efficient program for the community. So we are in agreement and we propose an action plan to address the issues to actually make this program work. I don't know if Daniel is on

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the line. Maybe he wants to expand on that. >> Yes, I'm hear. Thank you, Jose. Thank you, mayor and committee members. I just want to thank the auditor's offers for the opportunity to work with them -- office and identify issues we can work on to improve outcomes for tenants in our communities. Our goal going forward will be to analyze everything we're doing in terms of procedures and policies internally and also engage our stakeholders to make sure that we can -- we can bring forward some recommendations as far as the ordinance is concerned to try to improve the efficiencies and ultimately improve the circumstances for tenants at some of these properties. >> Alter: Thank you >> Alter: Thank you. Ctm do we have our callers on the line? >> It looks like we have two users. Can I go ahead and verify who the user is with 512-223

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is. >> Paul kadero with Austin apartment satisfaction. >> And I have a 512-826. >> Lindsey Haynes. I'm also a number of the Austin apartment association and a local property manager. >> So we have both citizens on the line if you would like to call them up. >> Sure, good morning. Let's start with Mr. Kadero, please. You have three minutes. >> Good morning, mayor, members of council. This is Paul kadero with the Austin apartment association. To begin just let you know that we do agree with the spirit and intent of the repeat offender program and its focus on chronic property code violators. But the program has flaws as outlined in the audit evaluation and even the better one done by the Austin code department itself earlier this year or released earlier this year. We do support the professionals at Austin code. We do know that interim director Roy social working

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hard and his team social working to make improvements and communicating with the properties and with -- all the properties, not just the repeat offender program properties, but all properties to help improve the program. The report itself does have some flaws and it stops woefully short of any

meaningful program improvement. It says that large properties do not pay their fair share of the costs to administer the program, yet it doesn't address the low threshold of five violations to be put into the program whether it's a duplex or a 400 unit apartment. But for that low threshold the large properties wouldn't even be in the program. It says the Austin code team does not have the systems, tools and processes needed to effectively administer the program, yet it calls for a larger citywide program in its place? It's a huge disconnect and not much of a solution to achieving the goal to ensure properties are meeting code standards. It says many properties

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remain unsafe, yet no properties have been ordered to close due to unsafe conditions. The unsafe structural violations cited by Austin code and used to place properties in the program include faded numbers on oven range dials, chipped counter top foremicah and -- Formica and faded paint. We know of no property that knowingly wants to remain in the program just to have maintenance issued identified. The incentives that they identify in the program are not really well reasoned and I won't go into that. And of course the name of the program we don't believe has anything to do with the deficiencies of the program. We've identified several changes like the opportunity to cure. We don't believe a violation should be a violation unless it's not cured in time.

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Every violation is listed. We think there should be a responsibility to report. A lot of people have used the repeat offender program as a weapon. They call the city rather than identifying maintenance needs through management. It puts them in the program. We also believe there should be time allotted for some of the repairs to account for permitting time and we also believe that the repeat offender program -- [buzzer] >> Thank you. Ms. Haynes? >> Hello, thank you. So I have been a property manager in Austin for about 20 years and I've managed multiple properties on the repeat offender list and been involved with that program since it started in

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one way or the other. My first property on the repeat offender program was a significantly aged property built in 1960. It needed quite a bit of life safety repairs. We understood why we were on that program, but to catch up a little bit. Eight years later that property is still on the program after over six million dollars of renovation. The annual inspection generally beganners about 60 code violations. I know that sounds really high, but it is a significantly aged property that a lot of money has been put into. My point is there's no pathway to compliance or incentive really to anyone on the repeat offender

program can see. I think that whenever you are investing millions and millions of dollars into a multi-family property and completing maintenance as quick as you possibly can

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that should be taken into account, but by current standards it's not. When we used to receive warnings instead of violations, we quickly remedied them in a professional manner and since that system has gone directly to violations, even minor things like a bag of trash that was strewn about in the parking lot by someone overnight becomes a code violation. So by those standards it's very easy and I could go to any property in Austin and find five code violations. So small properties, large properties, all to the 252 rule. And one code violation putting the fifth put me on the repeat offender program two years ago. It was the very first violation as a new ownership. But it was the fifth in the history of the property in last two years and therefore that put us on the program. Again, there's just no logic

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and reason to being punitive with small code violations that aren't life safety. We'll rather focus on the life safety issues and a pathway to compliance to be responsible owners instead of chasing minor violations that seems truly punitive. >> Thank you. Ms. Haynes. I'm going to now open it up to questions. I think councilmember tovo had questions. I want to welcome councilmember Casar to the virtual dais as well. Councilmember tovo, did you want to go first? >> Tovo: Thank you. I likely will have some more questions a little later, but I wanted to thank the auditor for the report. I think this is very helpful. Just to kind of step back a little bit, this has been an ongoing conversation now for some years. And the repeat offender program was a compromise position. There's always a resolution that I had brought to the council that passed on first

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reading to create a rental registration program because we were seeing life safety issues at multiple complexes throughout town, several with some really severe consequences. So with the help of a lot of stakeholders we crafted a rental registration pilot program. It passed on first reading and then was indefinitely postponed. So it's a well thought out and ready to go resolution. There's political will on the dais to consider that. There was not at the time. One thing that concerned me about this and I know concerns a lot of the stakeholders that we've worked with for multiple years is some of these recommendations in terms of the need to escalate and the need to have stronger enforcement tools, our repeat offender program does provide the stronger enforcement tools and it's not clear to me why those aren't being utilized as

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effectively as they need to be. And then on the other hand I had an opportunity this summer to met with representatives of the apartment representation and agreed with some of the examples they've sighted as -- cited as the examples where we have enforcement of issues that are in some cases not under the property owner's control. They are really things that relate to a tenant choice like leaving garbage out and going into a dumpster. We absolutely need changes here in regard to the ordinance in front of us and I think those can be done well. I continue to think about rental registration piece of this because that is also a recommendation for the audit. I thank you for providing that context for us. I want to circle around back to code now and I'm sorry for the history context, but I think it's important to understand how we got to the repeat offender program and that it was a compromise

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position to address what is a serious situation then and is a serious situation now for many individuals who are living in rental properties, some of our aging rental structures. There is also now multiple directions to council -- from council to create a loan program for other kinds of incentives to help those property owners and landlords who want to do the right thing and don't have the funding available to them to make those repairs. So I think that's the other part of the question that I would like to have answered. I don't believe we've seen -- there have been multiple resolutions directing that kind of work. We haven't seen the outcomes from that. Direct outcomes in regard to assisting repeat offender programs. So from code I wonder if you could -- there's a point I want you to highlight for us. We've heard a little bit of testimony from some stakeholders from the

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apartment association today about the kinds of things that become violations once they're on the repeat offender program, offender program, yet in the audit it talks about the majority of the incidents being structural, being about structural condition violations. So can you weigh in on what you're seeing in terms of violations? And also if you could circle us around back. I know the department now for almost a year has had a report, an internal report with some recommendations and has been waiting to roll those out for this audit and so can you give us some sense of the timing for you to bring forward changes to the ordinance that the code department has that helps me gauge the work that my office is doing to know -- to have a better sense of what code plans to bring forward and when. >> Okay. I'm going to try the answer the question. I'm going to let Daniel

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expound a little bit on the violations. So on the ordinance, on the address, what they call the habitability violations, anything that affects life and safety, those were changes made to the ordinance so now everything that is a violation to the property maintenance code becomes a violation. So it's documented and that was something that the department took the direction several years ago to address every violation that is actually in the property. That includes sometimes missing smoke detectors, missing light fixtures, maintenance on the outside. The more serious violations that we find are mostly related to structural issues like stairs, handrails. Sometimes major water leaks. So everything -- when the inspectors do the periodic inspection on the property,

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they actually identify everything and they actually document everything in there as a violation. That's something that may need to be worked out in the ordinance. It's not specified in the ordinance so everything that is considered to be a violation is there. The internal evaluation for the repeat offender program was presented to the management back in 2019 but it wasn't finalized until April of this year. We actually sign off on it in April and officially received the report. It has about 48 recommendations in there. Some of them are low hanging fruit that we can actually implement without any changes in the budget. Without any changes in the ordinance. So there is a team working on that and they are prioritizing those and already implementing some of the recommendations that we found in the report. Some of them may require some changes to its budget on the ordinance, like for example, big changes in the surprise system that we use,

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the system that is going to be costly. So we need to evaluate those in the next year or so. But we are already implementing many recommendations and working very close with the stakeholders. Mostly on the communication side of it. So that's a plan that we have. I mean, we have -- I have some submitted a plan to the assistant city manager and we are in the process of implementing those recommendations. It all depends on when the report came out we were in the middle of the pandemic and the code department had shifted all the priorities to respond to the pandemic and enforce the orders that we had in the city, so it's been a challenge to actually kind of balance it out with all the priorities changing to the covid-19 pandemic. But even then we are working on a plan to address it. I don't know if Daniel can expand on that. >> Tovo: Can I ask you a question, director Roy.

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I appreciate this spring has been for the reasons you identified a challenge. I want to make sure we're not here a year later asking the same questions about that. So I know my staff have been in contact with your staff and we'll follow up to see which of those recommendations have been implemented which are on route, which could use some council support and initiative. The majority -- again just to circle around back. And thank you for that clarification that some of the violations that are being counted as violations in those code inspections are a result of the more expansive revision that was done. That took it away from just life and safety habitability to a broader range and I think that connects with what Paul and our other speaker today was saying. However it still seems to me that's probably a minority of the violations that occurred because it does say 93%. So just to get to level check it sounds like the majority of the violations

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do not fall into that category. They fall into the structural condition violations, which are the more serious violations. >> Correct. And one thing that we need to keep in mind is when we actually found the violations we have to give due process for them to repair. Sometimes you may not see that the cases actually escalate because they actually fix the situation in the same frame that they have and when that happens then the violation is no longer there. This year finally we are using the tools that we have in the ordinance or suspicion and revocation of the registration. And it's been an effective tool. It took many, many years to be implemented, but working with the stakeholders and the flow charts that we actually created has been a tremendous process that we are actually using. >> Tovo: Maybe we could get some follow-up information and I don't know if fellow committee members would be interested in that. But that's a level of detail

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that I'm very interested in because it has taken a very long time to get the department to shift from one of working toward compliance, sometimes long after it was very clear a property owner was not going to comply. And I do think we need to use the tools and use them effectively. And if you look at other cities like Fort Worth and others that have really substantially improved their enforcement of substandard housing it's using those kinds of tools where it created a climate that people wanted to stay. They needed to keep their properties in good shape or they will be enenforced against. Thanks. >> Alter: Are there questions? Councilmember Casar. >> Casar: I was here from the beginning, but I was in the staff bull pen and it took them awhile for them to pull me on the dice.

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Thank you for having me -- on the dais. Thank you for having me. This is obviously a really important program and pretty regularly have constituents reaching out who are in properties that are registered with the program and ultimately the perspective I bring to this is trying to figure out how the city systems work best for them. So my first question is just from -- I feel like several of the properties that I've been -- that there's constant communication about in my district has been part of the repeat offender program since at least since I came on to the dais, if not longer since the program got set up. Do we have a sense of how many of the properties have been on the repeat offender list from the beginning or from near the beginning or having gotten off and why is that? And again, I know it's not a simple question. I don't mean that to be -- I just mean that it seems serious that some properties have been there a long time so really what's the core

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issue there? >> I think did [indiscernible] Can answer that. He was a division manager for the program so maybe he has some information. >> Sure, councilmember Casar, I'll have to get you specific data in terms of actual numbers, but there are a good number of properties that have been in the program for many years now. Some have been in the program since its beginning. Some of that holds up to the 252 criteria with the inspections that we do on these properties, as our representative from Austin apartment association mentioned it is not difficult to have five violations result from a manual inspection. I think we need to understand too that with the broadening of the violations that count towards that 2-5-2 criteria and require a property to register, that brings in any violation of the international property maintenance code. So even a missing light

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cover or something like that that is less significant than a missing handrail or collapsing stairs or something like that, still counts as a violation. So we're forcing the in accordance as it's written and I think it's part of why you see some of these properties remain in, especially on larger properties because the 2-5-2 criteria is not scaled to the size of the property. So it is difficult for some of these properties to get out. But in fairness too there's some properties that just don't take a proactive approach towards maintaining the property. We see some properties that we don't typically see action until they start hearing from us. So for either code or auditor and I scanned the audit and let me know if you already have some of this. It seems like some of the information is a little opaque. I'm really interested in how

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many properties over the course of time being in a program have not gotten safe? As opposed to are in the program or aren't? Baseline if what we're trying to do is prioritize the safety of tenants, and I mean

that in all forms of safety, a missing handrail or frankly having infestation. These things are -- these are pretty significant challenges. I'm just interested in how many places after a few months of being in the program and the city focusing on them are staying in that condition. Because my sense is that there's a decent number of them. Maybe there are some also that energy that category where they were unsafe, they got safe and then there was a light cover issue. Maybe that's one category and I want to know what the number is. But I'm also interested in how many fall in this category of just for fears continue to not address those code issues. And then amongst that group, do we have a sense of how many of them the landlord is really trying to fix it and

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there's just some deeper issue that I would love to hear from y'all that they can't fix so maybe the city needs to get solved to help fix? And how many cases the landlord is simply not acting with the level of urgency necessary. To me those are the categories that are potentially of most interest and need to be dug into before we get too deep into renaming the program and getting into other things, which I'm fine doing, but how many properties aren't becoming safe and of those that aren't, how many of it is our sense the landlord just isn't doing what they should do and how many it is that there potentially might need to be community and city and philanthropic help? Do we have any sense of that kind of breakdown? >> We don't have a data means that I'm aware of that is going to specifically say which types of violations are the more concerning types versus ones that are

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more common light fixture cover missing type issues. I think we could certainly do some anecdotal work in terms of surveying our properties and surveying our inspectors to get a sense for which properties we typically see action from the landlord and which ones are almost non-communicative. Because we certainly have some of those like that. So that's some work we can do as part of this process is to analyze the properties that we have, look at how long they've been in the program and try to determine why they still are in the program and what conditions those properties are in. That's definitely something we could look towards trying to gather data on. >> Casar: What about from the auditor's office side? Is that some information that y'all looked at or am I asking the question wrong? Is there somewhere where I'm missing something with that kind of set of questions? >> I'd say there's definitely certain violations that I think we

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can hopefully universally recognize as true safety issues. The topic that came up earlier, the chipped Formica and the other stuff, that is not typically what we find in our ride alongs to the sites. They were

seeing true safety problems like missing smoke detectors, doors and windows that just won't lock or can't be secured, lack of hot water infestation. Maybe the latter two are not a direct life risk, but certainly a safety problem. So maybe there would be a way to look at the data through that lens and kind of pull out just those I guess specific violations that we know to truly be a safety issue kind of regardless of the other issues and then look at the data through that lens. >> Casar: Absolutely. And I hear about those that you described all the time. Those are the phone calls that we get. What I'm trying to figure out is when that happens because in our office we get

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complaint, we issue it back to code and then maybe we hear back from the person a few months later or we don't hear anything and that can mean a lot of different things. So what I'm trying to figure out is in the cases that that is happening that we've got those serious issues, and then they get put in the repeat offender program, how often do they get fixed quickly versus never get fixed and they're still on for years. And then if they don't get fixed, how often that's just because the landlord isn't doing what they should do? Which seems to indicate there needs to be more zealous enforcement, versus in what cases is it that there is something that the landlord can't do on their own so no matter how much we ramp up enforcement there might need to be some of the other city programs that were described in the audit? And that's I know that both of those cases exist, but my hope would be between the code department and auditor's office get a sense of which is the more significant problem so we know how to fix it.

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>> I think from our perspective I would say you have to go through all the -- you would probably want to go through the ones that are still in the program. I think there's 73 right now give or take. And you would have to go through them case by case and look at each individual kind of citation and what was done and when things were done. So I think that could be done. It could be a very manual case by case type review. >> That would be helpful. My understanding is that there are some limited cases where properties have exited the program because there have been like some extensive investments in the property that might raise rent kind of like upgrading the thing which actually could result in the loss of some of the housing units for the people who needed the safety repairs. Does that happen -- that's anecdotal. I've heard about it in some cases. We know that often is a challenge that we should be avoiding.

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We shouldn't have to choose between people being disdisplaced and people living in unsafe conditions. We have to figure out how to handle both, but how often is that a concern where if we zealously

enforce, don't have that tenant voice at the table that we lose the housing. >> We don't actually collect the data on the rental prices, but the ordinance allows for any owner to invest in the property, and actually fix all the violations and get out of the program in 90 days. So when there's actually a change in ownership the ordinance allows for that. And that may end up being a situation like you described where once they actually invest a lot of money in the property they might raise the rent. We don't actually collect that data so we don't really get into the demographics in terms of the cost of the rent and things like that. We have many cases where

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properties have changed ownership and they have invested heavily in the property and being able to be removed from the program. >> Having that list available would also be helpful because I think in those cases you would want want to make sure that the tenants have good representation in that process so I would be interested in just the number that have used that plan. Thank you. Thank you, chair and committee, for giving me the time to ask that set of questions. >> Alter: Councilmember pool. >> Pool: I just had a quick kind of -- some context here. The history of the program, it used to be -- it was not a complaint driven program until about 10 years ago, is that right? Can you -- does anybody here have any recall on how it was done recently. How it was complaint driven and how it was versus a

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broader blanket expectation of inspections for apartments? It almost seems to me like we're leaving sort of the small repairs that could be done done on schedule maintenance, those sort of dropoff -- drop off the learned and then by the time we get a complaint it's just things are really bad. But what if we had a -- had a different approach where the ryes were more systematic, more schedule and the concerns didn't get to be big and more expensive. So kind of want to see why it was we shifted to a complaint driven process and then how that changed our whole approach and the interactions with the apartment folks? Because I think we also want to have safe and healthy places for people to live. I don't think any of us have any different approach to that at all. And it may be that we have just kind of left some things on the table by not

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identifying them earlier on the process because it is a complaint driven innovation. >> I can try to discuss that a little bit. So the repeat offender program came out of an ordinance that was passed in 2013 and one of the enhancements that this program provided is actually to create that annual inspection process that is a proactive approach in looking at these properties. Prior to that everything complaint driven. And by and large our operations at Austin code department still are complaint driven. The repeat

offender program is one of the few programs we have that have a proactive component to it it that we call the periodic inspection where we're on each property at least once a year, proactively looking for code violations on the exteriors of the building and the vacant units and in occupied units. And so that's actually one of the enhancements that the

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program provided. Prior to the repeat offender program we didn't have a tool that dictated that we do a proactive approach. And we do have to be careful with proactive approaches because we happen to be -- we always have to be questionable and fair in our processes and so we have to be conscious of how we take proactive approaches so that we aren't views as targeting any particular property. >> Pool: I think we need to find a way to [indiscernible] Improvements that seem to be needed both in the process and from the applicants so that we can ensure that no matter what the cost of the unit is that everybody is living in a safe place. >> Alter: Thank you. Before I ask my questions,

[10:16:32 AM]

mayor or councilmember Flannigan, did you have any questions or comments? Let me start by first asking there was this internal report and I know that the audit department reviewed that. We're not actually hearing from that team. I'm not sure who is it that did that audit internally. So let me ask you that first. >> The report was actually tasked to the business consultants that we hire specifically for that process. Before that we were trying to somebody from the outside to try and do the report. We ended up hiring a business consultant, his name was John Han. He is no longer with the department, but he presented the report to us in April.

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>> So what I would like to see is a follow-up and we can determine whether it needs to come back to the committee as a whole. But I would really like -- I haven't seen that report myself. Personally my staff may have. I have not. I'd like to see that report and I'd like to know some details on the follow-up of what's being done because I think it gets into much more depth than what the auditor's office did and like to understand [indiscernible] And what's not being followed up with. So I would like to see that. Then I wanted to -- I have some concerns that are kind of broader with this program. So I think that this program, the repeat offender is solving a very real problem. It's also very clear from this audit and from the internal report from what we know and what we just hear from folks and their living conditions that our system isn't working well.

[10:18:35 AM]

This information is very helpful for this specific program and I want us to address those specific concerns for the repeat offender. But I'm concerned more than just about the specific program. And what I'd like to raise with my colleagues is that I have an intention to work on really understanding how it is that this department operates as a system and where it can improve. Some of the language that stands out to me from this audit includes the summary that these systems are cumbersome, sometimes unreliable and do not always contain all the information needed to make informed decisions. It's my perception based on other reports and anecdotal experiences that this diagnosis of the internal system is likely not limited to this one particular program but it operating across the department. And in raising this I'm not trying to disparage the work of any specific staff and I know that we have an interim director and you are just stepping up and trying to make all the changes. It does strike me that we need to do a deeper dive

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into how our systems work in this department and whether they allow for efficient and effective operations. The example that I hear about in my district is I constantly hear about -- from constituents not just in my district, but across the city about the cumbersome and unnecessary process for str enforcement from the department. Ale of these issues raised in this audit are mimicked in that type of experience and it just sort of tracks with other types of issues that get handled by the department. So this is not really a question for code, but I just want to lay out that I've been speaking primarily with councilmember Ellis about our shared interest in collaborating to work on this deeper dive into the effectiveness of code from a broader perspective in terms of how we use technology, how we train staff and how they spend their time in other matters. This came up to some degree in the special requests that

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I joined with councilmember Flannigan, pool, Ellis and others in supporting, but I want to take this opportunity to flag an interest in looking at the internal system broadly and deeply and determine if anyone else is interested in that topic. And to be clear, I don't want to do it strictly in the context of public safety, which is what our resolution last week was about. Ordinarily in the context of repeat offender, but really from an efficiency and effectiveness perspective and trying to understand if we are getting the most out of our code enforcement and the processes that we have and really looking at it in a new way because it does impact so many things in the community. And I think we've made some starts in that effort with the special requests with my colleagues, with the resolution that was sponsored last week, but I think there's a broader perspective that we need to

[10:21:39 AM]

radio get at. Councilmember Flannigan. >> Flannigan: Thank you. I see the resolution that we passed last week as enabling and initiating that broader process. The be it further resolved had the two parts. One was responding to the audit, which I think is a broad work and then there's the second piece of the second be it further resolved. That work could very easily be partnership work between the audit and the public safety committees if we wanted to approach it that way. The public safety committee is the one that council designated as the oversight body for code but there's a lot of work to be done in that committee. So I'm definitely welcoming the assistance is that we want to take a deeper look. That would be appropriate. >> >> Alter: I wanted to gauge where the broader interests for council engagement in pushing things

[10:22:39 AM]

forward and asking different questions and bringing different people to the table would be. Mayor Adler and then councilmember tovo. >> Mayor Adler: I think what you're suggesting makes really good sense. In last six years being on the council this is a kind of recurrent theme that comes back to us with respect to code. There have been a lot of improvements in that period of time in the code department. But some questions seem to be recurrent and I think they are broader than just this look at the repeat offender program. Although the questions with the repeat offender program also seem to be kind of recurrent kind of questions as well. It could be that the support that we can give to code goes more to systemic kinds of issues that would help effectiveness and efficiency across the programs. I'd like the report that we

[10:23:41 AM]

got today. I had the same questions about the earlier report. Because it seemed to be dealing with the same kind of questions and I know the apartment association, I believe that there were aspects of that that were not part of this audit report. And I don't know if that's because those recommendations weren't deemed to be valid or if that was a more in-depth look or if that looked at different areas don't know the answer to that. But the answer was they're not necessarily right on top of each other. The report that came out in the audit here almost asks more questions than it answers in terms of what the next steps should be and how we make it work. I think this program is a really important program for us to come back to because so much of what we hear in our offices about code come from these kinds of things in terms of the city inquiries.

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But thenty also know just how important code has been to our covid response and the support. A lot of what's happening in our community right now, keeping numbers as low as they have happens because our community is just doing it on their own, recognizing you can't enforce our way. At the same time it is the code department that in many instances has helped set that culture. So I think code for what it's doing, but yes, the short answer to your question, share, is that I think that -- chair, is that I think that a more global look systemically at code would make sense because I think there's probably more support that we could bring to that operation. I don't think it would impact individual programs. Thank you. >> Alter: Councilmember tovo? >> Tovo: Thank you for raising that, councilmember alter. And I am very interested in supporting you in that work

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and this may be a good venue for doing so as we did the audit and finance. When we had an issue on our agenda last time I threw out a few of the questions that I have for code and I'll just reiterate them here. We do seem -- we have been investing more and more heavily each year in our code department and so I think we do -- I think it's past time to really evaluate how effectively and efficiently it's operating. Some of the initial kinds of questions I would ask is -- are they based on the programs which of I'm not as familiar, but the extent to which that's really expanded access in the after hours, which is part of the problem that they're trying to solve and increasing the resources. How increasing the number of inspectors both in the repeat offender program and substandard housing generally have equated to an increasing number of inspections. Those are just some of the

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questions that I would be interested in answering on a microlevel that I think to understand that broader question about systems. How effective we are and how are our employees [inaudible] Responding to situations on the ground. [Inaudible]. So what do you see as the next step in that? Is that a conversation that we sort of think about between now and our next meeting and maybe come prepared with some questions we would like to be addressed? Or setting up a special work group? I don't know if you've thought through what that looks like, but I would be interested in seeing that move forward. >> Alter: I think Ms. Stokes wanted to speak, but I think a first step would be the special report that we requested, which should be back shortly. I don't know if that will be in time for us to act at the next meeting or not. But Ms. Stokes, I wanted to recognize you.

[10:27:42 AM]

>> Tovo: And if I could before she comments, I want to say I support that more systematic look at the structures in place and the efficiencies. I do think -- I feel very compelled. We've been waiting awhile for this audit before taking action on some of the more immediate changes that I think need to be made with respect to the repeat offender program. So I'm just putting in that notice that that work I think needs to be on a different timetable and I intend to kind of move forward with that in a parallel fashion of the structural work that I agree also needs to be looked at. >> Great. So I guess I just wanted to bring up a few things. Our next item I think is related to the audit plan so this ties into that discussion somewhat. We do have a special request underway right now that's really looking at trends in the number of inspectors, number of inspections by type. I think that will give smu information about the questions that you're

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asking. In addition we have an audit on the plan that's not specific to code. It actually came out of some work at code, but it's come out of work at specific to the Amanda system, which is, I think when we talk in this report about some of the systems being clunky, Amanda is one of those clunky systems. We proposed an audit not just in code but I think it will impact and will look at the uses in code and where it is clunky. That's a technical term, apparently now. And the other thing, so we have done kind of a full audit, not of the entire code department but of code investigations twice, at least. Since I have been in the office, I believe those were in 2006 and 2010. And in both cases we had finance, we had recommendations. And the second version of that we said there's so much

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unaddressed from the first audit. I don't love going in and doing a full audit of something that we've already audited that hasn't been fixed yet. My preference doesn't mean I won't do it, and certainly if it's up to council, we will absolutely do it, but my preference is to follow up and see what are the recommendations, what has been fixed, what hasn't been fixed, what are the gaps versus redoing an audit. But the reason we redid it, when we did it in 2010, we saw that nothing had been fixed. A lot of things had been changed. So, you know, why were we still having the same outcomes if there have been a bunch of changes? So we went in again and I think we had the same findings the second time around. Our tone got a lot harsher, if you'll recall. There definitely have been multiple management changes, but there were some management changes at the time. As I look back, we can do that audit and hopefully have new findings. Maybe we need to look at what we

[10:30:46 AM]

originally recommended and how those have played out. >> Alter: Thank you, Ms. Stokes. I just want to be clear that I'm not talking about getting in the way of making changes to repeat offender. I'm talking about sort of a broader effectiveness and efficiency part and the piece of that that requires council to be pushing at it in parallel to what may already be in the works. The auditors I think would just be repeating work that may already be done. That's, you know, I think there's also some internal work that has been done that we can build off of that will help us think about how we want to frame the questions and that we need to do in a different way. And what I was hoping today was to get a sense of who on the committee wants to work on it. I know that, you know, council member Ellis is also interested -- she's not on this committee.

[10:31:46 AM]

And we can sort of convene and try and work through stuff and we can use this venue or, as appropriate, public safety committee for things that need to be public. I think there's a lot of things that we have to do to get our questions straight and really dive in that may not yet be ready for coming before committee until we get the project back. And until we have a chance to review some of those other pieces. And I just think it's something that may rise to the level of something like the Zucker report at the end. Not interested in reinventing the data on the wheel but I think from what I'm aware of at this point in time there are some real opportunities for us to push forward on that effectiveness and efficiency and to ask questions in different ways. You know, working with our leadership but also, you know,

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really thinking sort of holistically about it. We've added a lot of resources, as council member tovo has mentioned, and yet there's still a question about whether we're getting the effectiveness, et cetera. And I think we need to be diving into that. So I heard council member Flannigan express interest and council member tovo. If anyone else decides -- council member pool. Okay. And then I'll have to just figure out from a quorum perspective with the committee -- or not the committee, how to address that. But I appreciate the interest and we can be moving forward. And, again, this is not meant to be separate from addressing the specifics of this particular audit. I will just add that I do have some hesitancy about moving to a

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citywide registration when we don't seem to be able to do the complaint driven. I'm not sure that expanding the work of code when we have identified life and safety issues that we haven't been able to address is the most productive direction, but I'm open to having those conversations and learning more

about what other cities have done. Thank you. Council member Casar and council member tovo. >> Casar: There's one question I realize I forgot to ask. From my recollection of some of the debate on the dais before 10-1 between registering a smaller number of repeat offenders versus a citywide registration program. I think there were good points made by everyone in that. I think people were all trying to get to the best place they could. If I remember it right, one of the questions was, well, we need to get as many repeat offenders

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into the program as we can, so that's why you want to cast a wider net. But then there was an argument let's get the dangerous properties in the program and focus on those and show that we can really get those problems fixed. And that was at least a part of the debate that I remember. Now that we have this audit, I'm interested in the auditor's reasoning for the recommendation here. But I think shows that in part we have some repeat offenders in the program that we haven't been able to get the issues fixed, even with that smaller number. Why is it then that the recommendation would be to then dedicate scarce resources to inspecting lots of properties citywide if with the scarce resources we have we haven't been able to get a small number of properties where there are dangers to be fixed. I'm sure you have a good answer to it, it just doesn't -- I just want to understand, given our scarce resources, if we can't

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get these fixed what the reasoning is for recommending that we start going citywide with it. >> Yes. Fantastic points all around. So on the question of why would a city maybe want to broaden to registering all rental properties. In some ways it would address some of the risks that we've noted. So one major risk is that, you know, right now we're having a hard time identifying the bad actors that should be part of this program and getting them enrolled because of our system limitations and other issues. If you were to require full rental registration, I think having that inventory of what all your rental properties are would probably be more reliable. You would catch them all and you would at least know what all of them are and you would at least get some nominal amount of money from each of them and have some information on what the property records are and have more

[10:36:51 AM]

complete records on these rental properties. So it would, you know, mitigate that risk to some extent. And we also point out the peer city thing because we do a lot of peer city analysis in our work and I would say it's pretty rare to find a case where Austin is the clear outlier. It's usually our program is kind of similar to other programs. In this case, given ours is so different, it seems worth noting. But, you're

right. I think in theory it's a great idea to say why regulate everyone when most are fine or many are fine. Shouldn't we focus our limited resources on just the bad apples here, which is kind of the model we have. I think that in theory was a good idea. Regardless, if you register everyone or if you have the kind of bad actor model, we're going to have to escalate enforcement

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for the properties that simply aren't wanting to comply and address their code violations. So I think kind of being more punitive with those that really need it is critical, regardless of the model. And I think we've seen some evidence that that is a good thing with the property suspensions that happened this summer -- Daniel, correct me if I'm wrong. So we didn't have that process in play, you know, the whole time the program's been around. We got it up and running this summer. We said to six properties, I think it was, we're going to move forward with this property suspension if you don't get on board and address these code violations. And five of them decided that it was time to address the code violations. And I think only one property did we actually execute the suspension. So, yeah, whether we stick with the model we're in where we're only going after the bad actors, which might make it so it's still hard for us to identify those that need to be in the program. Or whether we go to the full

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rental registration that escalated enforcement is going to be critical. Both models present some advantages and disadvantages. >> Alter: So I think we're going to need to move on. I just want to reiterate that we have the same issue with strs where things are not being escalated to enforcement so they're not being, you know, people are not complying because enforcement's not happening with that escalation when that escalation option is there. And we have, for many years, been asking for that to happen. So I do need a motion on this item. If someone would like to make a motion for this audit. Mayor Adler. You have to unmute. >> Mayor Adler: I move acceptance and approval of the

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report. >> Alter: Thank you. I have a second from council member pool. All those in favor, raise your hand . Council member tovo, we can't see you. Are you voting yes? Council member tovo? That's unanimous on the dais. So with that, approval passes. We're going to move to item no. 3, the draft audit plan, which I believe we are -- [background noise] It's not down because we can here you. >> Tovo: It was down for a minute. You had recognized me for a comment after council member Casar and then I think you went on to the vote. I just wanted to simply agree with some of the sentiment expressed that expanding the responsibilities of code or expanding the program to include rental registration at this point would probably not be wise, given some of the concerns

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that are raised. So in my discussion of that it was to provide a historical perspective and to say I think that still is a program worth considering, so I appreciate the auditor highlighting it. But from where I sit right now I'm going to be very reluctant to expand the responsibilities of code until some of these structural issues get addressed, as you noted short-term rentals within this program and others. Adding resources hasn't made them operate more efficiently or effectively. Those are some key concerns that I would like to see resolved first. >> Alter: Thank you. So we're going to take up item 3, the proposed draft audit plan. I believe that the auditor will speak briefly to that. And we've all had an opportunity to review it. Our task today is to put forward a motion to the council, assuming that we approve it. I'll let the auditor speak briefly first. >> I do have a presentation to

[10:41:59 AM]

this, so give it a second. It's coming. I did want to say one thing, just correcting myself. I think I said 2006 and 2010 is the prior code audit. It was actually, if you add ten years to both of those, I think that we had a 2010 audit and a 2016 audit, so those are the last time we looked at code. That is relative both to that and to this presentation on the audit plan, and I go ahead in just a second. I always like to remind y'all of why we bring this audit plan to you. This is why there's a requirement of code that we bring the audit plan to the council for review and then specific under the audit committee that we bring it to the audit committee to make a recommendation to the full council. So we do this every year. Next slide, please. This year we've talked about how we have a shorter list of projects than some years due to constraints in my office and some other responsibilities that

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we have. I did want to point out the last time we presented the draft audit plan or the early proposed plan, I guess, and we made some changes to that. The first project here, reimagining public safety. So we had originally talked about doing a project on civilian staffing. That could still be the work that we do but since we proposed that work we've been meeting with city management to try to identify an area where we can add value. Where it makes sense and where it doesn't overlap with other work that's being done, because there is so much work being done in this area. We are still working on that and if this moved forward to the full council I would have that topic identified, you know, I would finish my work with city management and identify a specific topic before council had the plan to vote on. So that one is a little weird and it is kind of a place holder. The other audits haven't changed much on this page. Next slide, please. And here, one thing that we

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did -- I think we heard feedback from a few folks that having a public health response, kind of a lessons learned or a after action on response to the coronavirus could be helpful for future similar incidents. And so we've combined that looking both at kind of our response related to the community and our response internally related to city employees. We would not do that project immediately. Obviously, we're still in response mode. We don't want to get in the way of our folks on the front lines right now. But it could be something that -- or it would be something we would do in the spring or later in the fiscal year to provide some insight and to what we can do differently. And I believe the rest of the projects were already on the plan. Next slide I think is the end. Any questions, comments,

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concerns we are happy to address. >> Alter: I think you skipped the audits that are still in the works. And I just want to flag that we are doing a slightly revised and reduced audit plan this year because of the extensive responsibilities that the auditor's office has with redistricting and some staff rebuilding that needs to happen for that. >> Yes. I'm not sure how I missed that slide, but, yes, we do have a few carryover projects that will come next month, some that will come later. I'm looking at interlocal agreements, technology procurement, and city recruiting and hiring. >> Alter: So I think if there are -- does anyone have any comments or questions? If not, I would need to entertain a motion to forward this on to the full council. Council member Flannigan makes

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that motion. Seconded by mayor Adler. So the audit plan will now move on to council for whenever that comes before us, either later this month or next month, depending on your timing. Okay. Thank you. So we'll move to item 4, the annual city auditor's integrity unit report. >> Sure. Do you want to make sure you actually call for the vote on that item. >> Alter: I'm sorry. Did I call for the vote? Thank you. Are there any objections to voting on that? I see the mayor smiling because he knows how much fun this is. [Laughter] It's good for us all to chair. So seeing no objections, that passes unanimously with the whole committee on the dais, virtual dais. We will now move on to item 4, the city auditor's integrity unit report. >> And we should have slides for this and we need Brian, who I don't see yet but I'm sure he's

[10:47:05 AM]

coming. There he is. >> Hi there. Can you hear me? >> I can hear you. I can't see you. >> I'm not sure why that is. >> I don't think you're in control of that. Just give it a sec and if we can bring up the slides,

that would be great too. Oh, we can see you. >> All right. >> Excellent. >> We can almost see your slides. There we go. >> Perfect. All right. Thank you, mayor and council members for the opportunity to speak today. I'll be going over the activities of the integrity unit from the auditor's office for fiscal year '20. So quick agenda for these slides today. We're going to go over the trends that my office has received, the investigations that we completed in the last year, investigations we currently have ongoing, and then I would also like to bring up the recent Austin public library

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investigation that came out on the 5th of October. It's checkly not fiscal year 2020 but since it was such a big investigation that had such large impacts, I would like to bring it up in case I can answer any questions you might have about the investigation. So over the course of the fiscal year, the office took in 282 allegations. That's a slight dip from what we saw last year, which was 333 allegations. But we think this dip is directly correlated to half the city workforce shifting to a work from home environment. When I ran these numbers in early March before we shifted to go home, we were on pace to have 350 allegations this year, and once the pandemic hit and everybody started working from home, that number drastically decreased and we finished with 282. I don't think this is a reflection on less fraud and waste and abuse concerns in the city, just that most city employees have less of an opportunity to see the red flags that might cause them to refer an allegation to our office.

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Next slide. And then looking at the allegations that did come in. Our most common allegations, 24% come from two groups. We refer to one as hr-related issues and the second is harassment and retaliation, which is a subset of hr issues. We would ultimately refer those allegations to the human resources department -- when you put them together they represent 24% of the allegations we received. The second largest group was the department and operational issues, and that was 19% of the allegations. Moving over to reporter insights. We noted that 59% of our reporters of allegations chose to be anonymous and that lines up with best practices. Hotline or reporting channels is you want to make sure that people know that they can report anonymously to really encourage them to report when they see a

[10:50:08 AM]

red flag of fraud, waste, or abuse. And roughly 60% of our reporters took advantage of that feature in our reporting system. And then we also like to also look at our reporting methods because it's important to make it as easy as possible for people to report allegations to you, if you want to really hear what's going on in your jurisdiction. And our most common method was our online reporting form, 48% of

allegations came from that. 17% from the integrity unit e-mail. As long as you create a new e-mail that doesn't divulge your identity, you can report to us anonymously using the e-mail just like you can on the reporting form. 14% used the hotline. You can report anonymously on the hotline or you can identify yourself, especially if you want someone from the unit to call you back and discuss the item with you. Moving on to the core of our function at the heart of our jurisdiction, we received 26 allegations of theft in fiscal year '20. Now that theft represents time sheet theft, asset theft or even

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cash theft. A lot of times that will also be criminal so we'll refer that to APD. But the same actions that can be criminal can also violate city code so we will still handle an administrative investigation even though we referred the criminal aspect of that theft to APD. The next most common was waste, we had 18 waste allegations, and 15 misuse and abuse allegations. And 8 conflict. Next slide. Moving on to the actual full investigations we reported on this year. We completed 14 investigations. That's actually the exact same number of investigations we completed from fiscal year '19. Of those 14, 12 were substantiated and produced a public report or a filing with erc. The remaining two, one was inconclusive and one was unsubstantiated. There's no public report in those cases, we just communicate the results to the relevant department so they are aware of what we heard and what steps we

[10:52:08 AM]

took to look into the issue. So of the 12 public reports, they span all the departments you see in front of you. It's kind of a decent swath of the city. The most common violation type of those reports was misuse, but we still had all the other core jurisdictional violations that we look into like abuse, waste, and fraud. And then in every case where we heard about accountability action, the department ultimately agreed with our findings and took some form of accountability action. There are a couple we're still waiting on confirmation with what accountability action was taken. As was mentioned, on the ones we heard about, there was always an agreement and accountability action taken. All right. Moving on to ongoing investigations, we currently have 11 open investigations. Those span seven different departments. Again, they hit the same core jurisdictional issues that we have of waste, gifts,

[10:53:09 AM]

solicitation, conflict of interest, and misuse of city resources. Next slide. And then this will be my last slide before I open it up to questions, but just a quick recap of the Austin public library investigation. I understand most of you are fairly aware of this so I won't get into too many details. But it did come out barely into fiscal year '21 on October 5. We identified approximately $1.3 million in stolen toner. At least $18,000 in other items that the Austin public library employees stole. We also identified that sum total

of value is also waste by library managers who oversaw this purchasing process because there was enough red flags and skipped procedural steps that the theft of the one employee should have been noticed earlier. So that concludes my presentation and I'm happy to take any questions you might have. >> Alter: Thank you, Brian. Does anyone have any questions? Maybe we can go off the screen so I can see.

[10:54:10 AM]

Anyone have any questions? Okay. Ms. Stokes, do we need to accept this report? >> You don't have to accept it. We're required to present it to you by code. But you don't have to accept it. >> Alter: All right. I'll take a motion. Do I have a motion to accept this report? From council member pool. Seconded by council member tovo or Flannigan seconds it. Hearing no objections, that report is accepted. Thank you. The next item is the bylaws changes for the downtown commission. I don't know if we need to go into a great bit of detail here. It's just adding an additional committee that gets to have ex officio representation of the downtown commission.

[10:55:11 AM]

Is there anything that the clerk's office would like to add to that? >> Chair, this is Stephanie at the city clerk's office. That's absolutely correct. That's what they're doing. They would like to add the public safety commission as a non-voting representative to their commission. >> Alter: Wonderful. Thank you. So do I have a motion to approve the bylaw changes to the downtown commission? From council member Flannigan, seconded by council member tovo. Hearing no objections, that is passed. I will note for the last report acceptance and this one, mayor Adler is temporarily off the virtual dais. We will now move to items -- the annual pension update of the city's retirement funds. And I want to just add for the record that we are going to follow the staff request for item 7 to withdraw item 7 for

[10:56:13 AM]

further conversation with system planned staff. So item 6 will be our last item this morning beyond future item discussion. Good morning, Ms. Weaver. >> Good morning. >> Alter: Welcome. >> There is a presentation, so I'll wait for that to come up. Thank you. So good morning. I am Belinda weaver. I am the city treasurer and I am here today to provide the annual update for the city's three pension systems. First, I'll just provide a brief overview and then I'll get into the update of certain actuarial along with financial data of the system. So the city of Austin has three employee-based pension systems. The plans are all defined benefit plans and all three of the plans were created by state

[10:57:13 AM]

law. Staff sheet does govern certain benefit and contributions and amendments to that law can only be made by the state legislature. Each pension system is administered by an independent board of trustees and the composition of those boards do vary. They do include elected officials, management appointees, employees and retirees. And I do want to mention that the employees' retirement system and the police retirement system do have a citizen at-large at well. As far as city representation on the board, for the employee stem, council member pool and deputy cfo are on that board. For the police system, it is council member tovo. Again, deputy cfo and myself. And for the fire board, by statute it is the mayor as the chair and myself as city treasurer on that board. Each board does meet monthly and they do have a fiscal year end of December 31st.

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This slide just details the pension system eligibility for the three systems. For the employee retirement system it's all regular full-time employees excluding civil service, police, and fire but it does include ems employees. There are two groups associated with this retirement system. It's group a, our employees hired prior to January 1st, 2012. And group B is employees hired on or after January 1st, 2012. I do want to note that there are different benefit provisions and retirement eligibility requirements that are associated with these two groups and those will be discussed a little bit further in the presentation. For the police retirement system, it's all commissioned law enforcement officers and cadets upon enrollment to the police academy. And for the firefighters' fund it's all commission civil service and Texas firefighters with at least six months of

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service employed by AFD. This just details the current contribution rates. Contributions are made by both the employees and the city. And it's done as a percent of payroll. As you can see here the employees have a total contribution of 26%. The employee system, excuse me, has a total contribution of 26% where a percent contribution is made by employees and 18% by the city. Employee contributions at 13% and city contributions at 21.313. And fire is at 40.75% with employees contributing 18.7% of payroll and the city at a little over 22%. I do want to note that fire does not participate in social security. That's a 6.2% contribution for both the city and employee that fire members do not pay into,

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but employees and police do. That bottom row is the total contribution amount expressed in dollars. These numbers are as of September 30, 2019 and they are derived from our annual city cafr. This slide simply details plan membership size. As you can see, employees by far is the largest plan with almost 20,000 members. Police is the next largest, although significantly less than employees, but they're at almost 3,000 members. And fire is at almost 2,000 members, and is the smallest of the three plans. And there are different retirement eligibility provisions with each of the plans. And with employees, as I stated earlier, there is a group a and a group B. So for the retirement eligibility it does differ between both groups. For group a it's 20 years of service at age 55.

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23 years of service at any age, and any number of years of service at age 62. For group B it is 30 years of service at age 62 and five years of service at age 65. The police retirement eligibility does mirror group a of employees and fire is ten years of service at age 50 and 25 years of service at any age. As far as vesting is concerned with these retirement systems, employees is at five years and police and fire is at ten. So this graph displays the multiplier rate for the pension plan since 1996. The multiplier rate is used in determining retiree annuity amounts and it's the number that is multiplied by the years of service to determine a percentage. And then that percentage is then multiplied by an average salary amount to come up with the annuity that is paid to a retiree. As you can see on this graph,

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there has not been any increases to any of the multipliers for any of the systems in over ten years but you can also see in this graph that there were quite a few changes in the late '90s and early 2000s regarding this multiplier. As of today the multiplier rates for the system, fire has the highest at 3.3%. Police is at 3.2%, employees group a is at 3%, and employees group B is at 2.5%. This slide shows certain key actuarial assumptions for the city's pension plans. Actuaries estimate the amount needed to pay future benefits of the system, and these actuarial assumptions are used to determine that estimate. I have three assumptions listed here and there's significantly assumptions that are done by the

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system actuaries on an annual basis. The inflation rate, the payroll growth rate, as well as the investment return. The inflation rate is general underlying annual inflation and it's a component of several other actuarial assumptions. The payroll growth rate, this increase varies by pension fund and it's determined using historical experience along with projected growth. And then the investment return rate is the rate of inflation plus the real rate of return. This rate is an assumed rate and it reflects a five-year period of smoothing. And the smoothing is done in order to reduce volatility in that actuarial

calculation. I do want to mention that both the employees and the fire system had an experience study done this year and both had actuarial assumption changes. What an experience study is, it is conducted by the systems actuary where they review the actuarial assumptions that are being used by the system for

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appropriateness. They look at the history of the actuarial assumptions being used, whether they have met those actuarial assumptions, may be exceeded or not quite met them. They look at future variables and make recommendations to the system for possible changes to those actuarial assumptions. And this experience study is required by state law to be conducted by each system at least every five years. So for the employee system, the inflation rate was lowered from 2.75% to 2.5%. The payroll growth rate, which they refer to as salary increase, it's actually a range, but just for comparable purposes, I have the lower end of the range listed. That was lowered from 4% to 3.5%. And the investment return rate was lowered from 7.25% to 7%. For the fire system, the inflation rate was lowered from 2.75% to 2.5%.

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Payroll growth was lowered from 3% to 2%. And the investment return rate was lowered from 7.7% to 7.5%. Police actually did conduct their experience study last year and those new actuarial assumptions that were added last year are reflected on this slide as well. Next slide, please. >> Council member pool. >> Pool: Thanks, Belinda, I just wanted to point out to everybody, but if you go back to the page that you were just talking about, any tweaking of these percentages has really large impacts on the actuarial soundness and the payout, the number of years. It's pretty extraordinary. Just even like a small -- like changing the payroll growth or the investment return. And it took quite a bit of doing move down from 7.5 to 7.0.

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That was a very systematic and paced and deliberate move but it did have the actual outcome of increasing the number of years to get to full payout which is one of the key components that the state legislature looks at, so changing these numbers has pretty dramatic impacts. Thanks. >> Thank you. So following up on what council member pool stated, this slide does detail certain key actuarial calculations from the most recent actuarial evaluation of each pension fund, which was 2019. These calculations are used in determining the financial health of the system. There's a lot of information on this page. I'm not going to go through all of it. Just some key actuarial calculations. The first being the unfunded approved liability. As council member pool stated,

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those adjustments to actuarial assumptions does impact this number. This unfunded approved liability is essentially the difference between the pension plan liability less their assets. In other words, it's the number of benefits accrued in which no funding has been set aside. The amortization period. When an unfunded liability does exist, which it does for all three of our systems, an actuary determines the number of years or the amortization period it will take to fund that unfunded liability. In the case of employee system they are at 40 years. If you remember from last year's presentation they were at 32 years. So that experience study and those actuarial assumption that the new adoption of actuarial assumptions has impacted that amortization period. For police its [indiscernible] They also experienced a slight increase in their amortization period based on the experience

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study that was done this year. And on the bottom row is the funded ratio. This is a standard pension benchmark that is a ratio of assets to liabilities. This ratio indicates the extent to which each plan has enough assets set aside to pay for accrued benefits. Actually on the next slide I'll discuss the funded ratio a little bit more in detail. Next slide, please. So looking at these funded ratios, this is a historical look at it from 2007 until 2019. And evaluating a fund ratio over time helps indicate the progress that a pension fund is making in setting aside assets to fund current and future liabilities. Sorry, I thought I saw council member pool's hand up. A rising ratio over time indicates that assets are

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accumulating to make future payments and a declining funding ratio may indicate that the plan may not be setting aside enough assets. So when looking at this graph you can see as far as fire, they're fairly constant. With employees and police, as of recently you'll see some declines for 2018 for police and 2019 for employees. Those funded ratio declines are attributed to what was discussed in that experience study and those recently-adopted assumptions. A funded ratio of 80% or higher is looked upon favorably. As you can see, fire has the highest funded ratio of the three systems. And they are at about the mid 80s. Followed by employees at 63% and police at 58%. Next slide, please. In this slide is just lists the

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investment returns for the systems. The 2019 investment returns were great for the plans. As you can see employees and police both had over a 20% investment return for the year. And fire was at almost 16%. I do have the three, five, and ten-year returns. These are weighted average returns and demonstrate the performance of the plans over a longer period of time. That's important because a couple of takeaways from the slide is although it's important to monitor the portfolios on a short-term basis we need to ensure that we don't lose sight of the fact that these pensions are long-term investors. All portfolios go through cycles, performing really well at times and lagging in others. Comparing this year's returns to last year's returns is a perfect example. If you remember last year when I

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brought this annual presentation to audit and finance, all three of the funds actually had negative returns, so looking at it not as a single point in time but just in the longer horizon is a better way to look at these pension system returns. And this concludes my presentation. If there's any questions, I'm happy to answer those at this time. >> Alter: Thank you, Ms. Weaver. Your presentation is in the back up? Great. Thank you. Colleagues, are there any questions? We have been talking about the pensions off and on so most of this material we need to do the annual report, but most of it is not new. And I want to acknowledge the service of council members pool, tovo, and Adler on individual boards. I know that's an individual task and thank you for serving in that capacity. Does anyone have any questions

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at this time for Ms. Weaver? Okay. Seeing none, I don't think we need to take any action on the update and we were going to withdraw item 7 without objection. We will withdraw item 7 at the staff's request. The last item on our agenda is to identify items to be discussed at future meetings. Are there any things that people want discussed that haven't already come up? Mayor Adler. >> Mayor Adler: I just -- you noted that I had stepped off the dais with item 2 ago, I just want the record to reflect that I was back on the dais for the discussion of the pension report. Thanks. >> Alter: Sure. Thank you. >> Tovo: And, chair, I had turned my video off because I needed to switch to the phone, but I was also present for the discussion of the audit as well.

[11:13:42 AM]

>> Alter: The pension? >> Tovo: Yes. I'm sorry. For the pension. >> Alter: Seeing that there are no other items that folks want to discuss, I'm going to adjourn us early at 11:13. Thank you, everyone for being here this morning. Bye bye.