Audit and Finance Committee Meeting Transcript – 05/26/2021

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[9:30:18 AM]

>> Mayor Adler: Good morning. My name is Alison alter. I'm the chair of the finance and audit committee. It is 9:28. I'll convene the meeting virtually this morning. We are going to begin with citizens communication. We have one speaker. Mr. Paul robins. >> Council, can you hear me. >> Mayor Adler: We can. >> Council, I'm hear to ask you to postpone item 55 on next week's agenda, which is a revision of the city's energy code. I offer two compelling reasons. First, the people you have appointed to review policy issues like this, the electric utility commission and the resource management commission, have largely been left out of the process. As far as I can tell, they were not invited to be stakeholders during the public comment

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period. Nor has the council even been briefed ahead of next week's meeting. This merits your committee's attention because of the way public process was abused. The electric utility commission was not allowed to make recommendations and the resource management commission was only allowed a cursory review. It was so cursory, in fact, that two members of this commission would not endorse the code because they were largely left out of the process. And RNC could not sustain enough votes to recommend it to council. The other reason to delay approval is problems with the code itself. I am particularly concerned about the way the revised code handles all electric water heating. My suspicion is that the new code the new energy code could increase energy use in some all-electric homes compared to

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the current code and the people that suffer the most are apartment dwellers who generally have half the income of homeowners. I am trying to confirm this, but my public information request relevant to the subject has not been answered yet. Even in situations where the new code does save slightly more energy than before, it's hardly a leading example for the country to follow. There will be no Earth shattering crisis if approval is delayed. I'm asking you to postpone item 55 until your two commissions can adequately review it. I appreciate your time. >> Chair: Thank you, Mr. Robins, appreciate the heads up on that item. We now are going to consider the minutes. Do I have a motion to approve the minutes? >> Mayor Adler, seconded by

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councilmember pool. I should note that I'm joined by councilmember tovo. Councilmember Mackenzie Kelly was not able to join us this morning. Looks like councilmember Madison not on the committee is also joined us for the call. Welcome. So seeing no objections, those minutes will be approved. We will now move to presentation from our finance department and deloitte. This is our fiscal year 2020 single audit report. This is one of the functions that the audit and finance committee has is to hear these audits. It is part of our audit procedure. So I will recognize Diana Thomas. >> Good morning councilmembers. I'm Diana Thomas. Interim deputy chief financial

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officer. And marija jukic will be leading the presentation. >> Thank you, Diana. Can we bring up the presentation, please? Thank you. Good morning mayor and councilmembers. I'm Maria jukei yirks. I'm here with deloitte & touche, the external auditors. I'd like to begin by thanking deloitte for their professional and thorough manner in which they conducted this audit. City staff, especially the staff in the controller's office and city departments with grants audited for their many hours of dedicated service for the completion of the sing the audit. The mayor and councilmembers for continued support of the city's goal of excellence in all aspects of financial management. The single add audit was issued may 24, 2021, about five weeks in advance of the June 30, 2021

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reporting deadline and well in advance of the six-month single audit extension deadline due to the covid-19 pandemic. Blake Rogers will now take over the presentation. Following their presentation, I'll provide a brief response related to the finding. >> Thank you, Maria. I appreciate that. Good morning, mayor and councilmembers. I'm Blake Rogers, a partner with deloitte. I provide the external audit services for the city for the fiscal year ending September 30, 2020. Previously presented to you on this committee on April 28, 2021, the results of the audit of the city's financial statements. But in addition to the audit of 9 city's financial statements, as mentioned, we're engaged to perform compliance audits over the city, state and federal award programs. Today I'm presenting the results of those audits. On the next page of our presentation, the city is required first to undergo both a state and federal grant compliance audit because the

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city expends more than $750,000 in federal awards on an annual basis and expends more than $750,000 of state grant awards on an annual basis. So thus, those audits are required. For the federal programs, we performed our audit under generally accepted auditing standards, generally accepted government auditing standards and in compliance with the requirements of uniform grant guidance. We did issue our report as Maria said, on may 24, 2021. We issued an unmodified opinion, that's the clean opinion, that's the aicp language for the opinion that you want in this case. Likewise, with the state programs, we perfoed our audit in accordance with generally accepted auditing standards, government auditing standards and the requirements 69 state of Texas uniform grant management standards. We issued the opinion on the same day and a modified or clean opinion on the state programs.

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On the next slide, we'll provide more detail to the committee and council about what we have -- what we audited this year. For the federal programs, uniform grant guidance prescribes to us as auditors the process that we have to use to select which programs we're going to test in an individual year. And this page gives you information on which programs, which were subject to our procedures this year, which programs were major programs essentially. So you can see here that the city expended a total of $219 million of federal awards during fiscal year '20. As a record year for the city of Austin. And the major programs listed are listed below. I want you to know that the coronavirus aid relief and economic security act specifically, the coronavirus relief fund was one of our major programs that we subjected to testing this year. Totaling $137 million of the

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city's expenditures during fiscal year '20. Certainly an extraordinary increase in award spending due to the coronavirus relief fund. That makes up approximately 62% of the city's expenditures this year. And the grant subjected to testing and total for the federal programs make over 71% of the total expenditures for this year for federal awards. On the next slide, you'll see a -- the same breakdown. This time looking at the state programs. Similarly, the uniform grant management standards from the state of Texas prescribes us as auditors how to select which programs to test and this list provides you with the programs subject to testing were identified as major programs for testing during fiscal year '20. For reference, these programs represent approximately 41% of the total expenditures of 4.3 million that the city incurred for state awards during fiscal year '20. And on the next page, we did

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issue our clean opinion as I mentioned, but we did identify one compliance finding and related controlled efficiency we wanted to bring to your attention. When testing a sample of expenditures for the coronavirus relief fund, we noted that five of our samples totaling $74,000 -- $74,036 were for services that the city provided to nearby government Al entities that were reimbursable to the city from those entities. And our interpretation of the coronavirus relief fund requirements is that the city should only claim expenditures that it expended and not claim expenditures that would be reimbursed from other sources. So we considered this to be noncompliance with the coronavirus relief fund requirements and a significant deficiency in the city's controls over the compliance over allowable costs for this specific program. I will also mention here that in

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our finding we note that city management quickly researched this issue once it was identified, removed $2.2 million of costs from the program and replaced it with $2.2 million of costs that were allowable to the program very quickly. We were also, as part of our audit procedures, able to test the replacement $2.2 million of costs that had no additional findings related to that additional $2.2 million the city was able to claim. On the last slide, I won't touch on it. It just provides the definition of a significant deficiency which I mentioned that the finding on the previous slide we had noted is considered a significant deficiency rather than a material weakness. Not something that we felt like was material to the program overall, but certainly something we felt like merited the attention of this committee. With that, I'd be happy to take any questions that you have about our single audit process.

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>> Thank you, Mr. Rogers and really proud of our staff have handled the enormous pressures of the pandemic in managing all of the financial, you know, steps that were needed in order to be able to effectively use the funds according to the guidelines. So thank you for that. Colleagues, does anyone have any questions? Mayor Adler? >> Mayor Adler: Is that powerpoint posted somewhere? I couldn't find it. They told me -- I may have missed it or it may have been e-mailed out. >> Mayor, I sent it yesterday to the committee members. But I also mentioned that it's going to be posted to the city

website after this meeting. >> Mayor Adler: After the meeting, okay. Thank you. >> I believe it was recent this morning also. >> Mayor Adler: Thank you.

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>> Chair: Any other questions on this? So you want to respond to the findings? >> Yes. If we can go to the slide with the city's responses. As Blake mentioned, deloitte did identify one significant deficiency related to the single audit, so go a few pages down towards the end. One more. One more. Okay. Thank you. Deloitte did identify one significant deficiency essentially expenditures that related to services provided to -- with an interlocal agreement that was going to be reimbursed to the city, or process using memo task orders, which are a mechanism used by

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the city to aggregate costs for a specific purpose. So some of these expenditures were related to interlocal agreements that we had with outside entities that were going to be reimbursed by those outside entities. Once we were made aware of the unallowable expenditures, our staff removed all expenditures that were using memo task orders, regardless of whether or not they were reimbursable from outside sources. That's the 2.5 -- or 2.2 million that Blake is referring to. While not all expenditures using the memo task orders were reimbursable from outside orders -- we proceeded to remove them out of an abundance of caution to make sure we weren't including expenditures that were not allowable under the crf. We do concur with the finding, but we have put a thought process in place going forward to make sure this doesn't occur with any future covid-19-related

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costs to the U.S. Department of treasury. Auto we've added an additional level of review to make sure we're complying with this. >> I have a question with respect to the coronavirus relief funds were one set of funds that we received from the federal government, but then there are another block of funds that are reimbursement from FEMA. I understand there's a process by which FEMA grants us those, but how does that get audited or how does that process get reviewed? >> So -- did you want to -- >> So just to speak a little bit about the FEMA process, as we submit those expenditures to FEMA for reimbursement, they would become eligible expenditures under the single audit. And then they would be susceptible to audit following the guidelines that deloitte would follow for the audit rules to make sure that we get the

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appropriate coverage. They may or may not be selected for audit, depending on what programs deloitte selects through that audit process. At this stage, we are still reviewing all of our expenditures, trying to maintain that flexibility of funding and selecting the most appropriate funding source for the -- for these costs. And we are working with our consultants to determine which expenditures are best submitted under FEMA. We're still working through that process and submitting items to FEMA as we go. In fiscal year 2020, we had not submitted any coronavirus expenditures to FEMA at that point. >> Chair: Okay. So these are all from the expenditures through October -- up to October 1st and then you hadn't at that point submitted the FEMA reimbursements, so you

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wouldn't have chosen the FEMA funds to be reviewed at this point in time for this audit. >> Correct. >> That is correct. The federal government requires that FEMA awards not be presented and subjected to audit as part of this process until FEMA approved all final costs from the city. That did not occur during fiscal year '20. It hopefully will occur in fiscal year '21 or quickly, Diana, I hope. So those will likely be included in the '21 audit. >> Okay. So moving forward, we would anticipate when you come back to review fiscal year '21, there will be potentially additional cares money as well as aarp money audited because that would obviously be the thing that's the largest amount and new for us. We would want to have our auditors looking at to make sure we were doing that all as we needed to do and then the FEMA may or may not come with the fiscal year '21 because we may

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not be done with all of those reimbursement from such a long -- >> But we are working with consultants to help us to navigate that process to bring down as much of those funds as possible. While we're on the subject, I will just say I really do hope that we will be able to get reimbursed for the testing costs. That reimbursement amount seems particularly low in what we've been seeing and really like us to see if we can get those reimbursed. Now, for the storm, again, this wouldn't be -- this would be coming in fiscal year '21 then, do we count the storm and the pandemic FEMA processes separately or are they all wrapped up together at this point? >> They're going to be separate, but they follow the similar process that we follow for the FEMA coronavirus response.

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So we're going to aggregate all the costs and make sure we have everything together in a packet and after we submit it to FEMA, that's when we'll add it to the single audit. >> Okay. Thank you. Do any of the committee members or councilmember Harper Madison have questions. Councilmember tovo? >> Just a quick one. Thank you for the presentation. Can you help us understand the extent to -- it sounded as if some costs were reimbursed when the significant -- sorry, I've forgotten the terminology. When it was noted that some costs had been included that were due to -- that were being reimbursed by other entities and the city made the adjustment, I think one of you explained that it also captured some costs that weren't reimbursed by other entities. Do you have some sense of the scale of what the total amounts were of cost that is were not

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reimbursed by other entities but were excluded from the cares act? >> Due to the timing of the audit, we didn't go through that detail to make that analysis. But we did have eligible expenses that we knew for a fact were not going to create issues and would be allowable under the cares act. So we just went ahead and moved eligible costs over to the cares -- cares fund. That way we could make sure that all expenses being charged to the coronavirus were eligible expenses. And these were all related to public safety. We had plenty of eligible wages to move over to the cares fund. But we did not have that breakdown. >> I see. Are there -- are there eligible expenses that are not being reimbursed now because they were removed? I may have misunderstood what you were -- >> No. Out of all of the funds we received out of the coronavirus relief fund, we were able to expend all of the expenses that were granted. >> Thank you very much.

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>> Just as an FYI, about 137 million of the coronavirus relief fund was expended in fiscal year 2020 and then the remainder, which I think was 37 million was expended in year 2021. That's going to be captured in the fiscal year 2021. >> Does the single audit cover the cares money that went to the airport? >> The cares money that went to the airport is included on this -- because of the selection process that the federal government mandates, we did not have to test that portion of funding this particular year. >> Chair: Okay. Great. Well, thank you. We appreciate seeing you. Do we need to take any kind of motion to accept the audit or anything like that? Okay, great. Thank you, Mr. Rogers for being with us. Thank you, Ms. Thomas and jukic.

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I think some of you are staying with us for the next ones. Colleagues, we're going to move to the able item, the airport staff have asked if they can go a little bit earlier because they had another meeting that they needed to accommodate. We can move that over. I will acknowledge that we are joined by councilmember Fuentes as well. Good morning. The able item is item 5. Discuss issues related to Austin

Bergstrom land host enterprises inc. Able and the operations and financial nation of the Hilton hotel at Austin Bergstrom international airport. We have two items related to able on our agenda. Council agenda next week and the airport staff have asked to speak with us in advance in our committee. Good morning, Ms. Thompson. Are you leading off?

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>> I'm going to kick it off this morning. >> Chair: Welcome. >> Thank you. Thank you very much to the committee and the attendees. My name is Tracy Thompson -- I'm sorry. Can we put the powerpoint up please. The next slide please. Okay. Hi, my name is Tracy Thompson. I haven't met a lot of you yet. I have been with the city of Austin, department of aviation for about ten months now. My position is airport kmeef officer, administrative and external affairs, also interim airport chief officer for our development program and more recently I've become the vice president of the board of directors of the able corporation. So that's who I am. I'm joined today by my colleague at the department of aviation -- Thomas. The airport chief of finance. We have a short presentation for the benefit of the committee. It's basically focused on the two rcas pending for city

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council meeting on June 3rd. Related to the Hilton hotel resiliency program. We wanted to update you and answer any questions that the committee may have regarding these two rca action items. Knowing that we're pleased to come back to this committee and council in the future to talk about other items related to the able hotel enterprise, pleased to do that in the future. We're going to try to be succinct today for this committee's benefit. Next slide, please. When I was asked -- when I joined the airport last summer, one of my first jobs was to come up with a program along with my colleagues and team, this is not me alone, our team was asked to put together a financial analysis of the hotel operations in a covid environment. Similar to what we had to do with the airport for our airlines, our rental cars, every business at the airport was struggling as a result of the impacts of covid. So we first dug into the hotel

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and its operations mainly from a financial standpoint to look at what type of business continuity program could be put together to help sustain this asset of the city of Austin per the pandemic crisis situation. Through that process of looking at how we could sustain the hotel enterprise, we also uncovered that there were governance issues, cleanup that we needed to do with respect to articles of the incorporation and by-laws. So those action items have come to the council and been approved. What's left to be resolved is to get approval for the amendment to our by-laws for the able corporation that accurately reflect that the articles of incorporation designate and the second component is the loan agreement. The loan agreement is a critical kpoen ebt of the airport -- component of the airport's program for the resiliency of

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the Austin hotel at the airport. Sorry. For a little bit of context and I'm going to turn the mic over in just a second. For those who are not familiar, able, which is the acronym for Austin Bergstrom land host enterprises was developed by the city of Austin in 1998 for the purpose of the hotel at the -- located at the airport property. So the corporation actually operates this hotel. These are the primary contracts for hotel operations. There is a separate franchise agreement from the management agreement. So the brand is Hilton. Through a franchise agreement and then there's a separate management agreement with Boykin and prospersa. Which we refer to as prosper a. The other three documents that govern the -- are the ground lease that the city of Austin, the grant agreement that was part of the bond indenture restructured in 2017 and, of course, our 2017 bond indenture with the trustee as the bank

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those are the primary controlling documents that developed our resiliency program. Next slide, please. This is the last slide I will speak to. If you look across the top of the slide, you'll see that the total passengers for Austin Bergstrom international airport in 2020 dropped 63% from the 2019 numbers. Similarly, the Hilton hotel reflected at the bottom of this slide, Hilton hotel occupancy and the corresponding revenues dropped 60%. So the Hilton hotel is not only competes with of course the other hotels within the Austin community, there's almost a direct reflection of how well the airport is doing with respect to the covid impacts. So as we had a reduction in our passenger counts, the Hilton hotel at the airport was corresponding. They had large contracts with airlines for crew, where they

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stay. Their occupancy also dropped, therefore, requiring a business continuity plan. So with that kind of as context, I'm going to turn the mic over to Mr. Thomas. He'll talk about the details of the loan agreement which are -- and the details of that and then we'll be pleased to answer any questions at >> Good morning, council members. My 'name is rajeev Thomas, deputy chief of finance with the airport. If you go to the next slide, please. Okay. Back in mid-2020 when the pandemic, you know, was at its worst and traffic at the airport was down about 90%, et cetera, the occupancy levels at the hotel went down to about 20%. The hotel is really kind of very closely correlated to what happens at the airport, since it's on the same property. And so you know, we were looking at financial projections and

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what our cash reserves would be going forward and how long the cash, operating cash that we had would last. When we made those calculations back in may 2020, we realized that we were going to run out of money in the operating account by February of 2020 and we presented this to the rating agencies, too. This is when we decided that we need another type of funding source to get the hotel through the pandemic. You know, unlike some other hotels which were able to shut down its operations, close their doors, this hotel has contracts with the airlines, with their crew, for the overnight stay so they had to stay open to honor those contract and they have to actually keep the restaurants open to have available food for those flight attendants and the pilots that stay overnight.

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So there's a lot that you cannot do in terms of what other hotels can do. But still, what we did was we reduced the operating expenses by 44% last year. We did this obviously, you know, as the demand went down we had to do reductions in staff. We renegotiated -- tried to renegotiate some contracts. We reduced the scope of some of the work that, for example, the landscaping company was doing, et cetera, and we also postponed several capital projects and services, too. One of the other things that we got from prospera was, you know, they made their fees late, I think fourth quarter of 2020, they were only charging 50% of what they were charging before, about $18,000 a month versus about $37,000 a month, and they did that for six months to kind of help the hotel during that time. But we knew that even with all

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those measures, there wasn't enough money to pay all the expenses that we needed to pay, so some of the invoices were deferred and I think, I mentioned this before, you know, we deferred the invoices to Hilton, we deferred the invoices to prospera. Those haven't been paid for a while. And also, we deferred our payments to hardy partners and Greg milligan and also to our outside legal counsel. So those bills haven't been paid since March, April of last year. So this operating loan was to kind of help catch up on paying all those bills. What we are finding out is that we have essentially run out of money in our admin fee fund. We have items that are due per the bond indenture, I mean the

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trust indenture, and reports we have to submit to the bond trustee which we are not able to do right now because there's not enough money in the admin fee fund. There is only $1500 left in there, and so this operating loan is supposed to help pay for all those costs going forward, and you know, midyear, we also received the ppp1 loan, $907,000. We used that money to re-hire about 75 personnel back to do some projects around the airport -- I mean, sorry, around the hotel, and you can see I identified about 46 projects but most of that ppp loan, 83%, was used towards payroll expenses. The rest of it was used towards utilities like electricity and

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water utilities, as stated by the small business association what you can use those funds for. So we expect that all $907,000 to be forgiven. We are submitting an application to Chase Bank, who we received the funds from, for full forgiveness of that $907,000, and we should receive an answer back in about six weeks or so, is what we hope. Also, we applied for ppp2 loan this year, so we received $1.27 million in ppp2 loan also, which is also going to be used mostly all towards payroll as much as we can. Next slide, please. So couple of things regarding what I mentioned to you before regarding the admin fee fund and the items in the admin fee fund we need to pay out that we are now out of funds in that fund.

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For example, the hardy partners invoice, that gets paid out of the admin fee fund. You probably cannot see the flow of funds very clearly but it starts with expenses and there's a rebate fund and admin fund, that's the third bucket in that flow of funds right there. Also, the consultant reports that is due to the bond trustee, which is the consulting engineer's report we have to submit annually and also there's a revenue consultant report that kind of states how much revenue you need to collect to meet the rate covenant in the coming year, et cetera. So those are requirements based on the bond indenture that gets paid out of the admin fee fund. In addition to that, as you all know probably, we have a grant agreement with able where, if the debt service reserve fund is dipped into to pay the debt service payment, we have to replenish that. The airport has to replenish

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that. So we did make a payment into that service reserve fund as of October 1st, 2020, for $1.5 million. It was again drawn from $1.08 million in April 1 of 2021 so that payment is pending but that is coming out of the airport's accounts, and we also anticipate that we would have to make the October 1st, 2021 payment and the April 1st, 2022 payment because we don't feel there will be sufficient cash flow that would, you know, that would flow into that debt service fund account to pay the debt service payment within that time frame. So I mean, those expenses are kind of anticipated by the airport and we have already communicated that to the controller's office that we expect to make the payment and if you look at the current occupancy level at the hotel, in March and April, it's about 50%

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to 60%, so it is now at the break-even point but it doesn't generate enough excess cash to be able to go back and make the payments that are past due, nor does it provide enough sufficient cash flow to fill this debt service senior debt service fund. So I mean, that's sort of the situation that the hotel is in. So that's why this operating loan kind of helps them meet those prior obligations and then, you know, as they break even, hopefully the traffic trends higher and they break even, they are able to meet all the current obligations out of the operating fund going forward and maybe some money will start trickling into these other accounts that need to be funded. Tracy already mentioned about the governance and the by-laws so let me just get to the next slide and talk about the loan agreement. Okay.

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So we did approve a new budget with the able board of directors as of may 17th. There was an original budget that was done in March but that was kind of put together before we saw the travel rebound in March and April, so we put together -- I met the budget that was approved by the able board of directors. When we look at the full year occupancy levels and the revenue projections, we still feel like we need the operating loan because the occupancy level, the expected occupancy levels, we are still, you know, we think it is going to be in the 60% levels rather than 80% occupancy levels what it was in 2018 before the pandemic. We are not quite back to full recovery and we don't expect to be back to full recovery until the year 2022. So the loan agreement, the purposes of it is assurance to the bond trustee and external

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auditors that able will remain a going concern, because you know, the auditors had some doubts about able as a going concern because of the cash flow issues that it would face in the coming year, so this operating loan was also an assurance to the auditors that we can fund the operating expenses with what we get from the ppp loans and also from the operating loan, if needed, because there's a line of credit in that operating loan component I will get to in a second. And then as I mentioned before, the operating budget, the vendors and suppliers I mentioned before, some of the provisional services, then it will also, you know, augment the ppp loan proceeds. What it is kind of providing is sort of like a bridge loan until the year 2022 before we see the

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full occupancy levels return, and it is just to make sure that it has -- the hotel has the financial lifeline to get through this pandemic. If you go to the next slide, please. So the structure of this loan agreement, it is for a full amount of $2.6 million. We expect the initial draw to be about $1.3 million or so to make sure that all the prior obligations are met, and then there is a $1.25 million as a line of credit that is going to be drawn on just based on what the hotel submits to the airport in terms of their projections for the coming quarter. So they are -- we are going to look at the forecast for the hotel on a quarter by quarter basis and see whether there is any need for any additional amounts other than the initial draw. And the loan interest rate is 2%. It was based on the federal

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reserve rates, orf you look at the federal reserve rates for a five-year loan, it is right below 1% and seven-year loan is about 1.3% is what is average. It has a little bit of risk premium in there that takes it to 2%. Then the payments start in April 1st of 2024, started as an interest only payments, then April 1st of 2025, to March 31st of 2028, you get the principal and interest payment. So what it allows the hotel to do is start replenishing some of those debt service fund buckets, that is the debt service fund and also the debt service reserve fund buckets, before they have to, you know, pay the loan back. So that was the end of my presentation. We can take any questions you'd like.

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>> Alter: Thank you. There we go. Colleagues, do you folks have any questions? Council member Fuentes? >> Fuentes: Thank you. Thank you for the presentation. My question is about the second ppe loan. You mentioned that intention is to spend that fy '21. Have you -- have we received the -- the funds yet? >> Yes. Yeah. We have. We have received them. >> Fuentes: Okay. >> It is going to go towards just like a ppp1 loan. The projection is that 80% something. >> Fuentes: So if that loan is going to payroll, do we have a better, if I could get a better understanding of how this operating loan would help supplement the other costs that are owed, that would be helpful. I know you have a slide there that kind of broke it down but -- >> Yes. So let me also bring up another

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point. As you probably know, most businesses around the city are having a lot of trouble re-hiring employees right now. Our concessions at the airport is really having a hard time, too. Likewise, the hotel. What the hotel is telling us is they are going to have to increase their minimum wages there and start hiring and start offering $14 and above, so that is also adding an extra cost to the payroll expenses in this coming year. So we hope this ppp1 loan would help supplement some of the increases in the payroll costs that we are expecting to incur this year. >> Fuentes: Okay. If you could just walk us through, I'm glad to hear we are raising wages. Certainly want to get to market wages and liveable wage. That's great news. And definitely needed. So then I know it's on council agenda for next week for us to

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approve the operating loan, so I just want to understand if there's any other like time sensitivity or risk that we should be aware of. >> Yes. I mean, the time sensitivity is regarding what I mentioned before regarding the documents that we have to provide to the bond trustee. Those are actually past due. They were due this month. And we don't have the money to produce the consultant report or consulting engineer's report that is due annually. So you know, that is, you know, that puts us in non-compliance with the trust indenture right now. So that is one of the things that we have to consider. Plus the other risk that we talked about earlier was, you know, we have non-payment, we have also incurring late fees with Hilton. We have already incurred over $3,000 in late fees with Hilton

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and one of our points to them was that we had this operating loan coming hopefully and then we would catch up on all those payments. I don't know how long they would hold back those issues with collection agencies they can send those to if they feel like you're not making the payment. All this risk is still there. But I would say the bond indenture and being compliant with the bond indenture is right up there. >> Fuentes: Got you. Thank you. >> Alter: So this is a loan from the department of aviation and those funds are not part of the general fund, they are part of the enterprise fund that is the airport, correct? >> That's correct. >> Alter: From the airport side of it, where are those funds

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coming from, they are coming from the operating budget or -- >> It's coming from our surplus capital fund. We do have enough, we have about $170 million in there currently as a balance. So that is our sort of, after the operating expenses, that's where all our funds kind of flow into. >> Alter: Okay. It's not -- you have to have enough funds in there to be able to pull off the expansion. >> Exactly. I mean, so it's sort of we want, we don't see another alternative right now. If there was another alternative that we could go with, definitely we would. But I mean, this loan would be paid back. We expect it to be paid back. And one of the optimism we have

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about the hotel is this area around the airport, it's really going through a revitalization with the Tesla plant nearby so we feel the hotel will do well in the future just because the economic conditions around the airport should improve. So it's to kind of foster the ability to serve the airlines, the hotel also serves as help for the airport. When we had -- I mean, the weather even back in February, we were able to -- a lot of our staff had to stay overnight at the airport for four or five days, and we were able to put them up at the hotel, which is right on theproperty. So there's a lot of, you know, what do you call, symbiosis between the airport and the hotel that we are trying to --

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>> Alter: Appreciate it. This is a useful conversation for us to be having, to have separate from just memos flying at us. I know I have a much better idea of the financial challenges that you're trying to solve with this. Council member tovo, did you have a question? >> Tovo: I did, thanks. Just a quick one. On slide 5, you talked about 46 projects and I apologize if I missed your explanation of what some of those were. I wondered if you could identify for us what some of the projects were that the staff that were identified for staff to work on during the period of time where demand is low. >> Yeah. I mean, from my understanding, I can maybe reply back to you with a little bit of detail after I get that from the management company. But there were some sort of paintings and fix-ups that they needed to do at the hotel, like whitewashing the outside of the

[10:18:27 AM]

building, for example. I remember that was one of the things that they did, et cetera. I don't know all the projects but I can give you a list of it after the meeting. >> Tovo: Thanks. Maybe we can treat it as a Q & a for the council when it comes forward for the council. That would be useful, just to get a sense of the kind of work that's been done on the Hilton. As part of luring people back. Thanks very much. >> Alter: Maybe we can put this presentation, both the slides but also maybe just a note that this was discussed at this time, in case other folks are in need of or desire additional information. I think there was a lot of information in the presentation that wasn't necessarily on the slides that folks may find helpful if they have questions. Are there any further questions?

[10:19:31 AM]

Council member pool? >> Pool: This is just a general comment to my colleagues on the audit & finance committee. Remember at our last meeting, I mentioned I had asked staff to give us a written inventory of the various different entities the city of Austin has that are either created by the council under specific statutory authority like lgc, local government corporation, or created by counsel outside of chapter 210 of the code, and entities or entities that are created with other governmental entities like the sobering center would be one of those. Entities created by housing finance corporation and looks like the last category, entities created by a state or federal law and the council appoints members to that entity's board. I now do have to listen, I appreciate staff digging deep to be able to acquire the information and organize it and get it into a spreadsheet. There's about -- there's more

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than 50 and it's an interesting, I just got it yesterday so I haven't actually been able to spend too much time with it other than just to kind of give it a cursory review. I'm happy to share this with everybody, whoever is interested in seeing it. There's a wide range of work that we do, obviously, and this puts together all of the entities that are affiliated maybe not as directly, obviously, as aviation department would be to the city, but whose welfare and resources is in our stewardship, and which welfare we really care a whole lot about on the dais. Again, I want to let folks with the city manager's office and the law department and our legal folks, law department and our financial department, for pulling all this together. We'll have more on it in the future.

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Just wanted to give you all an update that we do now have that inventory. And able is on the list. >> We are pleased to come back and provide additional information at your request. >> Alter: Thank you so much, Tracy. The briefing that you gave to my staff and me a couple weeks ago was really insightful and I answered a lot of questions that we had and we appreciate the good work that you all are doing. >> Thank you. >> Alter: Jumping ahead for a moment to item six on future meetings, I believe vice-chair pool asked us about an item on our June meeting related to able more generally to help us better understand that history and the financial profile of operations and governance and other kinds of things. So we will see you in a few weeks. Thank you very much. >> Thank you. >> Pleasure. Thank you for your time. >> Alter: So the next item we will take up is item number three, the financial policies

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update. >> Good morning. >> Good morning. How are you? Thank you all for having us. I just want to make sure the entire team is on. Can we start the presentation, please? That is actually the backup.

Thank you. Good morning. I'm the interim budget officer for the city. I wanted to just start out with a point of clarification for the record that there are several

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financial policy changes that we're bringing forward to the audit finance committee from Austin water aviation and Austin energy. The original post had Austin water as the lead department. However, the financial services department is the lead and has worked with each of the departments on these policy changes. A representative from each department will discuss the relevant changes and then if the committee supports these recommendations, they will be included in the fiscal year '22 proposed budget that will be presented to the full council on July 9th. Next slide, please. So we have Adam Mcelroy with the Austin energy department who will speak to the letters of credit financial policy changes. >> Sure. Thanks. Good morning, mayor and council members. Thank you for your time today. I'm Austin energy's finance

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director for risk. In that role, I serve as one of the utility's primary staff members accountable for the management of credit risk for Austin energy. As part of our credit risk management, on behalf of our citizens and customers, the city of Austin and Austin energy support vendors' obligations under our contracts, including our long-term energy market contracts like power purchase agreements, with letters of credit or lcs. From credit-worthy third party providers or issuers. These issuers pledge to deliver cash security to the city if a vendor underperforms and that mitigates the overall negative impact of risk of underperformance by our vendors. The goal of the lc practice is to mitigate the risk of non-performance of the vendor, so the credit quality of the issuer of the letter of credit is of critical importance to that plan. The update here to the financial policies requested today would delegate oversight authority over issuers of letters of credit just for energy market contracts like ppas to Austin

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energy's risk oversight committee. That committee is created by council resolution for the purpose of managing risks for the energy markets and explicitly includes credit risk in its mandate. On behalf of our customers. So to meet that mandate, that committee has developed a focus and experience in overseeing credit risk in energy markets in particular, both within committee membership and within the staff that supports it. In recent years, the committee has seen that the evaluation of issuers for energy markets has a community of practice of its own that uses a similar overall level of diligence for screening issuers, but slightly different detail tests for issuer quality versus the test in other local government practices like our existing letter of credit policy in the financial policies today. So staff believes that locating oversight of the energy market lc issuer quality at Austin energy's risk oversight committee can help align the city's diligence in these matters with the best practices for credit management in these

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markets. We believe the change will benefit citizens and customers by allowing more coherent matches between energy contracts and the policies of the city, increasing the familiarity of our vendors with our contract structures as they bid, since they are part of this other community of practice, and overall, we think that wl improve the offer quality and pricing for our power purchase agreements for our customers. So I will pause here for this slide and this update request. I'm happy to answer any questions the committee may have. If there are none, I think rajeev from aviation will discuss the next change. >> I think maybe we will go through the presentation and then take questions, if that's okay. >> Good morning, council members. Next slide, please. So there is two changes that we are asking regarding the financial policies for aviation here. The first one is, this is the

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current liability calculation, which the threshold is 1.5, and we are asking that it be substituted with a minimum 400 days cash on hand, based on the annual operating budget for the airport. And the reason why we are asking for this is in the aviation industry and when rating agencies look at airports, the metric that they usually cite that compares airport to airport when it comes to financial health is the days' cash on hand. There are airports, for example, like the Houston airport system that has over 1,000 days cash on hand and there are others that go to 400 to 300 days' cash on hand. So it's a whole spectrum of where airports are in the capital development program and how much cash on hand that they have. So the recommendation here is to

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replace the current ratio with the days cash on hand, you know, looking back at this financial policy back in fiscal year '17 and '18, we were not -- the airport was not in compliance with that financial policy and the reason for that is we had large capital projects like the parking garage that was ongoing at that time, and invoices worth millions of dollars were showing up in current liabilities, while the cash used to pay for that wasn't in current assets so it wasn't in compliance. So since this is, you know, trying to measure short-term liquidity anyway, which the airport has an abundance, this would be a better measure, in our opinion, going forward. And the recommendation with number two, which is also replacing item six of the financial policy six for the airport is just removing the working capital calculation out

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of that policy, because again, the working capital policy -- I mean calculation is very similar to the current ratio calculation. It's subtraction -- I mean, division, and the only thing that the bond indenture asks for is that we maintain in our O & M reserve fund 60 days of expenses. And we are in compliance of that and we just wanted to change the language that more closely reflects what the bond indenture states or the bond ordinance states. So next slide. I think Austin water. Thank you. >> Good morning. I'm Joseph Gonzalez, assistant director and chief financial officer for Austin water. Today, we have four proposed updates to our financial policies for fiscal year 2022. The first three recommendations are related to key financial

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indicators that our rating agencies look at when evaluating Austin water's credit rating and the fourth recommendation would streamline the board and commission review process for capital projects within the drinking water protection zone. The biggest driving factor for the proposed financial policy change is the lessons learned during the drought from 2011 to 2015. During the drought, Austin water saw drought related revenue shortfalls totalling $96 million in fiscal years 2012, 2013, 2014 and 2015 combined. As a result of a 49.4 million revenue shortfall at the peak of the drought in 2014, Austin water's debt service coverage dropped to the bond covenant level of 1.25 times annual debt service requirements. Now, if the revenue shortfall had been $600,000 higher, Austin water would have been in

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technical default with its revenue bonds and could have had its bond rating downgraded. So in addition, Austin water saw its days cash on hand, financial metric, drop to 53 days, below the financial policy target of 60 days during the peak of the drought. In 2014, actually even before year end and before year end results were available, two of the three major credit rating agencies placed Austin water on a negative rating outlook, due in part to weak debt service coverage and cash reserve levels. Now, after 2014 year end results were available, it became clear that Austin water's current financial policies were too low to ensure compliance with bond covenants and to provide strategic guidance needed to maintain minimum levels of financial performance to support Austin water's aa bond rating. To that end, we are recommending an increase in debt service

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coverage financial policy target from 1.5 times coverage to 1.75 times coverage. We are also recommending an increase in the days cash on hand financial metric from 60 days to 180 days. In addition, we are recommending an update to Austin water's cash financing target for cip projects from a minimum of 20% of annual capital project expenditures to a range of 35% to 50%. I point out that we ended fiscal year '20 with debt service coverage of 1.9 times annual debt service requirements. We ended the year with 300 days cash and we maintained a cash financing funding percentage between 40% and 50% since fy '18. So because we are currently performing at levels above the proposed minimums, we do not expect the proposed changes to drive future rate increases. In fact, these three financial metrics complement our long-term

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affordability efforts by assuring that we have adequate resources to withstand weather-related revenue volatility while also supporting our long-term capital planning and debt management efforts. Particularly as we plan for future resiliency and water forward projects. Finally, we are proposing a change to the financial policy that requires Austin water to submit capital projects for new treatment plant projects, capital expansions, growth-related projects located within the drinking water protection zone to several boards and commissions. The wastewater commission, resource management commission, the environmental board, planning commission, and the zoning and planning commission. In addition, we are requiring to hold a public hearing before council related to the proposed projects in the drinking water protection zone. Although this policy does not impact our financial performance or bond rating, and we are proposing a more streamlined process since the items before these board and commissions and

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the separate public hearing have again honored, you know, any public input in many years, in addition other than the annual drinking water protection zone item, we have had little to no interaction with the board or commission. We are proposing rather than go to all of these board and commissions, we focus our efforts on the wastewater commission and the inclusion in the city's budget process. So with that, I would be happy to answer any questions. I believe that concludes the presentation. >> Alter: Thank you. So I will put it out for questions but before I do, I just want to flag that I think it would be useful if we could get Mr. Gonzalez and folks at Austin water together with some of the water stakeholders to view the policies and explain the rationale and talk through

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some concerns that may have arisen, particularly on the recommendations for Austin water. We do have another meeting in June for audit & finance so I think it would be useful to get, you know, to dive a little bit deeper and explain that. I think there are some concerns about, you know, the trade-offs of increasing the bond rating and being able to do things at lower interest rates. I'm pretty confident that for those pieces for the first three, that there are sound financial reasons for doing things and history, but we do have a water forward task force and stakeholders who have been very engaged in factoring in a lot of these things. The fourth recommendation gives me a lot of pause, and again, I think we need to have open and transparent conversations showing up on an audit and finance which is the appropriate

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way for it to appear, but when it appears just a couple days before the meeting, makes it hard for the stakeholders to come and address us, so I'm hoping, I'm happy to be involved in helping to convene that with you, but I think that might be an appropriate next step, particularly with respect to the Austin water elements of the financial policies. Is that something that you're open to, Mr. Gonzalez? >> It is. I would point out that we have had two public stakeholder meetings to discuss these changes. In fact, when we came forward to council in 2018 with our proposed rate reduction, 4.8% rate reduction, that rate reduction was the result of conversations and joint recommendations between many of our stakeholders.

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It included our large volume customers, you know, our multi-family customers, the Austin apartment association, low income advocates. We had a residential rate advocate. So we had representatives from all of our customer classes in that process, and in that process, we agreed to a public stakeholder process before proposing any financial policy changes. To that end, like I said, we had two public stakeholder meetings, including hiring a residential rate advocate to provide recommendations and input on the proposed changes, and the residential rate advocate did not oppose three of the four recommended changes initially, when we met with our stakeholders. We were proposing a debt service coverage of 1.85. We have since dropped that to

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1.75 based on feedback we've received. We were proposing 245 days cash. We have since dropped that to 180 days and based in part on the residential rate advocate's recommendation of 150 days. But we decided to go with 180 days which I believe is in line with the convention center, and so we have had that public conversation. We're happy to do more, if necessary. We do understand that Mr. Davey has reached out to mayor and council, but we do believe that the proposed changes not only won't drive future rate increases, they are supportive of more rate stability potentially as we head into periods of increased capital programming and the proposed levels and current levels that

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we're operating at provide sufficient revenues to provide for our long-term capital plan and also support our debt management plan. >> Alter: Thank you. I was unaware of those stakeholder meetings. Were there any environmental groups represented at those or just rate payers? >> There were not any environmental groups. We invited the same folks that participated in cost of service study, as well as advertised it on our social media, on our web page, but in the social -- or in the last cost of service study, we did seek input from environmental groups but they didn't really participate in the process, and we did not directly invite them as part of the process. We would be happy to do that. >> Alter: So that's the group of folks that I'm particularly interested in, making sure that we can have an open and transparent discussion with so that they can get up to speed on

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the financial details of the problem that you're trying to solve and the solutions that you're proposing, and then, you know, understanding from their perspective even if they're not coming and being active at the committee, how having those opportunities and those notices at the committees that you're coming, assist those efforts to monitor and it's not a bad thing if you have been hitting the mark and they haven't had to raise questions for the last few years, but it is a positive thing if they are able to see those surfaced and reviewed and I know as a council member, I feel better for the projects we cannot review on our own in great depth, knowing that some of those review processes and steps and extra eyes are on those programs. So my office can work with you and we can convene some of those folks and it sounds like miss Lange was suggesting that you ultimately want approval of the policies from this committee in order to put it in the budget

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that comes forth to council, so I think we could put it -- probably put it on the June agenda and address that, address it then. Vice-chair pool? >> Pool: Thanks. Thanks for the presentation. I have two questions on the water financial policies and one on aviation. We will start with water financial policies. Could you pull up the four recommendations slide? I wanted to focus on recommendation four, which I think the chair was talking about as well. So I have a little bit of personal experience, having been a commissioner on water wastewater probably 15, maybe even 20 years ago, and I know from being on that commission that most of the people who are appointed to the commission have

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a particular lens that they look through as they review the water department and the specific engineering contracts and the technical documents, and I'll just say as an aside, it was a massive upward walk for me to learn all of the technical aspects of what's required to be a good functioning water wastewater commissioner. What they don't necessarily bring to the table are -- they may. I mean, I certainly did, but my lens, which was environmental sensitivity, I certainly brought that to the table and acted on it, but that was a minority viewpoint and it didn't get as much -- it didn't get as much attention or depth of review as it might have in an environmentally focused commission, which is why I believe that the capital projects in the drinking water

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projection zone are required to go through the environmental commission. I would not be supportive of excising and eliminating them from the review process for the specific reasons that the chair was discussing and the ones that I'm bringing to the table, which are that their perspectives are valuable and you won't find their perspectives with the amount of depth and insight as you will if you take these items through the environmental commission. With regard to the planning commission or the zoning and planning commission, the difference between those two, and they are equal and they both do similar work, the main difference between the two is if you have a neighborhood plan, then zoning changes are sent to the planning commission. If you do not, which tends to be peripheral, the outer ring of the doughnut, if you will, those

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zoning cases go to the zoning and planning commission, thus both of them are equally important and serious high level commissions, but they deal in different areas of town. So depending where in the drinking water protection zone, which is what you specifically call out here, maybe you would be going to both commissions, but the one with the jurisdiction would be the one where the capital project is cited. It may be that part is being doubled up or doesn't necessarily need to be. I don't know, because I haven't seen your examples. But I would just ask you to review that and consider the fact that one area where the city can do better, and we talk about it a lot on the dais, is in planning, and in fact, the city has sometimes been criticized as not sufficiently planning, particularly for the future, and we're -- and when we are talking about long-term and

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expensive infrastructure projects like drinking water protection zone capital project, that would be in that category, it's important to make sure that as much information kind of trades into the community, that people have enough understanding of what it is that is happening maybe down the street from them or over the hill, and that we are as transparent and accommodating as possible with all the information. So I look forward to the additional information that you all will be bringing us and including in the month we have between now and our next audit & finance committee meeting. So that's my comment on your recommendation four and my ask of you for additional consideration of that. And then the question that I have, the second question I have for you and the one I have for aviation, it's the same question. In recommendation three here, and on the aviation financial policy slide, it was recommendation one, where we are

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talking about the number of days in reserve. I wanted to know what the dollar figure and the percentage of the total budget is for the increases in that cash reserves. And if you can't, if you don't have it at hand, that's okay. Maybe you could send it to us in a memo. >> Right. So what I would say, from Austin water perspective, we are currently around 300 days cash and I believe that's about -- that's around $300 million in cash. We are currently there so you know, there wouldn't be an increase. These changes for the three financial metrics, there wouldn't be a change in terms of

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rates or -- >> Pool: Just so you know, I'm all for reserves. I think especially looking forward, there may be the need to increase them is likely more critical now than it was even in the past few years because we're looking at a very different economic landscape, in a lot of ways. So I just kind of wanted to wrap my head around the scale of the size of the increase so that I could sort of compare it against the financial policy that we have for general city of Austin reserves, and how these two kind of line up with those. I realize you're talking about yours is the cash and on the aviation, was that also cash? >> Yes. It was days cash on hand. We have currently, if you look at our reserve of cash, about $212 million as of last week. It equates to about 600, right now, if you calculate based on our current year estimate, it's about 670 days cash on hand.

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>> Pool: Okay. >> So 400 is a threshold. We feel like as we embark on larger capital projects, that we envision in the future, that it might dip down to 500 to 400, but minimum, what our goal is to maintain

is 600 days cash on hand is our goal. But minimum, we don't want to go below four. >> Pool: I think that we are going to need that cushion and we should guard it zealously. Then on water, do you kind of have a general ballpark similar to what rajeev just gave me? >> Yes. For each of the three metrics we are proposing changes to, we've got internal targets, for example, for debt service coverage, we are targeting from a management perspective, we are targeting 1.85, so 1.75, you know, obviously as I mentioned, there's a little bit of concession there to provide a

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little bit more cushion, so that 1.85 doesn't potentially have an impact or drive future rate increases, which is one of the concerns that I think our rate payers have. Then from a cash perspective, management target is 245 days of operating cash, but in addition, we've got 120 days in our revenue stability reserve fund, and so the 245 days in complement with the 120 days in our revenue reserve fund gives us almost a full 365 days of cash reserves on the water side, which is where we see more revenue volatility. >> Pool: I just want to clarify from a financial perspective, you are already meeting all of these policies, trying to enshrine these in the financial policies to reap the benefit of

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that with respect to the bond rating agencies and how they view what you're doing, because they don't know what your internal targets are but the financial policies signal a commitment to this higher standard of order, is that correct? >> We do communicate to the bond rating agencies what our management targets are. Every year, they understand we're targeting 245 days cash, plus 120 days in revenue reserve fund, they know we're targeting 1.85. These do signal, you know, send a signal to the rating agencies that we're trying to increase the minimum level so that during the time of drought, and there's a real possibility that we're heading into another drought, so what these financial policies signify is that from a long-term planning perspective, if it looks like we're heading into

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drought, we need to probably start making financial decisions to ensure that we're maintaining, still maintaining strong levels of reserves, we're still maintaining adequate levels of debt service coverage to support our operation, even when revenues are more constrained and the real value of financial policies is that they support the long-term financial planning for the utility, but also institutionalize strong financial management practices. I started with Austin water in this role in December and replaced David anders, who had been with the utility for 33 years, and so over the last 30 years, David saw multiple droughts and lived through the drought of record in terms of 2011-2015. I was here during that time, but the real benefit of these financial policy changes is that they live beyond me and live

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beyond David, and so when I'm gone, if there's somebody who hasn't been through a drought, that they provide strong management tools and guidance to be able to weather those types of revenue -- potential revenue challenges that we may have in the future. I guess my question, just to make sure I understand, your concern is primarily on recommendation four or do you have also concerns on the three financial metrics? Because those three, you know, I think are tied together in terms of our financial performance. The fourth really is about the administrative, trying to streamline the process. We haven't had really much input from any of the boards and commissions. Those items generally pass on consent with no discussion. But we're not, you know, of the four, that's the one that we're

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probably the least concerned about. It would make our lives easier, but we understand that from a transparency perspective, that there may be a desire to continue as we are, or maybe just drop one, drop two, whatever the case may be, that's not a financial metric and financial performance-driven policy, whereas the other three are. >> Alter: I will just jump in since I put you on the spot with the questions. The financial policies, the first three, I was just looking for additional information to kind of slot it in with kind of the thought process that I had. It's number four that I, as I mentioned, I am definitely looking for additional consideration at your end. I will say that just because the public isn't showing up for a public hearing does not mean that they are not paying attention, or they don't care. I mean, it's actually a good thing that people are generally in a good place with the policies, but I think we start down the wrong road if we take

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that to mean that we no longer have to fortify the public's knowledge about what we're doing here by stopping with the public hearings and the public processes. >> Okay. >> Pool: Thanks for the answers on my questions. I appreciate that from both of you gentlemen. >> Alter: Council member tovo? >> Tovo: I will just register my -- I'm still not understanding entirely the rationale for number four. And I'm just going to note that that's one that gives me pause and I'm going to be talking with different stakeholders about their recommendations with regard to that one. I don't know if staff have any additional information they want to offer about the rationale other than what we just heard about streamlining the process. But I'm just noting this for the -- my colleagues' benefit. >> Yeah. I think really, the biggest driving factor for that one is

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because we are required to go to the five boards and commissions, it takes, you know, it takes some planning to do and in terms of coordinating with the meeting but honestly, we've got the same presentation, we've got the same materials. It's really just a matter of showing up and participating in those meetings. That policy, that proposed policy, if council has concerns, that's the one that I would, you know, be mostamenable to either postponing a change or having further discussion, or -- but the other three are really more about our long-term financial planning, our bond ratings and our overall financial performance. >> Tovo: I think I will just convene some folks to meet with you in the environmental community who may have some

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questions. I think that transparency and open conversation and ability of you to explain the value of those and what those mean in practice for the first three, then for them to be able to explain how they are viewing the opportunity to speak in these commissions, or to have the material presented there where they can see it, I just think that that's a fairly easy next step. I think we may end up modifying or not moving forward with recommendation four, but since I don't have their feedback on the first three other than kind of the gut reaction, I think, you know, my sense is on those first three, it's really a matter of providing the education and understanding of what we're trying to accomplish, and what that does or doesn't constrain us to, and how that's helpful for the utility since they were not part of the stakeholder conversations. I just think then we don't get to July or August when we're debating the budget and have to spend time on this. We can get those questions

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answered and not get diverted at the last minute dealing with something that's really just a matter potentially of everyone being in the same room, getting the information.. >> I'd be happy to do that. >> Mayor Adler: Great. >> Alter: Thank you. If there are no further questions, thank you all for being here and our plan is to put this on the June agenda for the vote on it, and with any changes that come forward out of those discussions. And my office will be in touch and seeing if she wants to be a part of that as well. I don't know if that's necessary, but we'll do that as well. Councilmember harper-madison, it's good to see your face. >> Harper-madison: I appreciate you letting me listen in, I have an 11:00, but I appreciate being able to listen in so thank you for allowing us to do that.

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>> Alter: My pleasure. Thank you, everyone, for sharing this information and we'll move forward accordingly. We now move to our last major item beyond discussing what will be at future meetings, which is the wildfire audit update. I believe that we have -- Mr. Stokes are you leading us off or are the fire folks? >> I can certainly introduce it. >> Alter: Okay. >> I don't see the fire folks on yet but it may be that I can't see everybody at once. >> Alter: I see Austin -- I don't see the picture yet. >> I'll go ahead -- >> Alter: I think they're over there, just in the room there. >> Excellent. All right, so this audit is related to an audit that we released on wildfire preparedness of the city and we periodically -- the departments come back, particularly at the

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request of the members of this committee, the departments come back and provide an update. In this case, the department is providing the update, and it would be Austin fire department and also there were recommendations to pard. So with that I believe that we have a presentation. And I will turn it over to the lead from Austin fire. >> Thank you so much for the opportunity to present and I'm going to just start off and it's going to be chief Stewart and Mr. Jones will be here as well as chief olka will speak. >> Alter: Thank you, chief baker. >> You can go ahead and forward to the next slide, please. So first portion of our update is related to recommendation number 1, which asks that we

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engage all entities with the responsibility for mitigation within the city and develop a system for tracking and communicating those efforts both internally and externally to bring transparency to all of the great work that the city of Austin is doing to mitigate wildfire risk. We took this recommendation a step further and we developed a g.I.s.-based platform of the wildfire hub which you can easily get to by googling that illustrates our collective efforts with the national wildfire strategy. That effort helps to us ensure that there are landscapes resilient to the catastrophic impacts of wildfire, that our communities can experience a fire without significant loss of life or property. And our fire department and first responders are able to effectively respond to those wildfires and take advantage of the great work that the members of the city have done, that lends itself to operational success during those wildfires when they do occur next.

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We're real proud of the work that has been integrated into the hub and we encourage everybody to take a look at that, at the resource, because it's a living document and it's updated in real-time, based on the work that we're doing in the fields. So I'd like to give you background on the hub and the elements of the hub so that you can take time to explore that. What we hope and intend is that into the future that many of the questions and the recommendations that are identified in the audit will be answered and reflected by the hub. In addition to the recommendations in the 2016 council resolution, which we work to encompass into the hub as well. It's reflective of our collective efforts, and you will see that it highlights our partnerships from across the city. Much of the focus for the audit was on fuel mitigation and it's less effective if it's not coupled with communities and residents taking action to reduce risk on their property. So we are tracking both the efforts to mitigate fuels risk

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on city of Austin property, and the efforts to engage and empower our residents and the communities adjacent to those areas to take action on their side of the fence. So I highly recommend that you take a look at the hub and dig into that. Some of the information that you can find on the hub are the year-to-date treatments from the city, including all of our land management agencies, Austin water, parks and rec and watershed protection. And we're even working with Austin energy and others that aren't traditionally managers but they manage the vegetation within the city of Austin to capture those collective efforts. So much work has been done across the city that we want to make sure that is illustrated. You can go ahead and switch to the next slide, please. So I touched on each of these elements. One of the key indicators that we discussed at our last update to the audit is the number of linear feet that have been treated in response to identify

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the wildfire risk. Originally we'd identified 647 miles of linear wildland urban interface boundary in Austin. We evaluated those areas for feasibility of treatment based on several factors -- access, slope, topographical features for our treatable acres which is currently 590 treatable acres across the city of Austin. To date we've had in place we have shareholderred field breaks on about 15% of those overall treatable acres, so we have made significant progress, but we still have a lot of work to do. Our fuels mitigation fuel, because of covid, stood down on fuels treatment, but we used that time to get strategic in our efforts and to go out into the field and to evaluate all of the sites for potential treatment and work with our land management partners to prioritize those areas for treatment into the future. So we're much more dialed in on

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the approach for fuels mitigation for reducing community risk in these Zones. In addition to that, we've got some recent examples of the fuels mitigation projects that you can look at in the hub. I'll bring one to you, one is in southeast Austin that protects the communities and values at risk in that area. And another one is the yeti reserve in northwest Austin, and in the jester community that reinforces the ongoing efforts by that community and by the city of Austin to mitigate the wildfire risks. So we're expanding our fuels mitigation footprint to include all areas with at-risk property within the city of Austin to ensure that we apply these treatments with equity in mind and we're meeting the needs of all of our community residents at risk. And as a result of this, we've protected just -- just in this year 179 homes from wildfire at a value of over $59 million.

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Year-to-date we've protected over 1,000 homes at a property value of over $700 million. So we continue to get a good return on our investment for our fuels mitigation efforts and we are reinforcing those by engaging the communities to do the work as we mentioned on their side of the fence. That will be our update for recommendation one. We have one more slide but I think that we spoke to those points on the following slide. We did submit follow-up reports as requested to the city manager. We updated the wildfire coalition. This is our Austin and Travis county coalition that implements our city and county-wide cwpp for buy-in and we presented the hub to city council on April 26th for their awareness. We don't see any significant barriers to implementation as long as our partners are on board with inputting the great

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work that they're doing, and where we're proud to reathletic our collective efforts on the wildfire hub. Thank you. Next slide, please. So the fire marshal's office, with the help of many people, agencies and organizations, we have now implemented the 2015i.c.c. Wildland urban interface code as a part of the Austin city codes. Next slide, please. There are many key elements included in the -- in the adoption of the code and it's integrated with the current fire code to kind of create a cohesive tool to improve the safety and resiliency overall for the entire city of Austin. As reported in the memo on

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November 3, 2020, we have adopted the code. Again, the community engagement was extensive. You know, we provide the correct timelines and addressed all of the concerns, and allowed contributing stakeholders and the boards and commissions to weigh in. I think that we developed a code and have implemented a code now that we can all be proud of. Next slide, please. So we fully implemented the 2015 wildland urban interface code with the focus on amber protection and construction features. We have strategically focused on the construction with the building code, and then along with our wildfire partners, the community outreach approach is a defensible space and fresh mittgation. We all know that the fuels grow back and, you know, after any mitigation the structural hardening items remain in place and that's been the focus of the code from the fire prevention standpoint.

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Again, the pandemic did have an impact on us, it slowed the initial code implementation. And we were facing tons of challenges along the way with all of the problems that we're having locally and nationwide with building materials and construction issues, so, you know, it's never good to implement a code in, you know, in an unprecedented housing boom with unprecedented lack of materials. So that has definitely been a challenge. Our team has really stepped up and been able to work to come up with creative solutions. Again, the delay in the L.D.C. Being adopted it presented a few challenges, but I think that in most cases we have been able to adapt and to figure out ways to work around that. As you might imagine, using the wildland overinterface map that showed our target hazards and shows the areas that we want to focus on is really problem at Nick a city that is gro -- problematic in a city that is growing as fast as Austin. But I think we came up with

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really good plans with some of the volume builders that we have worked on now that allows us to develop the community to avoid interaction with the urban interface as much as reasonably possible. So I think that, you know, rather than working on the defensible space and requiring more structural hardening because we're right next to -- to the wildland areas, developing the communities and the sub-divisions in a way that creates natural space allows us to have the best results with minimizing the amount of costs to the actual homeowners and builders. So we did plan to send a memo detailing next steps in the code adoption and also offering a letter about future plans along with the June 3rd presentation of the -- about the adoption of the 2021 international building code. We have opted to delay adoption of the 2021 code until next year

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because we're still working through all of the steps and we don't want to change the rules and change thing necessary the implementation process because we're trying to get the community used to the rules and figuring out how to interact with the community with the new code. So changing a new code, you know, less than a year in, would be troublesome. So we want to get things nailed down this time and then look to work -- work on expanding and developing the things as we move into the code further down the line. According to the I.C.C., we're the largest city in the U.S. To adopt the wildland urban interface code and we're the only major city to use the expanded ember controls that we have created. So if you don't mind me to explain the benefits that we have from the ember control and why that's critical to our code success in Austin? >> Certainly, chief. We base the code on research and

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best available science and what is emerging out of case studies from California and across the country is that embers are the most insidious and number one reason that homes are ignited during these wildland urban home fires. The embers from fires and from other structures that are already burning. So one of the steps that we took that is above the code is to extend that ember zone out to a mile and a half from our interface areas. We chose this because our fire hospital in central Texas signifies that we can have active spotting of embers over a mile, a mile and a half, away from the main fire. So it's not just enough to protect homes adjacent to our wildland areas, we have to protect them against the biggest threats that we'll have to homes in Austin which result in a majority of those losses. And we can reduce the embers

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that form and will result in downstream ignitions. So this is a really forward thinking step that the city is taking and you don't see that type of protection in other codes across the country. >> Thank you, I appreciate that. So just to kind of circle back on a few things. And president methods for the community to help themselves in support of wildfire efforts is one of our main goals. Our inspectors are now out there interacting with the community and working with builders and developers to create, you know, vicinity and area plans that are something that we actually didn't necessarily think that were going to be a part of this, but have developed out of the implementation of the code and something that we're really excited about is that we look at -- rather than retrofitting things into the communities, we're building them in on the front end. I think that is probably the best way moving forward for us to be able to prevent these types of disasters. Again, there's still many things that we can do and we can grow

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and improve, but at this point we're really happy with our progress and we're excited to continue to build a safer community. >> That's all for that slide. >> So we'll go on to the next section. >> Hi, can everyone hear me? >> Yes, we can hear you. >> Thank you. My name is Matt Mccaw, the program manager for the new land management program within park. And I will be talking about the next few slides. So in response to the wildfire audit, particularly finding two, which was found that we ensure that the plans are drafted for parks and rec properties with

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the wildfire risk properties and they should be implemented to reduce the threat of wildfire. Next slide. So in response, the department committed to establish a land management team, and work with A.F.D. To review parkland for wildfire risk, and to update and provide regular updates to land management plans. We also committed to use land management plans as a roadmap for implementation to reduce the wildfire risk. Next slide, please. Just an update on our activities to date, park has hired a program manager. That's me. And a program coordinator to begin a creation of this land management team. We have a scope of work for land management plan, which is in the procurement process. This plan will cover over 10,000 acres which is approximately

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about three-quarters of the parkland and natural areas. And these -- these parkland natural areas were selected because they present -- from a land management practical on-the-ground standpoint, they have the ability for a reduction of wildfires. Next slide. In terms of implementation, before that land management plan is fully complete, we have already begun some activities. First and foremost, we have begun renovating some vacant building space to be a service of operations for our land management team. This team will need to be an operational unit within parks and recreation, so we'll need some space to work. We've begun creating an internal burn team and this team will work with various land management entities in the region as well as Austin fire department to implement the scrub burns on parkland and to have important training for

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staff. We're creating cooperative agreements with these organizations for this purpose, and also updating our standing interdepartmental with Austin fire department. We have a contract for 83 acres in the preserve for restoration. We are preparing the prairie preserve for a potential prescribed burn, that's about 340 acres. I believe, that Austin fire department also has a couple of permits in for a couple of other parkland properties that might seem would hope to assist with. And we're also managing one of the Austin city preparation for crews implementing several projects across park preserves and other natural areas. Next slide. I think that is back to A.F.D.

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Thanks. >> Good morning, I'm Kerri Stewart with the wildfire division. And recommendation 4 is a permitting process for the prescribed fire in the city of Austin and on city of Austin lands. So we were directed to create policies and procedures for a burn -- a prescribed fire permitting process. And now -- and we would issue prescribed fire permits according to those policies so that we could ensure that prescribed fire could be implemented safely and efficiently as a land management tool. And then we would also create guidance for our partners and stakeholders so that they would understand how to use that permitting process as well. Next slide, please. So the documents that we've submitted are, number one, our prescribed fire handbook. So that is our procedural document that explains how to implement prescribed fire in the city of Austin and on city lands. These policies and procedures were developed with our prescribed fire partners and

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with the fire marshal's office, and it was a regional collaboration to come up with this handbook and these policies and procedures. The newest version of that is 2.4. We recently had our first meeting regarding this handbook to update to version 2.4, and we do consider this to be a living document that all of our partners can provide input for so that we can continue to work safely and efficiently together and to have everyone understand the permitting process and how the guidelines come to the full, applied to the handbook. And the second document were our prescribed fire definitions. These live within the handbook so we outlined the definitions for all parts of a prescribed fire so that everyone can work on the same page and understand what those positions are and how to implement the prescribed fire in the city. And the third document that we submitted was our wildfire roles and responsibilities.

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This document is to outline the roles of the wildfire division and of the fire marshal's office and so this is a shared responsibility for the permitting process it. Outlines how folks submit to the prevention office, and then roles and responsibilities of the A.F.D. Wildfire, to review those. And also implements the conversion resources outlined in the handbook as well. We have on-scene duty resources that should be available if anything happens at a prescribed fire. So it's a safety step that is above and beyond what normally would happen on a prescribed fire. And it addresses the concerns of the audit and of the 2016 council resolution regarding prescribed fire in the city as well. And then our prescribed fire permitting guidelines is the last document that we have submitted. This is on the permitting page for the prevention website. So these are pretty much the

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steps that you would go through if you're going to fill out an application for a prescribed fire permit. So those guidelines are on the page and they do reference the handbook that if you're going to apply for a permit, then you would follow the directions and the policies and procedures outlined within our prescribed fire handbook. And collectively, the handbook and the permitting guidelines fulfills the requirements of the audit, to mention the prescribed burns as a land management tool, so these documents are what we submitted to fulfill that requirement of audit. And next slide, please. And we're available for any questions if there are questions about any of this. >> Mr. Mayor and councilmembers and other members here attending this meeting, I want to let you all know that is why our mission statement at the Austin fire department we are committed to creating safe and resilient communities, the prevention and preparedness and the effective

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merged response. So the more and more that we continue to work with key stakeholders and with the city management office and work with the councilmembers and the creation of our new wildfire protection that we have on the east and west side of the city of Austin, we are getting closer and chose to making sure that the city of Austin stay resilient in the event that we have wildland fire, that we will be prepared to be effective and mitigating any type of emergency. So, thank you, and any questions that you may have for this team, we will do our best to answer the questions. >> Alter: Thank you. I want to thank you all for being here. You know, I requested the original audit into wildfire and I think we have made significant progress with respect to the hub and the adoption of the code and made some leaps and bounds in our success and in engaging the departments beyond A.F.D. In

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exploring how they can contribute to reducing and mitigating the wildfire. It was not part of the audit, but the information that we heard at our storm after-action report about what was happening with our wildfire risk, etc., is another example of further progress. I do have questions but I want to see if any of my colleagues have questions first? Okay, great. So I wanted to check -- so, chief Wilke, you are planning to provide a written document that will talk about some of the pieces that are being adopted, put into place by other means that were part of the land development code that have not yet been adopted into code, but are in practice taking place, and then the plan for moving

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forward to make those be part of the code? Is that correct? >> That's correct. And we're looking at those items in addition to what other improvements that we can make to the current code, some of the lessons learned with the implementation of this code for the next code adoption as well. >> Alter: Right. So we are being asked to adopt the fire code, we're not making additional adjustments to the code at this time and I would ask them to prepare a memo so that we understand which pieces of the code was not adopted because of not moving forward and then what the plan is for the next adoption. I understand that the decision was made not to move forward with the additional changes on top of what we're doing at this point. Chief Wilke, are the administrative rules promulgated in everything, is that finalized

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at this point? >> All of the rules are published for the code. We have minor adjustments along the way as the practical application, you know, is problematic in some areas but I think we have made minor adjustments. The rules are in place and I think that everything that we're looking at now will be -- will help us to develop a better code for the next round of adoptions. >> Alter: Thank you. And, I don't think that we had a chance to meet yet, and working with the board and I'm excited that we have the land management team. We're seeing a budget need for fiscal year 2022 that was embedded in the slides of $100,000 for something -- or am I -- can you just explain the budget needs for your team? >> That particular $100,000 bullet in the audit -- I'm not particularly familiar with. I was not with pard when that

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was inducted. And I may have to pitch that question to the members of our executive team that may be on this call. >> Alter: That's fine if you could just follow up with me to make sure that I know that if there's a specific budget need to take the next steps for fiscal year 2022, I wasn't sure if it was part of the original audit, sort of response. And then we fulfilled it when we set up your team. Or if there's an additional ask that is needed to take the next steps for your team. So you can do it afterwards, it's not a problem. >> Sure, absolutely. I think that I may understand your question more clearly now. I would say that in general, yes, there will be more requests being made. This is just a start. We're looking at managing -- actively managing over 10,000 acres and that takes a lot of resources. We're hoping to use this land management plan once it's

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substantially completed to then ascertain and to justify further, but what is actually for the implementation of that plan. >> Alter: And when do you think that the plan will be finished? >> The plan is in a rebid process right now. I expect it to require about a year once that consider is awarded for full completion, although I don't think that anything in it is going to be completely Earth shattering and different. So we should be able to begin implementing it fairly -- fairly quickly, at least the basic elements, once we have resources to do that. >> Alter: Thank you. So as I mentioned earlier, I really appreciate the partnership that has been made since the audit came back. I don't know -- does anyone want to speak on this before I make any -- >> The only thing they wanted to let you all know is that some of

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these recommendations are fully implemented and I wanted to remind y'all when that happens, we get that information. We do a little bit more testing of those just to make sure that as mentioned that on recommendation four there were a bunch of documents submitted. We'll review those documents and compare them to the original documentation and the original findings and then close them out. So process-wise these are reported as implemented by the department and closed out by us and likely by the end of this year. >> Alter: Okay, thank you. So, you know, part of what I was trying to understand in the audit was the scope of the amount of work that we need to do to make sure that we're mitigating the risks, given the scale of the problem. And I think that we get, you know, from the wildfire hub, we get a good idea of sort of the scale of the problem. If you haven't been on that hub you can see what the risk is, you can see the property values that are at risk. And you can also see what we've done to date. You know, I was happy that we're now talking that we have done

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15% of the treatable land, but I want to be really clear that that treatable land that we're looking at is, you know, our city-owned lands. It doesn't cover, you know, land that is in the private sector where we could be doing more as a community. So I'm still -- I'm still struggling with this question of trying to understand whether we are meeting the level of risk sufficiently, given the magnitude. We will never eliminate the risk of fire completely. But I don't -- I don't know if someone on fire can speak a little bit more to, you know, how should we -- how should we think about whether we're doing enough, knowing that we can't do everything and completely eliminate it -- are we doing enough? You know, we have done the W.A.U. Code but that only helps with the new development and we're treating land, and even where we're treating land we're only at about 15% at this point.

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So, can you help us -- because as policymakers, one of the things that we really have to be able to speak to is, you know, whether we're doing enough, and that still seems slightly elusive. So whoever wants to speak to it, we invite you to do so. >> Thank you very much, councilmember. I think that one of the things that is important to remember is that our strategy for being resilient to wildfires is threefold. The fire adaptive communities and the effective firefighting force. Our resources in the wildfire division are spread equally across those realms to ensure that we're not leaving any stone unturned if we focus all of our resources on fuels mitigation we'd miss that critical opportunity to engage and empower the public. Our fuels mitigation efforts are a formula that is based on resources and time. And so if we want to see more expeditious treatment of the

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landscape, that's a simple equation of more boots on the ground. But we have to couple that with the community engagement, with the defensible space and the future structure hardening to really be effective, and so our resources need to be equivalent across the cohesive strategy to maintain that continuity if we only focus on fuels mitigation as our primary standard, we'll be leaving ourselves wide open to the embers in people's yards yards and on their homes that ignite. >> Alter: Thank you. I mean, in asking that question, I'm looking at the treatable land and I'm really just trying to -- to see whether our tools are up to the task. Obviously, we're taking steps and we may be taking more steps than many other communities, but that doesn't answer the question as to whether we're doing enough. What I'm hearing from you is that we have to do all three and

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we have to do all three in equal measure, but that doesn't tell me whether there's, you know, a need to be doing more in all three. I think that we have done what we can at this point for the W.A.U. Code and need to let that piece -- that piece flow, but, you know, is there anything more that you could say on that and then we'd have to probably wrap up. >> We are trying to do more and with the implementation of the wildfire battalions, to have that specialized training to get out in the field and hoping that is one step closer. But we can always do more. And I hope that we have the implementation of the wildfire pretension to get closer beyond the 15%. Mr. Jones, what do you got? >> Thank you for that. Our goal is to have 100% completion of all of our identified treatment areas and as I mentioned that's a matter of time and resources. Once we complete that, we have to double back and re-treat those areas because the vegetation is growing back rapidly. So this is as a long-term

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investment and certainly not a one and done. But the fire department is going to err on the side of public safety and we would like to complete that task as soon as humanly possible while giving folk U.S. To the other areas of our cohesive strategy. >> Alter: Maybe as a follow-up, again, if there are resources that are needed to do that, that are appropriate for the next step, that you can handle, you know, managing, I would like to know those. And, chief, as soon as you have your concept for these battalions developed and vetted through with the various stakeholders, I would love to hear more about the specifics. I know that we have talked about it a little bit, but it sounds like it may have evolved and I would appreciate hearing more about that. >> Definitely. >> Alter: So thank you for your time and all of your work on this. It's really important that we keep a focus on the challenges that we face as a community with

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respect to wildfire so that people can be prepared moving forward. So, thank you. Our last item is the future items. And I will flag that in June. I guess that we'll be taking up the financial policies. We have the able item, that councilmember pool has asked for. And we may need to be doing interviews for the pension board, and that may mean a special called meeting, depending on the timing. And we will also be looking forward to a procurement update, either in June or July. And I don't know if I mentioned the executive session on information security. Miss stokes did you want to add anything? >> No, I was just checking and that captures what I've heard as well as what we've been tracking. And the only other piece is that there's a specific request from

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councilmember Kelly related to social services procurement. I believe that was going to be wrapped into the procurement update. >> Alter: Yes. I believe so. And I'm not sure since we have to do the financial policies and the -- we'll get that in June or not, we'll have to figure that out. Well, with that, colleagues, anyone want to add anything for future items? Sorry we went a few minutes over. We covered a lot of material today. Thank you very much, it's 11:36 and I will adjourn the audit and finance committee. Thank you, everyone. >> Thank you.