

# Audit and Finance Committee (AFC) meeting Transcript – 8/23/2023

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[9:29:30 AM]

This is a-t-x-n the City of Austin's Government Access Channel and are you about ready? Just

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and are you about ready? Just before we start, do we have any speakers. Good morning. My name is Allison alter. I'm chair of the audit and finance committee. It is August 23rd, 2023. We're at city hall chambers. It's 931. I'm going to call the audit and finance committee to order on the dais with me. I have council member Ryan alter, council member Leslie pool and council member Mckenzie Kelly. Council member Fuentes will be absent today. We do have a very full agenda, so we are going to try and be as productive as we can and I appreciate my colleagues agreeing that if we need to, that we can stay until noon today. I understand that we don't have anyone signed up for public communication. Is that still correct? Yes okay, great. So the first item will be the minutes from the July 25th

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minutes from the July 25th meeting. And I want to note that the correct name for our appointee to ace is Troy madras. So if the clerk can update those minutes to reflect that, that would be great. Do I have a motion to approve the minutes council member Kelly makes that motion seconded by vice chair pool. Seeing no objection, we will adopt the minutes item number two is a cybersecurity audit follow up. We will come back to item two if necessary after we take up item eight, which will be in executive session and to make today go smoothly and not make everybody else wait around. We're going to take that up

at the end of the meeting. So the next item that we're going to take up is item number three. The public information responses audit, which will be presented, and miss stokes will introduce it. Great

>> Yes. Patrick Johnson will be presenting this audit. This audit was led by Jasmine Triplett and yeah, Patrick will

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Triplett and yeah, Patrick will walk us through it.

>> Yeah, sorry I said my name is Patrick Johnson, assistant city auditor. I do want to acknowledge Jasmine Triplett, who led this audit and the rest of our team. She can't be here today. I also want to extend our appreciation to the staff and management of the law and police departments for all their help during this audit. Our objective was to determine if the city follows open records laws and provides requested information in an efficient and timely manner to talking about public information. So the Texas public information act provides a framework for access to public information that's produced or maintained by a governmental entity to follow the principles outlined in this law. Governmental entities must do the things shown here, notably treat all requesters the same and provide information promptly. The city has made efforts to follow these principles, but can do more to improve the transparency and accessibility of its public information. In moving to the city's public information or pr

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city's public information or pr process, there are essentially four steps, as shown here at the intake point. Requests are separated by those seeking APD information and those seeking information from all other city departments and the city calls these city side requests. Currently, APD has a team that manages their request and the law department handles all the other requests with assistance from points of contact in the departments. The city also has an electronic system called gov qa to help manage the process flow. So our report has two finding areas really related to improving requesters user experience and bringing more consistency to internal processes is our first finding focuses on the city's culture and how it approaches providing access to public information. The next few slides show that a more proactive measures could help improve the city's approach as well as the public's perception about the transparency and accessibility of the city. Information the

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of the city. Information the first step in accessing public information is really understanding how to do so. Currently, the city does not provide information about the pr process in any language other than English. We note that the city's own data shows nearly a third of residents speak another language at

home, and another third of those folks would certainly have a difficult time understanding how to access city information. This is a fundamental change that should open real access to more people . Next, we looked at ten major cities to see if they proactively post pr related information on their website or through their pr tool. We noted six cities do this, but Austin does not. We also note that Austin's pr tool has sections for frequently asked questions as well as trending topics. But these do not appear to be fully used. Eid. For example, this screenshot is from the trending topics page where we did not see any information available. Austin does post information essentially high level

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essentially high level information about the Texas public information act, proactive engagement to answer questions or provide information about trending topics may help reduce the need for members of the public to submit. A pr would also show the city's willingness to freely share public information and related to public perception. We surveyed people who had submitted a pr in the last four years. Of those that respond, most said that they did not know how to craft their request in a way to get them the information that they wanted. Several noted they felt like there may be some magic words that they could include to get that information, but they just didn't know what those were . As a result, a number of those requests really felt disappointment in the information they received as shown here. That type of experience can affect the public's perception about how the city approaches its public information. Ann in all, 56% gave the city a failing grade on transparency. And as shown in the comments, some requesters felt like the city was actively trying to prevent the release of

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trying to prevent the release of public information. Moving to the second, finding the city does not follow consistent procedures internally to respond to public information requests. This can also result in varying experiences among requesters so as noted earlier, the city does split pr responsibilities between APD and the rest of the city on average, the city gets about 30,000 requests per year. 20,000 of those for APD and 10,000 for the rest of the city. APD has a staff of six folks to manage all those requests. While there are about 120 staff on the city side essentially available to help with those city side requests. And as shown here, APD staff has double the number of requests. But in proportion has one staff member for every 20. On the city side to handle peers . And as shown on the next slide, APD requests are not as timely as the city side request and APD currently has a backlog of about 20,000 requests at. As I noted earlier, state law

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I noted earlier, state law requires the city to provide pr responses promptly. Over the last four years, the city closed about 75% of their peers within about a month. However, the remaining 25% experienced delays, and especially for APD requests. And overall, I think these Lang response times further contribute to user dissatisfaction with the city's process, even if there may be a reason on why there is a delay. So for example, about 14% of those longer responses on the city side were due to the city sending the request to the attorney general's office for a ruling. And that can take anywhere between a month and a half to two months to get back. We also learned APD, some information, APD information requests. Ed isn't available just due to ongoing investigations and that essentially can can delay when that can be released again, while most requests were completed in a reasonable time, the city needs to identify factors driving these longer wait times in order to make improvements, set realistic expectation stations for the

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expectation stations for the requesters or both, and another one of the state principles was to treat requesters the same. However, when we looked at the city's search and redaction processes, we noticed some differences in how they were done among the departments. And these differences can affect what information is identified and provided to requesters and may result in unequal treatment. For example, for searches. We saw three main differences. First, most staff searched using only the keywords that are included in the request and other requests. Other other. Sorry other staff. They searched those terms. They also searched synonyms and they may kind of translate those terms to two terms the city uses to try to find the information requested. The city really doesn't provide consistent guidance on on what search terms staff should use. And also as the number two and three here. So the tools and the who searches differences are really related. They really kind of involve staff from the city's information security office or

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information security office or iso, electronic searches for several departments are done by iso staff and iso staff uses more sophisticated search tools and those search tools require specialized training to use. That's important because the iso searches can identify responsive information. Ann where a staff just using the standard search tools is not going to find that information. So this can obviously result in different treatment for different requests . Was moving on to the redaction burns again, some public information is required to be withheld from release by state law. So we saw some differences among departments in redactions, mainly focused on the tools available to them and the level of training of staff for example, we surveyed public information staff in the departments more than half of those reported needing additional training really to understand what needs to be redacted. And for tools, I think

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redacted. And for tools, I think our main concern was that APD staff does not have specialized tools to redact audio files, and really to redact protected information and audio files. And as a result, APD has been releasing full unredacted versions of those files in response to request. APD also reported having limited kind of tools to redact video files and which made a much timelier, kind of process to use and delayed delayed releasing that information as well. We noted trainings not completely consistent across the city. And while we saw that the city's trainings do address state law requirements, APD staff trained APD staff trains their staff that do Pirner's law department trains all other folks in the city, and some departments have some supplemental kind of guidance and training that they provide. And again, these differences can create some knowledge gaps that affect how some requests are processed. So we made four recommendations to

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we made four recommendations to help address these issues. The first to ask the city manager to centralize the management of the function and ensure there are adequate resources for staff to process these requests in accordance with the law. The last two were really directed to the group, selected or identified to manage peers in the city is focused on improving internal processes to create more consistency, and the other is focused on engaging with requesters to help improve their public information experience management has agreed with these recommendations and that concludes my presentation and happy to take any questions. Thank you.

>> Does staff the city manager's office want to respond? Is there someone here. I think I have Deborah from the law departments here.

>> Thank you. >> Morning, Deborah Thomas with

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>> Morning, Deborah Thomas with the city of Austin law department. We've worked very closely with the auditor's office and with the police department, and we are in full agreement with the recommendations. And we've got a plan, implementation plan to address the issues.

>> Thank you. Can you speak briefly to that plan in particularly how you're responding to the recommendation to centralize management, the plan is for the two to create a leadership team.

>> It will consist of the city side and peer manager for the an attorney from the city side and attorney from the who, who sort of represents the APD side and the APD management, the APD peer manager and our our cfo in the city, in the city law department who who manages the entire city

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who who manages the entire city side peer and that group will get together and figure out how what the issues are and how we can address them. Some of those issues are going to be more long term. One of the major issues, I believe is going to be to get APD side more staff. They do have a lot more peer requests than the city side does, but I think they need more people. And so that's one of our how to how to do that. It's going to be one of our biggest challenges.

>> Thank you. Thank you, miss Thomas. Colleagues, do you have any questions? Councilmember pool. And maybe miss Thomas can answer this.

>> And thank you for the report . What is the training when we have differences in the training, is it coming from the same source? I mean, it's state law, right? So where is it that the differences is in the

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the differences is in the application between city side and APD? Where does that fall out?

>> The how it works in the existing system? We won't talk about then the way it will work now is that the city side has a full a full program for training and we will train both the city side and the APD side. So we'll make sure that everybody is getting the same the same information.

>> All right. Do you have a sense of how many staff need to be assigned to APD in order to bolster that work? Because clearly, that's where the effort needs to know.

>> The leadership team is going to have to evaluate that. Right. Okay.

>> I'll leave it there. Thank you.

>> Councilmember Kelly, thank you.

>> And thank you so much for this audit. I was aware that APD had a backlog. I just didn't

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had a backlog. I just didn't realize, surprisingly, how large it was. So it sounds like they do need more personnel over there based on your assessment, is that accurate?

>> I'm sorry. Could you say that again?

>> Of course. So it would more personnel at APD, based on your assessment and what you just told us that would help with the backlog?

>> Yes, I believe so. But also so I believe that there are some there could possibly be some APD requests that we might be able to automate and so they're they get they get a lot of different they get requests that are different than the city side. They get requests. A lot of routine requests. And so one of the things that we're going to look at is how we can maybe put on the site where people can actually ask for that information and just get it. If that's a possibility. So we're just going to be open to every every option that we can think of. So I'm often asked by constituents why if a peer is

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constituents why if a peer is completed, it's not posted publicly online so that we don't get duplicate requests.

>> Is that something that you might be able to do as well, that that is one of the suggestions from the auditor.

>> The interesting thing is that we don't get a lot of duplicate requests. A lot of the requests are for information specific to the individual. There are some Ann and we will that we said that's part of our our implement action plan to look at the ones that we can then put online. Now the question is we'll have to I would imagine we'll be working with the open portal to see if that will be an option for us or if we should put it on. So there's just a lot of things to look at and to and to plan for those for that that ability. But that is one of the things that the auditor has suggested that we do that makes sense. >> Thank you. I have one final

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>> Thank you. I have one final question and that is, is there any council action that we could take to help you improve the process at this time?

>> Not until we get together with the APD and look deeply into the into each side and see what needs to be done and what we can do on a short term and what we can do, what we need need for the long term. And I'd imagine it might be long term issues that we might need council assistance with.

>> Okay. Is this something that you could come back to the audit and finance committee with to let us know what your progress is so that we can be aware? I know it's a difficult topic with my constituents because they get frustrated when their peers don't come through in a timely manner. But also I understand you have personnel restrictions and time restrictions and that makes it really difficult. So thank you for taking on this heavy lift. I really appreciate it on behalf of the community. They appreciate it as well. And I know it's not easy. So thank you very much. Thank you, chair .

>> Colleagues, any other questions? Thank you, miss

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questions? Thank you, miss Thomas. I will just add that we did just in the budget add position related to data management. And I think as we improve the data presentation and the openness of the APD data more generally, that may relieve some of the pressure on payers. Payers obviously going to be more specific to individual cases, but I think it will help in that as well. And improving those data processes I think also may be part of the solution for the for the pr. So thank you miss Thomas. And as council member Kelly indicated at the appropriate time, you can either come back to us and provide us a memo on on next steps. So thank you. Thank you, Patrick. And your staff. Great. So our next series of items fall under finance and number four is the long term procurement strategy. Mr. Scarborough, welcome. >> Was this.

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>> Was this. One all right, committee chair. Alter members of the committee. Good morning. Lang James Scarborough financial services department chief procurement officer I have a very brief update regarding adding some of our organizational work at the financial services department

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financial services department within central procurement committee. Chair you had expressed some interest sometime about a year ago. I made a mention of some changes within our organization and so this is simply an update. So you know that some of the work that we're doing with regarding how we support department customers. So we are referring to we'll refer to frequently to Austin procurement 3.0. That's simply a brand. It's a way of referring to our long term strategy for evolving the city's procurement business function. 3.0 is no special magic one would be passed to current three future. So is this just the future of the city's procurement business function? We'll talk about the organizational model that we're moving to, kind of the elements of Austin 3.0 and then our progress to date and next steps

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progress to date and next steps . So early in in the performance of the procurement business function for this city is like similar to many other governments. The procurement function is one of many business functions. Burns typically in a distributed model, folks are going to be wearing many hats and their focus is, is, is on growing and on speed and responsiveness to changing conditions and that model does not allow for a lot of specialization Ann it does not allow for a lot of standardization. And so at

most organizations, burns outgrow that model and they evolve towards a centralized model for providing procurement. And that is where we are at currently. We've been there for a number of years, currently about 98% of all city contracts spend goes through financial services department. But this is typical of mid-size and developing organizations. Lots of

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organizations. Lots of standardization, lots of specialization. But because we serve all customers, we don't have the ability to integrate as deeply into their business operations as we could. Also, it diminishes our ability to react situationally and be as agile as we would like. So most larger city government organizations will eventually evolve to what we refer to as a hybrid distributed model, and that's essentially preserving the best of both preserving center sized management control, knell standards as systems over site compliance while allowing those parts of the organization Ann those departments that have heavy contract reliance and a need to operate at a different speed and be more integrated into their organization to do so, to have their own procurement group. So that's where we come in with our long term strategy. Austin procurement 3.0. The drivers are

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procurement 3.0. The drivers are to continue to allow the city to grow at the rate that we have been growing and allow for those departments that are growing at a faster rate and that are experiencing more change to do so at their own speed as the departments have increasingly unique contractual needs and reliance on contracts, they move at different rates. They have to respond to emergencies differently, be having their own procurement group will be a benefit. So we're identifying three elements of a threat auto initially management. We intend to continue to centralize the management of our procurement organization, Ann systems. We will continue to centralize and maintain oversight of our of our procurement system for all departments to use. But with the organization we want to build a framework, a structure to allow departments to establish a dedicated team initially made up of financial service department staff overseen by us and then, if it makes sense for the

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if it makes sense for the department and for financial services and so long as we can maintain consistent operation to allow them to progress to a delegated operation. So that is that is our long term strategy. Procurement programs and policy and procedure will remain with financial service department. Our systems and application helpdesk would all remain with financial services as we would set up an organizational model that would allow for those departments that make sense to do so. To have dedicated procurement support. So with this, we have developed out three different models Ralls of

how we will serve our department customers. The majority of departments will continue to be serviced by us in a general model where we provide all staff, we assign work to categories to allow our staff to specialize. We will provide all citywide contracts or contracts that are used by multiple departments. We will also provide single department contracts where they have departments, have unique

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departments, have unique requirements that are not otherwise available in the citywide contracts, and we'll represent all of their rca's for embedded departments. We would create a team that was again made up of financial services staff, but would be dedicated to supporting that department. Only think of Austin energy. We have a team of financial services staff that support only Austin energy and so as Austin energy needs to move at a different speed, it needs to change their priorities. We can change the workload amongst the staff because they're all dedicated to Austin energy changing priorities and workload. When you are supporting multiple departments, much more challenging as it makes sense and when we are at an operational state of readiness to do so, we would then also be able to move some departments into a delegated status and that would simply mean we would delegate procurement authority to those departments and move out of an operational role and into a training compliance support role so that they can

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support role so that they can operate procurement using their own staff. So progress to date. Formerly, we were known as purchasing office at that time. We realigned our staff. We were we were assigning work to staff based on their department assignments. So one staff member may have 1 or 2 departments that they would support that. That led to a fair amount of duplication where we would create the same contract butts for multiple different departments, for the same products and services as we would be fracturing, fracturing our economies of scale. So perhaps with the same contractors, different pricing. So over the last few years we have been consolidating contracts wherever possible. So by having staff focus on category kpis and not specific department assignments, so, so hopefully we have fewer larger contracts, better pricing, more consistent terms and conditions. We've also differentiated our

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We've also differentiated our leadership, whereas before they were assigned to a team of folks that were supporting, assigned departments. Now we have our leadership assigned to policy. We assigned to citywide contracts or corporate and then assigned to supporting embedded teams or teams that are supporting specific departments . In the last couple of years, we have been involved in the consolidation

efforts of the financial services department and the realignment there in and notably the purchasing office and capital contracting office have been merged to form a line of business within the financial services department referred to as fsg central procurement. We're made up of four divisions. We still support capital delivery services as well as all of the other corporate functions. In addition to embedded teams and procurement policy. So next steps,

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policy. So next steps, procedures, regulations, manual is when we are are distributing our procurement workforce across the organization. It's more necessary to have a set of regulations and procedures that can communicate across organizations, whereas we might train staff if on the job side by side. Second, chairing, kind of working along with them. We need to be able to do that when those staff are not in our organization or they are not physically next to us. So there's a greater emphasis on having really good procedures, really good management management tools, really good systems. So we have a consultant now who is helping us do another review of our organizational structure, how we are set up, how our our policies and procedures are established, and how we could make them better in the coming years. Some of these

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the coming years. Some of these regulations will benefit by being elevated to municipal code. And with that, the establishment of the Austin procurement code, as well as tying all of these regulations, both at the state level, at the municipal code level, at the at the administered rule level administrative bulletins, along with case procedure and city past practices into one location. This will allow for standardized interpretation options and consistent application of precedents that we would do through our procurement manual. We are also doing a review of systems. We are currently implementing a system to automate the development of contract documents and solicitor's actions. We believe that that will greatly speed up the front end development phase of our of our procurement cycle time. We are also participating with financial services department in their larger review of all of

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their larger review of all of the city's financial it systems, including our our our citywide or corporate e-procurement system with that, we'll be updating all of our training and with training all of our compliance activities to ensure staff are complying with our regulations and the training that we will be providing them on them. We will do that to the extent possible using Lang technology, using Singh recorded training session and applications that will allow us to track who has been trained when they were trained and when we have updates and policies and procedures to roll that out through a required

sit down and review training so that they are aware and we can confirm their awareness of updates to policy and procedure. We are also working on developing crime area and clarifying criteria for bringing departments into an embedded customer role and also into a delegated customer role.

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into a delegated customer role. So that's about it. I said it would be short and quick, but I wanted you to be aware of some of the major kind of organizational and systemic changes that we're doing in financial services department per your previous question council but but also as you may see, procurement being done by other departments, you'll know it's a part of an intentional strategy that we are deploying over the next number of years in FSD. And with that, if you have any questions, I'll be glad to answer them.

>> Thank you, colleagues. Any questions? So I have a first of all, thank you. I appreciate it. The work on this and the and the presentation, one of the things that we often hear from departments or out in the community is that our procurement takes a really long time. And so you spoke to this in different ways in your presentation. But can you speak specifically about how these changes are designed to improve the speed. Sure. Of procurement.

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procurement.

>> And thank you for the question. As a as a career long public procurement professional , the speed of our process is always been an element of curiousness and to put it frankly, procurement processes do take time. We kind of exist within the bermuda triangle of government services where we have the interest of the public and their elected officials. We have the interest of our leadership and the department customers and then we have the interest of our vendor community. And sometimes those interests are not all aligned. And so to satisfy the greatest number of expectations we can be very procedurally orient. And, and that usually takes a bit of time. But we don't want these times to be onerous or unnecessarily long. So we are currently in the process. We've discussed this very recently with the city manager's office and like I said, we are

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and like I said, we are reviewing the front end process where we are developing requirements that go into contracts and solicitations, but we're also looking at the overall timeline of our typical procurement cycles and identifying where we can make changes and corrections both within procurement but also within in some of the other city procedures that touch procurement to identify efficiencies wherever possible. The longest part of a procurement process is associated with development of requirements.

And that's an iterative process between us and the customer. The second longest part of a procurement process is the authorization cycle. So that's when we make the award recommendation through the development of the rca, through the handoff of the rca to the city's agenda management system and getting it to council. So if there are elements in the front end and in the back end of our procurement process where we can save some time, we could sustain financially cut down on the

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financially cut down on the length of time that a typical procurement takes. But you know, going from from a typical nine months down to two months will be challenging. But we do feel that we can we can shave several weeks off of this process based on current identified opportunities. Thank you.

>> And just to clarify where we are right now, we have one department that has been piloted as embedded, which is aviation. Is that correct, or are there more?

>> Excuse me.

>> There's one department that is being piloted as embedded, according to the slide, which is aviation. There's no other ones at this point.

>> Yeah, we're we're still developing the agreement with with aviation department. So we haven't ironed out all the details just yet. But it is our intention and we have been making progress towards setting up an embedded team for aviation . Yes.

>> Okay. So then the progression would be that they would be embedded. You'd do that for a

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embedded. You'd do that for a while, see how that is working. And then if they had a desire to move to delegated, that would happen. And then at the point that we moved to delegated, then we would also have to unpack and rethink about our support services budget somewhat differently. Correct okay, great. Thank you very much. If there are no other questions, I think we can move on to the next item which is item five, which is procurement of local and small business preference programs. Update and this is an update that I'm very excited about. It started with direction that I provided last fall when we adopted our minority women businesses report. For that program we provided direction as a council to create a small business, local preference program so that as we spend all this money that our community is able to access these contracts in in an easier fashion, in a legal fashion. So I'm very excited that to hear the update

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excited that to hear the update and please. Mr. Scarbro very good.

>> Committee chair. Alter thank you very much. We have been looking forward to coming back to the, the committee in this regard for a little while now. We have worked very hard in doing the stakeholder engagement and in looking at practices elsewhere and determining the extent to which we can affect some of the operational and policy objective changes that have been expressed to us by yourself and by the rest of the council. So we're happy to bring forward this this particular our series of enhancements. With me, I have Sean Willett, deputy procurement officer. As I mentioned, we have differential rated our leadership responsibilities and Sean is actually responsible for all of our procurement programs. And

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our procurement programs. And we'll be doing a large part of this presentation kind of walking you through what we are plan to change with regard to our local preference program, as well as our small business program. But just to orient the conversation real quick, as you mentioned last year, our colleagues in the small minority business resource department completed a long and very challenging project that they do every, every number of years and successfully brought forward the disparity study to look at our market and how minority owned and women owned businesses and their availability in our market are faring. Both in terms of city usage and how these companies are are achieving business opportunities within the larger market and in that disparity study, there were some findings to show that in certain areas there was a decrease in

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areas there was a decrease in the quantity, the proportional quantity of certified firms in certain certain markets. And that may result in changes to the city's mwb goal setting process. And how the mwb program is going to be performed going forward. I have with us here Edward compost director of smb. If you have any program questions regarding the disparity study or their operations going forward, I know that that he's been in very detailed communication with council in that in that regard and there are some changes upcoming. But with the adoption of the disparity study last November where we received further direction from council to also look into other programs that would be of additional benefit to city certified. And mhbs and wbs minority business

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mhbs and wbs minority business enterprises and women owned business enterprises, and to do so in a way that was race and gender neutral and that would specifically take a look at local preference and

small business. And that's what we've done over the last several months. We've had a number of stakeholder engagements. We have also done research to determine what other governments and what we have done in the past, what worked and what didn't work so well. We also conducted an online survey and we received a fair amount of feedback. Initially, there was very strong support for continuing and preserving the city's NBA and wba program. Very strong emphasis. There there was also an interest in maintaining the local preference and the small business programs separately. So that that, that companies that

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that that, that companies that did not qualify for one would still have benefit from one. And the companies that would qualify for both would have benefits from both. When we asked there was no set preference for priority over one program or the other, there was equal value for both programs. There was an interest in having a subcontractor element in these programs, if possible, for the small status associated with the federal government. Small business size standard was unanimous. We agreed with a couple of comments suggesting otherwise. There was a large amount of agreement with regard to the revisiting our definition of the local area and expanding it to greater Austin or the five county metro politan statistical area. There was also feedback regarding how we determine a company as being local and

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company as being local and whether it would be headquarters or headquarters and some other type of operation. Also referred to as a branch office. But what we did hear loud and clear was there was a concern that that these enhancements may not positively impact all groups equally. And so I wanted to acknowledge that this the changes that we're recommending are are broad and they would be applied broadly. And because they're broad, they are not narrow. And tailored in a way as to target any specific cat category of, of control actor and that's what our mwb program is for. It is it is specific. It is narrowly tailored. It is designed to target certain communities of contractors, whereas these programs that we're recommending would be applicable to all communities that were small and or local. So

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that were small and or local. So with that, I'm going to ask my colleague Sean to talk about the specifics of the changes that we are pursuing with both the local and the small business program. Mr. You do you want to go, Sean , before you get into the next section?

>> I think it would be really helpful to just explain that this is a program that applies to prime contractors. Tirz and mwd is to do for sub prime. So if you just want to clarify that further for one of you.

>> Thank you. See I knew I'd messed this up as soon as I touched it, but he's too tall for me.

>> All right. I'm going to have to get really low. Can you hear me? It just won't. It won't? Yeah. I messed it up. Sorry I got it. Sorry. Thank you. Okay, so in regards to that. Yes again, because we had a lot of

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again, because we had a lot of concern regarding we didn't want any impact on this program to our current mwb mwb program, which is obviously really important. So our recommendation on this is going to be to pilot it purely at the prime level. This is a opportunity we have to try to help people get into that prime contracting space. And so our recommendation, as you'll see in my upcoming slides, is to only have this apply at the prime level rather than applying to subcontractors, because again , our mwb program is very specific to geared toward subcontracting. So on this slide, the program enhancements which we're recommending for new is we would like to begin a two year demo period which we will start beginning the fiscal year on ten one and go until the end of fiscal year in September 2025. We're going to cap both programs at 50 million. That is for single solicitations or for contracts. And just to give it some kind of background, there is no contract. We did in fy 22 that was not for construction that hit 50 million. So that cap would really not restrict a lot. We just felt like maybe at least

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We just felt like maybe at least for the pilot, we should have some type of a cap. We obviously will continue to monitor and report on the program and how it's performing. We're going to do everything we can to control against any negative impacts, and that's part of why we will continually monitor it to make sure that maybe there's no that there aren't any unanticipated impacts on any other programs and also continue to tweak and determine elements that we might need to revise a little bit further in order for this to work out the way we really want it to. Our plans for local preference is we're going to revise and streamline the program criteria because we already have a pretty strong program, I'm sorry, in process. And we're also going to optimize the preferences where we are able to do so. And then for small businesses, currently we only have a program that goes up to 50,000. And so we're going to implement a program to where we bring those same elements of preference in above 50,000. And we're going to mirror the small, the business, the preferences we already give to local companies, to these small businesses as so in regards to local preference,

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in regards to local preference, if you look at the slide, the yellow is what we currently have in the green is our new recommendations. And so currently our local is for companies with a headquarters or a branch office in the local area. And we're proposing to limit it to companies with headquarters only in the local Austin area. As far as where the local area is, again, we really listened to the feedback we got and rather than limiting it to just the full purpose jurisdiction in Austin, we'd like to expand it to the greater five county Austin Round Rock msa as regards to preference conditions currently we have a program that above 50,000 we give 3% preference for invitation for bids and we give ten points or 10% because it's usually 100 points for request for proposals. And for construction, we're only able to apply that below 100,000. So we currently have 5% for invitation for bids and five points for rfps. Our recommendations are in green and I want to caveat this with the fact that some of these levels are based on state statute limits. State state

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statute limits. State state statute says that we can't apply any preference for locals for construction projects above 100,000. So that's where that 100,000 cutoff comes in. And then it also states that for any goods and services contract, over 500,000, we're only able to give a 3% bid preference on an rfp and not five. And so again, that's where those breaks come in. And so we're proposing 5% for invitations, for bids and ten points for rfps below 100,000, including construction. And then without construction, 100,000 to 500,000 would be 5% for I-fbs and ten for rfps and then for any goods and services over the 500,000. Again, because the state statute, we would have to go down to 3% for an invitation for bid and kind of to keep it comparable six points for an rfp. And again, as I stated, for subcontracting, we currently allow or we give small amount of points possible for subcontracting with locals and we're recommending to change that to just keep that at the prime level. In regards to small businesses, again, this is our

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businesses, again, this is our current versus proposed our current program. We recognize the federal small business standard and we're recommending that we continue that same practice as far as recognized Singh, who is small currently, we recognize all city of Austin certified wb and SBS, and we're recommending all those continue to be recognized for the state of Texas. We do recognize their historically underutilized businesses because again, they meet the small size standard and we're recommending we go ahead and continue to recognize the hubs, but also include state certified small businesses. And as far as federal, we already recognize the disadvantaged business enterprise at the federal level. But we recommend also bringing in the federally certified small business companies. As far as preference conditions and amounts. As I said previously, currently our program has only applied to under 50,000 for between 5 and 50. What we do now is if we have enough certified or small firms in this area, we only give the opportunity to them first. And

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opportunity to them first. And if they respond back, we don't ever give the opportunity to everybody else. We're recommended to continue with that program from 5 to 50 for goods and services, including construction, which below 100,000. We would recommend 5% for ifbs and ten for rfps. Again this this what I'm reading to you now, it mirrors exactly what we had for the locals. So it's the same amount of points for small and local. And in the interest of time, because I know you all have a lot on your agenda this is, I think, the slide that really kind of wraps up everything. And so you can see big picture, how this program would work as you'll see for invitations, for bids, it has a compounding effect. So if you're small and your local, you get the is an example for an invitation for bids, for goods and services. Non-construction between 100 and 500,000, you could get 5% for being local, 5% for being small, which would actually give you a 10% preference down in the request for proposal space. If you look in another example, goods and services, the same thing between 100 and 500,000, you get ten

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100 and 500,000, you get ten points, which is basically 10% for local ten points for being small, and that would give you up to 20 points of preference when competing for those opportunities. Do you have any questions on any of that piece before we go to the final slide ? Okay. Thank you.

>> Sure. So next steps, we will be doing a lot of communicating with our stakeholders, those that graciously shared their time with us to give us feedback .

>> We'll be updating them on the changes that we intend to make with the program and how they can view program materials and participate in other procurement outreach activities so that that they and their constituents and their members of their membership organization, burns, can participate in city procurement activities to the extent possible. We will also be

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extent possible. We will also be updating our information on city website sites on our internal sharepoint sites for staff. We will be doing notices to all of our thousands of registered vendors and we will be joining our partners in small minority business resources and the economic development department at the upcoming minority and small business conference coming next month. Like I said, we'll be updating procedures, training staff and we will be providing training to our customer staff and our partnering departments so that as we continue to perform procurement function as this part of our evaluate situation occurs, they'll know why it's occurring differently and how they can participate in it

with that, we intend to go live October 1st. This is a pretty expedited as far as implementing new procurement programs, but like I said, we

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programs, but like I said, we have been considering these changes for a few months now. So we feel like we're ready to proceed again. It is a demo period. We want to make sure that it works before we lock it in long term and maybe make any changes to our administrative rules or or pursue any necessary municipal code. We just don't know what we don't know. And we think that what we're bringing forward is has the greatest possibility of success. So if there are other elements that we can tweak and perhaps improve accessibility, we would like to do that as well. But we feel like we brought forward a safe recommend option that is conservative enough, but also ambitious and hopefully will move the needle towards meeting council expectations better in the coming years. So with that, if you have any questions, we'll be glad to answer them. Thank you.

>> Thank you both James and Sean . I know this has been a lot of work and I had the opportunity to participate in some of the discussions and I know this is

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discussions and I know this is very welcome by the business community and a great opportunity for us to use our procurement to make sure that we are building up our community. I do have a couple of questions that I want to make sure that we clarify before we move forward. Can you provide any ballpark on the value of the contracts that might fall under this program and how we might think about it? Because it doesn't include construction over 100,000. So we spend a lot of our time talking about the construction projects and there's a lot of other procurement pieces. So can you speak a little bit to the magnitude? Sure

>> So in we don't have fy 23 numbers yet, we'll have them shortly after the first of the calendar year based on fiscal year 22.

>> Our our total contract spend was just over \$1.48 billion of contract spend. Of that, if you back out construction and you back out administrative

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back out administrative contracts. So these are our contract S created by departments that were not necessarily procurement. So these would be like legal services contracts or Islas or what have you. If you back out those contracts, the remaining value would be in the 700 to \$800 million range.

>> Thank you. So that's a considerable amount of money. Great great. And can you clarify what is excluded once you go above. The \$100,000 level contract? Yeah

>> The things that are excluded above that are obviously construction projects are excluded. 100,000 state statute does not allow us to use this for professional services, and that includes architects, engineers, physicians, that kind of thing. And it's also there are some federally funded projects that which will not allow us to use the local preference.

>> Great. Thank you. And then how if you go to the slide that has the combination, if we also

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has the combination, if we also were doing mwd, if a firm was mwd, my understanding is that they are, they are then Ann eligible as, as small. And so this is for prime. But if a contract had mwd requirement, how do these work together? Yeah

>> The mwd. Thank you. I'm trying to get tall and I couldn't. The mwb program, those are pass fail. I mean, you have to do it or you're just not in the in the ballpark. And so if there was goals on a project and if a prime wanted to submit as obviously prime, they could or I'm sorry if a certified firm wanted to submit as a prime, they could meet whether it was their an or a wb portion of the goals so they could use themselves to self commit to that piece and then obviously subcontract or whatever they might need on top of it. And then if there were a local or small, they would get this on top of that great.

>> So it's really very much designed to be supportive of that program. And additive. And

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that program. And additive. And you can be both small and local or you can be small or you can be local and take advantage of it. So it's, I think, really furthering a lot of the goals and values that we have as our city. My last question is, how does this compare to what other cities are doing?

>> Do you want to take. When we looked at other comparable cities, particular in Texas, we can look across the country, but we really need to look at Texas because they're subject to the same regulatory and statutory environment that we are.

>> I would say they conversationally that our program currently and what we are moving towards is assertive . Most of the other governments did have a local preference, but they were pretty much tied to the statute which references invitation for bids. We had to look a little bit further. There was a couple that also included Eid criteria based

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Eid criteria based solicitations, like the request for proposal, but that was the exception and not the rule. So I would I would confidently say that that our program, as based on the current changes, would be the if not the most assertive. It would be among the more assertive programs in the state.

>> I think there's a refocusing on looking at procurement and how we're doing that, both to be effective and efficient, to get through the process, but also to make sure that we're maximizing the return on our on our dollar when we first started talking about this, we did, you know, research with a lot of other cities and a lot of other conversations that were going about it. And this was definitely the direction Ann that folks were leaning. So I really appreciate all the work that has gone into this. And colleagues wanted to invite others if they have questions or comments. Great. Well, excited to see this move forward. October first and look forward to supporting your efforts to

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to supporting your efforts to spread the word. I'm very excited about this. Thank you.

>> Thank you very much. Thank you. Thank you so next up is item six, which is the tourism public improvement district, Burt and Katy.

>> Zamesnik, Ann. And not sure if Tom Noonan is also speaking. Good morning. Good morning.

>> Gosh, I'm not quite that tall , so good morning.

>> Yes, I'm Katy zamesnik. I'm an assistant director with the Austin convention center here to talk to you guys about the proposed Austin tourism public improvement district. We're coming to council on August 31st to request approval of the draft service plan and petition language, which will be the first step in creating the pid. And so we wanted to come to this committee and we will also be briefing the full council on the 29th on what's in the pid, what a pid is and how the funding that will be generated from the

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that will be generated from the convention centers allocation will ultimately flow to the city as unrestricted revenue. So why create a pid? So pid is a special type of public improvement district. It's created at the request of the hotels within the city and it's to self generate funding. So that they can give group business incentives and do sales and marketing activities, all with the goal of increasing hotel activity within the city. Austin's tourism district or proposed tourism pid, will provide some additional benefits. As I mentioned in the slide previously, it will generate funding that will be able to be transferred to the city as unrestricted revenue for city priorities. Through the success of the Austin convention center, creating the pid will allow us to remain competitive with our peer cities that already

have tpds in place, such as San Antonio and Dallas. It will also provide a level of critical funding for tourism in Austin during the years that the convention center will be closed for the redevelopment and

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for the redevelopment and expansion project and then last and certainly not least, it will contribute to increased hotel occupancy tax growth, which benefits our cultural arts. Historic preservation and live music efforts. So the Austin specific service plan, as I mentioned, it's composed of solely of hotels and it's only hotels that have 100 rooms or more that are within the city of Austin limits. This pid has a 2% assessment on the gross taxable room nights of those eligible hotels. Council will approve the budget and updated service plan annually. It will be overseen by a pid management corporation that will be created as an agreement between the city, the management corporation and visit Austin. And that will come as part of the creation documents when we come back, before council, the budget allocation is contained within the service plan. It's a ten year service plan and everything that's contained within it will remain in that way through the ten

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in that way through the ten years in order for the petition to be valid, you must be approved by over 60% of the hotel ownership groups within the city and then the Austin pid plan includes a primary and secondary program of work that I'll walk through in a later slide. And then I did want to acknowledge that this service plan that is before the city council on the 31st is different than what was brought to city council in November of 2020. At that time, the stakeholders requested a postponement for some more due diligence. We were in the middle of the covid pandemic and we've been working diligently to come to an agreement on this service plan in the in the time since. However, the world is completely changed for the hoteliers in that time, they were decimated. The hotel industry was decimated by covid. And then additionally , in 2020, we were envisioning that the convention center would remain open during the expansion process, and we have now switched and we will be completely closing the facility

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completely closing the facility . So as I mentioned, the primary program of work, it spells out the budget allocations within the service plan. And this is in effect when the convention center is operational. So for this current ten year pid, it would be first couple of years before we close in 25. And then again upon reopening in 2029 and breaks down the different categories and how they're going to allocate the revenue that's collected underneath under that 2% assessment. So the first category is the convention center group business incentives. And so this is the one that we'll focus on some more slides. This is the category that ultimately will allow us to transfer funding to the city as under restricted revenue. The

service plan allocates 20% of total revenue from the pid for this category. However, it does also allow for an additional 20% from the category below. If the convention center is able to expend all of its incentives allocations in a given year. And I'll quickly pause just to explain sort of what our incentive program is. So the

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incentive program is. So the convention center, like every other convention center in the in the country, takes a look and evaluates every piece of business that we either compete for or wants to come and book at the Austin convention center, we take a look at the total revenue that these events will bring in, not just the revenue to the convention center. So that's things like hotel tax, sales tax, etcetera. And then if they if they hit a certain threshold, we will provide incentives often it's usually just discounts on facility rental, that kind of thing. That's our normal course of business. And without the pid, that's just revenue that we otherwise would have received at the convention center. But in recognition of the extraordinary impact of these events, we're willing to forego that revenue and then we also will see it will be made whole through our allocation of the hotel occupancy tax with the pid, we are now able to be reimbursed Burt for those for those incentives that we are giving, and then we can transfer that over to the general fund as unrestricted revenue once the event takes place. And the state statutes are satisfied. So for

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statutes are satisfied. So for our for under the primary program of work, convention center is eligible for up to 40% of the total allocation of the pid dollars. The next category is the sales and marketing activities. It's allocated at 60, but that could go down to 40% if the convention center is able to give incentives up to that 40% amount. This is the bulk of the work that the pid will be doing. This is the visit Austin initiatives that they'll be undertaking, additional sales trips familiar ization tours, event trust fund, all these kinds of activities that are designed to really generate tourism and hotel room nights within the city. And it's going to be a critically important component for tourism in the city when the convention center is closed at 10% of the total budget will go toward hotel business incentives. This functions very similarly to the convention center's allocation, except it's for events that occur solely in hotels. And then the last 10% is allocated for

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the last 10% is allocated for research and administration. This is we'll take a look at all the activities that the pid is doing and measure if they're being effective in actually generating the hotel nights that it's designed to do. So focusing a little bit more on that first category, the convention center incentive

program. So I mentioned again the primary program of work. I won't go back over that. The secondary program of work is in effect when the convention center is under construction. It was created in to allow the convention center to still give incentive while the convention center is closed . We'll be booking events at palmer looking at citywide approach, looking at other city facilities to see how we can accommodate those events that still want to try to make it work here in any events that will be booking during the closure period. However, it does recognize that the level of incentives that the convention center will be able to give is going to be significantly less than when it's fully operational . So that means when the convention center is closed and

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convention center is closed and the secondary program of work is in effect, the total convention center incentive allocation is reduced from 20% to 10. That 10% that that that's remaining is converted to the variable room night generation category. And this just creates flexibility for those dollars and it can be spent on any eligible use for the pid, including additional buy downs at the convention center. So we'll be working diligently to ensure that we get that full 20% during the closure. The it also creates a reopening fund. So if there are any dollars that we're unable to encumber or spend out of our allocation, it earmarks 50% of those into a reopening fund that will be available to the convention center and then eventually the city once the events occur at when we reopen the facility, we so how do we get from T pid to general fund? So we created this graphic that just kind of shows how we start at the top and move all the way over and then eventually the

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over and then eventually the city has that unrestricted revenue. So the first step is the hotels pay their 2% assessment. Similarly to how they remit their hotel occupancy tax. They do this either quarterly or monthly, just depending on the hotel. So as part of the budget every year and that's something that the city council will see. The convention center will submit its estimated incentives and the events that it's asking for reimbursement of those incentives. As for every year and then the management corporation, which is overseeing the day to day activities of the pid, takes a look at it says this all looks good. This seems fine, it's in the budget and then council will also approve it later. So then the event that has the approved incentives actually occurs and I'll quickly stop here again just to walk through an important piece of this and just to set some expectations. So the convention center books business years in advance. So well in 2026, we'll start booking the new building in 2029 and 2030. So that means that we'll be using our

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that we'll be using our allocation of our dollars from the pid for events that are occurring in the current year and for future years. Those future year events, the funding that we earmarked for that must remain restricted and encumbered until such time as the event actually occurs. So that means the only dollars that can be transferred to the city are those that have after the event has actually occurred. So it would be those current year dollars. So this means that the transfer that you see from the from the T pid to the city may not match up exactly with the allocation of the revenue that is contained within the service plan. And we'll be updating those revenue numbers and expenditures as part of the budget process every year as well. So the event happens. We submit it all of our documentation to the pid to say the event happened. Here's the final incentives we gave. You know, we'd like to be reimbursed for that. Once that happens, the management corporation will then transfer that incentive over to the we're creating a special

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the we're creating a special revenue fund. And creatively I think we're calling it the pid fund. You know, just for fun. And so it will it will be transferred there. And at that point, it is now unrestricted revenue. And so we will collect as the year goes through and events happen, we will be collecting revenue into that fund and then it will be transferred over to the general fund as part of the budget process. And council at that point is able to make their allocate actions based on council priorities as oops, skip the important slide here. So how much money are we talking about ? So this is what this is from the service plan. And this shows the estimated collections for the for a 2% assessment at the revenue projections have a 7.5% growth rate. And this is a very optimistic but it's designed that way so that we can ensure that we're capturing all of the revenue that may come in in the year. It's possible that these numbers will actually be a little bit lower. And I would say probably likely so the column with the pink header is

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column with the pink header is the accd incentives. And so that's the allocation that would ultimately come to the city. You can see the ten years, it's about 78 million. There's another caveat, of course, because can't possibly get through one of these slides without a caveat. But if you look and see where the light tan headers are, so 20, 24 and 25 all the way down to 2028, 20, 29, those rows, you'll see the asterisks next to that funding. That is when the secondary program of work is in effect. And so that's when the convention center's allocation is reduced from 20% to that 10, although we have the ability to get back up to that 20. So this means that there's actually a range of funding that could come to the city based on these this level of incentive. So a 78 million, if we get just straight 20% all the way through, it can go up to 120. If we're able to max out and get that 40% in the primary program of work. But it may also be all the way down to 60 million if we aren't able to get to that full 20% during the years that we're closed out. And

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years that we're closed out. And again, we'll be updating these numbers every year as we come as we do our budgets or as the team does their budget and comes to council for approval, I'll quickly talk about the governance side. So as I've said, I think five times now, the pid is going to be overseen by the pid management corporation. It's again created in under a contract between the city visit Austin and the management corporation. They'll oversee the day to day operations. They are overseen by a board of directors that's composed of the of hotels. I think there's 11 members and it's a representation of all different levels. So you've got big hotels, medium hotels, small hotels. There are also three ex-officio members that will be a part of the board visit. Austin's president and CEO. The hotel lodging associations, president and CEO. And then the Austin convention center. I'm on my last slide, I swear. So next steps and the activation process. So as I said, we will be coming to council on August 31st requesting approval of the

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31st requesting approval of the draft service plan and petition language so that visit Austin and the hoteliers and the hotel lodging association can collect the signatures from the hoteliers. Again, we have to hit that 60% threshold of the ownership groups to sign on. We estimate this process is going to take about two months and we once the service plan has been approved, it can't change at that point or else we have to start the petition process all over again. And so that adds another level of delay. Once the threshold is exceeded, come back to the city for validation of the petition signatures. Tirz and then at that point we can come back to council and actually create the district there will be two public hearings on the creation of the district, one about the creation and the second on the assessment rate. And that can happen on the same day that council actually creates the district as well. So once council approves the district and we got it, we have it created and all the back end is taken care of and we can start beginning that assessment. And then the funding from the

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And then the funding from the convention center's current year business, this will start to flow into that fund. And then again, as I mentioned during the 2025 budget process is when we anticipate and would recommend that city council. Take a look at what's in that fund and then allocate based on their priorities as and with that, we can take any questions. Thank you.

>> Council member Ryan alter.

>> Thank you very much. Thanks, Katie, for that. I was wondering if you could tell us what the if you have projects Ed or what the buydown amount was or is planned to be for fiscal year 2324. Yes so not through the T pid, but you're just.

>> Yes, our actual incentive. We actually did an analysis from from now until we close and it's going to be about 3.5 million. We did about 3.5 million in fy 22, but we are starting to see events having to book elsewhere and anticipation of the closer closure that's those multi year

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closure that's those multi year events that come to us every single year. And so we are seeing a slight drop off in that. And so we're anticipate Singh about 3.5 million until from now until closure.

>> And you say that's a slight drop off. How does that compare to prior year, prior years in the fours or in the fives? What significance has the drop off been with the anticipation of the closure?

>> O in terms of the number of events or well, just in terms of that dollar amount that 3.5 million was closer to five?

>> Was it closer to four?

>> So in 22 we did three and a half for just that one fiscal year. So it's you know, you're talking like maybe another 500,000 or so. So not it's not huge in the grand scheme of things, although it is significant in terms of trying to get the funding from the TPD.

>> So looking at the chart here where it talks about potentially 23, 24 being 5.5 million and eligible buydown, that's just given your number, there's not an extra \$2 million worth of buy downs out there to be had. >> Probably not. We are actually

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>> Probably not. We are actually looking at our incentive program and looking at how we're calculating it in order to see how we can maximize what we're getting out of that and so we're hopeful that we'll actually be able to increase that amount if we're, you know, between now and probably January is when we anticipate that we'd be starting to collect for the pid. And so we've got some time to really rework that program. It won't look any different for our clients, but on the back end we'll be able to kind of maximize what that discount actually looks like.

>> And so when in the service plan, when it says that it's going to be a minimum of 20, that's not a true minimum, right? I mean, if it's less than 20, that's not just given to the convention center. It is reallocated through the process here that it says that at the end, at the end of the fiscal year, surplus funds will be allocated to subsequent fiscal years. Is that correct?

>> Yes. So we've actually built language in there as well. So we'll be using so we might take , you know, 500,000 or whatever

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, you know, 500,000 or whatever and use it for the next year's events. And so those funds are not eligible to be reallocate. And so we'll be working to maximize what funds were encumbering for future events with each year's in order to maintain and ensure that those that funding stays within our category. But yes, the management board of directors has the ability to reallocate surplus funds in the next fiscal year. Okay.

>> And then in you talked a bit about the closed years, that 10, 10% bifurcation. So for the first 10, like you said, that's supposed to go to buy downs, not to the convention center, but palmer or other or but once again, we can't it's not a 10% guarantee. It's a hope. Right

>> That's that's exactly right.

>> Okay. And then of if we don't hit that full 10, half will go to the reopening fund and half potentially reallocated and correct for the reopening fund. Is that exclusively for buy downs? Yes. So looking then when

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downs? Yes. So looking then when the convention center reopens, is under the service plan Ann right now, excluding the reopening fund, if we exceed 20, there is another 20% available knell and it's a shell. So it's it will go there. Yes up to 40. Is there any real scenario where we exceed 40% and then have to dip into this reopening fund? I mean, that seems is incredibly unlikely.

>> I would say that's unlikely, yes.

>> Okay. And then. For the other half, the variable room generation that that is, it can go in any of those other categories, including buy downs, including buy downs.

>> Yes.

>> But as we talked, pretty unlikely that we're going to exceed 10% in buy downs during

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exceed 10% in buy downs during the closure.

>> I would say that's not necessarily true because as I said, in 26, we're going to start selling the new building. So we'll be eating up all of those dollars in encumbering them for when we reopen. So I think it is actually likely that we could get to over 10% in the in the years. Certainly once we start selling the new building.

>> But to your point earlier, then that would be very delayed dollars that we wouldn't see those until 30. That's beyond okay.

>> Although we will have a level of incentives during the current year. Right. Because we will have events that happen during the years of closure at palmer. It's just not going to be, you know, 5.5 million or worse.

>> I think you kind of alluded to it. And I just I think it's important to note, like this chart is the absolute rosiest picture. The best case scenario . But I think pretty unlikely. And so I I'm a little frustrated in how we got here and that

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in how we got here and that there were agreements and as a prior council, prior, you know, discussion, but there were other agreements that would have potentially allowed for us to get guarantee Eid dollars and the law was changed Ed by those involved in this negotiation. That prevents us from now doing that. And now we're stuck in a place where we're trying to get that dollars here and there. That's a, you know, up to, if we're lucky, if it's the best case scenario. That's all that I appreciate it. Thank you.

>> Thank you. Colleagues, any other questions? Thank you. I appreciate your question. Burns council member alter and I share your frustration with how we got to this particular place versus where we where we started. Can

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where we where we started. Can you remind me how we pay right now for the security for south by southwest.

>> I think, I think it's I think it's part of the fee waivers in the city's budget process. Okay

>> I don't know if we have any financials.

>> Did you consider making as part of what the ATPD pays for just directly a certain like we have a good sense of what that amount is and if we waive those fees, unlike with the convention center, there is actually a cost that we have to pay for. So we have to pay for all the cops and any other first responders that we have to backfill in order to provide that security.

>> Yeah, so my understanding of the law now would not permit a direct payment for security services as it's restricted to sales and marketing activity sales and marketing and business recruitment specifically related to hotels. We can certainly have some conversations and take a

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some conversations and take a look at what those those fees are and how we might be able to get creative with some of our incentives for south by. And we can absolutely report back and get that to you.

>> Yeah I mean it would be helpful. You know when you talk about the 3.5 million incentives, what portion of those are south by and do you count south by in those incentives or can we can we more accurately reflect the incentives we provide under under south by so the incentives that south bay would receive is strictly conform find within the convention center and it's a discount off of their facility rental and it's probably very similar in line with what other convention centers are receiving as well.

>> It's based some on the hotel room or, you know, on hotel room nights. But we can certainly take a look and see Shea like Katy said, if there's a if there's a creative option where we can look at what incentives the convention center is giving

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the convention center is giving that could contribute in a roundabout way. So when you talk about the 3.5 million, does that include south bay?

>> It does, but it's a small percentage of the 3.5 million.

>> It's not like it's a million of the 3.5 million.

>> Okay. Just often when we see the convention center data, south bay has an outsized impact . It so I was just trying to see if there was a way for it. Can you circulate to us the statue that is governing? Yes, we will. The rules because I think that was that would be helpful. Okay if there are no other questions, I guess we will continue this conversation next week at work session. And I understand there's been a request to have a presentation there as well and several colleagues who are not here. I know, have have many questions about this. Mr. Noonan, I wanted to just recognize you before we conclude and see if you would like to say anything. You don't have to, but you're welcome to if you'd like to. Well madam chair, I'm sorry

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to. Well madam chair, I'm sorry I couldn't be there today.

>> I'm home ill with covid as my entire family is or would have been there. And I will be better now. I will be there next week.

>> Thank you. I wish you a speedy recovery and everyone be safe. Lots of folks are home with covid, so thank you. Thank you, ladies. Next up, we have item seven, which is the Austin convention enterprises

concerning the Hilton hotel next to the Austin convention center . Sir, good morning, Mr. Flanagan. Are you doing the presentation for us? Welcome back.

>> Thank you. It's a pleasure to be here. Council members, thank you for affording me the time to join you this morning. I am Jimmy Flanagan. I am the current president of Austin convention enterprises. I do have my board chair, Phillip Schmidt, joining us. My legal counsel will be here. He's not joined us so many of you are familiar with what's going on at our hotel. But I want to give you a quick rundown and reminder. Our we were created ace was created in 2000 specific to support the

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specific to support the promotion and development of convention and tourism business through the construction of the hotel and parking garage. We are structured first. Ace is a non profit PFC. You all have created other pfcs. You're familiar with those. We have a hotel operator that is Hilton that handles all of our hotel operations. That agreement was renewed at the end of 2020 and council consented to that. We also have a bond trustee that oversees and holds all of our reserve funds and our building is actually 75% hotel and the remainder of it is primarily the 555 residences and a small amount of the office and retail where the chamber of commerce offices we are governed primarily by these three documents. We have a bond indenture that the bonds were refinanced in 2017. That council approved. We have a hotel operating agreement that that governs all of the responsibilities that are delegated to the Hilton operation Luz. And then we have

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operation Luz. And then we have a condo regime, that is the participants with the 555 folks in the chamber of commerce to handle the common elements. Our bond indenture was most recently amended in 2021 in order to accept that loan and address some short term admin reserves risk that was related to the pandemic and council also consented to that. Some of our highlights over the last two and a half years that I've been president of ace prior to the pandemic, ace general rated significant revenues and transferred \$2 million a year back to the city in unrestricted funds. The \$6 million since 2017 right up to the edge of the pandemic and had built an extra \$13 million in reserves. It's a very successful and profitable hotel. The loan that we got in 21 was 2.175 million. It was forgiven by the sba at the end of that year. We also unionized our hotel knell in 2023 when it

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our hotel knell in 2023 when it was approved. But the union got certified in 2022. I know the airport Hilton is also unionized , but we beat them by just a couple of months. So we are the first unionized

hotel in the city of Austin. One of the things that I'm most proud of, and I know our board is proud of, is that ace is incredibly % transparent in its information that it provides to the public and to bondholders through our website. All of the information that you see presented are detail level, monthly presentation burns videos of our board meetings much similar to the way that council puts all of its information on the web. All of that is available on the ace website, including very detailed reports that are provided by our asset manager, Warnock on occupancy levels daily rates, rev par, which is a common hotel analysis of how well you're performing. We also get really good feedback from our bondholders on our transparency as well as standard and poor's. They actually did a site visit

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They actually did a site visit at the hotel last week that was very successful for all of us. So this is the main chart I want to show you in terms of hotel performance. You can see the three years prior to the pandemic, our revenues dropped, not surprisingly, and we have recovered Ed and now we're back into that pre pandemic condition for 2023. The line is our reserve funds or all of the funds that are held in trust by the trustee and including that \$13 million of extra reserves that we had built up was is expended fairly dramatically to make it through the pandemic. But we did not have to come to city council for any assistance during that time. And in fact, it would have been very difficult to do so because our indenture makes a very hard line between on what revenues are available to pay these bonds. It is hotel revenue only, which is very different than able, which is backed by airport revenues. And you can see in 23, we have modeled to the end of this year

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modeled to the end of this year . So we're this the actuals on this slide are only through the end of June, which are the publicly available reports that we publish, not just on our website, but also to the securities website. Emma. And so those are modeled through the end of this year. So you can see where we're headed for 2023. But what I really want to talk to you today is about convention center and I have certainly made the rounds with all of your offices over the last 18 months. But the primary issue for Hilton Austin and for ace is that our bond indenture has a very specific clause that talks about event of default related to the closure of the convention center. If that closure is going to have a material adverse effect on our gross operating revenues and it will have a material adverse effect, that much is clear. And so we've spent the last 18 plus months working with bondholders, working with the city, working with Hilton, communicating with your offices to try to navigate it. How we work through this

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it. How we work through this event of default in support of the project the city wants to do with the convention center. You all approved the in 21. We started working that fall. We had a public bondholder call in December of 21. All of that time it's been in deep negotiation. I know some of the lawyers for the city are here as well. It has been a long, hard slog to get through a very complicated amendment process in my conversations with our asset manager and with standard and poor's, there's really not another example nationally about what it means to go through a process like this. So we are all trailblazers moving through amending an indenture at this scale, we have finally reached an agreement amongst all the parties. We are now going through the formal approval process. The ace board voted for its approval on August 9th. Hilton provided its consent. Last week. We are now going through the bondholder approval process, which has a lot of rules related to securities. And here's the detail. Four main areas I want to talk about.

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areas I want to talk about. There's the bondholder loan to capital loans and then some other terms that are part of the agreement. The bondholder loan is a maximum amount of 25 million. It would be available to cover any shortfalls in our debt service payments after hotel revenue. So hotel revenue like always goes to pay debt service first. But we would be able to access this kind of like a loan, a line of credit prior to tapping any of our other reserves would earn 2% interest. It's only available for use during the closure period, plus six months. And our modeling shows that we are unlikely to have to even tap this loan at all. But hotels are risky business, so this has been important. This was a ask from our bondholders and working with city and with Hilton, we've come to this this level. So like all three of these loans, it's expected and our understanding is that it's going to come from convention center revenues. But that will be a decision you will have to make later. Then the

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have to make later. Then the primary capital loan, this is 8.75 million. This would be available only after our main capital fund is exhausted. So just like with the bondholder loan hotel revenue pays for things first, this would be limited to certain life health and safety projects. These are enumerated specifically in the agreements, and I like to think of these as the projects that ensure the public still has safe access to its building in the lobby and the meeting rooms and the staff and the restaurants. It's things like hvac, fire suppression, Ann elevators, escalators that type of thing. It would also only be available during the closure period plus six months. It also earns 2% interest. But this loan we do expect to fully utilize as its repayment it. In fact, any of these loans, frankly, would be expected to be repaid Eid by 2035. And again, funds, our understanding is to come from convention center, the third is

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convention center, the third is the secondary capital loan. This one is in 5 million somewhat similar terms to the primary. It's available for closure, period, plus two years. But it is highly unlikely this loan is going to be needed. It is very challenging to find a scenario where you're having to tap this loan because it is not eligible until all of our capital funds are depleted and we do have significant capital reserves that we've built up since the pandemic. Some other terms, obviously, this waives the event of default defaulting on this indenture is not good for anybody, certainly not ace or the bondholders or Hilton or the city. So this is the primary reason we're doing it. Some changes to the subordinate management fee, the way these hotels are structured, the Hilton makes its management fee as a percent of revenue. But part of that is based on their performance of the hotel and Hilton requested and we negotiated a change to the test that they have to meet in order to earn that fee. It drops a

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to earn that fee. It drops a little bit prior to opening and then it ramps back up once the center reopens. It's also important that there's a there's another change in here related to irs compliance. Slightly tweaking the flow of funds. And then there will be regular progress. Reports of bondholders really want to know what's going on. So we'll be coordinating with convention center staff to make sure that as the project proceeds, bondholders are kept up to date. Here's the timeline we we're getting these agreements approved right now. Center closes in 25. That's when the loans become available for use. 28 is the last is the year where we changed our flow of funds slightly for the subordinate management fee. 2030 is the first year the center is open. That's when the loans, the primary and the bondholder loans no longer available. Performance test restored in 23 and the final bond payment in 2034. And that final bond payment is important because right now we spend about \$17 million a year

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spend about \$17 million a year in debt service payments, \$17 million a year, one ounce. Those bonds are expense and that's \$17 million in theory will become available to be transferred back to the city. There's a whole procedure about how that negotiation has to go once there's no longer a bond indenture. But this property generates significant revenue that at the termination of the bonds, can be used much more broadly than just the 2 million that it was generating back to the city prior to the pandemic. So our next steps we are doing our public bondholder call this afternoon. The bondholders have until September 6th to approve all the amendments and the loan documents, and then those loan documents come back to council for your approval, all on the city schedule. And that is the end of my presentation on.

>> Thank you, Mr. Flanigan. Colleagues, any questions?

>> I have questions. Sure. Thank you. And thank you for being

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you. And thank you for being here today, Jimmy. It's nice to see you. I requested this briefing because I was concerned about the impact of the Hilton during the convention center closure. And so I have a couple questions to just clarify things, if that's okay. Sure I'm wondering and I do watch your meetings. Thank you for posting them online. It's very transparent. As you said earlier, it's my understanding from watching those meetings that Austin hotel inventory has increased dramatically. Kathie it was mentioned that it's up 120% since 2015 with an additional 9% coming on board in 2023. That said, could you outline perhaps any projected revenue that will be lost at the Hilton as a result of the convention center expansion? Have you looked into that?

>> Absolutely. We have a full modeling of the closure period, in fact, all the way to the end of the bonds that's posted on the website. We did an initial analysis of that back in December of 21. We've posted an updated analysis now that we've

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updated analysis now that we've had a full year and a half of post pandemic business, the numbers got a lot better. But generally speaking, the impact of closure overall is going to impact our revenue by about 25. The closure of the convention center has a greater impact than that. But we think that there is some business we can pull in that will make up some of that. But generally speaking, it's a 25% impact. But you can go to that analysis and see every six months expected revenue, expected profit impact on all of our reserves all the way down.

>> Okay. Thank you. And at your may meeting and April meeting, you talked about the roof replacement and the chiller. Could you talk to us a little bit about how that progress is going?

>> Sure. So we have signed our agreement out for chilled water. We are a part of the chilled water program. I believe our hotel was one of the first participants in that program. We have renewed our agreement. I think it was a 30 year term, signed it. I think it was literally a week ago. So the chilled water agreement is signed. It's going to reduce our

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signed. It's going to reduce our utility costs. Thankfully that'll be helpful. And then the roof project, we are evaluating bidders right now. What's interesting about that is the roof project is actually of the Kondo regime because the roof is considered a common element with the private condos. So we're in the process of evaluating those two bids and hopefully getting that project underway soon.

>> How long have you been working on fixing the roof? Because it seems like it keeps coming up in your meetings.

>> It has been a long time. It's been quite a long time. In fact, the process really began in earnest after the freeze of 21. There's been a lot of water kind of making its way through the building. And so we hired a roof consultant to come out and evaluate it. We have a warranty claim for some roofing materials. We've been working with that vendor. We have another consultant that we came in to make sure that we're getting the right bids. It has been a long, challenging process through the Kondo regime, but we are very much nearing the end of that analysis and be able to get that roof project started.

>> Thank you. And then at your may of 2023 meeting, you talked

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may of 2023 meeting, you talked about the 2022 audit. Could you discuss the audit and the management letter for the corporation? And has the audit been finalized yet?

>> Yes, the audit was finalized in June. We have a requirement in our bond indenture and our disclosure documents. We have to post our annual audit by six months into the year. So it was approved by the board. It has been posted. The audits that I have been a part of have all been very clean audits, no issues, no problems is much like ace and our board's intention to be very transparent. Aren't the Hilton finance staff, which does most of the audit work with the auditors, is also been very good. Our auditors always report a very good relationship with our team.

>> Thank you. And then earlier, you talked about the S&P ratings and how you've had discussions with them. I noted in the minutes of one of your meetings that they had concerns about the convention center expansion and the impact on the hotel itself. Could you talk to us a little bit more about that?

>> Yeah, this is a great question. So we've been working

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question. So we've been working with standard and poor's. Mean, I've been working with standard poor's since the beginning of 21. We like all hotels bonds got downgraded that year. We went on to not just a downgraded bond rating, but we went to creditwatch status that was then upgraded to a outlook negative in their last analyst. This in S&P last analysis, which is also posted on our website, it reaffirms the bond ratings, but it but it specifically calls out that if we can get an agreement and they weren't specific to the terms, but if we can get an agreement on waiving this event of default, then it is possible that we will get upgraded on our bond rating to outlook stable. And so that's what I'm working towards with our S&P folks, is to once we get bondholder approval and council approval on the loans, that all of that hard work will be reflected in the upgrade of our credit watch from from outlook negative to stable

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>> Thank you. So my last question and I apologize, colleagues, I'm just really interested in this and I'm glad that we're able to have the

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that we're able to have the presentation. Ann today is about those the loans and that does require council approval, correct? Okay. So my concern is about any kind of default options on those loans in case the expansion of the convention center takes longer or anything like that. Have you considered that as part of that process? And maybe could you explain it a little bit to council?

>> Yeah, I think those are good conversations to have with city legal as well. In addition to me here in this meeting, it was a very long and challenging process, as it can often be when you've got that many lawyers in the room. But ultimately, the way the loans are expected to play out is that we are not going to be really making any payments against draws until after the end of the bonds. Once the bonds are expended, there's at least \$17 million a year that we currently make in debt service payments that in theory would be eligible to repay any loans that are tapped. So so default is a challenging concept because you think about it, well, is this like a mortgage? Is this like an installment

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Is this like an installment loan? It's really not structured that way. We'll be making draws in my expectation just on the primary capital loan and that all of those draws will be repaid if not in 2034 or 2035, because the bonds will no longer require debt service payments.

>> So I appreciate that response. Thank you. And thank you for your emails to council regularly about what's going on over there. It's very important information for us to know and I certainly appreciate it. Colleagues, I would like to ensure that we do stay on top of this throughout the convention center expansion to ensure that everything's going as swimmingly as Mr. Flanagan suggested. Well, thank you.

>> Thank you. Thank you for your good questions. Council member Kelly, they raised a question for me, which is so we're not you're not paying the bonds back or the loan back until the bond is paid off. But you will be generating revenue at a normal level or hopefully higher once the new convention center opens and there's a period of at least four years when that's

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four years when that's happening, is that is it expected that we will starting when it reopens fully, that we will begin to receive of the 2 million plus back?

>> So the way the. Thank you for that, the way the bond indenture is structured, revenue comes in and we call it the flow of the funds or the waterfall. So the revenue comes in and we have to fill up all of our reserves in a certain sequence right at the bottom of that sequence is our supplemental capital fund. It's called supplemental renewal and replacement fund. Then there's the subordinate management fee fund, and then there's what we call the excess revenues corporation account. And that's where the 2 million comes from. The pandemic has left our supplemental renewal and replacement fund in pretty serious deficit, and we expect that deficit will increase during the closure period. So the modeling shows that the increased revenues that will earn the end of 29, 30, 31, 32, 33 are still not sufficient to

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33 are still not sufficient to make up that deficit in the supplemental fund. But if they are the way the agreements are structured is that up to the end of the term of the bonds, if that 2 million reaches the corporation account, it will be transferred to the city. Okay. Thank you.

>> So if it does reach it, it will be transferred. But we have to fill up the reserves before we get.

>> And that would be true whether or not we were closing the convention center based on the way the indenture is written. Okay. But but that clause still is there.

>> How large or what is the deficit in the reserve right now?

>> The deficit right now, I think is between 6 and 7 million. But it will increase during the closure period. Okay, great.

>> Thank you. If there are no other questions, we say thank you, Mr. Flanagan. Thank you. The visit is. Is Mr. Stokes in the room? Okay. Thank you. Before we break, to go to executive session, I just wanted to invite you up. If you wanted to brief us on items to be

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to brief us on items to be discussed at future meetings, item nine and then we'll go back to item eight to yes.

>> Yes. I think for my office, we have a couple of large items coming to the September audit committee. The animal services audit, which you all requested by resolution earlier this year, as well as the vegetation management audit, which was requested the same way. So both of those will be coming back, I believe, will also. Be there's two briefings, one on the atp, the Austin almost got that wrong. Austin transit partnership was about to make up a whole new acronym for them. But I have the acronym here they are budget update. And then I believe a briefing on strategic planning from our financial services folks. We may also have our city ethics review report or that that may actually come in October. And what did I miss? >> Vice chair pool thank and

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>> Vice chair pool thank and thanks for mentioning the financial report from the transit partnership for us here, which we started doing earlier this year.

>> And I wanted to ask the chair if she would know why the metro board that we are doing these updates where atp comes and reports to the city because the funds are flowing from the city to atp. I sit on the finance audit and administration committee or the board at metro , and that committee is also interested in this information. But because of the flow of the money and the procedures, atp reports to the city and not to capmetro so we wanted to open open the invitation to for and any metro board or staff who want to come or dial in to listen to the presentation that will be made with some

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will be made with some regularity here at the city. So the information is more broadly shared as appropriate.

>> Vice chair I would invite you to go ahead and make those invitations on behalf of the committee since you have the vision. I think that will be a quicker way to get it done. The way that you want it.

>> Great. Thanks for the support and underway. Thanks. Great. Thank you.

>> And I think we may have a lobby ordinance. Yes

>> There's also a recommendation from the ethics review commission related to the lobbyist ordinance to come back to this commission and come back to this committee. Okay

>> And we may do that when we do the could be in September or October briefing or it'll be in October with the if, depending on that one. Okay. And then did you mention the strategic planning? Yes okay, great colleagues, I appreciate the requests for particular items. And the more you can give us

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And the more you can give us that in advance, that'd be great. I do just want to flag for departments who are providing us materials and presentations. We really do want those by no later than Monday noon to the committee and ideally they are posted then it's really hard for the community to have a chance to catch up, even if they know to watch if those materials are not posted. When we have a huge number of presentations, it's hard for us to get some minor questions answered that don't necessarily need to be in the public forum. So I'm going to ask again to please make sure that they're in by Monday noon when we have our process for our for the audits being published, which are slightly different, but

we're still trying to get those up. As soon as soon as possible. But for the finance side of the house, if you could please really try to make those deadlines. We've had a lot of

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deadlines. We've had a lot of presentations coming in later and later, and it does make it challenging for us to plan. So I would ask that if we could make an effort to get that, that would be appreciated. Thank you. Okay so anything else before we go into closed session? Okay so the committee will now go into closed session to take up one item pursuing it to sections 551.076 and 551.089 of the government code. The committee will discuss security audit matters related to item eight cybersecurity audit follow up and I will. Presuming if we don't have any vote, that has to take place for item two, I will come back, call item two and close this out. If we do need to have some kind of discussion, then everyone will come out. So if there's no objective objection to going into executive session on the item, the committee will now go into executive session. We will be back in the executive room. Thank you. Thank you. In closed session, we took up

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In closed session, we took up and discussed it. Security audit matters related to item eight. We do not have any business to conduct with respect to item two, which was the related public session. And so with that, as chair of the audit and finance committee, I'm going to adjourn us on August 23rd at 12:08 P.M. Thank you.