Closed Caption Log, Council Meeting, 08/19/09

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Good morning, I'm austin mayor lee leffingwell. A quorum is present, I will call this special called meeting of the austin city council to order. 05 on wednesday, august 19th, 2009. We're meeting in the boards and commissions room at austin city hall. This morning we will continue our budget meetings with our eight enterprise departments. Including austin energy, economic growth and redevelopment, austin water utility, solid waste services, watershed protection, public works, aust transportation, aviation and convention center. So -- so I think maybe the best way to go would be to pause for some quick questions and clarification between the departmental briefings and remember that you always have the opportunity to submit more detailed questions in writing to the various departments and those will be published online. So with that, I will turn it over to the city manager to introduce the presentations. thank you, mayor, good morning, councilmembers, ladies and gentlemen. Pleasure to be here again for the second of three budget workshops. Our focus today, as the mayor indicated, will be primarily on the enterprise side of our -- of our business. But before we get into that, I wanted to -- to take a few minutes to -- to talk about where we've been. The things that have been the subject of some conversation since we presented our budget recommendation to the council and to the community back in july. You will recall when we made our initial budget presentation, budget 75 billion, as I recollect, the -- the -- the -- the concern we heard expressed at that time, particularly in regard to our employees, there were a number of things that we characterized as take-backs or contributions that the employees were making to close the budget gap. Council at that time expressed some concern about furloughs, as you will recall. I think a number of you did. Since that time, the course of the conversation has continued. We have heard from city employees, you heard from them during the first budget hearing that we had, just not too long ago. Of course, on that particular evening, their focus was on sip or service incentive pay. I won't try to reiterate all of the expressions of concerns by them, I think you all heard and understood where they were coming from. They were concerned that we had eliminated that for 2010 as part of our efforts to balance the budget for 2010. I want to say, in that regard, that, you know, that was, you know, quite frankly a pretty tough decision for the entire budget team and especially for me. As we work to provide you with the balanced budget, as you know, given, you know, the strain on our revenue base because of sales tax, we didn't have a whole lot of options. And when we presented the budget, I -- I think i described for you what the principals were, by which -- principles were by which we developed our recommendations for 2010. I told you that we brought to bear our best creativity, discipline, perseverence. I think that you have had on time to reflect and I think it represents all of those things, in particular, under these extraordinary times it represents the sacrifice that was necessary by everyone. When I say everyone I mean, you know, the employees, i mean citizens, I mean everyone. We have, since then, continued to have discussions about the budget recommendation that we presented. You know it's an iterative process. You also know that we get to this point every year, even after the manager has presented the budget recommendations, still waiting on additional information. Particularly in terms of the certified roll, which you all know, you know, there was a bit of a mishap there and so we were waiting longer than we ordinarily do to receive that information. We have received it. And we continued, also, to focus on the budget and scrubbing the numbers, looking for additional revenue opportunities that would allow us to go back and address some of those things that we had to recommend in order to balance -- balance the budget. We also, you will recall, and -- in the course of your conversation, that you also -- that you also expressed some concern, too, about the number of different fee increases on the enterprise side of our organization. So since we last talked with you, we have -- you know, we have also refocused, you know, on those. While I think that, you know, what we recommended in that regard was based upon, you know, sound business decisions, you know, decisions that we viewed were in the best interests of those enterprise operations, we did go back and really, you know, pressed against the business case that was made. Even beyond that, even setting the business case aside, acknowledge the fact that if nothing else, we are both a value and principle-driven organization. So notwithstanding any business case, in light of our corporate and community values, ask the question, do we nevertheless under these extraordinary economic times have a responsibility to see if there's any way to bring some -- some relief. So -- so today you are going to -- going to hear about some new information relative to the revenue side. I already mentioned the certified roll that quite frankly, based upon the roll back calculation has now resulted in a rate that is less than what was proposed in our original recommendation and end results in some -- and results some n some additionals r additional revenue in the area of about $640,000. You are also going to hear today about some additional revenue relative to the utility transfer, ie, with respect to austin energy, approximately a million dollars and you are going to hear that. So with those things in mind and the kind of conversations I told you that we've been engaged in, today you're going to hear us articulate some alternatives to the recommendation that we provided to you on july 22nd. You'll find that those are recommendations, they will be focused on the sip, some modifications with respect to how we will approach furloughs and you will also hear some adjustments that we've made in a couple of instances with respect to fees on the enterprise operation. With respect to sip, I think that I have already said that that was a very, very difficult decision, I want you to understand that, you know, it was really the last thing that we did. It was that difficult. Even though we heard the reaction from employees and subsequently I heard the reaction from councilmembers, you know, about that and the desire to try to do something to remedy that, I also want you to understand that in the course of all of that discourse and exclaiming, we didn't hear anything that we hadn't already thought about or talked about or struggled with. It was a struggle. But my commitment to the employees from the very outset and they all know this, all of the people in this room and beyond know this, that I had made a commitment to doing my very best not to put anyone on the street. Not to lay anyone off. And the reason I focused on strongly on that commitment is because I don't have to tell you about the extraordinary nature of the economy and I lost sleep over the prospect of putting people on the street and -- in this economy and then, you know, considering that they might not be able to get another job someplace and beyond that, I could visualize people losing their houses or losing their cars or not being able to put food on the table, implications that go far beyond the loss of service incentive pay. The other commitment that i had was to employee based pay and really not wanting to see a reduction in base pay because obviously it has a -- it has a -- it has a permanent, it has a permanent impact, you know, on their income and a reduction in base pay in 2010, even given an increase, if things improved in 2011, is a matter that from a financial standpoint that the employees w never recover from. So we were deeply concerned about that as well. It was the source of our commitment to, if at all possible, to try to avoid doing that. And when you think about the budget recommendation that we fought for, we held true to our desire and our commitment not to adversely impact those two things. The budget that we offered, I think, in these times reflects a fiscal plan. Again, that's both responsible responsive to all of the information that we gathered over the period of developing our recommendation for you. And I would tell you that, you know, but for the change in circumstances from a revenue standpoint that you are going to hear more about in just a moment, I would be here to tell you today that I stand by the original recommendation because based upon the information that we had at the time, we still believe that it was the best business decision for the city of austin. We are fortunate to have this opportunity, very fortunate to have this opportunity. I don't have to tell anyone in this room that there are many, many other cities that are not as fortunate as the city of austin. And when you consider the fact that we're talking 75 billion budget in this extordinary economic environment and so far the principle concern has -- principal concern has centered around the issues that I have raised, sip and furloughs, I think that's pretty darned good because when you think about dallas, when you think about fort worth, when you think about all of the other cities that you have heard about and the measures that they are having to take in order to offer a balanced budget, i think that we -- we stand pretty well. Notwithstanding the challenges that we had in bringing this forward. So, mayor and councilmembers, with that, i would like to have ed begin by adding some detail around what I have just said and then subsequent to ed, as the enterprise operations come forward to make their presentations, you will hear some more of the detail with respect to fees. Ed?

Thank you, city manager. Good morning, mayor, mayor pro tem, and members of the council. As the city manager alluded to, I do have a few quick slides to go through with you to provide an update on some of our revenue projections pertaining to the things the city manager has already talked about, then to also highlight some of the changes to the proposed budget recommendation that staff would be proposing at this time. First, taking a look at our property tax numbers, as you know, when with you develop our proposed budget, we do not have a certified tax roll from any of the appraisal districts. It's based upon best estimates at the time. At the time we are bringing forward the proposed budget, the estimates that we had resulted in a proposed tax rate of 43.28. Now that we have the certified tax roll, what we've found is that the assessed values came in quite a bit higher than what the appraiser initially estimated. At the time of proposed we were looking at $77.8 billion. Now that we have a certified role they actually came in 2 billion, which is 9% increase relative to last year's tax roll. 9 billion of new value, which is just slightly higher than what we had estimated at proposed, about $31 million higher. So it's a large number. $31 Million, but relative to 9 billion it's a fairly slight increase in regards to the new value. The results of that is twofold. First of all, we end up with a lower tax rate, still at the rollback calculation our revised proposed tax rate would be 42.09 cents. And the second part of that is that will also generate additional revenue to the tune of about $644,000. So as a result of this value of our overall property values being higher than we expected, slightly lower rate and slightly higher revenue, you can see --

Cole: You are supposed to be a little more upbeat. Because the council wants to go woo-hoo!

This is upbeat for a budget director.

[Laughter]

Cole: Okay.

I'm not sure what you are used to. Where is greg?

[Laughter]

so other budget updates, as you all know, it's been hot. We now have 59 days of temperatures in excess of 100-degrees and before everybody starts getting concerned about global warming and things of that nature, I just put on this slide for your information that the record is 69 days actually set way back in 1925, currently some polls going around toment the city of austin beat the all time record. I think we probably with. With those hot temperatures, austin energy of course is being -- seeing higher than anticipated revenues, which directly translates into the transfer calculation. 1% transfer rate that has been maintained by council policy, we would be seeing an additional $1 million coming to the general fund transfer. So where we had prosed at $100 million transfer, we're now going to be seeing $101 million transfer. Talking a little bit about some of those enterprise rate proposals, I'm not going to go into a lot of details on these because you're going to hear more about them with austin energy and solid waste services make their budget presentations, but initially we proposed a 60-cent transmission rider. We would now be recommending to delay that for one year and basically keep austin energy rates at their current levels and similar in solid waste services you are going to be hearing about a recommendation to significantly lower the rate increases in that operation from what we had initially proposed. I will leave that for the enterprise departments to talk more about. Bottom line, though, is what you are going to be seeing is a somewhat of an impact to some of those departments respective fund balances. It may require larger increases somewhere down the line as these costs continue to increase and they need to be recovered to keep those operations sustainable. In terms of budget recommendations, we are now 6 million of additional revenue from what we initially projected. Staff's recommendation for allocating those moneys would be to restore service incentive pay. We would also likeo commit to having more full although less than $40,000, now for employees that earn more than $40,000, we think a furlough may or may not be necessary and what we would like to do is come back six months into the fiscal year and re-evaluate the need for that. So based upon the city's economic condition, our finances, if revenues are coming in, where we're hoping they are going to come in, there most likely would not be a need for a furlough program, even for those higher paid employees. If that's not the case, then a furlough program may still be necessary, but we would like to -- to have the ability to come back and re-evaluate that six months into the year. Another aspect, we have really been having a lot of success with our hiring review process. Initially our thinking was once we get a balance, structurally sound balanced budget adopted by council, that we could lay off of this hiring review process, let departments get fully staffed up, move forward with delivering their operations. We still want to get departments staffed up for the delivery of core services but the fact of the matter is that we've had a lot of success with our hiring review process. We've had quite a number of vacant positions come open since the time we developed this proposed budget. Every week more vacancies, every week we look at them and are allowing those positions to move forward where they are needed to maintain core services, whether it be in the library or in the recreation, parks, police or fire departments, we are trying to allow those departments to move forward for delivering services, any cases where we can find situations where -- where those services can still be maintained without the position being filled we're trying to hold those vacant. So we would try to continue that into the fiscal year, which will have some impact on departments, will have some impact on their ability to deliver services, but we think that we can do it in a thoughtful manner to save the additional moneys that we need in order to, along with the revenue increases we talked about, restore service incentive pay and suspend the furlough particularly for those lower paid employees. We are still recommending the tax rate at the rollback level but that level, as I've mentioned previously is lower than what we initially thought it was going to be, 42.09 versus 43.28. With those introductory comments,, today's agenda as the mayor alluded to is to go through the enterprise departments, nine presentations slate slated for you. We have done dry runs, I can tell you based upon the quantity of the presentations and the length of the presentations, anticipated comments from council, we think that it's very likely we will need more than one day to go through them. From the very get-go we've had this additional day of august 26th as a fall back. Tentatively from what we have seen we are anticipating maybe a break after the convention center, acvb presentation, that's where I drew the line there, we would come back on the 26th for the other four enterprises, to some degree we want to have flexibility. If things are moving along very quickly these other departments are ready to go, we may be ready to knock them all out today, but -- city manager?

I was just going to say, in no case -- we want to extend the opportunity to shut down at noon, mayor.

Really quick in terms of next steps, the budget adoption schedule, you have en, I continue to keep it updated for you, tomorrow we will come back and have our second budget hearing, AUGUST 26th, MORE BUDGET Presentations if that's needed, august 27th our third and final budget hearings leading up to sent 14th through 16th budget readings. As you know, the tax roll was delayed because of that delay we've had to modify our tax rate adoption schedule. We did end up getting those sooner than we thought. We had a worst case scenario in mind, we ended up getting it sooner than that worst case scenario so the schedule we would submit to you at this time for adopting the tax rate would be to come back on august 27th council meeting to have you set the maximum. Again that's not to set the rate but set the maximum that you would consider. Come back on sent 14th with our first tax rate public hearing. SENT 24th, WITH OUR SECOND Hearing. Then adoption of the tax RATE ON OCTOBER 1st. Those are all regularly scheduled council meeting. The 14th is the specially called public budget reading, but it's already on your calendar, so no special sessions required on your schedule. I'm finished, thank you.

Mayor Leffingwell: Ed, can I say at last I have been outdone by someone who can display excitement better than I can on receiving good news

[laughter] but I do want to point out that the tax rate that you are proposing now, the new rollback rate, is less than a penny increase from this year's rate. I think that's -- that's very significant. I wanted to point that out. I wanted to clarify on the furlough situation, are you suggesting that there would be no furloughs at all until the reevaluation process in six months?

We would go into this year anticipating no furloughs, but depending upon the city's financial situation --

Mayor Leffingwell: Until that reevaluation is done.

That's correct.

Mayor Leffingwell: That's what I thought.

Our first presenter is going to be roger duncan from austin energy.

While roger is getting situated, going back to the budget workshop on august 26th. However many budget presentations we make, i wanted to reminds council that is also the day that roger will come back and make a presentation generally speaking regarding the future of austin energy.

Mayor Leffingwell: That WILL BE ON THE 26th?

As well.

Mayor Leffingwell: So we have to come back on the 26th anyway. So that's good to know.

Thank you, mayor and council. Austin energy, let's see, how die do this? There we go -- how do I do this? There we go. For our budget this coming year, we are anticipating 249 billion, that is a $70 million decrease expected in our revenue for the coming year. It's because of the economic recession, I will mention that a little further, but we did not see this year the expansion that was supposed to be in our budget for next year. The samsung fab 2 is unrelated to the recent announcement of samsung, there was supposed to be an expansion this year that didn't occur, also supposed to be a data center from hewlett packard that was supposed to have significant revenue, that didn't occur. Plus the -- the -- a drop in the industrial revenue that we were receiving from the existing fabs because of the economic recession. So we are looking at that continuing into next year and a $70 million reduction from current year's revenue into next year. We are cutting expenditures 3% reduction. We are not adding any new f.t.e.'s at austin energy. There are three transfers in from other city departments into austin energy to bring our total f.t.e.'s to 1,721. We are the 9th largest , 6 billion in assets, over a billion dollars annual revenue. Our service territory provide electricity for over 400,000 customers. In 2009 we remain the number one utility in green power sales in the united states. By the end of the fiscal year we willave installed 327,000 new meters and by the end of the calendar year we will have installed all meters for all of our customers in austin. com named us as one of the top six utilities in the country on smart grid development just a couple of months ago. Our new storm center online for outage tracking is in stations now when a storm rolls through will put on their websites a click through so you can see exactly where the outage is located. That's a future that we only recently have been able to install. Going through austin smart energy program that you have heard about, energized a major new substation at justin lane. Beeen the solar rebates tax credits we have exceeded our residential solar installations that we had planned for the year. And we are working intensively with other parts of the community on developing the green collar workforce that we need for transitioning into a new type of economy. Particularly with austin community college on new certification programs in renewable energy. We just went to -- are in the process of installing a couple of utility poles at f their campuses so they can train linemen for us. And we're working with many other organizations in developing the new green collar workforce. Budget highlights, 2 billion in revenue, in operating sales. That's almost all service area sales. There's not a base rate increase in this budget. $100 Million general fund transfer. 1% rate and as was mentioned earlier, we are now updating that revenue estimate to transfer a million dollars extra. This is due to the heat that we've had in the city. You normally would think with this many 100-degree days we would be having more to transfer. But again it actually is pretty much offsetting the revenue drop we've seen from our industrial sector for the year, if we had not had the hot summer, we would probably be sitting here reporting that we cldn't make the 100 million-dollar transfer we had originally envisioned. We also are establishing, actually reestablishing a revenue bond retirement reserve of $44 million. Previously we had the cash reserves for a portion of our bond issues that's required by bond covenant. Several years ago we were able to take that cash out and get permission from the bond holders to put in place an insurance policy from an insurance company with the credit rating that would insure those bonds and use the cash. Because of the economic downturn, this year there is no insurance company that has the credit rating required by the bond covenant to meet that requirement. So we now have to put money, cash, back into a revenue bond retirement reserve in order to ensure those bonds. On the capital side we spent 1 billion and are planning 1 billion in a five-year capital plan in 2010 that's 306 million. The projects include finishing the new peaking capacity facility out at sam hill and improvements in power plants, transition distribution, sand hill. The customer information system that council authorized earlier in the year and the new system control center out in the montopolis area. This is our revenue picture for next year. Again, our weak economy is driving the usage down. The base portion of the revenue is expected to be $12 million lower for next year. Other revenue includes transmission revenues, wholesale energy sales, district cooling plant, infrastructure rental and interest income. Comparison of our electric bills to others, we stay lowest in the state. The only one slightly lower is in san antonio and actually in terms of residential bills, even though their rate is lower, our consumption is significantly lower because of our conservation programs and the actual residential bills are lower in austin than in san antonio. In terms of transmission rider, as we have mentioned before,er cod, the electric reliability council of texas is doing a massive build outaround the state. Part of it is including the transmission necessary to bring wind power in from west texas, which is constraining the renewable capacity of the state. The public utility of texas has allocated to all utilities a mechanism to recover those transmission costs. The way it works is that the decides what transmission gets built, order the construction of it, then the costs are then allocated to all of the utilities in the state based on their percentage of use of the system. Austin uses around 4% of the ercot system so we get sent to us a bill for 4% of the transmission costs billed out in the state. That translates, this will start next year and then grow over the next five years as the transmission builds up and really gets underway. Our expense for use of that grid next year is expected to -- to be $64 million in 2010 and we expect that to double within five years as the transmission buildout continues. The proposed cost recovery mechanism is a --

is a transmission rider on the bill. The average monthly impact of that would be 60 cents. However, as mentioned by the city manager, we are looking at revising this proposal. We are revising it. We're not going to impose a transmission rider on next year's bill and will postpone that to 2011. In terms of expense requirements for next year, you see the amount that is for fuel, 38% of our expense is a pass-through on fuel. Another 29% for operation and maintenance and then you see the other types of expenses that we have general fund transfer, revenue bonds, retirement and the debt service on our capital in the system. In terms of general fund transfer, this is the original estimate of $100 million. Based on the transfer rate 1%, which is a three-year average and the updated revenue estimate increases that transfer by one million dollars. In terms of budget reduction, because -- and -- we seriously look every year and especially hard this year, on reducing our budget just like every other city department does. And we believe that we undertake the same level of scrutiny as everyone else does. In terms of our specific reductions in 2010, again, as I mentioned, we are not adding any new electric utility personnel. The city-wide initiatives that affect all of the departments affect us as well, that's a $3 million reduction. In addition to that, we are adding another $870,000 in personnel vacancy savings by delaying the hiring of some personnel. We have reduced our overtime expenses projected for next year by $300,000. We are expecting a $35 million reduction in the amount of -- of fuel, primarily due to gas prices, natural gas prices. We are reducing the amount that we spend on engineering, consulting 2 million by doing more of the work in-house. We are also reducing the number of temporary employees that we contract for customer care in the next year by $1.7 million. Our -- our automated metering effort allows us to reduce our meter reading 6 million and lower gasoline prices we're anticipating would reduce our vehicle fuel by $700,000 and we are reducing another $450,000 through reduced advertising for our programs. We are doing less capital improvements program next year in our distribution system, primarily. That will -- that will -- we are -- we are not going to transfer $110 million to our capital improvements program. Our debt service drops some next year and -- and that's a $15 million reduction and we're not transferring -- we're transferring $5 million less to the repair and replacement fund than we transferred last year. As a high level overview of how we're -- how we're continually looking to reduce costs, I would like to show on this chart the -- the number of employees we have at austin energy compared to the number of customers that we serve. And what you see is back in 1994 and '95, we had about 307,000 customers and we had 1,714 employees. Since then we have grown to 414,000 customers, and we have 1,722 employees. And that 1,722 includes taking in egrso and the call center. We actually have less electric utility employees now than we had in 1994 and have increased our customer bases by almost 25 -- base by almost 25%. You can't do that without constant cost cutting and scrutiny of your services and budget. And to emphasize that point, there is an international standard and the business community knows about this called iso 9000. Our major semiconductor industries are all iso 9000 certified. It focuses both on quality assurance and the quality of the product you produce and cost reduction measures. It's a constant improvement process. It's very difficult to achieve. Our distribution system process was certified by iso 9000 two years ago. We were recertified this past year. We are the only electric utility distribution company in the united states that has achieved iso 9000 certification. So we feel that we are making strong efforts to keep the costs under control within the utility. Capital spending program. Our five-year plan is to 1 billion, significant chunk is on distribution improvements. Another 118 million for transmission. The fayette power project scrubbers, this is to reduce the so 2 coming from our coal plant. The total cost is estimated 188 million. We have already spent a substantial portion of that. Another 55 million is in the planning, we will complete that by 2011. The sand hill energy center. As I mentioned earlier, we are hoping to complete by next summer and we'll certainly need it if this heat continues. Another 100-megawatt peaking facility at the sam hill center. That will come in at a total cost of around 75 million. Our five-year plan now, as was revealed in our new generation plan that came out this week, we have in there a new combined cycle gas turbine at 200 million and the 2012 to 2014 time frame. Included also in our c.i.p. Is relocating our system control center from west avenue, the total cost of that is now coming in at 82.5 million. We are hoping to complete it mid year 2011. Then the customer information system replacement that council authorized will be completed also in 2011 at a total cost of around 36 million. Challenges are many and i will go into virtually all of these on the august 26th work session. But they -- but they include the economy getting slower, national legislation on carbon containment. Our generation resource plan. The switch from fossil fuels to renewable energy has many complications and costs that we'll go into. We'll talk about water resources, the carbon impact, and then our business model, how our current business model simply will not work with the distributed generation technologies that are starting to come online and by the thousands literally. Electric rate increase will be needed in the five year forecast. I'll explain in detail on the 26th why that is needed. I will also talk about the smart grid projects, including the pecan street project, the texas

[indiscernible] market volatile energy prices, in general we have a very capital intensive industry. I want to point out again that most of the departments that you deal with, the major cost is in personnel. If you are going to reduce the cost of that department you have got to impact the personnel. In our case, only about 9% of our cost is related to personnel. We're a capital intensive department and you make decisions that -- that save or cost hundreds of millions of dollars based on your major capital decisions. And then finally, we have severe industry workforce issues. In terms of retirement and retention and recruiting. I will go into that in DETAIL ON THE 26th. In terms of our effort to contribute to being the best managed city in the nation, we will continue to be a national leader in energy efficiency and green building. Renewable energy and climate protection, our smart grid development continues and as I mentioned, we are a -- an iso 9000 certified energy service delivery company. We will continue with our efforts on the new generation and co 2 plan, replacing the customer information billing system, continue our strong focus on safety for our employees, work on our utility workforce development programs, and continue to manage a strong general fund transfer to the city. Questions?

Mayor Leffingwell: A couple of quick questions. First on the -- on the relocation of the system control center.

Uh-huh.

Mayor Leffingwell: 82.5 Million total.

Yes.

Mayor Leffingwell: That to be reimbursed from revenues from the green project?

That is partially reimbursed from the green projects. But the center that we're building is much larger than west avenue so we are bringing in other aspects of the utility, we're also hardening that facility to a higher level of standard, all those improvements will exceed the west avenue revenues.

Mayor Leffingwell: Right -- [multiple voices]

the portion that's being removed from west avenue is being reimbursed, yes.

Mayor Leffingwell: I guess you won't see that rereimbursement until the green project is redeveloped, is that correct.

That's correct, i believe.

Mayor Leffingwell: So that will be a few years but will be reimbursed at some point. The second thing on the customer information system, is customer billing part of that?

Yes, that's correct. That's another name for our customer billing system.

Mayor Leffingwell: I understand that you are going to be working with the water utility and other enterprises to integrate their information into that system as well.

Absolutely. It is a multi-departmental effort. They are all on the team to -- to develop the new billingment.

Good, I will look forward to lots of big bar graphs and pie charts [laughter]

so do i.

Any more questions? Mayor?

Go ahead.

Mayor pro tem and then councilmember cole.

Roger, I just wanted to first of all thank you guys for the work that you have done so far. But -- but I wanted to specifically mention the recammation of the transfer -- recalculation of the transfer rate. Because I think as we see this year, it's pretty significant and adds a million dollars additional revenue. I had asked this question a few weeks ago, for the recalculation, because I -- because I surmise that because of the high consumption of energy this summer it might be a little bit different. What I would suggest, though, moving forward is that we revisit our policy for calculating that rate, so that on any given year, a councilmember may or may not remember that it's calculated based on a three year average with the third year being sales of I think march and april. And while this year turned positive, in some years we may want to recalculate that before we finally adopt a budget because it could have a negative impact as well. But I really appreciate it. I'm glad to see that we have additional million dollars revenue. But I think for me what it highlighted was that -- that our calculation policy, our budget policy, as it relates to calculating the transfer rate may need to be revisited so that we can have a more accurate reflection each and every year as opposed to having to ask for that recalculation.

Okay.

Mayor Leffingwell: Just a very quick follow-up, there's also the possibility or probability in future years of excluding surcharges from that transfer calculation, too.

Okay.

Yeah.

Mayor Leffingwell: Councilmember cole?

Cole: I, too, am very, very happy about that extra million dollars. But --

it's all -- thought about bringing a big check but we decided not to do that

[laughter]

Cole: I did want to make sure we clarify a couple of things. The first one is that we did not change the transfer rate that we have set out in our policy.

That's correct.

And so the reason that we have the extra million dollars is because of the method by which we do the calculation.

That's correct.

Cole: So as --

saving 9.1%.

Cole:1%, consistent with what the electric utility commission has recommended.

That's correct.

And consistent with what our bonding agencies want us to do.

That's correct.

Cole: If we -- if we visited about challenging the calculation of the transfer, but not the amount of the transfer, the actual rate of the transfer, would that have any impact on what our bond rating agencies view our financial position to be?

Well, I'm not our bond consultant, but my understanding is yes and we would certainly need to discuss with the bond rating agencies any changes we made to the percentage in the transfer rate.

Cole: Okay. I would encourage you to do that. let me just see if I may, leslie, do you have any -- or jeff, any of you back there from the cfo, would you have any supplemental comments to that?

As a matter of -- elaine hart.

Mayor Leffingwell: Could I also say before you start, greg, that the increase in raw dollars that are being transferred, has nothing to do with the policy, the policy remains the same. The amount of dollars transferred will always vary, it will vary every year. So I can't see how that would have any impact whatsoever. Doesn't have any impact on our policy, which has not changed so wouldn't have any impact on our -- those who give us our ratings.

That's correct. I may have been misunderstanding. I thought you were talking about change in the 9.1%.

Cole: No, no, I don't mean changing the 9.1%. But we were discussing the need to kind of not be surprised, even though i like that kind of christmas idea, with mayor pro tem martinez's idea that we look at the calculated, I just wanted to make sure if we did that, that we checked with the bonding authorities before we did that.

If we are not changing the percentage rate, I don't think that would be of any concern to the bonding companies. The problem is in march and april and may, we don't know what the summer is going to be like. And we will not have -- we will not be able to tell you in march, april or may whether you are going to get more money or not in august until then. We just simply won't see the -- the weather.

Elaine hart, utility cfo. I just wanted to mention that we do work very closely with the city's budget office and while our forecast is the first look at the next year's general fund transfer, that's based on revenue generally through march. When we put our proposed budget together, we actually update our forecast and our current year estimate through june, that's that first week of fourth of july and that's basically our number that we base our proposed budget, general fund transfer on. Really this calculation or update in our current year estimate would only be if we had additional revenues coming forth from heat in july, august, sent. And we generally give the budget office kind of a heads up, update, on how we are doing with our revenues. Every month during the budget cycle. At least this time of year because of the concern of -- -- of this present, christmas present.

As long as we make sure it's only a christmas present we like that.

Once we propose our budget, come back in august, once we get that next month of utility revenue to do that, a common practice of updating our estimate to see where we are.

I realize that for purposes of crafting a budget, you have to make an estimate at some point and begin the work. Totally understand and support connue that. But -- I appreciate the -- you know the additional information about the periodic updates because i think what we see this year is turned out to our benefit. But I think in some years it would be very critical information if it didn't turn out to our benefit.

Uh-huh.

Cole: I agree with that. I had another question. I noticed that under the accomplishments, you mentioned some of the public outreach efforts, especially with smart energy. And are those still ongoing efforts?

Yes, I was referring to the -- actually our generation and co 2 planning process there, the town hall meetings, so forth. We continue -- we pretty much completed the town hall meetings, we have one more schedul september the 1st. We are continuing to meet with focus groups that are particular customers on the generation plan. That's referring just to the generation plan and we are coming to the end of that process now. As we will be bringing that forward to council.

Okay. Great.

Mayor?

Councilmember morrison?

Morrison: Thanks, roger. A couple of questions to put some things in context. On slide 6 you presented the residential electric bill relative to other cities. Maybe you don't have this off the top of your head, but I would be real interested if you could do the same kind of comparison for industrial users here versus other cities.

We can do that. Our industrial rates do not compare as favorably to other cities as our residential rates do. It's the quick answer. And it is difficult to get a comparison, though, because in a deregulated market, the utilities can make special deals with their industrial customers and they are proprietary. So I can't -- unlike in austin where you can go to a rate sheet and see this is how much you pay as industry, you can't do that in other cities. We have to go by word of mouth and, you know, we'll have industrial customers come in and tell us that oh, our rates are lower than x, but we don't know what they are and have no way of knowing. So we cannot do the same bill comparison for industrial and commercial that we can do for residential because in other cities, you know, they are advertising the residential rates, but not the industrial rates.

Okay. That's interesting. Because I think that's sort of an important piece of information that maybe we can't have. I know it's a big topic of concern for industrial using. Any creative work that you can do on that would be great [laughter] let's see. Another -- another answer you might be able to give me off the top of my head, in terms of our transfer to the general fund, this year it's going to be 101 million.

That's correct.

Do you know what it was last year.

Yes. It's on that slide.

Okay. The 5 million.

95 Million.

95 Million, gone up a few percent.

I wanted to congratulate you being certified iso nine thousand, that's really terrific. All of the other achievements that you have, I appreciate that you were looking conservatively on your budget, I think that is reflected in the fact that -- that you are deferring the cost recovery fee. I think that's the kind of -- exactly the kind of thing that is what we need to be looking at because all of those fees do add up as we were talking about before. So wherever we can do that and still manage a reasonable budget I think is terrific. So thank you.

Thank you.

Mayor Leffingwell: Also with regard to the -- to the bond rating issue, we were just talking about, we just learned last night that -- that s and p gave austin the highest -- highest bond rating that can be given, which is the rating we had last year, we maintained triple a status with the s and p and fitch also maintained our current bond rating status of double a plus. We still have one more agency to go, but of course that was for go bonds, but that influences the revenue bond rating picture as well.

ole: MAYOR, DO YOU Mind if I say woohoo.

You can say it.

That was -- that was good. You and mike did a good job.

Yeah, we did. We went to new york and convinced them to do that. All by ourselves [laughter]

good trip.

Good morning.

Spelman: Mayor?

Mayor Leffingwell: Councilmember spelman.

Spelman: Like everybody else, I'm probably not as giddily exuberant about the extra million dollars, but also very happy about it, too. Also happy about the issue that councilmember morrison mentioned a moment ago, but putting off the cost of the transmission rider. I wonder if you could cost that out for us. 60-Cents per bill doesn't sound like a lot, but i imagine it adds up to a very large figure.

What's the amount we won't be recovering?

The 60 cents was from residential customers. The total additional revenue from residential and small commercial customers or commercial customers was 5 million this year just to get it started and that's why we agreed to defer it. It will be -- estimated to be twice that next year.

Okay. Well, certainly need to recover it next year when it's $10 million. The means of -- we're not recovering, that means it's reducing our fund balance by 5 million bucks.

That's correct.

About what percentage reduction in our fund balance is that?

It's very small. That's why we were comfortable with deferring it.

Spelman: Not an issue to financial stability or anything.

No, sir.

Terrific, thank you.

Mayor, next week I will talk to you about the financial stability issues.

Spelman: I understand, I understand. Go ahead, I will finish.

Mayor Leffingwell: I'm sorry, go ahead if you are not finished.

Spelman: Thanks. If you could tell me just a little bit about the advertising expense reductions, we're talking about a reduction of 450,000. I'm guessing most of that is for advertising for conservation programs or is that advertising for something else?

I believe it is impacting the advertising for conservation programs and there are a few other programs that might -- I'll have to get back to you with the detail on those.

Spelman: I just wondered if we had gone through, I guess this is a question that you could answer later, but if you could take a look at what effects this might have on for our conservation programs.

It will have virtually no impact. Part -- the conservation programs really are more dependent on such things as building activity. And we're not going to meet our conservation goals this years in green building probably and it has nothing to do with our program. It's because they are not building the homes and buildings.

Spelman: Right.

And we're expecting continuation of some next year, there's no need to be advertising in that sector.

Spelman: I understand.

Those are the kinds of things that -- that -- in a we're doing in advertising.

Spelman: It's hard to do green building when you don't have any building.

That's right.

Spelman: I also would like to congratulate you. I wasn't around last year to congratulate you on the iso 9000, but I think that it's wonderful that you've got it and the only electric utility that has any claim on the iso 9000 status. Is the certification available for transmission or generation?

I do not know in the generation side. We -- we undertook it -- again, it is extremely difficult. We have to add staff continuously to maintain it. And in terms of reliability for our large semiconductor manufacturing companies, where [indiscernible] cost them millions, we felt that was the sector of our utility that was most important to be iso 9000 certified in terms of quality control. Of reliability. So that's why we undertook it for that section. We have considered undertaking it for other sections of the utility, particularly customer care, we have delayed that for the time because of the expense and the effort involved.

[One moment please for change in captioners] particularly our utility departments, to pursue the same kind of location. And whether we got it or not, I think -- what i found -- I've heard about in other places is the actual pursuit of the certification is sometimes as valuable as the actual achievement of the certification itself.

That's true. Again, I want to emphasize how intensive it is to the organization. And we have reduced other positions so we could add two full-time employees that do nothing except work on our recertification of iso 9000.

Spelman: I've worked with a lot of police agencies that have been seeking accreditation nationally and the same sort of situation. You have to burn a couple of employees who make sure you keep your accreditation.

That's right.

Spelman: In similar situation, accreditation for a law enforcement agency is valuable in the same way that iso 9000 certification is valuable to you guys.

Right.

Spelman: The fact that we now know how to do that and do all the things necessary to be able to get that certification in some part of our city government means that that kind of information might be passed on to other city agencies as well. And I hope we'll have a chance to take a look at that.

We would certainly be willing to help any way we can on that.

Spelman: Thanks very much.

Mayor Leffingwell: Councilmember, the water utility is next, so you will have the opportunity to ask that question.

Spelman: I won't ask a iso 9000 for the water utility.

You can. I think they have a very good answer for that question.

Mayor Leffingwell: Councilmember riley.

Riley: I appreciate all the good work the utility has been doing. I have a couple of quick questions. First picking up on councilmember spelman's question about the 50,000-dollar reduction in advertising. Can you briefly summarize the outreach that we're doing to existing customers? Not those who are necessarily underdoing building efforts, but those who are just existing customers to make them aware of programs in place to promote energy efficiency improvements and will those programs be affected by this reduction in advertising?

We're not -- we're not anticipating any reduction in our goals from this advertising changes. We're looking at efficiencies in the way that we do it. And also there's some natural reduction in programs that rolled off last year. I'll have to get you the breakdown of the programs. The advertising that we developed for energy efficiency is -- has been developed over two decades and is very targeted. We know, for instance, that the low income weatherization program is usually best done by newspaper ads in certain newspapers. We know that direct mail to small commercial businesses are the direct best way to reach them. And so forth. We've looked at each program pretty extensively over the years and targeted different types of advertising to those types of programs. We know what's affected through a bill stuffer and what isn't. Through a radio ad and what isn't and so forth.

Riley: So those sorts of programs won't be affected by this sort of reduction in advertising?

I'll lead neisd to get you the brackdown to give you the exact answer on that, but our energy conservation goal is not affected for last year. We did make adjustments in our energy conservation goal for next year, but it's based on anticipated building activities and permits.

Riley: I appreciate the acceleration of our efforts to get a workforce in place, and i just hope that in connection with that we'll also see some stepped up effort to reach out to existing customers to promote programs that will put those new workers to work, that will provide new encouragement to customers to undertake energy efficiency improvements even if they're not setting and launching a green building project.

Let me step back at a higher picture. It's been awhile since I've told the council this, and there are several new councilmembers, so let me reiterate, the philosophy of our department is not just a philosophy, it's in our strategic plan. Energy efficiency is our number one priority for meeting all new load growth in the utility. We squeeze every kilo watt hour we can out of energy efficiency before we look at any other options for meeting load growth. It is really not related to the budget, it's related to a cost benefit analysis. We take the cost of energy efficiency when you roll in both the advertising and the personnel and the rebates and there is a standard formula used nationwide that every utility and every public utility commission uses to calculate whether that program passes the cost benefit test compared to the cheapest supply side alternative. If our programs pass that test, we do them and we do them to the max. If they don't pass the test, we don't do them. And it's not budget related. My commitment to the council for two decades has been if we ever start running out of a program and an energy conservation -- running out of budget in an energy conservation program, we'll add money to the budget. And if I need to come back mid budget and request more transfer into that, we will do so. And I think we've done it twice that I can recall. Twice over the years. We have never reduced an energy conservation goal because of budgetary considerations because it is our cheapest alternative to meet new load, and really the amount of money in the budget is not a consideration to us in terms of achieving our goal. It's a technical potential that's out there and whether or not it passes the cost benefit analysis.

Okay. Okay. I'm glad to hear all that. And then shifting gears back to the transfer, I know we're going to keep the 1 percent rate constant, but independent of that there has been a recommendation pending from the electric utility commission for some time to alter the formula through which we apply that 9.1 percent. And in particular it involves taking the fuel charge out of the calculation. Can you give us some sense of if we -- if we had had a change like that in place for this year, can you give us any sense of how that might have affected the numbers that we're seeing now?

It just so happens i happen to have a chart for that. Of the 100 million -- and this is not adjusted by the actual million. Of the 100 million this year, 65 million was recovered through our base rates. 35 Million of that came from fuel charges and was not recovered from our customers. It came from the net income of the utility.

Okay. So can you simplify that for me in terms of if we were going -- if we were going to move forward on the recommendation of the euc and take the fuel charge out of a formula, is there a simple answer as to what --

your transfer would have been reduced by $35 million.

Riley: Okay. That's what I needed to hear. Thanks.

Mayor Leffingwell: Councilmember morrison.

Morrison: I just need to follow-up with one more comment. I want all my colleagues and others to know that at the public health subcommittee yesterday with mayor pro tem martinez and councilmember shade, we had a great discussion about the fact that we're using some of our stimulus funds coming through health and human services for rental and utility assistance, and that that's a perfect opportunity to find an audience for a weatherization and some of these rebates and all that we're talking about as well as the weatherization funds that are coming. And at the same time integrating in emergency management, homeland security and their current work on the heat emergency plan that they're doing in terms of what's the prospect for st downs of utilities. It's really great to have that cross-conversation going between all of our departments because I think we can make the most of everything that way.

Mayor Leffingwell: Mayor pro tem.

Martinez: The other thing we did discuss that i wanted to bring up was we specifically asked staff to sit down and talk with you guys about our policies as it relates to turning off electricity during inclement weather days, whether it be cold -- too cold or too hot. And the impact that it has on things like our nonprofits and health and human services because we're not sure that our policies are meshed together with the services we provide through health and human services. We want to make sure that we're not, you know, competing against one another, if you will by turning someone's electricity off. It requires them now to go to health and human services to seek food and shelter and all of that.

We are meeting intensively with the different agencies around town that provide these services. But the quick answer is we're not cutting anybody off. Our policy of cutoffs involves the number of 100-degree days. And so we're not cutting anybody off. It is effectively a moratorium that has occurred by wait our policy has been written. And we are meeting with them now to go into the details of that. I think we had two days in july that we cut people off, and that's been pretty much it.

Martinez: Thank you.

Cole: Mayor, I have a quick follow-up. About the electric utility commission recommendation to remove the fuel charge, that would have cost us the 35 million, I just want to ask that when you come back on the 26th, will you lay that out -- it's my understanding that they are making that recommendation out of concern what the long-term economic viability of the utility.

That's correct. And I will go into a little more detail, but essentially either you have to reduce some expenses, reduce some transfer or start charging the customer on their bills, 1 percent and the fuel charge that right now is a straight pass-through. Col.

Cole: I just think we need to understand that in terms of our economic modeling long-term.

Yes. It is one of several things I will be discussing on our long-term economic model next week.

Mayor Leffingwell: Okay. Thank you, mr. duncan. Appreciate it. Appreciate the good news as well. Now we'll hear from our water utility, greg mazaros and company.

Thank you, mayor. Greg mazoras, water utility director, and david, my financial manager.

I wanted to start off with key accomplishments from 2009. I think as we look back over 2009, the most significant accomplishment was the completion of our austin clean water program to manage overflows and performance in our collection system. It was a 10-year program where we invested well over four million dollars. Not only did we complete the program, but emerged as a national leader in terms of best practices for sanitary fluid management. We're hosting a seminar for best practices for sanitary sewer overflow. The heart of our business is drinking water and wastewater in terms of both of those services we continue to receive national recognition in terms of exceeding standards for the safety and quality of our drinking water as well as from treating wastewater effluent. Significant improvements in our sustainability programs, water conservation, we've had a lot of dialogue on recently. We're leading the city department in terms of the climate protection plan. Our goal to serve more customers in the future. I'll talk about that more in terms of cost benefits of that also. Our hornsby bend facility was recently recognized by the state of texas in terms of infrastructure improvements as the number one green ranked stimulus funding project. As a matter of fact, we received all wastewater dollars for green stimulus state of texas for our horns by bend facility. High level budget analysis, from the revenue side we are projecting revenues to increase slightly above 17 million. That's predominantly through service revenues. A little bit of growth about one to one and a half percent of customer growth will account for some of that revenue. However the bulk of that is through our rate increase. 5 percent proposed rate increase across water and wastewater. The wastewater component would be about 3.3. The water component would be about 5.7. 5% is part of our five-year strategy of levellized rates of 5 percent, slightly above inflation levels. So we can not only sustain the operating side, but really get at the capital investment side and manage financial issues such as debt coverage amounts, preparing the organization for higher revenue volume activity as we move more into conservation pricing and conservation programs, maintaining adequate cash reserves for that as well as debt financing and equity cash financing of our utility infrastructure. On the revenue requirement side or the requirement side, we're seeing again increases from 412 to 435. As we'll get into our operating senses, they are essentially flat for 2010; however, the bulk of the expenses are going to additional capital investments and associated cash management for those. We are projecting a slight 's for 2010. The new positions are really strategic in nature, particularly our pipeline area, we want to create additional pipeline resources for repair and replacement of water mains. We're going to create a mid shift where we can also use those staff to reduce overtime and some contracted services, so it kind of helps us on several ways, cost control as well as a part of our conservation and adequate distribution system employees. As we prepared for the 2010 budget process, again like all city departments, we really tightened up our procedures and continued our long-term practices of examining costs. From the non-personnel side, we set our goal for 2010 of our operating side being at 2008 actuals. We're continuing to emphasize industry best practice for cost control. We recently adopted what's called a lien six sigma program of process improvement. It's something that grew out of toyota organization, general electric, motorola. I had a lot of success with that program in my previous position. And in 2009 we fully adopted that and I'll go into a little more detail on that. We're also partnering with local industries. Several of our employees have attended the lean training program at freescale, so we're again kind of adopting these best management practices. Energy reduction initiatives, our climate protection, besides reducing our carbon footprint is having a benefit to us financially. I'll go into that a little bit. And of course we had other initiatives that the city implemented to save money, including our dollar and cents program. I think a significant result of that is our 2010 o and m budgets, our operating and maintenance budgets, are essentially flat. They're proposed to only increase about $100,000 in the next fiscal year. And that really changes a long-term trend. This was a look back over the last five or six years of our operating requirements and you can see that typically we would have from five to six increases from personnel, contracted services and all related operating expenses. We're pleased in 2010 that we are able to really bring that in as a flat budget. And that includes the addition of our pipeline 's that I described, so while we were able to add these strategic positions, we were able to keep our overall operating budget flat. A few examples of how we're able to do that, I mentioned our lean six sigma program. This is an example. We did about two of these process improvements a month at a minimum. They're really employee driven, data driven analysis of our practices. This was an example at our webberville site where we were able to take a critical look at how we manage inventory there, look at our turn cycles, use data as opposed to opinion on how we manage our inventory. And in this case we're able to reduce inventory costs at webberville by about $284,000 in our top part areas. So again, just an example of how these industry best practices can result in improved value for our customers and reduced cost for our utility. Similarly this is an example of one of our climate protection efforts. We will be linking more of our staff with our operating staff to look at changes to our processes, to reduce costs. This was an example at our walnut creek plant where we changed our treatment processes, created a zone in our aeration tanks that allowed us to reduce energy by $30,000 a month. We only run one blower a month as opposed to two blowers as in the past. Not only do we reduce carbon footprint, but we significantly can reduce our cost through our climate protection efforts. $800,000 In reduced energy costs for austin water in 2010. I have to say roger stole this graph from me. This was our graph that we've used for a long, long time.

Mayor Leffingwell: Same graph, right?

Essentially it is the same pattern. This shows about a 15-year trend of customer growth in our water and wastewater utilities as opposed to f.t.e. growth. 's were little over a thousand. In 2010, almost 15 years later, they're projected to be a little over about one thousand 070, I believe. So about a seven% growth in 's over that 15-year period and customer growth was about 44%. So again, everyday we're looking at boosting productivity. There's more miles per pipe per customer, more water produced per customer, more accounts served per employee, and this is a long-term trend that we want to continue. And that includes absorbing a lot of programs. That's the growth in our conservation programs, the acquisition of all the wild lands. We manage all the wild lands in bcp for the city of austin and that includes all those employees through the years that we've added. We're very proud of that long-term commitment to continuous improvement.

Mayor Leffingwell: A quick one on the two megawatt facility at hornsby. It's my understanding that completely operates the hornsby facility, is that correct?

Correct. Once we have it in place we will use all the -- all the power at hornsby will come k-back from that generation and will come back to the grid. We may have opportunities to increase that generation in the future.

Mayor Leffingwell: The second question is with regard to your conservation budget. You know we've had some discussion over the last few weeks about increasing that budget. Is there a plan in the coming years to methodically increase the amount of money we spent on conservation?

Yes. Our budget for the fiscal year is proposed to increase 3 million this year to 6.7 million next year. That includes some new programs that we described a few weeks ago to council where we're going to help those least served customers do more additional plumbing improvements, toilet replacement, mortar getted installs at multi-family and commercial. Obviously as the council knows, we're starting a process of the water conservation taskforce, making new recommendations, and I think as those come nrks we'll have opportunities to do budget amendments. If there's new programs that we need to do in 2010. I think as we expand reclaim, we'll adjust our capital expenditures as that comes into more clearer focus throughout the five-year period and beyond. So I do see both on the capital side as well as the operating side increases in our conservation dollars in the future.

Mayor Leffingwell: It's good to know that you have that flexibility to come back with budget amendments to increase that in the event that good, workable conservation can comout of that taskforce. I know one of them that will be looked at will be more outreach to community. More use of nonprofit organizations and others to actually contract with those groups to go out and knock on doors essentially. I look forward to hearing more about that. That just stands as a comment. You don't need to comment unless you want to. We'll look forward to hearing more about that as we go through the next year. Councilmember cole.

Cole: If we were to 78 monthly increase and why do you have to do that, I'm assuming that the items that you listed on the next page in terms of major projects over the next five years is the answer.

Yes. That -- we're continuing to invest in the wealth of the community, the creation of capital and healthy water and sewer distribution system. It's really a key community asset. And the dollars are being focused on that. We're also making sure that as we make those investments that we can borrow money at the lowest possible cost, have the strongest possible bond ratings so we can keep our debt coverage of financial goals above 1.5%. That that's a part of the rate increase. Without the rate increase our debt coverage would fall 5 percent, which is not the kind of trend that we want in terms of a debt coverage. It also helps us manage --

Cole: I've got to take it slow here. We have outstanding revenue bonds that you're retiring 5 percent of the increase?

Our financial policies require that debt service coverage be 1.5 percent. David, you might want to explain this a little bit.

Yes. He says our financial policies do have a debt service coverage ratio 5 times, not 1.5 percent.

I'm sorry. 1.5 Times.

I was like what?

I didn't want to correct you.

1.5 Times, not percent.

1.5 Times.

That's 150 percent.

150 Percent, yes.

1.5.

And what greg was saying is that without the rate increase that that would 5, so we would violate our financial policy.

Cole: That financial policy is designed to do what? That financial policy of 150 percent is designed to do what?

It's a council-approved financial policy.

But it demonstrates the bond markets and bondholders require that you demonstrate that you have adequate, abundant capacity to pay back the bonds. That if you don't have enough coverage, if you have a dip in revenues or something funky happens along the way, that you don't want to be too close to the edge or the foul line and not make your -- so this is -- it's a way of --

Cole: Is it like a contingency?

It's like we have adequate coverage to pay back our debt.

And one of the things that the mayor and the mayor pro tem heard when we were dealing with the rating agencies, we articulated our commitment and the consistency over time in terms of adhering to the very policies that he's talking about because it matters in the course of their evaluation and the ultimate rating that they give us. So some adverse change in that could impact the very good credit rating that he alluded to earlier.

Cole: Okay. So when we say to the public, we have to increase 78, and one of the reasons we have to do that is because we have a financial policy that is designed to help us with our bond ratings. And so approximately what, a dollar of that rate increase is going to -- or what --

approximately about half of that rate increase is going to debt service coverage. But let me mention as well that while the debt service coverage is a requirement from a standpoint of financial integrity and condition, the use of those dollars is also extremely important. We take those dollars and we transfer that to our capital program as cash funding on our capital spending. So that will actually reduce the financing costs that we have into the future. So those dollars as well are maintaining another financial policy that we have, which is to transfer at least 20% of our capital spending has to be funded in cash funding. And so there's two actual financial policies. While one financial policy, you meet that, it also allows you to meet the other financial policy and therefore reduce future financing costs on those projects that we're funding through cash.

Cole: Okay. So we have two financial policies that came from council. Basically it keeps the electric utility in good standing with not only our bonding agencies, but also on funding our capital to reduce the capital expense. Okay. Now, when we talk about the other half of the increase, the projects that you listed, water treatment plt 4 is the largest one. And I thought you said something about the legislature when you said the south i-35 program.

We are making investments in the desired development zone so that we make that area more attractive and that's where we want the growth to go. Again, that's kind of a council policy too. But also --

Cole: (Indiscernible).

But also that legislative session, not this one, but the one before, there was a lot of serious activity for the creation of a lot of new 's along that 135 corridor. And again, I think it's one of the city's goals is to 's, to be able to annex those areas in the future, to have austin water be the provider of service there. And we gave testimony and really made a commitment that we would create the babone infrastructure, the large transmission systems and sewer collection systems, not the local sewers that provide water to your individual house, but really the backbone systems there so that that area would not only be attractive as a desired development zone, but would also help us fend off the creation of these m.u.d.'s. I think if we don't continue to be proactive in that regard, that that area will 's in the future.

Cole: I know councilmember morrison likes that.

Mayor Leffingwell: 's would be -- [laughter]

Cole: Let me ask you because I wasn't clear what the priority water system rehabilitation, what is that?

We have about -- almost 4,000 miles of distribution piping in place now. And we are developing a program where we're increasing the amount of work that we do to replace water mains that are old, have a tendency to break a lot, leak a lot, that are inadequate for flow and fire protection. As an example, a lot of the downtown areas have water mains that are still two and four inches in diameter that were installed at the turn of the century. So we're really significantly increasing our investments to replace those water mains. Again, that helps us from a conservation perspective, it helps us reduce a lot of unexpected service interruptions when you have a break or a leak. It helps us improve fire flow and reduce rusty water complaints. So it's the kind of aging infrastructure issue that you have to deal with. I mean, they're out of sight and sometimes out of mind. You don't think about this infrastructure, and it's very expensive to replace in an urban setting, just replacing one foot of water main can cost 250 to $300. So you've got to kind of start those programs and stick with them for many years.

Cole: I understand. The downtown tunnel, is that waller creek?

No. This is another large tunnel that would start right around the barton creek lift station and zilker park area and parallel and cross, again tunneled under lady bird lake and connect to our govalle tunnel. And it would provide relief for the current sanitary sewer interceptors that are at capacity in our downtown area. So this helps us with kind of the urbanization, the densification of downtown. This provides the necessary sewer capacity for that to happen. This project has been in planning and design for many, many years, and is either out for bid now or soon will be. And the total cost estimate for the project is about 70 million. We're hoping that the bids come in lower. We think we're in a good environment for bidding that. But it's a critical project for serving all of the urban area in the central business district and beyond.

Cole: The last question I have is I haven't heard you say anything about the austin clean water treatment program that I usually hear mayor leffingwell ask a lot of questions about. Where are we in that and is that figured in any of these costs?

Austin clean water, the administrative order that we had from e.p.a. is cleared. It's completed. has signed off and said you guys successfully implemented this program. We don't have a separate budget item for austin clean water projects going into the future. However, we are going to continue to invest in sewer collection system rehab and replacement, not at the levels we did for acwp, but still at significant levels because we don't want to fall back into a compliance issue with e.p.a. again.

Cole: So that's inherent.

It's imbedded in here.

Cole: Thank you, mayor.

Mayor Leffingwell: And that program is completed.

The acwpl, yes.

Mayor Leffingwell: Councilmember spelman.

Spelman: I'm not an accountant and I know sheryl is. I heard somebody say it, an economist is somebody that hasn't got enough personality to be an accountant.

[Laughter] that fits me. I don't even smile as much as ed does.

[Inaudible - no mic].

Spelman: Yeah. So let me nail down this tricky accountant thing with respect to debt coverage ratio. Debt coverage is money that we put in the fund balance, basically money we've put in the bank, to cover our debt over the course of however long we need to cover it. One 50 percent means if we have debt of $100 million over a particular year, we have to have $150 million in the bank throughout that year in case something terrible should happen and we need to actually cover the debt with cash. Is that correct more or less?

Not entirely. I think maybe we would have -- why don't you explain. it's not actually kept in the bank or in any balance per se. The calculation for debt service coverage in real general terms is you take your revenues that you debt from service revenues and you minus out your operating expenses. And what's left over after that is then -- has to be 150% of the debt service that we have on our revenue bonds.

Spelman: And what happens when you take revenues and you subtract operating and revenue expenses is what you would be using for the debt anyway.

We would be using it for debt service and transfers and all those other things. So that calculation has to be 150%, but then that money can be spent for various purposes. We spend it on our capital program by transferring those funds to projects and cash funding those projects, avoiding the financing costs in the future. We also use some of that money to transfer to the general fund. Our $29 million that we transfer to the general fund comes out of those excess funds after we pay for our operating expenses. And then some of that is also left in the ending balance for working capital reserves. So it's not really kept, per se, in a separate account, just waiting to pay for the revenue bonds. That's more the reserve fund that we have with austin energy as well that has an actual cash or an energy reserve fund. That's kept separate. But these funds are used just in our normal budget process.

Spelman: I'm just thinking, if you've got a certain amount of money coming in, if the amount of money which can be used to pay off a debt is 150% of the debt requirements you've gotten in a given year, but of course you can use that overage for transfers back to the general fund, financing in cash and an increase in the working capital reserves. That's what you're getting at. What we're calling a fund balance.

Yes.

Spelman: Okay. Is our fund balance increasing steadily? Is it decreasing? Is it about the same from year to year? What's happening with that last bit of that?

We have a financial policy in a basically says we should keep about 30 days of our operating expenses in our working capital reserves. The utility over the last year or so has been trying to increase that to at least 45 days. And we propose our budget to increase that to a 45-day of our operating expenses.

Spelman: How come?

Mainly to -- in response to some of our new water conservation rates and the revenue volatility that is experiencing in some of that. We just felt that our cash reserves were too little to have that reserve available. So we have increased in our proposed budget about those 45 days, that equals about $7 million in additional cash reserves.

Maybe for more specific examples, in 2007, the wet year, our revenues on the water side plunged 13 percent in one year. And so we see that volatility actually increasing in the future where if we end up with a wetter than normal year, which I know it's hard to believe, but it will happen --

Spelman: I hope so.

We'll likely see very dramatic drops in water revenue. And after '07 on the water side our cash funds plunged. And we're just now recovering from that. We actually went negative on water for almost the whole year. And that's not something we want to be doing with regularlarity. That's why we're proposing a modest increase of seven million dollars in the cash reserves so we could weather a wet year without -- hopefully without going negative.

Spelman: The seven percent rate increase -- the 5 percent combined rate increase that we're talking about for this year is about how much money that we're going to be taking in?

It's about $17.3 million.

Spelman: 17.3. Of which half of which is in capital improvements and then the working reserve for 30 to 45 days. Is that about right? so we're taking the seven million bucks because we're worried about the additional volatilely associated with conservation pricing? Or just we're worried about volatility in general and we're just kind of catching up to the fact that our revenues are extremely volatile, depending on the weather.

They are depending on weather, but we're at higher risk of that since we're changing the conservation pricing model and recovering more revenue through the higher block rates.

Spelman: We're talking about really one block, though, are we not? How much are we changing our pricing schedule?

In the top two blocks, previously we have above 15,000 gallons and that's 50 50 per thousand gallons. By us creating the fifth block, we're going -- so then now 15,000 to 25,000, that fourth block currently, will be at nine dollars per thousand gallons. So there's an increase of 50 cents from what it was previously. But then above 25,000 gallons, we are creating that new block and it will be at $10 per thousand gallons.

So what happens, I'll summarize this to be sure I've written it down correctly. Right now if you're a residential customer spending 15,000 gallons or mr in a given month, you're 50 for those gallons per thousand. And we're shifting the 15,000 above into two pieces. 15 To 25 would be paying nine, not # .50. Anything over 25,000 you're going to be paying $10 per thousand.

Right. That's correct. Spelman: That seems like a pretty modest increase. Is the demand for water highly price sensitive?

The demand for water is somewhat price sensitive. We have done price elasticity studies in the past that says it's only about less than two percent price elasticity. So a 10% increase in rates we would expect a two percent reduction in consumption.

Spelman: Okay.

So it's not real price sensitive. Obviously there would be some benefit from increasing our block rates at that level.

Spelman: Sure. There would be no point in doing it if we're at least a little bit price sensitive. But the volume activity issue then -- volume activity issue is -- help me with that. If it's going to be price sensitive at no elasticity, then why are we so concerned about increasing our cash reserves?

If we get a rainy summer, you will see water revenues go down 10 to 15 percent. And 10 percent reduction in water revenues would be $20 million. So you could go around and have revenue are projections be off from 20 to $30 million just on weather. And having higher cash balance is that 30 days -- 45 days instead of 30 days would help us weather that kind of event.

Spelman: Oh, sure.

Without going negative on cash during a period of too time when we're borrowing lots of money. We don't want to send signals that cash balances are too erratic during that period of time.

Spelman: Okay. Of course, we're in that situation now whether we have conservation pricing and block five or not. That's the situation a I'm just wondering the extent to which conservation pricing is increasing our volatility or whether it's -- perhaps this is not a question that can be best answered in a public forum, but it did strike me as interesting that we're talking about a seven-million-dollar increase because of conservation pricing. And in a way this may be regarded as a rate increase associated with conservation pricing across the board because we're having the increased cash reserves to cover volatility. And at the same time we're trying to shift the burden in a way towards the customers who are using the most. At the same time we're increasing the rates to all customers. And it seems to me it might be worth the trouble for us to rethink the consequences of that. All customers are not having to pay for conservation instead of the higher user customers because this cash reserve requirement.

I think we can examine that and go into more detail.

I think one thing I would like to mention, the $17 million that we are asking for in water and wastewater revenues, only part of that is water revenues. But also when we actually price our rates, we are focusing most of the rate increase on the higher blocks. We have done that traditionally over the last -- since we've had rate blocks, since 1994, we have put most of the rate increases on the higher blocks to, one, promote conservation. We have -- in 1994 our highest block was only two or three dollars. And now it's $10. We're putting more of the rate increase on the higher blocks. As a conservation incentive. And so most of those increases that are for the ending balance requirements would end up on the higher blocks of those customers that are actually going to create that volatility, if it were to rain.

So we will in essence recover that from those customers.

And we would certainly support going beyond 30 days. We see 30 days just kind of, you know, as the minimum that we should have in terms of a reserve of that kind of -- that level of balance.

Mayor Leffingwell: And I think you did mings, greg, that we have the most aggressive schedule, progressive rate schedule of -- one of the most in the country, and I would just note that if you're paying fifth tier rates, you're paying 500 percent more than first tier -- than the first tier rates.

That's correct.

Mayor Leffingwell: Going from two dollars to $10, that's 500 percent increase. That's pretty dramatic.

[One moment, please, for change in captioners] it allows our water customers to have that fee waived if they meet these income eligibility requirements.

Morrison: Do they always get a $15 deduction or how does that actually work?

Every month they -- they've got $15 waived off that you are bill.

Morrison: And we have 3,000 folks signed up now?

Over 3500.

3600.

Morrison: Are those the same folks that are tied to an austin energy low-income?

Yes, austin energy manages the program when they come in and demonstrate the requirements to be a part of the program, not only are they added to austin energy, they are also added to austin water, if we serve that area. There's areas that austin energy serve that is we don't serve and vice versa. But the bulk of the service areas are the same and so if you meet the requirement, have both ae minimum charge waived.

Morrison: I'm curious how many households might be eligible for that over and above the 3600. Do we have any estimates of that?

I would have to probably get back with out that and talk to the program administrators at a.e. They have some outreach people that work the program, but I'd really -- I'm pretty ignorant on that.

Morrison: But the program is managed by austin energy so we could talk to them about that. I want to make sure we tie that with all the other conversation.

We should have as many people qualify take advantage of that. I think that's important.

Morrison: Great. And then I wanted to ask a little about you mentioned the infrastructure in the southeast 130 corridor, being aggressive about that and that we're actually doing that with bonds, I guess. Do you have an idea of how much impact fees will eventually allow us to recover any of that money that we're spending for the infrastructure?

It's generally a small part of that. Currently the utility collects 5 million per year in capital recover fees. As that corridor begins building out, we would expect that that could increase. But obviously it doesn't pay for the entire amount of the infrastructure that's needed in that area.

Morrison: And these are impact fees that a developer has to pay; is that correct? When they are doing subdivisions?

That's correct.

Morrison: Have you seen much volatility in that amount?

Yes, that's projected to be down about 2 million for 2010.

Morrison: Okay. And then the impact fees and the rates at the levels that they are set at, how are those set?

I don't know.

Those are set actually by state law. There's a specific calculation that you must go through and the austin water utility has a subcommittee, capital recovery subcommittee, that meets periodically. There's a requirement in state law that it must be, i believe, updated at least once every five years and you must go through this state mandated process of public involvement and specific calculations. What we do as a utility is then calculate that amount that the maximum level of the capital recovery fees can be set at, and then it's a council policy decision on what those actual fees will be collected in each of the specific zones that we have. And what we have done is we have provided an incentive for the desired development zone to reduce those particular capital recovery fees while keeping the drinking water protection zone fees at a much higher rate. And that has been very successful since we've implemented that and has pushed a lot of the growth towards the desired development zone.

Morrison: Does the state adjust those values, those maximum amounts every year, do you know?

No. It's based upon the calculation that the utility does. That calculation involves looking at growth projections for the next 10-year period, looking at the capital infrastructure that is growth related, that is within that next 10 years and then takes a calculation on the number of projected living unit equivalents that would be added in that time frame and comes up with that maximum allowable fee. So each city would have a different maximum allowable fee based upon their specific information. And then we take that maximum allowable and discount that to some extent by council policy.

Morrison: And do you know right now, do we have it set at the maximum, say, in the drinking water protection zone?

No, I think it's like 75% of the maximum allowable, if i recall correctly. A lot of that reason is is because if there are any challenges to the capital recovery fee, it's recommended that we would have a not right at the maximum allowable because if you were to come back -- if somebody were to challenge those capital recovery fees and the calculation and then it were to be reduced, that you would then have to refund all of those people that paid that fee from the time they paid it all the way back to provide that discount once that challenge was done. So it's prudent in our mind to reduce slightly the actual amount of the top fee from the reduced -- from the maximum allowable fee.

Morrison: I see. One other question along that, do you know how often -- do we just adjust those every five years? You mentioned pickup participation. I know we have an impact fee advisory committee and I know they rarely ever meet and haven't met in the last year. So how often do we go through that process?

We typically do it about every five years. We just did that a couple years ago and went through that process and reset those fees. And verified our max allowable. But also those fees are actually council policy and are adopted in the budget process each year. We don't change -- we haven't proposed changing any of those fees, but those could be changed if they wanted to as long as it didn't violate that maximum allowable fee.

Morrison: Great. Thanks for that information. One other thing I wanted to ask about, the downtown wastewater tunnel I think you are building for 71 million. In terms of the capacity that that will serve, how did you estimate what capacity it needs to serve? We're talking about a lot of densification not only in downtown but also the central core area. So how did we figure that all out?

We examined all of those long-term projections for the downtown area as well as whatever additional flows we pick up during wet weather, overflow management issues that that tunnel is sized for significant period of time of the downtown area. I'd have to get back in terms of -- with you in terms of the all the specifics that went into that and the service area that needs into that, but it would have projected considerable additional development more I'm sort of curious about whether there's been any tie in the downtown plan effort that's going to be coming in the future still is a study of infrastructure improvements that would be needed and at the same time we're talking about a density bonus program that would significantly increase the -- say the amount of square footage we have downtown. I'm curious whether you have lined up with those specifics yet or if it's a more general estimation that you've done?

I'll get back to you on specifics. Our engineers are always conservative so I would expect they have abundant capacity in that tunnel. Once you have a tunnel machine, you only want to do it once.

Morrison: Right. Exactly. Okay. Thank you.

Leffingwell: Councilmember riley.

Riley: I just have a few questions. I know we've covered a lot of ground with respect to our capital budget, but I think it's worthwhile to do that because we all recognize the significance of what's at stake even though these are presented as moderate rate increases. By my calculation these rate increases for the coming year would actually represent a bigger hit to the average homeowner than the property tax increases that we're now looking at under the figures we saw today. So I think it's worth some time to posit and execute nice the capital budget in particular. So in that vein I want to ask you about some these. We've been in discussions about water treatment plant 4 and we have a forum set for september so I'm not going to get into great detail about that, but I wanted to make sure we all understand what's to table now. We're currently expecting -- this budget we're seeing now projects expenditures of $110 million in 2010 for plant 4. Is that correct?

I think that's probably the authorization amount.

Yes. The council approves each year in our capital budget the actual appropriation or authorization for those projects. Over the last several years, we've been appropriating dollars or getting the authorization for water treatment plant 4, and this is the last segment that we would be getting that authorization to fully pay for the plan. This $110 million is the authorization, not the actual spending that would be incurred in 2010 on water treatment plant 4. The spending is about $52 million on water treatment plant

4.

Riley: And that is conditioned on future votes council will have to take.

Yes.

Riley: And to the extent, if the council were to decide to postpone the plant for another year or two, say, would that have any impact on the rate increases that we're looking at now?

It depends on how the postponement would work. A lot of the spending through 2010 is to complete the engineering, acquire the easements for the transmission systems, complete the engineering on the transmission systems. So if the postponement were to take the place of complete the engineering, have it sitting on the shelf ready to go in the future, we would still likely spend a good portion of that money next year to do that and then the postponement would be the construction dollars in the future years. If the council were to direct us to postpone everything and stop it right now, don't spend any more engineering dollars, that would have a different effect. Similarly if we postponed the project because of the transmission main elements there, we may -- I think we still will need to figure out how to at least in the short term move water to the north so the postponement may also generate the need to start up some transmission projects to improve transmission capacity in the interim. We would have to puzzle that all out. It would depend on the nature of the postponement, but throughout the five-year it would have a significant effect if we postponed all that construction.

Riley: Maybe not in 2010 but 2011 we might see some difference in the rates.

Right.

Riley: On water reclamation, I understand that's currently -- if we look water reclamation counts for 2.5%.

Whatever 29 million is.

Riley: Is there currently any -- do you any significant change in that fee or do you see that becoming a larger portion of the c.i.p. In the future or smaller or any long-term plans with respect to water reclamation?

I think the general direction is to do more reclaimed water and I think as every year and we extend the five-year crip that we'll be seeing more investments in reclaimed water.

Riley: And not just in terms of dollar numbers but as a share of our c.i.p.

Yes.

Riley: Okay. And then on the conservation, we've set the goal of reducing our peak day water use until

2017. Are we a track to achieve that goal?

Yes, we're on track to achieve. That we're probably ahead of schedule in terms of that right now.

Ril: Okay. And in terms of the number of participants in the conservation programs, I know when I look at our goals, i see that one of the utility's goals is maintain or increase number of participants during 2010 as compared to the previous year. When I look at the performance documents, I see for 2009 to 10 the number of participants in water conservation activities is expected to drop from 60,000 to 50,000. Can you help me understand why we're seeing that drop in the number of participants in our water conservation programs?

I'm not sure what the background of that number was. It might have been participants in our toilet rebate and retrofit programs, and as we kind of saturate that market and complete the rebates in toilet replacements thatthe number of participants in some of those programs may fall because there's not any left to do or there's declining numbers to do.

If you could follow up on that, I'm a little troubled about that number. It's on page 451 of the performance documents that we've received. The column for number of participants in water conservation activities.

We'll get a detailed response on that.

Riley: Okay. Thanks. And then -- and again, without getting into detail on plant 4, for somebody watching this, can you -- just in terms of a big picture, short answer, if we are on track to reduce our peak day water use by 1% a year through 2017, then why are we struggling to get plant 4 online in 2014? What is driving the need? If it's not -- I know there are other reasons for plant 4 other than simply meeting capes, but as a capacity issue in terms of just our ability to meet demand, is there something else that some other number that's driving the time line for plant 4?

Well, again, all the projections that -- why we're projecting conservation we see the utility, the city, the community continue to go grow 5 to 3% and that that growth will more than compensate for savings from -- and conservation.

Riley: In particular, help me reconcile that with the reduction in average peak day water use by 1% per year through 2017.

Well, 1% per year through 2017 was about 25 million gallons per day. And take we saw to growth and other --

Spelman: 2.5 Million.

What did I say?

25.

That will off set that amount of conservation and that we'll need to plan by approximately 2014. Again as we talked in our discussions a few weeks back we probably have a wider window for the plant, but there's unpredictable with if these are the type that could run into property tax that could delay this plant. We're in this superior bidding environment.

Riley: And I understand that. I know we'll have lots more opportunities to discuss that in the coming months so i don't want to get too bogged down now. Just one last question and it relates, a business model, we just had a presentation from austin energy and we're going to have another presentation coming up shortly which we're going to go into detail about a new business model for austin energy, which is just conceptually makes sense that if they are making their money off selling energy when we want to be actually reducing consumption, then we need a new business model to just for the future to -- to make sure we remain viable as we actually reduce -- strive to reduce consumption. The question has come up with respect to water, why aren't we talking about a new business model for water. And can you provide -- is there a short answer to that in terms of as we look to the future, should we be having a similar conversation about a new business model for water comparable to the conversation we're having about energy?

Yes, I think it's going to be very important to continue to dialogue with the leadership, the policy makers on our evolving business model. We started a little bit of that today about how volatility will affect us, how we need to mange cash reserves. The cost of service. How aggressive on rate blocks we should be. I think you'll see a shift of some of our cost into more fixed monthly fees as opposed to cost recovery through variable use. I think one of the conversation we're going to have to have is the reclined water utility. Right now it is not a stand-alone utility, it's a utility that we glue on to our current utilities. The rate charge is a dollar per thousand gallons. I think as we look into the future, as we expand that utility, we're going have to think about should we create a third enterprise fund; that the right rate for reclaimed water, what kind of staffing resources are we going to need to maintain dozens of new miles of pipe, whole new meter systems. Reclaimed water cannot touch potable water systems. We can't even use the same equipment on that system that we do on our portable water so that's going to generate a lot of needs for additional inspection and testing and equipment. So I think we're absolutely going to have to have those dialogues as we look into the long-term picture of where our water utility is going here in austin.

Riley: I appreciate your willingness to engage in that kind of conversation and look forward to it. Thanks.

Leffingwell: Okay. Thank you. Next we'll go to our budget presentation on solid waste services and code compliance.

Good morning, mayor and council. Appreciate the opportunity to give this presentation. As you know, this is a department in transition and we thought the department head shouldn't have all the fun so I got the short dra[and decided we'll do the presentation. Today what I would like to do is combine the presentations. We have a budget presentation on solid waste and also code compliance. As you know, code compliance is currently a division within solid waste services and our proposal is split that out into separate departments so today's presentation will reflect that and I'll talk about that a couple different ways. First I'd like to start off with the solid waste services core functions, and those will remain in the solid waste services department. And they do much more than just garbage collection, as you are well aware. Household hazardous waste disposal, yard trimming collection, large bulky items, street sweeping, litter abatement and the single stream recyclen a the zero waste is the guiding principles that will lead this department in the future. First on the solid waste services, the major accomplishments that this department has achieved this year, council approval of the zero waste strategic plan is a huge gain for this community and for the department. It sets the bar and gives us the strategic direction we needed the mueller local need -- in this department. Everything do will be guided by this policy and it's a great document that we can now move forward on. The recycling program has been a huge success. We exceeded the 2009 single stream tonnage dramatically and in '08 we collected about 35,000 tons of recyclables. In '09 we're on track to collect almost 50,950 tons of recyclables, that's 44% more than the '08 figures. This is a great success, but also creates a lot of challenges that I'll discuss in future slides and presentations as well. On the efficiency side, we've restructured brush, bulk and street cleaning routes to absorb over 6500 new customers. We've looked at model for phiing the solid waste routes to improve efficiency and thus be able to reduce the department's carbon footprint. So we're very proud of those accomplishments in solid waste. Now, the operational challenges, we have some challenges that come out from the zero ways implementation. That document had overarching principles in place and as you know you adopted the 90% percent reduction in per capita. We're comfortable we can get to but there's a lot of challenges every year that will be faced in this department. One of the first things we'll be look at is walking the walk and talking the talk. The city departments not all recycle the at this point so we're doing a wares stream analysis for every department to have a better grasp of the diversion efforts required for each department to reach that goal of zero waste. So we think it's very important to lead the effort as a city function, city organization to show the community that we're on board with the zero waste policy the council adopted. We'll be doing that in the near future. We'll also be working with a solid waste advisory kindergarten on a proposal that continues to look at the commercial and multi-family recycling effort and to look at increasing recycling and reusing composting so that's going to be a challenge as we move forward, engage the community and make sure stakeholders are at the table as we move forward with potential revision to that ordinance. The master plan is a great effort that we can undertake to pull those zero waste overarching policies into daily operational impacts and how we move those forward. As you know, we're currently engaging the public in a discussion of the scope of that master plan. We expect to come back to you in november after we go to the solid waste advisory commission with a negotiated contract with the consultant that you agreed we should be negotiating with. And that will provide both short and long-term budget plans that will help us do a rate structure that will fund the community priorities that council will adopt as part of that plan. I'm going to talk about that later in the presentation about how the rate structure is somewhat volatile in solid waste and how we do really need a long-term rate plan.

Leffingwell: Could i interrupt you just a minute? Earlier we had talked about the possibility that we wouldn't cover everything on the agenda today and I think at this point it's becoming clear that we're not going to get all the way through it. So I'd like to just make sure that everyone on the council is okay with saying that we're not going to take the presentation from public works, transportation department, watershed protection and economic growth and development today. Any objection to that?

Spelman: [Inaudible]

Mayor Leffingwell: Pardon? Yes, we'll have those on the 26th. If anybody is out there, staff members waiting to give that presentation, you're going to have to wait AUGUST 26th.

[Inaudible].

You can go home in the meantime.

Somebody release those folks if they are in the bullpn.

Leffingwell: We'll make that a firm plan and sorry for the interruption.

I thought you were telling me I was done. Are there any questions?

We'll break at noon and then come back for the others?

Leffingwell: Well, I'm open to suggestion on that. I think the way we're going now it might be best to take a break at noon and reconvene. Okay?

Clarification, are we talking about today?

Leffingwell: Talking about today. Unless we blaze through these next three briefings in about 30 minutes.

So we'll break to finish out and come back.

I'm asking. I know we still have aviation and convention.

Leffingwell: Let's see how fast we get through solid waste. I think aviation and convention center are probably going to go quickly, but --

that's for sure.

Getting back to our operational challenges, both zero waste implementation and the master plan will give us long-term goals and guiding principles, but we have short term challenges that we really can't wait until a master plan gets accomplished to continue to work on. You all are well aware that we have a single stream recycling contract that due to the recycling market worldwide that a couple is losing money where we anticipated we were actually going to make revenue there. So we're looking at two things in that contract. We've opened negotiations with the current provider. The first couple of meetings have been positive but we'll see if they end up with different contract at the end. We've also approached local providers and asked them not only in the short term but in the long term if they could help us in this situation. Short term is a little more pessimistic as we expected. There's not a lot of opportunities to help the short term locally, but we continue to work with a couple providers along those lines. And then moving on the next one on, the long term materials recovery facility, we've gotten clear direction there this body it is important to have a facility in our community to handle these recycling materials and we continue to move on in that direction exploring alternatives. Every provider that we've talked to in the community is interested in the long term, not necessarily the short term, as I mentioned earlier, but if you can spell recycle, they are interested in building a smurf in. We have a lot of work to do in that area. We have a consultant report that has outlined the advantages and disadvantages to a public public facility versus a public-privately owned facility. There'pros and cons and at this point we think it's really important for us to go out and get more detailed information from the local providers on that what public-private partnership would look like. As expected they are a little reluctant to give us information at this point and unveil what those programs would be, so I think an official request for proposal is probably the only way we'll get the information to be able to evaluate that. So we are developing the request for proposal as we speak and try to figure out we can compare appeares and apples with a lot of proposals we would likely get. As you also know, we went through a recent reorganizations. The department is in transition. We are currently recruiting for a department director for solid waste services and expect to be having the first round of interviews in september. We expect that to be a highly open public process and engage the community in that evaluation and we'll keep you all posted as we go forward with that. But in the meantime, we are again in that transitional phase. Now, focused on solid waste services and the budget s 2010 proposed budget. One of the highlights I did want to mention is the fm 812 landfill which has been operating since 1968. We are closing that this year. You'll have an agenda item on your calendar for next week that provides the final cap on top of that landfill. We will -- there are -- there's money -- funds budgeted in this budge total continue the monitoring of the landfill which is required by state regulations, and after closure care is the way that we term that is to ensure that a couple landfill is -- that that landfill is closed out appropriately and there's no problems with that landfill. We also continue to -- will continue to operate that as a diversion center that accepts metal, lead, acid, batteries, freon, and will serve as a pickup location for mulch and crushed glass. As I mentioned this budget includes code enforcement program restructure to a separate department and I'll talk about that as we get to the code compliance section of the presentation. On the capital highlight side of solid waste, there's 8 million included included for the purchase of capital equipment. We've deferred many capital purchases in the last few years trying to maintain the existing rate structure and minimize rate increases to our citizens. It is now time to replace equipment just to support the current places. Part of the master plan will have a longterm fleet replacement plan for the department so we can do less on an ad hoc basis and more on a long-term asset management basis. We are also including some funds in this budget for the design phase of a single stream repsych willing facility, not knowing which way it would go, whether it be puckly owned or public-private, we're not quite sure what those funds would actually -- how much we should put in there but we think it's very important as we continue this process to put funding in no matter which alternative council chooses to go in, that we have the funds available to pursue those options. From the budget reduction side, this year's fiscal year budget we've -- we expect to decrease operating expenses by about 4% and we're doing that by freezing vacancies and delaying some of the computer upgrade purchases that the department needs severely but we're delaying those in an effort to maintain cost control. 10, the requirements are expected to decrease and really the primarily the reason there are decreases, we're going to hold 10 vacant positions and that should save a little over half a million dollars. On the budget facts slide, you can see that the revenue -- this revenue is based on the original proposed rate increases included in your budget that the city manager delivered to you in july. And so we had a slight increase in the revenue. The transfers in were eliminated this year from the solid waste services department. This gets a little bit confusing here because we're splitting code out and the general fund transfer goes directly to the code compliance department to handle general fund responsibilities that code compliance takes on. Expenditures are expected to decrease this year and the s increases by 65. That's the splitting off of the division, the department in and of itself. The projected reserves on the bottom of this slide are important to note and I'll get into those in a little greater deal in a minute, but we're projecting to have a reserve of about 5.9 million. You've had several conversations this morning already about the 30-day reserve requirement. We would be required to have 8 million so we're about a million over the reserve requirement with the originally proposed rates. This slide shows some of the volatility of those ending balances, the reserve requirements. The red bar is the requirement that is required by the financial policy of the 30-day operating reserve. As you can see in 1997 was a rate increase for the pay as you throw program, one of the first rate increases that that program and you can see the program lived off cash balances that were achieved from that rate increase through the 1990's and early 20,000's and then they started living off cash reserve as and taking the reserve number down. The 2001 rate increase, again you can see the cyclical pattern where they built up the cash reserves and then began to live off those in '04. In '08 we were out of compliance. We had a rate increase in 2009 and we propose a rate increase in 2010 as well. Again, the master plan we hope that this gives us a better rate plan so that this cyclical pattern would go away and it wouldn't be a boom or bust kind of cash reserve policy in the department and we would have more of a sustainable long-term rate plan. Sources of funding, majority of the funds come from the pay as you throw program. Almost 65%. And our litter fee provides about 32%. That's primarily where code compliance is funded from. Interest and others is 1.4. 7 and that's the landfall closure funds that they are actually funded by the c.i.p. program. Now, I'll talk about the code compliance department, proposed department. As you know, it's a division now. One of the reasons we think it's important to split this off into separate identity is the growing focus on the code issues in our community. We want to continue to enhance the focus of this entity on compliance versus enforcement. They do that now and we're going to continue to focus on that area. We also think that there will be minimal expense to this because we're patterning this after the way that the transportation department was successfully created. And the shared function of support services with the public works. Department. Those two departments share that infrastructure ground of those support services to that function, that experiment, for lack of a better word, has been successful and it's at minimal intense to ratepayer and we see that duplicated in this effort of making code compliance a separate department as well. Let's talk about the code compliance function that were within that division and will be maintained in the department. They are responsible for property abatement issues. Investigating complaints of illegal dump, high grass and weeds, accumulation of trash and debris, dangerous buildings and housing which include fire damaged structures, dilapidated and collapsing structures and zoning violations which include inspection, compliance and enforcement of the land development code. Talking about their accomplishments and challenges they've had in year and upcoming, they've received a national award for the neighborhood stones program in conjunction with the solid waste department and that is is a program where we go out into the neighborhoods and clean up specific neighborhoods working in conjunction with litter abatement and the code enforcement program. We're very pleased to have received an award on innovative marketing techniques and how we're advertising that in the neighborhoods. Austin code compliance has also been used as an example of best practices on national levels, how we're engaging the neighborhoods and working with us to achieve compliance of codes within those neighborhoods. Some of the challenges that this newly created department will be facing this year, we're trying to adopt the international property code maintenance in conjunction with the watershed department as they do the international code adoption as well. This is the code that will help us maintain a more consistent code than is here today. The one we have today was published in 1994 and so it is not being published anymore and needs to be updated. And this is the way that most communities are going instead of international code. So this will help us have a more consistent property maintenance standard set for our community. And then also per your direction we're looking at the residential rental registration program, and the idea there will be obviously the health and safety of our renters and being able to have a proactive inspection program along those lines rather than reactive. We're excited about that opportunity she but it will also be a challenge as we move forward working with all the stakeholders involved in that program. Now, in the budget facts, these are a little confusing because this was not a department last year so some of these are kind of carved out of the solid waste services for the amended side. They are on the proposed side, proposed as a department. So the revenue we expect it to actually decrease a little bit for the revenue that is brought in specifically by code compliance and the reason for that decrease is as we continue to emphasize the philosophy of compliance, voluntary compliance versus enforcement, we hope to write fewer tickets and get fewer fines this year. So we expect to have fewer -- a little bit less revenue in regards to that and that's actually a success story as we continue to move forward on voluntary compliance rather than enforcement. Transfers in will come from the anti-litter fee and through solid waste into the department as well as i mentioned there is 800,000 that comes from the general fund to continue general fund functions in the code come lines department. We also anticipate this year that we'll be doing a funding analysis to determine if the existing fund mix is correct and we hope to find that we'll find different, more sustainable funding mix rather than just the general fund and the anti-litter fee. There are other opportunities perhaps even in austin energy as we enforce electric codes to make that a more stable, more perhaps equitable funding source for code compliance as we move forward. We've gone to best managed city initiatives. The solid waste, we really think that the waste, integrated waste management, the master plan in conjunction with the zero waste plan you've already adopted are really going to take us into the cutting edge, the leading edge of solid waste departments across the country and we'll have that blunt and the marching orders the community have given us. What policies they want to see this department implement. We're also working with c.t.m. accessible connection communication plan. We haven't been good at tracking that and using that in customer service and we're figuring out better ways to do that so we can be cutting edge on customer services programs as well. I mentioned earlier about the neighborhoods assistance program and what we continue to focus on this n. that area. Code compliance, we're excited about the continued effort that department will do and the proactive community education and out reach. It doesn't really work in our neighborhoods and throughout the community if they are not involved with us and they've done a stellar job doing that in the past and we will continue to focus on that area in the future as working with the neighborhood associations and neighborhood activists to help us in these code compliance issues. And along those lines, we are very proud of the volunteers in code enforcement program that we have where volunteers assist in documenting complaints and sending noticing and close ago case after voluntary compliance is achieved. If it isn't, then the code officer gets involved, but we're excited in over one year over 3,000 case were handed in this program and they've achieved 90% compliance rate. 6 Those 3,000 cases, only 300 cases required code officer involvement and that's another one of those areas that across the country people are asking how are we doing that with our community and we continue to be proud of that. We move on now to the proposed rates. As the city manager talked about earlier, he gave us a challenge across all the utilities to look at the citizen not only from business standpoint from this utility but from a standpoint that all the rates are affecting our citizens as well as the tax rate. And so this first sheet shows you the original budget submittal that we gave to you in july. It had a base charge increase of 4%. And that's every -- every pay as you throw customer has a base charge and then they also have a cart charge depending on what cart they choose to use. And we did not include or propose a rate church for the 30 or rate increase for the 30 or 60-gallon cart simply we continue to want to incentivize recycle so we want to make that gap to incentive I've folks so we had proposed the 90-gallon cart increase of 70, and anti-litter fee increase of 20 cents or 4%. I want to mention that you received a resolution that had higher rate increases than that and I'll tell you a little bit later about why they suggested that. Based on what we think we can do now, we're going to change to the recommended rates and I'll tell you the ramifications of those here in a moment. But we think we can eliminate the fee increase for both the base charge and the anti-litter fee and also reduce the 90-gallon cart to 4% which is actually what the solid waste advisory commission had recommended for that portion of our population. If you see in paren these that the 30-60-gallon rate, that's how many customers are in each one of those carts. Now, what this does is i mentioned earlier about our cash reserve. What this does is take the million dollars over our financial policy and we won't have that built up. So we'll be just at the 30-day reserve policy, and there's some potential ramification to that and that's if this department leads the effort whether there's storms through our community and brush and bulky pickup after. That and that's where if we happen to have several storms where this department is out picking up a lot of debris, we will likely have to dip into that cash reserve. So that's the danger of doing this, but we're comfortable offering that up to you today as a recommendation to minimize the rate impact to our citizens. With that caveat that if we have some storms that we have to have some debris pickup, we may have to dip into those reserves. With that mayor, I'll be happy to answer questions that you may have.

Leffingwell: Thank you. Any questions? Councilmember morrison.

Morrison: Just a couple. Early on in your presentation, you mentioned that we're going to be doing a waste stream analysis of all our city facilities. So does that include, for instance, if -- if we're leasing or renting, say, the convention center to another organization to use, will they then also -- we would think about also requiring them to have a repsych willing effort in place?

We're working with the convention center in some of those discussions. That's a little bit of a challenge just because of some of the contracts that they have. It's a discussion that's ongoing on how we can help in that area.

Morrison: I think -- so i was at the convention center on sunday at the roller derby and there were no recycling bins or anything around and it just seemed very contrary to what we as a city should be having going on in our -- so i would urge you to do that. And then I want to comment, for those of you all who weren't around when we did the last reorganization for code compliance -- with code compliance moving them into solid waste, I'm sure you've heard the story, but I want to raise it as a concern for me. One of the reasons, one of the reasons or benefits of moving it into solid waste services is it moved it out of the general fund for the most part and allowed us to have some stability in funding. And we had a huge amount of improvement, I think, in our compliance -- in our code compliance operations and enforcement through that. So as you do your funding analysis and look at other opportunities for funding, i hope you'll keep that in mind because I would hate to lose the improvement and gains that we've made.

Leffingwell: Councilmember spelman.

Spelman: Just a real small point. Is there an inconsistency, robert, in slide 8 where you are showing an increase of 9 million in reserves over the 30-day reserve requirement? Of 4.8 million? And your comment just a moment ago that we're maintaining a 30-day reserve with the most recently proposed rates.

Right. 9 million was based on the originally proposed rates, which would have got us a little more of a cash cushion. Which as the water department spoke of earlier, that's a better position for us to be in, a little less volatile and we wouldn't have to perhaps dip into those reserves if we have some storm response. But with the new rates that we just proposed, we're getting at the 4 hin 8 million.

Spelman: What you are 1 million rate cut.

That's right.

Spelman: Thanks very much.

Leffingwell: Anything else? Councilmember shade.

Shade: On the slide number 13, I'm just -- can you just at a top line tell me then how the expenditures end up going up? What is that associated with? I guess it's a difference of $300,000. How does that --

vacancy savings as we continue to see a growth in the community for code issues, we're not having new positions, but we're aggressively trying to fill those as quickly as we can.

Shade: Those are positions that are currently not filled that you have to fill.

We're going to fill, exactly.

Shade: How long have they been vacant then?

Some of them have been vacant from -- we did a twine 2009 budget, we did a slow down of filling positions but we see a need to move forward as we have done the reorganization and code. Time-wise you are looking at probably six months or more of positions being vacant.

Shade: What does that mean in terms of people?

Currently right now we have four vacant positions in code.

Shade: It's four additional in.

Four or five.

Shade: Okay. Thanks.

Leffingwell: Anything else? Okay. Thank you very much. We have two briefings left to go. I think with the council's concurrence we can try to at least squeeze in aviation. smith and company. Are you by yourself today?

I'm soloing. Mayor and council, the first slide the the airport nd summary. You can see from is this slide our revenue projected for next year's budget is relatively flat. That is to do with the -- obviously the aviation activity going on at the airport. This year it dropped 12%. Next year we're anticipating it to be flat without a significant increase. Our requirements are a slight increase as well, but our operating expenses are going down. The slight increase in requirements relates to debt service where we continue to have some increasing interest rates relative to our variable rate swap notes which I'll touch on more in some of our challenges. In terms of sources of funds, from this chart the most important thing to pay attention to is the airlines, in the lower left-hand corner. You can see that we anticipate getting about $37 million in revenue from the airlines this year. It is the goal of our airport as well as every airport to minimize what you collect from the airlines and maximize all your other revenue sources, which we call nonairline revenue sources because you are always trying to make the cost of airlines doing business in your community as little as possible so that you make your market more attractive than other markets to do business in. So to compete for air service, you have to be competitive with the rates you are charging for landing fees as well as rental rates inside the terminal. So again, we're never trying to maximize airline revenue. Our goal is maximize airline revenue and actually replace it as much as possible. There are some airports that have been very successful at getting that. Places like las vegas that have gambling money and things like that that significantly been able to reduce the impact to the airlines. Next slide in terms of emplanements, if you go back to 2008, we peaked a little over 9 million passengers. We're really anticipating going back to 2006 levels in materials of demand at the airport. In terms of airline cost per plain passenger which is a industry metric, you can see where we were in 2008 at roughly 778. That's increase ing this year 53 and increase 74 next year. Even though our expenses are relatively flat for those two years, the cost is going up because the deno, ma'am ater is being reduced. So our cost per enplaned passenger is going up. You can see that we're roughly slightly above the median. That is not unusual for a relatively new airport that is still carrying a lot of debt. Our airport is only 10 years old. We're still carrying $350 million of debt on the airport so debt service is a large component of what we have to factor into our expenses. In terms of uses of funds, there's nothing terribly unusual there. It's pretty much broken up over operating expenses, capital investment and debt service. I'll touch more on the debt service issues in a moment. In terms of some of the reductions that we're proposing for the budget, we have the typical corporate reductions proposed by the city manager. Elimination of six vacant positions. And then some miscellaneous items that we were able to find some savings in. Overall reduction of about $1.8 million. Next slide is just a list of the positions that were eliminated. And then the capital projects we're anticipating improvements of about $27 million next year. 7 Million of that coming from federal grant funding. On the land site improvements, the two biggest projects, one we have to build a new employee parking lot to replace the one that is going to have to be removed as a result of expanding the apron to the east. We also have some money in there for signage improvements. The signs at the airport are 10 years old. They should have been replaced a couple years ago, but to control expenses we postponed it. But that is scheduled for next year. In terms of terminal upgrades, 5 million in there for that. Noise mitigation, about $6 million programmed for that. That's a continuation of us sound insulating or buying up the properties impacted by noise at the airport. That program has been going on for about eight ears now. We have about $70 million invested in that now and we're actually getting to the point where we can see the finish line in terms of taking care of all the properties. Air site improvements, the -- airside improvements, major is joint sealant on the runways and taxiways. About a $6 million project. We're constantly in the mode of maintaining that infrastructure so that's pretty much there every year. Then we have a storm water and environmental master plan that's coming due and we'll be making some improvements as a result of that. In terms of major challenges, like most of your departments we're obviously being affected by the economy so demand for air travel is down. As I said, this year we've had about 12% less traffic than we had the previous year and that is impacting all of our revenue streams from parking to rental cars to concessions so whatever so you are seeing a significant drop in revenue there. And in response to the drop in demand from passengers, airlines are pulling capacity out of the system. So airlines for over a year and a half now have been grounding planes and parking them in the desert and in the fall they continue to pull additional capacity out of the system. Estimates, most airlines, the legacy airlines have pulled about 20% of their capacity out of the system over the last year and a half or so. And part of that is to try and obviously size capacity to the demand a little better so they can get some pricing power back. So they don't have to continue to do sales to get people on the planes. So we look for the airlines to continue to cut back at least through probably the first part of next year. And most people looking for maybe the summer of next year to start seeing some increase. And finally, another major challenge as I mentioned earlier was debt service because all $350 million of the airport's notes were refinanced in 2005 to variable rate swap notes. When the economic crisis hit 5% to 12%. They have been bouncing around since then. As a result of that in 2008 the airport paid $3 million more in interest expenses than was budgeted and in the year that we're in now, 2009, we're going to be spending $10 million more on interest payments than we were anticipating. And next year we programmed it for roughly the rates that we're paying currently. The good news is that is stabilizing. This jump in interest rates was more of a factor of the credit rating that the people who we hired to insure our bonds was affected by. So we were just caught like a lot of other entities out there and it was an impact. We have mitigated the impact of that increased expense to the airlines by using our passenger facility charges 50 we collect from each passenger going on the plane to reduce the impact that the airline fee and their rental charges. For example we're projecting taking $14 million in pfc revenue and applying that towards the debt service so is airlines only see a net debt service of 19 million as opposed to 33 million. So obviously we discussed these activities with the airlines as part of their rates and charges discussion that we do each year. In terms of best management city initiatives that the airports is undertaking, the business model that we've been using for the last nine years to run the airport is based on this chart that I've shown which is basically a take-off on the balanced score card approach, those of you which may be familiar with. That starts off with building the best team, creating a good environment for employees as well as our business partners to operate in at the airport. And also to focus on the continual improvement of what is critically important to our customers. And if we do those two things well, we will be delivering a quality service product to our customers both our airlines, employees and passengers. And then finally if we deliver a quality service product we will be rewarded with superior financial results. That model has worked very well the last nine years. In terms of supporting that, we also participate in an international survey on a quarterly basis to ask the passengers who are traveling through our airport a series of 34 questions and we can then find out what is important to them which helps us tailor our investments of what we put our money into as well as how do we stack up against other airports on the same questions. And it's been a very useful survey and for the last three years our airport has had the highest scores of any u.s. Airport participating in the survey and among the highest, 131 airports actually participating in the survey. And the last tool that we use is also by the airports council international. For those of you familiar with iso 9000 as the standard which management techniques and organizations against, we participated in aci's version of the standards and are only the third airport in the world that's been certified as meeting all of those standards. Along with koala and dubais and now stain. So we think we have a good program in place and it's geared at trying to understand what's important to our customers to guide our investments as well as making sure, getting regular feedback, how we're doing so we can make the improvements necessary to keep the experience of using austin's airport a positive one.

Leffingwell: Questions? Councilmember morrison.

Morrison: One question. You mentioned transferring one position to the police. Could you just talk a little about the cost when we used to have airport police and now do we transfer funds to the general fund to cover that cost and how those amounts line up?

Well, when I first got to the airport, the airport had its own police department. It was airport police. Then several years ago we moved it into public safety and emergency management, which was a combination of airport police, the park police and the marshal's office. At that point the airport started paying the general fund for police services. And then most recently

[inaudible] was ab sopped into apd and made that switch. It didn't significantly change the mechanism, it just -- obviously the apd offers earn more than the peace officers so there's been a slight increase in terms of the amount we transfer, but the number of positions has been relatively consistent. It didn't increase significantly one way or the other.

Morrison: And maybe I can get with you afterwards or submit a question. I would be interested to know what the difference in transfer was when they went from peace to apd.

Sure, we can provide you that information in detail.

Morrison: Thank you.

Leffingwell: Uncilmember riley.

Riley: One quick question. Thank you for an excellent presentation. One question about the taxi cab waiting area. I know that's been an issue and I'm continue to go hear concerns about the conditions especially in the hot summer when you have a lot of cabbies that have to spend hours waiting in the sun. Can you tell me where we are in terms of plans for changing the way we provide shelter, do the cabbies have any shelter out there? Any plan currently on the table to address that?

No. In terms of building a more permanent facility, no. We put up a tent starting about three years ago, putting fans and things like that, but right now in the capital plan there is no plans to be building a more permanent facility. We have looked at options of moing that facility. As a matter of fact, on your agenda tomorrow there's an item to do some associated development in the vicinity of that. And if that development takes off and is successful long term we would like to move the cab facility from where it is to where some of the rental cars are using their facilities to wash their cars and things like that. Those -- they have buildings there that we could be converted to a cab facility if we choose to do that. But that is more of a two, three, four-year plan than an immediate plan.

Riley: Okay. Thanks.

Mayor Leffingwell: Councilmember shade.

Shade: I was curious, what are the terminal upgrades that you are talking about in the capital projects that you've talked about?

The largest ones are primarily having to do with our electrical power. I mean there's always constant need for upgrading the power that we are providing inside the terminal so that's the largest one.

Shade: And then one of the positions that you don't have is an airport business enterprise. I didn't know what that was, but I assume that's the -- that's a position that maybe helps generate revenue in other ways, working with concessions or advertising or that sort of thing.

Yes, we programmed that position two years ago and have never filled it. It was originally intended to be our real estate expert. Obviously we have a lot of land at the airport and we do not have a real estate expert on board at the airport for looking at capitalizing on opportunities to lease land to earn revenue for the airport. Given where we are in the current climate, we decided we could do without that. It's never been filled. It's been a vacancy we've been carrying for a while and somewhere down the road we may revisit it. For now it's --

Shade: One of the things that I hear about from time to time is that we don't generate as much of the other kind of revenue as we could, but i realize that takes people who understand how to make business at airports work outside of what your most folks obviously working with the airlines and making sure that the basic services are provided. But I have been struck when i travel to other cities at sort of just advertising revenue, perhaps more aggressive fee generation with concessions and other things that are going on. And I'm just curious if that's been a focus at this airport before. I know it's a new airport, but it takes somebody to know how to -- I meando you have people who work on that right now?

Well, it's more of a general policy direction to a certain extent too. Whether this airport first opened in the time that the direction from the council and advisory boards were to minimize -- not minimize, but the commercial -- moderate the commercial feel of the airport. And that had to do with advertising. They didn't want to see advertising splashed all over the place. The difference between having a national brand in your airport and a local brand is almost a 50% difference in revenue. So we have made some directional decisions at the airport to not maximize the revenue that we can from some of the things that we do. Those are always open to revisit and decide if it's necessary to earn more revenue from those then we can change the direction.

Shade: For anybody listening, I'm not suggesting McDONALD'S AND STARBUCKS AND A big change.

Why not?

Shade: I'm not asking -- but have I noticed there's a lot of space that could be used in tasteful ways to generate more income. And it just occurs to me that there's so many things that we want to get done, but I also know that it takes people to manage that and it's not an easy task.

Leffingwell: Do you have something, city manager?

Just that I think the point is well taken and the mayor and I had a similar conversation just the past few days and so I did engage the acm in that area and we'll be sitting down to see what strategies we might develop and come back to council with.

Shade: Just fyi or all my accounting and economist friends and mathematicians, i have a marketing background so that's why I'm interested in this.

You're hired.

Leffingwell: Councilmember spelman.

Spelman: As a member of the group that issued the original directive on advertising to the airport staff, I want to say that the legislative intent was all about tasteful. If you find tasteful ways to increase revenues, I'm sure that would have been consistent with what the council wanted in 1998.

Was that tasty or tasteful?

Spelman: We can discuss that on a case-by-case basis as we go up and down the food operations. Help me if you could. Why is it that we issued variable debt? Variable rate debt?

The city treasurer is going to have to answer that question.

We've had some conversation about that history so she's ready to provide.

I'll attempt to sub for the city treasurer, and this is prior to my time, but we actually originally issued fixed rate debt for the airport, and when we we funded it in 2005, we did an interest rate swap arrangement with that. And at that point in time the savings that that generated were significant compared to just a straight fixed rate refunding. And I can't -- I believe it saved -- you know, we typically measure savings over the -- in net present value as a percentage over the life of the debt. And I believe, and jim, correct me if I'm getting a number incorrect, and I'll confirm this, but it was around a 12% savings range over the life of the debt. Now, with the spike recently that he referred to this year, that has diminished. Our goal when we go out and refund is try to achieve at least 4.25%. And if we continue at the pace that we're currently continuing at in terms of the rates that we are incurring, we would be more along the range of 5%. We are working with the financial advisor to try and explore alternatives that would minimize those interest rate costs going forward. One of the things they are looking at and the market just isn't there right now is obtaining a letter of credit as an underlined security. That's an option and they are also looking at opportunities to perhaps convert part of it or the entire amount to fixed at some point. You get certainty there, but your costs would be higher. And I will forward you a copy of a memo that kind of outlines all this information that we provided the council in early june, but you and councilmember riley were not on board yet so I'll send that over to you.

Spelman: I would appreciate taking a look at that. Obviously the question was, as you were suggesting, we're getting a cheaper rate on average, but in any given year we don't know how it's going to fluctuate.

Right. And it has never really fluctuated in the past to the extent it has this year and it was really the onset of the financial crisis in the fall and the markets just kind of went haywire for a point in time. But then it has stabilized, but it has not quite gotten down to the good rates we had seen in the past.

Spelman: So on average characterizing this? An average year we would be paying less, but in a strange year we could pay more.

And I think that was a dire -- it was a very extreme example of that this year.

Spelman: The problem, of course, is in haywire years is probably years we're going to have fewer enplanements.

So it exacerbates. I'll get that for you.

Spelman: Is other question is not a financial question specifically. How do our landingfees compare with other airports? Is that basically the costner emplanement?

In the cost per enplanement, the two factors are landing fee which used to use the air field and the rental rate for what you rent from us. We run on what's known as a compensatory arrangement in the airport which means the airport has accepted the risk as the landlord as opposed to residual arrangement which is different. We're just like a typical mall operator. If we don't rent the space out, we're on the hook for it. We have no rental income coming in from it. So the bottom line is the cost per enplanned passenger is a mix for what the airlines play us for the space they are renting whether that's baggage claim or the gates and the landing fee is separate. Add the two together and you get the cost per enplaned passenger. Our landing rate is slightly over $3 which in is business is high. Typical one is going to be around $2.

Spelman: So we're high and we're going to stay high and if we're talking about a 6% increase in fees averaging out over the landing fees and rental costs?

The reason you're not -- we're high technically, but in terms of what's going on in the industry and why you haven't heard a lot of complaints from the airlines is we started out high when the airport opened and we've actually come down. So for the last six to seven years before this economic crisis, we've actually brought our cost per enplaned 50 from when the airport opened. It's just what happened recently with the debt issue as well as the economic picture with the drop in enplanements that you are seeing it go up. At the same time every airport's cost per enplaned passenger is going up.

Spelman: We're basically in the same position.

On a relative basis --

Spelman: On a holding pattern.

In reality until we start paying off some of the debt, you know, that's pretty much going to stay where it is special but there's no reason to he --

Spelman: But there's no reason we've -- therefore there shouldn't be any economic provocation for any of the airlines to start using other airports at a greater rate.

No. Our biggest competitor locally is obviously san antonio. San antonio has a lower cost per enplaned passenger because they have older facilities, but they are building a new terminal and have another one in the wings. In the next several years their cost per enplaned passenger is going to go up significantly because the new debt service they will be taking on to run that airport.

Spelman: Once you get off the plane, you will still be in austin, not san antonio. Thanks.

Leffingwell: Mayor pro tem martinez just for the record, since councilmember mentioned she has a marketing background, she is still glad to stand in line at the airport.

Leffingwell: I think I've heard her say that before. Okay.

[Inaudible]

Leffingwell: Can't be too careful. Since we've run over a little bit, I would suggest that we postpone our convention center briefing until the 26th with the other briefings if there is no objection, we'll do that. And having said that, that concludes our business for this morning so with that, we stand adjourned.

End of Council Session Closed Caption Log