

AUSTIN ENERGY'S TARIFF PACKAGE: §  
2015 COST OF SERVICE § BEFORE THE CITY OF AUSTIN  
STUDY AND PROPOSAL TO CHANGE § IMPARTIAL HEARING EXAMINER  
BASE ELECTRIC RATES §

**AUSTIN ENERGY'S SUPPLEMENTAL RESPONSE TO  
THE INDEPENDENT CONSUMER ADVOCATE'S  
SIXTH REQUEST FOR INFORMATION**

Austin Energy ("AE") files this Supplemental Response to The Independent Consumer Advocate's ("ICA") Sixth Request for Information.

Respectfully submitted,

**LLOYD GOSSELINK ROCHELLE &  
TOWNSEND, P.C.**

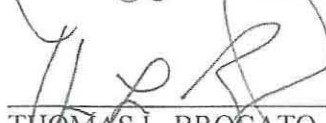
816 Congress Avenue, Suite 1900  
Austin, Texas 78701

(512) 322-5800

(512) 472-0532 (Fax)

tbrocato@lglawfirm.com

hwilchar@lglawfirm.com



THOMAS L. BROCATO

State Bar No. 03039030

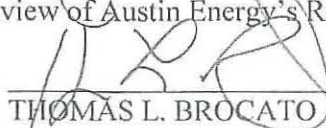
HANNAH M. WILCHAR

State Bar No. 24088631

**ATTORNEYS FOR AUSTIN ENERGY**

**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of this pleading has been served on all parties and the Impartial Hearing Examiner on this 22nd day of April, 2016, in accordance with the City of Austin Procedural Rules for the Initial Review of Austin Energy's Rates.

  
THOMAS L. BROCATO

AUSTIN ENERGY  
2016 APR 22 AM 11:32

ICA 6-5 With respect to economic development programs, please provide:

- A. total expenditures for incentives, grants, discounts, or construction aid to attract new electric customers or assist in the expansion of customers' existing load;
- B. please provide a breakdown of 'A' by type of expenditure.
- C. please provide a breakdown of 'A' by customer class (i.e., number of customers assisted by class and kWh of customers assisted by class).

**ANSWER:**

- A. Expenditures are not tracked discretely to attract new electric customers. Costs are tracked for day-to-day operations, which include employee wages and benefits, administrative support, contractual and commodities and other operational costs.

The Economic Development Department attracts new businesses and assists existing businesses with expansion and sustainability in today's uncertain economy, which has caused many businesses (small and creative alike) to otherwise relocate outside of Austin. Economic development programs designed to attract new electric customers or assist in the expansion of customers' existing load include:

<b>Fiscal Year</b>	<b>2015 Actual</b>
Music Venue Assistance Program Fund	\$48,600
HUD Section 108 Family Business Loan	\$1,914,179
Economic Incentives Reserve Fund	\$14,279,817
Economic Development Fund (Global Business Recruitment)	\$824,506
Economic Development Fund (Small Business Programs)	\$1,850,071
Economic Development Fund (Redevelopment Programs)	\$1,939,512
Cultural Arts Fund	\$8,457,555

Please note that the numbers in the table above, as well as the following table, include funding sources in addition to Austin Energy. The Economic Development Department receives funding from Austin Energy, as well as other city owned utilities and departments.

- B. Please refer to the table below.

<b>Fiscal Year</b>	<b>Purpose</b>	<b>2015 Type of expenditure</b>
Music Venue Assistance Program Fund	The Music Venue Assistance (MVA) Program Fund provides micro loans to qualifying music venues to assist with implementing sound attenuation technologies. The goal of the program is to significantly improve the acoustic environment inside music venues and reduce the number of sound-related complaints by using various sound mitigation technologies to reduce sound levels that impact nearby residents.	In FY 2015, expenses included \$48,600 for rental of sound measuring equipment to enable music venues to stay open.
HUD Section 108 Family Business Loan	The U.S. Department of Housing and Urban Development (HUD) Section 108 Family Business Loan Program (FBLP) Fund. This provides a floating rate low interest loan to local businesses starved for capital. A micro loan program is included for expansion of the smallest businesses,	In FY 2015, \$1.9 million in expenses included legal fees, new loans and other expenses (filing fees/mailling services).

# Austin Energy's Supplemental Response to ICA's 6<sup>th</sup> RFI

Fiscal Year	Purpose	2015 Type of expenditure
	creates jobs, revitalizes communities, increases the tax base of the City, creates utility revenue and enhances the overall quality of life for all City of Austin residents by providing low-interest fixed asset and working capital loans to qualified Austin small business owners that are ready to expand and create jobs. The FBLP provided \$1.9 million for loans to qualified local small businesses and debt service payments to HUD.	
Economic Incentives Reserve Fund	The Economic Incentives Reserve Fund was established to separately identify and monitor the economic performance-based agreements maintained by the City. The \$4.0 billion in agreements originate through a variety of means: establishment of performance-based Chapter 380 economic development grants, contractual redevelopment agreements, or other City Council action. The agreements are designed to provide higher levels of foreign direct investment, employment, economic activity, more utility users, especially commercial, and stability to the cluster industries strategy of Austin which continues to diversify in the unexpected event of turndown in the US economy.	In FY 2015, expenses included \$14.3 million in incentives.
Economic Development Fund (Global Business Recruitment)	The Global Business Recruitment and Expansion division, pursues new economic development projects, engages in international trade marketing, as well as develops and administer agreements with targeted industry companies to promote and facilitate sustainable Austin growth. These economic development agreements create jobs, increase the City's tax base, diversify the local economy, attract new electric customers and expansion of customers' existing load, and provide a strong economic foundation for all of our residents. Together with our partner organization (Opportunity Austin, Austin Technology Incubator) Austin is able to attract and attain new/expanded businesses.	In FY 2015, expenses also included \$0.8 million in base cost drivers (personnel, rent, and utilities) and programing costs
Economic Development Fund (Small Business Programs)	The Small Business Program (SBP) fosters job creation and economic growth for 16,000 local businesses, and direct courses, permitting assistance, loans to over 3,000 businesses, provides education, one-on-one technical assistance, annual special-topic informational events, and innovative technology resources to help Austin's small businesses grow and prosper.	In FY 2015, expenses included \$1.9 million in base cost drivers (personnel, rent, and utilities) and programing costs.
Economic Development Fund (Redevelopment Programs)	The Redevelopment Division manages \$2.0 billion in projects which enhance livability and economic viability by supporting redevelopment projects with public infrastructure. The projects managed include 2nd Street District, Block 24, Austin Film Society campus, Seaholm EcoDistrict, Green Water Treatment area, and Mueller Redevelopment of the former airport.	In FY 2015, operating expenses included \$1.9 million in base cost drivers (personnel, rent, and utilities) and programing costs.
Cultural Arts Fund	The Cultural Arts Fund provided \$8.5 million in Hotel Occupancy Tax dollars for 305 cultural organizations. The Cultural Arts Fund Budget is used to fund cultural agencies through a predetermined process which involves review and recommendation by the Arts Commission and	In FY 2015, expenses included \$8.5 million contracts for 305 artist/art organizations and in contract administration.

Fiscal Year	Purpose	2015 Type of expenditure
	approval of allocation by City Council.	

- C. The Economic Development Department does not track expenditures by customer class and kWh of customers assisted by class. This information below was last collected in March 2012. Austin Energy's investment in Economic Development was found to have led to the successful recruitment of major employment centers in Austin and, as a result, electric revenue generated was \$60.1 million for 1.14 billion kWh. Please see Attachment 1.

Electric Usage and Revenue to Austin Energy (2011)		
Projects	Usage (kWh)	Electric Revenue
Redevelopment Projects	178,593,582	\$ 3,972,084*
New Business Recruitments	942,559,471	\$ 55,764,770
Arts-Related Projects	20,270,860	\$ 373,410
<b>Total</b>	<b>1,141,423,913</b>	<b>\$60,110,264</b>
*As of 2009, not yet updated for 2011		

In addition to the recruitment of new employers and retention of companies, economic development programs are responsible for new residential load growth. New residential load growth has been added in the redevelopment of the old Mueller Airport into a thriving residential development consisting of single family and multifamily units. Additionally, redevelopment services have brought in new residential units in downtown Austin along the 2nd Street District and the redevelopment of the Seaholm power plant. New residential units are being added annually downtown and at Mueller through the efforts of the Economic Development Department. Indirectly, the efforts of economic development have led to new residential growth brought into Austin attracted by employment opportunities from new commercial development.

Prepared by: MC  
Sponsored by: Mark Dombroski

# AUSTIN ENERGY'S INVESTMENT IN ECONOMIC DEVELOPMENT

A WHITE PAPER ON THE RETURN ON INVESTMENT AND ELECTRIC UTILITY PRACTICES  
FOR FUNDING ECONOMIC DEVELOPMENT

**March 2012**



Table of Contents		Appendix	
Title	Page	Exhibits	Page
Executive Summary.....	4	Economic Development Practices of Leading Public Utilities.....	19
Economic Development Best Practices for Electric Utilities.....	5		
Economic Development Generates Revenues for Austin Energy.....	11		
EGRSO Programs and Budget History.....	13		

## Introduction

The purpose of this white paper is to present findings on economic development best practices of electric utilities, the dollars returned to Austin Energy on its investment in economic development, and research findings of economic development practices of the country's 15 largest public power utilities.

In this era of global recession, economic development is key to job creation and capital investment that are needed to lift economies from high unemployment and shrinking revenues. Austin has been one of very few cities that has weathered the recession with lower-than-average unemployment and continued economic growth. There are many reasons that can be provided as to why Austin is surviving this great recession, including being the state capital and a large university town. Following the 2000 recession, the Redevelopment Services Office was created in Austin Energy. Shortly thereafter, the City Council embarked on a new economic strategy with the implementation of recommendations from the 2003 Mayor's Task Force on the Economy. This new strategy resulted in a major investment in a comprehensive economic development strategy that included traditional economic development, small business programs, and cultural arts and resulted in a name change to Economic Growth and Redevelopment Services Office (EGRSO).

Since that time, EGRSO has implemented programs to assist with creating and retaining small and large businesses, recruited national and international corporations, led key redevelopment projects, and bolstered the creative arts industries through significant investment of tourism tax dollars. The result has been thousands of new direct jobs created and billions of capital invested in Austin.

## Executive Summary

Recently, there has been discussion about Austin Energy's financial condition, a potential rate review case, and the capacity for Austin Energy to continue funding programs not directly connected to producing or distributing electricity. In light of these concerns, this white paper is presented to assist in future policy conversations by providing information on established best practices for electric utilities, the history and budget of EGRSO, and annual electric revenues generated through EGRSO economic development efforts.

The operating budget for EGRSO represents eight-tenths of one percent (0.8%) of the Austin Energy Fiscal Year 2012 budget expenses, however the businesses, chillers, and millions of new square feet of development, as a result of EGRSO efforts, represent 5.7% of Austin Energy's revenues. Using this measure alone demonstrates that EGRSO presents a valuable return on investment to Austin Energy, however, this paper will present additional information to show how EGRSO programs bring forth small business growth, and new jobs for ratepayers. This paper also presents information on the \$29.2 million from other City funds that are used in economic development efforts.

The best practices identified in this paper take a look at how public and private utilities across the country view economic development and the approach that Fitch Rating Services, one of three global bond rating agencies, takes for rating public power systems. Economic development is supported by public and private utilities because of the benefits derived, such as lower electric rates and an improved local economy. For similar reasons, Fitch Rating Services considers indicators such as employment base, employment diversity, unemployment levels, and diversified customer base when assessing the credit quality of public power issuers. These are all factors that can be aided by economic development programs.

In the context of Austin, this paper presents information on how EGRSO has improved the local economy by adding new jobs, diversifying the base of employment in Austin, and creating a mix of new development. These results are in line with the expectations of the 2003 Mayor's Task Force on the Economy, which recommended the comprehensive economic development strategy in place today.

The Task Force, formed after the dot-com bust of 2000, suggested that Austin focus on its strengths of entrepreneurship, large creative class, and innovation to improve and diversify Austin's economy. The core of EGRSO, as recommended by the Task Force, was formed in fiscal year 2004-05.

Since being formed, EGRSO has led 6.8 million square feet of redevelopment activity and the commitment by recruited and retained businesses to create or retain 6,786 direct jobs and invest \$8.9 billion of capital in Austin.

For the current fiscal year, EGRSO will use \$29.2 million in other funding, separate from Austin Energy, to support these economic development efforts.



## ECONOMIC DEVELOPMENT BEST PRACTICES FOR ELECTRIC UTILITIES

### Best Practices – American Public Power Association

The American Public Power Association (APPA) is the service organization for the nation's 2,000+ community-owned electric utilities. Since 2004, the APPA has held an annual conference focused on economic development for its member utilities because the APPA recognizes the inherent need for electric utilities to maintain an economic development program.

The APPA has cited economic development as being an essential component of public power utilities. For example, in a 2004 report, [\*"Straight Answers to False Charges Against Public Power"\*](#), the APPA cited the following:

*"Public power utilities provide benefits to the citizens of their communities through lower rates, responsive service, payments in lieu of taxes, **economic development** and other programs that benefit the community."*

*"A public power utility spurs **economic development** in the community by meeting the interrelated needs of residential, business and industrial customers, thereby making the community a more pleasant place to live and allowing it to compete more successfully in attracting business and employment. Public power utilities are able to focus on the overall needs of the communities and provide efficiencies in achieving the overall community goals."*

*"In establishing a public power utility, the city would have greater flexibility to offer incentives to large businesses that could **promote the expansion of business and attract new business**, while still protecting residential and commercial customers."*

The APPA also cited the importance of economic development to public power utilities in its report, [\*"Q&A for Communities Considering the Public Power Option"\*](#). The APPA cited the following:

*"A public power utility can be extremely valuable in achieving the community's goals to **broaden its tax base, offset the need for increased local taxes, and improve the local economy and jobs situation**. A public power utility's lower rates allow consumers to spend more money on other goods and services. **Public power can retain local businesses and attract new ones** which helps maintain and create jobs for local residents."*

*"And **public power systems are often an integral part of efforts** such as downtown renovation, business development and industrial parks and other public works projects in their communities."*

*"In the context of establishing a public power utility, **the city could offer incentives to large power users that could promote the expansion of business or attracting new businesses**, while still protecting residential and commercial consumers. Many public power utilities work with their larger electricity users, offering them power quality, demand-side management, alternative pricing structures, special communications during outages and other customer-focused programs."*

### Best Practices – American Public Power Association (*continued*)

In the May-June 2004 issue of Public Power, the APPA published an article titled, [“Taking the Lead on Economic Development”](#), in which utility general managers and economic development professionals cited the critical need to support economic development. The citations include the following:

*“ ‘I have never lived in a region that lost so many jobs so quickly,’ said Ron Holcomb, general manager of the Pulaski Electric System in economically depressed Giles County, Tennessee. ‘There has to be a way to use this asset, which the community owns, to benefit the community other than just providing electric energy.’ **Holcomb now believes the number one role of public power is not to provide energy, but rather economic development.** ‘If we don’t do this, there won’t be anyone left to provide the energy to,’ he said.”*

*“Marvin Schultes, manager of utilities for the city of Hastings, Nebraska, also understands the need for public power to take the lead in economic development. ‘We are dominated by the agricultural economy here, but that is shrinking in terms of the number of jobs,’ he said. ‘We feel the need to preserve and grow our community. Our board is actively involved in these efforts.’ “*

*“Dennis Donovan, director of global site selection for the Wadley Donovan Group of Edison, New Jersey, believes public power utility boards should play three general roles in promoting economic development in their communities. **First, if a utility is large enough to have its own economic development department, the board should be fully supportive of this effort.** ‘Second, they should provide personal leadership and volunteer time to local community economic development efforts,’ he said. Third, they should provide money for incentive programs and seed capital for formal local economic development programs.”*

*“ ‘Our board has adopted a strategic plan that includes directions on our participation and efforts to build the economy of Nebraska,’ said Dennis Hall, economic development manager for the Nebraska Public Power District. One of these is to protect and promote the proven benefits of being an all-public power state through its operations, economic development activities, and community and governmental relations. ‘The board also has objectives related to sales and revenue growth,’ he said. **‘We have a formal economic development department,’** said Nebraska’s Hall. The department has five certified economic developers on staff who work to make sure that communities in the state are prepared for economic opportunity. The utility works with its municipal wholesale customers to organize data, which are available on the utility’s Web site, including all of the data for all of the communities it serves.”*

## Best Practices – Electric Utility Companies

Site Selection magazine publishes an annual ranking of the nation's top economic development utilities. The magazine honors those utilities that embrace economic development as a key component for their success and highlights those leading utilities that create jobs and generate capital investment through economic development initiatives. The [2010 Top Utilities of the Year](#) ranking was released on September 2, 2010 and included citations from these leading utilities. The citations are as follows:

*" 'There were two primary factors behind our success,' adds Barker. 'One was our preparation. **We work with our partners to make sure we have the right kind of incentive programs, labor force and sites.** The second factor is the very strong partnership we have for economic development with the governor, the Alabama Development Office and the Economic Development Partnership of Alabama. We have great economic development leaders throughout this state, and that includes some excellent leaders at the local and regional level too.' "* Greg Barker is the vice president of economic and community development for Alabama Power, which ranked #1 in the 2010 list.

*"DTE Energy played a role in securing \$4.9 billion worth of capital investment and 23,373 jobs in its Southeast Michigan service territory." DTE ranked #2 in the 2010 list.*

*"Altogether in 2009, Duke helped communities land more than \$2 billion in capital investment and some 9,785 jobs. 'It takes a team effort,' says Gillespy. 'We have been working in concert with people at the state level to attract federal dollars for projects. And from a legislative standpoint, we seek out what is needed to attract these companies to our communities.' "* Clark Gillespy is the vice president of economic development, business development and territorial strategies for Duke Energy, which ranked #3 in the 2010 list.

*"With \$1.7 billion in new capital investment and 8,899 jobs secured in 2009, Entergy brought economic growth to its four-state service territory of Texas, Arkansas, Louisiana and Mississippi." Entergy ranked #4 in the 2010 list.*

*"The city made famous by jazz and blues wasn't singing the blues in 2009. Rather, Memphis rocked to the tune of economic development harmony as Memphis Light, Gas & Water facilitated \$561 million in capital investment and 2,946 new jobs. 'We have several things going for us, and we are a piece of that at Memphis Light, Gas & Water,' says Bill Bullock, who manages economic development for the electric utility serving Shelby County, Tenn. 'Our customers are our stakeholders,' says Bullock. '**As we help industry in Memphis succeed and grow, it raises the entire community's economic tide, provides jobs for our customers and spreads the utility's fixed costs over more units. That, in turn, benefits more customers. So, as we are able to attract and retain industry, it returns most of the value to our stakeholders.**' "* Memphis Light, Gas & Water ranked #7 in the 2010 list.

## Best Practices – Fitch Rating Services

On June 11, 2009, Fitch Rating Services published its “Public Power Rating Guidelines”, which detailed Fitch Rating’s approach to rating public power systems. In determining the credit quality of public power issuers, Fitch focuses on five key factors. These include: 1) management, governance and business strategy; 2) service area; 3) asset operations; 4) cost structure; and 5) financial performance and legal considerations.

The following citations are taken from the “Service Area” factors and highlight the importance of diversifying a utility’s customer mix, diversifying the local employment composition, and maintaining low levels of unemployment. The citations include the following:

*“Fitch considers customer composition through an analysis of the customer mix (residential, commercial and industrial) as a percentage of the number of customers, revenues and kilowatt-hour sales; a list of the top 10 customers as a percentage of revenues; single customer or business sector concentration factors; **the employment base**; and a breakdown of the service area’s economic base.”*

*“Growth characteristics are also very important, and Fitch assesses the level of growth (high, average or low) to determine the ability of the utility to keep up with power demand, to maintain the operating performance and reliability of the system, and to utilize (grow into) the system’s asset base.”*

*“Employment diversity, unemployment levels and income indicators are also evaluated. **High unemployment levels could negatively affect a system’s accounts receivables and bad debts**; however, when viewed in conjunction with positive credit factors, an increase in unemployment will not necessarily result in a lower rating. Most public power systems tend to have a high percentage of revenues coming from residential and small-commercial users. This type of customer composition provides enhanced stability in most cases.”*

*“**A diversified customer base with solid wealth indicators is viewed favorably** and can support above-average ratings. When service territories reflect industry concentration and/or have large individual customers that account for a material percentage of revenues and the employment base, this may result in a below-average rating.”*

*On August 18, 2010, Fitch Ratings assigned a AAA rating for the City of Austin’s \$145.0 million of general obligation bonds issued in 2010. Fitch Ratings conferred a stable outlook for the City of Austin and commented that the Austin economy continues to do well during the economic downturn. Specifically, Fitch Ratings stated, “In addition, Austin continues to attract new businesses, aided by the use of economic development incentives provided by the city and state; new businesses include **Facebook** (200 jobs); the **Hanger Orthopedic Group** (250 jobs); and **LegalZoom.com** (600+ jobs)” Since that time, the City has continued to experience job growth demonstrated by the following announcements; **eBay** (1000 jobs); **The Advisory Board Company** (239 jobs); and **US Farathane** (228 jobs). The current city unemployment rate of (January 2012) 6.5% continue to track below both the State (7.3%) and National (8.3%) averages. Each of these new business recruitments noted by Fitch Ratings were the direct result of the economic development programs led by EGRSO.*



## ECONOMIC DEVELOPMENT GENERATES REVENUES FOR AUSTIN ENERGY

## Enhanced Revenues to Austin Energy

Since formation, EGRSO has led the successful recruitment of major employment centers in Austin and led several large catalyst redevelopment projects that have spurred growth in Downtown and other parts of Austin. The incentives for these recruitment and redevelopment efforts are paid from the Economic Incentives Reserve Fund. And, EGRSO administers the distribution of 11.7% of the City's hotel occupancy tax, a portion of which goes to large arts-related facilities in Austin. The creative sector, as measured by employment (49,000 jobs), has risen by about twenty-five percent over the past five years, a pace more rapid than the 10% growth for the local economy as a whole. Tourism accounted for about a third of the creative sector's \$4.35 billion economic impact, and more than half the City tax revenue generated.

For Austin Energy, new businesses recruited and large redevelopment projects resulted in **1.14 billion kilowatt hours** of electricity sold for 2011, which translates to **\$60.1 million in annual electric utility revenue**. And, the City's 10 largest arts facilities, which receive arts funding through hotel occupancy tax, produced a combined \$373,410 in revenue to Austin Energy for 2011. The captured electric usage and revenue does not include usage nor revenue associated with the **6,786 direct, new jobs created and retained since 2003**.

In addition, the redevelopment projects led by EGRSO in Downtown Austin, the Domain, and Mueller have cumulatively resulted in **\$11.5 million in chilled water facility revenue** for Austin Energy (last updated for fiscal year 2009).

Another return on investment indicator is the number of small business start-ups, associated new jobs created, and capital investment made by these small businesses. In fiscal year 2011, the Small Business Administration (SBA) reported **286 loans** approved in Austin valued at **\$110.4 million**. These small business loans resulted in **90 new business start-ups** and **1,224 new jobs** created. The EGRSO Small Business Development Program (SBDP) works directly with the SBA to host classes for entrepreneurs who seek SBA financing. SBDP advertised and marketed 4 classes during fiscal 2011 which drew 120 participants, combined.

## Electric Usage and Revenue to Austin Energy (2011)

Projects	Usage (kWh)	Electric Revenue
Redevelopment Projects	178,593,582	\$ 3,972,084*
New Business Recruitments	942,559,471	\$ 55,764,770
Arts-Related Projects	20,270,860	\$ 373,410
<b>Total</b>	<b>1,141,423,913</b>	<b>\$60,110,264</b>

\*As of 2009, not yet updated for 2011

## Economic Development as a Core Utility Function

On August 16, 2010, Austin Energy staff made a presentation to the Electric Utility Commission that outlined the process for the pending Austin Energy rate review. Within that presentation, Austin Energy stated the three objectives of the rate review were:

- Revenue enhancement,
- Rate rebalancing, and
- New business model

As illustrated by the new electric usage and electric revenues on this page, EGRSO is serving its role as the business development arm of Austin Energy to **enhance electric revenues**, which also fits one of the three objectives of the pending rate review.

In this era of global economic crisis and high unemployment, EGRSO has recruited major business expansions leading to the creation of thousands of new direct jobs for Austinites and Austin Energy ratepayers. As the Austin Energy business development arm, EGRSO assists with the long-term revenue sufficiency for Austin Energy.



## EGRSO PROGRAMS AND BUDGET HISTORY

## Austin's Economic Development Policy: Past and Present

On **November 20, 2002**, Jon Hockenyos, a local economist and principal of Texas Perspectives (TXP), presented a white paper, "[Austin's Economic Future: The Intersection of Innovation, Creativity, and Quality of Life](#)" at a work session of the **Mayor's Task Force on the Economy**. The white paper provided insight into Austin's economic rise and subsequent fall. Prior to the 2001 national recession and the dot.com bust, Austin witnessed significant increases in home prices, average wages, and new jobs created. Austin was riding high on the rankings bestowed by *Forbes Magazine*, the Milken Institute, and others.

This wave of economic prosperity broke quickly following a high-tech downfall that resulted in **17,000 local technology jobs being eliminated** and huge losses in the stock market that reduced the worth of local publicly-traded companies. The resulting impact pushed city sales tax collections deep into negative decline. **Austin's economic growth quickly turned into economic recession**, with no clear plan for the future.

In the white paper, Hockenyos outlined **Austin's assets that should be seized upon** and how Austin could utilize those assets in a **New Economy driven by innovation, continuous learning, and adaptation**. He noted that **Austin's embedded strengths** of innovation, creativity, and entrepreneurship should be put to use in this New Economy that drives long-term economic success to places that are rich in ideas, filled with talented and educated people, exude physical and cultural amenities, and embody the ability to learn and adapt.

However, as Hockenyos noted in the paper, **Austin lacked a singular organization that assumed the responsibility for all the factors that would contribute to the City's long-term development of the local economy**. Other key organizations in the city, such as the chambers of commerce, universities, and school districts focused on specific aspects of the economy such as business recruitment and retention, transportation, and education. Hockenyos pointed out that the city was in a position to directly influence the local economy by focusing on three specific areas: traditional recruitment and retention, small business and entrepreneurship, and cultural vitality.

At the time of Hockenyos' presentation to the Task Force, the City of Austin's economic development efforts consisted of implementing key redevelopment projects. At their November 2002 work session, the **Task Force developed a 90-day action plan** focused on the following **four recommendations**:

- The City Manager participate in and **support three Task Force subcommittees** (Traditional Recruitment and Retention, Small Business and Entrepreneurship, and Cultural Vitality)
- The City Manager **review the organizational structure to ensure there is adequate support for the economic development activities**, including **moving the cultural arts contracts to the economic development area**
- Recognizing the efforts of the business community, both large and small
- The City Manager present a quarterly economic report

On November 21, 2002, the Austin City Council adopted a resolution to **accept the recommendations of the Task Force**.

### Austin's Economic Development Policy: Past and Present (*continued*)

Between November 2002 and April 2003, the Task Force created and convened three subcommittees to develop recommendations for a **comprehensive economic development initiative**. The goals of the comprehensive economic development initiative were as follows:

- Ensure the local economy thrives in a **global marketplace**
- Provide the **flexibility and support for the local economy** to flourish
- Understand the importance of **quality of life and cultural amenities** to economic success

The three subcommittees were comprised of 61 individuals representing local businesses, arts organizations, university officials, bankers, city staff, economists, venture capitalists, Governor's economic development staff, local chambers of commerce, local workforce development agencies, Liveable City, and Capital IDEA. The subcommittee's recommendations were compiled into a report, "[The Mayor's Task Force on the Economy: Subcommittee Findings](#)", which **led to the comprehensive economic development initiative and economic development policy in use today, including the divisions that comprise EGRSO (small business development, cultural arts, and business retention & recruitment)**. On June 12, 2003, the Austin City Council **approved a resolution for a comprehensive Economic Development Policy and Program for the City of Austin**. The resolution authorized the City Manager to take the necessary actions, including administrative changes, to implement the Economic Policy and Program.

### Timeline of the Formation of EGRSO, Approved Budget, and FTE Positions (*Note: FTE means Full-Time Equivalent*)

Fiscal Year 2000-01	The Redevelopment Services Office (RSO) "Economic Development Fund" is created in Austin Energy to implement economic development and redevelopment strategies.	\$ 4,239,000	12 FTE's
Fiscal Year 2001-02	The RSO is expanded by one (1) FTE to include the Mueller Redevelopment project, and other expenses are added as part of the department formation.	\$ 4,825,151	13 FTE's
Fiscal Year 2002-03	RSO is changed to "Economic Growth and Redevelopment Services Office." A cultural arts position, three (3) redevelopment positions, and a financial manager are added. The budget reflects reimbursement of \$1.5 million from the Mueller redevelopment project.	\$ 3,775,129	17 FTE's
Fiscal Year 2003-04	The Cultural Arts and Small Business Development Program (SBDP) divisions are added following the 2003 Mayor's Task Force on the Economy recommendations.	\$ 4,776,622	29 FTE's
Fiscal Year 2004-05	<b><i>This budget reflects the final core EGRSO formation.</i></b> The Art in Public Places program, new SBDP functions, and an International Economic Development division are added to EGRSO to support the Mayor's Task Force recommendations.	\$ 5,938,133	36 FTE's

## Comprehensive Economic Development Strategy

EGRSO represents a comprehensive economic development strategy as envisioned by the 2003 Mayor's Task Force on the Economy. The divisions of EGRSO focus on traditional industries recruitment, redevelopment, small business development, and the creative industries sectors of cultural arts and music.

The functions and outcomes of these divisions are similar in that jobs and capital investment are created, within the respective industries, through each division's programs and services. The sharing of this commonality and the underlying premise of supporting the local economy creates a close relationship between the divisions that allows for projects, programs and services to serve multiple industry sectors simultaneously.

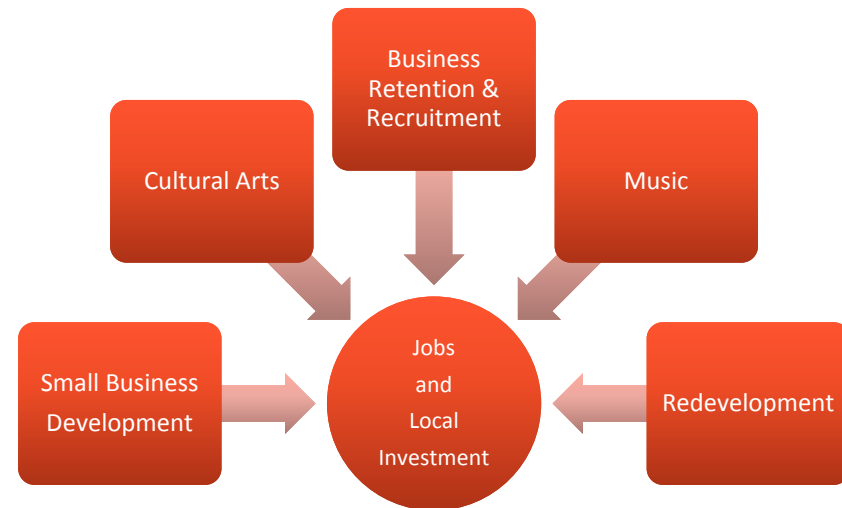
The adopted fiscal year 2011-12 budget for EGRSO and full-time equivalent (FTE) positions are shown below.

## EGRSO Proposed Budget FY 2011-12

EGRSO Divisions	2011-2012	FTE's
Economic Development <sup>1</sup>	\$ 2,302,340	14.5
Cultural Arts	1,050,961	9.5
Small Business Development	1,928,671	12.5
Music	256,316	2.0
Support Services	903,709	7.5
Total EGRSO Core Budget	\$ 6,441,997	46.0
Other Transfers and Requirements <sup>2</sup>	3,407,918	
Total EGRSO Budget	\$ 9,849,915	

1) Includes Business Retention/Recruitment and Redevelopment.  
2) Reflects third-party pass-through contracts for economic development that were added to EGRSO since Fiscal Year 2004-05.

## EGRSO Business Model



## Other Transfers and Requirements

- Minority chambers - tourism
- Minority chambers - economic development
- Workforce development
- ATI - Wireless Incubator
- ATI - Bioscience Incubator
- Austin Technology Council
- Opportunity Austin 2.0
- Greater Austin Chamber - clean energy
- Sixth Street PID
- Legal Department - external counsel
- Austin Creative Alliance
- Texas Music Museum
- South-by-Southwest
- First Night Austin
- Old Pecan Street Festival

## Major Redevelopment Projects Led by EGRSO

Redevelopment Project	Retail Square Feet	Office Square Feet	Multi-Family Residential <sup>1</sup> Square Feet	Other Square Feet	Total Square Feet	# of Residential Units <sup>2</sup>	Affordability Requirement	LEED or AE Green Energy Rating
2 <sup>nd</sup> Street District:								
Blocks 2 & 4 (Silicon Labs)	61,173	350,000			411,173		N/A	N/A
Block 3 (City Hall)	3,683	111,617			115,300		N/A	Yes
Block 21 (Stratus)	29,000	35,000	435,000	331,843	830,843	165	N/A	Yes
Block 22 (AMLI)	40,505	2,097	217,188		259,790	231	Yes	Yes
Gables Park Plaza (Ph. 1)	12,686		272,481		285,167	292	Contribution	Yes
Gables West Avenue	6,590		205,738		212,328	239	Yes	N/A
Mueller	390,000	348,500	678,000	813,000	2,248,500	1,444	Yes	Yes
Robertson Hill (Ph. 1)			355,954		355,954	290	Yes	N/A
The Domain	609,323	129,234	383,000	230,448	1,352,005	417	Yes	Yes
The Triangle (Ph. 1 & 2)	127,871	4,500	597,989		730,360	529	N/A	N/A
<b>Total Completed Projects</b>	<b>1,280,831</b>	<b>980,948</b>	<b>3,145,350</b>	<b>1,375,291</b>	<b>6,801,420</b>	<b>3,607</b>		
Seaholm Power Plant	100,000	59,000	300,000	30,000	489,000	298	Yes	Yes
Energy Control Center	15,000		680,000		695,000	482	Contribution	Yes
Green Treatment Plant	80,000	492,000	1,022,000	173,000	1,767,000	820	Yes	Yes
Gables Park Plaza (Ph. 2)	14,000		286,000		300,000	223	N/A	N/A
Mueller <sup>3</sup>	400,000	985,000	2,700,000	1,400,000	5,485,000	4,235	Yes	Yes
Robertson Hill (Ph. 2 & 3)					TBD			
The Triangle (Ph. 3)			172,008		172,008	138	N/A	N/A
<b>Total Projects Underway</b>	<b>609,000</b>	<b>1,151,000</b>	<b>4,960,008</b>	<b>1,603,000</b>	<b>8,323,008</b>	<b>6,025</b>		
<b>Total for All Projects</b>	<b>1,889,831</b>	<b>2,131,948</b>	<b>8,105,358</b>	<b>2,978,291</b>	<b>15,124,428</b>	<b>9,632</b>		

- 1) Does not include single-family home square footage  
2) Includes both single-family and multi-family residential units  
3) Individual categories subject to change during build-out



## Economic Development Programs Funded by Other Sources

Source and Description	FY 2011-12 Budget
<b><u>Economic Incentives Reserve Fund</u></b> The General Fund transfers property tax and sales tax revenues into this fund to pay for performance-based economic development agreements.	\$ 10,286,480
<b><u>Cultural Arts Fund</u></b> By ordinance, the City allocates 11.7% of the hotel occupancy tax for the Cultural Contracts Funding program.	\$ 5,419,081
<b><u>Mueller Local Government Corporation (LGC)</u></b> The City Council approved a master development agreement with Catellus to redevelop the former Mueller Airport site. The redevelopment plan includes new public infrastructure estimated at \$170 million, of which \$50 million will be paid for through debt issued by the Council-created Mueller LGC. The Mueller LGC debt will be repaid from new incremental property tax and sales tax revenue generated from the planned redevelopment at Mueller. The remaining \$120 million of new public infrastructure will be paid from land sale proceeds.	\$ 2,156,744
<b><u>Downtown and E. 6<sup>th</sup> Street Public Improvement Districts</u></b> The City Council approved contracts with the Downtown Austin Alliance and 6 <sup>th</sup> Street Owner's Association to maintain and market Downtown and E. 6 <sup>th</sup> Street Public Utility Districts (PID's). The PID revenue comes from special assessments paid by PID property owners.	\$2,955,572
<b><u>2<sup>nd</sup> Street Tax Increment Fund (TIF)</u></b> The TIF is used to capture new incremental property tax revenue to pay for maintenance in this district.	\$ 130,000
<b><u>Business Retention and Enhancement (BRE) Fund</u></b> The City Council approved the BRE program to encourage new retail on Congress Avenue and E. 6 <sup>th</sup> Street through low-interest business loans. The BRE program is funded through certain development fees.	\$ 250,000
<b><u>The Family Business Loan Program (FBLP) *</u></b> FBLP will provide low-interest loans for small business expansion and job creation. Funding will be provided by HUD. Council is expected to approve the FBLP in April.	\$8,000,000
<b>Total</b>	<b>\$29,197,877</b>

## Business Recruitments/Expansions Led by EGRSO Using Chapter 380 Performance-Based Grants

Company Name	Jobs Created/ Retained	Company Investment
Home Depot Data Center	500	\$ 404,000,000
Alternative Technology Development Facility	325	100,000,000
Samsung	1,200	7,600,000,000
Hewlett Packard Data Center	140	300,000,000
Friday Night Lights	463	32,500,000
HelioVolt	168	80,400,000
Hanger Orthopedics	269	6,700,000
LegalZoom	600	1,750,000
Facebook	200	3,150,000
eBay	1,000	4,930,000
The Advisory Board	239	8,100,000
US Farathane	228	26,900,000
<b>Total</b>	<b>5,332</b>	<b>\$8,568,430,000</b>

## Business Recruitments/Expansions Led by EGRSO Using Texas Enterprise Zone Designations

Company Name	Jobs Created/ Retained	Company Investment
Otis Spunkmeyer	183	\$ 17,800,000
Spansion	1,271	280,000,000
<b>Total</b>	<b>1,454</b>	<b>\$ 297,800,000</b>

## ECONOMIC DEVELOPMENT PRACTICES OF LEADING PUBLIC UTILITIES

### Informal Survey of Top 15 Largest Public Power Utilities

Economic development programs are put in place to sustain and grow local economies. These programs are intended to create quality jobs for the unemployed and the underemployed to support a community's natural population growth. Additionally, successful economic development programs lead to business capital investment that brings new property tax revenue to local agencies such as school districts, cities, and counties.

In the case of utilities, economic development programs provide new utility revenue through business expansion and recruitment. And, new jobs created through economic development programs provide valuable personal income for current and future utility customers. In these cases, economic development programs function as the new business development arm for utilities, which is the role of EGRSO for Austin Energy.

The survey details are shown on the next two pages and reflect that 9 out of the 13 respondents provide some form of direct economic development programs. Neither the Los Angeles Department of Water and Sewer nor the Puerto Rico Electric Power Authority responded to the survey. And, in the case of Seattle City Light, which responded "No", the utility stated that it provides a franchise fee to the City of Seattle which maintains an economic development program. No other leading public utility provides the same comprehensive economic development program as Austin Energy. Most public power utilities provide marketing/advertisement programs, fund local chambers of commerce, and have a small business development component.

The informal telephone survey was conducted by EGRSO in August 2010 of the nation's top 15 largest public power utilities (by customers served) to determine which of these leading utilities provides direct economic development programs. The 2008 list is the most recent list of the largest public power utilities as compiled by the American Public Power Association and can be found by clicking on the following link: [APPA 2008 Largest Public Power Utilities by Customers Served](#).



## Top 15 Largest Public Power Utilities

Rank	Utility	Customers Served	Provide or Contribute to an Economic Development Program?	Workforce Development	Chambers of Commerce	Business Incubators	Marketing/ Advertisement	Cultural Arts	Small Business Development
1	Los Angeles Dept of Water and Power	1,643,494	No response	Yes					Yes
2	Puerto Rico Electric Power Authority	1,500,000	No response						
3	Long Island Power Authority	1,111,903	Yes	No	No	Yes	Yes	Yes	Yes
4	Salt River Project	949,388	Yes	Yes	Yes	Yes	Yes	Yes	Yes
5	CPS Energy	717,000	Yes	No	No	No	No	No	No
6	Sacramento Municipal Utility District	598,205	Yes	No	Yes	Yes	Yes	No	Yes
7	JEA (Jacksonville)	417,00	No						
8	Memphis Light, Gas and Water	430,000	Yes	Yes	Yes	No	Yes	No	Yes

### Top 15 Largest Public Power Utilities

Rank	Utility	Customers Served	Provide or Contribute to an Economic Development Program?	Workforce Development	Chambers of Commerce	Business Incubators	Marketing/Advertisement	Cultural Arts	Small Business Development
9	Austin Energy	400,005	Yes	Yes	Yes	Yes	Yes	Yes	Yes
10	Seattle City Light	398,858	No						
11	Nashville Electric Service	360,000	Yes	Yes	Yes	No	No	Yes	No
12	Omaha Public Power District	346,000	Yes	Yes	Yes	No	Yes	No	Yes
13	Public Utility District No. 1 of Snohomish County	320,030	Yes						
14	Colorado Springs Utilities	210,382	Yes	No	No	No	Yes	No	No
15	Knoxville Utilities Board	196,449	No						