

City Council Budget Work Session Transcript – 05/04/2016

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>> Tovo: Good morning, I'm mayor pro tem Kathie tovo and I would like to call this budget work session to order at 9:16. Mayor Adler is going to join us shortly. I would like to start out by talking about our lunch break. [Laughter]. We'll get that sorted out before anyone gets here. I would like to suggest that we break for lunch from about 12:00 to 1:00 D that sound good to -- does that sound good to everybody? And as I understand, we may be out of here relatively early in the afternoon, which would be great, but my guess is we won't be done before lunch. Mr. Van eenoo or Ms. Hart, do you want to walk us through our plan for the day? >> Good morning, mayor pro tem and councilmembers. We're pleased to be here today. I'm Elaine hart, the chief financial officer. With me is ed van eenoo, chief financial officer and budget officer. We're here to discuss several budget policy work sessions for council. Today we're going to present for council two topics, the first being tax rates, utility rates and their impact on affordability. And the second being civilian wages and benefits. Just a housekeeping note, the staff has provided you a tab and the presentations for today, they were emailed last night, but you have the paper copies to put in your notebooks that you got last week. The presentations again are color coded with the tabs so you will see that this presentation, the top is green and it goes with the green tab. As I said, this is the first of several work sessions. We've got five. This is the first of five weeks in a row during may and June that we'll be before council with a

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variety of policy topics. The basic framework for these work sessions will be a brief presentation by staff, just to frame up the %-@issue or to provide some background information, and that would be followed by council discussion and Q and a session. This is an opportunity for city staff to highlight what we consider key decision points for feedback from the council relative to developing next year's budget. These policy questions will be highlighted intermittently during the presentation so we won't go through the whole presentation and then ask for your feedback. We'll cover a few points of the topic and then ask you to break for discussion. But again, this is an opportunity for the council to discuss and outline your policy priorities for us in advance of us publishing and preparing our proposed forecast. Here's a rundown of our schedule for the next five weeks. Again, we've talked about what we're doing today on. On may 4th is tax rates, utility rates and the impact on affordability. And the second session today will include civilian wages and employee benefits. On may 11th, we're going to tackle discussion of our funding needs for maintenance for our facilities, city facilities. We have a long list of things that need repairs and that will be our first discussion item. And then we also have a growing need for information technology investments, both for public safety with the additional body cameras and the storage

necessary to support that system as well as a human capital management system that we

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have needs for. And then you will see on may 18th we will be talking about policies related to the zero waste initiative, and in particular focusing on the pilot program for the organics collection and the implementation of a full organics program. That would be the first policy item. And then on health and human services we will talk about -- summarize the council resolutions that call for additional funding over the next four years in this area as well as some of the built in escalators that we've got in those program areas. And you'll see another box there that talks about other topics. As we said last week we encourage the council to communicate additional policy topics that they would like to have discussed. We have room in this schedule for some additional topics if you would -- if this does not cover everything that you would like to have covered. So please get that feedback to us or communicate with each other over the message board however you would like to do that either here in this meeting or via message board or other means. On may 25th we'd like to cover equity and affordability. And here our thought was to address those quality of life issues and programs that assist our most vulnerable population. And then the second topic for that day would be the general fund transfer policy for both Austin energy and Austin water. There are two council resolutions asking for potential reductions in those that we would cover at that meeting. Our last and final planned work session would really be devoted to discussion of mobility and traffic and all policy issues related to those topics as well as public safety staffing levels. And that kind of rolls out our plan for our policy discussions with

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the council, but again, we welcome your feedback. Just let us know if there are other topics that you would like to have us cover. We've scheduled those other topics a couple of weeks out to allow staff to prepare presentations for you. But with that I'm ready to turn the program over to ed and he will begin talking about tax rates. >> Kitchen: Mayor pro tem, can I just say that in regard to the June 1st one on mobility, that it's my understanding that staff is working towards being able to make a presentation as part of that related to the conversations we're having around mobility talks. So related to bond capacity and other related issues. >> That is correct. >> Kitchen: So I'm just wanting to give the councilmembers a head's up to expect a conversation related to that at that time. >> Tovo: Thank you, councilmember. Councilmember pool and then councilmember Garza. >> Pool: Thanks, mayor pro tem. I just had a question on the other topics, topics time frames if we wanted to spend more time on a particular topic, I guess we could also use that time for an expanded conversation on something as well. >> I think so. If we don't have enough time to talk about some of these other topics. This is new for us so we don't know exactly how long these conversations might take. The first two days we scheduled two per day. In the later days we've scheduled three, thinking that same thing, that we may need to come back to some topics. I do want to kind of reiterate a little bit of what Elaine said. Time is of a concern. So if there are some other pressing policy issues that you may really feel may needing to be discussed in order to shape this budget recommendation the staff will be making, we would need to hear about those soon. I think you will see in the materials we're presenting today we're trying to provide some

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pretty extensive background on the topic at hand to help facilitate your conversation of that. It takes time to prepare those materials. I think in my memo to council I said we think we would need at least three weeks to prepare for a topic. So we're already only two weeks out from may 18. So if there are

some other pressing areas that council would like to dive into we would certainly respectfully request those as soon as possible. Another possibility is we heard last week there were some councilmembers that felt like it would be nice to have certain department directors just be valuable to answer, to -- available to answer, to respond to questions about the financial forecast presentation we made last year. So we did a financial forecast for all of our enterprise departments. It was pretty high level and there seemed to be a sense that for some enterprises maybe there was a desire to drill down more deeply and just have time to ask questions of those enterprise directors, which we didn't have last week. But we could use some of the other topic time slots for some of that activity as well. So I'll go ahead and get started. My name is -- >> Tovo: Councilmember Garza had a question as well. >> The previous slide said it was an opportunity for council to delineate its policy priorities. We can't vote in work session so how are you going to be able to do that? >> I don't think the intent of these policy discussions was to seek council voting, but it was to provide staff an opportunity to highlight what we feel are key decision points in this budget and to seek feedback and input and to hear from council. It may not be that -- we may here different things from one councilmember from another, but staff is here to seek that input, to listen to what is said and then to take that all into consideration as we move towards making a budget recommendation to council near the end of July. But we weren't envisioning these as being decision points where council would be voting. Council votes will come after staff makes a budget recommendation and then council starts voting on individual items related to that budget. >> I guess I want to make sure -- are you

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saying that these topics were chosen because of previous ifc's that made these priorities or these topics during the discussion you want to see through comments of the council as we're having this discussion, if they are still priorities? >> I think it's a little bit of both. We certainly have related to health and human services funding and social service contracts. There's three different resolutions I can think of that have been passed by council expressing a desire for additional funding in those areas. So we wanted to have a policy conversation with council as we move towards making a budget recommendation we thought it was important to have that policy conversation with council. The general fund transfer policy, mobility and traffic, both of those are things that are related to council resolutions asking staff to come back to have policy discussions on them. A lot of these other topics are things that as staff we know are going to have a significant impact on the shape of our budget for fiscal year '17 and so there are things that we're recommending to council that we think it would be very useful to have a policy discussion in regards to tax rates, utility rates, in regards to employee rates and benefits. These are things that have a huge impact on the city's budget, so in advance of staff making a recommendation we want to seek the policy guidance of council, but it was a discussion and a conversation, not voting actions. >> Casar: Mayor pro tem? I think I share similar concerns, I think, to what councilmember Garza was laying out with thinking about it that way because we have limited time in these work sessions, and the idea that sort of councilmembers discussion on topics here without sort of a vote of a majority body would for you influence or direct some of this process. It's just challenging because obviously there are going to be times where we disagree, but since it's not a voting session, we don't always -- you probably don't want to hear from all 11 of us how we think about every single

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one of these items in order to shape the recommendation. I understand that our discussion may have some bearing for the staff, but I would see the work session that it could or should influence the staff's recommendation because it ultimately might sometimes be an arbitrary set of us that can debate during

a work session. No to the say that the discussions shouldn't be listened to by the staff, but I feel a little -- I know that it probably has to do with the wording of his bullet. I feel uncomfortable with the idea that our discussions during a work session would somehow shape the ultimate recommendation. >> Tovo: City manager, did you want to make a comment? And then councilmember kitchen? >> Ott: Shape, form, I'm not quite sure necessarily the right words. Certainly these are topics worthy of conversation among councilmembers. And I think in the course of us being exposed to your conversation about these issues that we've listed, and any others that you might believe are germane to us developing our budget recommendation, we want to hear those. So it's more for purposes of informing us bass your points of view on these various issues and that information, that understanding I think will be of assistance to us as we work to formulate our recommendation to this council. So that's what's intended. Now, if -- the way that you go about doing that isn't something that you're comfortable with, obviously you have the

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freedom to pursue a different course, but again, this is -- we've raised these issues because we think they are germane to our effort to put together a budget recommendation. We recognize that there may be issues that aren't on this list that Elaine just went over and we want to hear about that if that's the case, but it is intended to inform our efforts to provide a responsive budget recommendation to council and for the community. >> Tovo: Councilmember kitchen. >> Kitchen: Yeah, I would see -- I see it as an opportunity also for me to hear from other councilmembers on where people's perspectives are as well as to offer some perspective to the staff. And I don't know any other way that we would do that. And so, you know, I think it's a good approach and I think I'm understanding that obviously without voting we can't -- nothing definitive, but there's no other -- we don't have any other forum for discussing and I think this is the best forum for discussing and I think it's important for us to have a forum where we can hear from each other too. >> Tovo: Councilmember Casar, did you have another point? >> Casar: I wanted to qualify a bit of what I said. I think we totally need discussion and healthy discussion early on is important as budget is formed. I would just say that -- I'll suggest something that wouldn't happen. I would say that if all of a sudden in this work session as we get to health and human services I and Mars councilmember Garza were both to discuss at length and talk about at length how there shouldn't be health and human services because private charities should just cover it all, for example. I wouldn't want that to be seen as overriding or influencing in some way already existing and passed council resolution with majority support that already states what this body's general policy direction is because to some

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extent I want a healthy discussion among the group, but I don't want anybody here, including myself, to be worried about making sure we get our mic on and get your two cents in on every topic because it's somehow part of the work of performing the manager's recommendation. And I understand that I've sort of painted some extreme situations, but it's just to sort of -- just to ask that we find? Middle ground in that. >> Tovo: I'm going to call on the city manager on that, but a council resolution that is in place is in place so those are the guiding principles that guide the process until there's one that constitutes for it. So I would assume that the city manager will balance the kinds of policies that we or previous councils have set with the kind of feedback he hears. City manager and then councilmember kitchen. >> Ott: Perhaps middle ground can be accomplished just through the way that the meeting is facilitated, the discussion is facilitated. We're certainly going to be listening to your conversation and trying to see the extent to which we hear some commonality of opinion. And I think that that can be realized to a greater degree depending upon how the conversation is facilitated by the mayor, if you understand what I'm saying. That's one way and I've seen that done. Obviously you're not here in this setting to take a vote

on anything, but if the conversation is facilitated in a certain way everyone gets a sense of how the council is feeling about a particular issue. >> Tovo: Okay, thank you. Councilmember kitchen and then let's dive in. >> Kitchen: I think it would be important and we don't have to do it at this one, but maybe may 11th or may 18th or sometime very soon that we talk as a council about our budget process. You know, last year we went through the-- I forget what we called it, the concept list. The menu, the concept menu. So I just think that early on now in may would be a good time for us to decide if we're going to use that

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process or some variation of that process or what process we're going to use so that we can give the staff a head's up, give ourselves a head's up as well as the public. >> Tovo: Councilmember Gallo has a comment. I want to say I completely agree. I think that's a very good idea. I think we were really scrambling and I'll say personally at the end my staff and I were really scrambling to find places to try to shift to accommodate the things that we had added into the budget. So I think a different process would be helpful. Councilmember Gallo. >> Gallo: I made this point at our Austin energy. I notice that we don't have closed caption on the slides and I think it is really critical. It's my understanding that we have to request that for that to be included. To me that ought to be standard procedure. [Applause]. It happens very quickly, I'm a little uncomfortable that we have to remember to request it to get it. And I thought that we had requested of the city manager that that would always be a process. I think it's very important to our community, particularly in the budget process. So if we could have some guidance whether it will automatically always be done at our meetings or whether we need to remember to request it at each meeting. >> Ott: That should be the case to the extent that we have it. I'll have to look into why that's not been the case on every occasion. >> The good news is it happens very quickly once we bring it up. I hate for that portion of our committee to miss -- community to miss any of the conversations. So thank you and thank you to whoever did it. >> Tovo: Great, thank you. >> Good morning. Mayor pro tem. And members of the council. My name is ed van eenoo, deputy chief financial officer and budget officer for the city. I will -- just before I get to the next slides, I'll also reiterate what Elaine said as I go through this presentation we're going to take breaks or kind of stop at what we feel are natural stopping points to discuss that topic. So I'll do a few slides,

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pose a policy question for council and see what kind of discussion ensues and then we'll proceed on from there. >> So Mr. Van eenoo just to clarify, it sounds from the format that you've suggested that councilmembers should kind of sticky note their questions or whatnot and wait for a natural break. That would probably be the best way to facilitate the discussion. >> Absolutely. I don't think it typically won't be more than four or five slides until we get to a breaking point so you won't have to note it for long. In regards to this conversation about the city's tax rate and utility rates and their implications for affordability. I first wanted to start with background, some high level definitional information with regards to what is a tax versus a fee. I think one of the primary distinguishing factors is that a tax, primary purpose, is to raise revenue. There is essentially no nexus required between the revenue you're collecting from a tax, like property tax and sales tax, and what the money is used for. That's very different from a fee where the primary purpose is to recoup costs and there must be a clear nexus between the fee that's being assessed and the service that is being provided. So a clear and easy example is when you flip that light switch and the lights come on, you're paying a bill for the energy that you're using, there's a clear nexus between the rate that's being charged and the service that you're receiving. And state law in regards to fee requires municipal fees not exceed the cost of providing

services so you will often hear us talking about cost of service and that's what we're doing. We're doing an analysis to look at what the cost of providing that service is and establishing a fee that collects as much as that revenue, but -- as much of that cost, but is not more than. We can't exceed the cost of providing the service. In regards to taxes, the four taxes the city assesses are property taxes and sales taxes. By far the two largest taxes. We also tax mixed beverages and bingo. We have a bingo tax. In regards to city fees, we have a very broad

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spectrum of fees. I couldn't possibly go through them all in the time we have here and I'm not going to even try, but they range from everything from electricity provision to our development review, permitting and inspection process as well as recreational programs and registrations as well as library fines and traffic fines. So a whole broad range of fees that the city assessed. In regards to this presentation, we wanted to focus in on those large taxes and rates that we often talk about as we go through the budget process. Those are shown over on the left-hand column, the purple table, the taxes and fees that we're including in this presentation, property tax, sales tax, Austin energy rates, our water and wastewater rates. The resource recovery fee, the drainage utility fee, the transportation fee and the clean community fee. Over in the red are additional charges to those that we're not including in this analysis and I think it's important for council to understand that the items in purple that we're talking about in this presentation, those fees and rates comprise about 80% of the revenues we collect as a city, come from those fees over on the left-hand side. The other fees are much smaller in nature and also they're a much more discretionary type of activity. So you think of something like development fees, well, that's a fee that's specific. If you're building a house or doing a room addition then you pay that fee and there's discretion as to whether or not you want to have that service as opposed to property tax and the sales taxes. Unfortunately there's really no discretion there. You get to pay those taxes whether you want to use the service or not. So I wanted to then move on to just the current status. This is for those major taxes and fees. This is what the cost is for a typical resident in the city of Austin. We're going to drill down on these more later in the presentation. And this is a slight

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update in number of cases from the information we presented as part of the fiscal year 2016 budget. These Numbers do tend to move around. The statistics move around so we like to try to keep it updated. In regards to the property tax bill we define a typical ratepayer as a non-senior homestead property owner of a property that has a taxable value of \$236,082. We have to be pretty specific now that we offer homestead exemptions and senior exemptions. We have to take into consideration what we consider the typical person to be. We've chosen them to be a typical homeowner. The majority are non-seniors. We think that's the most indicative. And then the median taxable value comes from the Travis central appraisal district. That taxable value is \$236,000. You take that all into account with the exemptions and the tax bill that individual is paying is \$90.60 per month. We're going to go through or do you want to -- >> Tell me when you're at a stopping place because we have a couple of questions. >> It will be a couple of slides. >> Tovo: Okay. Councilmember Gallo, did you want to ask it now? >> Gallo: Just a quick question. >> Tovo: Let's do that, but then try to stick with the stopping places. >> Gallo: So the tax value of 236,082 is that what the tcad has provided as the average? >> That's the median. >> Excuse me, for this year. And how did that change from last year? >> I think it was about a 10% increase from last year, if my memory serves right. It was very significant. >> Gallo: We could look at that from last year. >> I could get that for you. >> Gallo: I would be curious the difference we're talking about this year. Thank you. >> The next fee is Austin energy rates and in that case we use a typical customer is

based upon the average consumption. Right now that's at 885 kilowatts per month. You will see later in the presentation it's

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bounced around over time and we've adjusted the usage as it varies. Right now we estimate it at 885 kilowatts a month that. Is a bill of \$89.31 a month. This is not a program customer this, a standard rate paying customer. In terms of the Austin water rates, for there a typical residential customer is somebody who uses 5600 gallons of water per month and 4,000 gallons of wastewater. Again these metrics have changed over time Andrew Harris with we get into the presentation we'll talk about the change in water consumption usage and how that's affected bills. Right now we're estimating the typical Austin water ratepayer pays \$77.71 a month. Of course these metrics move up and down depending on whether it's the summer or winter. In regards to resource recovery, close to two-thirds of our customers for resource recovery utilize the 64-gallon cart size so that's what we define as a typical, cost you \$23.30 per month currently. The drainage utility fee as council knows was recently changed. There's a new fairly complicated method to how that fee was calculated. It used to be a per door fee. Now it's a fee that's based upon the square footage and percentage of impervious cover on a property. You can see the definition there is -- we feel a typical experience for a residential homeowner would be somebody who owns a property with 3100 square feet of impervious cover representing 37% of their total lot size. That fee comes out to \$10.86 per month and the transportation user fee and clean community fee are just a poor door amount. Those are pretty easy, straightforward fees to estimate for a typical user because everybody pays the same thing, \$9.77 a month in regard to the transportation user fee. \$7.65 a month in regards to the clean community fee. That total all in bill comes out to \$309.20 per month for what we define as a typical residential

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ratepayer and so at least in regards to the totals that's about a half percent increase in what we saw in fiscal year 14-'15, that tiny increase is the result of council approving various exemptions related to property taxes so that you implemented the first ever six percent general homestead exemption, increased the senior exemption. Those things helped drive down the property tax impact of those raising property values. We've seen dramatic drops in our fuel supply costs in Austin energy that's been bringing down Austin energy rates. So all in about a half percent increase over the year previous. How those metrics how have they been changing over time? This shows you a five-year history back in fiscal year 2012. That total typical ratepayer bill was about \$278 a month. It's elevated to about \$209 today -- \$309 today. It's in the neighborhood of a two and a half percent compound annual growth rate. So I just have one more slide before we get to one of those break points. And we wanted to set a little bit after background, try to provide some context in regards to when we're talking about the cost of governments and its implications for affordability. We wanted to look at it relative to that typical Austin median family income individual. So we've put together some ad hoc statistics for what we feel the hypothetical monthly budget for a median family income might look like. We do know from labor data that the median family income in Austin is \$77,800. Median family income is defined essentially as a family of four. And no surprise, we project that the largest single expenditure category is the cost of home ownership. So here we're taking a look at a median priced home. This is not median taxable value now. We're looking at the median priced home as reported by the Texas

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real estate center and the city of Austin is \$301,500, assuming that median income person is buying the median priced home at 10 percent down, paying a four percent rate on a 30 year note, including private mortgage insurance and homeowners insurance, that all drives out to about 1400 bucks a month, which would be just shy of 22% of that individual's pretax income. The next item is transportation so we found Edmonds, which is a car-centric website. They have this neat tool you can use where you pick different types of vehicles and the age of vehicles and it gives you a total cost of ownership. It says this is what that vehicle would cost. Here's what you could expect in retail value after five years. Here's the expected insurance cost, fuel cost, maintenance cost, et cetera. And we started thinking about what's the typical family driving. And one car you see all over the city is Toyota Camrys. Seems like they're everywhere. Or prius. We used Camry. Here we're envisioning a family of four, a nuclear family with two individuals, each of them driving a four-year-old Toyota Camry. Total cost of ownership on the two vehicles all in, tax, gas, insurance, everything, is estimated at \$963 a month. That's about 15% of income. Childcare is about 14 percent of income. Here we're assuming the median market rate for msa and assuming one child, probably a toddler, is in day care full day and part time for an older child who goes to a public school during the day and then maybe goes to the after school center after school. That comes to 14 percent. Food is another huge expense, nearly 14%. The United States department of agriculture provides data in regards to different cost plans, so depending upon your family composition they've got a lot of good data about what

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food costs are for typical individuals. They do a low cost, moderate cost and a more lavish food plan. We took the average of the low and moderate cost plan and drove out a cost of \$879 a month to modestly feed a family of four. That's just shy of 14 percent of that income of that person's budget. For health care we're now thinking about that person working for the city of Austin, if they have to pay for coverage for their family that would be \$616 per month do that family coverage. Of course the city covers the employee cost, but it doesn't cover dependents fully. So the employees share there is about \$616, about nine and a half percent of that pretax median family income. So we just put those statistics together to try to provide some context and we're thinking about the cost of government in the context of overall affordability and the conversation about affordability, we wanted to be able to set the stage in regards to how those taxes compare to other -- impact drivers for people's budgets. We did look at the non-city of Austin property taxes. We're not the only taxing entity in the city so we have the school district, the county, the health care district and Austin community college. The collective tax bill for that typical homeowner for those non-city of Austin properties is \$338, about five percent of an individual's budget. All those major city of Austin fees we talked about, the utility rates, the transportation fee, the clean community fee, that's about 3.4 percent is of a median family's pretax budget. And the city of Austin property taxes at \$91 for that median valued home is about 1.4% of income. So we thought this would be helpful in providing some context. I do apologize for the coa. I couldn't find a way to spell this out on the slide. It's already a very crowded slide, but coa stands for the city of Austin. And that leads us to this first policy question, something that we think is really important and it's in the context of that column chart that we showed you earlier that

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shows the growth in that all-in tax bill. In 2012 it was \$278 and in 2016 it's raised to \$309. I think there's a real key conversation here for council in regards to does this body have a goal for the overall fy 620 change in the taxing -- fy '17 change in the taxing bill for an overall tax and ratepayer. Again for the last five years we've seen the compound annual growth rate be about two and a half percent growth, but

we thought that was a good stopping point and a good conversation for this body to have because of course, those fees and taxes provide the services that the city offers, but of course it does impact people's wallets as well. We're very keenly aware of that. >> Tovo: I'd like to suggest before we begin addressing the policy question, which I think is the stopping point, were there informational questions about the previous slides that people want to ask? Councilmember troxclair? >> Troxclair: So when on the slide -- slide seven. When we're -- you said there was about half a percent increase over the previous year. I guess I remember -- I remember last year during budget when the council was able to say that they reduced the dollar amount of property taxes, but then when you included all the -- when you included utility bills and fees, the average homeowner ended up paying slightly more. Then recently when we made that utility rate adjustment for Austin energy or the market fuel adjustment. There were statements made that if you included that, that same average Austin homeowner actually paid less than less this year than last

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year. But this seems to not say that. I was trying to understand where the discrepancy was. >> I was trying to set up on the previous slide to that even. These Numbers do move around some, as we reset things. So when we initially brought the budget forward that property tax bill was based on on more of an aggregate median, but when council increased the senior exemption by \$10,000 and established a six percent general homestead exemption it felt like it was necessary to hone in a little bit more. We needed to say are we talking about is senior or non-senior so we've recalculated the property tax number to look at that non-senior homeowner. I can tell you in regards to Austin energy they used to calculate theirs out. Historically they used a thousand kilowatt, kind of more of a benchmark level in talking to them about that. We felt really the appropriate thing to do to look at people's pocketbook packets, but to look -- impacts, but look at the changing over time. We looked at the Austin energy number to look at different usage statistics. So right now the way we're calculating out it shows a half percent increase. But I think that's the dynamic. We're trying to land on something that doesn't move around, but it has been a challenge as things shift, as we get new information, we try to update the table. This is -- this is the current information we have is \$309, a tiny increase. >> Troxclair: Okay. So the 329 is all monthly rates. Is that times 12, 3,710. >> Yes. >> Troxclair: Is it possible for us to find out this same information from the other taxing entities? >> I do have in a few slides, we do look at the overlapping property tax rate.

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So Travis county and the school district, health care and Austin community college, they're largely property tax entities. That's where almost all their revenue comes from. I think you will see that in the next part of the presentation. >> Troxclair: And then on slide eight when you say -- and maybe you will answer this question in a few minutes too. The non-coa property taxes. It seemed the 338 number compared to the 219 number seemed a little low. So I was trying to understand -- if the non-coa property taxes included aid, central health, Travis county, did that number includes all of -- >> That includes those four and the school district property tax rate is more than double the city of Austin. So I think when you see that next slide you will see that we break that all out. >> Troxclair: I'll wait then. Thanks. >> Tovo: Councilmember pool. >> Pool: I'll jump in on the policy question that you're asking. Any goal that I might have for overall fiscal '17 changed in the tax and utility bill for a typical city of Austin tax ratepayer, I would be looking for predictability and ease of understanding what we are charging and what for. And also to reflect in our tax rates and the things that we're paying for at the city, the values of the community, the things that they want. And I guess we get that information through our surveys and

testimony and so forth with the different resolutions and ordinances that we pass. So I guess just off the top, I have some interest in looking at the senior exemption and we'll see what the conversation there looks like. And I think that will be further on in your presentation. But just at a really,

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really high level, the tax and utility bill for city of Austin tax and ratepayers to hold the line as much as we can and be real clear about what it is we're all paying for. >> Tovo: Before we jump into that question, I do have some informational questions about the material you've noted. Councilmember Gallo, do you too? Why don't you lead off with your questions? And let's as much as possible sort of try to ask our factual questions that can't be asked through the Q and a and then jump into the policy. >> Gallo: So thank you. On on slide 6, the categories for Austin energy rate, Austin water rate, the resource recovery, basically those down through the drainage utility, you talked about what it was defined as, but are those definitions based on average? I'm just curious where the definition of the amounts came from. >> I think for all of -- for all of them they're based on the average. Perhaps with the exemption of the drainage utility fee. We do have drainage folks here and they may be able to come up and help me with that, certainly in regards to the residential customer fee, the 64-gallon cart, two-thirds of our customers use that. That's the typical or the mode if you prefer in that case. The Austin water rates and Austin energy rates are the average usage. The average water usage, the average electric usage, the average wastewater usage. The property tax bill is the median home value. In regards to the drainage fee it used to be a per door amount and then they switched to this much more complicated model. So I don't know that that's so much is an average as it is that's just what a typical homeowner would see. I think that's about an 8,000 some-odd square foot lot with 3,000 square foot of it being the driveway and footprint of the building and that's about 37% of the overall lot size. So they've designed that as pretty typical.

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I can't tell you if that was average or how it was derived at. They're telling me it is the median. All of those are averages or medians. >> Gallo: When it said projected, I wasn't sure if the projection is what it was determined by. Thank you for that clarification. And then clarification. Then on slide number 7, is it possible -- you know, we get the total that you've done for each of these. So in 15 it was 308. In '16 it's 309. Is there -- do you have the information that would allow us to know that the percentage changed from the individual categories? It's a little difficult from the bar chart to do that. I mean, it looks -- it appears that some of these Austin water, maybe Austin resource recovery that they've actually scene increases. I mean, I want us to -- I want to be able to focus on each particular department's increase or decrease because as we have a situation where utility bill payer could have actually a smaller total utility bill because of the smaller electric billing portion of their bill and that going down, it's been offset by increases in other departments. >> Yeah. >> Gallo: And it's hard from this chart to be able to see what those percentage increases are. Is that something that you could provide us at some point? >> Oddly enough I have it right in front of me. I could read it off to you or provide it to you as a q&a. >> Gallo: That would be great as a q&a. Thank you. >> Tovo: Mayor, you have a couple quick questions. Can you tell me the source of the chalk -- thank you very much, by the way. Let me just start by saying thank you for including in your hypothetical monthly budget chalk here because that is a -- child care, because that is a big component of so many's monthly budget. Typically when I researched it it's not uncommon for it to

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actually be higher than transportation. So I just wondered where you got that average. >> And I have to -- my staff did the analysis on this. I know they found a website source for this information. >> Tovo: I'll send it through the q&a and ask can. >> We did find -- I do want to confirm what you said. We found some other source that's were higher than that. >> Tovo: Yeah. >> We felt this was probably the strongest source we had so that's what we went with but I certainly think you can spend more than that. >> Tovo: Yeah, definitely. But I would be ready to know whether it was center for public priorities or, you know, who the source is so I'll ask that through the q&a. Then my other question is, with regard to the beverage task tax, can you remind me if Bev earmarked the use of that tax for any particular purpose or does it go into the general fund. >> It's just general fund. >> Tovo: Okay. Thank you. I'm interested in looking at that and in particular looking at how it has increased in previous years and -- >> Oh, it's increased. >> Tovo: Oh, I know it has. But how it has increased. What the increase has been because it is one of those funds that's -- one of those taxes that -- I mean, we just have more and more alcohol sales each year and I'm going to look at whether we -- you know, how we might use that to address some of our really pressing needs. >> We'll get that to you. >> Tovo: And I can submit some questions too, but I'm interested in looking at what the last couple years are, have been, in terms of an increase. >> Mayor Adler: Yes. >> I had a quick question. On this slide, so the total of all these percentages for basic living needs comes out to about 83.5%. Do you by any chance know -- I guess that's 16.5% of discretionary income? Do you know how that compares at all to other cities?

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I'm just curious. I'm just curious if you knew that. >> I don't. I have a -- I thought it was interesting, at least, but I have a graphic I think of some really interesting work that was done in regards to the cost of living in different cities I'd be happy to forward to some of the council that may help with you that comparison. I think it looks at 109 different cities and it looks at the cost of health care and various other things and kind of comes up with an aggregate cost of living index relative to the other cities so that might give you some of that comparison but off the top of my head I don't know how 16% leftover after you pay for these essentials compares. I'm glad you brought that up. It's extremely tiny font but the intent wasn't to add this up to 100% and anticipate everybody a typical family pays for. We were trying to highlight what are some of the large cost drivers for most families and how those, you know, large cost drivers that really impact the affordability, the ability for people to live here in the city of Austin, you know, how those things care to local taxes, fees. >> Troxclair: Yeah, 16%, I don't know, but off the top of my head it seemed kind of low and although of course we have the most direct impact on our property taxes and the fees that we're charging directly to austinites, we do -- the city does impact, you know, how much -- >> Absolutely. >> Troxclair: Price of homes and a lot of other things on this list. So thanks. >> Mayor Adler: Ms. Houston, is your light onto talk. >> Houston: Yes, yes it is. I'll try to turn it off when I don't want to talk. Thank you so much. This is great kind of presentation. I was not aware that the tax bingo, and I know it's probably not a huge revenue source, but what -- that goes into the general revenue as well? >> It does, yes.

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>> Houston: About how much is that? I thought most of the bingo halls were nonprofit or -- no? >> I don't -- I'm not a -- I'm not a bingo player myself so I don't know about the nonprofit versus the profit bingo centers but I would anticipate that the nonprofits aren't paying that tax, but I don't know that for sure even. We can get you the number. It's not a huge amount of revenue. >> Houston: Okay. >> I could probably look it up while we're chatting. >> Speaker1: >> Houston: That's fine. It's interesting because one of the nonprofits elder care was a partner in a bingo hall out on Braker lane and I thought I didn't

even know we paid a tax. If you'll just get that for me. >> Yes. >> Mayor Adler: Ms. Kitchen and then Mr. Zimmerman. >> Kitchen: So to back up on slide five, the taxes and fees that aren't included in this presentation, so will we be talking about these others at some point or if we have questions we should submit questions? >> I think if you have specific questions about any of these other fees I'd suggest doing them through the council budget question process. We don't have staff here today from emergency medical services or development services. In terms of those other ones, those are two of the biggest ones, and we don't have staff here today to respond to questions but certainly we can get any information to you you'd like through the question process. >> Kitchen: So then the [indiscernible] Tax -- >> Mayor Adler: Your microphone. >> Kitchen: Sorry. The hot that, will we be talking about that in one of the presentations? >> We do not have that. We don't have that on our agenda. >> Kitchen: Okay. So if we want to talk about that as a group that is something we would identify you to? >> Yeah. >> Kitchen: Okay. >> Mayor Adler: Mr. Zimmerman. >> Zimmerman: Thank you, Mr. Mayor. Quickly, I remember there was some discussion about our auditor, to follow up on

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councilmember troxclair's point, a lot of things that we do here in Austin contributes to a higher cost of living indirectly, and I think the auditor was going to try to look at, you know, affordability and the -- in the context of how Austin ordinances and policies drive up the cost in the city. Does anybody remember that or -- and do we know where that is? Or is that report -- >> Mayor Adler: I think that's with the auditor, the auditor report that we have. I think she's presented how she's approaching that. >> Zimmerman: Is that going to be ready in time for the fiscal year budget here or do we know? >> Elaine hart, chief financial officer. The the auditors work with respect to the affordability review was a two-phase project. She thought the first phase would be inventory of the programs and how they affected affordability and then the second phase would be the following year, and that would be the hiring of a consultant to actually look at our programs, how they affect affordability and what other cities are doing and make recommendations and that sort of thing. She has plans, I believe, to come to the audit committee and the full council with a status report soon. I don't want to overcommit her work, but I believe it's before your summer break, and so she has begun the work and defined the scope so they're underway. >> Zimmerman: It sounds like that's -- no way that would be ready for this fiscal year? That study might contribute to next fiscal year's budget? Sounds like. >> That's correct. I think that's what had he presented to council. >> Zimmerman: Okay, thanks. >> Mayor Adler: Although, you know, I wouldn't mind going back to her and asking her, even though she has a time line, if she has information she's been able to develop, she might -- I mean, because this approach on this last page on eight I think is the kind of thing we were talking

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about when we did that affordability audit, when people say they can't afford to live in this city, what does that mean? And sometimes I think that we're so focused on keeping property taxes low because that's the metric that the media and the community has to measure how we do with respect to affordability in this city. It's the easy thing to look at, but it's -- I don't think -- I don't think it's the right thing to look at. And if we were to increase property taxes in a way that lowered the cost of homeownership in this city we might be doing a much better socialist our constituents that we're trying to -- service to our constituents that are trying to be able to afford to live here and that's what this shows me and that's what I think the affordability audit was going to, how can government act in a way that actually does something about affordability. If we go up or down by \$20 on property tax or \$30 on property tax, it's going to be a tiny percentage but if we were doing it in a way that actually changed the

cost of homeownership and leveraged that it would seem to make a better idea. And I think that's one of the things that we asked for in that question, with the affordability audit. Yes? >> Garza: I just want to thank you for slide eight. That's really helpful. I just want to also point out that the median income in my district is about 46,000 and I realize all the Numbers would change because they might not have a transportation cost or that might include subsidized child care of some sort and less on food. To councilmember troxclair's point, this is pretax, right, the 77? >> Pretax. >> Speaker2: So that means it really isn't even 17% indiscretionary, significant less, maybe none, and this

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assumes no debt of any kind. >> We do put some of the taxes down there at the bottom. We did not put in an estimate of federal income tax but the 88,800 is pretax. >> Garza: So there's no income tax. >> You'd have to add income tax on here as a line item and we felt that was a complicated one to try to estimate everyone's situation is very different. >> Garza: Yeah. I wanted to point out it's even less than 16% discretionary. >> Yes, ma'am. >> Zimmerman: So to your point, these percentages would be much, much higher if they were computed on disposable, usable income instead of gross income? >> Again, after income tax. We do have property taxes on here. >> Mayor Adler: Okay. Continue -- I'm sorry. >> Kitchen: No. I mean, you had asked -- and I really appreciate you setting this up to ask key policy questions. So I think my question is one of the major discussions that we had during the last budget was the homestead exemption. We said at that time that that was something that we were going to look alover a multiyear -- at over a -- you know, multiyear process so I just throw that out. I think this is a good time to does what the intention is of folks, if that's -- I assume that's still on the table unless people think that they're -- that we're not going forward with that. >> And, mayor? >> Mayor Adler: Yes. >> If I could just interject, the next section -- it's absolutely appropriate here but the next section drills down on property taxes, provides you Numbers for what increases in the exemption would look like and specifically calls that policy question so you might want to wait one section. >> Kitchen: That would be fine. >> A lot of things do overlap. >> Kitchen: That's fine. I would just say in response to your question about policy because I think it's important for us to have this discussion here, if we can, is that, you

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know, my starting point for a goal would be similar to what councilmember pool put out there, was to hold the line on taxes and I, too, am interested in the senior exemption. So and I'm also interested in the fees when we're looking at the fees, to -- you know, to see if there is any places in these fees that we could perhaps be more efficient. So. . . >> Tovo: I just wanted to comment on the question too. I also would like to see as little change as possible in terms of trying to keep our tax bill and utility bills down for Austin residents, but I also want to -- I believe that we have some extremely pressing needs in this community right now, and I will be looking and advocating for a budget that addresses some of them in a -- in probably an increased way. And in particular, I think those are one of the things that I'm really focused a lot on right now are services for individuals experiencing homelessness and I believe we need to look very seriously at increasing the money we're spending on case workers and some other services that are really critical. So it's obviously going to be a challenge and a balance, but that's -- those are some of my priorities moving into the budget season. >> Mayor Adler: Yes, Ms. Gallo and then Mr. Casar. >> Gallo: You know, the city is at an affordability crisis and we have the opportunity for our budget priorities to reflect the strategy that is focused on affordability and control costs, which are passed on to the austinities in the form of their property taxes and utility bills. And I really believe that the city can impact affordability with reducing the utility and property bills or at least holding them the same and that will be my goal. I think we hear over and over again the concern with

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affordability and, yes, it may be very small dollar amounts that impact the person's total budget but I think you it's a very clear message we have listened to the community and that we, as we can in our budget process, did reflect that attitude. It's also my intent to do everything I can to assist our seniors and disabled population. I appreciate hearing from other councilmembers that that is an interest on their part, as the question I asked from the difference between the average tax amount value from last year to this year, it looks like that that has gone up and it has gone up and will reflect in a negative way to the pocketbooks of our senior and disabled population unless we manage to increase the exemption, and we will be looking at bringing something forward so any of the other councilmembers that would like to participate in that, I'd love to work with you on that. So those would be my comments with goals on taxes and bills. >> Mayor Adler: Mr. Casar. >> Casar: So before I dive into sort of pastor my answer on the policy question, I did have one more comment on the chart, and it's similar to what councilmember Garza brought up. I really appreciate the amount of work I'm hurry it takes to get the good market value on each of these items but it is important obviously to note that there are all different kinds of folks who fall into sort of a typical category and the typical person in my district's income is half of what is here, and so the easy math there is you can just double the percentages on child care, double the percentage on transportation if you're -- obviously these folks aren't going for the median priced child care nymph all of a sudden it's going to be so much more of their income. This may not be something I ask staff to do but I think is important as we shape this conversation, for either staff or us or in collaboration, to try to put together sort of

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what those charts look like for different kinds of people because the typical person in my district doesn't have a \$1,400 a month payment on their home. They're likely paying 30% or 40% of their income if lucky on their lent and obviously those percentages for transportation, child care and food increase when you cut the income in half for the typical -- for my typical constituent. And so then as that leads us into the key policy question area, obviously, in that realm I'm going to be looking at ways within our budget that we can help affect and bring down those major cost drivers, which are pretty large in these budget categories. Obviously, homeownership, transportation and child care, much more significant than the property tax bill but if we can effectively use our city budget to lower those costs in smart ways, I'll be looking to do that, while being sensitive at the total amount that the tax bill and fees are but obviously -- you know, this is a good chart for the typical austinite, and I understand that our staff worked hard at that. But, you know, there's obviously a variation amongst our districts and that's for good reason and I'll be looking at it for that perspective. So thank you, all, for your work. This is not to say this wasn't -- this is good work. I just think that, obviously, for different councilmembers it's going to -- the charts look very different. >> Mayor Adler: I think one of the things we asked the auditor to do was give us the same kind of chart for different places in the city and different folks. But I -- the policy question that we have here I think is a difficult policy question to ask, the broader question I think is a question for the manager and for staff and it goes outside the budget deal. When you look at a chart like this and you're living in a city where people say that it's unaffordable and they're having to leave, what do we do

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as a city in order to be able to reduce those cost drivers and what does that mean in terms of how we spend our money, in terms of what programs we invest in. So my answer to the question, what's my

goal in terms of what the tax utility bill would be, I would say whatever it is most appropriate for it to be in order to be able to reduce the major drivers. That's what I'd want to do. I mean, if we can reduce transportation costs for people in the city by \$250 a month, there's nothing that we could do with respect to property taxes that would be greater than that. I mean, if we -- because, one, we don't have the capacity to be able to do that under the tax system and we're not going to raise property taxes by \$250 any how but if there's a way for us to spend our city resources in a way that fundamentally bend the cost curve with respect to homeownership, transportation and child care in this city, what would that be and what would then the impact be? So I know we're in a budget conversation, but we're also going to be shortly in kind of a priority conversation with respect to what the goals are in the city. But this might be a different way to align the programs that we do in the city and how we spend money and where we spend money, if we were focused on that -- on these kind of metrics. I don't know. Okay. Then let's go on to the next section. >> Casar: Mayor, did I want to chime in and say I'm very supportive of working with council and working with mayor pro tem on people experiencing homelessness in this year's budget so thank you for bringing that up. >> Kitchen: I would like to echo that too. That's long been something I've been working on, and am working on with folks in my

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district right now so I'd like to be part of that also. >> All right. I think that was great conversation and that was just to get the ice broken and get the ball rolling. We're now going to drill down on each of those categories a little bit more, starting with property tax, which is of course one area of the budget that people are always extremely interested in. Property tax bills are obviously the -- kind of the intersection between the value of the property and the tax rate that we assess. So the value of the property as assessed by the Travis central appraisal district and other jurisdictions that's what drives up an individual's tax bill. What this chart is showing is I think immediateoric is an appropriate term, tax base over the last 15 years and the two lines show how the tax rate has changed over that same history, the blue line being the city's operations and maintenance rate and red line being the debt service rate. What you'll notice, correlation you'll start to see in periods where the property values are growing rapidly, between fiscal year 2004, 2005 and 2008, 2009, that was a period where property values were rising very rapidly and you'll see during that period of increasing property values we actually saw the tax rate relatively flat, maybe even a slight reduction over that four-year span between 2005 and 2009. Then what you see is during a period like 2009 in the wake of the great recession up to about 2012, where property valuations, the tax base of the city was stagnant, \$78.6 billion in 2009 and had only risen to \$79.2 billion by 2011. '12 we actually had a period of decline from ten to 11.

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It's during those periods of time where the tax rate goes up to keep our general fund budget in balance and meet all the funding priorities of the city council. Then you look at the next period from 2013 to today, we have seen, as everyone knows, very dramatic rises in property valuations, both in terms of existing properties and in terms of new construction and we have seen commensurate decreases in our o&m tax rate as we don't knee as high of a tax rate in order to meet council properties and to keep our general fund budget in balance. The general trust fund has been slight reductions in the debt rate. You can see our debt tax rate has pretty much steadily been declining since about fiscal year 2005 so for a decade plus we've seen pretty steady albeit small decreases in our debt portion of our tax rate. This next slide here then shows the composition of our city's tax base. This is that \$110 billion total city of Austin tax base and how it's divided out between single family, multi-family, commercial properties, personal property, and land. I think just the one thing I want to point out here is that single family and multi-

family combined is about 62% so your residential portion of your tax base is about 62%. That does include apartments are included in multi-family. And the remaining 38% is really commercial. It shows here 27% is commercial but that personal property is mostly inventory and equipment that's inside commercial businesses so that personal property piece is mostly commercial and the land is largely commercial land as well. So I think it's fair to say roughly, you know, 60 to 65% of the tax base is residential and the remainder is commercial properties. Another thing that drives up -- affects individual tax bills -- I talked about tax rates, talked about tax values but it's also the exemptions, when you're talking about residential tax bills, the

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exemptions are also important. So you can see for the city of Austin, for the first time in the city's history with the adoption of the fiscal year 2016 budget this city issued a general homestead exemption. That same year you increased the exemption for seniors from \$70,000 to \$80,000 and you'll -- on the next slide you'll see the results, despite the fact property values escalated dramatically, the city saw for the first time in its history a year over year reduction in the tax bill for a median homeowner. We included on here just for context the exemptions offered by the other local taxing entities, and we chose the Austin independent school district for the school district to include on this table because they are the school district that serves the majority of Austin families. In Travis county and the health care district, they both offer the maximum general homestead amount of 20%. The community college offers 1% exemption, and of course that has a \$5,000 minimum so essentially the effect of a 1% exemption is everybody with a home less than \$500,000 of taxable value gets a \$5,000 exemption, it's only the relatively small amount of -- that are getting something more than that. Aisd is required by the state to do a \$25,000 exemption and they do, in regards to the senior exemption, Travis county and the health care district both do a \$75,000 flat senior exemption. The community college does a much larger \$135,000 exemption. And the school district has a \$35,000 exemption for seniors, 25,000 for disabled but very, very notably they offer a tax freeze as required to under state law so the tax bill you pay to the school district when you turn 65 is the tax bill you're going to pay forever more.

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But largely your taxes are frozen, school taxes are frozen at the level they were when you turned 65. So we're going to get more into the overlapping tax rate and have all these different taxing entities and we'll get into the overlapping tax bill implications but we wanted to start off with Austin's piece of that, that's the piece this body can control through the tax rate you assess. You can see that the tax bill for a median family, for the family owning that median valued home was \$970 in fiscal year 2012. That represented 1.3% of median family income that year and it's grown slightly over time to \$1,087 today representing 1.4% of median family income so grown little faster than median family incomes but not drastically so and, again, you can see the decrease from 1,092 in, if any, 15 to 1,087 in fy '16. We've heard comments from councilmembers about the level of exemption and what would those look like if we were to address them so the top part of this slide shows the general homestead exemption. We currently have a 6% general homestead exemption and just ran some various scenarios. So if we were to increase the exemption by 4% taking it to a total of ten that would have an estimated impact on the general fund of \$7.7 million less property tax revenue. Increasing it to 9%, taking it to a total of 15%, would drop the revenue by 17.3 million. And then taking it to the full 20%, maximum allowed under state law, would result in a revenue drop of \$126.8 million -- \$26.8 million. The senior disabled exemption isn't nearly as costly because there's not as much people that it applies to, and you can see different scenarios there. It's a linear function, roughly \$800,000 for every \$5,000 increase in the

exemption would result in

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\$800,000 less revenue. So getting into that overlapping business, city of Austin is not the only taxing entity in the area. We're joined in that distinction by the Austin community college central health, Travis county and one of many school districts. Again, we choose to use Austin independent school districts on the graphics. Information on the left shows the tax rates of those different entities and how they've changed in fy'16 investor '15. In fy15 we had a total -- there was nearly an eight penny decrease in that overlapping tax rate in fy16 to about \$2.30 in fy'16. You can see the variance column, every jurisdiction in the area with the exception of Austin community college lowered their tax rate in the face of those rapidly rising property values. Over on the right it shows how those tax rates convert into tax bills. Again, this is based upon a median taxable value home and takes into account all the various exemptions that I've talked about earlier, and you can see that going from 15 to '16 your typical taxpayer saw \$192 in their tax bill, \$5 decrease by the city of Austin but net increase for all other jurisdictions by quite a lot, largest coming from the Austin independent school district, which is more than 50%. Almost 53% of the total tax rate is the Austin independent school district's share of that because that is largely their sole source of revenue, other than federal grants. It's really a property tax organization. We track that over time. So that total overlapping tax bill for a median homeowner has increased from \$4,385 in

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fiscal year '12 to the \$5,142 level today. We track that as well against people's ability to pay it and how it impacts their bottom line when you take into account changes in median family income. That's what this line overlaid on top of the columns shows you, is that in fiscal year '12 we estimate that tax bill was about 5.8%, overlapping tax bill, that's elevated to 6.6% today. But I do think it's important for council to remember that the city of Austin's piece of that was a -- changed from 1.3% to 1.4%. So the increase has really been coming from the other taxing entities. Now one other thing we like to do on this -- we think this is really one of our best benchmarks for the cost of government and affordability and how it's changing over time and people's ability to pay, is we take that same metric, that same line metric I showed you on the earlier graphic and compare did to other jurisdictions. We do have to jump data series here because on the previous graphic, on this slide when I talk about increase from 5.8% to 6.6% that's using the best data we have locally, median taxable values because that's what your tax bill is based upon. We can't get that median taxable value for all the other cities for a number of reasons, primarily the appraisal districts aren't required to report it and most don't report it but also most cities are served by two or more appraisal districts so it really complicates the matter of trying to find a true median so what we do is rely on sales price data. Sales price data is higher than taxable value data. That's why you'll see the percentages being higher. For example, in the city of Austin the median taxable value is \$236,000, median sales price is \$301,000 but it gives us an apples to apples comparison I think with other jurisdictions and gives us a

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really good indication of the cost of government, total all-in cost of government of these various jurisdictions, city cost, health care district cost, school district cost, kind of takes that all-in look at things and how it's changed over time. >> Mayor Adler: What was the median taxable value number. >> \$236,000 and a little bit, for a non-senior, for a non-senior homestead. >> Mayor Adler: Compared to 301 for the median sales price? >> Right. On the previous slide you'll see the total amount being 6.6%.

On this slide it comes out at 8% because in this slide we're applying the tax rate to a higher taxable value. It's just the best data we could come up with. The 6.6% is the better flub but in order for us to compare to other jurisdictions we need to have a consistent data source across all the jurisdictions. And so that leads us to our, you know, next group of policy questions, which would be, you know, seeking any guidelines that the council may have in regards to the level of the property tax rate. At this time we're not even forecasting a tax rate that's difficult to do at this early stage, but, you know, I think there could be a meaningful conversation from council in regards to the effective and roll-back calculations, right, the effective tax rate is essentially the tax rate designed to give you the same amount of revenue for operations and maintenance in the current year or in the next year as you have in the current year from properties taxed in both years and the rollback rate is intended to give you 8% more for operations and maintenance. I think there could be a meaningful conversation here with council in regards to what's your preference. It's maybe a similar conversation in regards to the overall tax and rate increase but if council had some specific guidelines in regards to the level of property tax, I can tell you some jurisdictions like Travis county will give their budget staff direction that they don't want to be more than 4% above the effective rate. That's kind of their goal or something to that Feng. There's also key decision

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points in regards to the general homestead exemption as well as senior and disabled exemption so I would stop talking at this point and seek council's input on those areas and any others in this section that you might have. >> Mayor Adler: On slide 15, do you know what the impact is on the median home tax for each of the exemption levels that you have? >> We could get that for sure. I don't have that readily available but we could respond as a budgeted question. For the owner of a median valued home, \$236,000 if you were to get if increased exemption, 4%, how much does that look like on your tax bill? >> Mayor Adler: Right. It goes to what councilmember kitchen said a second go with respect to the homestead, there's a cost associated with a homestead exemption and with that cost there's a reduction in median home tax rate -- taxes paid, the taxes paid. And to be able to compare those two I think would be helpful. >> I can -- if my memory is right, I think we were saying last year the 6% increase in the exemption was about -- I mean, it varied depending upon type of home but I think we said for the citywide median home it was about \$14 a year. So these increases in exemptions don't have a dramatic impact on the bottom line of taxpayers but we'd be happy to run that out and get that responded to as a budget question. >> Mayor Adler: Thank you. Yes, Ms. Garza. >> Garza: Can you remind me, last week's - there was a none that assuming all things the same, right now we're in a hole, like not assuming any changes in the tax, property rate, I thought was

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50 million. Is that what it was. >> I don't remember it being 50 million. At the effective rate we certainly are in a significant hole so if that's -- but the effective rate is not -- keeping the tax rate the same. Given the valuation increase that's tcad is projecting even the effective and rollback rates are going to both be we will below the current tax rate if we were to keep the tax rate where we currently have it there would be plenty of money but at the effective tax rate we would have a significant budget gap. I think we were estimating at the rollback rate, given the substantial cost drivers we're projecting for is fiscal year '17 for all the reasons I laid out last week, we were at about a two or \$3 million surplus at the rollback rate. We don't need to be at the rollback rate but certainly above the effective rate in order to cover the cost of all those cost drivers that I went through last week. >> Garza: I guess borders to the policy questions I did not support the homestead exemption last time, and unless some miracle happens I don't think I would support any homestead exemption. I still believe it's a regressive tax and it reduces

the tax burden on -- for the people with the highest ability to pay. And looking at this, you know, slide eight, for me, you know, a goal of wanting to keep middle class and working class families in Austin, this doesn't really affect them, doesn't -- I think it saved my district \$1 a month, if even that. I think it might have even turned out to be can be I don't remember what the final number was. I'd be interested to know what that is, but seeing that city of Austin property taxes are 1.4% of this budget, the mayor spoke earlier to what are other ways we can effect some of these cost drivers. Maybe there's something we can do that the specific example you used was the transportation amount. That's where I see some policy decisions being made to affect

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those ones that are -- the 10% or higher percent of total income but putting us at a \$7.7 million negative, that's a lot of money that could go to a lot of services that the city could provide, and I just -- I personally will not be -- likely will not be supporting a homestead exemption. >> Mayor Adler: Yes, Ms. Kitchen. >> Kitchen: Just at this point in time, you know, which is what you're asking right now, there's a lot of things that can change as we get all the Numbers and weigh things, but, you know, I did support the homestead exemption last year, but I was -- we were also in a situation where we were fortunate enough to also increase our funding in major areas like health and human services. So I don't know where all this will come down this year, but my attitude towards the homestead exemption is it may not be the best tool but it's the tool that Bev. And it -- tool that Bev. It does help people, particularly if you look at the cumulative effect overtime. I wouldn't be comparing it to the difference between this year and next year. I would be comparing no homestead exemption to where we're going. So I -- and I can't not help people just because it's not the best help available, and it does provide some help. But I would also agree with councilmember Garza that it's really, really important and the mayor also to see where we can have a big impact on these other kinds of expenses so that's what I'll be looking for. I'm inclined to support a homestead exemption but I'm also looking for ways that we can have a major impact on the other costs for people. It's just that we have people in different situations all across our city, and for some people the homestead exemption really makes -- is really important. And for other people it doesn't make that much difference and as a city we need to look at everybody and

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so that's kind of where I'm at. >> Mayor Adler: Ms. Houston. >> Houston: Thank you, mayor. I've got a question about, where is the medical school tax captured? We pay a tax for the medical school. >> I think if you're -- the -- are you talking about when the voters approved a five penny increase? That was for the central health district. >> Houston: That goes into the -- >> It does, yes, ma'am. >> Houston: That's part of that. The other question I have, and this is just for conversation, one of the problems that - - in my district, at least, for the homestead exemptions over 65 and being able to maintain those properties in the family is as soon as that elder dies then that homestead exemption goes away. >> Yes. >> Houston: For over 65. And then the heirs can't pay that and so I think last year we talked about a generational tax, that it would not freeze it but it would be at some level so if the same family stayed in the property year after year after year, generation, they could fill out an affidavit or something. Could you give us some Numbers of what would happen to the revenue if we put in something like that? So it would be -- it would provide an opportunity for families to keep a property in their family with -- but they would have to apply for that every year. It would not be an automatic thing. Because what happens is that once that -- they still get the homestead but once that 65 goes away, then it goes up so high -- and I don't know what that is -- that then nobody can pay to stay there anywhere and it gets sold. >> I'd have to sit down and think through how we might

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estimate that but I don't believe such a scenario as you're describing it would be allowed under state law. It's not an action this body could take to do even if you wanted to, under state law but I'd need to consult with the attorneys on that as well. >> Houston: You would, please? That's what I hear. Everybody is fine now, but the minute they die, then nobody can afford to live there anymore. And so I'm trying to figure out how to save those homes that people are living in so their heirs can have it, that generational wealth. >> Councilmember, if you look at slide 17, that top blue bar is the central health and you can see the slight increase from '13 to '14, that's when they had the tax increase. >> Houston: Thank you. >> Mayor Adler: Yes, Ms. Gallo. >> Gallo: So to answer -- and thank you so much for this format and the work that's gone into it. I think it's really helpful to remind us to stop at certain points and address the policy questions so we can -- >> We were a little nervous about it but I'm glad it's working. [Laughter] >> Gallo: No. I think it's wonderful. A structured approach to this with us is probably a good thing. To answer the questions at this point, does the council have any guidelines in regards to the level of the property tax rate for 2017, my comment to that would be a rate which translates to a tax bill -- I'm always going to talk about the tax bill because it's the tax bill that affects the pocketbook of our austinites and the tax rates and the tax value both affect the bill but it's the bill that has the pocketbook effect. And so a rate which translates to a tax bill that is no higher than 2016's tax bill would answer -- that would be my policy answer to that question. The second question, what is the council's preference in regards to the percentage level of the general homestead exemption, I would like us to continue our commitment that we made last year to reach a

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20% exemption within four years. So I would support the same 6% increase as last year. And the mayor may have asked you to do this and I may have not heard it, but on your slide 15, are you going to come back with a 6% figure? Were you asked to do that? I can't remember if he asked you to do that or not. >> No, he didn't ask for a 6% figure. We can add that. What he asked for is those different scenarios, 4% increase, 9%, 14%, instead of the aggregate revenue loss to the city, what's the savings to a typical homeowner. >> Gallo: If we can add 6% since I would be committed to what we did last year. And then the third question, what is the council's preference in regards to the flat dollar amount of the senior disabled exemption, I spoke to this a little before but to be specific I would support increasing the flat dollar senior disabled exemption amount to equal the increase of the median value that has occurred from last year to this year. >> Mayor Adler:ed, I would just say kind of as a housekeeping kind of mischaracterization first, I think this is great work. And I think this is really useful work and I like the way this has been set out. So I commend you both on that. >> Thank you. >> Mayor Adler: It would be helpful if it's possible to get this document the night before. Because then I -- >> Kitchen: He sent it. >> Attorney1: I didn't see it. Okay, thanks. Sorry. >> At 8:30. >> Kitchen: Send it at 7:30 next time. >> We know y'all don't sleep though. >> Mayor Adler: To the degree that you can get it out that we can think about, I think you'll get better answers to policy questions if people have a chance to look at it and think about it, it will be more useful for you. >> We've talked about it, the turnaround time is really short. So while we sent it last

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night, I think that the qualifier was we might -- we'd do our best but might not always be able to turn it around quite that fast. >> I don't think we bit off more than we can chew but trust me we're chewing

really hard at the moment. We're doing one of these a week for the next five weeks with at least two policy topics on it so as soon as we're done today we've got four days to get ready for the next one to do a dry run on Monday, make comments and edits on Tuesday and live on council on Wednesday so we're going to do our best to get them to you in advance but it might be Tuesday's at 7:30 and 8:30 when you're seeing them because of the aggressive time line we've bitten off. >> Mayor Adler: Maybe we can institutionalize at the next one, doubling back to this one, and say in the intervening four days when you've had a chance to look at it, does anyone want to add additional thoughts or comments with respect to the policy comments. That might be another way to get you -- >> I think we can make the agenda broad enough to do that. >> Mayor Adler: Okay. >> Mayor, we also saw a, with when we send these out, to send them to the council as well as their staff members and we'll take that into account and do that next time as well. >> Mayor Adler: Sounds great. Thank you. >> Kitchen: Mayor, I think we may have mentioned this before you joined us, that at some point in this process, probably sooner rather than later, if we can give thought to how we want to handle our budget process. We did the concept menu last time. Do we want to do that? Do we want to do it different or whatever? Whatever we land upon, if we could decide that here in May, that would be helpful to everyone and probably would be helpful to the staff also. >> Mayor Adler: I think that would be good. >> Kitchen: So maybe at one of these meetings that we have scheduled and one of your slots for other, we can talk about that process. >> Mayor Adler: The process, I think that would be good. >> We can add that. We'll take off one of the

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other topics and add this. Probably June 1. Would that work for people? >> Mayor Adler: That sounds good, give us a chance to talk among ourselves and be able to propose something to the larger group. >> Okay. >> Mayor Adler: Yes? >> Troxclair: So I think I'm going to answer my own question from earlier but I just want to make sure. When we were looking at slide eight and I said when you look at the city of Austin burden versus the non-city of Austin tax burden, it -- those numbers didn't seem to jive to me just because you hear about Austin only being a small percentage of your total tax bill. And I think the answer is this includes not only city of Austin property taxes but also the major fees. So that \$219 plus \$91 is \$310 which of course is significantly more than 20% of somebody's property tax bill. >> Yes. >> Troxclair: So when we talk about -- I've heard comments in the past when people say, well, the city of Austin is only a small portion of your property tax bill so if you really -- so that the impact we make is minimal and if you really want -- you know, aid is the lion's share but actually if you look at the total -- actually if you look at these totals on slide eight, your city of Austin fees are \$310 whereas all the other taxing entities are \$338 a month, meaning you're paying a total of about half of your taxes and fees burden to the city. >> That's right. You're absolutely right. I'm sorry, I misunderstood your question when you first asked it. The slide before it shows the \$309, \$310, I'm sure there's rounding, \$309 is the all-in major utility bills for fiscal year 2016 and you can see on there the top piece, whatever color that is, kind of a brownish color, that is the property tax portion, that's the \$91. We just broke it out on this

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table because there always seems to be a lot of focus and there on the property taxes just because it's a tax as opposed to a rate. There is some ability for an individual to control how much they spend on electricity and water by using less. That's not the case with property taxes. So you're right, you do need to add them if you want to look at that total city of Austin combined tax and utility bill impact. >> Troxclair: Okay, thanks. And I guess just to answer your policy questions, I assume that I'm not doing my job if you don't already know what I'm going to say. [Laughter] But it is going to be my preference to

see the city do everything that we can to reduce the overall tax and fee burden on the average austinite. I really -- it really alarmed me when I realized that last year, despite all of the good things we were able to do in the budget, it really alarmed me that we spent more -- that we had the highest dollar amount increase in last year's budget than ever in the city of Austin's history, and that says to me that although we're doing a lot of good things, there's a lot more -- and although we did lower the tax rate to a point where the average homeowner was paying less in overall property taxes, the city is still spending significantly more which means there's a lot more room for improvement, in my opinion, that we could do to lower their overall tax burden. And I'm going to continue to support the homestead exemption. I think the city -- you know, when you look at the fact -- the other major cities in Texas offer the full 20% exemption, Travis county offers the 20% exemption, I want to get there as quickly as possible. I was disappointed last year that we couldn't find the number even higher than 6%, but I understood that that was a compromise trying to balance everybody's interests on the council, but I certainly hope

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we continue to make that a priority and come up with what I feel like was a commitment last year to ensure he got to 20% as quickly as possible. >> Ready for sales tax? >> Mayor Adler: Let's move on, ed. >> He said yes. >> Mayor Adler: Yes, I'm sorry. Yes, let's move on ahead. >> So the next section we have is sales tax, and I just want to give you a little background. Most everybody already knows this but the combined sales tax rate in the city of Austin is 8.25%. The state rate is 6.25% and both capital metro and city of Austin assess what is called a local option rate at 1% each, that's how you get to the total of 8.25%. We did not include this in the table where we track the median tax bills and utility bills over time just because I'm not 100% confident and satisfied with the data we had to do the analysis but I'm comfortable enough with it to throw it out there to maybe provide context to this conversation that if you take that median family income of about \$77,800 and go with a 30% of that family income being expended on taxable goods, so foods not -- generally food is not taxable unless you're eating out, your housing expenses aren't taxable, it's only a portion of your income that's for taxable goods. We have some data from the consumer expenditure survey, we think 30% is a reasonable amount there. But if you take that, you end up with your typical median family income austinite spending about \$1,926 a year in their total sales tax bill. Most of that doesn't come to the city of Austin though. If you look at the city of Austin's portion of that tax bill, just that 1%, you get to

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about \$233 but we also have some data from the state comptroller and it's just intrusive we know not all of those city of Austin tax bills, all the sales taxes that we all around this table pay, we don't pay them all in the city of Austin. We buy goods and services outside of the city of Austin as well, and the estimate we've been able to get from state comptroller data is roughly about 80% of sales stay local and 20% get exported somewhere else, either through internet sales or shopping in pflugerville or some other city. So we think about \$187 per year of that median family income that's paid in sales tax actually comes to support local goods and services. That's about \$15 a month. So, again, we're trying to provide context here in the -- in regards to affordability. What is that city of Austin 1% tax bill we assess, how does it impact our median family income resident? This is a repeat from last week because we enjoy it so much but sales tax is very volatile. We try to take some of the volatility out of the data by doing a six-month rolling average here and it's still very volatile. The ten-year compound annual growth rate for sales tax is 5.1%, that's the Orange line that we superimposed on this data, and then this is kind of a different way of looking at the same data. This shows you 25 years of actual sales tax data and then projects out five years into the future. The purple line on this is our 20-year compound annual growth rate. That's about

4.7%, is what the purple line shows. And we think it's a pretty good indicator because you can see over a 25-year span that data really -- it tends to follow that long-term compound annual growth rate. Some years it gets above it but then typically comes back down and it just fluctuates around that 20-year compound annual growth rate. So, you know, when you look at where we are now, we're right at the 20-year compound annual

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growth rate line. We're projecting -- I don't want to say we're projecting because what we seed in the forecast it's based upon history, based upon this ten-year cag or 5.1% we're saying we're going to forecast 5.1%. We want to be clear this wasn't a recommendation, it's not a recommendation last week or this week but a forecast informed by historical data. So if you look at that forecast informed by historical data, those red triangles you can see that they start to get above that 20-year compound annual growth rate and history would tell us we don't typically stay above that line for long. Eventually there's a correction and we come back down. That's why we always are cautioning council to be conservative on the sales tax Numbers. If you look at the graphic and you see from 2001 to 2003, there's that downward trend in the sales tax. That's after the tech bubble burst there around 2001, the tech bubble burst. It doesn't look like much on the graphic but that's a \$13 million drop in true 2001 to -- from 2001 to 2003. Likewise when you see that big dip after the great recession in 2008, when you go from 2008 to 2009, it doesn't look much given the scale of this slide. That's a \$14 million reduction in sales tax revenue in one year. So, you know, the moral here is when sales tax revenue drops it drops quickly, and I don't know if any of you have had to deal with it but trust me dealing with an unanticipated \$14 million hole in your general fund budget is a serious challenge and so, again, we just -- the moral here is we caution council to not be overall aggressive in the sales tax assumptions. And that kind of gets us that gets us to our next policy decision for the council. I just put some data here first that our 2016 budget projection was 5.7%. So staff initially proposed five percent

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for fiscal year 2015 in order to fund some additional priorities that council had, council said you had a comfort level with being a little bit more aggressive. That pushed us out to 5.7% as our budgeted revenue growth for 2016. Year to date you're at 5.4%. We're not raising red flags yet, but we're right there. We need to be watching this data closely. We want to be able to make sure we can adjust if the sales tax continues to drop as budgeted. John hockenyos estimated that the economy will continue to do well, maybe even pick up a little bit. He's projected six and a half percent regional sales tax growth and again in our forecast we used a placeholder of 5.1% based upon that 10-year compound annual growth rate. Each one percent of projected growth equates to about \$2.1 million. If council were to increase the sales tax projection by one%, that's two million dollars that could help in the two. I think it's a real key decision point in regards to what this council's tolerance is if risk and so we ask the question of would council prefer staff project a sales tax growth for fy 17 more or less conservatively than this compound annual growth rate of 1.5%. We would seek your input on that because it is a key determinant of our budget. >> Mayor Adler: Each one percent is two million? >> Each one percent increase is 2-point one million dollars. Our projected revenue for fiscal year 2016 is \$210 million. So a one percent increase for '17 would be \$2.1 million and a two percent increase would be \$4.2 million. >> Mayor Adler: If we finished out the year at 5.4% as opposed to the 5.7%, it would be

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\$200,000, \$250,000. >> [Inaudible]. [Inaudible - no mic]. >> The way money flows into that is by the revenues exceeding our projections. Being conservative on sales tax it's projecting three percent and then end on five or six percent that's revenue that flows into our [indiscernible] And helps us launch programs in the subsequent budgets. [Inaudible - no mic]. >> Because we've been more aggressive on our sales tax in developing revenue projections and not anticipating significant surpluses, in fact, we're monitoring closely [inaudible]. And I think we will. I think we will hit our target. It's just our budget is tighter than it has been in years past. >> Pool: Did you have a question, but I think -- I did have a question, but I think ed may have answered it. Do you expect us to get to your budget projection by the time we actually put pen to paper on Numbers for the budget? >> I am hopeful that we will, but it's obviously razor thin and it's not just what's happening with the economy, it's also we get monthly audit adjustments from the state comp paroler and those audit adjustments may be significant as they make corrections for errors as how they've remitted their sales tax dollars. I think it's going to be close. I don't know if I can give you anything more definitive than that right now. >> Pool: That's okay. Was it a slide we saw

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from Mr. Hockenyo that the sales tax revenues were estimated higher. I don't know if it was for our msa or the state. >> I don't recall that slide. I know last year -- last year John projected six percent and we're not at six percent. >> Pool: He projected six percent. >> Last year when he came before this body he projected six percent growth and ultimately this body went with 5.7. We're currently lagging both of those Numbers at 5.4. >> John consistently -- he's an economist so he's optimistic, but he does advise us that our policy making be more conservative than his estimates. Ice said that in the past. >> Mayor Adler: And I misspoke. If we finish the year at three-tenths below that would be a 600,000-dollar delta, not a 200,000-dollar delta. Mr. Zimmerman. >> Zimmerman: I was going to say if the city had any interest in hiring a pessimistic economist I can give you world class people that are pessimists, but everybody wants to have more money to spend. I want to say quickly about the process here, I think we're doing this completely backwards. There is a certain amount of money that our city is going to have to spend to stay in business donned our essential services, our fire and police and the stuff that -- life and death services people depend on. If I were doing it, which I'm not, if I were managing it, which I'm not, I would start with the absolute minimum that we would need to spend, let's start with that. Start with the absolute minimum that we would need to spend, look for savings and efficiencies and we would tackle the spending problem first because a lot of my constituents say we spend too much money. We would focus for months about how to cut spending and be more efficient. The very last thing we would do is talk about where the money comes from. The first thing we would do is talk about the bare minimum that we need to keep the city going, try to get efficiencies, try to cut wasteful spending and the very last thing that we would do is talk

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about where the revenue would come from. So I think this whole thing is completely backwards. Here's why it's important. If we focus on revenue, revenue, revenue, we'll create an expectation here in the city that we're going to have a relatively large amount of money to spend, then we start spending it. It's a difference in philosophy, right? It's a very different philosophy to start with a thing of what's the minimum that I'm going to have to spend, then how do I pay for it? Versus what's the maximum amount of money that I hope I can get in with an optimistic economist. What's the maximum amount of money I have. Revenue, revenue, revenue. And here's how we're going to spend it. So I think the process is backwards. >> Mayor Adler: Manager? >> Ott: Councilmember Zimmerman, with all due respect I guess

I don't agree with your comments. It presumes that in the course of the year that the staff and I are not focused on the expense or the cost side, the budget. And the fact is that we are. And they are. All the time. It seems to me the change that we've made this year in terms of the budget forecast speaks to what I've heard you speak about during this time last year and even in our one on one sessions about this council having an opportunity to weigh in early on on some of the considerations that we're informed when we put our recommendation together. We've redesigned it with that in mind and taken into account some of the comments that you made previously. So I just find your rendition today confusing relative to things I've heard you say in the past. >> I want to assure everybody that we're going to spend a lot of time on expenditures. We have 10 sessions with the city council and this is the only one that has to do with rates and revenues. This is the only one that will have to do

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with that part of the discussion. >> Mayor Adler: And with respect to the policy question that you've asked here, I'm comfortable with making the budget revenue assumption equal to the 10-year history number. As the basis for a budget recommendation. >> We're not looking for a specific decision, but we're certainly trying to get a sense of council's taste in regard to being more or less aggressive relative to this particular revenue source. >> Mayor Adler: And by saying that I'm reserving for the council the opportunity to be more aggressive, but in terms of the question being asked here is that this stage of the process I'm real comfortable designing a budget to that number. >> Zimmerman: A quick follow-up point or question. An illustration of what I'm talking about is the so-called vacancy savings that we get from the police department. What we do traditionally every year is we allocate fte's that are impossible to fill because we don't have enough cadet classes and don't have enough recruits and people coming in to fill the positions that are already on the books, right? We have quite a few vacancies right now. We don't have enough officers to fill them. We don't have classes that are big enough. So what happens is we put in these expenditures and budget projections for all these police that we think we're going to hire, but we can't hire them. And then management says look at these vacancy savings that we're getting. But from my position it's look at how much money we've put on the books to spend that we didn't need. So again, it's perspective, right? It's the perspective, look at all the money the city is spending or look at all the money the city is saving. You know, when we go and put these huge employment fte's on that we can't fill, we create this big expenditure and then we brag about how we saved money by not hiring people that we

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couldn't possibly hire. >> Ott: Again, in the context of the forecast as you hear us out in that regard, I think you will find that we've approached that differently as well. >> Zimmerman: Oh, okay. Terrific. >> Tovo: I want to be sure I understood what the staff recommendation is. And do you feel that the 5.1% is conservative, too aggressive? I apologize. I know you've addressed that already, but I just need to be clear on it. >> I don't know that I have addressed it. I certainly wouldn't characterize it as conservative aggressive. It's a factual statement that over the past 10 years we've averaged a .1%. I think it's a reasonable projection for the future. When you look at a graph with this much volatility, I would agree that conservative to be well south of a 10 year annual growth rate because the down side implications of missing your sales tax number are much more severe than being above it. If we assume three percent and it ends up at five, that just means that we have a surplus that flows into our general fund reserves and then this body can decide how they want to allocate the funds in the budget. When it's the reverse, we have five and then it comes in at three, we have a four-million-dollar midyear challenge to deal with. We're talking about hiring freezes, impacting programs, so the risk of overshooting your projections or

of actually coming in below what you estimated I think are severe and so staff would again caution council about being more conservative on this. I wouldn't characterize 5-point austin percent as conservative or aggressive. >> Tovo: So Mr. Van eenoo, I appreciate what you're saying and I agree that I would much rather have a midyear process where we look at any potential surplus and then allocate it then rather than struggling to try to fund thing.

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That are necessary and not have enough funding. If it were up to you where would you set that assumption? Set it in the three percent range? >> I think your financial staff, like nirvana, would be a steady three percent increase so that in those years where we were above three percent you would be building up a surplus that would help you in situations like when you see that massive dip on this graph in 2008, well, if we had built up kind of a larger reserve, a reserve about 12%, the minimum goal level, but if your reserves were 15, 16, 18 percent or in the case of school district, 24%, if we had reserves of that level and we had a huge dip like we had in 2008, we could adjust to that dip without having to negatively impact services because the cycle -- a lot of municipalities get into a cycle that when the economy is doing well and the economy is growing, they build up their services and when the economy slows down and takes a dip, they dismantle the services and I think it's a cycle we could break out of if we could be consistently more conservative on our sales tax estimate. That but that can be a challenge when there's so many needs in the community to sit on that much money. I mean, it's obvious what the challenge is. >> Tovo: Right. I'll think more about that question that you've asked us to consider. At the moment I believe I'm comfortable with the 5.1 percent, but I wouldn't mind seeing that set a little lower. On the other hand, I've already talked about the pressing needs that I think we should increase funding for. I guess that's the challenge of the months ahead. >> Mayor Adler: And I think you've asked in a separate question, which is what is the appropriate reserve level? If your reserve level is too low to be prudent, then I think this would be a good conversation to have as opposed to making a sales tax projection number that wasn't consistent with what we actually forecast to have happen

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in order to be able to create larger reserves. If our reserves are too low, then let's have that conversation and that might be a good conversation for us to have too if you think they're too low. If you think they should be 12 percent or 14 percent or 18 percent or like the school district, 24 percent. Let's have that conversation. But let's -- my recommendation would be that we hit that that way. That whatever our reserve level be is the level that we should try to hit. >> Tovo: Mayor, I think that's a good topic of the discussion. Do we have that booked within our plan at some point? >> No, but we can certainly add it to the subjects we'll cover. >> Mayor Adler: All right, can we move on to the next one? >> So the next section is a discussion about all those enterprise rates from Austin energy to the water utility to resource recovery. We do have our enterprise directors from all those departments are here, so if we start diving in to details of those rate structures, you may start seeing directors popping up and down to the table to help answer those questions because they're all here. The first one I wanted to talk about is Austin energy. And this is going through, for all of our different utilities, what we feel a typical customer experience is. In Austin energy they track average kilowatts per month and you can see the average on the top line of this graphic from 2014 -- 2013, 14, 15, those are actuals, hovering around 900 kilowatts per month. For fiscal year '16 they're currently projecting at 895 although they did want me to note that current year data we're actually trending a little bit lower, about seven percent lower than the 895, but 895 is our

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projection for fiscal year '16. There's five different rate categories from the customer charge, the base electricity charge, with the fluctuations in this one being related to those fluctuations in usage, not the rate. The power supply adjustment, which as you can see here, it can fluctuate significantly as natural gas and other fuel prices fluctuate. This power supply adjustment can fluctuate a lot. It's always set on the expenditure side. As the fuel prices go up, you will see an upward increase in the expenditures as well and vice versa. There is a community benefit charge and finally there's the system-wide regulatory charge, which is a pass-through amount that we don't have any control over. The total monthly bill has been stagnant over the four years. It went up from 13 to 14, but in fy '15 it came back down. It's pretty much been flat over the last four years. That's largely being driven by those fluctuations in the power supply adjustment. We note on the bottom here the customer assistance program. We think that's really important for our residents who most struggle with affordability and most struggle to make ends meet and pay their utility bills. They are offered a discounted bill that is about \$20 a month for a typical user. As part of council's discussion back in 2011 on the energy climate protection plan, the city council introduced the concept of an affordability goal. And that affordability goal has two components to it. First the affordability metric, which is the goal there is to maintain the average system rate at or below two percent annual compound growth rate with November of 2013 being the starting point, the baseline for that metric. And I'll show you those metrics on the next slide. But then there's also a competitiveness portion to that affordability goal, and there the goal is to maintain an

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average annual system rate in the lower 50% of all Texas utilities that serve residential, commercial and industrial customers. So in regards to the affordability metric, this is what it looks like. You can see a starting point in 2013, and I should say that the vertical bars here represent the typical customer -- I'm sorry, represents the cents per kilowatt hour is how they track this one. The systemwide cents per kilowatt hour, what it was in 2013 and how it's changed over time and how it compares to that compound annual growth rate of two percent. The story here is in 2014 and 15 we were in the two percent annual growth rate. In 2016 we're below it and we're forecasting that we will continue to be well below the two percent affordability metric for the five years of the forecast horizon. In regards to the competitive metric, this is what it looks like. The blue line here is the city of Austin's average cost per kilowatt hour. The red line is the Texas entities. The 50th percentile for the Texas entities. And historically the city of Austin has been below that level. In -- around 2012 we started moving above it. 2013 and 14 we've been slightly above the 50th percentile. And I believe the current data is there's been a year lag on this data, but the current anticipation is that we're going to start closing that gap and coming back down towards the 50th percentile. We just don't have data for 2015 yet. When we do we'll update the slide. >> Mayor Adler: Do you know how close you are to having that data? Having that data? >> Have we got Austin energy folks sneer the question was how close are we to getting the data for the competitiveness metric. >> We expect that data

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to come out around November of this year, so this is on a calendar basis. So it will be the data from January through December of '15 will be available in November of '16. >> Mayor Adler: Are there projection Numbers with respect to this chart? Is there a projection that would show a year from now and two years from now? If you think we're closing that gap, I'd love to see a chart of projections that shows that. >> I don't know of any solid projection. This is -- the Numbers you see on that red chart,

these are really the majority of the customers are served by energy providers that are nonregulated. And so they have a multitude of contracts, both with the residential customers as well as commercial. So it's really hard to pick up a projection that takes into consideration all of those types of contracts. The reason why we believe we're trending is because we are lowering our rates. And because our rates look historical. So this year's power supply adjustment sits upon what we paid last year. Every year we have lower rates. Our rates start to move towards the market. >> Mayor Adler: I'd like you to think about that. I don't want to create a fictitious document, but there are conversations that are happening all around with respect to where we are with respect to that and I'm sure we'll see those as part of the Austin energy conversation that we have with the community. And this chart, which I haven't seen before, every other one of these charts I love. I mean, I've been waiting for a long time to -- and in some cases never thought to articulate what the chart was. You're anticipating a lot of questions with these charts so I really like these. And this is one of these charts. And if there was a way to show what we projected that in a way that was not fictitious,

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but that was your best professional advice on that, that would be a chart that would be handy to have. >> I can work with some analysts and see if we can find some sources that might be reputable. >> Mayor Adler: Thank you. Mayor pro tem and then Ms. Gallo. >> Tovo: I just had a general question. Mr. Van eenoo I know you were kind of presenting things a block and then -- and that it would be helpful if we did it in a block and then talked. What's our block here? >> I only have one key -- what we think is one key policy questions for all of our enterprise departments and it's going to come after our Austin resource recovery. I talk about the water utility, I talk about arr -- >> Tovo: I just wanted in general. And is that what we're trying to accomplish before the lunch break and the second part is human resources that's a separate presentation? >> I have a few slides that I don't expect are going to take long to round out our conversation -- >> Tovo: Thanks. I had a few specific questions but I was trying to get a sense of our format at the moment. >> Mayor Adler: That was very nice. Am I asking too many questions? >> Tovo: No. [Laughter]. [Indiscernible]. >> Mayor Adler: I'll try to hold my questions then. >> Do you know what? The mayor wasn't here when we talked about lunch. That was the first thing we talked about. >> Mayor Adler: She told me. And I think that's great. But I thought we were asking questions and then we would get to the policy questions. If I violated that ground rule then I missed that. >> Gallo: I was following your lead. I also thought we were waiting to ask questions before policy, but to me it's easier to ask the questions as we go through the slides and address the policy issues later. If somebody could tell me the format -- >> I think with the enterprise departments it will be awkward for me to talk about water and then arr and have you come back and talk about energy. I would suggest if thee's questions specific to energy let's get them out of the way. I think it will work better for our enterprise departments. >> Mayor Adler: But let's try to keep the

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questions concise. >> Gallo: So you indicated earlier on slide 4 that state law requires that municipal fees not exceed the cost of proceeding the service. So as we talk about slide 26 that shows a variety of charges that are within the electric charge-- one of the things that comes up is street lights. So street lights are funded in our utility bill payments. I'm trying to understand from a question of understanding the bills, is how do we interpret cost of service? Because as we do community benefit, as we do weatherization programs, as we do street light funding, are those truly costs of providing the service or are those things that we just choose to do within that department that perhaps we need to be a little bit more sensitive to? I know when we looked at Austin energy's payment of a lot of other things, we really

questioned whether they were cost of service. There were organizations that were funded, there were projects that were funded that didn't really have anything to do with the cost of service being provided. So I'm just -- I kind of want as we go through this discussion of budgeting, I kind of want to understand how we get there and should we be there and should we be looking at a variety of maybe gray area expenses that really shouldn't be interpreted in providing the cost of providing the was in I just need a little bit of help with that. And I know that's probably a longer question and longer answer, but as we talk about these areas I think that's appropriate conversation and knowledge that I would like to have in each of these enterprise Zones. Enterprise departments. >> The specific charges I know that we have -- as you know, we have our rate review being conducted as we speak.

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And that is -- we'll be going before the independent hearing examiner and some of the issues you bring up will be brought up during the rate review and we'll be able to respond to that. And again, that hearing examiner will present a representation to you as a council for your decision so you will be able to debate that again once you get that recommendation from the hearing examiner. >> Gallo: So here's my concern and how the budget and the rate case are going to intersect is that if there are costs that are currently in these departments that really shouldn't be in these departments per state law, which says that it ought to be cost of providing the services, and there's a recommendation that these costs actually be moved into other departments that are more appropriate for those expenses, then during the budget process we need to understand if and when and would we as a council choose to move those expenses into other departments? And it seems like then that also becomes a part of the budget process. So it seems like they interact, they intersect, and there ought to be some discussion. I'm just not sure where that discussion is most appropriate and where the information that we would need for that discussion would be most appropriate to ask for. That's kind of what I'm struggling with right now is how we do that. >> Mayor Adler: And I understand the question. I don't know the answer to that. And the question -- you don't need to answer that question right now, but the question is if out of the conversations you're having over these next six months with Austin energy would lead to a change in how we do the transfer payment. At what point do we have that conversation and how do we have that conversation? Because the two processes are interrelate and there's an assumption being made in the budget with respect to what the transfer is going to be, and that conversation, if we were going to actually have that sitting around this dais, would involve the other conversation with respect to Austin energy, with respect to how that's happening. So we have those two things. And my sense that we'll

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actually be able to have those conversations the way we've set up that schedule to be able to make those adjustments. It would be fast and on the fly and we wouldn't know we would need to do that, but I think it's all hitting in the August period of time, is it not? >> That's correct. I believe the schedule has council not making a decision on rates prior to August 29th. So you will have that month to -- as far as where it's appropriate to discuss whether -- what charges can or cannot be according to law, I think the rate review process is the best form for that. As to question to budget, I think on the may 25th we are going to have a discussion on general fund transfer. Now, obviously that will pull into that discussion other elements of our transfers to the city. So I think we could be prepared to discuss that on may 25th. >> Mayor Adler: And then I think we also had a resolution that councilmember troxclair moved forward with both with respect to electric rates that was asking a lot of those kinds of informational questions that we would need to inform that conversation. >> We're incorporating those into that presentation. >> But obviously because the timelines are different with respect to the two conversations, we'll be at a

point where we'll have to make budget recommendation to the council and in doing so clearly have to make an assumption about the general fund transfer in order to do that, whether or not that conversation is entirely complete or not. So there is some chance that whatever the outcomes are in regard to the Austin energy conversation, to the extent that there's some impact on the transfer it may be material for the subsequent fiscal year, not 17. >> Or it could be something that comes out subsequent to your proposed budget on July 30th, but becomes part of what the council changes during the month of August to September. >> Ott: It could. But again depending on how substantial if that were the case, it could

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be a pretty steep hill to climb given the time that we would have remaining. >> Mayor Adler: We'll have a better feel for on that and what my hope is that on the 25th of may we'll have a feel for what that slope would be and what those issues are. I say that only because I think as we move into the legislative session there is an expectation that we will have advanced that ball at least in terms of being able to discuss that with other people that are interested in what we're doing here. Preliminary. >> Zimmerman: Thank you. Tech tell question on the bottom of page 29. The text is entities. The red bar says excludes industrial only reps. Is that an acronym? >> Yes, that stands for -- >> Zimmerman: Why are those excluded. >> Sure. We get this data from the federal government and so it includes all utilities in Texas. There are some utilities in that data set that provide power only to perhaps a single refinery or to a group of industrial customers. So those aren't really what we would consider the sort of retail energy product. So we exclude those from the data. >> Zimmerman: So the reps, representative companies, reps. >> It's a retail energy provider. So they are the ones if you're outside of the Austin energy, if you live in -- for example, if you live in round Rock, you would call a rep for your power and you might have 50 or 60 reps serving in round Rock and you would select your contract from one of those reps. >> Zimmerman: Is that what Samsung is trying to do as a large industrial customer? Do they want to go able to go to one of these reps that doesn't have a big residential consumer, small business aspect to it? >> I'm not sure what

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Samsung is trying to do. >> Zimmerman: Well, they are the type of customer that would go to one of these retail energy providers that essentialized in industrial use only. >> It's possible, yes. >> Zimmerman: Sounds very likely. They're a big industrial consumer. >> I would hate to speak for Samsung. >> I would point out that you can only do that if you're in a deregulated area, and Samsung currently is not. >> Zimmerman: I've got that too. Final point on this, one of the confusing things here is how we blend or MIX rate and bill. And it's a real problem when we try to have these discussions because -- the reason it's so important, I've got a minimum bill, kind of the cost of service part. So if I just turned off all my electrical appliances and used zero energy, I would still have a bill even though I used nothing. And the reason that's important is from a budget viewpoint if I have a constituent that loses a job or runs into some financial difficulty, they have some control over their consumption of electricity, they have no control over the base bill they have to pay independent of their usage. >> That's correct. >> Zimmerman: So I just want to highlight this point. Maybe it's obvious for councilmembers, maybe not, but I'm looking for ways we can give choices to our taxpayers and constituents to control their costs by controlling their habits because when it comes to sales taxes I can buy less things and pay less tax. If I've lost a job or if financial distress. But when it comes to a base rate or a property tax, I've got to pay those or I'm going to get my lights cut off or I'll get kicked out of my property. That's why I wanted to make that -- is there any simple way to kind of show how we're doing in terms of base rate,

the minimum charge versus what we charge for usage? Is there some way to divide that out so we can see how Austin energy is doing compared

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to other providers? >> That information can be provided. The base charge is slide 26 is \$10, and that was a discussion item during the last rate review. So I assume it will be part of this rate review. >> That's correct. >> Zimmerman: Okay, thank you. >> Mayor Adler: Okay. Let's move forward. >> And that's actually -- this is a perfect segue because that exact same issue that councilmember Zimmerman was bringing up is I think one of the key discussion points for the Austin water utility. So looking at the Austin water utility bills, we've broken out their bills we water versus wastewater and we're showing parenthetically the changes and assumptions. The water utility has seen some dramatic reductions in typical consumption. So we're trying -- in the tax bill analysis we're taking into account the changing rates as well as the changing consumption to drive out a typical customer bill. What's the median residential customer paying. And you can see in fiscal year 13 it was \$74.66. It's risen to \$77.71. So -- I think it's important to point out that that very modest increase over the course of four years is due in large part to the fact that consumption is down from 6900 gallons in fiscal year '13 to 5600 gallons in fy '16. So we've seen a dramatic improvement conservation efforts throughout the city. Similar to Austin energy, the water utility offers a customer assistance program to those individuals in our community who most need the assistance. In this case the typical bill is about \$23

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typically less than what a non-customer assistance program bill would be. This next slide looks a little bit at their rate structure, and so it's similar to Austin energy. They charge a base fee of \$7.10. If you're on a five-eighths inch meter. And then there's a highly tiered volumetric rate per thousand gallons. Essentially the water is much cheaper at lower gallon usages and it gets more expensive rapidly. So down in tier 1 usage between zero to 2,000 gallons you pay \$3.16 per thousand gallons. And then it starts escalating. By the time you get to tier 5 it's \$14.16 per thousand gallons of usage. So very aggressively tiered consumption rate structure that is designed to incentivize water conservation. Both of those things, a low base fee and an aggressively tiered rate structure are great for incentivized conservation. They're not nearly as good in terms of revenue stability. It could become a real challenge for the water utility to maintain stable revenues in light of that kind of rate structure. And this may be a little bit of what councilmember Zimmerman was looking for for ae, and for the water utility it's actually a [lapse in audio]. What all these lines show are rate structures. [Indiscernible]. When you see there at the zero scale? Terms of zero thousand gallons, zero water usage, where those lines intersect is the base rate. So one thing you could notice is that the Austin water utility's base rate where that blue dotted line intersects at about \$7 and some-odd cents, is lower than most of the other jurisdictions. So again, we have a low base fee. The other thing you will

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notice on the graph is that ours kind of goes flat for a bit and jogs up, goes flat and jogs up. Kind of a step function. That's the tiered structure. That's where when you get into higher consumption you're paying more where a lot of the other lines are just straight lines. That's indicative of you way the same amount per thousand gallons regardless of if it's your first 10 or it's your 20,000th gallon. I would stress taxable value that the tiered rate structure has been successful in conservation, but it has created some revenue stability challenges for the water utility. They're beginning to address those stability charge

issues with a revenue stability charge that they put on this their bills now that goes into a separate fund that will help them during the times where water consumption is coming down. You think about it, when water consumption is coming down, they're losing a lot of revenue not just because of low usage, but because it's being charged at a lower rate. So that whole dynamics is going on in regards to that tiered rate structure. Just a couple of other things that I think are noteworthy to point out on this very busy slide. If you were to draw a vertical line at about the two. At about 2,000 gallons you can see everything to the left of the line, the Austin water utility does pretty good in terms of competitiveness. We're definitely in the lower half, if not even the lower quartile of these benchmark jurisdictions, but as you get up into the higher water consumption levels, we're much less competitive. We're not the highest, but we're one of the highest in regard to 10,000 gallons per month or 11,000 gallons per month. And again, that is by design, a highly tiered rate structure designed to incentivize conservation. The final thing I would point out on this is that the red dotted line shows the rates for the customer assistance program person. You will see that those rates are only slightly tiered. I think there's one tier at higher usage around five and a half thousand gallons for those

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individuals, but we have very competitive rates in regards to the folks who are in our customer assistance program, particularly at usage less than 5,000 gallons at higher usage it starts to elevate up. I'm not going to pose the key policy question there, but we have a key policy question in regards to council's support for this kind of tiered rate structure, but we have the same issue in Austin resource recovery. I guess what I would like to do is stop here, see if there's general questions for the Austin water. I'll go through resource recovery and maybe we can tee up that policy question about this notion of having these aggressively tiered rate structures that are great at conservation, but not so great at revenue stability. >> Mayor Adler: Yes. First Ms. Gallo, then Ms. Troxclair. >> Gallo: This is a really helpful chart, but my colors are a little muted so it's really difficult to -- particularly the Texas cities. I'm wondering if you could produce a second chart that removed all of the cities except for the Texas cities. And we could make them different colors. >> We could absolutely do that. >> Gallo: It's hard for me to tell which is which. This is really helpful. And is there anything that you could produce -- the stability of the income stream is important, but is there anything that you could produce that would show the historical -- I'm just trying to think of how to phrase this. The historical perspective of the tiered structure so that we can see -- I mean, I understand what you're saying with conservation causes less water to be used and more of that water is in the first tier, but do we have some historical data that could be produced to actually show that over the last five years or so? How that's changed? How the tiered volumes have changed? Maybe that's the way to do it is to show what percentage -- what volume was in each tier over the last five years? I think that would help us understand better the concern about the change

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in stability that is relative to conservation and people using less water and dropping more down into the first tier. I'm trying to think of a way that could help visualize that for us. >> Yes, we have that type of data and we could provide it in different formats to give you a flavor for how the tiers have changed and how the uses in each tier have changed. >> That would be great. I think that would be very helpful. Thank you. >> Mayor Adler: Okay. Ms. Troxclair. >> Troxclair: I had the same question about the colors on the chart. Do you know which -- like if we just went down the right side, which cities the blue lines are? >> The top two should be Seattle and San Diego. They usually go in reverse order from bottom to top and left to right. So the top two lines were on the right-hand side, would go away. And then there's

Austin. Then it looks like Dallas. >> I think Dallas is second from the bottom. >> We'll redo the Numbers. >> Mayor Adler: Mr. Zimmerman. >> Zimmerman: Thank you. So it's interesting to know what's going on in California and Oregon, but I'm a lot more interested to know what's happening here in central Texas with other cities that are getting water from Icra. It seems to me like a whole lot more to the point. >> We can provide central Texas -- >> Zimmerman: I would rather see owe on owe I don't want to see California and Oregon. I want to see central Texas. And look at some of the cities along Icra and Georgetown, Round Rock, cedar park, Leander. That would make more sense because we're -- and we're not all. I think is there -- lake Georgetown has another reservoir on the San Bernard river? >> Georgetown would take from lake Georgetown. >> Zimmerman: I think lake Georgetown is -- is that fed by the San Bernard river system?

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And then there's also talk about I guess downstream -- there's also the reservoir question. There's Edward's aquifer, I guess San Antonio is on that. San Antonio is really important because I think they're mostly underground aquifer water, right? >> Yes, they're almost ex-exclusively groundwater. >> It would be interesting to see the course of the water has a lot to do with our economics here. I think if you pump from the aquifers, you don't have to spend as much money treating the water. >> You're exactly right. It's typically considerably less expense active to treat groundwater. We also soften our water, which is another cost, but a value added aspect of the water. >> Zimmerman: That's good. I think the information is a lot more helpful to focus on what we're doing in Texas, in our area. >> Mayor Adler: Okay. Ms. Gallo. >> Gallo: Sorry for all the questions. So I addressed this relative to Austin energy and the expenses that are incurred that perhaps might not be a true cost of service. And we've talked about how we would have that conversation, but how would we be able to understand, number one, how that's evaluated with the other departments? [Indiscernible]. With the other departments? [Laughter] >> That's right, thank you, that was our humor break. >> Gallo:, anyway, how to get the same information from the other departments that are not Austin energy because I understand that Austin energy's discussion of the possible non-cost of service expenses are going to be part of the Austin energy discussion. So how would we -- I guess part of that is a legal interpretation perhaps for the departments, but how do we determine what expenses are a cost of service and what expenses perhaps would be more of a gray area?

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I'm thinking about possibly some of our conservation programs, which are very important, but is a conservation program really interpreted to be an expense that truly is related to the cost of service or is it a benefit that perhaps should be in a different department and funded by a different department. So once again mayor and city manager, I'm kind of asking how do we get a list of expenses that could possibly not be considered as cost of service expenses or in a very gray area for cost of service? >> Mayor Adler: I'm not sure of the question. So as part of the budget we get kind of an outline with respect to each department and they'll go through and they'll tell us in detail what the budget items are for each of the departments. >> Gallo: Okay. >> Mayor Adler: What are you looking for beyond that? >> Gallo: What struck me is right at the beginning of this presentation was the comment about the state law that says state law requires that municipal fees not exceed the cost of providing that service. And I think that when we have the community that comes forward and is concerned about their utility bills, whether it's water, whether it's Austin recovery, whether it's ae, that one of the things they say is are we paying for things within that department that really aren't cost of service expenses? So trying to get a sense of what the definition of cost of service is, we'll have that discussion as part of the ae discussion,

but I'm concerned about where we have that discussion with these other departments to determine, number one, what is the interpretation of that and how can we look at these departments or how can the departments look and bring forward to us expense categories that they may not feel is a true cost of service, but that has been layered into their

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department to do by city policy? And what comes to mind here would be conservation programs, water conservation programs or water conservation, education and advertising and media. It's definitely of benefit to this community. We're hopefully seeing the results of that education. But is that -- could that truly be interpreted as a cost of service or is thatting in that needs to be moved into a -- is that something that needs to be moved into a different city department? And the reason it's important to have that discussion is if it needs to be moved into a different department then I think it becomes part of the budget process. >> Mayor Adler: I almost think that the question you're asking is what is beauty in the eye of the beholder? If beauty is in the eye of the -- what is a cost of service or not a cost of service? I'm not -- I would imagine that the departments who give us what their costs are. And then set the rate to pay those costs. Believe that the things that are on -- that those costs are related to the cost of service to build into that rate. So I think that at a high level what they would say is everything in here that's contributing to that rate is part of that. You could locates it and say -- look at it and say that conservation isn't a cost of service. I would look at it and say conservation is a cost of service. I'm not sure how you trick out from the list of costs they have the things that you want to see by asking identify for us the things that are not really cost of service because the answer I think you will get back to that is everything is a cost of service because it relates that way in the other areas. >> Gallo: Other departments. So I guess the question starts with an interpretation of the state law that seems to be specific. And I just want to make sure that there has been a connection and we give the departments an opportunity to tell us

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if there are things that they are being asked to fund by council policy over and over again if those are truly what their interpretation would be of cost of services. So I guess it's a question that goes back to the department, but I think the initial discussion is what is the interpretation from city legal on that state law that says specifically that these bills have to be for things that are cost of service. >> I think I understand your question and we'll provide you a legal framework for that and provide you something in writing to start with and figure out where it fits in this conversation. >> Gallo: Then we could have the departments chime in if there are areas within their department that they may feel like is a little gray, but because of city policy we have placed the responsibility of doing that within your department. It's just an opportunity for us I think during this process to really visit about that issue. >> Zimmerman: Mr. Mayor, I think I have an objective answer for councilmember Gallo. I want to remind everybody that we had a case at the PUC where several mud's in northern Travis county had had this conflict for many years, a disagreement over what is cost of service. And they went to the public utility commission. That's not us. That's not our customers. That's not Austin water. I mean, they're a public utility commission for the state of Texas and they ruled in favor of the plaintiffs that we were charging millions of dollars, calling it cost of service and the PUC said it was not cost of service. So we do have an issue. We are charging for things that aren't cost of service. That's what the PUC says as a result a two two-year lawsuit. >> Gallo: It sounds like legal is going to help evaluate and provide that information for us. >> We'd be happy to go so. Of course that issue is still pending. >> Ott: And we should be mindful that cost of service depends on which enterprise we're talking about as well because what's taken into account,

and I would imagine even the extent to which how the law applies to Austin energy

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verses the water department versus the fee structure in our development department is -- could be different. So just be mindful of those differences as we engage in that conversation. And to the mayor's point I tend to agree because I think there has already been a lot of deliberate thinking about the staff when they make the determination about fees across any of these enterprise operations that -- and they do that in the context of they've incorporated legitimate costs associated with those respective fee schedules. >> Mayor Adler: Okay. Ms. Troxclair. >> Troxclair: Ed, you said something to the effect that the tiered -- the steeply tiered rate structure has led to basically a reduction in water usage. Is there -- I would think from a common sense perspective that if you're being charged \$27 versus one dollar for a gallon, clearly that's going to -- that would impact your usage. But do you -- is there a concrete causal relationship or do we know how much of the reduction in water use or is attributed to a highly tiered rate structure versus general awareness about conservation, wanting to be responsible about water use when we're in a drought, watering requirement, city's requirements that we can't water more than once a week? Do we know really how much impact the steepness of the rate structure has on water usage? >> I remember and I'll defer to Greg too, but I remember from presentations years ago some discussion and some analysis of elasticities of demand, that very issue as you start

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moving up the pricing that affect consumption. I don't know examplely what that elasticity was estimated at, but I think we could probably dig up some of that old data and old work that had been done and provide that to you. >> Yes, you're correct. It's a mixture of programs you have and pricing signal is one of the stronger tools. We could give you a perspective on that. >> Troxclair: Okay. I guess I would be curious especially in light of the water bill complaints that we've been dealing with after last summer and how -- and how many people were really hit by a hugely unexpected bill because of increased water usage, whether they felt like they used the water or not, there was a lot of people who said why do we -- a lot of concern about how high the -- how steep that tier is from people who may not have realized that that was in place before. So I was just -- yeah, I would be interested in that information. >> So the next -- I just have one slide for resource recovery and it's a little bit similar to what we saw in the water utility. This is just the residential rates charged by Austin resource recovery. Their base fee for recycling, yard trimmings, brush and bulk collection is \$13.05 per month. Then they charge a per gallon amount that the actual per gallon amount is the same for the smaller cart size, but it's substantially higher, nearly twice for the 96-gallon cart. You is see the cart size on top of the 13-dollar base fee you would charge \$3.85 for the 24-gallon cart and \$28.80 for the 96-gallon cart. The price there is to incentivize more recycling and incentivize people down to a smaller cart size to they need to put more of their cardboard and recycled materials into the blue bin. That's what the whole rate design is intended

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to do to try to incentivize recycling and help move us towards our zero waste goals. The graphic down at the bottom just kind of shows the price structure for those different cart sizes and how they've changed over time. The slightly thicker one in green is what we identify as our typical customer. That's the 64-gallon cart customer. That's about two-thirds of our customers are in that cart size. And you can see roughly a \$4.60 increase over the last five years. Much steeper increases for the 96-gallon cart. One

other thing I think this slide highlights a little bit is for the water utility, and not to go back to the water utility, but one of the things that really impacts their revenue stability is the fact that -- I'm going to get a little loose with the Numbers, but maybe as much as 80% of the cost of running that utility are fixed. Regardless of how much water people use, the miles of pipeline they need to maintain, the environmental regulations they have to adhere to, the treatment plants they have to operate, those costs don't change regardless of how much water they use. So when you put such a small portion of your cost recovery on the fixed fee and so much on the consumption, as your consumption comes down you really create potentially a budget challenge, let me put it that way. The same academic in Austin resource recovery, but not that bad when you look at the base fee being \$13 per month and a smaller portion of the overall fee you pay is on the consumption portion. So it's not as much of an issue for resource recovery, but it is an issue. This tiered rate design where you're charging more for higher consumption than incentivizes less consumption it's counterintuitive to try to run a business. It's like a business person saying I want to incentivize people not to use my product. It gets us to this key policy discussion really in regards to these rate designs that have been in place for years. Does this council support the continuation of these highly tiered

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rate structures that are used by Austin water and Austin resource recovery that do a great job at incentivizing water conservation and recycling, but they do create challenges in -- definitely create challenges in stability. I have a few more slides here, but I'll take questions here and chew on a little bit. >> Pool: Mayor, I think it's not on this chart you've got here, Mr. Van Eenoo, but I think if you asked for a second trash cart it's free on the recycle, is that true? >> Yes, I think you can get as many of the blue carts as you would like. >> Pool: Yep. And I think we need to note that especially because if you have a lot of recyclables and it is the higher number, but the number of blue trash bins that you can have is unlimited, then that's the significant price indicator here as well. Hi, Mr. Gedert, did you have something you wanted to add to that? >> No, just to Ed's comment there. Bob Gedert, Austin resource recovery. We do have recycling carts at no extra cost to our residents. >> Pool: thank you. I'll kick it off in answer to your policy question. Absolutely, I support tiered structures to encourage conservation. I did -- when I was on the water wastewater commission back in the early 2000s I think I was on the commission at a time when that question first emerged and it seemed like a good idea to me then, and we -- I think we at that point kicked off about a three-tier -- there was a 3-level tier for water rates and now it's up to five, and I absolutely support if you are using large amounts of water you should pay a higher tariff for the usage of it and if you're using less we endorse and incentivize your

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conservation efforts by charging you less. >> Mayor Adler: Okay. Ms. Troxclair. >> Troxclair: Just have a question about the cart fee charges. When these were put into place, does it take into account the size of a family or what the average -- what kind of waste the average person consumed? Because clearly a larger -- a family of six is going to have more waste than a single -- >> Yes. The pay as you throw concept is varied rates based on use of the system, as you can see tiered rates there. The size of the family, we tried to do a correlation of size of family and size of cart and there's a very weak, if nonexistent correlation. There are families of eight people in the 24-gallon cart as well as in the 96-gallon cart so the amount of waste flow sometimes is relevant to the number of people in the household but the correlation from our studies do not demonstrate that. >> Troxclair: Hmm. >> I would also add that we had a challenged zero waste a few years ago and a family -- a large family, I believe it was a family of six,

downsized to a 24-gallon cart, and achieved about a 92% diversion rate at their household. >> Troxclair: I guess I would be interested in seeing that data. I find it really hard to believe just from a common sense perspective that a family of eight doesn't -- won't have more waste than a single person. I just -- doesn't make any sense to me. They're eating more food. They're consuming more goods. >> The data -- the data I reference is from U.S. EPA on a national scale.

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We don't have local information available to us on size of households compared to our cart. We don't have access to that info. So the data I'm referencing is a national study. >> Troxclair: Okay. >> Mayor Adler: Okay? Anything else? >> Saldana: Mayor, I have a question on similar lines, both for Mr. Gedert and for the water utility. You know, we've heard from Austin energy that at least in the information that they have that consumption -- you know, higher levels of consumption have not correlated well with higher levels of income, necessarily, primarily because oftentimes lower income households may have leakier homes and so electric bills sometimes go up for those folks. And so I just wanted to know, as far as on the resource recovery and water utility side if we have any information about correlations to use and to income? >> Yeah. On Austin resource recovery, we don't see a correlation on geography or economic income for the family. What we do see is a correlation of trash cart size to lack of recycling or dissuasion to recycling. We see that correlation pretty strong, but we don't see an income attachment. Again, it's hard to find the statistics per household to do a full study. >> Grows, Austin water. We have a broken down water use by various geographic context, zip codes and districts, as a matter of fact there are maps in your water code material for this week, and, you know, we do see increased water use predominantly in more affluent parts of the city because of essentially outdoor use, I think you see typically more outdoor water use intensifies

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in the west and declines as you go to the central city and to the east in a general way. So, yes, we do have that data. >> Casar: Thank you. And apart -- that was just you -- when you asked your question, it inspired that question in me so thank you for answering that. Apart -- sort of separating apart perfect that question related to the key symbol question, I'm certainly in favor of tiered rate structures. The question of course is always how tiered and then how to factor in the fixed costs that each of these utilities has to deal with, and so I think what I'm much more interested in is how much more tiered should we go or how much less tiered should we go rather than it should it be tiered or not. I'd be very supportive of a tiered structure and very sort of in a nerdy way interested in sort of theory of how steep it should be and when we know that we're at the right level of steepness. >> Mayor Adler: We have a bunch -- Casar: I don't know that has do with what our policy goals are, but that's just where I'm at. >> Mayor Adler: Mayor pro tem. >> Tovo: I just want to say, yes, I support the tiered structure and I would say if the current tiers are working, I would support keeping them as they are, but I think it's really -- was forward thinking of the utilities and the previous councils to set that in place, and I think that's -- I support continuing it. >> Mayor Adler: Ms. Gallo. >> Gallo: So if I could ask for the same analysis that I asked from the water department, as far as because as we need to be concerned about revenue stability within the departments, I think it would be helpful on a chart to show the historical change in the cart size because it's my understanding that that's one of the things that affects your revenue projections. So being able to kind of see how that's changed over the last five or so years I think would be very helpful. >> Yes. And I do have that chart in front of me.

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We can share that with the council through ed here. Just as a note, the 96-gallon cart, 20% of our customers use that customer in 2010 and in our current year 13% of our customers are using that 96-gallon cart. >> Gallo: Terrific. I think that would be helpful to provide and also the cost, the cost of those would be helpful. >> Yes. >> Gallo: Thank you. >> Mayor Adler: Okay. Do we want to -- Mr. Zimmerman. >> Zimmerman: Yes, just quickly, as you had mentioned before, district 6 and a lot of the western part of our area has very poor, very thin and very poor soil. And a lot of my constituents are complaining that they were all for stability too in terms of their water rates. They invested many thousands of dollars and attractive landscaping, and are suffering under these tiered rates and there's no stability for them. I mean, if they knew, if they knew that these punitive rates for a high usage were coming they may not have invested Mr. Thousands of dollars in expensive landscaping, but they made that investment, the landscaping is there, and they're complaining pretty bitterly about very, very high rates when you get into upper usage. So for what it's worth. But I think there's only three districts probably that are in that hill country that have very thin and poor soils and they're really struggling. I guess you go to the east side and you're in clay soil, it's not such a problem as it is on the west side so. . . >> Mayor Adler: Okay. We're going to go ahead and break for lunch. Be back here at 1:00. >> Tovo: in this segment they've divided -- I apologize I didn't explain this but I don't know if that's a lengthy section or not.

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>> It's not at all. I think I'd go through them in two minutes. We don't have anymore policy questions to tee up but this would be council's opportunities to ask questions of the department from the drainage utility and transportation and community. >> Mayor Adler: Okay. Then let's go ahead -- if it's okay with council? >> So this slide is -- >> Mayor Adler: What? Let's go ahead. >> This is the history of the drainage utility fee. It's increased about \$2.50 since fiscal year 2013 to where it is today in fiscal year '16. I mentioned earlier the typical rear has now ratepayer has been defined -- representing 37% of their overall area, different than what it used to be on a per door amount. We did want to highlight in adopting the '16 budget, the new rate structure there, was a single family rate discount that was established and that's set to expire on October 1 of 2016. So we didn't want council to forget about that. I was just going to mention that as part of adopting those rates, council requested for staff to bring back recommendations related to a incentivize for stormwater controls where the minimum development requirements had been exceeded. That's in progress and we'll be getting back to council but wanted to make sure you're aware of that. >> Mayor Adler: Will that be back in time to be incorporated in what we're doing here. >> Watershed protection director. Our plan is to bring those set of recommendations to the public utilities committee in June. In which case then we would get direction. >> Mayor Adler: Thank you. Ms. Pool. >> Pool: Real quick. You'll trying to remember it was last year and the rate was like X and we charged half X to the first year and the second half of X to the second. Is that right? >> Precisely. [Laughter] The rate -- the projected rate for the single family to -- typical single family category, council chose to allow for a 50% reduction of

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the increase, and that was to expire this year. >> Mayor Adler: Okay. Ms. Kitchen. >> Kitchen: And then we also -- we also were struggling with some ways to incentivize the stormwater controls and so kick that back do staff to think about that from a technical standpoint so we'll be talking about that too. My question is, we're going to be getting a set of recommendations out of the -- what do we call it. >> Flood mitigation task force. >> Kitchen: Thank you, flood mitigation task force. So is that something that you all will be thinking about as you put together your budget or that on a separate track? I'm just trying to

not content but what's the process with regard to the budget? >> Sure. I'll speak to the process for the task force first. Their final report will be presented first to the public utilities committee on may 16, which is a Monday, which then that same week, Wednesday they'll be present to go the environmental commission and to the full council that Thursday. At that point I think council will have some time to react to their recommendations and having gone to all 20, 30, 40 of their meetings I can tell you that they are recommending from a stakeholder perspective to allow for more resources for watershed protection. Now, certainly as our policy discussions proceed, we would like to get feedback from council and then obviously we will be preparing the city manager's budget for submission as well, given that information. >> Kitchen: Okay. I would just think that it would be important as you prepare city manager's budget -- and I'm certain you will -- is that you -- I would expect to see that budget reflect what you think is appropriate out of those recommendations. >> Mayor Adler: Okay. Ms. Troxclair. >> Troxclair: I don't know -- I guess I just wanted to bring it to the attention of the

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council because I think the staff is already well aware that there have been -- even though we did, I think, the best thing that we could do in putting in place that 50% cap, there were still some issues I heard about in my district from, for example, people who had -- who lived in kind of a single family town home or detached town home type of community, where the developer had paid for the road and so the road -- you know, the little circular drive that goes around their community was all of a sudden -- caused a huge increase in their drainage fee because their driveway -- the street in front of their houses contributed to the impervious cover whereas, you know, a person who lives on a city street, the street in front of their house was -- that impervious cover is not taken into account in their calculation. Then there was a church I heard from recently who just saw a huge increase and neither of those entities were included in the 50% cap because we -- that was only for single family residential homes. So I don't know -- I mean, maybe there really is nothing that can be done and everybody is coming up to the full amount anyway, but if there are any changes that need to be made in reference to detached -- it seemed to me that detached townhomes were going to be the biggest cause of concern or were possibly paying significantly more than other similar sized homes. So if there's any changes that might need to be made, I would be really interested in hearing about those suggestions. >> Okay. I believe the town home regimes and condo regimes where the internal drives are entirely within the private lot are subject to the fee, and as before, where there was

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a per-door fee, that was not an issue. Given the legal ruling through the courts and how we're dealing with all multi-family properties, we feel now that we are following the intent more closely in having that as the fair and equitable distribution of those charges. I think what we are focusing on is the direction given us by council in the passage of the previous ordinance which really speaks to identifying incentives and strategies for property owners to be able to reduce their fees. What we're looking at as far as strategies, I'll give you a quick preview, are things like education to -- ways to reduce impervious cover, possibly participating in the rainscape or rainwater harvesting rebate program and ultimately looking at on-site controls and creating a policy for potentially providing a discount to the fee in that manner. >> Mayor Adler: Okay. Next one? Thank you. >> Two more fees, pretty straightforward ones. Transportation user fee was established by city council ordinance. It is designed to support programs that maintain, manage, operate and improve the city's transportation system and infrastructure. It supports programs in both the public works department and Austin transportation department and you can just see the history of the fee. It's increased from about \$7.29 per door for resident in fiscal year '12

to current level of \$9.77 per residential unit, \$2.70 increase over those five years. Sorry about that. And then similar information for the clean community fee. It's another fee established by city council ordinance. This fee provides programs and services in the Austin resource recovery and Austin code departments, specifically related to litter and nuisance abatement, street cleaning, household waste disposal, implementation and enforcement

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of the recycling ordinances. Little lower fee than transportation user fee but about \$2.60 over the previous five years. I should have mentioned two different colors here represent the two different departments. On this slide blue is Austin code. Red is Austin resource recovery. If I back up one on this slide, blue is the public works department and the red is the Austin transportation department. And those staff are here as well if you have any questions about those fees but we didn't see any specific policy issues related to them. >> Mayor Adler: Any questions? >> Troxclair: I do. I'm sorry. What was the reasoning for the -- seems like there was a significant jump, like more than double any of the increases in the past five years or so from the fy2014-2015 to fy 2015-2016, in the transportation user fee. Can somebody remind me what the reasoning was for that? >> Yes, councilmember, Robert spillar, transportation department. Last year, we made a argument, if you will, with council that we needed to spend more on operations and specifically dealing with some safety capabilities and so the council last year chose to add some general -- you know,-time general fund as well as additional tuft to deal with ongoing safety programs. So what you see from last year is to start to reflect the community's concern about the operations and invest more. >> Troxclair: Okay. And am I remembering correctly that 65 and older can -- if they call, they can have that fee taking it to a total -- taken off their bill. >> Howard Lazarus, public works department. Under the section -- title 14, section 10 of the code there is a provision for seniors to have the fee waived. Is. >> Troxclair: But it's not -- yeah, they have to proactively call? >> They, do they have to apply for it. >> Troxclair: What about the

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clean community fee? Is that also the case for the clean community fee or no? >> I do not believe that's the same case for the clean community fee? >> Troxclair: Just the transportation user fee? Okay, thanks. >> Mayor Adler: All right. Thank you very much. It is 12:17. Do we want to come back here at 1:00 or at 1:15? 1:15 I'm seeing. 1:15 break for lunch. Back here at 1:15 [lunch recess].

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>>> >> >>> >> >>> [Lunch recess]. >>

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>> Mayor Adler: Are we ready to get started? It is after 1:15. Let's go ahead and go. We don't need a quorum. >> We have one anyhow. >> Mayor Adler: We have one anyhow. But I do note on briefings like this we don't need a quorum to get started. >> Gallo: Mayor, I just wanted to say there seems to be some concern with being able to get people in here, that I would be supportive of moving the budget work sessions to the council chambers if that would give us more room. It seems like that's more of a presentation and questions directed to staff versus communication between all of us, but anyway, if that's helpful to -- >> Mayor Adler: We've created now a space for media, so we'll see how it works. Okay? >> Hart: Councilmembers, our second topic today is benefits. And we have Joya hays and also our

human resources director has joined us. And Joya will be presenting this material for you. Again, there will be some presentation material, some background information

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and then a pause for discussion. Joya? Mark, sorry. >> Thank you, Elaine. Mayor and council, I wanted to ensure you that our discussion today is around some of the policy issues in light of the cost drivers that we identified earlier in the opening of the financial forecast. And we're not here today to provide a recommendation so much as we're just to -- hear to discuss the context around some of the major cost drivers and policy issues that would be forthcoming not only in -- potentially in the fy '17 budget, but for years to come. So we wanted to have that discussion here today and get some perspective from the council that would help us to inform recommendations down the road. So with that I will turn it over to Ms. Hays. >> Good afternoon, council. Joya Hays, interim director of human resources. As we go through the presentation for this afternoon we want to focus our attention on discussions relative to the city's pay and benefits philosophy as we focus on our areas of competitiveness, affordability, fairness and compliance. As we go through today's presentation we want to focus with civilian wages being our first area of discussion, understanding Austin's desire to be an employer of choice. We'll go into some detail as to how we define employer of choice and what variables we take into consideration when addressing that. We also want to look at factors that we look at that impact pay, our recommendations for pay increases and what we look at relative to market. For the purpose of conversation, very similar to what took place with Ed, we will have a break at some natural points to allow some conversation and allow us an opportunity to get some feedback relative to some of

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these areas. One of the other things in recognition of what was discussed in last year's budget, what was discussed by council members this year, we want to provide you some detailed information that helps give you a better understanding of what we look at as we identify and determine market and what drives some of the recommendations we make to the city manager's office relative to what you will see in budget. We also want to talk about pay for performance and look at other options of payout based on some of the conversations we've heard from you and some of the information received from you relative to options and innovative ways to look at pay and wages and also affordability. I know that word has been moving around quite a bit. So for the context of this conversation we want to look at affordability not only in looking at what the amounts would be to look at projected costs, but also look at affordability in terms of what the market is yielding and we use affordability as a variable for competitiveness and how we set our rates and try to recruit and retain employees in our workforce. So we'll have two opportunities within that civilian wages conversation to break and have some policy discussion. Our last section we're going to discuss today is going to be the employee benefits section. As we look at ways to create some competitiveness with our employee benefits, affordability from the perspective of not only what the city can afford, but what's an appropriate way to look at how to determine costs for employees relative to benefits and how we share those costs. And then some projected growth in terms of what we're expecting in the benefits fund. I'm joined here today on the front row with some experts that are going to assist me. We have Karen Heywood, our new sis at the present time director who came from as manager of our benefits department. We also have with us web did you manor, our new -- Debbie manor, who is over our compensation area. I am very excited to have them here as new employees who will also be assisting in this presentation. So as we begin, we want to start off with the civilian wage conversation.

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As we had this conversation the first thing we do when we talk about being an employer of choice, what we're looking for is the city's ability to get top talent to come and work for the city, be it internal to the city of Austin and nationally in many positions. As we determined that we're looking at the pay to pay competitive salary and we'll go into a great deal of detail as to what variables we look at when we talk about competitiveness of salary. We also want to talk about promoting diversity in our workforce. There have been many issues and concerns relative to equity that have taken place within the last year. We would also have you know that in this last year as we've talked about equity, not only in gender, but in race as well, we've had an opportunity within the last six months to have some very pointed conversations with our affinity groups representing our different communities of color in the city of Austin. And we've also been invited to the quality of life commissions to talk about representation as it relates to the actual city. We've gone before the women's commission. We've also spoke to the Asian American quality of life and the mexican-american resource advisory committee. In many instances as we go through the process of evaluating equity in pay we're also taking into consideration many recommendations and information we're receiving from those communities from an internal perspective and from an external perspective relative to how we conduct our wage assessments and how we go about recruitment and tension for the city. We also do that within the scope of the rules that are defined within our municipal civil service and ensuring that we follow those guidelines, but create as much opportunity for innovative ways to create more diversity in our candidate pools. Also when we talk about being an employer of choice, very similar to what you saw in our top ranking in Forbes is the ability to retain employees and creating a work environment where people appreciate and value the job that they have and that's representative in our opportunities to be utilized in surveys such as Forbes as we avoid

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any undesired turnover. And we'll go into some detail about turnover and some of the things we consider. I'd like to just start with that conversation relative to understanding that as of now 12% of our non-sworn employees are eligible for retirement. That's about a 15% increase than where we were last year. So as we begin the policy discussion we want to talk about what are the city of Austin's demographics and what can we expect in terms of the changing workforce in years to come. When we look at that, we're looking at years of service. We're looking at whether or not we can make sure we have a qualified group of employees and those in which that we obtain and that we're also paying attention to the demographics relative to our demographics of gender, of age and of race. These are all things that we're certainly valuing, taking seriously, dialoguing with relative to our quality of life and affinity groups and are certainly open to discussions of ways we can improve the recruitment process and ensure we're trying to uphold the workforce where we can maintain ourselves as an employer of choice. The next slide, slide 6, really gives you an opportunity to look at our turnover and unemployment data. As you can see, during periods where there is high unemployment, we are able to maintain a lower turnover rate but as we are now as unemployment decreases there is no competitiveness. People have more opportunities and options to seek positions that could possibly put them in places of higher pay. As we look at that, looking at some of the information we've received from consultants and information we can see clearly and are listening to the workforce survey, that there are two key characteristics that really contribute to the retention of employees and that is the ability to pay them a competitive salary and the ability to have some career advancement. So those are things we

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take into consideration because it directly connect to the culture and to the perspectives of employees as clearly defined in our survey results and in listening to the workforce. So with that being said, we want to talk about factors that we look at relative to pay. The purpose of our pay program is to provide competitive wages that help attract develop and retain employees. We seek to address affordability and competitiveness in our market and we also want to be consistent with most employers as we look at market data appropriately. With pay programs we should also look at the city's ability to afford, what we are willing to pay employees and what we are able to pay employees. So we want to be able to make those regions and ultimately to the council. As we look at those factors today I want to break it out into our bench scenario that identifies three key components. That's market, performance and affordability. So as we look at those, when I speak of market I just want to contextual eyes these terms so as we're moving forward in the presentation it makes some sense and it contributes to our discussion. As we talk about market we're using this information from similarly situated employers regarding salary to determine where we can be to determine competitiveness. For salaries this allows us to recommend and set salaries that are competitive in order to be able to attract the quality talent that we seek. When we're looking at pay for performance this is where employees receive different wage increases based on their individual performance evaluation. As we look at competitiveness in evaluation, we are looking at the cost for employees they are increasing and what would be necessary across the board to help them reduce the offset to possible benefits in balance to where those positions are competitively in market. And of course, as we have that affordability conversation we talk about living wage, which is a conversation we've

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had over multiple years and our attempt to create a living wage that's appropriate based on the feedback we receive from stakeholders and based on our desires moving forward to set, establish and maintain a living wage that we believe to be appropriate over time. Beginning with our conversation on market, as I indicated in the previous slide our unemployment rate is very low right now. The Austin unemployment rate currently is at 3.1%. This is after of March, compared to five percent nationwide. The unemployment rate for 2015 is 3.1% in comparison to 5.6% nationwide. So it gives you some indication of where we are in the level of increased competitiveness that we can expect as we recruit positions and retain the quality staff we have right now. According to our annual listening to the workforce survey that was completed by more than 3700 responses in 2015. 35% of our employees feel that their pay is the same or better than other Austin organizations and less than 50%, 58% to be exact, were satisfied with their pay. So as we begin having these discussions relative to salary, it's really important for us to connect our recommendations, our perspectives and our information directly not only to data that we've received from multiple sources, but directly connected to what our employees have shared with us relative to the information that's included in the listening to the workforce survey. As we go out to market to determine what the competitive salaries should be in our positions, we do that with multiple sources. The first thing we want to do is look at what other cities are doing. The human resources had an opportunity last month to participate in a professional conference so it allowed us an opportunity to reach out far beyond of scope of what we've usually done to find out

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where we were competitive with proposed salary increases. While we're not prepared to have any recommendation, it's important for us in our evaluation to evaluate what other cities are proposing understanding that many are at the same stages we are relative to that process. So we have before you

N that we were able to obtain from human resource professionals throughout the city's listed in the state of Texas. Now, in addition to benchmarking other cities in the state of Texas -- >> Gallo: Mayor, could I ask a question before we move to the next slide. Thank you for the slide number 10. I think that's helpful. Is there a way to also have information on what a personal increase is good to know what people are doing, but I think more important or as important is how our salaries compare to those cities too. I know you have different categories. >> Yes, we can, but I would take into consideration as we do that other cities also have different cost of living so there are several other variables that would contribute to that evaluation in a fair comparison between us and some of the other cities listed. Many of the cities that you see before you may have a cost of living that may be much lower than ours. So I would just take into consideration there's some other factors and variabilities that go into determining how we compare to those other cities. >> Gallo: You bring up a really good point. So having the cost of living in there also would be -- -- how the salary compares to ours and how the cost of living compares to outside. That would be great. Thank you. >> I just want to clarify that when we do the market study, the council approved the market study for us to implement in 2016, this budget year. We do compare our salaries directly to those other cities that are in the market. So in addition to the

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proposed increases that they're having, anticipating for fiscal year '17, we as a practice do compare salaries. >> Pool: I have a real quick follow-up question to that if I could. So I'd glad you brought up the market study because I was going to ask. That was slated to start, was it two months ago that we started? >> The implementation of the market is supposed to be August of this year. We were in the process of completing the evaluations and working with the departments to ensure our market analysis is accurate based on stop of work. So the execution of that market will be done in August of this year. >> Pool: Good. Along those lines, if you could get that data and once we see the capital metro, what it happens to be, what it is if our folks are making and a comparable position in another city is making and if we're behind, what plan do we have to -- is there a plan that would be I guess a policy discussion we could have here on what steps might we take in order to catch up. >> Actually, in this presentation we have a conversation relative to where we want to be in the market and so I think we could probably get some additional direction from you once you've had an opportunity to hear that policy discussion in terms of what additional information you may want or need in the scope of this discussion. >> Gallo: Thank you. >> Mayor Adler: I had a question about benefits, but I see that's also being covered later so I'll hold my questions and let you go through the presentation and see if it gets answered. >> We have a break in a little while in terms of the market. So there are three natural breaks that we'll have to allow opportunities. So if there's additional questions relative to market in the next couple of slides we'll also be taking a break and can answer questions. >> Mayor Adler: I'll wait for the break.

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Thanks. >> We had an opportunity to talk that one of the variables we looked at is what other cities are doing relative to what they're proposing for pay increases to the the budget. The other thing we want to talk about is we talk about published data from a variety of sources to help guide our recommendations on pay increases. Three sources that we want to bring to your attention that are pivotal in our analysis are world at work, mercer and hey group. What you see before you in this slide is their projected information relative to the amounts that entities and industries are holding for possible increases to salaries for next year. Now, I think one of the key questions is going to be why these sources? One of the things that we want you to know, and I'm going to go each one to kind of -- each one provides something that is very instrumental to the overall process. The world at work is a non-profit association

dedicated to the knowledge and leadership and compensation benefits and total rewards. They do surveys to not look at what's happened in the past, but to predict what industries are expecting in terms of pay increases moving forward. So that forecasting forward provides us a better understanding of how it's going to be moving relative to the market in the next year. The second is Mercer. They provide critical information each year relative to what they see in the industry. This information in the Mercer report isn't going to be broken down by every type of industry so we have to look at this as an overall opportunity to predict movement in the market. These are the top three entities that we're be looking for in addition to our cities and other cities in the state of Texas that provide us an opportunity to determine what the market will look like and what our projected pay increases moving forward in the next year. The city also surveys as we talked about the public employers and the Bureau of Labor Statistics data is

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generally not data we look for for salary projection. It certainly is an opportunity to determine percent increase in past years, but it didn't take into consideration all of the variables that you would see and the resources we look for in terms of forecasting future movement. One of the other things that we would want to discuss relative to the market is that as a city understand that we are very uniquely positioned to have quite a bit of not only public sector competition, but public sector. Not only are we competing with cities, but the cities that have a large percentage here and we're also competing with a large number of private sector employees with international reputations for employment. So we want to kind of scope the conversation to be truly reflective of some of the challenges that we face relative to trying to identify competition. In terms of major cities and municipalities, our competition in Austin we believe is strong to be Travis County, the state of Texas, other large cities including Dallas, Fort Worth, El Paso, San Antonio and Houston. So as we have that conversation, and I think, I think this speaks to where we want to be in the market. In terms of what we're seeing right now, you have the opportunity to lag the market. And lagging it there's -- there's not a lot of opportunity for competitiveness. You pay close to the minimum wage. There's an increased savings to the organization because your salaries are low. In those instances you may run into situations of high turnover due to the level of competition in other entities. To the extreme of that, you can lead in terms of the market, that's how competitiveness whether the city has more funds to maintain levels of salary and market that allow us to be very competitive to all of our market competition, including private sector and public sector.

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That requires a lot more money and a lot more high cost. Where is Austin right now. We believe that Austin is somewhere in the midpoint and the lead, but closer definitely to the mid point. While we don't want to articulate that as if it is a bad place to be, it's a simple opportunity to really get a good understanding of where we are as you have your discussions. There are going to be instances where our positions may be more competitive to recruit in highly sought after positions like engineers, like Austin energy, like our I.T. Positions, but in other instances you will find our positions tore at or -- to be at or in some instances below what we see in terms of competitiveness and so that provides us the general opportunity to be at a midpoint. As we talk about that what we're asking ourselves is where does the city want to be? As we go forth and take into consideration all the variables that we've put before you, where does this city choose to be relative to where we are with our market and where we pay employees. And that brings us to a natural breaking point where our discussion items, and I'm happy to answer questions relative to what I've provided I you, on the city's role as a employer of choice and how we look at the competitiveness market the things we look to. The strategic to look, lead or remain at the

midpoint relative to our philosophy in terms of compensation. Quid? >> Mayor Adler: Questions at this point at the break? When we talk about the comparison, the chart on 10, that's a it seems as if salaries and benefits are tied together, it seems that the benefit package that we offer the city is a significant percentage relative to what the salary is.

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So later on is there a similar chart like this that speaks to the benefits? Is there a combined benefits and salary chart? >> We don't combine them, but later in the presentation we do talk to the -- based on plan design changes and the percentage increase projected in some of these cities relative to benefit. So we have separated those into two different charts. So we will speak directly to the benefits in a later slide. >> Mayor Adler: Okay. I'll wait for that. >> We may want to come back to this slide to look at it. >> Mayor Adler: Councilmember kitchen? >> Kitchen: I just have a question. The minimum wage was something that we talked about a lot last time and we also made some changes with regard to the types of employees that were eligible. Can you give us a status update on the changes we made in the last year? >> Yes. I actually have some slides coming up that speak to living wage, where we are right now. What I can share with you, and I think this is some information that may be in scope to that piece, if you will give me a moment. We are currently at 13.03. I have information on how that compares to other organizations, but right now our average pay-- we're not recommending, but one of the things you discussed last year was looking at an incremental increase in the living wage from year to year. Last year in the discussion we talked about trying to get to get \$15 by 2020. When we talk about the living wage we have more in the next part of the presentation that speaks about incremental movements, looking at that particular living wage. And I can get information relative to the number of employees that are currently impacted by the 13.03 and how many of those employees would be impacted by the movement to 13.50. >> Kitchen: When we talk about that can you also remind us. We were trying to ensure that temperature and part time -- temporary

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and part-time workers were also included. When we get to that point we can talk about that. >> Mayor Adler: Any other questions? Ms. Pool? >> Pool: I wanted to move to the discussion items on those questions unless anybody else has any questions. >> Mayor Adler: I think we're ready for that. >> Pool: Okay. Just to jump out there. I like being sort of midpoint and a little bit above the midpoint, which sounds like where we are. But what I would be interested in asking you, I see we're going to talk about pay for performance, if there is a way to have a kind of combination program where we are able to raise all ships with an request the board kind of a pay raise situation like we did last year, but also factor in merit bonuses and recognition of extraordinary work or whatever the continuum is so that we recognize honor and reward financially, really good work coming from the staff that then they can have positions through salaries for their work for a direct connection. It sounds like maybe that's what you're going to talk about next for the pay for performance. >> I can talk about that, but certainly we can talk about additional information that speak to the overall question that you're asking right now of how we could do that. So I could just provide that detail to you and allow that for the discussion. >> Because my philosophy on that is that it's two separate situations and I think 2015 address everyone but we should also recognize those folks who go above and beyond and whose additional performance merits recognition financially. As we move to the conversation of performance, one of the things that we look at in terms of performance, and this is very

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singular to the conversation of just rewarding employees based purely on performance, not on a combination. But in doing so we define a culture of what's valued and we support a culture of engagement, allowing employees an opportunity to have control and say so into the ability to increase the level of work productive and a work environment. It differentiates it based on the performance itself and links performance directly to pay. So in looking at a pay for performance system for those who may not know, the city actually had a pay for performance system that was established and the last year was in 2009. In taken we moved to more of an across the board pay increase, which is what we see and we've commonly seen over the years since then. So we want to have a little bit of conversation for what is pay for performance, how we've used it before and what are some of those key variables that uses it. When we look at pay for performance it changes the pay philosophy from paying for positions to paying for the accomplishments of the employee. We still follow our Normal process as relative to our recruitment process as they come in and we identify their salary, but once they are employee, their ability to move in terms of pay within the city would be based on their performance evaluation done on an annual basis with a six-month evaluation that's done to give an employee an opportunity to know where there are midyear through the process relative to their performance. And associating levels of value either all values to the top of the process arrest auto different stages beyond successful to allow some level to incentivize every level of employee to go beyond the scope of just being successful in their performance. Encourages employees and managers to pursue stretch goals and performance factors that the employee has ultimate control over. So as we try to couple up with innovative conversations around the topic of how do we look

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at ways to incentivize our employees and how to create a culture where we try to increase the efficiency, pay for performance is certainly a conversation and a policy discussion for consideration. As we also look at a pay and some of this we've talked about and some of the questions that came up, councilmember kitchen, I think you were speaking directly to our ability to look at our current living wage. Dr. Washington has some information relative to where we are and the impact of transitioning our sales from the 1303 to possibly 3.6 percent annual increase that would take us to 1350, which is about a 47-cent increase from fiscal 16 to fiscal 17 that moves us in the direction of getting to \$15 by 2020. Going back to the question, when we implemented the living wage increase to 13.03 last year, we did that -- I think Mr. Van eenoo alluded to that in his opening washes of the budget. For those -- for all active employees working year-round and temporary employees, those not working in the summer, and what we have identified, there is an issue with some of the summer temporary employees that we thought were jobs that were traditionally just youth employment and that was the exemption that council did not think that we needed to bring interns and summer high school employees up to that living wage. But there are some jobs in the parks department where, although the report of them may be performed like the lifeguards by youth, there are some adults that work in that position and the department is recommending this year

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that we remedy that by increasing all jobs. That are summer employment and not specifically for youth or intern to the living wage. Relative to the current wage rate of 1303 and the incremental approach that Ms. Hays referenced by getting us \$15 over some years just real previously, there are about 32 regular employees in our workforce that are making less than 13.50. But there are about over a thousand temporary workers that would be impacted if we were to increase it from 13.03 to 13.50. So it

would have a greater impact on a temporary employees than the regular employees. >> Okay, thank you. >> >> Kitchen: Can you remind me? We're talking about all employees, including part-time? >> Yes. The wage rate would apply to all employees. Including part-time. >> Kitchen: Okay. So if I heard you right, there are 32 regular that are making more -- they're making the 13.03 just making less than the 13.50? >> That's correct. >> Kitchen: Okay, all right. And 1,000 temporary and, again, those Numbers include both part-time and full-time? >> Correct. >> Kitchen: Okay. >> Mayor Adler: Do you know what the total dollar figure is associated with that? >> We're still costing that out. I don't know, do we have an updated number? We're still looking that the costs of that. >> Mayor Adler: Okay. >> Casar: Mayor, back of the napkin, if it's a thousand folks working mostly full-time to maybe a little bit under full-time it's 50 cents that comes out to a million dollars on the back of my little yellow piece of paper here. >> Mayor Adler: Thank you.

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>> Okay. So excuse me. >> Mayor Adler: Yes, Ms. Houston. >> Houston: Would that also require us to pay benefits? >> We would only pay benefits if employees exceed a 12 month period. As temporary employees. So as they go into one year of service as a temporary employee, there's a look-back period to determine the average amount of hours that employee worked and level of benefits would be based on whether or not it was an average of part-time work or full-time and at that point they are eligible for benefits after that one-year period. >> Houston: That would also, after the one-year period, have a financial impact? >> That's correct. Recreation. >> Number for the projection in fy'17 was based on. >> He's looking at me but I don't have the number. I can tell you it's quite a number of people talking to the parks director, Sara Hensley, they have a lot of youth employees and just employees in general that they staff up during the summer. And so the living wage of 1313 is not applying to those employees hired over the summer months. As mark alluded to that's creating a number of operational issues for the parks department. I don't have an exact number but it's a substantial number of employees. We can get back to you on that. >> Houston: You would? Because if it's all about 1,000 temporary and they're all coming out of parks and recreation I'd like to know where the rest of them are too.

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>> It's mostly a parks issue. >> Houston: Okay. >> So as we move on -- >> Mayor Adler: Yes? Ms. Troxclair. >> Troxclair: So I just want to make sure that I'm understanding -- okay. What is a contractual intern? >> A contractual intern is similar to the interns Bev through programs like ACC. So ACC has a program, they've already employee established for their program how much those interns are to make. So it creates problems if they come to one employer and make more than they do in others because it's a -- connected to their educational program. So we have agreements made with similar entities like that, where we set the rate that may be lower than the 1313 as a part of the cooperation agreement with that particular entity so that would be an example of a contractual intern. >> Troxclair: What about an intern who -- like, yeah, high school or college student who lives in the area and just wants to come and do -- that's not a part of one of those programs but wants to do an internship for the summer in one of our offices? What about those people? >> The high school students would typically come to us in summer youth, which is not included in the living wage. If there is a college or graduate student who is coming for any period, then the department has the ability to hire them as a temporary employee and assign their salary based on scope of work and level of scope of work they'll be contributing so that salary would be dependent on their level of work as it would any other temporary or regular employee doing similar work. For regular interns, when we talk about internships we would probably define those as those interns coming in that are high school age that would be under summer youth and those who

are non-high school, adults, college or graduate level interns and the salary would be identified by their scope of work.

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>> Troxclair: Okay. So they wouldn't necessarily be subject to the living wage? >> Well, what we're finding typically they're paid more than the living wage. Those types of interns, those college and graduate interns. >> Troxclair: Okay. I want to make sure and obviously I -- my own experience is the best one that I can draw from, but I just -- I've had a couple of people from my district contact me wanting to get some kind of experience this summer. I don't have the budget to pay them but I want to provide them with that opportunity if possible, if there's something they can learn from spending a couple hours a week up here. So I just with -- I want to make sure that they -- >> As a volunteer? >> Troxclair: Yeah, that is a glory they would not be subject to the living wage as a volunteer. >> Troxclair: Or, I don't know the difference between the word volunteer and intern, I guess. If they're not, again, part of a specific program, they're just someone looking for experience. >> Internships can be -- because the department is seek opportunities to provide, opportunities to college-level students, there are opportunities to volunteers so you would make that decision in terms of what you'd like to see happen. So if you'd like to create opportunities for students to volunteer in your office, we have volunteer procedures. They sign forms, explaining what that process is, and you, as the person hiring, can make a decision that you'd like to hire interns with available funding that you have available. So you can make a decision if you want that individual to be an intern that is paid based on available funds or volunteer employee to just -- volunteer just to simply get that opportunity. >> Troxclair: Okay, all right. Thanks. >> Mayor Adler: Ms. Houston. >> Houston: I had two interns last year, and they worked not 40 hours a week, just certain hours. And I don't have that kind of budget to pay 13.03 an hour so

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if you're now saying that if I hired two additional interns which I'm planning to do this summer, I'm going to have to cut it down to one because I don't have 13.03. That's why I'm trying to be really clear because I did it class year and that living wage was not in place. If you're telling me it's in place for this year I'm going to have to rethink my interns because they're college students. >> As identified on the slide they're excluded from the '13 '13 13.03 so if you'd like to pay them that you can, but as we look at the living wage it excludes any seasonal or summer youth or any type of interns you may have. We can certainly have those conversations on a case to case basis but if the concern is are you required to pay a minimum of 13.03 to those students which are interning in your office, the direct answer would be no. >> Houston: Okay. >> Mayor Adler: Aren't the rules different for the city generally and for city council? We've gone through this before. Doesn't city council have the ability to direct -- councilmember have the ability to be able to direct their budget as they wish? Our employees don't fall under the same civil service provisions, as I recall, or -- >> That's correct, they don't fall under the civil service provisions but they certainly slot into salaries so you have control over the budget of their office but they will fit into a job category that is attached to a salary. >> Mayor Adler: Right. But within that the council offices have the chance to adjust salary or adjust descriptions as we would want to do. >> Sure, within the confines of the pay scales that exist within the city. >> I think you're asking a different question beyond that though. >> Mayor Adler: I mean, if Ms. Houston was to hire someone in her office and pay them whatever they wants to to do whatever job she wants them to, do can't Ms. Houston do that in her office? >> She controls the budget in her office and can hire people but they would put them into a job description if she's going to hire someone -- it's called policy aid or whatever it is.

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>> Mayor Adler: If she wanted to create a different position in her office can she create a Ms. Houston's whatever in her office that she wants to do because it's her budget and she can hire whoever she wants to do whatever she wants them to do? Can she? >> So if I may, so let's say it was a job classification that we use, right, can a councilmember exercise the prerogative to pay them whatever they want, even if it's outside of our scale? >> So we have not allowed anyone to be paid outside of the pay range, but we've allowed the flexibility for council offices to use whatever budgeted funds they have to determine what the pay rate would be as long as the person that they were paying were qualified. >> Mayor Adler: Couldn't Ms. Houston create a job classification in her office that doesn't exist in the city? If she wanted to do that in her office? >> We have not done that for the council. I think we've -- with the council's offices, they were all set up with similar classifications that were interchangeable among council offices, and we allowed the flexibility for you to functionally define what the jobs were, but we have not created, you know, 11 different types of jobs for different offices. We've used a generic class -- generic classification for the council offices. But if that were the desire of the council, I think that's something we would need to evaluate. But that is not what we've been doing. >> Mayor Adler: Okay. It's my understanding that each of the councilmembers were given discretion on how to spend their budgets and I'd like to see us look at whatever it would take for them to have that discretion so that Ms. Houston, with respect to interns, can do whatever she wants to do with respect to interns, regardless of what the job title is or is not or let Ms. Houston create a job title for a position in her office.

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Whatever is the best way to give to the councilmembers the discretion to spend the block funds for their office, however, they would feel would be appropriate. >> Mayor, what -- we're happy to take a look at that. The only caution that I would offer though is the rest of the workforce paying attention to that because employees make those comparisons all the time, and so they see, you know, a classification that they define as being close to theirs but a significant difference in the compensation opportunity. I guess I could just see some backlash to that potential. >> Mayor Adler: So that end I would say then make sure the councilmembers are not limbed to your job classifications so they can create a job classification so they don't get that measure of backlash. >> I suspect though two plus two will still equal four in some people's eyes. >> Mayor Adler: I understand. >> Houston: But my issue is not creating more bureaucracy. My issue is that last year I had two people, I didn't go through all that. There could be just a classification called intern. I'm not sure, I'd have to ask how we did that, but I don't want to create more issues. I want to not be told that I have to spend 13.03 when the students don't want that. They're willing to come work for depreciation but I think it -- I need to pay them -- for free, but I think I need to pay them something, but so if the contractual interns are exempted from this, I think I can still hire my two folks this summer and pay them \$11.50 an hour or whatever. Is that correct? >> Yes. >> Houston: Okay. >> Mayor Adler: Then my concern goes then beyond Ms. Houston's. I'd like to see what it would take for the council offices to be able to do whatever the councilmember wants to do in their discretion so that if ten people in the Ibj school

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wanted an opportunity to be in an office they could easily be accommodated by that councilmember in that office in whatever way it is that is best for them to be able to do that because that's -- was what my understanding was. I'd like to see that option presented to us. >> And, mayor, I would add that to date what you have seen from the human resources department and I'm optimistic that the councilmembers

can concur, is when council offices have contacted us with a desire to create such positions we've been able to accommodate that within the current classifications that we've provided and give them the level of consultation necessary to help them set that salary at an appropriate rate, to still get that work done. So one of the things we talked about last year was our ability to streamline the number of positions and so I would also ask that you give us an opportunity to share with you how we can meet many if not all of the needs that you've just articulated within our current infrastructure with the current classifications we have. >> Mayor Adler: To the degree you can do it within the existing structure, I think that's great. >> Okay, thank you. Any additional questions? >> Mayor Adler: Ms. Kitchen. Then Mrs. Zimmerman. >> Kitchen: I just want to clarify to make sure I'm understanding. So what we have right now is part-time and full-time regular and temporary employees with the exception of this list here are receiving at this point in time the living wage of 13.03. So we've phased them all in at this point? Is that right? >> Yes. >> Kitchen: Okay. And so who is not in this? I'm trying to wrap my mind around, is it nine -- is the only other category not a part-time or full-time regular or temporary that, the 1099s, the vendors we contract with? Is that the only other category? >> The seasonal employees in the -- and the summer youth are not included in the 13.03. >> Kitchen: I'm not talking about what we have identified here. I'm talking about what's not on this piece of paper. Would the only other category be the 1099 or contract labor? >> My understanding is that

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those contractors that have direct contract work that are doing work similar to what city employees would be doing would be required to pay the living wage and the other contractors that have just similar work and someone from finance may be able to speak to it even more, but those are the ones that are represented. But in terms of our workforce, this is it -- this is who it applies to and who is exempted, in terms of employees. >> Kitchen: Okay. But my question is so if we have -- if we outsource the temporary -- if we outsource to janitors or whatever, are those type folks covered by the 13.03? And if they're -- if it depends, some are and some aren't, maybe I can just get a list. Do you understand the question I'm asking? Does that make sense? >> We can defer to our purchasing office in terms of contracts, but my understanding is they are. >> Kitchen: All of them is your understanding? >> Yes. >> If they're filling jobs similar to job description that's the city has, those contracts are requiring a living wage. >> Kitchen: What I'm asking if we are outsourcing a -- you know, if we are contracting -- maybe you can ask it better, Greg. >> Casar: I at we passed recently was that it does apply but it will -- but it gets phased in at the point of contract. >> Kitchen: Okay. >> Casar: And so if we had signed a contract a couple of years ago, the whatever living wage was a couple of years ago would apply. >> Kitchen: Okay. >> Casar: The reason being we would not want -- we wouldn't have much negotiating position about the contractor if it was midway. So with outsourcing there is that challenge that we want to get the most competitive -- be in the most competitive position to make sure the city isn't responsible for the entirety of the wage increase because they're actually having to compete against other purchasers. Then my understanding about the similar work is, for example, if we have a contract

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to buy, you know, materials being made in Sweden, we don't go and monitor the wages, frank at somebody's -- that somebody is putting these tables together in Sweden or whatever. So I think those are the limitations and Mr. Scarborough has a really nice powerpoint he uses to explain that part. Yes, we very likely do have employees doing similar work that a city employee might be doing even on city property that might be being paid less than 13.03 and that doesn't phase in until we go back out -- renegotiate that contract or go back out to bid. >> Kitchen: Okay. And does that -- is that the case across

all our enterprises? >> Casar: My understanding is that, yes. >> Kitchen: Okay. So I'd like to just see that information. So -- >> I'll be glad to get James to provide the information. >> Kitchen: I'd like to understand when they'll be phased in basically. >> We'll pull together a q&a. >> Kitchen: With the list of our contracts and when they'll be phased in. >> That may take a little time but we'll work it, yes, ma'am. >> Kitchen: Okay. >> Mayor Adler: Okay. Great. >> Casar: Mayor, did I have one more point. This is not about the contractual interns because they are excluded under current policy but I would -- while I would concur with you that I believe it's important for council offices to be able to manage their own budget, that I would encourage us that if we do bring on employees in our own council offices that are similar to city employees that would receive that \$13 that we respect the same minimum and, if necessary, during our budget-setting process we do set the budget for the council offices, so just like new other department, it isn't -- is isn't always easy but I think it's a city value so we can have that conversation if people are -- if people need that budget in order to make sure they're staffing their offices at that level. That's what we're asking all of our other departments to do

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to make sure they work their budgets to do that, and I think we can do the same. Of course I understand that for youth and contractual interns in our own offices, then there are certain rules that apply to the city that it sounds like apply to us and that's already covered, we've discussed that. But as a separate point, you know, if we're bringing somebody on full-time I think this is something we can work on in the budget for ourselves. >> Mayor Adler: Ms. Troxclair. >> Troxclair: Okay. Going back to Ms. Houston -- councilmember Houston's question, I understand that right now the summer youth are excluded but I guess where I got confused is Mr. Washington said that you're making a recommendation that they not be excluded anymore. And so although she can hire those people this summer because we're not making changes to the budget before this summer, is your -- would your recommendation preclude her from doing that in future years if it was adopted by council? >> And just to clarify, so we haven't made a recommendation. We've looked at some options for increasing living wage and if I could clarify the summer youth are those youth that are ages 14-17 that are still in high school that are just working six weeks over the summer. The employees in the parks department I was referring to were lifeguards that were seasonal lifeguards that may be 22, 23, 1950 and there may be -- 24, and there may be those under 18 as well. So the consideration that we wanted to have in terms of more applicability to the living wage were specifically for those seasonal employees in the parks department that primarily are -- parks department that primarily are lifeguards. That's the group we're talking about potentially expanding the applicability for the city's living wage. >> Troxclair: Specific to lifeguards. >> Right. >> Troxclair: Okay. >> And perhaps just a few other people in the parks department, but primarily lifeguards.

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>> Troxclair: Okay. Then I guess to the mayor's point and so councilmember Casar's point, I would -- there have been a couple times in my office where the job description or the job title or the salary have not necessarily been perfectly in line with what the -- the options that we have presented to us, so I have had some difficulty with that. It's not always -- sometimes it's because I want to pay someone more based on their experience and it's outside the range. So I would like more flexibility in being able to spend my budget, especially on personnel, as I think is appropriate to reflect people's different experience levels and jobs and all that. So I don't -- I'm -- I don't know if that's something that's going to be accomplished in the budget discussion, but I have had some issues with providing my employees that flexibility. >> Mayor Adler: Okay. I think it was Mr. Zimmerman was next. >> Zimmerman: Yeah, let me

finish a thought. I appreciate you bringing the question up about our flexibility to hire and take off on councilmember troxclair's point, I just -- I hope this council knows we have the authority -- knows that we have the authority and our constituents expect us to make these policy decisions so we should stop thinking of ourselves as being inside of a box and if we need to do something we should put it in front of council and get it done. And I would support you and everybody on this dais in the employment decisions you need to make. So whatever decision you -- don't feel that you're in a box because you're not. You're a councilmember. Bring your proposal to us and we'll work on it and make it happen. >> Mayor Adler: Okay. Ms. Kitchen. >> Kitchen: So my question relates to the 3.6 annual increase to raise living wage to \$15. So is that -- that's apart from any kind of -- or in addition to any kind of across

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the board wage increase if that -- you know, if we do that this year? >> So what we -- what we would typically do is the first thing we would do is to do the across the board first. And if after that employees are still not at the 13.50 then we would make that adjustment. So they wouldn't get the 13.50 then an additional across the board. They would first give what the city would give across the board and if there's any difference where that lands the employee in terms of salary and 13.50 we would take them to the 13.50. >> Kitchen: My concern about that would be, it's just an initial impression, I'd be happy to think about it more, it's just my initial impression, my concern about that is they're not getting the benefit of the across the board. >> They get the across the board first. >> Kitchen: And then up to 13.50? >> So they get the 13.50. They would get the that he% first is so they get the same benefit as all employees but if that doesn't get them from 13.03 to 13.50 then they will go up to 13.50. Does that make sense? >> Kitchen: You why but strikes me as -- have to think about it more but it just strikes me as the idea is to get them close -- up to \$15 but if they were at 15 now and got their that he% every year they'd be at more. So I'm not articulating it very well but we're basically keeping them right here and they're not really getting the benefit of the percentage increase every year because we're just getting them to 15. If they were at 15 right now they'd get those percentages every year. I don't know if I'm being clear but it just strikes me as, you know, we're only working to get them up to 15 whereas everybody else we're working on they get an amount every year. So another way to think about it is they're at 13.03 and they get 3% that gets them to whatever 3% is on the -- 13.30.

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So they're only getting 20 cents on top of that. To get to the 13.50. And if 20 cents every year is really going to get them to the \$15, maybe that's the appropriate calculation. Do you see what I'm saying? Am I making any sense? Never mind. I'll think about it. [Laughter] I just think it might be -- make more sense to let them get the benefit of the pay raise everybody gets and then think about getting them towards the 15. >> I'll give you an a for effort though. >> Kitchen: All right. You know what I'm saying? All right. Never mind. I will think about it. I will think about it. >> I want to just go back a little bit to make sure I'm connecting the slides because there's been quite a bit of conversation between the two. As we talk about the 47% increase that would take our current living wage from 13.03 to 13.50, we also want to transition to one more slide before we had a natural break and that's to talk about the across the board. A base pay adjustment to offset the increased cost of living in health care. So we had an opportunity to talk a little bit about opportunities and I think, councilmember pool, this goes back to your question relative to having a discussion around options that create a package of opportunity to impact employees versus one singular approach so we've already provided some level of information relative to the benefits of a pay for performance system. The across the board is an opportunity to address the offset for benefits and the increased cost of living independently. I think in last year's

discussion there was some strong support to support across the board simply because in -- for some of our employees and what you heard in council meetings, employees feel like that is the most fair and non-biased approach to addressing pay across the board. Whereas with pay for performance also provides us a great deal of opportunity to encourage employees and incentivize them based on actual work performance so

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those are all options of things that we can look at. I think at this point -- >> Excuse me. >> Mayor Adler: Hold on one second. >> Houston: Mayor, there's so much noise going on I'm having difficulty hearing. >> Mayor Adler: Before you go on, I think, manager, you had something else? >> I just wanted to try to clarify what I think councilmember kitchen was saying. I think she was talking about increasing the base first so going to 13.50 and then applying the percentage because that has the greater impact for the employee. Is that correct? >> Kitchen: Yes. >> So I've gone through the across the board but I think we can reexplain that for the council if that is requested. The last portion that we have relative to that is the salary banned approach there have been discussions within the past year in looking at this. We didn't call it tiered because there's so much tiered conversations. We're trying to use language to keep it all together. When we talk about the salary brand approximation looking at those who make more, receive less, there has been discussion around that. A couple of points that we just want to make as we stop for a natural break to discuss the performance and affordability pieces of it is with the salary brand approach it does create some compression because those at the lower end of the salary begin to have higher percentages of pay, thus creating less differentials between the actual positions and titles and so that's something to certainly consider if it's done. It's not common in industry practice and in some instances because it does create that compression, although you may see it in sporadic instances. It does impact internal equity, which is a concern we've talked about over time. It affects employee morale because those employees who have worked to achieve certain levels begin to slow the pace of their ability to grow. And as we talked about relative to what keeps people in terms of retention, pay and the ability to grow in the organization have been identified both within our

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surveys and within the consulting information that we've received. So looking at creating such bans also have a major impact on your ability to keep and retain quality employees who begin at the higher levels of scales. And it's not consistent with market base pay. It's not even really taking into consideration performance or market. So for those on the higher ends of the pay scales who are performers who are going beyond the scope, it does not provide them the same level of incentive to continue because their percentage pay. But we recognize the concern relative to providing as much opportunity as possible for those at the lower level to receive fair and equitable pay options moving forward. So we wanted to try to give you some information that looked at all three areas from a pay for performance to an across the board to a salary brand approach so you can have that information in what we consider now to be your break relative to the performance information of affordability and performance. >> Mayor Adler: Before we take this break, I guess -- this question at this place, when you did the forecast budget, what did you assume? What is in the forecast budget with respect to this issue? >> What we said in the forecast is, you know, based upon some of the information that Joya has been sharing with you, we anticipate civilian wage increase by the time we get to a proposed budget in the range of 2-4%. We didn't want to put the cart in front of the horse and be making a recommendation at that early stage but at the same time we needed to have some number. You can't do a forecast if you don't use some Numbers so based upon a five-year average of all employees in the city, public, safety, civilian, the average has been 2.4%.

That's what we drove the Numbers out based upon but the 2.4% is not a recommendation at this stage but we do think it will ultimately be in the range of 2-4% by the time we deliver a budget to council. Of course what we hear today is going to be a huge factor

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in what we would ultimately recommend as well. >> Mayor Adler: Thank you. And, again, I know there's an expectation to give you input. It's hard for me to give input because I haven't had a chance to think about the issue. But I recognize that you need some input so I'll work to try to get you some input on that. Ms. Garza. >> Garza: So we're not performance based now and the question is does the council want to move? N is that direction? That the discussion. >> Yes, I would broaden the scope to say simply what's your preference relative to how -- what you would recommend -- not necessarily recommend but what is your feedback relative to approaches as relates to pay? Is it based on performance? Is it across the board? There's been a lot of discussion and requests for information relative to salary bands and of course we've already heard discussions even today relative to discussions of a mixture of them to address different components in different ways. >> Garza: I guess my question would be, I wonder how you apply a performance based to different kinds of departments. So, for example, Austin resource recovery, you know, would it be based on the number of trash cans they picked up within a certain amount of time? I guess I have concerns about anything that would -- could create safety issues like I need to -- like, for example ups I think is performance based. They have to deliver a certain number of packages and they get in trouble and that creates, you know, issues on the private sector. So I'm wondering how that translates in the public sector when there are safety considerations. Are the, you know, like in code, if they need to return or close a case out within a certain amount of time it could compromise customer service so I'm wondering how do you apply these kind of measures through a variety of

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different kinds of departments? >> Very good question. So each employee has a successful strategies for performance review, and we use that as an acronym of sspr. And that is the -- an annual review that's done by all departments. Within that review, the department, the hiring manager and the employee, have the opportunity based on the department's structure, needs, and performance responsibilities to identify set goals and responsibilities for that individual employee. Those are reviewed at the initial stage of the review it me six-month midpoint period the department director provides them an opportunity to review those goals, to sort -- so to answer your question very directly each department has the ability one on one with that particular employee within that division to establish what those goals look like. In addition to the establishment of goals in that document, there's also an opportunity to look at core competences, areas overall, communication, trust worthiness, different areas that contribute to the performance of an employee. And that allows an area review for any uniquenesses to that particular employee, be it through a special project or an activity that may not be ongoing and consistent but be relevant for that particular performance review year. So with a pay for performance system you have the opportunity to evaluate those established goals, those established core competencies, any other special unique projects and activities, and you rate that employee and they have factors that range below successful to above successful that allow you to associate levels of points and/or levels of salary increases based on their actual overall performance. So it takes into consideration any uniqueness to the organization, the structure of the department, and it also takes into consideration some established core competencies that we look to see, like customer service across the whole entire city. >> If I could go back to the earlier question in terms of what we're seeking from the council on this

issue, I think

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last year we heard a variety of concerns about just the straight across the board and there were members of the council that thought there that there should be more attention to outcomes and metrics and performance and so what we have done, we've taken that feedback and we have evaluated ways in which we could revert back to a performance-based pay system, which Ms. Hays indicated we did do in 2009. It was the downturn of the market that caused us to really get into the across the board practices. And not only were we doing it, but we saw that other municipal governments were also doing it because of affordability. They just couldn't -- there was just not a lot of funding to differentiate between performance. So as you -- if there are other factors besides performance, if we're also going to add pay for -- just keeping up with cost of living, that is a reason why there's some variation between the low and high end of how much a pay plan can cost between 2-4%. >> Mayor Adler: Will you give your advice? So you've recommended against the salary band approach you've indicated that about -- you've indicated the employees would prefer an across the board approach. You've also spoken to benefits associated with a performance approach. If you had X number of dollars to spend, would you recommend spending it all one way? Would you let me spending it in a imitation of them? What would you recommend and why do you recommend that? >> I think ideally it would be the best of all worlds. It would be an element of market-based pay. There would be some element of performance-based pay and then

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for those that are not on the high performing end there would be an element of assuring that at least every employee receives something to offset the cost of living relative to affordability. So it would be a MIX of various compensation strategies. >> Mayor Adler: My question would be ultimately what I would like to see if we were basing off of 2.4 increase in salary, how you would then apportion that 2.4% increase relative to the answer you just gave by way of illustration. >> Yeah, 2.4 would be very miraculous to apportion between all three. That is -- it would need to be on the higher end of the 4% to do more than one approach to compensation. >> Mayor Adler: And explain to me -- because we're learning here. If you had -- and I just said X. Whatever the amount was, how would you spend that amount. >> Right. >> Mayor Adler: What I heard you say was initially you would take that amount, whatever it was, and you would have three components. >> That's right. >> Mayor Adler: But what you're saying is you'd only have the three components if you reached above a certain level. So your recommendation, is at 2.4, I mean, what is your -- if you had the 2.4 to spend, how would you recommend spending it relative to these three choices, and why do you recommend spending it that way? >> Well, if it -- if it were only 2.4, there's not a lot of variability and so I think the minimum increase we would provide would be to offset whatever increases we would have on the benefits and affordability. But we're -- it's still premature -- >> If I may add to that, the reality has been when we've only had a small percentage available to us, you know, that's been the basis for the decision of simply doing it across the board. Because it wasn't sufficient, you know, to divide it up in ways that allowed you to

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reasonably recognize, deal with the three legs of the stool. So we just applied it across the board. So all of the employees are recognizing some increase. That was the rationale in the past. >> Mayor Adler: Ms. Kitchen, then Mr. Zimmerman and then -- >> Kitchen: Following up on that, I think that the bay you

described the three components, it sounds to me like that would potentially be an ideal approach because it does get a component of performance, but I would want to understand what you would think would need to be the amount in order to do that. If it's not 2.4, what might it be? >> Let us work on that. >> Kitchen: Yes. >> Mayor Adler: Mr. Zimmerman. >> Zimmerman: Thank you, Mr. Mayor. So I'd like to back up, if I could, to slide number 10. Right quick. And I want to look at the line of the city of Houston. I'm intrigued. Houston obviously a huge employer, many thousands of employees. Could you tell me what that range is referring to? You know, .3 up to 3.8. We're talking about more than a ten times difference so do you tell me what's behind those Numbers and I have a follow-up question on it. >> I could do the best I can based on what I have with me right now. >> Zimmerman: Sure. >> What the city of Houston does is that they have several different entities that they work with in terms of employee representatives that they negotiate with within a contract. That contract represents I believe and I'll confirm 2.1 was the percent increase for this coming year, but that actual percentage is going to be based on where you are in the pay scale and so we put that range there to help explain that that 2.1% overall will be basketted differently depending on where the employee is. That's something they've contracted out for a certain number of years. >> Zimmerman: That's kind of what we've been talking about, right? Is that the ranges could -- percentwise could be different depending on where you are in the pay scale, et cetera. But do you know, is there no

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performance part of this pay range? Or do we know that? Do they not have any performance -- >> I'll have to go back and check. I don't have that information readily available for the cities but I can certainly let you flow 40 cities that we can get the information, how many of them have performance based components to their proposed process and/or existing process. >> Zimmerman: Okay. >> Zimmerman: Okay. So what's so different about a city of course is that we take our revenue through taxes, you know, through coercion, through force, and your regular businesses have to compete in a market to get money and so they are generally a lot more careful about how they give out raises and awards because it's a matter of survival, you know, for the business to make sure they do merit-based pay increases, because they have to compete. And if they're too generous with their pay increases they can go bankrupt. Of course Detroit did that too but another subject. Let me go to page 11 right quick. I need to make a point here. Last year, as you remember, we brought up the bureau of labor and statistics showing a .8%, you know, median pay increase. We had a long conversation about that. That was soundly rejected. Now I'd like to put an overhead up from just a few weeks ago, April 21. And there it is. I'd like to call attention to that little paragraph that says this is a spending amendment that called for an increase to a contract, and I have an arrow there that cites that in fact data from the bureau of labor and statistics was cited for 7.9% increase in contract. So the point I need to make sure is the bureau of labor and statistics data is generally not used, but it is used when there's a staff purpose to justify an increase in pay. We see the bureau of labor and statistics data is used. But if the bureau of labor and statistics suggests a lower

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number than what staff wants, then I guess that's the case where it's not used. So I need to cite this as another instance of how I still feel I'm getting selective data, if there's data that shows city staff or a contractor should be paid more, that data is useful. If the data says that our city staff should get lower pay increases, then that data is not generally used. So -- but I would like the information back about the city of Houston and any other cities that have a different waive doing pay increases based on merit or some other metrics because, again, the most frequent comment I got from constituents based on last year's discussion is a lot of state workers complaining that the city pay increases were more dramatic

than their state pay. I mean, both are working for the government, city employees, federal, local, and they were complaining that the city pay increases over the years were accelerating faster than their government pay from working for the state. That that was the number 1 comment that I got back. Thanks. >> Mayor Adler: Okay. Anything else? You want to go to benefits? I'm sorry, mayor pro tem. Sorry. >> Tovo: So in -- at the convention center where they have gain sharing, is there -- is any of that bonus performance-based? It looked to me when I looked through the last few years worth of budget questions on that item that nearly all of their employees were getting a bonus. >> That -- >> Tovo: Then I have a follow-up. >> At the convention center that program is based on the overall performance of the entire convention center, and if the consequence center meets those performance guidelines all employees receive the benefit for those actual performance measures. So it's based on the overall convention center performance measures and we can provide you a little bit more detail about what those measures are if they meet it. I believe -- I'll have to get additional information, if they're at an 85 or above

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better purge in terms of of ability to meet it all employees receive a -- >> Tovo: I've asked questions about it in previous budget processes so it may be in one of the existing budget questions, what the criteria are for that, for that gain sharing. Am I right in believing Austin energy also has the ability to do gain sharing and has sometimes done so in the past. >> Yes. We're encouraging them now, they're creating an incentive program right now and we've been working with them and encouraging. I do not believe at this point -- I'll refer over to ed if they've done anything to date. >> Austin energy to my knowledge has not had a gain sharing program prior to what you're talking about. >> Aviation department has. >> Tovo: Aviation has, okay. And can you tell me about aviation's? >> It is similar -- >> Tovo: Is it also performance-based or more collective performance of the enterprise fund. >> More collective performance of the department as a group based on the evaluation of customer satisfaction, cleanliness and it factors into an overall year-end report for which they use to determine the amount that will be paid to all employees. >> Tovo: And can I understand why the city is encouraging or why H.R. Is encouraging Austin energy to develop an incentive-based program? >> The city is encouraging Austin energy because they have uniqueness in terms of their ability to compete for positions and compete for people in the competitive environment. And so the department truly believes that having an opportunity to create some incentives around that will give them similar results in terms of collectiveness and meeting those performance goals, similar to what they have seen in aviation and the convention center. >> Tovo: Something I have to think about this issue because I know through the years I've certainly received concerns from constituents about the convention center's practice of providing what, you know, colloquially are basically

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bonuses and I think people are less aware of the other -- of aviation's. So, you know, my -- I guess I would want to really think about how that plays out in departments that have tighter budgets, for example, the library department, parks department. I mean, really most of them other than the ones that we've talked about as enterprise funds, you know, have very tight, very limited budgets and I'm always impressed when I go into our public libraries at the range of issues that those staff members are dealing with and, you know, again, I think our -- I would really want to understand how this -- where the bonus money is coming from because if it's coming from within the internal department budgets we're going to see a little disparity across the city. Frankly, we already have one it sounds like in terms of how people are compensated for their performance and so, you know, that's -- I'm glad that we're having

this conversation about whether we should extend the practices of the convention center to other departments. >> I will -- >> Mayor Adler: Hold on. Go ahead. >> I'm sorry. You want to respond to this question? >> I'll just add real briefly that part of it is -- what they've -- specifically in the convention center is the hotel industry is just growing and has been growing, is very competitive, and the turnover and attrition in that industry is pretty high about all of the hotels that are around the downtown area. And so particularly on the service side, that gives them an additional competitive advantage, even though they may not be able to pay as much as some of the -- for some jobs, that does add to their ability to compete. And so -- and I think to some degree there are some specific industry positions in the aviation department as well where that helps. But I do understand your

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concern about other departments and their ability to have similar kind of compensation strategies. >> Tovo: And I appreciate that. I know that's been the response -- I mean, that's been part of the conversation when I've asked that question in the past and while I appreciate it, I also understand that people in our planning department sometimes leave and go work for land use law firms because, you know, they get compensated better. We have fabulous staff. I have fabulous staff in my office who, you know, working in private industry would make a lot more than they're making for the city. I think that could be true of most of our staff here at the city, that were they to be in -- you know, working for private companies they would be compensated better and that, you know, there are -- anyway, so I appreciate the point. And that perhaps there's something about the convention center that is different, but, you know, again, I think all of our staff and employees throughout the operation are valued employees and they're working for the public ultimately and it disturbs me a bit to treat different employees differently, depending on where they work within our city operation. >> Mayor Adler: Ms. Kitchen. >> Kitchen: I agree with those concerns. When I'm thinking about performance -- you know, performance-based pay, you'll not thinking about gain sharing. Those are two different things. And if I'm understanding correctly, gain sharing is where you see what the whole group made and then you just divvy it up, so to speak. It's more complicated than that but you just divvy it up. Performance-based is different than that in the way I think about it because performance-based is based on the performance of that individual and so I would assume as mayor pro tem is pointing out if there's going to be a performance-based type of program then you've got to have -- that can't depend on the department's budget. It has to be performance-based in a way that's equivalent or comparable or whatever the right term is across all

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departments. And that's what I would be interested in. When I say that I think -- I can see some value to performance-based, I'm not talking about gain sharing. I'm talking about performance-based. >> Pool: Mayor. >> Mayor Adler: Yes, Ms. Pool. >> Pool: Yeah, I agree with the comments of both mayor pro tem and councilmember kitchen when I was talking about financial rewards it was definitely for the individuals' performance and it would be within a department. I think we asked questions last year about the gain sharing bonus program that the convention center has and maybe this year -- and it seemed like the -- if I'm remembering right there were two different amounts of money that were given to the employees -- at the airport or maybe the convention insertion I don't remember which one and some staff got this amount and some staff got this amount. Maybe you could let us know how that worked this year. The other question I would have, especially with the convention center, because the same thing about the competition and so many hotels around the city is attractive to our employees to take a different job, I'd like to know what the turnover is at the convention center? Do we actually --

over,like, the last five years when the hotels have been cropping up pretty quickly, have we been having a hard time to -- retaining our staff and are they leaving to go to other hotels? I would just like to see some data to back that up. And see what kind of bonuses are being paid within those two enterprises. If those -- it does make it hard on other staff in other departments to see those sorts of programs in place. Some of it is because the state lurks where the money can't be used for anybody except for within those departments. I mean, I recognize that we're kind of -- we're hemmed in on how much flexibility we have with the revenues that are earned in those different departments. >> Mayor Adler: Okay. Anything else? >> Houston: Mayor. >> Mayor Adler: Yes, Ms. Houston.

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>> Houston: And this may not be part of this discussion but I would be interested in the compensation for retired city employees that come back to work for the city. Do they get the same pay, less than, more than what they were making before they left, before they retired? >> If we're ready to move forward to the next -- >> Mayor Adler: Yes, that would be good. Thank you. >> We can certainly get that for councilmember Houston. I was waiting to see if there was a reaction. [Laughter] >> Mayor Adler: Oh, I'm sorry. >> But we can get that informing but it's typically negotiated by the retired -- so there are no restrictions on that. >> Houston: So according to legend people can come back and get 118% of whatever their salary was before they retired? I'm just saying. So I think I need to know that and perhaps that's a policy that we need to talk about rather than depending upon what somebody decides is appropriate, is to put some range on that. I know at the state they have that. >> Okay. >> So we'd like to at this point transition into a conversation about our benefits and our overall benefits structure. Some of the key components that we look for relative to benefits. Under our current medical plan, we've got 32,825 enrolled in the plan. That encompasses 11,921 employees. Over 16,000 dependents and a little over 4400 retirees. We have three competitive and affordable based on what we believe in the competition and in the markets medical plans that are self-funded, with three plans they include an hmo, ppo and a cbhp our

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consumer driven health plan. To be sustainable and retain new talent we try to keep and maintain some affordability and we want to have some discussions with you very quickly relative to what are some of those driving forces. This next slide really speaks to the overall benefits fund and keep in mind that the benefits fund is more than just our medical expenses. It also includes our dental, life insurance, short-term disability. So the cost and the rising projected growth for our benefits funds is inclusive of more than just the medical piece. And you see that. And in addition to that, the percentage increase of the overall spend is also included there for you, and the purpose of this slide is really just to talk about that there are rising costs. In fiscal '17 we're expecting the costs to be estimated at around \$3.7 million. And we understand that that is a part of the overall need of how rich our plan is and the federal mandates that come before us relative to health care. So that just kind of gives you an idea of what you can expect. As we talk about health care and we talk about affordability, we've got some initiatives in place to attempt to make sure that we try to manage those costs as best as we can. That includes workforce engagement, our healthy connections program, which is our wellness program and we've provided some information to you about these and other -- on other years but we want to remind you of some of the programs we have in place. To really emphasize you to how important it is to us to establish initiatives and put in place initiatives to manage those costs. Our health assessment that we have in place for employees, we've got over 3400 participants in our health assessment right now. Our healthy rewards program, employees receive up to \$100 annually for participating in our wellness events, we've got a

diabetes program,

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maternity support program, all programs that gear us towards creating and maintaining programs that help provide quality level of service to ensure we're providing those employees with those types of programs that can help us cut down on the bottom line of our medical costs. As it relates to consumerism, of course we talk about our cdhp plan. We also have our Ta back cosurcharge program and premium designated providers where we encourage employees to go to those providers who have proven success with low costs so that provides us those opportunities as well. And then our health care delivery, centers of excellence in going to MD Anderson and -- for cancer and other areas where we focus those employees to places where -- that have proven expertise in critical health areas. And then also we want to remind you in 2016 we implemented some plan design changes. We certainly are looking at plan design changes as we go into this year but last year some of the things we put in place to help reduce those costs and manage those costs were our medical and pharmacy necessity programs, requiring before we take steps to go into surgery, having a peer to peer review to ensure that surgery is the most appropriate approach, and we've done due diligence to all other opportunities. Similar to the conversation Dr. Washington had with you last year, relative to pharmacy costs and the increase in those costs and making sure before our employees look to tier two and tier three drugs that are more expensive that there is an opportunity for a tier one drug and coinsurance for those tier two and three drugs so that we have an opportunity to kind of share the costs in the enormous amounts of cost increases that come with some of the specialty drugs and so those are some of the things that we look to see some benefits to in fiscal '16 and we're certainly looking for opportunities as we move forward to look for ways for plan design changes to keep our percent increase in single

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digit Numbers as we move forward. Question that came from mayor Adler in an earlier portion of our presentation was relative to what our comparisons were for benefits. This slide provides you and we did not have the same opportunity to get as many city information as we did with the pay, but as we look at the health care, we are looking at the fact that fort Worth, Houston, Travis county, San Antonio and Dallas are proposing plan design changes and we were able to obtain some information from fort Worth, Houston and the county in terms of what their plan increase is. And the cities that we have listed below did not have as much detailed information but expect that their plan will be no more than a 10% increase. Now one of the things that I think is important for us to take into consideration as we start making comparisons to our plans and the percent increase is how rich our plan is and some of the uniquenesses to our plan based on council and employee feedback that we have in our plan that you'll not necessarily see in other cities, which includes the aba, classification we talked about last year, the transgender and some of the other types of uniquenesses that really create opportunities for richer plan that we truly believe are beneficial to us from a competitive advantage relative to maintaining and recruiting people to the city of Austin. And I think we heard from this council over the last year the need to create and sustain quality health care programs that value the true needs of our employees and so I would urge you to take that into consideration as you look at some of the increases that you see in other cities in comparison to. Comparison to ours. But I want to reiterate that we are seeking design plan changes that provide a quality program, but allow us opportunity to try to control those costs and control those increases. >> Mayor Adler: Is there a way to see -- I don't know how you would do it. Kind of like a list of the variables with

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respect to health plans so we could identify, you know, for example, ways that other cities were richer than we were in certain categories? Is there kind of a side by side with whatever the elements are of plans, benefit plans? >> We can certainly attempt to base that information on what we can get from other cities. What I've already asked the staff to do is look at what are some of the design plan changes that we've seen incremental will 2012 to today to give you some idea of how those plans have changed and developed, including when they implemented their tobacco surcharge and some other things. So I've asked pat to create that information right now. We can certainly try to see how much we can in terms of what the 2015 plans encompass and how that compares to the city of Austin's current plan. >> Mayor Adler: Okay. Because the comparison I was looking for with respect to the earlier deal was to figure out what is the salary and benefit package worth. And I can't do that from this information. >> We'll work on that. >> Kitchen: I have some questions. Are you almost done? Maybe I should wait until you finish? >> We've about four more slides until we're done with this component of the presentation. >> Kitchen: Just a quick question then. I'll be done. I would like to have an understanding of what the performance has been on the incentive programs. In other words, the programs that you put in place to try to keep the costs down. It's probably your disease management programs and your healthy connections, health assessment kind of programs. I want to see if -- I'd like to standard understand if they're working and to what extent they're working to control costs because that's another I would certainly be interested in discussing more. As you think about changes to benefit package it would be helpful to understand if there's changes to how the incentives work that

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could also incent healthier behavior and perhaps help us in controlling the cost. So I'll submit a question like that. But I'd like to see that kind of background. >> Absolutely. I will let you know at this point the benefits department is probably the most highest ranked in terms of satisfaction from employees in all services. And that team has a yearly annual evaluation of how to connect our results in terms of our plan design to the types of things we need to do to incentivize. So we can show you what those transitions have been over time. I would share with you that we've got over 5,000 employees that are currently participating in our healthy connections, which includes our seminars, our campaigns, and our wellness activities and pe program. And we also have over 3400 employees who have completed the health assessment that would allow us an opportunity to kind of track what are those key areas that we need to look for that resulted in the diabetes program that you saw in addition to the maternity. So there's always a constant connection between what we see in the overall results of those assessments and the types of programming you will see in our wellness. >> Kitchen: Yeah. I would like to know what we can do better and then I'd also like to know how much are these programs helping us in terms of reducing our rate of increase in cost because that's something that we should be able to quantify and I'd like to know what that is. >> Yes, ma'am. >> Mayor Adler: Mayor pro tem. >> Tovo: I have a question. You talked about a peer to peer surgery, a peer to peer discussion. >> A peer to peer review, yes, ma'am. >> Tovo: Would you mind explaining that. I didn't catch the details on that. >> Under the health care delivery, which is currently seen on slide 22, we talked about the centers of excellence and also the medical and pharmacy necessity. Under the medical plan it provides us the opportunity prior to

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authorization, uhc does a peer to peer review. So before a doctor determines whether or not you go into surgery, uhc asks that there be a peer to peer review in combination with uhc to ensure that that is

the best method in terms of addressing the concern or issue. So there's a peer to peer review before authorization is provided for those actions. And also on the pharmacy it allows us an opportunity to receive a prior authorization before subscribing certain medications in our tier 2 and tier 3. >> Tovo: I caught the pharmacy piece, but not the peer to peer piece. I assume that happens in the background. >> Yes. It gives us an opportunity to work directly from a doctor to uhc to ensure that we're utilizing the less evasive process possible to address the medical needs of the employees that are covered. >> I wasn't aware of that. I wasn't aware it was going on in the background of our plan. Thank you for that piece of information. >> Kitchen: That's standard for health plans. >> Tovo: I just haven't experienced it in my use of our health care plan. It's interesting. It's an interesting piece of information and it's good that those using the plan that weren't aware. >> Kitchen: That's the doctors talking to each other. You wouldn't see it. >> Mayor Adler: Okay. Anything else? Okay. Move forward. >> From 2014 to 2015 the medical claims per member per month increased by 13.8%. Our pharmacy claims per member per month increased by 19.7%. So that was really important information that we wanted to provide you that speaks to the other side that we talked about in terms of how our health care costs are increasing over time. Based on claims information that we had that take us through February of '16, our benefits fund contribution increases projected to be around 12%. But we're working real hard.

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I know you will remember that 12 percent, but I'm optimistic that with some additional plan design changes we're optimistic to come back where that amount is going to be lowered based on what we're projecting to need for that fund. Enhance and extending coverage with increase. With our benefits fund as we've already labeled out for you in the earlier slide relative to the projected growth. And we talked about those benefit design changes that we're looking to make to help manage those costs. And we'll be providing more information per the request of councilmember kitchen as to how those plans have worked and the success we've seen in some of those programs moving forward. And so that leads us to the final discussion, which is basically around our competitive medical benefits. Understanding the need for affordability not only to the city, but also to our employees. And an engagement in wellness programs. >> Mayor Adler: Quick question. When you did the increase, the 19.7, that's dollars and not Numbers? >> Yes. That's dollars. Our medical claims for 2014 per member per month was at \$421 compared to 2015, which was at 479. Our pharmacy claims, in 2014 were at \$80.27, which increased to \$96.06 in 2015. >> Mayor Adler: Okay. And then when you did your forecast? What number were you assuming in terms of the increase to the benefit fund contribution, do you know? >> Van Eenoo: The city's contribution to the benefits fund we made an estimate of 12% growth so we wanted to be on the conservative side in terms of cost estimates. >> Mayor Adler: Thank you. Ms. Pool? >> Pool: I will submit a couple of questions that I asked about the reports on the convention center and the aviation department

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and also attrition retention rates. Can you ask me where to send them. >> His name is brad Sinclair. >> Pool: That's right. >> Good name to know. >> Mayor Adler: Any other thoughts or questions on this? Councilmember kitchen? >> Kitchen: I have questions related to the health insurance availability for 1099 employees, so I'll submit those. We got this kind of information, we had this discussion last year, so I want to follow up and get an update on that break down of the 1099 contract workers, and their access to health coverage. And by that I mean the outsourced workers that we have and whether or not they're accessing health insurance through the companies that they're working for. I'll submit questions related to that and I'd like clarification across all of our enterprise funds. >> Mayor Adler: Okay. Anything

else? Those are all the -- >> Kitchen: One more question. Let me make sure I understand. You're assuming a 12% increase in cost, right? And when you say you're looking at changing the benefit package, what kind of things are you -- do you know yet what you're looking at? >> We're not looking at changing the benefit package. We're looking at plan design changes that would minimize costs and we're not at a point where we have made any recommendations to cmo, but we're looking at opportunities to do any plan design changes that could decrease the cost below the 12 percent. >> Kitchen: Okay. I misunderstood. By plan design you don't mean the benefits that are available. Right? What do you mean by plan design? >> When I talk about plan design changes,

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changing our policies and procedures relative to how the benefits are being utilized. So we're not hooking at taking away benefits from any level of employee. We're not looking at taking away their options. It's looking at how we manage the actual programs that we have available. >> Kitchen: Co-pays, co-insurance? Co-pays, co-insurance and these wellness incentive programs. >> Yes, ma'am. >> Kitchen: Okay. >> And councilmember, there's also some discussions about ensuring more awareness and consumerism in redirecting employees or allowing them to be redirected to low cost procedures and staff has been looking at implementing options like another network within our plan of preferred network that would maybe have a lower co-pay upon utilization, but for the low cost physician. Those are some of the things that they're looking. And other thing I think there's an opportunity from a support effort is we really need to engage more of our employees in the wellness program. We don't have enough penetration. Some of those other cities that have low increases on the insurance, they have programs where they incentivize employees and get participation rates up to 85, 90%. And we are still lagging. That's where where we're not as competitive. Although we have excellent programming our wellness staff does a great job, but we really need more employees to participate and there are ways that we've done it or we approached doing it in the past to either incentivize or to differentiate premiums of employees who participated who don't versus those who don't, but we could also use the support of the council to be advocates of wellness as part of our marketing campaign.

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>> Kitchen: Okay. That's something I would like to discuss with you further. >> Mayor Adler: I'd like to see how we could differentiate and drive that. I know not too long I did a video where I did no-handed pushups. I did. No-handed. >> Kitchen: Could you demonstrate how you did that? >> Mayor Adler: This just shows you what our public information people can do because they put together the spot that had that. But ways in which both internally, Dr. Washington, with respect to incentives or differentiation, but also ways that you think that the council could help set that culture beyond what we're doing now and to identify that, that would be good too. What else? What else? >> Van Eenoo: I think we're done. But I have one thing to add. I think councilmember Casar broke out his napkin and came out with an estimate of one million dollars to extend the living wage to all employees and not exclude the seasonals and parks has chimed in and said they came up with 1,012,940, so I want to commend the work on that napkin over there. [Laughter]. >> Mayor Adler: You're in trouble now. We'll look to you for all that. I think the presentation today was really good and very helpful. And I want to thank you. And all the folks that participated today. I thought this was very helpful. >> Gallo: So not only is Greg really good at Numbers, he's also good at having birthday and today is his birthday. And Leslie promised because she probably has the best voice in the room that she would lead us in happy birthday. So I am turning my microphone off. She's going to turn hers on. >> Pool: Well, okay. So I never offered, I never promised, but because everybody else gets sung to for his or her birthday, we don't want to let one of

our younger colleagues out. So here we go.

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[♪ Singing happy birthday]. >> [Applause]. >> Zimmerman: So Greg, you are young enough to have birthdays. >> Casar: We all had different frequently asked questions during our campaigns and during mine there were several people that asked me if I didn't want to be a little bit older by the time I ran for office. And I promised them, I made a campaign promise that I would work on it every single day. [Laughter]. Today is the culmination of one year's worth of work. So this is a testament that I've kept that promise. >> Zimmerman: Campaign promise kept. >> Casar: Thank you. >> Troxclair: Mature? One more thing. My nieces are in town visiting today and they're up in the office and they were excited to watch our budget work session so I wanted to say hi to Claire and Sadie. >> Casar: There's cupcakes in my office if they want. >> Mayor Adler: And I think June 2nd and 3rd is being shopped right now for our day and a half. So we might want to check up in your offices and your calendars. >> Kitchen: What happened to may 20 and 21st? >> Mayor Adler: There were problems with that with people. June second and third. And -- that may not work either. We'll be in touch. We stand adjourned. >>