

City Council Work Session Transcript – 04/19/2016

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>> Tovo: Okay. We now have a quorum, so I am going to call this meeting of the city council this work session of the city council to order. I'm mayor pro tem Kathie Tovo. As many of you know, Mayor Adler is out of the city on city business related to the smart city housing grant. Councilmember Garza is home with a sick child today and will not be here in person, but will be watching online. And I believe councilmember kitchen will be joining us a bit later, closer to 10:00. So I think we would like to start with the Austin water debt presentation. I think that makes the best sense. Councilmember Zimmerman, you pulled some items, but I believe they're all related to this issue. And I'm told Councilmember Troxclair also will be unable to attend this morning. >> Zimmerman: Before you start, mayor pro tem, one of the things we wanted to emphasize is we thought that our committees, public utility committee, the reason we formed committees is so we could review these kind of very large big ticket items before they came to council. So. >> Tovo: Councilmember Zimmerman, I believe this -- I'll ask staff to address this. I think we may have had a discussion about whether some of this would come to audit and finance and decided it was of interest. But I may be conflating it with another issue, but in any case, I think it's very appropriate for the whole council to have briefing so I appreciate you being here to talk about these items. Ms. Hart, did you -- >> We typically do not bring bond sales to the committees. We typically bring them to the full council just like we do budget issues. >> Tovo: Thank you for that explanation. Okay. >> Good morning, mayor pro tem and councilmembers. With me today are Greg

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Meszaros, director of the Austin water utility, and Dennis Whiley, who is with public financial management. His firm is the city's financial advisors. We're here to talk to you about four agenda items that are on the -- on your Thursday agenda. One -- this slide is a listing of those items. There are two items asking for council authority to apply for loans from the Texas water development board for low interest loans. Those items are Numbers four and five on your agenda. There is also a Defee Sans or a payoff of \$18.2 million in debt using available cash. That is item 12 on your Thursday agenda. And then authority to issue refunding bonds of up to \$295 million based on market conditions for cost savings as well as converting short-term commercial paper into long-term debt. And that is item 11 on your agenda. The presentation today will cover each of those in more detail. And feel free to stop us and ask us questions if you have questions as we go along. The Texas water development board has a program called swift, which is the state water implementation fund for Texas. It is a program that was authorized by the Texas legislature in 2013. It provides low interest loans for utilities across the state for water and wastewater projects. We are seeking application for loans for a smart meter system in an amount up to 80,195,000. And then also for improvements to filter capacity for the

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wastewater treatment plant and expansion of our reclaimed water system. Those capital improvement loans would be up to an amount of \$86,980,456. I will tell you that there's a fairly lengthy process that takes place at the Texas water development board. Applications for this year's allocation, which is a little over a billion dollars, is -- applications were taken between early December of '15 and early February. And those applications totaled about \$2.3 billion in funding for projects. Last week the Texas development water board staff presented a prioritized list of 28 projects totaling \$1.3 billion and that prioritized list included both of these projects for our smart water system for our water utility and the treatment plant and reclaimed water expansions. I will mention that on the scoring system the smart meter projects scored 86, which was one of the highest scores on the prioritization list. And the other projects scored 60, but both are being recommended by the Texas water development board. Once the council takes action on Thursday, if it is to approve authorization to apply for these loans, there is also a process to file a more complete application by May 11th. And then project selection by the Texas water development board would be complete by July and then they would issue bonds and funding would be in December. All that we're asking the council to do on

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Thursday is allow us to go forward with the more complete application for the loans. And these projects would be funded over the next seven years. I will mention that these projects are also in the five-year capital program for the water department. The reason that we'd like to move forward on these is the savings potential on the project financing costs. Part of the program, again, is low cost loans. And they're offering for loans over -- with up to a 20-year term they are offering a 35% reduction on the interest rates based on the Texas water development board's triple A rating, which is a higher rating than our water utility has. So our rate payers for the water utility will gain significant savings if these loans are approved. I'll move forward to the Defeasance item. Again, if you inherited money from a relative and you wanted to use it to pay off a mortgage, that is a Defeasance. They are paid in full both legally and financially. The cash or the refunding bond proceeds -- there's two ways to do a defeasance, you can use more bonds or use cash. That cash is put in a trust fund that is held in escrow. And the trustee of the fund as the payment on the old mortgage, if you will, as the payments become due, that trustee makes those payments, but the minute that we do the defeasance that debt is off of the city's books and the city is no longer responsible for that

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debt, just as you would be if you paid off your mortgage early. So that's kind of how it works. >> Pool: Real quick question for you, Ms. Hart. When we do a defeasance, what is the general effect on the bond rating, or does it have any? >> Excuse me, I will cover that. In this particular case you will be lowering the debt and lowering the debt requirements over time. And so that would have the effect of increasing the debt service coverage metric, which is certainly a key metric that our rating agencies look at. So it could, although they look at a number of factors, it could result in an improvement in the water department's credit rating. Okay. Again, we'll be using cash to do this 18.2-million-dollar defeasance. The cash has accumulated over a number of years from capital recovery fees collections or impact fees collections. I will remind you that those revenues, capital recovery revenues, are restricted as to their use and they can be used only to pay for those costs of the construction and facility improvements that are related to that growth or to pledge for -- be used as a pledge or payment on the debt service on

these same projects. So they have to be projects that are within the capital recovery fee plan that is submitted to the state. This is one of several things that as a team we look at to manage the utility's debt cost. And they do have some planned defeasances coming up in the future. Again, we would be planning to use capital recovery fees, but again this is to keep their debt cost lower and to improve their financial position, their financial strength. The last item that we

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have on council's agenda for Thursday is refunding bonds. And there's two pieces of this refunding, which is not unusual. One piece of it is conversion of about \$190 million of short-term debt, tax exempt debt, commercial paper that we have issued over the last, say, year to 18 months. We are now ready to convert that to long-term refunding revenue bonds. By doing that we have a commercial paper program that's a 4-million-dollar tax exempt commercial paper program. And by refunding these bonds we free up that capacity again so we'll restore 190 million of the 400 that the water department and Austin energy share so that they can continue to issue the commercial paper. Why that's important is the commercial paper interest rates are lower than our revenue bonds so we get a benefit in the early years of the project financing and so we want to continue to be able to use that lower interest rate on new projects and then convert the older projects to the revenue bonds. So it's important to keep that commercial paper program rolling and being available to the two utilities. We estimate -- the other piece of this refunding is a refunding of bonds that have higher interest rates from three percent to five percent. And so given current market conditions, we can gain savings. It's like refinancing your mortgage at a lower interest rate. We're doing that with a piece of the water utility's debt. So that piece we estimate we will gain about 12 million in savings, net present value savings on debt service in the future or

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about 10.9 percent of the refunded bonds. So that is certainly higher, almost twice what our policy target is of at least 4.25%. So public financial management has recommended that we move forward with those refunding bonds. Refunding bonds -- this bond transaction can be impacted by market conditions. And the market conditions can affect the savings, they can affect the par value or the amount of bonds that we're selling, as well as the feasibility of the sale. In the event we're not able based on market conditions on the sale date to achieve that target 4.25, we would not proceed with the refunding. So certainly we're trying to time this sale based upon the best market conditions that we can have, however I do remind the council that the market changes everyday and that that is why we rely on public financial management, our advisor as well as a number of other professionals who are involved in the bond sale. Again, the benefits of this refinancing of water debt, it will improve their financial metric, the debt service coverage. Those savings over time help improve that coverage. Certainly there will be savings over time just in budget dollars, there will be savings and then those savings can help us maintain the lower utility rates that is always our goal. On Thursday we'll ask you to approve what is called a parameter ordinance. The parameter just refers to the conditions that we have to follow in executing the bond sale. That ordinance delegates authority to complete the sale to the pricing officer, which is specifically named as the city manager or the chief financial officer of the city.

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It provides the flacket that we've talked about need -- the flexibility that we've talked about needing should the market conditions change and we need to change the sale date and it also allows the sale of

the bonds within a specific period of time. It sets a maximum interest rate of 15%. Obviously that's not what we're going to get on this bond, so we expect a much lower rate. It sets a parameter that we have to achieve a minimum of the 4.25 policy target. It sets a maximum maturity on the new bonds of 30 years. Although on these bonds they are not extending the life of the refunded bonds. And it also sets a specific time frame within which we have to exercise that delegated authority. And that is January 1st of 2015. Once we have that authority there's lots of work that continues on. We monitor market conditions, we certainly worked towards doing the pricing. Our target date now is may of 2016 where we will lock in the bond pricing. We'll secure the interest rate and then it takes us about another month to work through all the paperwork to do the closing and actual funding of the sale. I think that's all I wanted to cover except for the ratings. This is a chart that you saw during the council orientation. It is the rating scale for all three of the major rating agencies. As you can see on the left, lower interest rates are on the top end of the green chart and the higher interest rates are the bottom. And the line in the middle delineates above the line is investment grade bonds. Below the line is the non-investment grade bonds. Typically you will see that more in a corporate bond market than you

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would in a municipal bond. So the stronger the credit rating which is at the top means that you will get a lower interest rate and the triple a rating is the highest rating. I'll mention that that is the rating for the city's general obligation bonds. The two utilities have somewhat lower ratings because their industry is higher risk than our general obligation tax supported bonds. But this is the rating scale that all the agencies use. We have two types of debt for Austin energy and Austin water. We have the combined utility debt, which is supported by a pledge of both electric system revenue and water system revenue. Then each of them has separate lien debt. Austin energy separate lien debt is supported solely by Austin energy revenue and Austin water has separate lien debt that is supported solely by their separate lien. So each of those types of debt has different ratings. The combined utility has both prior lien and subordinate lien debt. So you will see in that chart below the ratings. I will mention that the ratings are all investment grade bonds with very strong ratings. And so they should sell at the lowest interest rates in the market. And these interest rate savings help lower our utility rates. We're double a rated across the board on the separate lien water, aa 2 is the aa minus rating, equivalent rating for moody's. So with that we'll take questions. I hope we provided useful information to you. We're happy to answer any questions that you have. >> Tovo: Councilmember Zimmerman. >> Zimmerman: Thank you, mayor pro tem. Let me back up and start

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with some of the specifics on page 5 and how -- this has a frustration of mine for the last year since I got here. It's the mixing of terms that don't make any sense. Your second bullet point says estimate 12.1 million. Now, an estimate means that you don't have a lot of accuracy or specificity, but this estimate is very specific in saying 10.94%. What an estimate would do is an estimate would say somewhere between nine percent and 10 percent or 10 and 11 percent. That's what an estimate would look like. So when you say 10.94%, that's not an estimate, that's a pretty highly specific number and it's got to be based on some interest rates to calculate something with that accuracy, 10.94. So what interest rate is that 10.94 based on? That's a very specific number. It's not an estimate. >> It is, it certainly is. And we worked two and a half months prior working up to where we are today on this -- on these bond transactions. What we do -- and there's an asterisk there and I didn't mention it, but the 12.1 -- the 12.1 million is based on the market conditions on March 28th of 2014. >> Zimmerman: And those market rates were what? >> Tovo: Councilmember Zimmerman, let's let our staff finish their sentence. >> I

don't know if you have the exact -- I don't have the exact interest rate number. I'm sure Dennis does. >> Zimmerman: This is important to connect dots because it would be so easy to just put a rate down here. There's a highly specific number of what our savings, quote, unquote, savings are, but there's nothing about our costs. What is our cost? Toast councilmember Zimmerman, you asked a question and we're going to allow the staff to answer it. >> Zimmerman: I would appreciate an answer.

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>> So on March 28th we took market rates for a water credit rated double a minus and utilized that to determine what the savings would have been on March 28th. And that's where we came up with 12.1 million and 10.94%. Each day rates move higher and lower as market conditions change, and that savings over time could be higher or lower. >> Zimmerman: Let me go back to the item four notes here from the agenda. This was the original information, lack of information we had before we started asking more questions, but I want to call attention to the amount and source of funding. And the statement here that says there is no unanticipated fiscal impact. If somebody's going to make a decision over whether something is a wise investment or if it's a justified cost, they're going to need to know what the fiscal impact is. Not the unanticipated or anticipated. What is the fiscal impact? And the reason this is important is if city staff says there's no unanticipated fiscal impact, then the next section where it says fiscal note, it says a fiscal note is not required. Now, let me get this in more common sense terms. If you go in to buy, say, a car, the salesman says, well, you're going to get 35% reduction on your interest rate. Great. 35% reduction from what? If it's a 35% reduction from a 10% interest rate, I would still be getting ripped off. If it were 35% from, say, a 2 or 3% interest

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rate I would have a good deal. So when you tell me there's a 35% savings on an interest rate, that was one of the bullet points in here was there was going to be 35% -- can you show me -- that's on page three. Savings on project financing costs. So the car salesman says you're going to get a 35% reduction on your interest rate. It tells me nothing because I don't know what it's deducted from. It could be deducted from a relatively high rate, which means I'm still overpaying. I've been struggling with this for a year and we're still where we were a year ago where in my view I'm getting sales information, not technical and financing information. So back to this, where it says a fiscal note is not required, I don't know what the fiscal impact is. The statement here is that it's unanticipated. Well, what was anticipated? I don't know. But because you say it's not unanticipated or it is unanticipated, therefore you don't have to tell me what the fiscal impact is. >> Tovo: So councilmember, I think that the point you're making is that when something says unanticipated, it would be helpful to have the information there that was in the budget. Is that -- >> Zimmerman: This is pretty much what I was asking for a year ago. I want to know the fiscal impact, whether it's anticipated or not is an opinion. There is still a fiscal impact. >> Tovo: I think we caught your point. Ms. Hart. >> This is a request for authority to apply for a loan. The lone star would, as it says, the loan closing is not anticipated to be before December of '16 so there is no impact on the fiscal '16 budget. It would be a fiscal '17 in both of these loan cases. So I think that's why we've put the language the way it is because there is no fiscal impact on the current fiscal year, what is what we're reporting on. Although we can certainly look at in the future adding more

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information in this section. >> Zimmerman: Okay, let me go back to something simple -- >> Tovo: Councilmember Zimmerman, let me -- >> Zimmerman: When you're making a 20-year loan -- >> Tovo:

Councilmember Zimmerman, I haven't recognized you yet. Our city manager last week or perhaps the week before heard some feedback about the rcas and additional information and it's my understanding that the city manager is potentially going to ask for some changes to the requests that come forward. And so I'm sure that your feedback will be taken into account, but I want to ask Mr. Lumbreras, assistant city manager Lumbreras just to confirm my understanding. >> Mayor pro tem, you are impactly correct. Burt Lumbreras. The city manager has directed staff to not only look at the amount of information, but the amount of information we include in here. And we certainly can even prior to Thursday for this specific item, we can try to give you some additional information on this one. But yes, for any items that are coming forward on request for council action we are reformatting and looking at the type of information and how much information we need to provide to address some of these issues. >> Tovo: Thank you. Councilmember Zimmerman. >> Zimmerman: Thank you. So again, when you're borrowing money for a term of -- I heard the number of up to 20 years. It's unclear as to what these terms might be. It was mentioned that it might be 20 years. On the back of this page it says to 20 years. Now, typically the longer the term that you borrow money, the higher the interest rate. People know this from common experience. There's a loan schedule that's 30 years, you pay a higher interest rate. If it's 15 years you pay a lower interest rate. Common sense we know from basic experience. Again, same with buying the car, but what I heard was that because you're not anticipating to borrow the money this year, it would be December of 2016 and therefore whatever that

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term is, if it's 10 or 20 years, because it's not in this fiscal year, therefore you don't tell us anything about it because it's not in the current fiscal year. And my head wants to explode because when you borrow money in December of 2016, the fiscal impact is going to be for the 10 or 20 years that follows the time you borrow the money, not this year. So if you're going to talk about what the fiscal impact, you're talking about future years, future decades of what impact it could have on rates. And yet you said, well, you're not telling what is that impact is because it doesn't happen this year. >> Tovo: So I think if that's a suggestion for our staff of information they might include in the rca, I believe assistant city manager Lumbreras will area that back. Councilmember Houston. >> Houston: I just need to clarify. This is just to start the application process. >> That's correct. It's not the bond documents. We're just applying to get in the queue to come back in the future and borrow the money from Texas water development board. >> Houston: Then you will have more specifics? >> Yes. All the bond documents would come back to the council for approval, the construction, bidding of all this work. This would be several bonds over a period of several years. It doesn't obligate you to follow through. This is just to make sure we get in the queue for this low interest loan program the state of Texas created. >> Houston: Thank you. >> I will also add that we typically issue 30-year debt for utilities and this would be a shorter term if these loans were granted to -- and the city entered into them. So they should have a lower interest rate than the 30-year, plus they would also have the 35% reduction of the interest rate as well. >> Zimmerman: One more economy. So if we really don't know what we're doing and we're not sure how this is going to work, why do we have a

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proposed -- we have a proposed loan schedule in writing going out to the year 2023. 2023. So on the one hand I hear well, we're not really sure what we're going to do. On the other hand, it's written here in the document that we're going out to the year 2022, 2023, of \$20 million. But if I ask a detailed question, well, we're not sure what we're going to do. Well, if we're not sure what we're going to do, why are we projecting to spend \$20 million out in 2022? Do you see why the cognitive meant of distense

would be we don't know what we're doing, but we're going to borrow 20 million in 2022. I guess I'm done. I'm not going to get anywhere with this. >> These projections are the cash flow for the project and they are required in the initial application process with the Texas water development board. >> Tovo: Thank you, Ms. Hart. Colleagues, do you have other questions for either our outside counsel or our staff? Councilmember Gallo. >> Gallo: So number 4, item number 4 is for the smart metering system. Has council -- help refresh my memory on that. Has council already approved that system or is this part of the approval for the funding of that project? >> This is again just the approval to apply to consider Texas water development board as the funding mechanism for that project. It does not obligate us to complete the project. We haven't even completed any of our detailed feasibility work. The Texas water development board low interest loan fund is rapidly being allocated out and we wanted to make sure that we got into the queue for consideration to borrow money at lower interest rates for these types of projects. These projects are particularly attractive to Texas water development board because they're considered conservation projects. The meter system.

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And the Texas water development board loans require certain percentage to go to conservation projects. That's why we decided this was a good time to get in there. As we go through the details of specifying and bidding smart meters, that would all come back to the council and the council could determine at that time if they want to move forward with the program, if they don't want to move forward with the program, if they want to borrow from the Texas water development board, if they don't want to borrow from the Texas water development board. We didn't want to miss opportunity to get triple a credit rates at a 35% discount. We estimated that would save probably at least nine million dollars to our ratepayers to borrow at that lower rate. But certainly if the council declines us to apply, we'll not apply to Texas water development board. >> Pool: So I think you -- >> Gallo: I think you clarified that question. This is not a discussion of whether or not the council is approving the smart meter program, that will actually come back to us at some point in time to have that discussion. >> In many phases along the way, yes. >> Gallo: Because there is a current pilot project right now in river place, that is correct? >> We have several pilot projects that we're kicking to better familiarize our self with the various technologies that go along with metering and then we'll work through a full feasibility study over the next year and a half. And then that would drive our scope and specifications that then we would ultimately bid and implement over a period of another five to seven years. You know, it's a big undertaking to convert a quarter million meters. >> Gallo: I wanted to be clear that the discussion of that program was going to come back before the council. That we were not intending to do that right now. >> In many different forms, yes. >> Gallo: Thank you. >> Tovo: Councilmember pool. >> Pool: Thanks, y'all, for being here. The smart water program, is that the pecan street project? >> That's one. We have a partnership with pecan street where they're using various meter followings both on the -- meter technology both on the power side

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and the water side. In addition we're doing some of our other pilot projects to evaluate different approaches to smart technology. Water meter technology is significantly different than electric meter technology. It's -- it's underground as opposed to above ground. So we're kind of evaluating different approaches to that. And ultimately we would come back to the council about a year and a half from now with a detailed recommendation on how and if to move forward with the smart meter conversion. >> Pool: I did a tour of the pecan street project and I commended to everybody on the dais if you haven't gone out to Mueller to have -- to go and see the mechanisms that they're crafting, it's pretty interesting.

The piece on the water equipment, the monitoring, sounded like that equipment, the goal there is to be able to detect where leaks are, which would be particularly important if they're underground and you don't know where they are. Are they on the city side or underneath the slab? Is it inside the house behind a wall kind of thing? Do you have any specifics about that? >> That would be the kind of benefits a smart meter technology could bring. You know, in a traditional metering environment you read a meter once a month and the customer gets their bill and that's the first time they see their water use for that entire month. Where in a more smart meter environment you could get a daily or hourly meter read. You would have a customer portal where you would go and see your water use. You could even set up parameters to notify your -- you get a text to your phone if your water use pattern indicates a leak. We're envisioning that we could better manage our public side, the distribution system side, where we would know how much water was going out of the system, we could monitor how much was going into a portion of our system, maybe determine if we have leaks on our system. It's a whole -- having that much data available on a moment to moment

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basis gives you options that you don't have, but also you've got to figure it all out. It's a very complex undertaking. >> Pool: And when I put that in context of the spiking water bills from the last year or so, if everybody was on the smart meter, we would have been able to had in an early warning notice that something wasn't right. And if it was a leak in a pipe, this technology would be able to pinpoint where that was. Anyway, the technology is very cool. Y'all should take a tour and have a look-see at it. This is in I think the pecan street project has a grant from maybe the feds and also the university of Texas. >> There are several partners that they're working with. >> Pool: It's pretty neat stuff. Thanks. >> Tovo: Councilmember Houston. >> Houston: And I just want to say that this is just an application to put in the queue to get funding possibly. And that will all come back because after we went through the debacle last summer, anything about smart metering it's very attractive to me. So I hope that we do get the loan and I hope we can get something to do something so we don't have -- because we will have another drought and we will have some spikes in water utility bills and so hopefully this would be able to mitigate some of that trouble for our constituents, but also trouble for staff. >> Tovo: So councilmember Zimmerman, you pulled five items related to this. I wasn't sure if you had an opportunity or should we go through them one by one? >> Zimmerman: I probably have some more questions on item 5 on the proposed swift loan schedule on the back of the agenda page for item 5.

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>> [Inaudible]. >> Tovo: I think probably everyone knows this already, but just to call your attention to the memo that we did get on April 15th about these items. I had initially overlooked it, so I just wanted to make sure everybody was aware. Okay. Are there any other questions about item 4 before we move on to item 5? Okay. Item 5. >> Zimmerman: So on item 5 on the proposed swift loan schedule, as I said, it goes out to year 2022, 2023 in the last column that shows us borrowing 2.2 million in the year 2022. For onion creek main. If I add up these Numbers here from the decker lane main, cemetery main, Burleson road main, it comes up to the ballpark of \$40 million. And do I understand correctly that we're talking about expansions to the so-called reclaimed water system? >> That's correct. There's a map also on the next page that shows kind of the conceptual routes of those systems. In addition, the first two items are to filter projects at the wastewater plant. >> Zimmerman: So to go back to where we are right now with the once again record rainfall and a lake that's 100% full and an Austin water utility demanding permanent rationing while we are flushing tens of thousands of acre feet of water down to the gulf of Mexico, water that our customers are entitled to use, I'm offended, okay, at this expensive money, while

we were taking water that we already own and not using it and flushing it down to the gulf of Mexico. If people understood this they would be angry that we're talking about

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\$40 million of additional investments to our reclaimed water while the freshwater is being flushed right down to the gulf of Mexico. But people don't understand. So have we done a cost benefit analysis of this additional \$40 million? So we're going to -- if we borrow and spend the 40 million and we put in the infrastructure, and we operate it, how much is the reclaimed water going to cost us compared to the water that we're just flushing down to the gulf of Mexico? >> Our reclaimed project have been a part of our long-term planning for water supply management and resiliency. This has been reviewed -- this is a part of our completing the core and reclaimed water master plans. These projects have short and long-term benefits to leverage the water supply, extend our trigger, reduce our use of high-level lake water, manage our gallons per capita per day. This is reusing water that we purchase. We purchase water, as we've described before out of our wastewater plants and use it for golf courses, cooling towers, industrial uses. Yes, this has been vetted many, many times. We claimed water is a subsidized rate for some of the external benefits it provided. It's not yet a break even utility. We would be completing cost of service work and imagine in the feature it would be break even but that's many years off into the future. >> Zimmerman: So, again, we paid about, I don't know, somewhere in the ballpark of \$100 million back in '99, 2000, and we bat up to -- was it 200,000-acre feet or 250,000-acre feet? >> Are you referring to the trigger is. >> Zimmerman: I'm not talking about triggers, I'm talking about the prepaid water, the water we already paid for with \$100 million. We prepaid was it 250,000-acre

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feet per year? >> It was a imitation transaction where we prepaid reservation fees and we prepaid water use fees for Icrs up to a 201,000-acre foot trigger we would have to hit two years in a row before we have to start repaying for the water use fees. I believe the reservation fees were prepaid through 2050. >> Zimmerman: In other words, we could use up to 201,000 -- we could use up to 200,000-acre feet for what we've already paid with no additional money to Icrs? >> That's correct. >> Zimmerman: And we're using about 140, 150,000-acre feet? >> It depends on weather, but the peak has been in the 160s and the average with our conservation programs now is more in the mid130s. >> Zimmerman: About, yeah, mid130s, 130,000-acre feet, that's what I saw. So we've got a margin of about, you know, roughly 70,000-acre feet that doesn't cost us \$40 million. It costs us nothing, nothing, and so, again, the cognitive dissonance here is driving me nuts because instead of using the water we already paid for, we're going to spend another 40 million for reclaimed water system that loses money. So you said that we were gonna reuse the water we already paid for, but my point is we're not using the water we already paid for. >> We are using the water we paid for. >> Zimmerman: We're not using the water we paid for. It's being flushed down to the gulf of Mexico. We're in permanent stage two restrictions. We're publishing tens of thousands of acre feet down the gulf of Mexico unused we already paid for and yet our customers are supposed to pay another \$40 million for a reclaimed water system that loses even more money when we operate it. >> Tovo: Mr. -- >> Zimmerman: While we let the

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water we've already paid for flow down the gulf of Mexico. >> Tovo: It looked like you had information you wanted to offer and then councilmember Houston has a question. >> I mean, I guess I wasn't prepared for an entire water supply discussion today but I'll be happy to go into whatever detail we

need to do. Water supply management is not just about using as much water as you can, that you manage drought risk, you're managing climate risk, you're managing a growing customer base, where. We're currently impaneled in an integrated water resource planning task force adopted along with staff a recommendation to maximize the amount of local water resources that we use before we go out and consider additional better resources that -- water resources that we would evaluate in the future. Reused water is right at the heart of maximizing your local water resources, extending your water supply, managing the peaks that you have at your plants, managing how rapidly you have to size infrastructure. You know, we see a lot of benefits to reused water. We're not alone in that. Many, many Texas cities, San Antonio, all across the arid southwest and California are expanding their reclaimed water systems. It gives you tools to manage a whole portfolio of risk. We're not flushing water downstream, wasting water. Certainly when you get 12 inches of rain there's a lot of water flowing in the rivers. We're actively engaged in protecting our water supply. Berecently completed a historical revision of lcra's management plan that protects our wear supply and extends it. We're extended our trigger from an estimated trigger of 2022 to into the 2030s, that's \$150 million of value and growing every day. We'd be happy to engage in whatever detail you want on those. Again I want to emphasize this is the application for borrowing money for reuse projects that have been in our capital program for many years. If the council doesn't want to

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commensurate these particular transactions or along the way wants to cut one of these projects out, those are still decisions yet to come. This does not obligate you to complete all these projects in this list. >> Tovo: Thank you very much. >> Yeah. >> Tovo: That's very helpful. Councilmember Houston. >> Houston: Thank you so much. And I just want to make sure -- want to make sure I understand the rehabilitation of the walnut creek wastewater treatment plant. Can you tell me what that is. >> Both of our large treatment plants have filter systems. The final step in the process of treating wastewater is to filter the effluent and trays up to highest quality before it's released. We are rebuilding our filter systems. They've kind of reached their productive life and filter systems also support the reclaimed water system because reclaimed water has to be very high quality before it goes out. So the Texas water development board has agreed that since these support a reclaimed systems they could be considered a part of the reuse and water supply improvements and so they're willing to consider borrowing us money at lower interest rates for those projects. We would do those projects irrespective of reuse water. It's just a rehanning and a modernization of our existing filter systems at our two plants. >> Houston: Thank you. That's one that I'm concerned about. >> Actually, one of the projects, south Austin regional has already bid and we -- you know, if we ultimately go forward with these loans we'd be able to take that money and fund it at a lower interest rate. And, again, that would be coming back to the council. >> Houston: Thank you. And then the last question has to do with the 18,000 feet of reclaimed main to serve several cemeteries. I've got five cemeteries in district 1, and when the drought hit they were at -- needing reclaimed water so we appreciate that. >> Tovo: Thank you. Councilmember pool.

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>> Pool: And why wanted -- I want wanted to point out our piece in the highland lake system we're part of the example it's important that the river continues to flow for the folks who are downstream of us. There's industry down there. There's fisheries. And the tide water pools need to have their fresh water in-flows so we can't shut off the river. >> You're correct. The basin surge is exactly what you describe. There's many up and down users throughout the basin. >> Pool: Thank you. >> Tovo: Councilmember Renteria. >> Renteria: I just want to ask one question about what is the trigger point and how much is

the rate after the -- if we hit that trigger point? >> Well, after you hit the lcra trigger that we prepaid, we would go back to paying the current rate at the time for firm water that we use above 150,000-acre feet of water. So currently 1 acre foot from lick ca rey arrelano -- I'm going to go from memory but I believe it's currently \$145 per acre foot. So whenever we hit the trigger, which, you know, hopefully will be many decades from now, we would pay the going rate. I would expect by then it's going to be significantly higher than what it is now. You know, what that would be 20 years from now it's hard to say but it would probably be in the let's say 250, \$300 per acre foot range is a guess so every acre foot you use -- and, you know, we would use tens of thousands of acre feet, that's what you would pay to lcra. Money, I could give you a more detailed answer, we could submit a written response to you. >> Renteria: I would appreciate that. >> Once we hit the trigger, we would repaying lcra tens of millions of dollars for raw water, ten, 15, \$20 million a year additional costs for us.

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>> Renteria: Thank you. >> Tovo: Thank you. Colleagues, any additional questions about items 6, 11, or 12? Councilmember Zimmerman. >> Zimmerman: I have a final question on item 5. I still want to see the anticipated fiscal impact because when you borrow, you know, 40 -- \$48 million, the rate ratepayer is going to have to pay it back. So, again, I want to see a -- I want to know what the fiscal impact is the anticipated fiscal impact. Because if you're anticipating spending 40 physicals you have to anticipate a way to pay it back. Common sense. And the unanticipated fiscal impact is just -- it's just unreal that this would be in here. When you borrow 40 million, there's a fiscal impact. It has to be paid setback that data needs to be -- back and that data needs to be shown. I'm making a requirement. My colleagues may not care but I'm insisting on seeing the anticipated -- you're not going to know precisely with decibel point accuracy but there will be a fact impact. Finally, I appreciate that water management is complex. We agree. I've been in systems engineering. Complicated. You change one thing and it changes a bunch of others. It's not a trivial matter. But in all the things you mentioned, you include climate change in your water management complexity. I did not hear unaffordable water bills. I did not hear that as one of the concerns, one of your management concerns. That is a management concern from my view, the unaffordable water bills are at the top of the list of management concerns and it didn't make your list. Climate change made your list but unaffordable water bills did not. And if you want to know why I've been, you know, critical of management, I think that's the reason. We include climate change as one of our management concerns, but we never mentioned unaffordable water bills in your description. So. . . >> Tovo: Councilmember Houston.

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>> Houston: Thank you, mayor pro tem. I want want to say that I appreciate all that you do. This is very complicated, but as Austin and the central Texas region continues to grow and our population continues to increase, we're going to have to be very cognizant of conserving our water supply. That's the only thing that we can't make -- well, some people are making it up in Wichita falls I guess they're making it, but we really do. We have to be aware of what our water usage is and our water supply. So I appreciate the fact that you're trying to make an application -- I'm going to repeat that again -- make an application to try to provide the infrastructure that we're going to need in the future for all those people that will be coming behind us. So I appreciate it. >> Tovo: Ms. Hart? >> We'll be glad to put additional fiscal information in the q&a. We're not allowed at this point to change the face of the rca but we will get some information in backup. >> Tovo: Great, through the q&a process so that will be treated as a question from councilmember Zimmerman with a staff response. Great. I concur with councilmember Houston in thanking you for the work that you're doing, not just to adhere and enhance our

conservation goals and a rational approach to water planning but also I think these measures are very smart from a fiscal perspective so thank you. All right. Well, those are the last items that we had pulled. Thank you so very much. And, again, I don't -- I think I neglected to apologize to all of that you we started the meeting late so thank you for being here and waiting for us. Colleagues, are there other items on the agenda that we need to discuss quickly? And I would add that to a question about what -- what items you anticipate wanting to discuss on Thursday just to do that kind of planning that we've been doing the last couple work sessions? I think that's been helpful. Helpful framework. Anything anybody knows at this point that they intend to pull

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for Thursday, any time-certain items? Councilmember Casar, did you have something or you're just waiting for me to adjourn? If no one has anything to talk about right now -- councilmember Houston. >> Houston: Maybe 16. >> Tovo: Okay. >> Houston: Maybe 16. I need to look. I just got backup I need to look before I'll know but maybe 16. >> Pool: The item I was thinking is a public hearing item so no need to pull it. >> Tovo: Right. Okay. >> Houston: Hold on just a minute. Don't go too fast. >> Tovo: We have two public hearings, one is related to land development code that we discussed last Thursday. Those will be our two public hearings for this week. >> Pool: Do we have a public hearing on item 33? Oh, it's to set the public hearing. Sorry. >> Tovo: We have a good number of items to set the public hearing. So my expectation is that we won't be discussing those. We'll just setting the public hearing. Councilmember Zimmerman. >> Zimmerman: Number 17, the 116,000 to Atmos research and consulting and we're working on an amendment to that that would break that in half to propose 50% of that money for scientists who do not believe and man -- in man made climate change to balance out the money that's been given to people that insist that climate change is manmade. >> Mayor Adler: I saw you submitted questions on that item I think through the q&a as well. Thanks for the heads-up about the amendment coming forward. Any other items? >> Houston: It was one about landscaping but I can't find it at this moment. >> Tovo: Okay, a landscaping contract? I'll take a look at that. Thanks very much. To the extent that issues come up using the message board is

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great. I will just give a heads-up that I have -- I'm going to be slipping in at the last minute before our council meeting on Thursday. I do intend to be on time so we can start on time but I am going to be coming in really late. I'm meeting with downtown stakeholders and staff to talk about kind of a new concept they're considering. >> Pool: Mayor pro tem? >> Tovo: In working with individuals who are experiencing homelessness. >> Pool: Great. >> Tovo: Councilmember pool. >> Pool: Could I just ask since we have spent the bulk of our time this morning on these items that were pulled, they won't need to be pulled and rediscussed on Thursday? >> Tovo: Well -- >> Pool: That would be my hope. >> Tovo: That's a great goal, great aspirational goal. I know there were questions submitted through the q&a and of course it's the council's prerogative to always pull things on the day of but it would be great if we advanced the conversation. Councilmember Gallo. >> Gallo: I think with some of the questions we had and councilmember Houston continuing to point out -- and thank her for doing that -- that I think part of the reason in pulling some of those on Thursday might to be clarify to the public that we're not actually approving the programs within that but that we're starting the application process. So for clarity to the public it might be good to have a little bit of conversation on that so. . . >> Tovo: And if it truly is a little bit it could maybe even stay on consent and one person could make that comment from the dais. Councilmember Houston. >> Houston: Mayor pro tem, the item none is 22. >> Tovo: Thanks. All right. Anything else? I don't believe we're meeting in executive session today, and so without -- with nothing

else on our agenda general dark we stand adjourned at 10:15 let's do try to arrive to start at 10:00 on Thursday so we can be efficient with our time and the staff eats. Thanks. And the public's.