



BOARD/COMMISSION RECOMMENDATION

Economic Prosperity Commission

Recommendation Number: 20230327-04b: Financial Resiliency

WHEREAS, The City of Austin has many fixed expenses that it must pay over the next year, five years, and even longer time periods, while having an uncertain future income over the next year, five years, and even longer time periods.

WHEREAS, for the next year, "75% to 80%" of the City of Austin's Budget's General Fund is salaries, which are a fixed expense.

WHEREAS, sales tax, a major source of revenue for the City of Austin, fell more than 17% below trend during the Financial Crisis and fell more than 16% below trend during the COVID Pandemic. (This is based on a 6-month rolling average on pg. 161 of the 2022-23 Approved Budget.)

WHEREAS, non-sales taxes and fees, which produce a stable income for the City of Austin during a recession, can become increased burden to Austinites' own budgets during those recessions.

WHEREAS, Austin is subject to uncertain costs caused by natural disasters, such as freezes, floods, droughts, hurricanes, and (if TV can be believed) volcanoes.

WHEREAS, Austin has long-term pension obligations.

WHEREAS, Austin is making large long-term investments, such as Project Connect's light rail network, based on growth predictions.

WHEREAS, other cities have gone bankrupt or experienced financial austerity due to miscalculated growth.

WHEREAS, Austin's growth is at risk if its high-income high-tech industry is disrupted by AI or another technology.

WHEREAS, The City of Austin's central location in the Austin metro area may be disrupted by new social practices, such as remote work, or new transportation technology, such as automated driving or drone delivery.

WHEREAS, Austin's growth is at risk if housing costs remain high and industries decide to expand in cheaper cities. Austin's rent has increased by 27% since January 2020, according to Zillow's ZORI index.

WHEREAS, in 2020, the COVID Pandemic cause both significant financial uncertainty and financial demands at the same time.

WHEREAS, many corporations engage in "hedging" to reduce uncertainty. Texas-based Southwest Airlines hedges the cost of fuel, one of its major expenses and a source of uncertainty. Hedging contributed to Southwest reporting a profit for 50 years in a row.

WHEREAS, Title 10, Subtitle F., Sec. 2256.0201 of the Government Code of the State of Texas allows municipal utilities to hedge electricity and fuel costs.

WHEREAS, Title 10, Subtitle F., Sec. 2256.0206 of the Government Code of the State of Texas allows political subdivisions to enter into hedging transactions for various purposes.

NOW, THEREFORE, BE IT RESOLVED that the Economic Prosperity Commission recommends that the City of Austin:

Investigate how to assure Austin's financial stability, during crises and over the long-term. This can include but not limited to: the ability to suspend interest payments on debt during specified events, issuing debt where repayment is based on Austin's GDP or property values instead of fixed dollar amounts (e.g., promising to pay 1/200,000th of metro-area GDP instead of \$1,000,000), hedging future income (e.g., receiving \$X billion dollars in exchange for 70% of sales tax revenue), and hedging expenses (e.g., wages, rents, fuel or energy costs).

The City should be mindful to align income with expenses, some of which go up and down together.

Date of Approval: March 27th, 2023

Record of the vote: Unanimous on a 6-0 vote

X

Kelsey Hitchingham
Chair

X


Michael Nahas
Vice Chair