





MEMORANDUM

TO: Mayor and Council Members

THROUGH: Susana Carbajal, Chief of Staff 

FROM: Edward Campos, Director, Small and Minority Business Resources Department (SMBR) 

DATE: January 17, 2024

SUBJECT: **Minority-Owned and Women-Owned Business Enterprise Procurement Program Ordinance and Administrative Rules Revisions, and Personal Net Worth Update (Resolution No. 20200326-053)**

[Resolution No. 20200326-053](#) directed the City Manager to convene an Inclusive Procurement Working Group (IPWG) to assess specific programmatic and administrative issues related to the City's Minority-Owned and Woman-Owned Business Enterprise (MBE/WBE) Procurement Program. This memo serves to close out the remaining open items related to this resolution, specifically the newly adopted and revised MBE/WBE Procurement Program Ordinance, Administrative Rules process, and an update regarding the indexes used to calculate the Personal Net Worth threshold.

On March 10, 2023, the IPWG issued their report containing [recommendations](#) to the Austin City Council. Staff reviewed these recommendations along with the 2022 Disparity Study [recommendations](#) to revise the MBE/WBE Procurement Program Ordinance and the Administrative Rules. The IPWG's report outlined 20 recommendations, three of which focused on Personal Net Worth.

MBE/WBE Procurement Program Ordinance

On July 20, 2023, Council approved Ordinance No. [20230720-113](#), which guides the City's Small and Minority Business Resources Department (SMBR) in administering the MBE/WBE Procurement Program.

Highlights from the final ordinance include:

- Reducing the number of ordinances from 4 to 2 by consolidating the construction and construction-related professional services categories into one ordinance (Construction and Related Professional Services) and combining the non-professional services and commodities categories into a separate ordinance (Goods and Services);
- Removing the reference to information related to outdated MBE/WBE estimated Availability; and
- Moving administrative-related items to more appropriate departmental policies/procedures/rules.

MBE/WBE Administrative Program Rules

On October 10, 2023, revisions to the Administrative Rules were posted on the City Clerk's [website](#) for stakeholder and public review and comment. On October 10, October 24, and November 3, 2023, stakeholders were notified via email about the rule revision process. The public comment period ran from October 11 through November 13, 2023 with no comments received. On December 14, 2023, the [final Administrative Rules](#) were posted on the City Clerk's website. The revisions made to the rules are reflective of both the 2022 Disparity Study and the IPWG's recommendations. The revisions also align with the new MBE/WBE procurement program ordinances adopted by Council and reflect current program administration and departmental processes.

Personal Net Worth (PNW)

The PNW is a certification program eligibility requirement established in 2008 based on a recommendation by the City's Disparity Study consultant. The PNW threshold is used to determine whether individuals applying for MBE/WBE certification meet the economic disadvantage requirement set forth by Austin City Code §2-9A-4 (20) and §2-9B-4 (20). An individual's personal net worth includes only their share of assets owned separately and/or jointly and excludes certain personal assets and all assets attributed to the business seeking certification.

The IPWG's three [recommendations](#) related to PNW:

- *Recommendation 3 and 5: Keep Personal Net Worth (PNW) but modify/revisit the structure.*
- *Recommendation 4: The City should review its use of the South Region Consumer Price Index (CPI) in establishing its PNW to determine if this index accurately reflects the unique Austin economic marketplace.*

In response to these recommendations, SMBR engaged local economist John Hockenjos, President of TXP, Inc. (TXP), to review SMBR's current PNW methodology, perform a review and assessment of the PNW process, and to update and refine the methodology used to calculate the personal wealth definition of economically disadvantaged. In addition, TXP was asked to determine if the South Region CPI accurately reflects the Austin economic marketplace and conditions, and, if not, what index(es) the City should use to assist in establishing an annual PNW threshold.

On July 27, 2023, TXP provided SMBR the findings of the review and analysis. See Attachment. Based on TXP's methodology/calculations, it was recommended that the South Region CPI, currently the only index used by the City to calculate PNW, should be kept and that the City should incorporate additional indexes to capture measures of income and assets along with prices in the calculations, and the stock market. This would, based on the recommendation, better reflect the Austin area marketplace. The specific indexes to be used include: the current employment survey from the Bureau of Labor Statistics/Texas Workforce Commission; the S&P 500 (S&P); the Texas A&M Real Estate Research Center (A&M); the Austin Board of Realtors; and the South Region CPI. Prior to adopting this new process, staff and TXP briefed the IPWG on these findings. The IPWG recommended staff to move forward with TXP's recommendations. Accordingly, SMBR will reset the PNW threshold annually in the month of December, publishing the results in January of each calendar year starting in 2024.

Should you have any questions, please contact me at Edward.Campos@austintexas.gov or 512-974-7206.

cc: Jesús Garza, Interim City Manager
Anne Morgan, City Attorney

Attachment: TXP's Memorandum regarding Calculation of Personal Net Worth Limits (PNW)



July 2023

MEMORANDUM

Calculation of Personal Net Worth Limits (PNW)

Background

TXP was engaged by the City of Austin's Small and Minority Business Resources group (SMBR) to update and refine the methodology used to calculate the personal wealth definition of economically disadvantaged, which in turn determines eligibility and access to a number of City/SMBR programs. Originally set at \$942,000 in 2008, the amount that defines the upper limit has grown subsequently, with the Consumer Price Index, Southern Region produced by the Bureau of Labor Statistics being the driver in recent years. Table 1 below shows the current and historical annual figures.

SMBR asked two specific questions:

- Question 1 - Does the current PNW threshold (\$1.697M) meet the "economic market conditions" for Austin? Is it too high or too low?
- TXP Response: **Based on our methodology/calculations, we think it's a little too low.**
- Question 2 - Is the South Region Consumer Price Index (CPI) used in establishing the PNW to determine if this index accurately reflects the Austin economic marketplace and conditions. If not, what Index should the City look to or use to assist us in establishing an annual PNW threshold.
- TXP Response: **See memo that follows for alternative approach that incorporates measures of income and wealth along with the cost environment.**

Table 1: Historical and Current PNW Limits

	PNW Limit	% Change
2008	\$942,000	
2009	\$955,000	1.38%
2010	\$1,326,000	38.85%
2011	\$1,341,000	1.13%
2012	\$1,391,000	3.73%
2013	\$1,413,000	1.58%
2014	\$1,434,000	1.49%
2015	\$1,454,000	1.39%
2016	\$1,457,000	0.21%
2017	\$1,480,000	1.58%
2018	\$1,511,000	2.09%
2019	\$1,540,000	1.92%
2020	\$1,565,000	1.62%
2021	\$1,583,000	1.15%
2022	\$1,697,000	7.20%



Discussion

The Consumer Price Index is a measure of inflation, which reflects the rising cost of goods and services. This is representative of the cost side of equation but does not include a measure of current capacity to pay, for which local wages are a reasonable proxy. In addition, there is no measure that corresponds to wealth, which in turn is typically driven by asset values, for which the performance of equity markets is a useful overall proxy. There is not a comprehensive local measure of wealth, although home values do provide an indication. TXP's suggestion is to consider incorporating measures of income and assets along with prices in the calculations, specifically 12-month changes in wages, median home price, and a broad measure of the stock market.

SMBR will reset the PNW threshold annually in January, meaning that calculations should be done in December. The Current Employment Survey from the Bureau of Labor Statistics/Texas Workforce Commission has information on Average Private Sector Weekly Wage with about a 6-week lag, meaning that October data will be the most recent available for work in December. The S&P 500 (S&P) is a broad-based measure of equity markets; the Texas A&M Real Estate Research Center (A&M) collects data on a monthly basis from the Austin Board of Realtors on housing activity. In order to align the data, TXP suggests taking the daily closing value of the S&P 500 on the 15th of the month (or the day closest to it if the 15th occurs on a day the market is closed). See Table 2 below for the historic values for each of the suggested measures, and Table 3 for annual change, calculations, and proposed new PNW Limit.

Table 2: Historical Values of Proposed Measures

	Avg Weekly Wage	Daily S&P 500 Closing Value		Median Home Price	CPI
2008	\$801.46	10/15/2008	907.84	\$202,100	216.573
2009	\$815.96	10/15/2009	1096.56	\$199,800	216.177
2010	\$847.52	10/15/2010	1176.19	\$203,400	218.711
2011	\$861.60	10/14/2011	1224.58	\$205,000	226.421
2012	\$891.80	10/15/2012	1440.13	\$225,660	231.317
2013	\$897.14	10/15/2013	1698.06	\$240,000	233.546
2014	\$925.86	10/15/2014	1862.49	\$275,000	237.433
2015	\$959.05	10/15/2015	2033.11	\$300,000	237.838
2016	\$1,021.93	10/14/2016	2132.98	\$319,000	241.729
2017	\$1,039.68	10/16/2017	2557.64	\$345,000	246.663
2018	\$1,021.22	10/15/2018	2750.79	\$350,000	252.885
2019	\$1,085.23	10/15/2019	2995.68	\$390,450	257.346
2020	\$1,095.67	10/15/2020	3483.81	\$444,000	260.388
2021	\$1,144.54	10/15/2021	4471.37	\$536,000	276.589
2022	\$1,192.02	10/14/2022	3583.07	\$551,000	298.012



Table 3: Historical Growth of Proposed Measures, Average, and Proposed Calculation

	Avg Weekly Wage	S&P	Home Price	CPI	Average of All	PNW Limit
2009	1.81%	20.79%	-1.14%	-0.18%	5.32%	\$992,105
2010	3.87%	7.26%	1.80%	1.17%	3.53%	\$1,027,086
2011	1.66%	4.11%	0.79%	3.53%	2.52%	\$1,052,987
2012	3.51%	17.60%	10.08%	2.16%	8.34%	\$1,140,773
2013	0.60%	17.91%	6.35%	0.96%	6.46%	\$1,214,431
2014	3.20%	9.68%	14.58%	1.66%	7.28%	\$1,302,879
2015	3.58%	9.16%	9.09%	0.17%	5.50%	\$1,374,561
2016	6.56%	4.91%	6.33%	1.64%	4.86%	\$1,441,357
2017	1.74%	19.91%	8.15%	2.04%	7.96%	\$1,556,081
2018	-1.78%	7.55%	1.45%	2.52%	2.44%	\$1,594,003
2019	6.27%	8.90%	11.56%	1.76%	7.12%	\$1,707,543
2020	0.96%	16.29%	13.71%	1.18%	8.04%	\$1,844,802
2021	4.46%	28.35%	20.72%	6.22%	14.94%	\$2,120,369
2022	4.15%	-19.87%	2.80%	7.75%	-1.29%	\$2,092,941

Introducing variables into the calculations that reflect capacity to pay (either reflecting income or assets) has the effect of slightly increasing the PNW Limit, from about \$1.7 million to around \$2.1 million, meaning that the limit will have more than doubled from inception. Using these calculations, the Limit actually would have declined slightly during 2022 (due to the sharp fall in the S&P 500 Index); it is a policy decision whether or not to follow the calculations and actually reduce the Limit, or to hold the Limit constant (as an example) in years when the calculations indicated negative growth.

This likely is a reasonable proxy for measuring program limits; while \$2 million in PNW (not including primary residence) indicates financial success, the surge in affluence in Austin means that the financial private sector sets customer targets at ever-higher levels, and individuals who most would consider wealthy may not have adequate access to services such as those provided to SMBR.

This assessment is made independent of the level of SMBR resources available; if there are constraints, then this limit could be lowered.

Best regards,

Jon Hockenyo, President of TXP