



ECONOMIC PROSPERITY COMMISSION RECOMMENDATION 20240320-003C

Date: March 20, 2024

Subject: City's FY 2024 – 2025 Budget (Sales-Tax Income)

Motioned By:

Seconded By:

Recommendation

Investigate hedging sales-tax income to reduce uncertainty and increase the budget.

Description of Recommendation to Council

Ask the City Manager to investigate hedging as a way to reduce the uncertainty in sales-tax income. Specifically, the City Manager should ask financial institutions how much they might bid in exchange for 80% of next fiscal-year's sales tax revenue. If City Council accepted such an offer, the City of Austin would have a more stable and predictable income, allowing us to plan better and increase the budget.

Rationale:

The City of Austin's income from sales tax is large and unpredictable. The 2023-24 Budget states that sales tax was 7% of income. But it also shows that, over the last decade, its income is unpredictable: growing 25% some years and 0% in others.

But most of the City of Austin's expenses are predictable and fixed. According to staff, "70 to 80%" of the expenses are wages, which are steady expenses. With a variable income and fixed expenses, it is easy for the City of Austin to overspend and run out of money. The result would be drastically slashing programs during the middle of a fiscal year, which would be harmful to the economic prosperity of all Austinites.

The City's staff knows about this danger and warns about it in the 2023-24 Budget: "City financial staff have long advocated thoughtfulness and restraint in projecting sales tax revenues, in the knowledge that periodic economic disruptions and resulting contractions of sales tax revenue—such as the one witnessed during the COVID-19 pandemic—are inevitable." and "... actual sales tax receipts falling short of budgeted levels can have severe repercussions with respect to maintaining a balanced General Fund budget, there are no corollary consequences should this revenue exceed projections."

The City of Austin could plan better and have a larger budget if we exchange the variable income from sales tax for a steady predictable income. That is, find a financial institution that is willing to trade: it will pay Austin a steady income in return for the accepting the unsteady income from sales tax. In the financial lingo, this is called

“selling risk” or “hedging”. It is very common in the business world. For example, Southwest Airlines could lose a lot of money if fuel prices go up and, to protect itself, it hedges.

The City of Austin is allowed to hedge. 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. We should do so.

Vote

For:

Against:

Abstain:

Absent:

Attest: *[Staff or board member can sign]*

DRAFT