



**Building A Better City of Austin Budget:
Challenges and Possible Budget Reforms
By Frank Rodriguez
February 5, 2018**

**Building A Better City of Austin Budget:
Challenges and Possible Budget Reforms
By Frank Rodriguez
February 5, 2018**

Purpose

This discussion is to provide the Charter Commission several recommendations to reform the City of Austin's budget development process. Recommendations include the establishment of an Independent Budget Office reporting to the City Council and the implementation of Participatory Budgets for each Council District.

Budget Drivers

One of the key responsibilities of the City Manager for the City of Austin is to plan and implement the City's annual budget. The City Charter makes the City Manager, the budget officer for the City of Austin. The all-funds City budget for FY2017-2018 is \$3.9 billion which includes the General Fund at \$1.0 billion that provides for general government operations.

The City's annual budget consists of two primary components: (1) the Operating Budget and (2) the Capital Budget. In 2017 the Council desired an earlier start on the budget with the intent of trying to impact the budget in a significant way. The process started with strategic plan retreats in January; department reviews in February; the forecast presentation in April; Council work sessions starting in April through August and the City Manager's budget release in early August. Council adoption of the budget occurred on September 11-13. City budget staff answered over 195 questions from the City Council during the budget development period.

During the development of the 2017-18 City Budget, the City Budget Office identified significant financial challenges facing the City of Austin.

City staff has projected a baseline projection for the general fund which assumes property taxes at the 8% rollback level and at an effective tax rate. A structural deficit is a condition characterized by annual expenditure increases that consistently exceed recurring revenue increases over the next few years. The issue facing Austin is that combined revenue sources (property taxes, sales taxes, utility transfers, development fees) will grow at an overall average of 5% per year, but expenditures are scheduled to grow at a higher rate. This leaves very little room for Council investment for new initiatives.

It will be difficult going forward to meet outstanding Council policy initiatives such as the housing trust fund, health and social services, new fire stations, community policing, and increases in living wages within the confines of projected general fund revenue increases.

Five-Year General Fund Outlook FY 2018-22

Projected Baseline Expenditures vs. Revenue



Source: City of Austin Budget Office, Budget Development chart, 2017

Over the three years the City has not incurred a structural deficit (with the exception of FY2018 where current revenue is not sufficient to support current expenditures and a fund balance was used to achieve structural balance), the City Council has only had a limited amount of funding over and above the City Manager's proposed budget for the City Council to address issues they believe still needed to tackle beyond the City Manager's budget. For the three budget years under the new 10-1 City Council the City Council focused on allocating their budget review on the following amounts over the City Manager budget proposal as follows:

- FY2016 - \$26 million
- FY2017 - \$11 million
- FY2018 - \$6 million

Potential policy issues for the next budget in the general fund include sales tax growth estimate, property tax rate and fees, prioritization of Council initiatives, the need to increase reserve levels, the General homestead exemption, and Senior/disabled exemption.

Legislative risks

- Other broad potential budget drivers include Governor Abbott's recent proposed 2.5 percent cap on property tax revenues. If this had been in place for the FY2018 budget it would have meant a potential loss of \$26 million in property tax revenues from the current 8% rollback rate.

- Another budget driver is the new tax law, the “Tax Cuts and Jobs Act of 2017.” The tax law will raise taxes on many low-and moderate income households, and the deficits it will leave in its wake will be used to attack Social Security, Medicare, and Medicaid. The bill will not raise wages for typical workers – but it will deny health insurance to 13 million workers, a measure included to help contain the overall cost of giving large tax cuts to rich households and corporations. What’s more, taxpayers at the bottom of the earnings brackets – those who need the most help – will see their taxes rise. According to the Joint Committee on Taxation, by 2027, taxes will increase for Americans making \$75,000 a year or less, and those making between \$20,000 and \$30,000 will see their taxes go up by 25.4%. This means that Austinites will see a tax increase. Out of 351 thousand households in Austin, 47% earn less than \$50,000 a year and 64% earn less than \$75,000 a year.
- In addition to the impacts to families, the tax bill will have harmful impact on city finances. Now is not the time to hit cities with more budget challenges. By altering or removing state and local tax deductions, the City of Austin may be put under pressure to cut taxes. Proposed cuts to the state and local tax deduction, or SALT, will significantly raise local taxes for upper income homeowners which may put pressure to cut taxes. As people see double taxation on an individual level, the City of Austin may be pressured to lower tax bills. This will further constrain revenues and services. The tax bill and proposed budget will add to the national debt and likely set up automatic cuts to social services, which will further strain the City’s finances. If the individual Obamacare mandate is eliminated, that means 13 million people will lose health insurance, which will put more strain on public hospitals as a last resource for medical care. Also eliminating SALT will mean less itemizing, as would the new cap on mortgage-interest deductions (MID) which would lead to less charitable giving. Lower budgets for charities would add to the strain on city and county provided social services.
- Federal and state anti-sanctuary cities laws and initiatives may mean reduction in grants funds to state funds of \$9.8 million and federal grants of \$42.7 million that the City enjoys.

Independent Budget Office

An independent budget office is recommended to be created for the Austin City Council – like independent agencies already established in the cities of San Diego, Pittsburg, New York and Chicago, and San Francisco. These Independent Budget Offices report to the City Council and have been created in most cases through charter and/or ordinance changes. Austin has one of the largest city budgets in the United States because it provides a full complement of services typically not funded through City government including an electric utility, water and wastewater utility, an airport, a convention center, and other activities. Yet City government officials have limited ability and capacity to independently evaluate the City Manager’s proposed budget and long-term fiscal conditions. The Austin City Council approved in 2015-2016 a “Sunset Review” program with a \$500,000 budget with the intent of creating an independent office of budget review, but it was never realized primarily because the City Manager set up an alternative organization in his Budget office focused on strategic planning. Creation of an Independent Budget Office is not a commentary on the expertise and competency of the City’s budget office staff. They are top notch and able professionals.

However, the City Council needs to widen its scope of its budget review and a Council Independent Budget Office can provide cost and effectiveness comparisons across a wide range of policies to assist the Council to effectively allocate resources. Having observed and participated in the budget process as a part of the Mayor's office for all the three 10-1 Council budgets, I have observed that the City Manager's Budget staff has done everything it can to provide the Council with information at a very detailed level and at a macro policy level as well as answer the many budget questions during the budget development process. An independent budget office (IBO) working in tandem with City staff could complement the City staff's own needs for research and analysis to enhance understanding and trust between citizens and the City of Austin institution.

An independent budget office would provide information about the city's budget to the Austin City Council. The office would have no policy making role and would not infringe on the City Manager's role as the City Budget Office under the current City Charter. An Independent Budget Office would present budgetary reviews and policy analyses in the form of reports, testimony, and presentations. The IBO would provide budget options to assist the City Council and produce guides to understanding the budget. The IBO would offer an analysis and comprehensive review of the City Manager's proposed budget. The IBO would regularly produce fiscal briefs on critical issues confronting the city. City Council, civic and community groups, advocates, and others can reach out to the IBO to provide answers to a wide range of questions. Some practical reasons to create an Independent Budget Analysis Office:

- The 10-1 City Council has progressively spent more time on the budget over the past three years. Their staff in addition to their current duties have had to integrate a lot more time working on the budget having to track work session activity and reports and meeting with constituency groups asking for additional budget resources. The IBAO can assist Council staff by acting as a resource in addition to City budget staff. The IBAO can also focus attention to district needs by providing analysis of budget needs by district.
- Currently the budget development process doesn't really allow for a deeper review other than the General Fund budget which is only one quarter (\$1 billion) of the overall budget (\$4 billion). The parts of the budget not deeply reviewed include: the utilities, enterprise funds, internal services, financial services, support services, various special funds, and the \$1 billion capital budget. The IBAO could delve into these areas of interest and priority for the Council as they relate to new investments, revenue changes, expenditure changes and customer satisfaction issues.
- The Office of the City Auditor has previously been suggested as a potential office to conduct independent budget analysis since they already report to the Council, but this role is not appropriate for the Office of the Auditor. Their purview is primarily focused on compliance audits, performance audits, special projects, and investigative reports. However, the IBAO could work with the Office of the City Auditor by following up on particular on management audits that relate to the development of future audits that call for more efficient and effective use of resources.
- The City Budget staff has responded to requests from the 10-1 Council over the three years to provide more detailed department information including detailed activity and line item budget detail. Given that the Council already is starting the budget development earlier

(February vs. April as done previously) and having many more work sessions than previous Councils it has limited time to review the additional detail provided to Council. Currently the budget development starts in February and ends in September. The IBAO can work year around with City Budget staff and review and interpret the detailed budget information for the Council and highlight areas of interest and follow-up. The City Budget staff may welcome this change as they will have more opportunity to explain budget drivers affecting department operations at a detailed level.

- Recently there are some who have argued for a biennial budget to better structure the budget in a way that eases time constraints. The proposal mentioned is to change the budget cycle from one to two years. Biennial budgeting includes several variations. It may involve multiyear authorizations, two-year budget resolutions, two-year appropriations, or some combination of the three.

The City of Oakland has a biennial budget cycle. The City policy is intended to improve the City's long-term planning, enhance funding stability, and to create greater efficiency in the budget development process. While the City's budget is adopted for a 24-month period, appropriations are divided into two one-year spending plans. During the second year of the two-year cycle, the Mayor and Council conduct a mid-cycle budget review to address variances in estimated revenues, estimated expenditures, and other changes to the City's financial condition.

The Austin City Charter will most probably need to be amended to allow this. Biennial budgeting has a long history at the state level. Proponents contend that a two-year budget cycle would (1) reduce Council/staff workload by eliminating the need for annual review of the budget, (2) reserve the Council's time for oversight and program review, and (3) allow better long-term planning. Critics of biennial budgeting have countered that the projected benefits would prove to be illusory. Projecting revenues and expenditures for a two-year cycle requires forecasting to be much more in advance. This may result in less accurate forecasts and could require many corrections that effectively undercut any reduction in the workload or intended improvements in planning.

The IBAO, it can be an efficient and effective mechanism to support a biennial budget in the event the Council moves to implement a biennial budget.

Recommendation: Establishment of an Independent Budget Office (IBO)

The following recommendation is made:

- Establish an office which shall be known as the Independent Budget Office (IBO). The office will report to the City Council similarly as does the Office of the Auditor. The office will include Budget and financial analysts and other assistants and employees. The duties of the Independent Budget Analysis office will be as follows:
 - a. A budget and financial analysis of the City Manager's proposed budget;
 - b. An annual budget options report of potential cost saving reforms and efficiencies;
 - c. A review of the City's annual audit and other City Manager financial reports;

- d. A quarterly review of all fiscal impact notes prepared in that quarter;
- e. Other analyses upon the request of the City Council

The Council Budget Office staff shall have the following qualifications:

- a. Graduate degree in finance, economics, business or another relevant field; and,
- b. Experience in municipal finance, or substantially equivalent experience

The Council Budget Office shall have access to City records, data, reports, estimates, and statistics from any officer, employee, department, agency, as the Council Budget Office determines is necessary for the performance of their functions and duties. All Council briefings will be done either through the Audit and Finance Committee of the City Council or through any other committee as approved by the City Council.

Implementation

The City Charter states that the City Manager is the city's Budget Officer and is responsible for preparing the budget annually; appointing the head of the Finance Department; and, and submitting the proposed budget at least 30 days prior to the beginning of each budget year. State law also provides certain requirement for City Manager form of governments that guide the City Manager's authority to oversee and manage the budget development process. A City Charter amendment may consist of the following elements:

- Creation of an independent budget office headed by a director who shall be appointed by the Austin City Council.
- The appropriation available to pay for the independent budget office during each fiscal year shall be not less than \$800,000 nor more than 25% of the City Manager's Budget office (currently at \$3.4 million). The \$800,000 will fund about 5 FTE positions. Funding for the office will come from the Support Services Fund which currently funds both the City Manager's Budget Office and Office of Performance Management.
- The Director shall appoint such personnel and procure the services of experts and consultants within the appropriations available therefor, as may be necessary for the director to carry out the duties and functions assigned.
- The Director shall be authorized to secure such information, data, estimates and statistics from city departments as the director determines to be necessary for the performance of the functions and duties of the office, and such departments shall provide such information to the extent that it is available, in a timely fashion. The director shall not be entitled to obtain records which are protected by the privileges for attorney-client communications, attorney work product, and material prepared for litigation.
- The City Council may utilize their Audit/Finance committee and/or the City Council to provide input into the priorities and annual work plan for the Independent Budget Office.

- It shall be the duty of the Independent Budget Office to provide to the City Council information which will assist such officials in the discharge of their responsibilities which are related to the budgetary process, including:
 - Information with respect to the budget, appropriations, and proposed ordinances with fiscal implications;
 - Information with respect to estimated revenues and changing revenue conditions; and,
 - To the extent practicable, such other information or analyses as may be requested by such officials.

- The Director shall from time to time publish reports as may be appropriate to enhance official and public understanding of the budgetary process and of the budget documents published by the City Manager and Council. The reports will include information, data, and analysis that enhance official and public understanding of matters relating to city revenues, expenditures, financial management practices and policies and related matters.

- The Director may procure for the office up-to-date computer equipment, obtain the services of experts and consultants in computer technology, and develop techniques for the evaluation of revenue projections and budgetary requirements.

- The Director shall make all information data, estimates, and statistics obtained, and all studies and reports prepared by the office, available for public inspection and copying during normal business hours and shall, to the extent practicable, furnish a copy of any such information or report to any person upon request at a reasonable cost.

- If a participatory budget is approved by City Council, the Independent Budget Office will support the development of the budget by providing technical assistance in establishing the participatory budget.

Participatory Budget

The City Council will need to make difficult choices to close upcoming budget gaps and set the City on a path to long-term fiscal stability. Another issue to consider is that even though there is public participation by the City staff for the budget process, a stronger form of democratic engagement is proposed to equalize and promote equity in underserved communities that don't enjoy an influence on the budget on their neighborhoods. A participatory budgeting process expands the scope and depth of civic spaces in the community, where elected leaders work with – not for- residents.

Participatory budgeting (PB) involves an annual cycle of meeting and voting. It becomes part of the broader budget decision-making process. PB changes the way government works. PB is among the fastest growing forms of public engagement in local governance, having expanded to 46 communities in the U.S. including Boston, New York, San Francisco and Canada in just 6 years. Drawing from a practice pioneered 25 years in Porto Alegre, Brazil and imported to North America via progressive leaders in Toronto and Quebec, participatory budgeting cracks open the closed-door process of fiscal decision-making in cities, letting citizens vote on exactly how government money is spent in their communities. Participatory budgeting works simply by allocating a modest set amount

focused primarily to capital projects to each Council district and letting those residents dictate how best to spend the money on community needs. The process needs enough funds for projects to demonstrate a visible community benefit, and ample capacity from the facilitators of the process which could be each Council office with support from the Independent Budget Office.

Recommendation: Establish a Participatory Budget

Implementation

- Design the process. A steering committee, representative of the community, creates the rules in partnership with government officials to ensure the process is inclusive and meets local needs.
- Brainstorm ideas. Through meetings and online tools, residents share and discuss ideas for projects.
- Develop proposals. Volunteers, usually called budget delegates, develop the ideas into feasible proposals, which are then vetted by experts.
- Vote. Residents vote to divide the available budget between their proposals. It's a direct, democratic voice in their community's future.
- Fund winning projects. The City of Austin implements the winning projects. The City and residents track and monitor implementation.
- A charter amendment may be needed to create a participatory budget by the City Council as a part of or in addition to the City Manager's budget. It may be that an ordinance is needed to create it only. This question needs to be researched further.