



MEMORANDUM

TO: Mayor and City Council

FROM: Rodney Gonzales, Assistant City Manager *Rodney Gonzales*
Veronica Briseño, Chief Economic Recovery Officer *VB*
Ed Van Eenoo, Deputy Director, Finance Department *EV*

DATE: September 28, 2020

SUBJECT: Save Austin's Vital Economic Sectors (SAVES) Update

This memorandum summarizes the City of Austin's recommendations regarding [Resolution No. 20200917-062](#). This Resolution directed staff to complete the following:

- Broadly explore and identify funding options to provide financial and equivalent assistance to support the sustainability of the most vulnerable and at-risk live-music venues, arts venues, restaurants/bars, and childcare providers;
- Explore and identify all available public and private funding options, including local, state, and federal sources, non-profit, and philanthropic;
- Identify the minimum funding, loans, and/or abatements needed to have a significant impact on maintaining these sectors for our community;
- Explore and identify additional ways that the city can provide support to these sectors and businesses within these sectors in addition to the funding and financing options addressed above;
- Plan for the distribution of any federal, state or other funding that might become available;
- Provide the City Council with a proposal to direct all or most of the Fiscal Year 2019-20 (FY 2020) sales tax revenues that exceed budget projections to the Austin Economic Development Corporation (AEDC);
- Work with the Equity Office to ensure programs are equitably funding businesses and community assets in a way that addresses historic systemic inequities with attention to business ownership, employment, audience and/or genre;
- Explore and make recommendations on the use of identified revenues to purchase, lease, acquire, or support acknowledged tourism assets, such as live-music venues and arts venues, under risk of demolition or change in business type, and solicit experienced operators who would maintain the historic name and businesses; and
- Place the AEDC proposal on the October 1, 2020 City Council agenda.

Funding Options for City Council Consideration

Staff explored numerous funding options in response to Resolution No. 20200917-062, including:

- Sales taxes;
- General Fund reserves;
- Hotel occupancy taxes and other Austin Convention Center revenue sources;
- Temporary use of right-of-way-fees;
- Alley and street vacation sales revenue;
- Certificates of obligation;

- Contractual obligations;
- Voter-approved bonds;
- Planned capital projects including information technology and building maintenance; and,
- Various city programs and funds that could be postponed, financed, or reprioritized.

A legal framework for these various potential funding sources is being prepared by the Law Department and will be provided to the City Council via separate memorandum. Based upon staff review of legal restrictions, operational considerations, and financial risk, the following funding sources, totaling \$15 million, were deemed the most appropriate for addressing the funding goals of the resolution.

Human Capital Management (HCM) System

The replacement of the City's antiquated HCM system remains a high priority. The cost of this system will be allocated across City enterprises. The General Fund allocated \$6 million to this project to date. Staff has determined that this funding can be reallocated to other City Council priorities in FY 2021 without impacting the project's implementation timeline. These funds will need to be replenished in future budget cycles to complete the project, which may be difficult due to the lower 3.5% property tax revenue cap.

Pay for Success Reserve Fund

The City Council established this fund to provide a reserve that supports services and program costs for a pay for success initiative for responding to the City's homelessness crisis. The City Council committed \$1.2 million per year for five years, for a total of \$6 million. The entirety of the \$6 million was allocated to the reserve fund in prior budget years. Of the total funding in the reserve fund, \$4.8 million can be reallocated to other Council priorities in FY 2021 without impacting the pay for success implementation timeline. This will leave \$1.2 million in the fund for implementation of the initiative in FY 2021. The reallocated \$4.8 million will need to be replenished in future budget cycles to complete the initiative, which may be difficult due to the lower 3.5% property tax revenue cap.

Temporary Use of Right-of-Way Fees

Austin Transportation Department (ATD) expects to collect \$6.6 million in fees for the temporary use of the City's right-of-way in FY 2021, all of which are legally eligible to be utilized for general municipal purposes. However, ATD also incurs costs of \$2.9 million in providing services related to these fees. The net \$3.7 million these fees generate in excess of ATD's costs can be transferred to the General Fund and reallocated to other Council priorities. This resulting loss of revenue in ATD's budget would require a \$0.50 increase to the residential transportation user fee, and a proportional increase in the other categories of transportation user fees, in order to achieve the department's FY 2021 funding requirements and maintain a positive fund ending balance.

Capital Rehabilitation Fund (CRF)

The FY 2021 City budget includes a \$7.3 million transfer to the CRF. Building Services Department staff reviewed its FY 2021 facility maintenance program and can adjust the department's overall project portfolio to manage a budget reduction of \$500,000, while still having enough funding available to address the City's most critical FY 2021 facility infrastructure needs.

Pursuant to the direction provided by Council in Resolution No. 20200917-062, staff placed the necessary Ordinances to implement the above funding options on the October 1, 2020 City Council agenda for consideration.

Other funding sources reviewed by staff and found to be not viable or less prudent than the above-listed options include:

Alley and Street Vacation Sales

Revenue from alley and street vacations and from encroachment agreements is already budgeted in the General Fund and was therefore committed as part of the FY 2021 Budget.

Sales Taxes and General Fund Reserves

Based on actual payments received through ten months of FY 2020, sales tax revenue is currently projected to end the year \$11.8 million above the estimated year-end level included in the Approved Budget. If we meet this projection, total General Fund reserve levels would increase from 12% of FY 2021 budgeted requirements to 13%, but remain below the recently approved 14% reserve target. While sales tax receipts have been better in recent months than what had been estimated, the most recent payment, reflecting July sales, showed a new, sharp decline. This is likely a consequence of Texas reversing course on many of its initial attempts to loosen restrictions on businesses. Moreover, the unemployment rate remains extremely high, and enhanced unemployment benefits provided by the federal government have been discontinued as of the end of July. There is currently great uncertainty as to whether these benefits will be restored, and if so, at what level. The ceasing of these enhanced benefits is likely to have a significant negative impact on consumer spending. Given that the pandemic has shown no signs of abating in the near-term, coupled with the fact that most federal relief funding is set to expire December 30, 2020, staff recommends maintaining reserves at the highest possible level in order to address likely future funding needs relating to the City's direct medical and public health response to the crisis.

Numerous other funding sources were also considered in staff's review including:

- The potential reprioritization of the Housing Trust Fund, Community Development Block Grants, and the Economic Incentives Reserve Fund;
- Eliminating various fee waivers for special events and development permits; and,
- Hotel occupancy taxes and other sources of Austin Convention Center revenues.

However, the analysis of each of these funding sources presented myriad challenges that either precluded their application to the purposes outlined in Resolution No. 20200917-062 or that could not be fully resolved or vetted in the time period allowed by the resolution.

Equity Framework

As directed by Resolution No. 20200917-062, the Equity Office developed an equity framework to ensure that programs are equitably funding businesses and community assets in a way that addresses historic systemic inequities with attention to business ownership, employment, audience and/or genre. That framework consisted of the following considerations:

1. What is the program and/or budget decision under consideration?
2. What does the data tell us about who's most vulnerable, at-risk, and in need for these resources and economic support?
3. Is the program design intentional enough to directly get resources to those most in need? Are data disaggregated by race and geography available, and are you utilizing those data to design the program and monitor impact?
4. Who will benefit from or be burdened by your proposal?
5. Are there some unintended negative consequences for this proposal? How will you know what your blind spots are or how are you pushing to see things from multiple angles that you may not consider?
6. How has the community been engaged in the design or implementation plans? Is there a connection to recommendations and input from appropriate Boards and Commissions? Does your community input represent the voices of those most vulnerable or is it in danger of being skewed by more influential and engaged stakeholders?

7. What is your intentional strategy for advancing racial equity?
8. Have you evaluated equity in the implementation plans? Consider the following:
 - a. Application design and access
 - b. Eligibility criteria
 - c. Scoring
 - d. Panel selection
 - e. Marketing and outreach
 - f. Technical assistance
9. How will you ensure transparency, accountability, communicate and evaluate the results?

Staff will continue working with the Equity Office to ensure all programs are implemented to addresses historic systemic inequities, with particular attention to business ownership, employment, audience and/or genre.

Relief Options and Recommendations

Staff considered a multitude of potential relief options in response to Resolution No. 20200917-062. These options were generated through analysis of prior COVID-19 economic recovery programs, best practices learned from other municipalities, lessons learned from previously administered City of Austin COVID-19 economic recovery programs, and conversations with multiple stakeholder groups – including municipal boards and commissions, COVID-19 Industry Focus Groups, arts and music organizations, nonprofit organizations, business associations, individual business owners, worker associations, individual workers and creatives, and the general public.

Staff analyzed these options and recommend the following three for implementation

- **Austin Music Venue Preservation Fund:** Designate \$5 million towards grants to help live music venues offset expenses as a result of COVID-19.
- **Austin Legacy Business Relief Grant:** Designate \$5 million towards grants to help iconic live music venues, restaurants, and arts organizations pay expenses as a result of COVID-19.
- **Austin Childcare Provider Relief Grant:** Designate \$5 million towards grants to help childcare providers (in-home and center-based) pay expenses as a result of COVID-19.

Regarding proposed modifications to the Chapter 380 program, staff is working with the Law Department to draft an Ordinance for the City Council’s review. The proposed Ordinance will include language allowing the creation of temporary COVID-19 and Economic Emergency Chapter 380-based programs, and it will exempt such temporary programs from the existing Chapter 380 Policy of 2018 for up to two years. This exemption would allow staff to continue exploring the feasibility of proposing program guidelines that are attractive and impactful for businesses in the industries outlined in Resolution No. 20200917-062.

In addition to these recommendations, staff are exploring other options to continue supporting and sustaining Austin’s vital economic sectors during and beyond the global COVID-19 pandemic. These include:

- Considering virtual proclamation performances featuring local artists and hosted by live music venues or arts organizations in each City Council district;
- Coordinating marketing campaigns across municipal departments to recognize and promote businesses that are unique to Austin and implement robust health and safety practices;
- Collaborating with third parties to enhance lease mediation services for local businesses;
- Developing “How To” guides to help businesses in the vital sectors successfully pivot during and after the pandemic (e.g. maximizing online merchandise sales, producing virtual live music sessions, etc.);
- Providing ongoing access to economic recovery resources via www.ATXrecovers.com.

Austin Economic Development Corporation (AEDC)

Staff included a request for Council to approve the creation of the AEDC on the October 1, 2020 City Council agenda. Staff also attached a Resolution with the initial Articles of Incorporation and Bylaws of the entity. Approval of this Resolution will allow Economic Development Department staff to begin working through the administrative development of the entity, including the development of governance. Staff recommends that the City Council fill the interim seats of the initial board with City staff from Places 1-4 outlined in Article II, Section 1 of the Bylaws. The interim staff and board will retain professional services to begin crafting the agreement between the City and AEDC while opening an executive recruitment process for the President and Chief Executive Officer (CEO), begin to scope priority projects discussed with the City Council, and further define the process for on-boarding the first full board of AEDC.

Conclusion

Staff is preparing to discuss these options and recommendations during the September 29, 2020 City Council work session. If you have questions regarding this update, please contact Chief Economic Recovery Officer Veronica Briseño at Veronica.Briseno@austintexas.gov or Deputy Chief Financial Officer Ed Van Eenoo at Ed.VanEenoo@austintexas.gov.

cc: Spencer Cronk, City Manager
Nuria Rivera-Vandermyde, Deputy City Manager
Mark Dombroski, Interim Chief Financial Officer, Finance Department
Brion Oaks, Equity Officer
Sylvia Holt-Rabb, Acting Director, Economic Development Department
Susana Carbajal, Assistant Director, Economic Development Department