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Dear Client:

One of the biggest enterprises in Texas – and a major driver of the Austin area economy – is state government. So, what’s the status of the state’s finances? Is revenue keeping up with explosive population growth?

One measure of the state’s fiscal health is the amount of cash it has on hand in the event of unforeseen circumstances. The Rainy Day Fund is the repository of this “excess cash.” Where does it stand? Well, when the Texas Legislature next convenes in Austin in January 2015 to agree on a 2-year budget, **the Rainy Day Fund is expected to have a whopping \$8.4 billion in the bank -- by far the largest of any state in the union.**

Yeah, but, voters will be asked in November 2014 to spend \$1.7 billion out of the fund for highway expenditures. How about that? **That is already taken into account in the \$8.4 billion balance.** Legislators and the governor are severely restricted from tapping The Rainy Day Fund.

To siphon dollars out of the fund takes a **super-majority vote of the House and Senate**, along with the **governor’s approval**. Then it must be **approved by a vote of the people**, such as the highway ballot initiative in November.

Okay then, forget about the fund. What about the overall budget?

As you know, the Legislature can only appropriate the amount of money certified by the State Comptroller that will be available for the next biennium.

State Comptrollers (elected officials) over the years have traditionally been very conservative in their estimates. **In fact, the current two-year budget looks like it will end its fiscal year with at least \$232 million more in revenue than the official estimate.**

These are big numbers. To give you an idea of how big: **if Texas were a nation, the state would have the 12th largest economy in the world** – slightly behind Canada, but larger than Australia. The State Comptroller’s office said “we still have 31 states that have yet to recover all their jobs lost in the recession. **Many states are struggling. We’re not seeing that in Texas.**” For more detail on how the state’s tax system is performing, check out the next item. And, as you do, remember Texas is one of the few states without a personal income tax.

Even without a personal income tax, the Texas state tax structure continues to pull in the big bucks to keep the state government, mostly based in Austin, humming along.

When the Texas Legislature begins its biennial session in January 2015, taxes will be a timely topic. *But*, unlike other states where their legislators will be struggling to find additional tax revenue, **the Republican-dominated Texas Legislature will not be raising taxes. It will be busy divvying up current tax revenue that is rolling into the state's coffers in massive amounts.** Four tax sources provide the bulk of the bucks.

Sales Tax. This is the state's largest tax and it has grown quickly. In fact, in the latest monthly reporting period, July, Texas collected \$2.34 billion – that's billion, with a "B." Just as impressive, **it marked the 52nd consecutive month the sales tax revenue rose. And it was up 6.3% over the same month in 2013.**

Motor Vehicle Tax. In 2009, with fewer new car purchases during the early part of the recession, this tax tailed off dramatically – down by 22%. But it has **rebounded to where it is particularly robust now. The car tax receipts are up by 6.25% so far this fiscal year.**

Franchise Tax. This tax was predicted to bring in **about \$4.7 billion annual receipts.** And, according to the Comptroller's Office, it will achieve that estimate.

Oil production and natural gas tax. Tax receipts in this category are outproducing what was expected. Why? The oil/gas boom in the South Texas Eagle Ford and the West Texas Permian Basin is barreling along at a fast pace – with **oil the big generator. Currently about 900 rigs operate in the state, with only 74 of them drilling for natural gas. The other 800-plus are drilling for crude oil.**

The Chief Revenue Estimator for the Office of the Comptroller, **John Heleman, said Texas is "continuing its trend of growing faster than our nation as a whole."**

The Austin area continues to get its share of the sales tax revenue pie. As do many of the other cities, large and small, in Central Texas.

The cities collect the entire sales tax one month, send the receipts to the state the next month, and the state rebates a portion back to the cities the following month. **So the August payment to Austin of \$16.1 million was actually collected in June.** The August payment was an increase of 5.6% over the same period a year ago. The current increase in other selected area cities: **West Lake Hills, 48.8% ... Cedar Park, 22.7% ... Leander, 19.1% ... Georgetown, 8.3% ... Round Rock, 4.7% ... Bee Cave, 7.1% ... San Marcos, 6.3% ... Marble Falls, 4.7%.**

Several high-profile state agencies – that employ thousands of Austin area residents – will soon be undergoing special scrutiny to see if they can carry out their missions with fewer employees and resources.

Texas House Speaker **Joe Straus** (R-San Antonio) has instructed the House Appropriations Committee to hold hearings on a pilot process called Strategic Fiscal Review (SFR). **These hearings are to take place *this* year, to allow the 84th Legislative session to “make more informed budget decisions”** when it convenes in Austin in January.

The initial agency targets are important and visible. They include: the **Department of Public Safety ... Texas Department of Transportation ... the Public Utility Commission ... the Available University Fund** and the **Higher Education Coordinating Board**, plus others.

“**This is a significant change in how we allocate taxpayer dollars,**” said Speaker Straus. “This process will allow legislators and agencies to have a needed conversation about the **role of government, the use of taxpayer dollars and the priorities we set as a state.**” It’s expected the SFR process will expand to other areas of state government in the near future.

UTAustin’s ambitious \$3 billion private fund-raising goal was exceeded this week – before the August 31st deadline -- with a very large gift from an Austin-based Foundation.

The \$50 million gift from the LIVESTRONG Foundation will create the **LIVESTRONG Cancer Institutes** at UTAustin’s new Dell Medical School. All you need to know to understand the size of the gift is that another \$50 million gift from **Michael and Susan Dell** led UTAustin to put the Dell name on the school.

The official announcement about surpassing the \$3 billion Campaign for Texas, **the largest capital campaign in the history of Texas higher education**, will be made when the final numbers are tallied. But president **Bill Powers** revealed this week that more than **139,000 alumni** and some **120,000 additional friends** made gifts during the campaign. Also he said there were **12,000 other donors, including foundations, associations and corporations.**

With headlines focusing on the deadly Ebola virus, the upcoming flu season is not getting press. But, that may be OK as health officials predict it could be a mild flu season in the US.

Still, get a flu shot. Getting a flu shot can reduce the chance of needing a doctor visit by 60%. Older people are always urged to get the shot, but **flu-stricken workers from 50-to-64 are responsible for nearly half of lost workdays and days of low production.**

Mark November 4th on your calendar. Then mark December 16th. Maybe some of the 78 candidates who officially qualified this week for the 10 seats on the Austin City Council could win election outright on November 4th. But don't count on it. The likelihood is the makeup of the new Council will not be determined until the December 16th runoff between the top two vote getters in each district.

The same holds true for the Mayor's contest, where three high-profile candidates with a lot of money are trying to emerge from a field of eight hopefuls. **A runoff appears likely. And the runoff election will be very different from the previous election.** We're not talking just about the fact there will only be two candidates in each position. **Turnout will be the decider.**

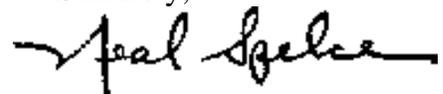
The two election dates will be polar opposites. The November 4th general election pairs the new council district contests with high-interest Urban Rail and Austin Community College bond elections – along with “normal” contests for other local/state races. **Should be one of the largest turnouts in recent times.**

The runoff is a whole 'nother story. With nothing else of note on the ballot December 16th, and falling on the calendar during the holiday shopping season, about a week before Christmas, **you can expect very few voters to take the time to go to the polls.**

So, if you have a dog in the mayor/council fights, the strategy/tactics will be very different. Your candidates take advantage of a large turnout in November and then your candidates must scramble like the dickens to turn out their voters in December. A handful of votes in December could ultimately swing control of city government for the next few years.

Trend in the making: your movie-going experience is changing as we speak. Ticket sales are flat as more people are watching movies and award-winning TV series at home. So movie theaters are making major upgrades – reclining seats, better food choices and improved technology. But as far as movies go, **Dr. Louis Overholster** says his 5-year-old mentions movies every night in his prayers: “Forgive us our trespasses as we forgive those who press trash upon us!”

Sincerely,



Editor/Publisher