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Dear Client:

One of the world's leading businesses made local history when it opened a manufacturing plant in Austin in 1967. IBM was at the forefront of what ultimately became a tsunami of name-brand companies to set up shop in the Austin area. The IBM love affair with Austin and Texas never waned. In fact, IBM expanded and invested heavily here over the years. Now, IBM has just ranked Texas as the #1 state for foreign and domestic investment.

When we say “IBM expanded and invested heavily here over the years,” it becomes more than obvious when you understand that the **first product IBM manufactured in Austin was the Selectric typewriter**. You know, the one with the type fonts on a ball. It revolutionized the speed and ease of typing at the time.

It didn't take long for Big Blue to become a tech leader at its Austin plant, **churning out patents at a record-setting rate**. Innovation was the key. **Austin brain power helped IBM become a world-leading research center** for cutting-edge technological development that remains IBM's hallmark.

Now almost a half-century later, with IBM still an economic factor in Austin, IBM's 2015 Global Location Trends Facts & Figures report named **Texas the #1 state in the US for foreign and domestic investment**. The annual report examined the factors, strategies and decisions that drive companies to relocate or locate new operations and facilities around the world based on the number of jobs. The good ol' **USA was the #1 country for investment**.

Gov. **Greg Abbott** enthused about the report saying “It's no surprise we've again been named a top state for investment. **I'm confident Texas will continue to lead the nation.**”

So, Governor, what's your spin on why Texas will stay in the lead? “**Unleashing the power of entrepreneurs and securing Texan's freedom to innovate and aspire** has – and always will be – the model of success for the Lone Star State,” he commented. There's that word “innovate” again. Back to IBM, innovation generated by Austin's workforce is what has driven the Austin IBM operation. And it's that spirit of innovation that has attracted such newbies to Austin as Apple and Google, as well as inspiring the smaller startups found in the nooks and crannies of Austin.

Too early to think about the year-end holiday season? Not for Austin retailers that are having a pretty good year so far. And if predictions hold true, the biggest selling season of the year could turn out quite well for the retail business in the Austin area.

Judging by official sales tax reports, Austin area retailers have done quite well through seven months of 2015. In fact, **compared to the same period in 2014, sales tax collections are up 7.7% -- a nice uptick in the year-over-year measure.** Obviously, not all sales tax collections are retail-based, but it's the best measure we have to gauge actual retail sales. And, so far, sales are looking good.

But many retailers count on the **year-end holidays as make-or-break time.** So, are Austin area residents gonna open their wallets at year-end? The early forecasts we've seen suggest that **nationally retail sales will expand 3.5%-4% over a year ago.** And, since Austin has one of the most robust economies in the nation, it is safe to predict **local retailers will fare better.**

If so, what will be the "hot items" that will be bought? Turning to our friends at *The Kiplinger Letter* (in the forecast business for more than 90 years!), they see a **range of products that should fly off the shelves – from fashion items to electronics.** Fashion? How about clothes inspired by the 1970s. Really? Really.

Separately, how about "athleisure" (their word, not mine) wear: **high quality versions of gym classics.** In **electronics, wearables** such as fitness trackers like Fitbit bracelets and smart watches. **For kids, movie-themed products** should be the rage. You should see a lot of *Frozen*, *Minions* and *Star Wars* products.

Tech-savvy Austinites will probably contribute to a huge surge in online purchases. Again, the national projections are for a big gain of about 14% for online sellers. But the tech-salaried Austin area residents will probably exceed the national numbers. On the surface this is not necessarily good news for local retailers, except it contributes to a "buying attitude" that should energize the community as holidays approach. **Kiplinger is suggesting "discount stores, such as Costco and Walmart will be among the biggest winners."** One reason: they are already luring bargain hunters with a longer-than-usual layaway period. Another Costco lure for shoppers: gasoline, that this week dropped *below* \$2 a gallon.

Speaking of retailing, a downtown merchant whose family has had a business on Congress Avenue for three quarters of a century responded to our report last week. You know, the one about downtown changes that are having the effect of limiting cars. Here's what he wrote:

"The city is indeed trying to get folks out of cars – forcing them to make a choice of buses, bikes, walking or rail to come downtown. **What they didn't think about is the fifth choice people could make and that is to just not come downtown.** This will ultimately illustrate 'how the law of unintended consequences preys on minds distracted by lofty ideals.'"

The Austin City Council will officially set the city's property tax rate Tuesday, September 22, following recent approval of the city's Fiscal Year 2015-2016 budget. "Austin can be proud of this budget," crowed Mayor Steve Adler. He pointed out it will reduce taxes while increasing social services. But what about the *fees* you pay each month? Most fees will increase.

The budget was adopted without *officially* setting the tax rate because there was a delay in certification of the tax rolls. Tuesday's rate-setting is simply a formality. You already know what is in the budget. **The property tax portion calls for a rate of 45.89 cents per \$100 property valuation.** This is a reduction from last year's 48.09 cents, prompting the mayor's tax reduction reference. **But what about all those fees you see on your monthly bill?**

The net effect is the "typical Austin resident" will pay more each month, even though the property tax rate will be lower. And it is also despite the fact Austin Energy (AE) has predicted its customers will pay less, primarily due to lower costs for natural gas that powers a good portion of the electricity AE produces.

The increase in fees, and higher water charges, adopted by the Austin City Council will offset the tax and energy savings. When you examine the monthly bill you receive from the City, you will see a long list of fees. You may not even understand what some of the fees cover, even though they are labelled.

But, the big increase will come in what you pay for water. You remember the City has continually urged residents and businesses to conserve water. So the residents and businesses cut back. However, this reduced the revenue the city receives. As a result, Austin Water raised what it charges for water to make up the difference. **The "typical Austin resident's" water bill will be higher than the savings generated by the reduction in Austin Energy's charges.**

Now, about those *fees* on your monthly bill. These will all go up on your November bill: **Austin Resource Recovery** (this is what they call recycling) ... **Clean Community Fee** ... **Transportation User Fee** (even though gasoline prices are dipping below \$2 a gallon currently) ... and the **Drainage User Fee.**

The budget goes into effect October 1. **"This is a responsible budget that includes significant investments in affordability and equity,** all while ensuring that the taxpayers of Austin are able to realize a dividend from the tremendous growth in our community," said Mayor Adler.

The mayor points out the adopted budget includes a **6% homestead exemption, an increase in the exemption for seniors and disabled residents** from \$70,000 to \$80,000, a **3% across the board pay raise for all city employees,** and nearly \$9 million in additional social service spending. Money was also allocated for an **additional 50 police officers** and 14 new police department civilian staff. And \$3 million in funding was set aside for an initial deployment of **body cameras for Austin police.**

Quick water economic update: \$1 billion in state water bonds will be sold this fall to finance water projects around the state. The good news is Fitch Ratings assigned its highest AAA rating to the state's offering. This will save the state as much as \$115 million in interest.

Southwest Airlines and American Airlines have dominated the market at Austin's airport for years. As a result, it is easy to overlook the other air carriers, especially during record-setting month-after-month of passenger traffic. But one small, fairly new airline has had some impressive success serving Austin travelers. Allegiant Air is a different kind of airline.

Allegiant Air didn't start out like other airlines. **It is a subsidiary of Las Vegas-based Allegiant Travel Company that offers products such as hotel rooms, rental cars and attraction tickets.** The airline set about to link travelers from small cities to world-class leisure destinations. But the concept has been altered a bit, especially as its Austin business has grown.

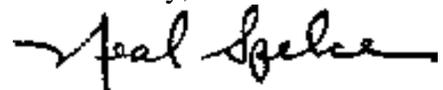
While positioning itself as a low-cost alternative, **Allegiant is no rinky-dink airline. It operates high-efficiency all-jet equipment** – Boeing 757, MD-80 and Airbus A320 family aircraft. And it is expanding its service to Austin travelers, after beginning **Austin-Las Vegas** nonstop service in fall 2013.

It started **Austin-Cincinnati** nonstop service in June 2015, and because of its early success, will fly the route year-round by February 2016. In February, Allegiant Air became the first airline to operate nonstop **Austin-Orlando Sanford** service. And it will start **Austin-Memphis** nonstop service October 1 2015.

Allegiant is gaining kudos nationally. *Forbes* named Allegiant **one of America's Best Small Companies** for five consecutive years. And in 2014, *Aviation Week* ranked Allegiant the **Top Performing Airline in North America** for the third consecutive year.

Dr. Louis Overholster bypassed a no-frills airline that had the slogan "We're Amtrak with wings!"

Sincerely,



Editor/Publisher