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Dear Client:

With three months remaining until the November election, and charges/countercharges flying back and forth in the governor's race (as if there were only three weeks remaining until Election Day), the possibility of an unintended consequence is becoming more likely.

After a stunning statewide shutout four years ago, Democrats spent a lot of time convincing Laredo banking billionaire **Tony Sanchez** to run for governor. They figured he could energize the Hispanic vote and spend as much of his personal fortune as necessary to defeat Republican Governor **Rick Perry**, while sweeping other statewide Democrats back into office on his coattails. It looks like that's happening – but an unanticipated outcome may result, if the campaign continues the way it has to this point.

Because of the high-pitched negativity of the governor's race so far (and so early), it now seems possible that **Sanchez could lose – but other statewide Dems could win**. Sanchez could still turn out a huge Hispanic vote. But, the nastiness of this campaign may turn off other Democratic voters who might normally vote for him.

Some Yellow Dog Democrats said early on they couldn't believe they were supporting a conservative billionaire banker anyway, even if he said he was a Democrat. Now this shaky initial support is being undercut by a mean campaign. But, those Yellow Dog Dems would still vote for the *other* party nominees. And, coupled with a huge minority turnout, a **Ron Kirk, John Sharp** or **Kirk Watson** could win their races for USSenate, Lt.Gov., and Attorney General respectively.

Ninety days of campaigning is a political lifetime, so anything can happen to tip the election in any direction. But, given where we are today, Sanchez, who was supposed to lead the Democratic charge to re-take statewide offices, may fall off his horse just before the victory.

Let's look ahead four years. **Due to a serious state budget problem, whoever is elected governor could be ousted the next go-round**. The winner of this race could look around and say "Oh, Lord, what have I gotten myself into!" To tax or not to tax? To slash services and lay off state employees? What to do? The budget crunch is real and it's likely no one is going to be pleased with the final outcome. So if the person elected governor wants to seek re-election, he better keep looking back over his shoulder at the popular GOP USSenator **Kay Bailey Hutchison**, who has always said she would someday like to be Governor of Texas.

An average family, living in Austin for the past twelve years, had a 78% increase in median family income. Not bad, you say. But, during that same period, the combined cost of governments has risen 100%.

“During a period of moderate inflation, the **increase in government costs per household in 2001 appeared to be exceedingly high,**” said **Kirk Rudy**, president of the Real Estate Council of Austin (RECA), the group that conducts this annual study. “Despite the fact that median income levels experienced a dramatic increase, there were a significant number of families in our region who were adversely impacted because their **incomes could not keep up with the increase in government expenditures.**”

RECA’s index compares median income for a family of four with local government sources and tax collections for the City of Austin, Travis County, Austin Independent School District (AISD), Capital Metro and Austin Community College. RECA created the index as a local **watchdog tool to monitor tax trends and compare them to family income trends over time.** The index includes property taxes, sales tax revenue and utility system transfers.

“Affordability is the issue. **Is this community affordable for ordinary families?** The index suggests that unless a family’s income is one of those on the rapid rise, it’s going to be very hard to keep up with the combined tax bite of local governments,” said **Charles Heimsath**, president of Capitol Market Research, who helped develop the index. He noted that **firefighters, police officers, teachers and retail workers are among those whose incomes did not keep pace with the steep rise in cost of governments.**

RECA pointed out that, once again, the ever-rising tax burden of AISD led the increase in cost of governments. The index’s **typical family paid \$1,933 in AISD property taxes last year, up from \$856 twelve years ago.** That huge increase is due in part to payments AISD must send to the State of Texas under the **“Robin Hood” plan for redistribution of tax dollars** to “property poor” tax revenue districts. For instance, last year, AISD was forced to send \$92.6 million to the State, up from \$32 million in the prior year. And this year, AISD’s 2002-2003 “Robin Hood” burden will be \$144 million.

Ironically, although AISD is classified as a “property rich” district under the “Robin Hood” plan, it is an urban district with an ethnically diverse student population and its share of lower income families. In fact, 48% of AISD students qualify for the free or reduced school lunch program, based on family income. RECA concludes **that Austin children and families of modest means are suffering under “Robin Hood”** – especially “those citizens who have not participated in the appreciable family income increases”.

“We urge all governmental entities to **consider taxes and fees,** not in isolation, but in light of the **combined impact on families and affordability,**” said Rudy.

With our everyday burdens, many of us have a hard time planning weeks and months ahead – much less years – but it’s important from time to time to look waaaaay out, to see what our local world will look like down the line.

That’s what economists get paid to do. The economists call looking waaaaay out “a long-term outlook” or the “long-term horizon”. Obviously, when they make projections all the way to 2030, they have to be very general and they often miss the mark. But, the key is **they use current, recent and short-term prospects to make those projections.** That’s how they analyze what the trends will be. So, much of what they forecast can be used to reinforce **what’s going to happen in the near-term.** That’s how you should read these projections from **Ray Perryman**, the Pres/CEO of The Perryman Group economists.

Let’s get right to Perryman’s bottom line: When you analyze long-term growth in Texas, by metro area and by region, from now until 2030, **the 5-county Austin metro area will lead the state in Compound Annual Growth Rate in each of the three key indicators** – percentage of employment growth (2.30%), percentage of population growth (1.88%) and Real Gross Product (4.57%).

Compared to other metro areas, here’s how they ranked behind #1 Austin in Employment growth – Dallas, 2.16% ... Laredo, 2.12% ... McAllen-Edinburg-Mission, 2.07% and Houston tied with Fort Worth/Arlington at 1.96%. In Population, the remaining Top Five: Bryan-College Station, 1.65% ... McAllen-Edinburg-Mission, 1.64% ... Fort Worth/Arlington, 1.61% ... and Laredo, 1.60%. The four behind Austin in Real Gross Product: Dallas, 4.24% ... Laredo, 4.06% ... Fort Worth-Arlington, 4.04% ... and McAllen-Edinburg-Mission, 3.92%.

Over the next 30 years, the Austin-San Marcos area is projected by Perryman to see continued economic progress, even though the pace will be slightly less than that experienced during the past several years. Perryman concluded **the Austin area’s economic strength is expected to be sustained by diverse business activities, especially within the realm of high tech.** As he put it: “Although the recent slowdown in national and global performance has dampened the demand for microelectronic components and computers, leading indicators suggest that these sectors are in the early stages of recovery.” And he says **government and higher education** sectors, as well as the **trade generated along the IH35 corridor**, will provide stability and continue to play highly important roles in future economic growth of the Austin area.

You can’t look at the future of Austin and the state as a whole without realizing population is an important part of the equation. **Texas is currently the 2nd most populous state and Perryman predicts the number of Texans will reach about 32.75 million in 2030 – an expansion of some 11.53 million.** Hispanics will account for much of this growth and by 2020 Hispanics will outnumber non-Hispanic whites. The population is forecast to become increasingly more diverse, with minorities anticipated to represent some 63% of the state’s total population by 2030 and no ethnic/racial group will be a majority.

Internet powerhouse MSN is out with its rankings of “Best Places To Live.” It picks the three Best Big Cities and the three Best Small Cities. Where do you think Austin ranked?

MSN pegs Austin as *the* Best Big City in which to live, ahead of #2 San Francisco and #3 Boston. What does MSN say: “Austin offers an affordable cost of living, low utility costs, clean water and easy access to outdoor activities in the surrounding wooded, rolling hills. You’ll find an extensive park system with many recreational opportunities, such as boating.”

As far as the economy/business is concerned, MSN says: “Austin boasts a low unemployment rate, and average commute time is only 21.4 minutes. Through its willingness to support economic diversification, **Austin’s job rate has grown fast in recent years and promises to grow even faster in the future**, especially in the high tech fields. Experts predict an incredible job growth rate (33.19% to 2010).”

The raves continued from MSN: “Love music? You’ll love ‘The Live Music Capital Of The World.’ Austin has become a **center for live music** and hosts the South by Southwest Music Festival. Home to The University of Texas, Austin offers many opportunities to take part in **educational and cultural activities**: museums, symphonies and theaters, not to mention many good restaurants.” MSN did bring the reader back to earth when it asked “Any negatives here?” The answer: “**You have to like hot summers**; average high temp in July is 95.9 degrees F.”

MSN really likes San Francisco and Boston also. But, when it came down to which city MSN thought was *the* Best Place To Live, it settled on Austin with this reference to **San Francisco**: “All these wonderful points are offset by a **very high cost of living, which we considered enough of a negative to make Austin the overall winner.**” The Best *Small* Cities, by the way: Boulder Colorado, Madison Wisconsin and Rochester Minnesota, in that order. If you want to check all this out yourself, go to <http://homeadvisor.msn.com/move/bestplacetoLive0.aspx>.

Dr. Louis Overholster was at a local auto dealership this week when he swears he heard a customer say to a salesman, “Let me get this straight. You want me to pay extra for ABS brakes so I can stop a lot faster than the guy who is tailgating me!”

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