

THE

*Real Spelce*

# AUSTIN LETTER

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Dear Client:

## **Let's look at Reason #127 why you're better off living and working in the Austin area than in California.**

Oh sure, the headlines and stories this week about the State of Texas facing a near \$10 billion shortfall, and the subsequent fallout (hiring freezes, possible limited tax increase, no state employee pay raises, etc.) tend to make you **re-think the strength of our economy**. But, as the old saying goes, everything is relative.

One of the basic rules of business is that you don't have to be the best you can be to succeed (though that's a worthy goal), **you just have to be better than the competition**. Decisions are made daily on the basis of the choices you face at the time. Different times dictate different choices. So it is with the competitive battle between states. California right now is facing a fiscal crisis that dwarfs any here in the Lone Star State.

**Texas' \$10 billion shortfall is nothing compared to California's \$35 billion deficit.** No leader in Texas is talking about increasing broad-based taxes (sales tax) or even instituting a new broad-based tax (state personal income tax). Yet, in California, Governor **Gray Davis** is proposing \$8.3 billion in tax increases – such as a **higher state sales tax and increases in state personal income taxes**.

On the budget-cutting side, California's governor is suggesting that public school financing be cut by more than \$4 billion, 1,500 state jobs be eliminated, payments to state pension plans be deferred and tuition at community colleges and public universities be increased. **It's a fiscal crisis of epic proportions.**

As far as Texas is concerned, this is more than just "misery loves company." We should not minimize the budget problems facing the Lone Star State. But, frankly, California's much bigger problems could help Texas. Companies facing location decisions are going to look at the huge tax burden facing them and their employees, and could decide to **create jobs in Texas where taxes are not only lower – but there is no state income tax, period.**

This holds true up and down the line. For instance, it'll be easier to recruit faculty members from California – as well as top-flight employees. California's hard fiscal times should help Texas, its cities, its institutions, its businesses and our overall long-range economic prospects.

**The City of Austin is not immune to fiscal crises. In fact, there are rumblings of a possible tax increase for the City. Even if that doesn't materialize, you need to keep your eye on another way the City can get into your pocketbook to ease its financial crunch.**

Some say it's the greatest thing since sliced bread as a revenue producer, others say **it's a hidden tax**. One thing is for certain: what homeowners and businesses pay in utility bills has generated more than \$1.3 billion in "profit" for the City of Austin since 1976.

Austin Energy is owned and operated by the City of Austin. Instead of providing electrical service to taxpayers at simply what it costs to generate and distribute the electricity, the City long ago decided to charge its customers *extra* to make a big profit. In fact, **you paid enough for electricity in 2002 to generate a \$72 million profit for the City of Austin.**

With that much profit, some argue your **electric rates should never be raised**. In fact, some say the City should give ratepayers a break and **lower residential and commercial rates**. After all, they argue, the City is a non-profit entity and by making a profit on electricity sales, it is really assessing a hidden tax.

So what happens to the money? The City uses the profit to supplement tax revenue and other income generated by the City, to provide city services. It is such a significant part of the city budget each year that Austin Energy claims **property taxes would have to be increased by about 33%** if the City lost the profit from the utility.

Why should you be concerned about the possibility of **rising electric rates** if there is such a substantial profit generated each year? Two reasons. First of all, the City is scraping around trying to **cope with declining revenues** during this downturn. *Any* revenue source is probably being examined as we speak. Secondly, **Austin Energy is facing increased costs as a result of deregulation**. How's that? Deregulation? But the City of Austin, unlike some other cities, is *not* participating in deregulation and opening up its customers to privately owned utilities.

Here's how that works. The budget for the Electric Reliability Council of Texas (ERCOT), which manages Texas deregulation, has grown from \$9 million to \$99 million a year. And it could go higher. **All utilities**, including the city-owned and electric cooperatives that have not opted to deregulate at this time, **pay a share of the deregulation oversight costs. Austin's share is 4%.**

**So what's the urgency**, especially since Austin Energy said this month it will not increase its fuel charge for 2003 and its base electric rates have not increased in eight years? First of all, it doesn't matter whether you think the utility profit is a wonderful thing for the City of Austin or you say it's a hidden tax and should not be levied. The fact is it's probably here to stay, and in these tight times, **it is an easy source of more revenue**. Because it's not a "tax increase," an electric rate hike might go unnoticed. So, this is to put you "on notice" to keep an eye on this.

**Speaking of fuel, the word “volatile” needs to be applied to the price you’ll be paying at the pump throughout this year. But the end result could be good news.**

The word we get from Washington is that gasoline prices will spike upward when/if a war in Iraq gets underway. It won’t be dramatically higher – probably peak at an average of about \$1.60 a gallon. After that, look for a **pretty steep drop**. Some feel it could drop as low as **a buck a gallon** on average. So, volatility will be the watchword.

Why’s that? It’s not just sticking a wet finger in the air to gauge the wind, the low estimate is based upon the fact that **low-priced crude oil is expected to flood world markets** soon after a short conflict in Iraq. The oil producing nations (this includes Iraq under a new regime, as well as troubled Venezuela) are expected to step up production to try to grab market share.

**Don’t let the headline-grabbing focus on finances at the Texas Legislature obscure the fact a lot of very important issues will be debated and passed before Memorial Day. Transportation is one of those.**

What sort of transportation issues? Well, for instance, the Texas Association of Business maintains “there are not enough improvements to our transportation system to keep congestion from growing.” The TAB notes that “hours of delay, the time of delay and the miles of road that are congested have grown every year.”

Just how bad is it? While state population from 1990-2000 grew 22.9% and the registered vehicle count was up 23.7%, the total lane miles grew by only 3% during that period. **Texas has lagged behind in building roads as traffic volume has increased.** As TAB put it: “It’s critical that Texas plan and fund a long-term transportation solution.”

As a result, the TAB has created a special transportation committee to focus only on highway and air woes and is pressing a 9-point legislative agenda. The nine items include support for Governor **Rick Perry**’s massive Trans-Texas Corridor Plan. (We first told you 3/15/02 that the Texas Department of Transportation (TxDOT) in June would “unveil a complete transportation system plan so bold in concept it could change the Texas way-of life.” It did.)

While the ambitious and costly (\$175 billion) Corridor Plan is not likely to pass this cash-starved session, it underlines the seriousness of the transportation situation in a state that will grow from 21 million people today to more than 50 million over the next few decades. If you need further evidence of how it affects you, consider this: **the congestion cost per person in the Austin metro area is \$550 per year**, according to the *2002 Urban Mobility Study* of 75 urban areas within the US. That cost ranked the Austin area as high as **13<sup>th</sup> in the nation** – not a list where you want to be near the top. (By the way, Dallas/FW was #3, Houston #4).

**With ethics a heightened concern for business these days, it's interesting to note a local business organization that focuses on ethics is expanding its geographical reach.**

First of all, it's important to know the local Better Business Bureau has expanded in the past. Although it started out just serving Austin, it became a **regional organization**. Under the expanded umbrella, the BBB served nine counties – Bastrop, Blanco, Burnet, Caldwell, Hays, Lampasas, Llano, Travis and Williamson. It didn't stop there.

In 1993, the BBB **expanded northward to the Centroplex area**, adding Bell County and the southern portion of Coryell County. More than 3,200 companies make up the membership rolls of the BBB from these eleven counties.

Now the BBB is moving from a regional business organization to a Super-Regional. **Another eleven counties are being added this month** with the addition of the Heart of Texas Area. The new counties: Bosque, Comanche, Falls, Freestone, Hamilton, Hill, Limestone, McLennan, Mills, Navarro and San Saba, as well as the remaining northern portion of Coryell County.

The Better Business Bureau Serving Central Texas is headquartered in Austin and now has satellite offices in Harker Heights, Temple and Waco. This growth and expansion has occurred over the years under a number of volunteer leaders. But, the constant has been the solid leadership of BBB President **John Etchieson**.

The BBB works to **combat consumer fraud and to maintain ethical practices** in the advertising and selling of products and services. Only businesses that meet and maintain membership standards, follow the highest principles of business ethics and practice voluntary self-regulation are BBB members. Members that don't comply are kicked out.

When the arctic cold front roared through the Austin area this week, it prompted **Dr. Louis Overholster** to observe: "You know the reason no cure has been found for the common cold? Well, maybe it's because the *government* is working on it!"

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