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Dear Client:

While the state's fiscal problems have yet to capture much attention from the general public, Texas legislators are now beginning to realize there is no simple magic wand to solve the most difficult financial problem facing Texas in nearly two decades.

In spite of rhetoric to the contrary, there will be some current **consideration of tax increases**, although they will be called "loophole closing." This is the view of the Texas Taxpayers and Research Association, a statewide group – funded by business – that for decades has had a team of tax policy experts tracking Texas tax issues.

TTARA points out Governor **Rick Perry**, who has steadfastly maintained there will be no tax increase, has proposed **extending the franchise tax to certain businesses** operating in a structure commonly known as the "Delaware Sub." This could involve **taxing partnerships** to the extent they are corporate-owned.

Further, a bill is being considered that would require rendition of **business personal property so it can be covered by the property tax**. This is also being described as "closing a loophole."

As we told you months ago, there will be a **number of "cash management" measures considered**. Taking the tobacco settlement payout in present-day funds, rather than let it be paid out over time, pushing expenditures into different budget cycles, raiding the "rainy day fund", enhancing current revenues from the state's permanent endowment funds are just some of the money-moving measures being considered.

Even though the Texas Legislature is scheduled to wrap up by the end of May, many observers feel the money problems are so dicey **at least one summer special session** may be needed to balance the two-year budget for fiscal 2004-2005. Even if that's the case, TTARA says "it will be **far from the end for the fiscal debate**."

In fact, TTARA says a number of proposals are likely to surface "that would **restructure how the state raises and spends taxpayers' money**" – **overhauling the state's tax code**. The current proposals would only *start* the process in this legislative session and would, if passed, push that mammoth and bruising battle into the next legislative session in 2005. As you can see, if TTARA is correct, the state's money woes will be with us for a long, long time.

With the widespread concern over economic problems, you may have missed an important Texas economic milestone.

The US Department of Commerce (headed up, incidentally, by Texan **Don Evans**) crunched the 2002 numbers and found **Texas has become the nation's leading exporter** – surpassing the other giants, New York and California. In 2002, the Lone Star State accounted for a significant 13% of all US exports

For years we've told you how Texas has been affected more and more by global affairs. Long gone are the days when cotton and cattle drove our economy. But it's only been in recent years, as Texas has become a major business and high tech center, that **products produced in Texas have become heavily reliant on world markets.**

This means a number of economic benchmarks – the value of the US dollar, downturns in the economy in our key trading partner nations, etc. – become even more important to the economic vitality of Texas. One example locally: look at the number of jobs created at Dell Computer as the company expands its reach around the world. Dell keeps a close eye on the value of the US dollar and the economies of key countries.

Don't be surprised to see interest rates pushed down in a few days to the lowest level since Dwight Eisenhower was president. This is contrary to what economists were forecasting just a few weeks ago.

The Federal Reserve meets Tuesday, 3/18/03. There are those who are now predicting the Fed will **knock interest rates down by a quarter-point** at that meeting. This follows a dismal unemployment report this week. The Fed may not stop with one rate cut. Because of the slow-to-rebound economy and the impact of an imminent war with Iraq, some are saying we could see a *second* rate cut by May.

The nation's gloomy February unemployment report this week had an impact in a wide variety of circles. While local and state figures have yet to be released, could this be a hint of things to come for us?

The US Bureau of Labor Statistics said the country's unemployment rate went UP to 5.8% in February from 5.7% in January. In January Texas had a higher rate, 6.4%, and Austin came in right at the national average, 5.7%. We'll let you know when our February numbers are out.

The Greater Austin Chamber of Commerce wasted no time trying to take advantage of the recent Toyota decision to locate a manufacturing plant in nearby San Antonio.

The Alamo City took the cake when it beat out all competitors for the automaker's newest US manufacturing facility. **But Austin is not above picking up some of the crumbs.** As is the case with all big manufacturing plants, supplier companies move quickly to be near the plant to get an edge in selling products and parts to the manufacturer. Austin is targeting those suppliers – especially those with high tech components.

The automotive supply industry is a **good fit for Austin because of the sophisticated hardware and software needed for vehicle manufacturing.** Suppliers would fit well into Austin's culture and provide more jobs for some highly skilled workers now unemployed or underemployed. And, we're just an hour-or-so away for sales calls or deliveries.

So, the Chamber's Director of Economic Development, **Susan Davenport**, scampered to Detroit to attend the Society of Automotive Engineers' trade show. Spending most of her time in the Supplier Pavilion, Davenport concentrated her efforts on **technology-related parts manufacturers** – to interest them in locating in the five-county Greater Austin area.

She also visited with reps from other states currently supplying the industry sector, gathering info to further develop a recruiting strategy for the Austin area.

Her efforts come at a time when the Chamber's Top Exec for Economic Development, VP **John Brier**, has moved on. New Chamber president, **Mike Rollins**, announced 3/10/03 that Brier resigned "to pursue other interests." Rollins will pick up Brier's duties while he searches for a replacement. Rollins, who took over as the paid prexy just 60 days ago, is guiding a major reorganization and re-direction of the GACofC, including downsizing the staff.

One of the first tasks identified by Rollins is to commission an Economic Development analysis to provide a plan for future Chamber efforts. The last study was in 1997-1998. "In this global age, that's a lifetime ago," noted Rollins. "Much has happened in the Austin area since then, and **we need to undertake an up-to-date analysis so that we know we're moving in the right direction.**" The Chamber hopes the study will result in a multi-year strategy.

In one sense, the GACofC is **going back to its roots.** Economic development – job creation, if you will – has long been a key part of the Chamber's reason for existence. Also, recognizing that about **75% of its members are small businesses** employing fewer than 50 people, the GACofC is creating a Small Business Council to help small Austin businesses.

Finally, veteran Chamber volunteer **Gary Farmer**, president of Heritage Title, has been drafted to chair the Chamber's Economic Development Foundation, to raise money to help fund the GACofC's economic development activities.

Austin-based Whole Foods Market has been growing like organic kudzu, and investors have become enamored with the somewhat offbeat grocery store chain.

Whole Foods Market opened its first store in Austin in 1980. **Today it is the nation's largest retailer of natural foods**, generating about \$2.7 billion annually in sales from 142 stores. Total sales have grown by 20% or more in 12 of the last 13 quarters, and sales at stores open at least a year have jumped 9% to 10% in the past eight quarters, according to *Barron's*.

Investors take note of Whole Foods' earnings. In its fiscal year ending last September, the market chain netted \$84.5 million or \$1.40 a share – **24% more than in fiscal 2001**. This year, Whole Foods is expected to earn from \$1.62 to \$1.69 a share, followed by \$2 in fiscal 2004.

All this is reflected in Whole Foods' stock price. The company went public in 1993 at a split-adjusted price of \$4.25 a share. And, during the last two troubled economic years – with an admittedly pricey product – its' shares have doubled to \$50.25. **Whole Foods now sells for 30 times fiscal 2003 expected earnings and 25 times next year's estimates**, according to *Barron's*. This is triple the valuations of other grocers. Talk about investors being enamored!

Interestingly, **Whole Foods price/earnings multiple is compared to the lofty P/Es accorded to such hot stocks as Starbucks**. That comparison may not be too far off when you realize that Starbucks mints money by selling commodity products at premium prices. Whole Foods cash position is getting better and better. *Barron's* reports the company has paid down debt and last year lowered its debt-to-capital ratio to about 22% from nearly 50% two years before.

As far as the future is concerned, many note the company is still young and has established a **presence in only 35 of the top 50 US markets**, so it could be years down the road before Whole Foods reaches its market potential. The challenge now is not to stumble along the way.

Dr. Louis Overholster says fear is when your stock broker calls and starts his conversation like this: "You know, Louis, money isn't everything!"

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