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# AUSTIN LETTER

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Dear Client:

**Now is the time for Austin and Texas to move aggressively to regain economic dominance. We're in the midst of a classic, competitively advantageous time. We can't afford to miss this opportunity.**

The world of economic development is just like the competitive world of business, politics or sports. The cardinal rule: **you do not have to be at the top of your game to win, you just have to be better than your opponent at the time.** Austin and Texas, while still struggling from the downturn, are in a much better position than the competition. So, now is the time to reach for that "little extra," to push aggressively.

Just look around you – and thank your lucky stars you live and work here. Start with the state of Texas. In just 140 days this year, your state leaders faced one of the worst financial crises in decades and came forward with a **balanced budget for the next two years – with no increase in taxes.** And remember, Texas is one of the very few states without both a sales tax and an income tax.

Contrast that with California, the state that is our most direct competitor (for everything from company re-locations to professors). To put it simply, California is in an economic and political meltdown. California has a shortfall of \$38 billion and has the lowest credit rating in the nation. **There is no way California is going to get out of this mess without dramatically raising taxes on already overtaxed businesses and individuals.** California had \$9.4 billion in reserves in June 2000. It has none today.

It's not just California. New York, trying to gut Austin's semiconductor research base, is struggling mightily. In fact, *The New York Times* reported, "The nationwide economic slump has **strained the finances of more than half the states**, several of which are operating on short-term budgets, and **seeking tax increases** and spending cuts to cover operating deficits." Oregon, Massachusetts, etc., etc., — the roll call of competitor states with financial problems goes on and on.

Use Dell as a model for economic development. When the personal computer industry was at its lowest, and its competitors were faltering, Dell "took no prisoners," advertised and marketed heavily, and increased its market share dramatically. Austin and Texas need to do the same.

**Even before many states raise taxes in an effort to solve their financial problems, Austin and Texas compare favorably because we have not raised taxes.**

The recently completed comparative study of Austin and four competitive metro areas conducted for the Greater Austin Chamber of Commerce illustrates what we mean. Market Street Services, the firm engaged to conduct the analysis, reported, **“State and local taxes in Austin are comparatively lower than every benchmarked city used for this report.”**

The study focused primarily on the Denver, Phoenix-Mesa, Raleigh-Durham-Chapel Hill and Seattle-Bellevue-Everett metro areas. The purpose of the study is to ultimately come up with an economic development plan that will lead to business recruitment and the creation of jobs in the Austin metro. The economic health of cities and states, especially as measured by taxes, is a key ingredient in the competitive picture.

“It is just good business sense for an executive to **compare local tax structures before moving – or not moving – to a particular location,**” noted Market Street Services. “In the case of the city of Austin, the businessperson would be pleased with what he or she finds.”

“**The state of Texas does not exact assessments for income or property,** only levying sales and use taxes and a franchise tax on business capital or earned surplus. Only Washington state comes close to Texas’ business-friendly tax structure,” reported Market Street Services.

“**The corporate taxes levied in Colorado, Arizona and North Carolina would seem to put these states at a distinct disadvantage** compared to Texas and Washington for the purposes of business recruitment,” the report concluded. And this includes the fact that “sales taxes are fairly comparable for all five cities.”

You get the picture. There’s another interesting facet to these comparisons. **Richard Florida** wrote a book in 2000 called *The Rise of the Creative Class and How It’s Transforming Work, Leisure, Community and Everyday Life*. He ranked 49 metro areas of more than 1 million population, using four categories – Technology, Talent, Tolerance and the Creativity class.

Technology measured high tech output, compared to that of the nation. Talent was simply a count of those with a bachelor’s degree or higher. Tolerance was based on the number of coupled gay people. And the Creativity class is the number of individuals employed in certain professions he defines as “creative.” He lumped all this into his Creativity Index.

Using his criteria, Austin does fairly well. Seattle and Phoenix received a higher Technology ranking than Austin, but **Austin ranked higher than the other four cities in the Tolerance and Creativity Index.** And Austin beat out three of the four cities in the Talent category.

**Two problems – the need for more kids (including minorities) to graduate with higher scores from high school, and the need to move students through universities in four years or less – could be impacted by a new experiment.**

It's a simple concept, though controversial: **pay cash money to high schoolers who pass Advanced Placement exams.** It's been done in the Dallas Independent School District where the minority enrollment is about 90%) since the mid 1990s. And the results are impressive.

For example, in 2002, DallasISD students in 10 schools had **132 passing scores** for each 1,000 juniors and seniors taking math, science and English. This compares with the overall state average of **86 in Texas** and **80 in the US.** The program has also increased the number of minorities who take the exams and the number of minority students who pass them.

So how does the program work? Advanced Placement (AP) courses are higher-level academic high school classes for which some colleges award credit. As part of DISD's AP program, **students receive cash (\$100)** when they pass AP exams. And an **AP teacher receives \$150** for each passing score made by one of his or her students.

How can cash-strapped schools afford to pay more money for anything? They don't. In Dallas, philanthropist **Peter O'Donnell** – through his O'Donnell Foundation – established the program. Then, in 2000, the foundation established nonprofit Advanced Placement Strategies to expand the program throughout the state and to **link schools with private donors to support the AP program.**

The program has now been expanded to 22 school districts, including Abilene, Fort Worth, Pflugerville, Tyler and Wichita Falls. **Tom Luce**, a Dallasite who serves on Dell's board, says "This wonderful program confirms once again that every child can learn when you have high expectations, high standards and vertical teams of teachers together with incentives for results."

The program does have its critics. Not every parent or school system favors paying students for good grades. **Gregg Fleisher**, president of AP Strategies, told the State Comptroller's *Fiscal Notes*, "We'll hear from a parent or a board member 'why pay students for grades when it's what they should be doing anyway'?"

Fleisher's response: "Students get paid for academic achievement all the time. If a student scores 1600 on the SAT, they don't have to pay for college. **You can look at this as a mini-scholarship.**"

And if enough students get college credit for courses they took while in high school, they will do better in college and could **graduate in less than four years.** Many students at UTAustin take five, sometimes six, years to get an undergraduate degree, adding to overcrowding.

**Do you want to hear a Machiavellian scenario that some feel might happen to the Congressional Redistricting bill now being loudly debated in the Texas Legislature?**

The wrinkle this past week was that the Republicans appeared to cave in to leave two “dreaded Democratic Congressmen” in “safe” districts, almost assuring their re-election. We’re talking about **Lloyd Doggett** from Travis County and **Martin Frost** from the Dallas area.

The schemers, and they are both Democrats and Republicans, say it was a smokescreen and *this* may be what happens. Now that the House has sent the “Doggett/Frost protection bill” to the Senate, **two Democratic Senators will join the GOP Senators to make a two-thirds majority** necessary to consider the bill.

The Senate will pass a bill, with modifications, and send it back to the House. The GOP majority in the House will refuse to accept the Senate amendments and call for a small conference committee made up of Senators and Representatives “to iron out the differences.” This is when the knives come out. **The conference committee, with a GOP majority, will change the redistricting bill drastically,** and among other things, make it difficult for Doggett and Frost to win re-election.

**Under the rules, the Senate needs only a simple majority** ( not two thirds) to accept a conference committee report, and the GOP has a simple majority. The “new” bill/conference committee report will pass both GOP-controlled houses and be sent to the governor, who will sign it. After a court challenge and USJustice Department approval, the new boundaries will become law for next year’s elections.

Again, this scenario is purely conjecture. However, it has the benefit of being **plausible and possible within the rules**. But, a session such as this brings out the best (worst?) in legislative maneuvering, so this possibility may never see the light of day. On the other hand ....

**Dr. Louis Overholster** says being in politics is like being a football coach: “You have to be smart enough to understand the game ... and dumb enough to think it’s important!”

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