

THE

Paul Spelce

AUSTIN LETTER

www.AustinLetter.com

P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail News@AustinLetter.com

Volume 26, Number 2

April 9, 2004

Dear Client:

The State of Texas will be scrambling for revenue when legislators gather in Austin. When this happens, legislation that hasn't seen the light of day in the past might suddenly become attractive – if it can be shown to generate big bucks for the state.

We're talking big-time gambling — maybe not full-blown casinos all over the state, but close to it. How about **casinos on Indian reservations**, such as they have in New Mexico and Oklahoma? How about **video poker and blackjack**, as they have in Louisiana? How about bigger crowds at race tracks, betting big bucks on more than just the ponies?

There's no question Texans gamble. For instance, the most popular destination for folks who leave Austin's airport is Las Vegas. Texans crowd gambling hotspots in the neighboring states. Here at home, the Texas Lottery ranked in the top 10 of *worldwide* lotteries in 2003 sales. **Repeat after me: Texans love to gamble.** But, year after year, legislators have been **reluctant to legalize gambling** other than pari-mutuel betting at limited race tracks, the lottery and carefully-controlled bingo games.

This may be about to change. There are about a billion reasons why. Adding video lottery terminals (VLTs) to Texas' race tracks, along with gaming at Native American reservations, could bring in more than **\$1 billion in annual revenue** to the State of Texas, according to State Comptroller **Carole Keeton Strayhorn**. And she adds a little icing to the revenue cake by predicting it would **create 30,000 new jobs**. These are impressive numbers for a state looking for revenue.

This is a political hot potato. Well-meaning legislators **oppose gambling on moral grounds**, as do many voters. Those in favor of expanded gambling are well-organized and funded. Texas race tracks are hurting and see the addition of VLTs as salvation. New Mexico's Sunland Park, four minutes across the border from El Paso, added VLTs in 1998. "Sunland Park's racing wasn't worth two dead flies. Now they've got a bigger purse structure on a daily basis than they have at Lone Star Park" in the Dallas-Ft. Worth area, said **David Hooper**, executive director of the Texas Thoroughbred Association.

The revenue-enhancing pitch during tough financial times worked for Texas universities. The legislature gave up jealously-guarded control and let them set their own tuition. Stay tuned.

After the governor unveiled his school finance plan Thursday, the pressure for additional state revenue increased. One estimate says from \$5 to \$14 billion may be needed. This is a lot more money than expanded gambling will produce. So, what are the other options?

The Greater Austin Chamber of Commerce is surveying its members right now to determine which new revenue sources (that's spelled t-a-x-e-s) they prefer. As the GACofC put it: "The survey will be efficient, but not 'scientific' or even binding in a strict sense. We do hope to obtain a broad sense from members about the options being discussed." Here are the tax options the Chamber listed:

A 1% increase in the sales tax – generating \$1.9 billion. **A 1.5% gross receipts tax** – that would generate \$13.5 billion. **A 1% rate on a new personal income tax** – generating \$3.0 billion. **Expanding the base of the current 6.5% (state's portion) of the sales tax, that would include a tax on such services as attorneys, accountants, architects, etc.** – that would also generate \$3.0 billion. **A 1% business activity tax (BAT)** – generating \$3.0 billion. **Instituting a tax on video lottery games and other "sin" taxes** – generating \$2.1 billion. **And closing certain franchise tax loopholes** – to generate about \$238 million.

This is quite a laundry list. And the Chamber's survey of options doesn't even include the governor's suggestion about "**re-allocating**" **business and personal property taxes**. It should be noted the survey began by asking if the respondent felt there was a "funding" and "achievement" crisis in the public school system.

One of the motivations behind a special called legislative session to work on this problem is widespread dissatisfaction with the current court-ordered redistribution of tax revenue to support schools – the so-called Robin Hood system. The Robin Hood system takes money from districts that have higher property tax wealth per student and allocates it to districts that have lower property tax revenue. **Many school districts in the Austin area each year ship millions of dollars collected from local taxpayers to districts that have lesser valued property.**

It is hard to overstate the difficulty to find another method of financing. Start with a general **anathema statewide against any additional taxes**. Add to this the fact that, even though the Republicans hold a majority in both houses, the legislature will be returning after a bitterly divisive fight over Congressional redistricting.

And while these may be difficult *emotional* and *political* issues, the *math* is probably the biggest hurdle. Many of the proposals to raise a huge amount of revenue will **require a constitutional amendment** to be enacted. This means the change must get a **two-thirds vote** of the 31 senators and 150 house members. After all that, **Texans must vote on whether they want to pay a lot more in whatever new taxes** are presented to them. Talk about a tough row to hoe. But as the GACofC says, this is "perhaps the most important business and public policy debate in Texas today."

What would a new job-creating enterprise in Central Texas be worth if, considering recent history, it might attract 4 million visitors in its first six months?

The enterprise is a hunting, fishing and outdoor gear retailer, Cabela's Inc. The company late last year put 123 acres south of Austin under contract. It announced plans for a \$70-\$80 million project. The land is near the **southwest corner of Loop 4 in Buda and IH35**. There is speculation Cabela's wants to build a huge 180,000-190,000 sq.ft. store on the site with other commercial development – maybe a hotel and restaurants. Why the excitement?

In the six months since Cabela's opened a 250,000 sq.ft. store in Hamburg, Pa, almost 4 million visitors have tromped through the expansive facility, the store's marketing manager told *The New York Times*. Cabela's stores are designed to **draw shoppers from a 200-mile radius**. How successful is the company? Its annual sales, \$1.4 billion, are greater than its much better-known competitor, L. L. Bean (\$1.2 billion in 2003).

The Times reports Cabela's Hamburg operation includes, "in addition to shooting and archery ranges, an extensive gun library, a bargain cave and a fly-fishing shop." It also "sells live bait to anglers" and "has kennels available so your dog doesn't have to wait in the car." Additionally, "overlooking the store from the mezzanine restaurant is the **Campfire Restaurant, with 290 seats, which serves dishes like elk stroganoff (\$5.99) and venison and bison bratwurst (\$3.79)**. Those traveling by RV can empty their waste tanks and fill their water tanks at a station in the parking lot" big enough for 1,500 vehicles.

If this is not enough, consider the Hamburg store has s **30-foot-high taxidermy diorama** featuring wild animals caught in the act of survival. There are four fish tanks, including a 35,000-gallon monster stocked with about 17 different types of game fish. **Its 65-yard-long aisles** hold all types of outdoor clothing and anything else for the hunting, fishing and outdoor enthusiast.

The kicker in all this could be **what Cabela's is seeking in order to open in Central Texas**. When the initial announcement was made last fall, it was to be the Nebraska-based company's first foray into Texas. But now Cabela's filed two weeks ago for an Initial Public Offering to sell as much as \$230 million in common stock and indicated in the IPO documents it also has a contract to purchase 50 acres of land in Fort Worth, according to *The Wall Street Journal*. The *Journal* reported the Fort Worth deal is **contingent on economic development incentives** Cabela's is able to get from city and state authorities.

Cabela's can put forward compelling arguments about its local impact. For instance, its stores are among the top tourist attractions in their respective states. When it set up operations in West Virginia, it received a **\$35 million grant and other incentives worth \$91 million from state and local governments**. A Cabela's spokesman declined to speak to the *Journal* about incentives, citing the company's quiet period following the IPO filing.

The opening today of the big budget movie, *The Alamo*, shot entirely in Central Texas underscores Austin's move to become an important moviemaking center. However, what most don't know is fewer people are going to movies now than 38 years ago.

How's that? Haven't the top 10 grossing films of all time (*Titanic*, *Star Wars*, *E.T.*, *Lord of the Rings*, *Jurassic Park*, etc) all been produced in recent years? True. But have you checked the price of a ticket today compared to what you paid to see a "picture show" forty years ago? A report in *the Wall Street Journal* says **44 million Americans went to the movies in 1965**. After dipping to 17.5 million four years later, **the number is now just more than 30 million**. And think how much our population has grown during that time.

"It's amazing how many movie professionals remain altogether unaware of this long-term decline in film going – or, when informed about the depressing but undeniable figures, wrongly attribute them to the advent of television," noted **Michael Medved**, author of "Hollywood vs. America." So, what happened 38 years ago to drive millions of Americans away from movie theaters? Medved claims the **rating system is at fault** because it gave moviemakers new freedom.

"That new freedom allowed the profligate use of **obscene language** strictly banned under the old Production Code, the inclusion of **graphic sex scenes** along with **near total nudity** and, more **vivid, sadistic violence** than previously permitted in Hollywood movies," claims Medved.

"Over the past 30 years, **G and PG material has consistently drawn larger audiences than releases rated R**," he pointed out. His conclusion: "A serious examination of the decline in the movie audience indicates that the **long-term emphasis on 'adult' content** represents an even more serious problem than bad morals – the numbers show that it also **counts as bad business**." Those involved with Austin's burgeoning movie industry should take note.

Dr. Louis Overholster said he always thought a lifetime warranty was the best you could get. Now there's one even better. It's good until there is peace in the Middle East!

NEAL SPELCE AUSTIN LETTER (ISSN 1071-0612) is published weekly, except last two weeks of the year, for \$150 (plus tax) per year or \$249 (plus tax) for two years. To subscribe, call 512-498-9495. Periodical Postage Paid at Austin, TX 78767 by Austin Letter, Inc., 1407 Wild Cat Hollow, Austin, TX 78746. POSTMASTER: Send address changes to: Neal Spelce Austin Letter, P.O. Box 1905, Austin, TX 78767-1905.

Sincerely



Editor/Publisher