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AUSTIN LETTER

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Dear Client:

The regional Texas economy is in much better shape than the nation as a whole, as we have repeatedly reported. But what about the financial stability of Texas state government, the entity that controls much of your taxes and generates a significant portion of Austin area jobs?

Nearly two dozen states are struggling to stay solvent, as their governmental leaders look at **raising taxes and/or making deep cuts** (that's spelled j-o-b-s) in state programs. In California, for instance, legislators have made emergency cuts and are **borrowing billions of dollars to try to cut a projected \$16 billion deficit by 2009**. In many other states where the financial situation has not reached a crisis point, **revenues are down**. So, what about Texas?

"The state's largest general revenue source is the sales tax," Texas Comptroller of Public Accounts **Susan Combs** points out. "And there have been **double-digit gains in the sales tax revenue the last two fiscal years**. So far this year, sales tax growth has been strong – at close to 7% — but not at the red hot pace of previous years." (Another big revenue source: oil and gas taxes, driven by high oil prices.)

What is triggering the sales tax growth? Jobs. Texans are spenders. They make money; they spend it. **Texas gained 277,000 jobs from January 2007 to January 2008**. Next closest: New York gained 84,000 and North Carolina, 81,000. Michigan *lost* 57,000 and Florida (previously #2 in gains) *lost* 7,000 jobs.

As we reported 2/29/08, "Texas will go into its next legislative session January 2009 with about **\$2.5 billion on the table**" and **another \$9 billion set aside in a Rainy Day Fund** in case of a state government emergency. Deficit? What deficit? Tax increase? What tax increase?

While it is never wise to predict what the 181 House members and Senators may do when they come to Austin, **legislators will arrive facing a stable, even positive, financial situation**. You can bet the state budget will increase, however – if only to keep up with the state's growth.

And, remember, with **several hundred-thousand Austin area residents dependent upon a state government payroll check**, the financial stability of state government is essential to a solid economy for the Austin metro area. Barring an unforeseen economic calamity visiting Texas, state government finances should not be a worry for the foreseeable future.

Speaking of Texas state taxes, about 370,000 Texas businesses will see a tax cut of \$90 million this year.

Because of the state's low unemployment and strong economy, the state is implementing a one-year **suspension of the Unemployment Insurance 0.12% replenishment tax**. The state has enough money in reserve to meet unemployment obligations in 2008.

“The state collected more money for the unemployment trust fund than we need, which is why **I'm directing the state to bring that tax to a screeching halt**,” said Governor **Rick Perry**. He added: “When government levies a tax and collects more money than is needed, we must either stop collecting the tax, return the money or both.”

The Texas Workforce Commission approved the suspension after looking at economic forecasts for the rest of this year and studying employment figures.

Rather than just rocking along hoping for the best, Austin business leaders have the pedal to the metal to continue the area's impressive job growth for the next five years.

The plan guided by the Austin Chamber of Commerce calls for **creating 117,000 new jobs** throughout the region over a five-year period. This would add about **\$10.8 billion in paychecks** to be distributed within the communities as workers go about their daily lives.

Ambitious? Yes. But if the most recent five-year effort's results are a harbinger of things to come, **it should be successful**. Remember the previous effort, launched in 2003 had a goal of 72,000 new jobs and 104,000 were added. The payroll goal was \$2.9 billion and the results added \$4.5 billion in paychecks. Impressive.

It costs money to sustain such an effort. **The Chamber is asking Austin area businesses to pony up \$21 million for the five-year project**. A lot of money, yes, especially compared to the previous budget of \$14.4 million. But when you compare it to Memphis's economic development budget of \$60 million it is certainly not out of line.

The big bucks will be spent in a variety of ways, including pushing for more **economic diversity**, **deepening the talent pool** of workers in the area, and expanding efforts to develop and implement comprehensive **regional transportation solutions**.

All of this will be carried out in a collaborative effort throughout Central Texas. For ease of reference, the word “Austin” is used most of the time. But a successful, wide-ranging effort such as this can't be kept inside city or county boundaries.

What are the fundamental infrastructure issues that need to be addressed to secure the economic future of the Austin area and, in fact, the state of Texas as a whole?

State Comptroller **Susan Combs** raised the issues this week: **clean water, affordable energy and an effective transportation network**. Can't quarrel with those. We've reported recently on energy and transportation – and will continue to examine those issues – but let's take a look at water.

There's no question there's a **lack of water in West Texas** and an **abundance of water in East Texas**. And, when you look at the massive dam-controlled waterway known as Colorado River (that slices through Central Texas) you would think there is **plenty of water to support the Austin area**.

As for Texas as a whole, Comptroller Combs points out that – when you combine all of the water resources in Texas – **water demand in the state is expected to increase 27% by 2060**, while capacity of the state's existing reservoirs will fall by 18%. Obviously, this portends a long-term statewide problem. There has long been a discussion in Texas about water-sharing between the haves and have-nots.

The same is true in Central Texas, where most of the Austin area relies on the Colorado River and its lakes for water. **San Antonio and cities in Williamson County are looking at obtaining Colorado River water** – even though they are in different watersheds of rivers other the Colorado.

“Cities and regions need to do a better job of talking with each other about their water plans – particularly when they're using the same water supply,” says Austin's State Senator, **Kirk Watson**. “We need to create more opportunities to **work with our neighbors**, make sure everyone has the water they need, and preserve this resource for future generations.”

He says “we can't just drain the lakes to satisfy thirst – we have to preserve them.” Watson adds: “**we're going to need to invest in technologies that conserve water in every setting**, from farms and ranches to subdivisions to skyscrapers.”

“For example, we need to manage our land so that **rivers aren't being sucked up by cedar trees**, but instead are flowing freely,” he continued. Isn't this costly? “Those advances will be a lot cheaper than trying to rustle up some water the next time there's a brutal drought,” he said.

Watson says water planning will be “a big part of what I'm doing to get ready for the legislative session” that convenes in Austin in January. “This means,” he continues, “finding new, sustainable, environmentally friendly supplies, and using technology and common sense to reduce our demand.” He says the **area lakes are an asset for the economy, recreation and quality of life**, “independent of the role they play in providing water for drinking or flushing.”

Does the *first woman* mayor of Austin, who was also the *youngest* mayor, now want to become the *second woman* mayor and the *oldest*? Hmmmmm.

Writing in *Texas Weekly*, **Ross Ramsey** reported this week he asked **Carole Keeton Strayhorn** about this possibility. “She says, sort of, that it ain’t so. Or that it could be. Actually, we didn’t get a Yes or No answer,” Ramsey wrote.

Ramsey did say Strayhorn gets asked in emails from friends and supporters, and has conjured a standard response: “When I became mayor 32 years ago, I was the first woman and the youngest mayor. **If I won it back, I would be the second woman mayor of Austin, and the oldest.** I haven’t looked up the age thing, but I don’t think anyone would want to fight about it.”

Strayhorn has had a varied political background. Before she was elected mayor, she was President of the Austin school board. After her mayoral stint, she ran a losing race as a Republican for Congress in the heavily-Democratic 10th District (challenging incumbent **JJPickle**). She then served as Railroad Commissioner, Insurance Commissioner and was elected State Comptroller.

As Comptroller, she ran for governor against the incumbent **Rick Perry**, sidestepping a challenge in the Republican primary to run as an independent candidate. Since losing that race, she has been out of public life.

Strayhorn has plenty of time to make up her mind. Only three City Council seats are on the ballot in May’s city election, under Austin’s staggered term process. **The mayor and three more council seats will be up for consideration in the following election.** In the meantime, she says from time to time, she still watches the City Council meetings on public access TV. If she ends up throwing a shoe at the TV set in the near term, maybe this will tip her decision.

Taking note of the wild stock market gyrations this week, **Dr. Louis Overholster** opined that “for me, multitasking is buying stocks and losing money!”

Sincerely



Editor/Publisher