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AUSTIN LETTER

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Volume 30, Number 20

August 15, 2008

Dear Client:

As you drive Austin area roadways and watch the falling prices on gas station reader boards, you probably wonder how long the lowering gasoline price situation will continue. One seasoned observer sees a cautiously optimistic outlook.

The price you pay at the pump correlates somewhat to the price of oil. And our friends at *The Kiplinger Washington Editors*, who have been tracking these sorts of trends for 85 years, are forecasting that oil prices will continue to ease. **“By year-end, look for oil prices at about \$110 a barrel.** Come 2009 ... averaging at or near the \$100 mark, though there will be plenty of ups and downs,” is their forecast.

What does this mean when you pull in to “fill ’er up?” **“That’ll take close to 40-cents a gallon off gasoline pump prices by late December, putting the national average at about \$3.50.”** *Kiplinger* predicts. “In 2009, we see a further decline and an average for the year of roughly \$3.40.”

Okay, so how confident are these Washington forecasters about their prediction on the price of oil? **“There’s no magic in the oil price decline: There are no shortages. And demand is softening,”** they pointed out and then went on to say:

“Oil producers are watching anxiously as individuals and firms permanently adopt energy saving measures. Drivers who converted to hybrid cars, for example, won’t return to gas-guzzling SUVs and pickup trucks. The drop in gasoline prices may spur a bit more driving, but not enough to pump prices to previous peaks.”

All this impacts Austin car dealerships, especially those with high inventories of SUVs and pickup trucks that carry US brands. Many dealers are left in a lurch as sales of brands from Detroit are cratering. In fact, *Kiplinger* says **the value of dealerships is plunging.** For instance, *Kiplinger* is reporting that some independent dealerships (not factory-owned, or owned by big auto groups such as AutoNation) can’t sell, if they wanted to get out of the business. This is exacerbated by the fact that **dealerships sit on huge swaths of real estate.** And as you know, the credit markets these days are tightening lending requirements that involve real estate.

But, as this oil-related economic hubbub shakes out, *Kiplinger* says that **by 2010, things should look up for car dealers.** Until then ... it’s white knuckles for many.

Austin area sales tax collections – a measure of retail vitality – were up in June, compared to the year before. But not by much.

A \$13.8 million check from the State Comptroller was sent to Austin this month, representing Austin's share of sales taxes collected by Austin businesses in June. (The state collects full sales tax payments in the month following the sales, then it takes a month to do its bookkeeping. The following month, after deducting the state's share of the tax, it remits the city's portion back to the cities.)

Compared to the same time frame last year, **Austin's sales tax collections were up 1.9%. And, so far during 2008, collections are up 1.4%. It's okay, but not great.** For instance, statewide year-to-date sales tax collections are up 6.5%. Energy-booming Houston is leading the major markets, with an 8% increase in its August payments. Austin, while inching forward, is lagging behind those Texas cities' whose economic fortunes are heavily tied to oil.

Speaking of taxes, a recent report ranks Texas 43rd on the list of state-by-state tax environments. Hey, not to worry. Number One is the worst.

The group is called the Tax Foundation. Its 2008 study evaluated state and local taxes paid by each state's residents. It then divided the amount by total state income. This gave them a method to **measure the state's tax burden on its residents.**

According to its report, **Texas taxpayers pay 8.4% of their income in state and local taxes** (this includes taxes paid to other states). The dollar amount is \$3,580 per capita. New Jersey residents are the most burdened. They pay 11.8% of their income in state and local taxes. Nationally, citizens on average paid 9.7% of their income in state and local taxes.

Drilling down further in the tax burden numbers, Texas residents came out well on another part of the spectrum. For instance, **Texans paid \$1,498 per capita in taxes to other states. But the good news is that, Texas collected \$2,082 per-capita in taxes from non-residents.** A strong state economy helps swing this balance in favor of Texas residents.

All of this is important – especially for the decision-makers around this nation who are making long-term plans on where to invest in their company's future. Boil it down to the basics: **A company looking to re-locate or to expand its operations – and thereby create jobs – ought to put Texas at the top of its list.**

The cold, hard reality is this: **a company will benefit** by operating in an economic environment that is among the best – some say *the* best – in the nation. And **a company's employees will benefit** by keeping more of their wages in their jeans. Win-win.

Count your lucky tax stars. After all, you could be living and working in California, where the governor is proposing a sales tax increase.

Yes, *that* governor – Republican Governor **Arnold Schwarzenegger**. He is proposing raising the sales tax rate by a penny for three or four years and then lower it by possibly a quarter-cent. (A tax, lowered? Yeah, sure.) Schwarzenegger says this could help end the state’s budget standoff. But it puts him at odds with some of his GOP colleagues, who are pushing for cuts.

California’s sales tax rate is 6.2% and most counties and other entities levy their own sales taxes on top of that. For all practical purposes, this hikes the California sales tax a couple of percentage points. **For instance, in the Silicon Valley (where there is a certain economic affinity with the Silicon Hills of Austin), the current sales tax runs about 8.25%.**

But look where they are headed. Already on the ballot in the Silicon Valley is a measure to **fund a high-speed rail system connecting Northern and Southern California**, and another proposition may be added to cover operating funds for the **Bay Area Rapid Transportation extension from San Francisco to San Jose**. Another city in the Valley, Campbell, is considering raising the city sales tax.

Who knows where it will end up? **California is more than a month into its new fiscal year and still facing a budget impasse.** (Talk about an impasse. This week, they’re dealing with Gov. Schwarzenegger’s executive order to **cut salaries of 180,000 state employees to the \$6.55 minimum wage!**) It’s not inconceivable that, with the proposed one percentage point increase in the sales tax, and a quarter-point increase here and a quarter-point increase there, **the sales tax paid by California residents could approach the lofty level of around 10%.**

Often overlooked when economic vitality is measured is an analysis of non-essential spending by residents of the Austin area. One anecdote reveals an interesting result.

Some may argue that going to a symphony concert is an “essential” expenditure (quality of life, wellbeing, etc.). But, of course, **it doesn’t rank up there with spending for food, gasoline, housing, medical, etc. expenses.** So for this example, we’ll call it non-essential.

The Austin Symphony Orchestra (ASO) is enjoying unparalleled financial success. Season subscription sales for the upcoming 2008-2009 season increased more than 15% over last year and this is the third season in a row for increased subscriptions. And, it set a record by raising \$2 million for its development fund.

While it is not indicative of broad economic gains, it is interesting anecdotally to see that some Austin residents are **increasing their support for quality of life enhancements** in the area.

Over the past three decades, Austin has made smart, strategic decisions about creating an economic and social climate where technology companies flourish and the people who work for them can enjoy a high quality of life – so reports an out-of-state journalist.

A Lexington, Kentucky newspaper columnist accompanied 275 of his city's residents when they came to Austin in June **"in search of ideas" to improve their city.** "So what was there to learn in Austin," **Tom Eblen** asked. "Lexington is a prettier place and has much better weather. Yet, Austin is booming and seems wired for a bright future."

Quoting an Austinite who said that "civic engagement is a contact sport," Eblen wrote that **"Austin residents won't allow a few elites to make big decisions about their city behind closed doors.** There are dozens of groups, such as the Austin Area Research Organization, where issues are studied and debated."

"Locally-owned businesses are valued. Entrepreneurship is celebrated. **The city, state and University of Texas work closely together to develop the economy.** Progress is tracked, results are measured. There's a bias toward action," Eblen continued in the column he wrote following his trip to Austin.

He went on: **"Austin leaders were quick to say that their city is far from perfect.** Housing is too expensive, air quality is often poor, traffic can be a mess. But they said leaders haven't been afraid to try things and fail, and they've learned from their mistakes."

For the last couple of decades, **civic delegations have come to Austin from cities far and wide to take a look at the city whose success was christened years ago as "The Austin Model."** Eblen reports that Austin is "far from perfect," but it is doing enough things right that it is being emulated.

Dr. Louis Overholster says the nice part about being a pessimist is that you are constantly being either proven right or pleasantly surprised!

Sincerely



Editor/Publisher