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Dear Client:

One of the strongest underpinnings of the Austin economy is the public sector – the state university, the state government. And the public sector is not expected to suffer budget cuts over the next 3 years. In fact, the budgets are likely to increase.

This fact is too often overlooked in the assessment of Austin's economy: No matter the ups and downs of housing or high-tech, retail or manufacturing, **state payrolls remain the rock-steady job-generating safety net for the Austin area economy.**

And the best part of all is that the state operates on a two-year budget cycle. The state is prohibited by the constitution from running a deficit. So, in effect, the money will be put into the bank to cover the two-year period – from September 2009 to September 2011.

Add to this the state's fiscal year that is now beginning and you have a **three-year bedrock of economic security in the Austin area.**

One key factor that contributes to this scenario is the phenomenal growth experienced by the state as a whole and by the Austin area in particular. **Just to continue the same level of governmental services for an expanding population requires more money to be spent.** Austin will be the beneficiary of the increased flow of dollars because this is where governmental services are heavily concentrated.

But this growth doesn't only impact spending at the *state* level. **School district, county and city budgets are also likely to increase**, again not necessarily because of new spending, but because the population growth will require more spending just to provide the same level of services.

Every dollar loaded into every pay check flows through the community as workers go about their daily lives, and this fuels the local economies.

Additionally, many businesses – large and small – generate a great deal of business through contracts with these governmental entities. This results in *private* sector payrolls that also flow through the community many times over. In the next item we will give you an expert's view of the extent of these governmental budgets.

“Life in Texas is good and government contractors will find an abundance of opportunities” to generate jobs. This is the view of an expert whose company aids other companies in taking advantage of those opportunities.

The president and CEO of Strategic Partnerships, **Mary Scott Nabers**, heads up a company that specializes in public sector research and procurement coaching. Or to put it in plain English, **she assists companies who want to do business with a governmental entity.** So what does Nabers see as “an abundance of opportunities?”

She recites a litany of opportunities. Listen. “Local governments will still build roads and repair bridges. **There will be major outlays of funding to ensure that traffic can move.** Escalating gas prices have caused significant increases in public transit ridership. Many larger cities are being forced to increase routes and expand their daily operations.”

There’s more. **“Public safety is a major concern at every level of government and the spending trends will not be reversed in this area in the foreseeable future.** One prediction is that a sum nearing \$1 billion will be spent in Texas over the next few years on items such as surveillance cameras, emergency alert systems, security software programs, crime prevention and regional emergency operation centers,” Nabers notes.

How about this? “Texas, because of its proximity to Mexico, will continue to receive **federal funding to ensure safe border crossings, provided for the safety of Texans living on the border and for drug-related law enforcement.**”

Or this? “Almost every governmental entity throughout the country has initiated **‘green’ programs as well as other types of environmental initiatives.** These efforts will not be abandoned and most, initially, result in **higher spending.** Green initiatives usually involve partnerships between public entities and private sector contractors.”

Nabers also points out that technology purchases will continue because such expenses cannot be curtailed – and this is good news for the Austin area. She went on to say that technology refreshes. New data management systems, more wireless communication devices and financial reporting systems cannot be avoided.

She says **increased gas prices are also spurring sales of teleconferencing equipment.** Training, regional meetings, telemedicine and distance-learning initiatives have turned to teleconference technology as a way to reduce costs.

You get the point. **Opportunities abound in Texas,** as Nabers has indicated. And many of them involve private enterprise working in concert with governmental entities.

With Texas doing so well during difficult economic times around the nation, there are indications there may be a mini-groundswell building by other states making moves to emulate the Lone Star State.

It revolves around taxes. As you know, **Texas is one of a handful of states with no personal income tax** and the only big state to join Texas in that category is Florida. The so-called major states that “compete” with Texas on the economic front are burdened with state personal income taxes levied upon their residents. And now, many of them are trying to do something about it – after seeing how Texas is succeeding. Some examples:

Massachusetts. Surely you’ve heard the old disparaging name for this state. Taxachusetts is what it has been labeled for its high taxes. Now, voters in this state will have an opportunity 11/4/08 to **eliminate its state income tax.**

This is a big deal. The state’s income tax generates almost half of the state’s revenue – about \$12 billion out of a budget of \$28 billion. Massachusetts’ governor and other state leaders oppose the ballot measure. **There is no public plan on how the state government will respond if its income tax is repealed.**

Oregon. Another big-spending state is giving its citizens the right to vote on a measure that would allow taxpayers **unlimited deductions of their federal income taxes on their state income tax returns.** This would take a big bite out of the state’s revenue and therefore the Oregon governor and other politicians are opposing it because they say it would decimate the state budget.

Nevada. This state is approaching tax change from a different direction, though it is not yet final and, therefore, may not happen. But there is a move underway to propose a **constitutional amendment that would impose a new cap on property taxes.** If it makes it on the November ballot and is approved, it would still need to be approved again in 2010.

There are other states in this tax change mode. For instance, in Maine, voters may decide to **roll back taxes on beer, wine and soda.** North Dakota is trying to put a proposal on the November ballot that could **cut personal income taxes by as much as 50%.** Colorado is going the other way – voting on whether to increase the state’s sales taxes to pay for services to people with developmental disabilities.

It’s not so much *what* these states are doing, it’s the fact that these efforts are underway at a time when many of these states are seeing a reduction in state revenues, due to economic downturns. **It’s not as if these states are operating with budget surpluses, as we are experiencing in Texas. Many are struggling with deficits.** And in spite of being financially strapped, their taxpayers are considering these tax cutting moves – to move more in line with The Texas Model.

Speaking of taxes, what about giving tax breaks to business enterprises to build and locate in the Austin area? Is this a good use of tax muscle?

The governing body of Travis County, the Commissioners Court, will tell you it is good business to do this. In fact, they can point to an independent third party study that found agreements signed with Travis County **not only proved positive for taxpayers, but also increased the number of jobs and payroll in the area.**

How does this work? Well, a business entity comes to the County and says we would like some rebates and tax incentives to locate in the County. Travis County says okay, but we want you to **meet certain investment and job numbers on an agreed-upon timetable.** And if you don't meet these standards, we are no longer obligated to provide these perquisites. Okay? Sign here.

So, how has it turned out? So far, so good. Take four contracts signed by Travis County – with **The Domain, Samsung Semiconductor, The Home Depot and Hewlett-Packard.** The independent study of these four deals found that there was a net positive return for taxpayers.

The impact ranged from \$1.2 million with 500 jobs added by The Home Depot to \$42.8 million with 900 jobs added by Samsung. If these targets had not been reached or exceeded, the Travis County Commissioners would have come down on the companies and not provided the rebates and incentives.

The classic case study occurred several years ago when Dell was looking to build a huge campus and had several Central Texas sites under consideration. **Round Rock provided the incentives; the other governmental entities didn't.** And look at the economic development in the Round Rock area following the Dell decision to move from Austin to Round Rock.

When scientists found that an epilepsy drug reversed obesity in lab rats, **Dr. Louis Overholster** said lab rats don't always mimic a human's makeup: "For example," he said, "lab rats don't usually order the triple at Wendy's!"

Sincerely



Editor/Publisher