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Dear Client:

The federal income tax rate is the same for individuals nationwide. So, what does the amount of federal income tax paid by Texans say in relation to the rest of the US?

Texas is one of a handful of states that does not levy a *state* personal income tax. And no cities in Texas collect a *local* personal income tax, as New York City does. So you start out ahead of the tax game right there compared to other states and cities. The common denominator is *federal* taxes. An analysis of taxes paid to the IRS by Texans compared to the rest of the US underscores that the Lone Star State is more economically vibrant than the US average.

Why would you want to delve into this? Well, **comparing Texas and US tax payments to the IRS provides a clearer, more timely picture of how the Texas economy stacks up against the nation's.** Why? It's better than looking at employment and income data because they are continually revised. And those numbers are not locked-in until about two years later.

But payments to the IRS are calculated quickly and are available for analysis. And the latest data on state payments to the IRS for fiscal year 2008 provide more evidence that **the Texas economy was in good shape at a time when the US economy was severely strained**, according to research economist **Ali Anari** with the Real Estate Center at Texas A&M. Bottom line: **the greater the economic growth, the more tax revenues collected by the IRS.**

Anari points out that the total **tax payments to the IRS from you and the rest of the residents in Texas grew by 8.6% from 2007 to 2008.** How does this compare to the US? The nation had a growth rate of taxes paid to the Internal Revenue Service of only 1.9%. Quite a spread. Not only that, but Texas ranked first among the states with the highest tax revenues.

Another interesting tidbit: Texans paid more than \$206 billion in taxes to the IRS in fiscal year 2008. **This accounted for 7.5% of the total IRS receipts.**

This is just another indicator of the relative health of the Texas economy. **And the importance of these numbers is that they are *real*.** They do not represent a forecast, a prediction, or a judgment by some organization that likes to provide rankings. As we said, they are real.

Speaking of paying taxes, Austin is the nation's #1 "Best Bargain" city – based upon a variety of measures as compared to the 50 largest US metropolitan areas.

This isn't some "throw a dart at the wall" subjective judgment. **This designation follows a thorough analysis by the statisticians at *Forbes.com*.** And it is current, released just one week ago. Normally, we don't delve into somewhat-boring methodology, but in these dicey economic times, it is important to make certain such claims are not based on guess work. Let's examine this further.

First of all, *Forbes* looked at the nation's 50 largest US metropolitan statistical areas and metropolitan divisions – **geographic entities defined by the US Office of Management and Budget** and used by federal agencies in collecting, tabulating and publishing federal statistics. Four data sets were used to assign points to each metro area:

The first category was **average salary for workers with a bachelor's degree or higher**. This info was derived from PayScale.com, a salary data aggregator. The second data set used **annual unemployment statistics** from the Bureau of Labor Statistics. The third criterion was **cost of living** gleaned from numbers run by Moody's Economy.com.

And finally, the **Housing Opportunity Index**. This is an important analysis from the National Association of Home Builders/Wells Fargo. It measures the amount of homes sold in a given area that would be **affordable to a family earning the local median income based on standard mortgage underwriting criteria**.

Austin earned high marks across the board, *Forbes.com* reported. What helped Austin earn the #1 designation? "They have the triple-whammy of being a university town, a state capital and a technology center," says **Al Lee**, director of quantitative analysis at PayScale.com. **"It makes for a very robust economy and a great place for people to work."**

Four other Texas cities made the list of America's Best Bargain Cities, but none came close to Austin, whose 5.5% unemployment is the best in the country and about half the national average, according to *Forbes.com*. However, all five of Texas' biggest burgs – Houston, San Antonio, Dallas and Fort Worth – were among the Top Ten Best Bargains. In fact, not a single Texas city in Texas ended up on their list of most overpriced places.

Breaking the numbers down more precisely, here is where the Austin metro ranked in the four data sets: **Cost of Living**, 3 of 50 ... **Housing Opportunity**, 24 of 50 ... **Unemployment Rate**, 1 of 50 ... and **Average Salary**, 20 of 50.

It is hard to overstate the importance of this unbiased, across the board, #1 US designation.

One of the current negatives for the Central Texas area is the drought. Make no mistake. Despite the low-humidity temps this week and some rain recently, a very serious drought remains in place over all of Central Texas.

According to the US Drought Monitor, the recent rains eased drought conditions enough to show small improvement in the drought classification, but **the rains weren't nearly enough to have a significant impact on the overall drought.**

With soils dry from 1½ years of drought, much of the recent rains soaked into the ground, producing **little runoff into area lakes and aquifers.** As a result, their levels remain low and mostly unchanged from a month ago.

Don't be fooled by the green landscape you see all around you. The Lower Colorado River Authority (LCRA) points out the soil moisture is still low, lake and aquifer levels are low, and large long-term rainfall deficits persist.

The most visible reminder of the drought is the level of area lakes. Just drive around the two big flood control lakes and you will see the effects of the drought. **The level of Lake Buchanan is 9.9 feet below its historic average for May, according to the LCRA. Lake Travis is 19 feet below the historic May average level.** Another way to put it: these lakes are about two-thirds full. And the lakes will continue to drop.

Barring significant rainfall, **lakeside residents on lakes Buchanan and Travis will observe lake levels gradually dropping** as LCRA passes water through its hydroelectric generation units to meet increased demands for water downstream for its agricultural customers located in Matagorda, Wharton and Colorado counties. And on top of this, as temperatures rise, evaporation takes its toll.

The recent rains did have one positive outcome – at least for the time being. **The fire danger has eased somewhat across the region.** As a result, most burn bans are no longer posted in the immediate counties surrounding Travis County.

What will it take to break the drought? That question is a little ominous as we enter the Memorial Day weekend. A number of droughts have been broken when flooding occurs. And, one of the deadliest floods in recent Austin history occurred on Memorial Day weekend. **If there are no floods, it generally would take a rainfall event – not necessarily all in one big dump — of about ten to 15 inches to get out of this drought.**

Another factor when considering a break in the drought is the **impact of a possible tropical disturbance or, worse, a hurricane in the Gulf of Mexico.** Typically these rain-laden storms can push inland far enough to change our weather patterns to create massive amounts of rainfall in Central Texas, even to the point of flooding. So, keep an eye on the Gulf this summer.

A new mayor and a majority of the Austin City Council will be sworn in one month from now (6/22/09). Let's take a look at some facets of the 5/18/09 election that may impact the future.

Start with the fact that the new mayor, **Lee Leffingwell**, will be sworn in even though he did not get a majority of the votes. Leffingwell officially tallied 27,455. His two closest opponents, **Brewster McCracken** (15,575) and **Carole Keeton Strayhorn** (12,458) garnered a combined 28,033 votes. Leffingwell could not obtain a majority of the votes because McCracken withdrew from a runoff, giving the victory to Leffingwell. Still, the question remains: can Leffingwell be effective as Mayor of Austin even though more people voted *against* him than *for* him.

Who got the most votes in this low-turnout election? *Not* the unopposed candidate. **Bill Spelman's** name was the only one listed for Place 5. He got 43,121 votes. Councilman **Mike Martinez**, seeking re-election, received more votes than any candidate, 43,647, even though he had an opponent who pulled down 7,721 votes.

Leffingwell, **Chris Riley** (35,223 votes), Martinez, Spelman and **Sheryl Cole** (42,551 votes) will take the oath of office in a 4 pm inauguration ceremony 6/22/09 at Austin's City Hall.

A man who was a key leader in the fight against light rail in Austin took issue with our story last week about growth.

Jim Skaggs said there is "no foundation" for **Richard Florida's** conclusion. "More density to support passenger trains is clearly not the answer," said Skaggs, asking: "What societal benefit is there for taxpayers to **subsidize every daily, round-trip rider from Leander to Austin** with \$20,000 per year?" He answered his own question: "I think none and certainly a net negative."

The Indy 500 race is Sunday, leading **Dr. Louis Overholster** to say the difference between the Indy racing car drivers and the average motorist on MoPac Blvd is that the racers are not texting!

Sincerely



Editor/Publisher