

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 31, Number 9

May 29, 2009

Dear Client:

When the Texas Legislature adjourns next week, this is certain: Texas will have a balanced budget with no tax increases and there will a big increase in its Rainy Day Fund “savings account.” Look around you. No other major state can make those claims.

Members of the Texas House and Senate will leave Austin next week after adjourning *sine die* 6/1/09. **They will not re-convene in Austin in regular session until January 2011.** Many of them will watch other states raise taxes, cut their budgets and plea with Washington for help.

Texas’ competitor California is really struggling. Just how bad is it? Governor **Arnold Schwarzenegger** has just proposed borrowing \$2 billion from California cities and counties. The cities and counties squawked to high heaven because they, too, are cash-strapped. The Governor made this proposal after **voters last week overwhelmingly rejected** a series of measures to help keep the state solvent.

While Texas has billions of dollars in its Rainy Day fund, California is facing a \$21 billion *shortfall*. And, in addition to raising taxes, officials there are talking about more and more cuts, including **cutting about \$600 million from colleges and universities**. Let this sink in.

When we say California is a “competitor” state, consider that California has an impressive higher education system. One of the best in the nation. And, even as we speak, you can bet **UTAustin is ramping up recruiting efforts to siphon top flight professors from California.**

California might look to Minnesota for a road map. Minnesota was facing a multi-billion dollar shortfall. But Governor **Tim Pawlenty** outmaneuvered his legislature after it sent him an outsized spending bill and a long list of tax hikes. Minnesota already has one of the highest tax burdens in the nation, so Pawlenty said “we shouldn’t raise taxes in the worst recession in 60 years” and said he will **veto the tax hikes** and, furthermore, taking advantage of a little-used provision in Minnesota law, he says he will **cut \$2.7 billion from the state spending bill to balance the state’s budget**. He did this after the legislature adjourned last week.

Other states may not fare as well as Minnesota. Let’s look at how higher and higher state taxes are impacting many states – and, ultimately may benefit Texas – in the next item.

Americans know how to use the moving van to escape high taxes. People, investment capital and businesses can leave tax-unfriendly states and move to tax-friendly states. And they are doing that.

Other states are making their comparative situation with Texas even worse during these difficult economic times. **Arthur Laffer** and **Stephen Moore**, writing in a new study for the American Legislative Exchange Council, pointed out the difficulties high tax states were having long before this current economic crisis.

The study, titled “Rich States, Poor States,” found that from 1998 to 2007 **more than 1,100 people every day** including Sundays and holidays **moved from the nine highest income-tax states** such as California, New Jersey, New York and Ohio and **relocated mostly to the nine tax-haven states with no income tax**, including Texas, Florida, Nevada and New Hampshire.

“Is it coincidence that the two highest tax-rate states in the nation, California and New York, have the biggest fiscal holes to repair,” they ask. “No. Dozens of academic studies – old and new – have found **clear and irrefutable statistical evidence that high state and local taxes repel jobs and businesses.**”

And now look what’s happening. Lawmakers in California, Connecticut, Delaware, Illinois, New Jersey, New York and Oregon want to **raise income tax rates** on the top 1% or 2% or 5% of their citizens. In fact, the new governor of Illinois has proposed a 50% increase in the income tax rate on the “wealthy.”

Or take **New Jersey**. (Please!) In the early 1960s, the state had no state income tax and no state sales tax. It was a rapidly growing state attracting people from everywhere and running budget surpluses. “**Today its income and sales taxes are among the highest in the nation yet it suffers from perpetual deficits and its schools rank among the worst in the nation. People are fleeing the state in droves,**” Laffer and Moore report.

Texas was singled out by the authors for its fiscal soundness. And, as we noted previously, the Texas tax situation will keep its envied status for at least two more years, while other states are turning to even higher taxes to solve their fiscal instability. “**The Texas economic model makes a whole lot more sense than the New Jersey model, and we hope the politicians in California, Delaware, Illinois, Minnesota and New York realize this before it’s too late,**” they noted. At least Minnesota’s governor took this advice last week. But the other states have not followed suit.

And this is where **Texas benefits economically**. Jobs will continue to flee these high-tax states for the foreseeable future. And many of them will be created here – providing income and a decent living for those who live in Texas.

Much has been made of the fact that Austin is the only major metro in the nation to gain jobs during this downturn – and rightly so. But where are those jobs being created?

Admittedly the increase in jobs in the Austin metro is small and the number of unemployed is higher than a year ago. But, hey, it's the **best job situation in the nation**. Given this, an examination of *how* this has occurred is timely.

The release last Friday of the April 2009 workforce numbers show that **Austin's net job gain was 0.4%** over April 2008, while **Texas job totals are down 1.6%** and **nationally, the comparative numbers show a 3.8% loss**. In pure numbers, the Austin metro gained 3,400 jobs.

An analysis by **Beverly Kerr**, VP/Research for the Austin Chamber, shows that Austin's April-over-April net gain in jobs is due to a **3,900 gain in the government sector that compensated for 500 jobs lost in private industry**.

Which Austin private sector segments are losing the most jobs? Kerr said the **highest rate of losses** occurred in these three categories: natural resources and construction, manufacturing and wholesale trade.

As we have reported previously, government jobs are becoming more and more attractive in these uncertain times. After all, most government jobs in Austin offer a **high degree of security, an attractive health benefits program and solid retirement packages**. Other states may be cutting government jobs. Here, they are among the most sought-after.

Have you checked out Capital Metro's financial situation lately? The agency had more than \$200 million in reserves as recently as 2002. My, how times have changed.

Admittedly, revenue from CapMetro's primary source – a **one-cent sales tax** – **has fallen every month since October 2008**. In fact, the drop for February 2009 was the most severe, with tax revenue almost 15% lower than in February 2008. And March 2009 sales tax receipts were more than 10% below March 2008.

Okay, what about spending? Well, **CapMetro spent about \$300 million on capital projects** and is continuing to spend on the commuter rail.

The debt picture is climbing in proportion to the widening gap between spending and income. Ten days ago, CapMetro took out a \$10 million line of credit and any borrowing against that line must be repaid by May 2010. It also owes a Swiss rail car manufacturer about \$29 million and has promised the city of Austin and other governments more than \$80 million. **No matter how you slice it, CapMetro's finances are a bit dicey these days.**

A UTAustin philosophy/computer science double-major claims he has a purpose-driven life. And now, that purpose is being compromised because Starbucks is closing stores. Huh?

We started writing about **Winter** — that’s his full, legal name — back in Volume 26, Number 16 on July 16, 2004. (Click on the Archives button at the top for details.) And we’ve tried to keep track of him over the years because his “purpose” in life is to **drink coffee in every single Starbucks location in the world**. Hey, don’t think he is approaching this cavalierly. **He has already had caffeinated coffee in more than 9,000 Starbucks around the world.**

But recession-stricken Starbucks is throwing him a curve. **They’ve started closing stores, some of them before he can get to them.** Give the guy credit. The freelance software programmer is trying. In fact, *The Wall Street Journal* reported that he was in Wisconsin when he got word that a Starbucks in Prince George, British Columbia would close the next day. So he did the only thing he could do, right? **He spent \$1,400 to jet there for a cup of coffee.**

And, even as you read this, his web site, www.starbuckseverywhere.net, reports that he **departed “May 26 for Ireland, then the UK, then Europe, then ???”**. Yep, Winter (born **Rafael Antonio Lozano, Jr.**) is purpose-driven alright.

When he first got word of Starbucks store closings, **he drove his purple Honda Fit 25,000 miles through California, Oregon, Arizona, Texas, Oklahoma and Louisiana to have a cup of Joe in about 40 soon-to-close locations.** He struck out though, while in Florida, when he heard 61 Starbucks stores would close in Australia within four days. It was logistically impossible even for Winter to make that run.

The 37-year-old Winter lives with his parents in Houston when he is not traveling. (It’s where he stores his collection of 10,000 super-hero comic books.) **Winter, by the way, is single and has no kids.** Gee, who could’ve guessed?

Dr. Louis Overholster says he is so old he can remember when “Instant Messaging” was a wink!

Sincerely



Editor/Publisher