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Dear Client:

Mark it down. Precisely one year from now it is likely the Texas Legislature will be tied up in knots, trying to meet the constitutionally-mandated conclusion (around Memorial Day) to the every-two-year session. It won't be pretty.

Even this far out, you can see The Perfect Storm developing. First of all, **it should prove to be the most politicized Legislative session in a decade** as almost every State Representative, State Senator and Texas member of the US Congress will be scrambling for their political lives to make sure new districts are drawn to ensure their re-election (or election to higher office!). And in decades past, the district maps have always gone down to the Memorial Day weekend before they are passed – and, sometimes, they don't make the end-of-session deadline.

Now, add to the toxic atmosphere of “every man for himself” the fact that most state leaders are predicting budget writers in the legislature will be facing a **shortfall of somewhere around \$15 billion to \$18 billion**. Some, such as the man with the most power in the Legislature – Lieutenant Governor **David Dewhurst** – have said the budget will be balanced with *no new taxes*. There's a fight right there.

But what about the flip side? **Budget cuts. Every state agency or anyone with a hand in the public till will have a vital interest** and will be looking to protect their particular piece of turf. Again, budget battles – especially those in years when money is tight – almost always go down to the wire. Can you say logjam?

Add the opportunists who smell a situation that could help their cause, such as gambling interests (oops, they now call it “gaming”). Their pitch: legalize casinos, slot machines, whatever, and you, honorable legislator, will have a new source of revenue to help ease the budget crunch without raising taxes.

And of course there are many more examples of important, significant, and, yes, self-serving, pieces of legislation that will be in the mix. Therefore this memo to lobbyists and all those who have an interest in what the Texas Legislature may do to you: **don't schedule any family vacations for the summer of 2011**. Because the “S” words – Special Sessions (the plural form of this is intentional) – will be bandied about from Day One when legislators convene in Austin January 11th 2011. If you don't have a vital interest in what goes on, it should be entertaining.

What about the savings fund that has been set up for the State of Texas? It's called the Rainy Day Fund. Could it be used to meet a humongous budget shortfall?

The answer is yes, it *could*. But the key question is, *will* it be used for such a purpose? And that's where it gets a bit dicey. Also, there is a question about whether a *portion* of it could be tapped, leaving some money still sitting there, earning interest for future consideration.

The first aspect to examine is how much money is in the Rainy Day Fund. The answer to that is a bit of a moving target, but there is general agreement that the **fund may amount to plus-or-minus \$8 billion** when legislators convene in Austin in January and start consideration of the budget for the next biennium. Remember, the budget shortfall is almost twice that amount. So the Rainy Day Fund, by itself, would not solve all the budget problems next year.

Then you need to consider the mechanics of tapping the fund. It's tough to get at that money. When the legislature set up the fund, those members wanted to make sure it could be used only in the event of an emergency. So, what did they do? **They decreed it would take a two-thirds vote of both the House and the Senate to tap the fund.** Not just a simple majority. This is a huge hurdle.

So, what is likely to happen? It's the height of folly to try to predict *accurately* what will happen a year from now, especially since the makeup of the legislature is likely to change somewhat with the elections in November. But, you can consider what is being discussed today. The chairman of the Senate Finance Committee, Republican **Steve Ogden** of Bryan – who is quite influential in such matters – told a San Antonio newspaper reporter “**We're going to need to use some of the Rainy Day Fund.**”

There you have it. Tapping *some* of the fund is on the table. What happens remains to be seen.

Gambling, uh, gaming. What is the likelihood of that coming to the rescue of the state's budget? Well, you have to consider *how* it could occur before predicting a result.

The *how* is the first step. Any change to the state's laws relating to gaming requires a change in the Texas constitution. **The general voting populace must approve a constitutional change.**

And for the public to get a chance to vote on an amendment to the constitution, **two-thirds of both the House and the Senate must vote to put it on the ballot.**

While a two-thirds legislative vote is a big hurdle, a legislator who may face trouble at home by voting *for* gambling, uh, gaming, can always say “**Hey, I didn't vote *for* gaming. I simply voted to let the good people of Texas decide.**” This is a development that bears watching.

There's good news and there's bad news about your income and about the taxes you pay to all the different local Austin government entities, such as the city, county, school district, Capital Metro, the Austin Community College and the Hospital District.

First the good news: during the past 20 years, **the median income for typical Austin area families has doubled.**

Now the bad news: **the combined cost of governments has nearly tripled.**

In the past two decades, median *income* for a typical Austin family of four **increased 101.8%**. During this same timeframe, the *accumulated costs* of schools, road, emergency services, jails and other services **increased 185.5%**.

And the trend is continuing. For instance, in 2009, income for a typical family of four rose 6.1%. This is less than the 7.1% increase in the combined costs of local government.

The Real Estate Council of Austin (RECA) each year studies the relationship between the **increasing cost of local government and the earning power of the taxpayers who pick up the tab.** RECA calls it the Austin Combined Cost of Government Index. It was released now – at the start of the budget season.

Local taxing jurisdictions will soon begin holding hearings and deliberations to determine their respective budgets for the upcoming fiscal year – as well as to **set their respective property tax rates.** RECA hopes this will be a guide for more efficient government, support for economic development opportunities to create jobs and grow the tax base.

This week, the Federal Housing Finance Agency issued a report that US house prices fell 1.9% from 4th quarter 2009 to 1st quarter 2010. But you need to drill deeper into those numbers to get a truer picture of what is happening.

In truth, home values are not deteriorating. Sales were better. **But a lower price point than normal skewed the averages lower.** Why was the price point lower? Simple.

As we have been reporting, a big push was underway during the first quarter to sell first-time homes because those buyers could qualify for an \$8,000 tax incentive. **That incentive made the most impact in lower-priced homes.** First-time homebuyers generally cannot qualify for higher-priced homes.

The average ended lower because a greater-than-normal number of homes were sold in the lower price points. The 2nd quarter and 3rd quarter home sales will be more instructive.

If you want to know the US cities that are the most “competitive” with Austin, the list of the most innovative cities in the nation is a good place to start.

Forbes magazine recently compared cities according to patents per person, venture capital investment per capita and the ratio of high-tech, science and creative jobs. **Austin was ranked #2, just behind #1 San Jose.** The others in the Top Ten, in order below Austin: Raleigh, N.C. ... San Francisco ... Seattle ... San Diego ... Madison, Wisconsin ... Boston ... Provo, Utah ... and Portland, Oregon. Shortly after this list was announced *Kiplinger’s Personal Finance* magazine ranked **Austin #1 on its list of “The Ten Best Cities for the Next Decade.”**

While we’re at it, there are a number of other “lists” that place Austin among the elite cities in the US. **Take quality of life. Portfolio.com/bizjournals placed Austin as #9 in the nation.** The study compared the performances of America’s 67 biggest metro areas in 20 statistical categories.

The highest scores went to well-rounded markets with healthy economies, moderate costs of living, impressive housing stocks and high-powered educational systems. Austin scored well in many indicators, except people living in the same place for more than a year.

Appropriate for this holiday weekend was a listing put out by Priceline.com (you’ve seen their TV commercials with **William Shatner**). Priceline looked at more than 30,000 room-booking requests made by customers using the Web site’s “Name Your Own Price” hotel service for the Memorial Day weekend. On that list of the nation’s most popular destinations for Memorial Day, **Austin popped up at #18** – ahead of tourism-dominated San Antonio that was ranked #21. Digging a little bit deeper, Priceline found that the **most of the bookings in Austin were for the downtown area.**

Dr. Louis Overholster said a joke told about Austin musicians may reflect why Austin scored low in the “living in the same place” category in the Portfolio study listed above: “What do you call an Austin guitar player whose girlfriend breaks up with him? Homeless!”

Sincerely



Editor/Publisher