

THE

Neal 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 32, Number 11

June 11, 2010

Dear Client:

This has been a big economic week for the Austin area. And it bodes well for Austin to lead the nation during what many are calling a slow economic recovery for the nation.

The biggest splash was made when, without any public hint that it was coming, Samsung Electronics announced it was making a **\$3.6 billion direct investment for Phase Two construction of its semiconductor fabrication plant in northeast Austin**. This is huge and to put it into perspective, consider:

Samsung's investment is the **largest private capital investment so far this year in the US** and is among the nation's ten largest in the last decade. Let that sink in. Now add to that, this huge investment will create about **500 permanent jobs** as well as about **1,000 construction jobs** – and work is expected to begin within days. This is not all.

Samsung's payroll – money put into the jeans of people who live in the Austin area – will amount to about **\$105 million a year** when the expansion is complete. This is roughly a 50% increase over current operations. What about money that flows to the City of Austin? Already Austin Energy's largest customer, Samsung expects to pay about **\$45 million a year for electricity and about \$13 million a year for water and wastewater services** provided by Austin.

There are two important points to make about this before we move on to the other developments this week. First of all, remember Samsung shocked the nation in 2005 when it announced it was opening its first fab in the US in Austin – to the tune of \$3.5 billion. Governmental entities ponied up a lot of incentives: **the state came to the table with \$10.8 million, the city offered \$47.5 million in fee waivers and rebates and the Manor school district gave Samsung \$112 million in tax breaks**. These moves were roundly criticized at the time. But Samsung has performed to the level it promised in job creation. And there were no incentives asked by Samsung for this week's \$3.6 billion announcement.

The other important point that needs to be made: Samsung Electronics is one of the – if not *the* – major industry in South Korea. **With the unsettled situation, bordering on war, between North and South Korea, you have a big interest in what develops in that part of the world**. Keep an eye on what happens between the Koreas, for Austin's – and your own — self-interest.

Sales tax revenue figures weren't big news when they were announced this week, but it was an important announcement because it may indicate a positive trend for Austin's economy.

Texas sales tax figures are an important barometer. **They indicate whether residents have money and, importantly, are willing to part with it in retail stores.** The purchase of goods is an important phase of re-cycling money throughout the community, benefitting a wide range of people and businesses. And, frankly, the sales tax numbers have not been all that good for the past year. However, that may now be changing.

The June report covers sales that occurred in April. **Austin's April sales tax revenue increased 3% compared to April 2009. And, in fact, Austin's sales tax tally is up about 5.23% for the year to date,** compared to the same timeframe last year. This is an encouraging economic trend. If there is no hiccup along the way, it could be another reinforcement that the Austin economy is picking up steam.

Sales tax revenue for the rest of Texas is lagging behind Austin's numbers, but this most recent report shows a **glimmer of hope for the state as a whole.** State Comptroller **Susan Combs**, whose office administers the collection and distribution of the sales tax, said "total sales tax collections have met or exceeded year ago levels for a second month in a row, following 14 months of decline. **This may indicate that a bottom has been reached.**"

Not only is the sales tax an important indicator for the local economy, it is huge for the state's budget. **Sales taxes are the largest single source of revenue for the state of Texas** (which has no state income tax as do most other states). And facing an enormous budget shortfall for the biennium that begins next year, **an upward trend in sales tax revenue is significant as legislators try to balance the state's budget.**

Another positive economic report also surfaced this week. After hitting a six-year low last year, the lodging industry in Austin is looking at a decisive rebound in 2010.

PKF Hospitality Research is a well-respected service in the lodging industry. Hotel owners and operators pay good money for PKF's data on their business and they rely heavily on PKF's research and forecasts. **The outlook for Austin for 2010 is good.**

PKF expects a 7.9% increase in Austin area hotel occupancy rates in the 1st quarter. Of course, this is coming off a very bad year but, hey, it is a welcome reversal of a severe downturn.

Hotel room prices are not expected to increase at the same rate as occupancy – good news for travelers. But if the upward occupancy trend continues, rising room rates are sure to follow.

Fast-moving speculation, fueled by behind-the-scenes activity, has tongues wagging about the future sports conference alignment for the Texas Longhorns sports teams. A possible realignment involving some of the major Texas universities is significant, but not surprising.

Long-time subscribers may recall that **16 years ago we reported this was likely to occur.** On March 4, 1994 we noted UTAustin, TexasA&M, Baylor and TexasTech had just left the old Southwest Conference (SWC) to join the Big 8 conference, making it what is today the Big 12.

We wrote 3/4/94: “But, for the *long-term*, the big story will not be UTAustin’s participation in the Big 8. **It will be UTAustin’s future participation in the PAC 10 or the Big 10.** If you really think about it, the most likely scenario is that UTAustin’s move to the Big 8 is an *interim* move.”

We further wrote at that time: “Oh, I know all the higher-ups are saying ‘everyone is in this for the long haul,’ ‘we’re committed to making the expanded conference work,’ etc. But, believe me, nothing is written in stone because the NCAA, the CFA, **practically all the other athletic conferences, and the TV barons are still jockeying for position and will be for several years.**”

So what caused the demise of the SWC? “The SWC had fallen so low that the **TV networks were not going to do any kind of significant financial deals** with the SWC, even if UTAustin and TexasA&M remained,” we wrote 16 years ago.

“The PAC 10 (for sure) and the Big 10 (probably) wanted UTAustin and possibly A&M, but NOT Tech and Baylor. **UTAustin and A&M academic leaders would much rather be in conferences with highly-acclaimed schools such as Stanford and Michigan,** rather than the ‘Oklahomas’ of the Big 8,” we continued.

If in 1994 UTAustin and TexasA&M preferred the PAC 10 or the Big 10, why the move to the Big 8? **And why did only four universities join the Big 8,** leaving behind other SWC members Rice, Houston, SMU and TCU?

This is where it got interesting and **politics reared its big head.** As state institutions, reliant on funding by the legislature and the goodwill of the state’s elected leaders, **UTAustin and TexasA&M were in somewhat of a bind.**

“UTAustin and TexasA&M could never have left the SWC by themselves,” we reported in 1994. “They tried it three years ago (to the SEC) and **the state’s political leadership slapped them hard** because of the ‘damage’ they would cause the remaining members.”

How is today’s situation different? We’ll examine the forces at play then and now in the next item. Ahhh, the political intrigue.

The three top state officials jumped into the fray on behalf of their alma maters in 1994 to cause UT Austin and Texas A&M to choose an athletics conference path the universities might not otherwise have preferred.

The Texas Longhorns and the Texas Aggies were the big dogs throughout much of the 80-year history of the old Southwest Conference (SWC). Now the Longhorns are more the alpha male, but the Aggies still have an extremely loyal following – making the **two top Texas public universities an attractive sports package.**

So how did Baylor and Texas Tech make the move alongside the 'Horns and the Ags, leaving behind fellow SWC members Rice, Houston, SMU and TCU? **Politics, pure and simple.** All you have to do is look at the 1994 leaders and their alma maters: Gov **Ann Richards** (Baylor grad), LT Gov **Bob Bullock** (Baylor and Texas Tech grad) and House Speaker **Pete Laney** (Texas Tech grad). 'Nuf said.

In the current speculation, the most likely scenario being mentioned is that Texas, A&M, Texas Tech, Oklahoma, Oklahoma State and Colorado associate with the PAC 10. **Baylor scrambled to join that list by trying to “bump” Colorado.** Didn't happen. The 1994 political clout is missing this time around for Baylor. And Colorado moved quickly to seal its spot in the PAC 10.

The big driving force behind all this now is spelled m-o-n-e-y. As we reported 4/16/10: **“Lowly Vanderbilt in the Southeastern Conference (SEC) receives more money from the SEC's football deal than the perennial national title contender Texas Longhorns get from the Big 12.”**

With a PAC 10 alignment, “if you count eyeballs from TV sets from the various states where these schools are located, it would amount to approximately one-third of the entire nation,” we wrote to you 4/16/10.” **The TV dollars for each institution would be huge.**

Dr. Louis Overholster follows a major league sports manager's advice on personnel: “The secret to managing is to keep the guys who hate you away from the guys who are undecided!”

Sincerely



Editor/Publisher