

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 32, Number 18

July 30, 2010

Dear Client:

The 2010 USCensus effort is fading from the spotlight, just as the November elections are moving into the glare of the Kleig lights. But they are both inextricably intertwined, especially in Texas – as will be obvious as 2010 morphs into 2011.

As you well know, the new numbers released near year-end by the Census will likely **set the stage for control of the USCongress and the Texas Legislature for the next 10 years**. As we have reported to you in recent months, the 2009 population estimates show that **Texas could gain at least four more seats in the USCongress**. And this means other states will be losing seats because the total number of seats in the US House of Representatives remains constant.

Nothing is certain, yet. In fact, the Brookings Institution observed that **“the 2010 census may yet hold some surprises.”** This happened in 2000 when millions of “unexpected” people showed up in the count. And, said Brookings, “if this count again uncovers larger-than-expected number of Hispanics and city dwellers, **everything may indeed be bigger in Texas.**”

With a strong anti-Congress sentiment in Texas (and around the country), the November election may see a **large turnover in Congress**. Then, the next election in 2012 will probably have **four more new open Congressional seats** for Texans to scramble to fill.

This is where it really gets interesting. **Massive campaign funds are going to be spent to influence races for the Texas Senate and House** between now and November because the Texas Legislature in 2011 will re-draw the Congressional, Texas House and Senate districts. And those in power have traditionally used their crayons to outline districts that favor them and their political party.

Oh, it gets even more personal and scheming than that. Not only will political control and power be overriding factors, **many in the Legislature will want to slice-and-dice the districts so they may personally “move up” the political ladder**. Then there’s this: sitting members of Congress will turn out to be “lobbyists” for themselves so they can get a “safe” district. (Woe is the member of Congress who ticks off legislators charged with re-drawing district boundaries!)

So, as you watch the barbs fly in this fall’s campaign, remember the long-term battle will play out from January-May 2011 in Austin, with Texas emerging as an even bigger player than now.

Taxes will also occupy much of the public consciousness over the next few months as city and county officials set budgets for the coming year. This is in addition to Texas legislators who will start drafting 2-year budget plans while facing a shortfall of billions of dollars. And when budgets are discussed, so are taxes.

Let's look at the state first. It's true the Texas Legislature will not convene in Austin for its every-two-year session until January 11, 2011. But between now and then, interim legislative committees are planning legislation for the upcoming session, **state leaders are trying to figure out how to fund the next biennium** and some political campaigns will probably zero-in on the **anticipated multi-billion dollar shortfall** facing the state.

So, what is likely to happen? Well, there will be much **table-pounding about not raising taxes** even though there may not be enough money to pay for services in a fast-growing state. Interests, such as gambling, will sally forth to suggest that **legalization of gambling** will bring in more revenue (though not enough to meet the shortfall). There will likely be a **raid on the state's savings account called the Rainy Day Fund**, as legislators rant about a fiscal storm.

But the Texas Legislature will not enact a state income tax. Take that to the bank. First, there is no political appetite for that during these tough and uncertain times and, second, it would take a **two-thirds vote of the Legislature** and then the people would have to vote to **amend the constitution**. **There is no way this is going to happen.**

What about **expanding the sales tax** to include items and services that are currently excluded? That's possible, **in a limited way**. But years ago, then-Lieutenant Governor **Ben Barnes** proposed placing a sales tax on food and he quickly back-pedaled when he was given the moniker of "Bread Tax Barnes."

And, of course, state agencies will be under the gun to trim, trim, trim. It will be interesting to see how all this shakes out by the end of May 2011.

As for Travis County, just this week the County Commissioners were given a preliminary 2011 budget and the hand-writing is already on the wall: **they will more than likely enact an increase in property taxes September 28, 2010** for the budget year that begins October 1, 2010. The rate hike will generate more revenue for the County than it currently receives, even though some property values have declined due to the tough economy.

And the City of Austin? **It received a proposed budget this week that raises the property tax rate, and water and electric rates will rise as well.** Also, as we've told you, the city is working on a Transportation Bond issue for this fall that they say will not raise taxes. But at the same time, it is highly likely that **another bond issue will be placed before the voters in 2012 – and this could be a biggie, one that would probably result in a tax hike.**

One of the problems of high-growth places like the Austin area and the State of Texas is that keeping up with growth requires an increase in budgets and, possibly, taxes just to provide the same level of governmental services. And — count on it — this growth will continue.

In fact, as we reported 7/9/10 (click the “Archives” button at the top to read the full story), the latest USCensus estimates are that **4 of the 10 fastest-growing cities and 11 of the top 25 cities that have populations above 100,000 are in Texas.**

Not only that, just this week the USBureau of Labor Statistics reported that **Texas cities hold the nation’s top four job-growth spots** – compiling the US’s strongest employment gains during the past five years. **Austin was #3** on the list, Houston #1, Dallas #2 and San Antonio #4. This is really significant for Austin because it is the smallest metro of the four and these gains were **actual jobs – not percentages.**

Want more? The *Weekly Standard* will report in its August 2, 2010 edition that **“Texas will almost certainly emerge from the recession with the nation’s strongest and most important economy.”**

Anyway, you get the point. High growth, and probably higher taxes, are in your future. It’s a given that the governmental entities, if they simply continue the same level of service, will need more money and more bodies to provide those services.

But there is a ray of hope. The tough times are right now with growth exploding during a sluggish economy. **As the economy gets better and business picks up, revenues for these governing bodies will increase as a result of this uptick in activity.** For example, the single biggest state revenue source is the sales tax. With more activity, the state gets more revenue.

Why all this growth? Why are Austin and Texas such a magnet? While many factors are at play, a concrete anecdotal example that occurred this week illustrates the answer.

It was reported in Washington this week that **Hanger Orthopedic Group, which is relocating its HQ to Austin, reported its decision to come to Austin will save about \$2.5 million to \$3.5 million a year once the move is complete.** This is a big company with sales in the range of \$815 million per year. But savings of around \$3 million a year is not chump change.

Add on top of the company benefits, the benefit to its employees. **The cost of living in the Austin area is much less** – especially when you consider housing costs in the Washington DC/Maryland area. And did we mention no personal income tax for each and every employee?

Growth is inevitable. It’s here to stay, through good times and not-so-good.

**Is the Austin area apartment market stabilizing – or, better yet, showing signs of reinvigoration?
Two words: cautious optimism.**

It's not just those who own and/or manage apartments who watch what is happening in the apartment sector of the economy. After all, occupancy is one **barometer of the local economy**. And the real estate pros know that many **apartment dwellers soon move into homes**, impacting the residential real estate market. That kick-starts a “buying cycle” as homeowners “feather their nests” by **spending money in retail operations**.

As we reach the mid-point of 2010, **Robin Davis**, who tracks apartment trends through Austin Investor Interests, believes “**all signs are pointing up.**” And she has some interesting bits of info to back up that assertion. “On the heels of a negative streak that started in 2008 – followed by instability that saw figures teetering back and forth – this year has seen **positive figures posted in both of the first two quarters,**” she pointed out. And this, she said, is “a feat unseen in this market for years and a positive sign that stabilization is on its way.

She went on to say that occupancy has posted an annual gain of 3.66% — “**the highest annual increase seen in this market since 1988.**” And the best units, those labeled Class A, are driving this increase. Davis said that there have been five consecutive quarters of increased occupancy in Class A units.

Construction of new units remains “relatively vapid,” she notes. And that’s a good thing. There are currently more than 2,300 units under construction in the Austin area, but “the number of new unit *starts* is not expected to reach even 600 units during the next 12 months,” she points out. And she says **landlords are cutting back on offering concessions**, with “4% less properties offering specials now than during the first quarter.” **These are all signs of stabilization in an Austin economic sector that has been hurting.**

Dr. Louis Overholster is concerned that a lot of economists would be out of work if English was declared the official US language!

Sincerely



Editor/Publisher