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Dear Client:

Austin has long been blessed economically with a strong underpinning of governmental jobs – those steady, reliable sources of paychecks. Now, fasten your seatbelts because the situation is about to change.

It's not that this underpinning is going away, but it could be *shrinking*. When State Comptroller **Susan Combs** released the constitutionally-mandated 2-year revenue forecast this week, you could almost hear the shrieks of concern from governmental agencies and their advocates all over the 5-county metro area. Because, no matter which shortfall number you believe — \$15 billion to \$27 billion – **cuts in state spending are coming down the pike. Count on it.**

Why? Because the state's top leaders and most members of the GOP-dominated Texas Legislature have promised "no new taxes." **So, if the *revenue stream* is not increased, the *expense outlays* must be cut to balance the budget.** And a balanced budget is required by the state constitution.

The place to cut most budgets that will result in the biggest impact – payrolls. Layoffs. No new hires. Attrition. Early retirements. Etcetera. **All this adds up to fewer paychecks going into Austin area blue jeans and banks** that would ultimately be spread around the Central Texas area for living expenses.

And, of course, when budgets are cut, it's not just payrolls that are hit. Spending is generally cut back and that means **many Austin area businesses may face reduced revenue** if they rely on doing business with government agencies. You get the picture. The impact to Austin's economy could be significant.

Get ready. This is where it is headed. The final decisions will be made by Memorial Day at the end of May when the current legislative session is scheduled to wrap up its 140-day session. **Most of the cutbacks will be implemented this fall when the state's next fiscal year begins September 1st 2011.**

Austin's enviable economy will likely be able to withstand this shrinkage. After all, government paychecks are a big part of the local economy and a percentage decrease still leaves significant dollars to spread around. But, for the state government to be fiscally sound with a balanced budget, the Austin economy will feel a bit of a nick in the process.

Is Austin State Senator Kirk Watson laying the ground work for a campaign for State Comptroller? Sure sounded like it this week.

Watson has one statewide race under his belt, having run for Attorney General unsuccessfully (as were all Democrats seeking statewide office at the time). So, he has a **taste of what it's like to mount a statewide campaign. And he has demonstrated his ambition for higher office** against long odds. Also, his State Senate seat is a good platform from which to launch a run for Comptroller. So what did Watson do this week that triggered this observation?

His online communication, *Watson Wire*, took some jabs at State Comptroller **Susan Combs** without actually naming her. He slammed the way she is conducting the operations of the Comptroller's office. And it isn't the first time he has sounded off in this fashion. In fact, he has come up with a campaign-sounding name for his comments, calling it his "Honesty Agenda."

Referring to Comb's release Monday of the revenue estimate for the state's next fiscal biennium, he said "...depressing as it is (it) does more than spell out our budget shortfall. **It also demonstrates the deficit of honesty and openness that has so thoroughly weakened our state's finances.**"

Referencing the release of the estimate one day before the legislative session opens he wrote "the truth is Texans deserve more respect. **The state budget isn't an insider's game.** This money and the information about it belong to the people of Texas." He went on to say that the timing of the estimate "**illuminates a deficit in budget honesty.**" And he added: "I will not vote for a budget that perpetuates a **lack of fiscal openness and budget honesty.**" There were other such comments throughout his communication. You get the picture.

The State Comptroller serves a four-year term that began just a few days ago. So it's a long way off before campaigning begins in earnest. Though, as you know, **many ambitious politicians are always thinking about the next campaign and possibly moving up the political ladder.** The other facet to this is Combs has not made public her plans to either seek re-election, run for another statewide office, or step aside at the end of her term. But it sure sounds like Watson is laying the groundwork to run for State Comptroller no matter what.

Speaking of elections, three seats on the Austin City Council will be on the ballot in May 2011.

The seats held by **Chris Riley** (Place 1), **Randi Shade** (Place 3) and **Laura Morrison** (Place 4) will be voted upon in May 2011. The mayor's post and the three other councilmember places will be on the ballot in May 2012, due to three-year staggered terms. All councilmembers and the mayor are elected at large by voters within the Austin city limits.

Wait a minute. Has the world stopped spinning on its axis? The newly-elected liberal Democrat governor of California is recommending specific budget cuts that are roughly equal to the Texas budget shortfall amount. What's going on here?

When **Jerry Brown** was California's governor decades ago, he was known as Governor Moonbeam because of his off-the-wall proposals. **Now he is acting like a green-eye-shade, flinty-eyed, no-nonsense, CPA-type executive** who says he is determined to bring California's state government big-spending ways under control.

What is he suggesting? First of all, Brown said he plans to cut \$12.5 billion, including **\$500 million in cuts from The University of California and another \$500 million from the California State University System.**

As if that is not enough for starters, he is proposing **\$1.7 billion in cuts from Medi-Cal, \$1.5 billion from welfare-to-work programs** and he is calling for **10% cuts in pay for some state workers.** With other measures, Brown estimates an 18-month budget gap of \$25.4 billion would be eliminated. And, for good measure, he says his budget would also create a \$1 billion Rainy Day Fund.

Democrat Brown, who replaced term-limited GOP Governor **Arnold Schwarzenegger**, is acting like a Tea-Partying fiscal conservative activist. He just made public his budget this week and there are sure to be howls of protest to these draconian measures.

He may not care about criticism because in his first executive order since taking office, Governor Brown Tuesday directed state agency and department heads to **collect and turn in 48,000 cell phones – half of all those now in use – by June 2011.** As he put it: "It is difficult for me to believe that 40% of all state employees must be equipped with taxpayer-funded cell phones." He estimated California will save at least \$20 million a year by cutting cell phone usage in half.

To achieve his budget objectives, Brown has his work cut out for him. The California legislature must adopt his budget cuts and, if Schwarzenegger's record is any indication, this will be a difficult task indeed. The California Controller **John Chiang** called Brown's ideas "some ugly solutions to an even uglier situation."

Brown faces another big problem. He said he plans to "ask the voters" to keep some taxes in place for five more years to help the budget problem. **This means voters will be asked to approve extending current personal income taxes, sales taxes and license fees for vehicles in a June election** – a tall order.

It will be interesting to see if the Texas state leaders and the State Representatives and Senators keep an eye on what happens in California as they tackle Texas budget shortfall.

It seems that each week brings another way to rank the strength of the Austin area's economy. This week is no exception.

The Austin metro has continually been among the **best in the nation when the *jobless* figures are released**. And Austin has always been **highly-rated when it comes to *job growth*** – the creation of new jobs. So, where would Austin rank when you combine those two measurements?

The Conference Board is an independent business research organization. To try to come up with a ranking that combined these two measurements, it took “help wanted” advertising figures in the 52 largest metro areas and laid them alongside the numbers that reflected the jobless status in each area. **It measured the number of unemployed against the jobs being advertised** and established a ratio – a supply and demand metric, if you will.

A metric of 1.00 means that the number of people seeking work and the jobs advertised are roughly equal. **A higher number means there are more jobless workers in a given metro than there are jobs being advertised**. As an example, Detroit had a supply/demand rate of 5.07 – meaning there were five times more jobless people seeking work than there were advertised jobs.

So, what was the Austin metro's supply/demand rate and where did it rank in a table of the 52 largest metros? Using November 2010 numbers, **Austin's supply/demand rate was 1.73 – meaning there were less than two people seeking work for every advertised job** in the 5-county Central Texas metro area. **This supply/demand Austin rate was good enough to rank #8 in the nation**. This report is courtesy of **Beverly Kerr**, the Austin Chamber's VP/Research.

With the Texas Legislature beginning this week, **Dr. Louis Overholster** wanted to remind you what the humorist/philosopher Mark Twain said in 1866: “No man's life, liberty or property is safe while the legislature is in session!”

Sincerely



Editor/Publisher