THE Neal Spelce AUSTIN LETTER
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Dear Client:

The US debt rating has been downgraded, **cities all over the US are struggling with their finances yet the City of Austin has the *best* debt rating possible**, **with a *stable* outlook**. **What has convinced the three major debt ratings agencies to rate Austin so favorably**?

One of the main reasons is an underlying economic factor that has been present for much of the last century: **government jobs**. According to the ratings agencies, **of the top five employers in the Austin area**, **only Dell**, **Inc. is *not* part of state or local government**. The list: the state itself (35,538 employees), UTAustin (24,864), Dell (14,000), City of Austin (11,815) and the Austin school district (11,570).

> "While the state and local governments are cutting payrolls amid the sharpest budget reductions in modern history, **those same employers provided a stable base for employment**," reported *The Bond Buyer* Tuesday, a leading daily news source for people and organizations working in the municipal finance industry.
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> "**The city's economy historically has been buffered by the large and stabilizing presence of state government** as well as seven colleges and universities, including The University of Texas," wrote Fitch Ratings analyst **Steve Murray**. (Murray should also have added **health care employment** with such local giants as St. David's hospitals and the Seton Family of Hospitals.)
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> But this isn't the whole story. Murray said: "**High-technology manufacturing** is also a major employer, attracted to the area by a **well-educated workforce**, relatively **low cost of living**, and the availability of **major research facilities**."

As you know, **a bond rating is a measure of a city's ability to repay its debt**. And the best AAA bond rating insures the city will **pay the lowest possible interest rate when it borrows money**. The city is borrowing money this week and in the near future. *The Bond Buyer* pointed out that "though Standard & Poor's has warned that its recent downgrade of the United States to AA+ from AAA could affect cities and states that rely on federal dollars, **so far**, **Austin's AAA rating shows no signs of weakening**."

Further, according to the Brookings Institution's annual survey, the high percentage of government jobs has made **Austin one of the nation's most "recession-proof" cities**.

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In addition to government payrolls helping make Austin "recession-proof," the creation of private sector jobs keeps Austin performing better than most of the nation's metros.

Government payrolls have been shrinking in the Austin area due to the budget constraints that have been felt throughout the various entities. **But the dynamism of the Austin economy has made up for those losses – and then some – with jobs that have been created by the private sector**. Candidly, it is quite impressive.

> "**The Austin metropolitan area added 13,500 jobs**, **or 1.8%**, **in the 12 months ending in July** according to the latest release of preliminary payroll jobs numbers by the Texas Workforce Commission and the U.S. Bureau of Labor Statistics," reports **Beverly Kerr**, the Austin Chamber's VP/Research. This 1.8% increase ranked Austin as #11 in the nation among the Top 50 metro areas.
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> "Austin's net private sector job growth rate was better, at 2.3%, given that 500 jobs were lost in the government sector," she observed. "Texas added 2.7% in total jobs – 3.4% growth in the private sector being counter balanced by job losses of 0.8% in government." **If there had been no government job losses**, **Austin would have ranked #2 in the nation** at 3.4%, way ahead of #2 Houston (2.6%) and nipping the heels of #1 San Jose at 3.5%.

By the way, unemployment numbers in July show Austin's **performance relative to the state and other major Texas metros being sustained**, according to Kerr. In July, Austin was at 7.6%, while the other major metros ranged from 8.2% in San Antonio to 8.9% in Houston.

A Texas economist has come up with a list of eight business-friendly job growth items that he says need to be done to jumpstart the nation's economy.

The TexasA&M Real Estate Center economist **Mark Dotzour** says "our leaders in Washington appear to be **bankrupt of ideas for promoting job growth** in America." Here's his list:

> "1) Repeal the health-care nightmare, 2) Repeal Dodd-Frank (the banking regulation bill) and come up with 15 pages of meaningful bank reforms, 3) Tell China to stop manipulating their currency and buy something produced by Americans, 4) Roll back EPA regulations to 1999 levels, 5) Roll back all other business regulations to 1999 levels, 6) Announce an air-tight plan to reduce the deficit to zero in seven years, 7) Lower corporate tax rates to stop companies from fleeing America, and 8) Foreclose on four million homes and sell them to private sector investors."

As he put it: "**Either we address them or we look more and more like Japan every day**!"

The die may be cast before the end of the year that could dramatically alter the makeup and the way Austinites elect the Austin City Council. It could be the first major overhaul of city government leadership in decades.

The Austin City Council is taking the first steps that could lead to a very **significant change in the governing structure of Austin**. A 15-member Charter Review Commission, appointed by the City Council, will study several proposals and make recommendations to the Council by year-end. Whatever the Council adopts must be approved by the voters. And considering the charge given to the Commission, those **recommendations could be dramatic**.

The headline-grabbing part of the Commission's task is whether the City should set up **single-member districts from which individual council members will be elected – instead of being elected by all the voters in the city**. Austin voters in the past have defeated the concept of single-member districts many times.

What will single member districts look like? Well, the Council is asking the Commission to consider a Charter amendment that would elect **six Council members from geographic districts**, **and two Council members and the Mayor at large**. But who knows? In the past, proposals would increase the number of council members, mixing citywide and single member districts.

But there are other election/governing issues on the agenda for consideration. For instance, right now, **members and the mayor are elected to three-year *staggered* terms**. This means that during one election cycle only three council seats are open and in the next cycle three council seats and the mayor's post are up for consideration. Other agenda items call for the **elimination of staggered Council terms and changing the terms from three to four years**.

However, as they say on those 1-800 TV commercials, that's not all! The Commission is also charged with considering a Charter amendment that would **move municipal elections away from the uniform election date in May to the uniform election date in November of *odd-numbered* years only**.

If the city elections were to take place in *odd-numbered years*, such as this year, **they would not be held during the high-turnout *even-numbered* years when you vote on a President or statewide elected offices**. Some argue that this low-turnout cycle favors special interest groups that can sway outcomes because there are no big offices, such as President, Governor, etc. to draw voters to the polls.

Finally, the Commission will tackle the redistricting process by considering whether to require City staff to deliver a **proposed redistricting map to a Council-appointed seven-member redistricting committee**. You get the picture. If these items are recommended and adopted by the Council, **Austinites will be voting next year to drastically alter the way Austin elections are held and your City Council is elected**. It's quite important.

Texas weathered the recent recession much more successfully, **and is rebounding more quickly**, **than the US as a whole**, **according to a longtime Texas economist**. **He also predicts the Lone Star State is likely to continue to outpace the national rate of expansion**.

In fact, when you examine economist **Ray Perryman**'s long-term projections from 2010 to 2035, you get leading info on **wage and salary employment for Austin and for Texas**.

The economists have a phrase for it – Compound Annual Growth Rate or CAGR. This is simply the percentage that is projected to be the **average Growth Rate each year for any given metro area** — in this case over a long 25-year horizon.

Obviously any forecast that looks out that far is subject to a lot of variables. But it is a measure of *today* and the *trends* that are in place. So, **look at it as a comparison**, **relative to other areas – not as a take-it-to-the-bank**, **sure-fire prediction of what will actually happen**.

In this case, looking at wages and salaries, the Austin metro is the best in the best state for growth. Perryman predicts the **Austin-Round Rock-San Marcos metro area will have a CAGR between 2010 and 2035 of 1.96**%. Pretty strong. No other metro area in Texas, large or small, is predicted to reach that threshold. In fact, the average for all the state metros is 1.74%.

Perryman says "Texas' advantages for long-term growth include its presence in **key growth industries**, a **sizable natural resource base**, **central location**, **cost advantages**, a **large workforce**, a **favorable regulatory environment**, **attractive incentives**, and many others." And he concludes by saying "The Lone Star State is projected to continue to be a center for growth in the nation for decades to come." Pretty comforting.

During coverage of the earthquake this week in the Washington DC area, **Dr**. **Louis Overholster** swears he heard this on TV: "Fox News claims the Washington monument is leaning to the right, MSNBC claims it's leaning to the left. More, after this break!"

Sincerely

Editor/Publisher