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AUSTIN LETTER

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Dear Client:

The widespread Central Texas rains this week were more than welcome. However, they were not a drought buster. And the aquifers are a long way from being totally re-charged.

A cumulative total of around 3 inches of rain that covered a large portion of the Austin area during a 4-day period was perfect. **The totals were significant and the duration allowed for practically all of the precious liquid to be absorbed.** While this was worthy of a climatological celebration, you need to keep a perspective as you look ahead.

Scientists who studied NASA satellite data and examined information from the University of Nebraska's National Drought Mitigation Center point out that this current drought in Central Texas and, in fact throughout much of Texas, has **depleted aquifers to lows rarely seen since 1948.**

To totally re-charge these water sources, such as the Edwards Aquifer that courses through the Austin area, may take months – possibly years. Don't forget the La Niña weather pattern that is currently cooling the Pacific Ocean south of the equator typically causes warmer and drier weather across Texas.

The La Niña effect could also prevent the extremely low levels of Austin's water supply reservoirs – lakes Travis and Buchanan – from refilling. Long-range weather forecasters are somewhat pessimistic about major rain events in the immediate future. Really, what is needed is a few rainy months, or even a wet year, to replenish the aquifers and the Highland Lakes.

Another drought consequence could impact the majestic whooping cranes that winter on the Texas Gulf Coast. The huge birds are increasing in number as they make their way back from extinction. Some are predicting 300 of the birds are likely to fly from Alberta, Canada to the Aransas National Wildlife Refuge throughout the coming weeks.

The drought could make this a hard winter for the whooping cranes. **The marshes where they live on the Gulf Coast are saltier than ever due to the drought and the supply of plump blue crabs they like to eat is diminishing** – all because the flow of fresh water to the Gulf has decreased. Some biologists say these current conditions remind them of late 2008 when as many as 23 – nearly 8% of the crane population at that time – died.

If Sears (and that's a big IF) decides to move its headquarters from suburban Chicago to the Austin area, it would be a major economic development coup. It helps to keep a perspective.

As we mentioned October 7, 2011 (click on the Archives button at the top of the page and go to Volume 33, Number 28 for the details), the *Chicago Tribune* reported that a small group of **Sears execs visited Austin and Columbus, Ohio, to check out potential HQ sites.**

The trigger for Sears execs to make the trip wasn't necessarily the allure of Austin and Texas as a place to do business, though that was certainly a factor. **Illinois was pricing itself out of business by imposing a huge increase in its state corporate income tax.** And Sears said, in effect, enough is enough.

Since that time, dozens of other locations have made pitches to Sears. Ohio has come up with a \$400 million incentive package and it is closer to the current HQ. And Illinois leaders are trying like the dickens to keep Sears "at home." You get the picture. Sears is getting a lot of attention – not just for the prestige of Sears, but for the thousands of jobs that would be involved in such a move.

Without questioning Sears' intent and integrity, you need to keep a perspective: **many locations, including home state Illinois, will move heaven and earth for such an economic plum. The competition is fierce.** But you may not have long to wait to find out Sears' decision. It has previously said it will make a decision by the end of the year.

Texas does not have a corporate income tax as such, but it has a controversial business tax, known as the Margins Tax. The State Supreme Court recently ruled it was not an unconstitutional income tax on businesses. One problem with the Margins Tax, though, is that it is likely to change in the future. And uncertainty could create concern in the meantime, especially for companies such as Sears that may be considering a move to Austin.

The reason the Margins Tax is likely to come under legislative scrutiny is that its tentacles reach broadly through state government. First of all, **it has underperformed in the 2010-2011 budget to the tune of about \$5 billion**, according to Austin State Senator **Kirk Watson**. And, secondly, it was created five years ago to **shore up Texas schools and cut property taxes.**

There have been other criticisms of the tax. **Many businesses say they hate the tax because they feel it has a disproportionate impact on them.** Additionally, they criticize the way the tax deals with contract labor.

Because state financial experts predict the State of Texas may face a significant budget shortfall when the Texas Legislature convenes in Austin in 2013, **the Margins Tax may be at the center of a financial firestorm that also affects funding of public schools.** Stay tuned.

Two Texas-based airlines – Southwest and American – recorded different results in November. Together they both carry more than half of all Austin air travelers, but one notched a *rise* in system-wide traffic in November, the other a *drop*.

It's not likely American Airlines' recent filing for bankruptcy reorganization had an impact on its passenger traffic in November. But the Fort Worth-based **American Airlines reported a 1.7% *drop* in traffic year-over-year.** Meanwhile, Dallas-based **Southwest Airlines and AirTran Airways reported a combined traffic *increase* of 2.5% in traffic year-over-year.** (Southwest acquired AirTran in May.)

These system-wide November numbers were just released this week. The latest figures for Austin-Bergstrom International Airport (ABIA) are based on October's results (the ABIA November tallies won't be released for several weeks). Both **Southwest and American posted good increases at ABIA in November** – Southwest's passenger traffic was up 6.5% while American's traffic was up 5% over a year ago.

These two airline increases were better than the Austin market as a whole, which was up 3% compared to the previous year. **And for the second month in a row, the October 2011 traffic tallies were the best in five years.** For the year-to-date, ABIA passenger traffic is up 6%.

Speaking of increases in October, the state sales tax revenue announced just this week for sales made in October was up 12.2% over the same month in 2010. This marks the 20th month in a row that Texas state sales tax revenue has increased.

“While sales tax receipts associated with **oil and natural gas production remains the strongest source of growth**, there were strong increases from the consumer-driven sectors of retail trade and restaurants,” reported Texas Comptroller **Susan Combs**.

Oh, those pesky cedar trees that cover Central Texas like a blanket. They cause allergies, suck way too much water from the ground and contain an oil that makes them burn like match sticks. Now two small cities are doing something about them.

In a change from the past where city leaders frowned on cutting *any* trees, **West Lake Hills will haul away the cuttings if landowners clear the underbrush cedars off their property.** This is why you see wood stacked along the roadways in West Lake Hills. And now, the resort city of Horseshoe Bay in Burnet County west of Austin is going one step further. **Horseshoe Bay has budgeted city funds to actually clear the cedars off landowners' property and then get rid of them,** leaving only large, very mature cedars.

Say goodbye to your favorite lobbyists. Wish them well and tell them not to forget their longjohns because it gets really cold in Iowa this time of year. They will be part of Gov. Rick Perry's Strike Force in his presidential bid.

The lobbyists, of which there are many in Austin, are being asked by the Perry campaign to **travel at their own expense to help the Governor's powerful push for an impressive showing in the January 3rd 2012 first-in-the-nation voting in the Iowa caucuses.** This will be augmented by a huge investment of \$1 million in TV ads in Iowa between now and then.

There are more than 1,700 Republican caucuses that will be held the night of January 3rd all across Iowa. Voters attending the caucuses will hear pitches from partisans promoting their favorite presidential candidate. Then the voters will be asked to publicly take a stand for the candidate. **The Texas lobbyists are being asked to speak at key caucuses on Perry's behalf.** The campaign is planning training sessions for the lobbyists, to make sure they are "on message" and understand the makeup of the caucuses where they will speak.

But that's not all. **Many of them may be asked to work the phone banks in advance to line up supporters.** And do other volunteer tasks as well. Some lobbyists bring their families to swell the ranks. We know of one lobbyist family who helped **George W. Bush** in Iowa and the college age daughter who ID-ed Bush supporters via the phone banks wound up with a job in Bush's White House.

Bitterly cold and windy Iowa is not the ideal winter vacation spot. But even if a lobbyist is luke-warm in his/her support of Perry, **it's "just good bidness" to make the personal and financial sacrifice to answer the campaign call for help.** After all, if Perry is not the next president he will still remain governor for the next three years and lobbyists count their success in terms of access to the governor and to state agency and commission appointees, all of whom have been appointed by Perry.

Dr. Louis Overholster wonders why he has never seen the headline "Psychic Wins Lottery!"

Sincerely



Editor/Publisher