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Dear Client:

The approval this week of Travis County's share of incentives for Apple's big-time expansion investment in Austin is good economic news for now – and for the future. But before Tuesday's vote by the Commissioners Court, there were some anxious moments.

In fact, before Tuesday's vote, a spokesman for the Austin Chamber of Commerce stated publicly that Apple's expansion plans in Austin were up in the air. The foot-dragging and questioning by the Travis County Commissioners Court regarding its part in the incentive contract with Apple was obviously **frustrating to more than just Apple.**

After all, the **State of Texas** had already agreed to the biggest chunk of the incentive package, \$21 million. And the **City of Austin** was on the record for a 10-year \$8.6 million rebate. So, for the deal to make, Travis County's approximately \$6 million portion was the final piece in the puzzle.

When the air cleared after the Apple deal was strongly challenged by former County Judge **Bill Aleshire** and developer **Ed Wendler**, the county vote was 4-1 in favor of the deal (Commissioner **Sarah Eckhardt** voted no).

Apple has already been a good corporate citizen in Austin. **It currently has 3,100 employees working in North Austin.** Now it is committing to *double* that, bringing **more than 3,600 additional well-paying jobs to the area by 2025.**

As we have pointed out previously, Apple is one of this nation's strongest and most innovative companies. Any city in the nation would jump through hoops for Apple to locate in their locale. **It is part of the cadre of companies that many refer to as companies of the future** – the opposite of companies that have outlived their useful life and find their markets drying up.

Apple fits the template for the type of industry precisely suited to Austin's assets of a well-educated workforce composed of techies and creative types. The quality of life, relatively low cost of living (certainly compared to Apple's operations in California) are other assets.

But, more importantly, **Apple is the type company that Austin's economic development experts have long sought.** As you'll see in a "look backward" in the next item, Austin's current business environment is the result of careful planning and diligent effort.

The Austin area population has doubled every 20-or-so years. But, of greater importance is *how* it has grown, especially economically. Its growth has been calculated and pursued vigorously in a collaborative effort over recent decades.

The bigger the population number, the more difficult it becomes to continuously double. And growth for growth's sake is not desirable. It is *how* you grow. **It is the *makeup of the growth* that is vital. And this is where Austin has earned a mark of distinction.**

In the 1950s and before, the public sector was the main driver behind Austin's economy. Government jobs and investments – federal (Bergstrom Air Force Base), state (Texas capitol), city (city services), county (county services), school districts (overlapping inside/outside city boundaries) and universities (UTAustin) – provided a solid economic base for the city.

But none of these entities paid property taxes (and there was no sales tax at the time and no local income tax), so homeowners were feeling a growing property tax burden. This tax situation, plus the recognition that **bright young people who didn't want a "government job" had to leave Austin for high-paying professions**, led the Austin Chamber of Commerce to commission a study.

In 1957, UTAustin's Bureau of Business Research **recommended an economic development effort aimed at recruiting clean "light manufacturing"** to the area. Austin's business leadership began the task. The results would have a far-reaching impact. **In 1963, IBM opened a facility** (on more land than it needed at the time) to manufacture its current "hot product" – the Selectric typewriter. Following IBM's early success, **Texas Instruments located in Austin in 1966** to manufacture its "hot product," the hand-held calculator.

With the IBM and TI decisions, Austin started receiving the attention of CEOs nationally. As a result, a procession of national companies opened manufacturing facilities in Austin throughout the 1970s, among them **Motorola, Westinghouse Electric, National Instruments, EDS, Compaq-Tandem and Advanced Micro Devices**. The momentum continued into the 1980s. Companies such as **3M** and **Abbott Labs** located here. In the process, a profound shift to technology and research and development occurred.

Two other significant events took place in 1983 and 1988 — **Microelectronics and Computer Technology Corporation (MCC) and SEMATECH selected Austin for their groundbreaking consortia headquarters**. (MCC considered 57 cities in 27 states.) The consortia members were US's leading technology companies and they sent their best and brightest R&D personnel to Austin to cooperate in regaining US's technology dominance. **This put Austin on the tech map.**

It was not happenstance. The key to Austin's success was a unique collaboration between business, government, and UTAustin. See the next item for more details on this approach.

The economic successes (and lessons learned) during the 1980s have imprinted much of the direction of Austin's business growth to this day. And collaboration has become a guiding principle for Austin's economic development.

When MCC and SEMATECH opened shop in the 1980s, Austin's economic assets were exposed to the member companies that made up each consortium. **Their members were leading technology companies in the US at the time. Their CEOs and top execs became infinitely familiar with the Austin area where they had invested significant funds.** And, those companies sent some of their best R&D minds to Austin to stay several years.

Many of those "loaned" scientists were reluctant to leave Austin and return to their companies after their terms with their consortia ended. **Some quit and started their own enterprises.** In some cases, the member company, such as Crystal Semiconductor and Silicon Laboratories, opened Austin operations.

By the late 1980s, Austin had accumulated the critical mass of research and development necessary to fuel growth. This in turn triggered growth in related sectors where local technology suppliers and business services developed to serve this rapid technology expansion. In fact, *Inc* Magazine named Austin the Number One entrepreneurial city in the US in 1988, based on the number of new enterprises being created.

Probably the most noted of these enterprises was **Dell, Inc, founded as Dell Computer Corporation in 1982 by Michael Dell** (who notably dropped out of UT Austin after his freshman year). The entrepreneurial spirit and support in Austin was a perfect fit for Dell's unique approach to cranking out computers.

One very positive "lesson learned" during this time was the art of collaboration. It was best exemplified by the effort to woo MCC. Local businesses, led by the Austin Chamber, joined with UTAustin's top brass, Governor **Mark White**, the mayor of San Antonio (whose city did not make the Final Four cut) and TexasA&M (led by Professor **Jack Kilby**, inventor of the transistor), were part of Austin's carefully crafted presentation.

Much to the surprise of the other Final Four cities – San Diego, Atlanta and Raleigh-Durham – and to the technology industry nationwide, Austin's collaborative effort prevailed in the competition. *The New York Times* questioned whether this presaged a shift from California's Silicon Valley to Texas' Silicon Gulch. (Austin quickly started using the phrase Silicon Hills of Austin to offset the negative connotations of "gulch!")

There have been many Austin economic successes to this day – many efforts heavily financed by the Chamber's Opportunity Austin program. **They have helped keep the area economy among the best in the US during the nation's worst recession since the Great Depression.** Apple is just another example of this city/county/state collaboration, that started in the 1980s.

Do you consider yourself a “sophisticated urban bohemian?” Then you might want to move into one of the nearly 300 apartments that will be built downtown as part of the Seaholm mixed-use development adjacent to the Hike and Bike Trail on Lady Bird Lake.

“Sophisticated urban bohemians” — shoppers and diners who are **“independent thinkers, global nomads and cultural trend-setters”** — are the target market for the developers seeking to fill apartments and lease retail and restaurant space in the re-constituted iconic former Seaholm Power Plant development. This is what the developer told *CultureMap Austin*.

“The demographics are geared toward urban-oriented 25-to-50-year-olds with an appreciation for authentic culture,” John Rosato, managing partner of developer Seaholm Power LLC, told *CultureMap Austin*. “We’re looking for strong, local, regional or even distinct national tenants that will add to the unique ambience Seaholm inherently possesses.”

And the lead pump-priming tenant has already been signed. **California-based grocer Trader Joe’s will be the biggest retail tenant.** It competes with Whole Foods Market whose flagship store is just a few blocks away.

“Seaholm has a distinct sense of history, architecture and ambience,” Rosato continued. **“There’s a unique vibe that made it an instant cultural hit with everyone from fine arts performers to hip-hop artists** that clamored to hold events there. In our minds, that confirmed the need to gear our efforts toward tenants with a deep appreciation for timeless urban culture.”

California finished at the bottom again this year in *Chief Executive* magazine’s annual “Best & Worst States Survey.” Texas was ranked #1 for the 8th year in a row. Any questions?

Dr. Louis Overholster said now that Secret Service agents can no longer procure hookers, get drunk or go to strip bars, they can run for public office like everyone else!

Sincerely



Editor/Publisher