THE Neal Spelce AUSTIN LETTER

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Dear Client:

In six months, the Austin City Council could be in a knock-down, drag-out battle at the Texas Legislature over your rising electric rates. And if past battles are any indication, it is far from Austin-friendly turf.

Face it, the **conservative-dominated Legislature has normally had a disdain for the city where they meet every other year**. It ranges from politics (some legislators refer to liberal-dominated Austin as The People's Republic of Austin) to parking tickets, DWI arrests, etc.

Recent City/Legislature squabbles are probably a pretty good indicator. When previous Austin-bashing measures have been introduced in the Legislature, **the City has spent big bucks to hire a battery of high-powered lobbyists to combat the bills**. In many cases, it has been like a hammer over the heads of city officials, who usually reach some sort of accommodation before a bill is passed. But some anti-Austin bills have become law.

Austin GOP State Representative **Paul Workman has already served notice he is ready to file legislation to stop the Austin City Council from raising electric rates on customers outside the city who have no vote to elect council members**. About 13% of electric utility customers live outside the city.

Adding to this situation is, as regular readers know, the City Council peels profits from its city-owned electric utility (Austin Energy) to pay for services *inside* the city – in effect "**taxing**" **non-residents to pay for city operations, rather than raising taxes on residents to pay for those operations**. How much siphoned money are we talking about here? Well over $100 million.

A number of other issues are intertwined in this conflict. For instance, **should the City of Austin even be running an electric utility**? **Should a board separate from City Council politics** be set up to oversee the utility, such as exists in San Antonio. Should Austin get out of the utility business altogether and **sell this valuable asset to a private entity**? Or should those **non-resident customers be able to negotiate with a private utility** provider for electricity, thereby cutting off a chunk of revenue from the City of Austin? You get the picture.

If this situation falls in the Legislature's lap in January, **phrases such as "a can of worms" or "Pandora's Box" come to mind**. No matter which way it goes, keep your hand on your wallet.

When the next Legislative session convenes in Austin in January 2013, state leaders will have more money available for budgeting than originally thought. This is welcome news, but it doesn't mean there won't be some money squabbles. Just not as vitriolic as the last session.

Relatively speaking, Texas fiscal situation is the envy of almost every other state in the union. And that became even more true with the announcement this week that **Texas should have billions of dollars more** than predicted as it begins a two-year budgeting process in six months.

By law, the Texas Legislature cannot spend more money than the State Comptroller certifies is going to be available. At the end of the last legislative session, Comptroller **Susan Combs** gave lawmakers her best estimate on future revenues. At that time, you'll recall the Texas economy was feeling the effects of the recession and her **prediction reflected some of that economic uncertainty**.

Since that time, sales tax revenues and oil and gas tax revenues have seen impressive gains. **So Comptroller Combs crunched the new numbers and announced there will about $5 billion in unanticipated revenues**. This money will be available during the fiscal year 2013 that begins September 1st 2012.

(Quick background: the state works on a two-year budget cycle. **This September the state enters the second year of the current cycle**. The legislative session that begins in January 2013 will write the budget for two years beginning September 2013.)

Sales tax revenue has increased for the past 27 consecutive months. Strong *business* spending in industries such as manufacturing and oil and natural gas boosted the latest sales tax collections through May 2012. Revenue from ***consumer* spending in the retail trade and restaurant sectors also did well**.

All this reflects the general wellbeing of the Texas economy. Added to this is the fact that **Texas is one of the few states with a Rainy Day Fund** – money in the bank to be used only by special vote, and that could reach $7.2 billion.

Even with this relatively solid picture, there will be a major scramble for dollars. For example, legislators kicked the can down the road on Medicaid spending. That tab will come due in the fiscal year that begins this fall. Also the state is growing faster than most, creating **more demands for existing services that may expand to keep pace with the populace.**

The makeup of the legislature will change somewhat when the November election results are tallied. But no one thinks the balance of power will change. **Republicans will control both the Texas House and Senate and the state's Big Three political positions that guide budgeting – Governor, Lieutenant Governor and Speaker of the House**. Remember, there is absolutely no appetite in the GOP ranks for any new taxes. And there will never be enough money to meet the demands. Stay tuned.

In which major metro will your paycheck stretch the furthest? Austin is on the list, but not in first place. *Forbes* magazine examined the nation's 51 largest metros and came up with some interesting rankings and conclusions.

The high *wage* cities, such as New York, Los Angeles and San Francisco, didn't do too well because wages were only one part of the equation. "High *prices* in those East and West Coast cities mean the fat paychecks aren't necessarily getting the locals ahead," according to **Joel Kotkin** and **Mark Schill**.

> "When cost of living is factored in, **most of the places that boast the highest effective pay turn out to be in the less celebrated and less expensive middle part of the country**," noted Kotkin. Austin did fairly well, even though it was dinged due to housing affordability. Which metro ranked #1?
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> Houston. "**What puts Houston at the top of the list is the region's relatively low cost of living**, which includes such things as consumer prices and services, utilities and transportation costs and, **most importantly**, **housing prices**," said Kotkin. **The ratio of the median home price to median annual household income in Houston is only 2.9**. For comparison, in San Francisco, a house goes for 6.7 times the median local household income.
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> **Housing is one of the areas where Austin came up short**. Most of the Top Ten have housing affordability rates below 3.0, except **Austin which clocks in at 3.5**. As a result, **Austin was ranked eighth on the list of cities where a paycheck stretches the furthest**. By the way, using the same metrics, Dallas-Fort Worth, ranked fifth, and was the only other major metro from Texas cracking the Top Ten.

Another interesting fact: Many of the metro areas that rank highly have enjoyed **rapid population growth and strong domestic in-migration**. "Houston, Dallas-Fort Worth, and Austin all have been among the leaders in the nation in both domestic migration and overall growth both in the last decade and so far in this one," reported Kotkin.

> In fact, he noted that **Dallas led the nation with net migrants while Austin's population growth**, **4%**, **was the highest *rate*** among the large metropolitan areas. Conversely, many of the cities at the bottom of the list led the country in domestic *out*migration.

One other revealing finding about the high-price places: "**these high prices seem to have the effect of driving out middle-class workers**. Places like New York, Los Angeles and San Francisco have **extraordinary concentrations of both rich and poor workers but fewer in the middle**," Kotkin noted. To quantify this finding, Kotkin pointed out that **NYC and LA led the country in domestic outmigration – losing a total of more than 3 million people** to other parts of the country between 2000 and 2009 and that the pattern has continued since 2010.

Are you using the social media sites Twitter, Facebook or LinkedIn? If not, don't feel like you are alone. Most CEOs don't bother with social media.

According to a new study reported in the Silicon Valley, **70% of the CEOs at *Fortune* 500 companies have absolutely no presence on social media**. And the companies doing the study claim the CEOs are missing the boat.

> "This lack of engagement would be similar to **50% of the world using email with big CEOs holding out**; **or 50% of your customers shopping online but no CEOs trying it**," argued one of the researchers.

The researchers said that the lack of CEOs on LinkedIn may be the most surprising. **Only 26% use the professional social network**. Of that group, 36 have one connection or none and **only 10 have at least 500 connections**. Other findings of the study:

> Of the 20 with Twitter accounts, five have never tweeted about anything. The average number of followers for the CEOs with Twitter accounts was 33,250.
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> Only six contribute to blogs and only one, Austin's **John Mackey** of Whole Foods, has his own blog.

Only 38 CEOs are on Facebook. One of the oldest CEOs in the bunch, 81-year-old **Rupert Murdoch** of News Corp., is the most followed with 349,000 followers. He has passed **Meg Whitman**, who was only #1 because she used social media while running for governor of California. She has since stopped.

Dr. Louis Overholster loves to tell the true story of a man who burst into a motel with a gun and demanded pills from two men inside. The men shot him in the face with pepper spray. The man dropped his gun and fled. A few minutes later there was a knock on the door and it was the same man offering to pay $40 to buy his gun back. They shot him with pepper spray again and police caught him as he was running away. Sounds like the man already had consumed a few pills

Sincerely

Neal Spelce

Editor/Publisher