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Dear Client:

A dollar in Texas is worth more than in most of the rest of the nation, according to one analysis. Another examination rated Texas – for the 10th year in a row – as the best state for business. Pretty powerful. But a clear-eyed look at Texas, and in particular Austin, reveals areas of concern – or put another way -- areas for improvement.

Moneyrates.com is the outfit that surveyed all 50 states by factors including average salary, cost of living, employment rate and workplace conditions, and pronounced Texas as the **#2 best state to bring home a paycheck**. *Chief Executive* magazine polled more than 500 CEOs on critical business measures and, once again, the execs named the **Lone Star State as the best state for business**. All good stuff.

But here is how the *Wall Street Journal* recently began a report headlined Boom Time in Texas: “Americans have flocked to Texas in search of a piece of the state’s booming economy as much of the rest of the country struggled. **Now the state’s largest cities are seeing crowded highways, strained water supplies and other pressures that have come with growth.**” That last sentence sounds familiar to a lot of Austinites. Austin’s city population was singled out in the article as having now surpassed that of San Francisco.

More about Austin in a moment. Referencing the state, the *Journal* continued commenting -- **“But the size and pace of the population spurt is becoming more difficult to manage,** presenting public officials with a challenge: How to beef up public infrastructure without straying from their small-government philosophy.”

“The Texas Department of Transportation estimates that it receives **\$5 billion less a year from the state than it needs to meet current demands for road construction and repairs,**” reported *WSJ*. “The state’s 2012 water plan estimated regional and local entities would need **\$53 billion to meet additional water infrastructure needs by 2060.**” Texas voters last year approved the creation of a \$2 billion *water* fund and this November Texans will be asked to approve more than \$1 billion in *transportation* spending.

The Texas Legislature convenes in Austin in **January to tackle big-time budget needs.** But **Austin leaders must approve a new budget by September.** See the next item.

“We have perhaps the strongest economy in the entire country,” claims Austin Mayor Lee Leffingwell. “However,” he continues, “we are not without our challenges.” And some of those challenges will be addressed soon when the Austin City Council adopts a new budget.

One of those challenges – possibly the biggest – is transportation. **Austin has the 4th-worst vehicle congestion in North America**, according to Inrix Inc., a firm that collects and ranks data on automobile traffic. Leffingwell says “Texas has failed to adequately fund Austin’s growing transportation needs, but so too has the city itself, noting that **many Austinites remain unwilling to admit that their hometown is a big city.** Our philosophy has been, if we don’t build it, they won’t come,” the *Wall Street Journal* reported. “That hasn’t worked.”

“The Austin metro area grows by roughly 100 new residents daily, on average, **snarling roads and stoking anxiety that the city’s vaunted laid-back way of life is eroding. Over the past decade, the number of registered vehicles in Travis County has grown by 52% to more than one million.** Meanwhile, the number of hours that peak-time travelers were delayed in traffic more than doubled between 1991 and 2011, according to the latest data from the TexasA&M Transportation Institute,” *WSJ* reported.

The budgeting process within the next few weeks will consider **adding additional debt to the city’s obligations by funding a 9.5 mile Urban Rail system that includes 16 stations and 4 park-and-rides.** It also appears the Austin City Council will add additional funding for select roadways as part of the bond package to make it more palatable to voters who are less enthusiastic about rail. The city’s debt: \$5.6 billion in 2013, according to the Texas Bond Review Board.

While the Republican-dominated Texas Legislature is likely to hold the line and not raise taxes when legislators descend on Austin in January, **the Austin City Council’s anticipated actions are likely to have the effect of hiking personal and commercial property tax bills.**

Pay attention to the city budget debate. **Councilmembers will probably make a big deal about not raising the tax rate. In fact, they could even lower the tax rate. But your tax bills will go up just the same.** According to the mayor “the City is looking at more than 1.7 billion dollars in increased property values.” The Council is not at all likely to lower the tax rate enough to offset the increase in values that would result in a revenue-neutral situation. Not gonna happen.

Besides, there are other “challenges” the City Council will face as it writes the budget – such as **water and electric utility needs in a fast-growing city.**

So, what is the budget timetable? City Manager **Marc Ott** and his staff are working toward a **July 31st deadline for proposing the budget and tax rate. The Council can slice and dice it before approving a final budget in September, to go into effect October 1st 2014.**

Austin's fledgling drone industry has received a bit of good news. Odds are good that, within four months, the Federal Aviation Administration (FAA) will grant a handful of exemptions from the current prohibition on commercial drone flights.

The FAA is mulling requests from farmers, filmmakers and pipeline operators to waive the prohibition on US drone flights. The prohibition is in place while **the FAA is writing rules governing the use of drones in US airspace.**

Our friends at the *Kiplinger Washington Letters* report the approval will come with strict limits, such as restricting those who gain initial approval to be able to **fly for only 30 minutes at a time, in restricted airspace, and with prior notice to the FAA.** The drones will have to weigh less than 55 pounds.

The waivers will be granted on a case-by-case basis. And they will be closely watched by others, such as **real estate interests**, for clues on when and where the rules may open further.

UTAustin is pleased the Longhorn Network (LHN), operated by ESPN, is doing more than broadcasting university sporting events.

President **Bill Powers** took special note this week of the students who work as interns at the network, saying **"the recent success of many interns suggests we have tapped into a valuable feeder system for the ESPN family of networks."**

"Since the ESPN-run network launched, the experience gained at LHN has helped **eight students get entry-level positions inside the ESPN family,**" said Powers. "Ten others have gone on to secure full-time positions in video production, marketing, sports journalism, and business operations at companies such as NBC, the Texas Rangers, and Yeti."

Powers said he was proud of LHN and all it has brought to the university --"from its great sports and academic programming to its financial support for numerous faculty chairs ... **and we're just getting started."**

For the first time in more than three years, the number of homes listed for sale in the Austin market has increased. The options for homebuyers are starting to increase.

This bears watching. **If it is the beginning of a trend, it could mean rising home prices may be reaching a plateau.** And the frenzy of buyers competing with multiple offers on a given home may start slowing. Sellers could also be losing their tight-market advantage. Stay tuned.

They did it again. The news story was headlined “Austin Jobless Rate Edges Up” but it missed the key element. Let’s put the proper perspective on it.

Of course the Austin area unemployment went up slightly from April to May. It *always* does. Here and elsewhere. **The slight increase was from an excellent 3.8% unemployment in April to a highly-respectable 4.1% in May.** Why this small increase? Schools were dumping people into the workforce as their sessions were ending. The little uptick was expected, as this seasonal shift occurs year after year.

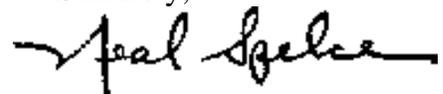
To get a true perspective, you compare this May’s percentage to the same month a year ago. Compare seasonality, in other words. As the workforce expanded by job seekers getting out of school **a year ago, the unemployment percentage was 5.2% in May. Not bad. But *this* year in May, the unemployment rate is more than one percentage point better – 4.1%.** This is a significant improvement.

What makes this all the more impressive is the fact **5,300 jobs were created in May throughout the metro’s 5-county region.** Think about this. Even as some seasonal jobs were being lost as a result of colleges and schools wrapping up, area employers added thousands more jobs.

“Job creation” and “low unemployment” are lazy 2-word descriptions of a widespread economic effect. The ripple effect of more and more people stuffing money in their jeans is sometimes overlooked. In today’s world, most employees spend most of what they earn. And dollars spent on groceries, haircuts, rent, gasoline, clothing, furniture, movies, etc. – you name it -- are spread throughout the Austin area. This keeps these metro area communities thriving. Sometimes it helps to put a face on boring economic statistics. And it is also important to understand that minor seasonal fluctuations sometimes distort the true picture.

Dr. Louis Overholster has never been caught up in this widespread fascination with pop culture celebrities. He sees most of them as quite shallow. As he put it: “They work hard all the time to become well-known, then wear dark glasses to keep from being recognized!”

Sincerely,



Editor/Publisher