



Volume 35, Number 48

March 7, 2014

Dear Client:

**Just during the past few weeks, the Austin City Council approved incentives for three companies to move to Austin after the businesses promised to cumulatively create more than 1,200 jobs. Is Austin out of line compared to other major Texas cities when it comes to giving incentives to re-locating companies?**

Subsequent to the vote, the three companies announced their plans for investing in the Austin area. The three: **Athenahealth** (plans a new research and development center in downtown Austin for the Massachusetts-based health care technology company), **607 employees** ... **Websense** (software maker to protect companies against cyberattacks and data theft is moving its HQ to Austin from San Diego), **470 jobs** ... **Dropbox** (a software and cloud storage system based in San Francisco is expanding its minor Austin presence), **170 employees**.

**Granting of incentives to lure companies to the Austin area has been a topic of controversy for some time now.** And with three coming, boom-boom-boom, in the space of a few recent weeks, the question logically arises **whether Austin is out of line granting incentives** in its competition with other cities for job-generating company investments?

We put that question to **Gary Farmer**, president of Heritage Title and the volunteer chair of the Austin Chamber of Commerce Economic Development Corporation. He provided stats as of March 2014 that **compared incentive agreements adopted by major Texas cities since 2004:**

During this past decade, the tally: **Dallas, 97** ... **San Antonio, 68** ... **Houston, 20** and **Austin 18**. Okay, let's widen the net. How do the areas stack up when you consider *county* incentives? **Bexar County, 49** ... **Harris County, 17** ... **Dallas County, 12** and **Travis County, 7**. Any way you cut it, Austin and Travis County have given fewer – in some cases, far fewer – company incentive packages than Texas counterpart areas.

These are just the *number* of deals. What about the *dollars* involved? Yeah, you say, you can have only a few deals, but **do these deals involve big taxpayer dollars?** Especially in relation to the return on investment. In other words, **how much money has Austin committed in order attract these job-creating companies?** Check out the next item where this is examined.

**The dollar value of Austin-granted incentives has a tremendous multiplier effect for the companies involved. In order for companies to get big bucks in *total* incentives, Austin generally ponies up a small amount of the total.**

Generally, companies seeking incentives from Austin already have a major incentive commitment from the state of Texas – sometimes the value is in the millions of dollars. **The state's *big bucks* are usually contingent upon *much smaller* incentives from the local city.** The last three Austin deals that will generate more than 1,200 local jobs are examples.

**Take Athenahealth. The State of Texas put up \$5 million in incentives to entice the health-care technology company to set up in shop in the state.** (California, Georgia and Athenahealth's home state of Massachusetts also offered incentives – two of them offered just short of \$10 million each.) **Austin committed only \$679,500 in incentives.**

**What about Websense? The State of Texas committed giving \$4.5 million in incentives to the company that protects businesses from cyberattacks if it moves its HQ from San Diego to Texas.** Websense agreed to create at least 470 jobs with an average salary of \$82,000 and make a capital investment of \$10 million in the Texas city where it locates. **Austin agreed to a performance-based grant of \$438,000 paid over a 10-year period if Websense located here.**

**And Dropbox. The San Francisco-based software company will get \$1.5 million from the State of Texas.** As a result, Dropbox agreed to create 170 jobs with an average salary of \$59,000 and make a \$5.5 million capital investment in the Texas city where it sets up shop. **Austin agreed to a performance-based grant of \$244,500 paid to Dropbox over 10 years for Dropbox to expand its operations here.**

**So what are the pros and cons of these deals?** After all, two members of the 7-member Austin City Council voted against all three of these transactions. In general, the arguments *against* offering incentives run along these lines: **Austin is doing well enough that it doesn't need to court companies with public money ... such incentives could reduce funds available to needier citizens ... concern about adding to traffic congestion,** especially when a company locates downtown (such as Athenahealth in the lakeside Seaholm Power Plant renovation).

The flip side of the controversy was best captured in Mayor **Lee Leffingwell's** comments in his recent State of the City address: **"it's undeniable that incentives have played a key role in Austin's economic success.** Like it or not, when it comes to winning and keeping good employers and good jobs, it's a competition. **We are competing with some great peer cities across the country and even around the world."** You can look for this debate to continue when the next employer seeks incentives and it might also play out in the upcoming expanded City Council/Mayoral elections.

**Many long-running successful events usually generate a few naysayers. Austin's interactive portion of SXSW (SXSWi) is no exception. One example from a ranting West Coast tech writer: "just because you dress up a successful music conference like a tech conference to garner a ton of press and increase the percentage of young, smart attendees, doesn't give the event any real substance." Comments and facts quickly countered that observation.**

SXSWi is the event where Twitter and other "tech phenoms" such as Foursquare sprang forth. But in 20 years, the event has changed and grown dramatically – mostly due to its success. **Even the strongest supporters of SXSWi lament the intimacy of the early days** where stop-and-chat was an easy simple process. But as the event has grown, so have the opportunities, as reported by San Antonio business writer, **Donna J. Tuttle:**

"While there's no denying the conference has grown and become more commercialized, digital gurus are quick to point out that **SXSW is the place to be if you want to meet and learn from industry thought leaders and bump into new entrepreneurs with bold ideas.**"

Tuttle quoted digital guru Rackspace's **Robert Scoble** thusly: **"the reason we go is that nearly everyone in the industry is going too.** So, it's easy to network, easy to collect tons of business cards. Easy to compare tech experiences with **LARGE** numbers of influencers (read: people who have an Instagram account with more than 1,000 followers)."

Another Rackspace officer was quoted as saying it has **changed the way it takes part in SXSW.** "The first year we rented park space and had huge tents with a Mediterranean theme: giant pillows on Persian carpets, hookah and hummus," he says. **"Now we host dinners, panels and parties that are curated for our customers. We host the Startup Village. We gain nothing with loud parties that attract badgeholders simply looking for free booze."**

Possibly more telling was a report this week out of California's Silicon Valley. **About a quarter of the companies appearing at SXSW's Startup Village pitch competition are from Silicon Valley and San Francisco.** Some of these 15 California companies have actually already won honors and millions in funding.

So what's the attraction for these folks to come to Austin? One big reason is it's a **chance to get in front of the non-venture capital industry execs and potential customers.** Another is that it's kind of a retreat for a lot of Silicon Valley **investors and startup gurus who go to network and, oh yeah, party.**

Some critics nail the party aspect. The tech writer mentioned earlier said "it's really just a **social function for the tech elite and wannabe's looking to justify a week of hanging out away from mom's house.**" But as the Rackspace guy said about getting the most out of SXSWi: **"if you're waiting for two hours in a party line, you're doing it wrong."**

**Driving in the downtown area for the next 10 days of SXSW will be a challenge, to put it mildly. But a big year-round hassle factor will be diminished by June. Can you imagine making a turn off Congress Avenue in downtown and not jockeying for position with a slowly-moving, frequently-stopping bus?**

The most-photographed, best-known stretch of roadway in Texas – **that 11-block stretch of Congress Avenue between the State Capitol building and Lady Bird Lake** – has been **clogged with big buses for years**. They sometimes make turning off the Avenue onto cross streets an adventure, especially when one bus appears to be tailgating another bus.

Dozens of buses, covering about 10 routes, have been moving on Congress Avenue each hour. But no more. In fact, **Capital Metro has already started shifting buses off that short stretch of the Avenue**. And by June only one bus route will be scheduled to run on Congress Avenue.

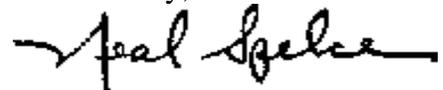
This is all part of a bigger plan to shift those buses onto two adjacent streets where vehicles have been banned from lanes set aside for the exclusive use of buses. **When fully implemented, 22 different bus routes will rumble along Guadalupe and Lavaca Streets.**

**According to *Forbes*, how many billionaires live in Austin, Houston and Dallas-Fort Worth?**

**Dallas-Fort Worth tops the Texas list, with 25 of the world's billionaires residing in the Metroplex. Houston is home to 14 billionaires. And Austin counts three of its residents as billionaires.** *Forbes* reports Austin's **Michael Dell** is worth \$17.5 billion ... **John Paul DeJoria** is worth \$3 billion from his tequila and hair care companies ... and the newcomer to the Austin list, **David Booth**, co-founder of Dimensional Fund Advisors, is worth \$1.3 billion.

**Dr. Louis Overholster** reports the latest medical research has found that the severity of the itch is inversely proportional to the ability to reach it!

Sincerely,



Editor/Publisher