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Dear Client:

**One of the most contentious issues to face the Texas Legislature during the past few decades – public school finance – will not likely be high on the agenda when legislators descend on Austin in January. The pundits were wrong again. And it’s all because the Texas Supreme Court issued a ruling that surprised almost everyone. It ruled the current school funding system is constitutional. Wait a minute. Isn’t that a good thing? Nope. And here’s why.**

Well, it’s probably a good thing if you’re a legislator, since the ruling by the Supremes may avoid a knock-down-drag-out legislative fight. But just about everybody involved is critical of **the way public schools are currently financed**. And the Supreme Court let this stand.

Take the property-rich local Austin and Eanes School districts. They send millions of dollars collected from their residents each year to other, poorer, districts. **This “Robin Hood” concept spreads the wealth around to help fund school districts that don’t collect as much in property taxes as the Austin-area schools.** Here’s how veteran legislative Texas Tribune reporter **Ross Ramsey** sees it:

“School finance is hard. It forces policymakers to either **raise state spending, lower state standards,** or force local school districts to raise their own spending – which means **higher property taxes. None of these is a crowd-pleaser, and politicians are in the crowd-pleasing business.**”

Ramsey says one of the truisms of Texas politics and government is that it is practically **impossible to pass significant school finance legislation without an open threat from a court.** The Supreme Court didn’t do that. No threat at all, even though the Court criticized the current school finance plan.

The court “said the funding system for public schools in Texas is totally fouled up. They detailed some of the troubles. They called it names. They made their plea for change,” commented Ramsey. “But they didn’t give reformers any leverage, **saying they found no violations of the Texas Constitution that would force lawmakers to make changes.**”

There you have it. **No court order saying “change it.” So your legislators don’t have a legal hammer hanging over them.** Does any cynic think they’ll make this thorny issue a priority?

**Speaking of the Texas Legislature and your tax dollars, a long-time leading Texas economist is saying legislators better get ready to spend more money. Ray Perryman, who has worked for a wide range of business clients, says “spending by the State has been growing over time, but not enough to keep pace with population and economic expansion.” Now what?**

Every seat in the Texas House of Representatives and half of the State Senate seats will be on the ballot in November. But take this to the bank: the legislature that convenes in Austin in January will be **overwhelmingly controlled by conservative Republicans whose DNA includes an aversion to more taxes and big spending**. And, available revenue will be impacted somewhat by less oil and gas revenue than Texas has enjoyed up to this point. Okay then, what does Perryman foresee?

“While runaway spending is clearly to be avoided,” noted Perryman, “we have fallen critically behind in several areas. **Keeping tax burdens low is laudable, but spending more now could avoid bigger problems down the road.**”

What kind of problems, Ray? He says Texas should “catch up on **unfunded pensions**, restructure programs in crisis such as **foster care and child protective services**, improve **education at all levels**, and make a dent in **infrastructure shortcomings**.” And, if the legislature doesn’t?

“**We will almost certainly face higher taxes in the future** in order to deal with spiraling problems, not to mention a much less robust economy,” Perryman warns.

This is a big deal. This year the State of Texas will spend more than \$140 billion – with a “b”. The state has about 27.5 million residents, more than 260,000 square miles and a \$1.5 trillion – with a “t” – economy. “**Substantial resources are required to maintain quality of life and public safety, provide for education and infrastructure, and serve as a safety net through social programs,**” Perryman points out.

Another Perryman point: **Texas ranks 47<sup>th</sup> among all states in terms of per-capita state spending**, illustrating the low level of outlays compared to most areas. So, will the first five months of next year turn out to be a big budget battle in the State Capitol building, or will that proverbial can get kicked down the road two years to the next legislative session?

**Do you need more confirmation that the City of Austin’s tiff with Uber and Lyft may be the subject of a new *state* law? We have an example from the Republican State Convention.**

The GOP’s state platform: “**We support legislative solutions to regulatory barriers** for transportation entrepreneurship, to allow ride-sharing companies to compete openly for business in our state.” Should we point out again the GOP will have a huge majority in the legislature?

**Didja know Austin's industrial real estate market is doing the best it has in 16 years? The citywide vacancy rate dropped to 6.4% at the end of the 1<sup>st</sup> quarter. That's really tight.**

This follows a strong performance in 2015 and a solid start to 2016. The low vacancy rate is helped by the fact **no new buildings have been added to the inventory so far this year**, according to REOC Austin.

**The economy of the technopolis called Austin is driven in large part by the tech community. Go to the "Archives" button at the top of this edition to check out our in-depth report last week (5.13.16 issue) on tech's impact on Austin's economy. One aspect of that important update – only 5.4% of tech firms are *manufacturing* – triggered a strong reaction from a local economic development expert, Glenn West. He has a good point.**

During West's multi-year term as head of the Austin Chamber of Commerce, a large number of tech firms set up shop – or started from scratch – in Austin. As a career CofC exec, he knows tech. And he knows manufacturing. As he put it: **"There is a lot of discussion these days nationally about manufacturing employment, losing manufacturing jobs off shore, bringing manufacturing jobs back to the US."** Then he goes on to make this statement.

"I think the number of manufacturing jobs in the US is misstated because software publishing is not counted as manufacturing," he observed. "In fact, **I think the whole information publishing sector could be counted as manufacturing.**" Wait a minute, Glenn. Software is not a hunk of machinery cranked out on a manufacturing assembly line.

But, he argues, "From the standpoint of economic impact on our community, **there is basically no difference in selling a computer, or selling a piece of software to someone outside our local economy.**" What do you mean, Glenn? **"The product is created here, sold elsewhere and the money flows into our economy** (which is what economic development is all about)," he says.

Speaking about "manufacturing" jobs going to other countries, **West has a pretty pragmatic approach as far as Austin's economy is concerned.**

"I don't spend much time worrying about Oreo cookies being made in Mexico," he tells us, **"as long as we continue to develop other products and services which can be sold throughout the world – an activity that is happening more and more in Austin."**

With last week's report of "manufacturing" firms making up only 5.4% of Austin's tech economy and "nonmanufacturing" is 94.6%, West thinks a **re-definition may be in order.**

**A California-born reporter from the *New York Times*, who moved to Texas from Brooklyn in 2011 to cover Texas, wrote an essay titled “What Makes Texas Texas.” Some of Manny Fernandez’s observations printed in the May 7, 2016 in the *Times*:**

“I have covered stories in the South, the Midwest and other parts of the country. People in those places identified with their political party, their job, their cause, their sexual orientation, their city, their race. **Almost no one identified with their state the way Texans do.**”

Fernandez trotted out a number of anecdotes about Texas, including a story about philanthropist **Jack Blanton** (UTAustin’s art museum is named for him) who rushed to Boston when his daughter gave birth to his granddaughter. The hospital visiting hours were over, so Blanton **climbed a fire escape and placed a baggie of Texas dirt in her bassinet, so she could begin her life on Texas soil.**

After a number of Texas-ish examples, Fernandez admitted “**I think I’m becoming a little bit Texan,**” observing “**You don’t just move to Texas. It moves into you.**” He got serious.

“As the world grows smaller, as technology obliterates the significance of where we live and work, **as Americans become more transient, Texas resists. It declares, to itself and the nation: Place matters,**” he opined.

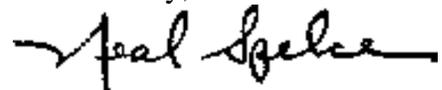
“**Sometimes we love it here and sometimes we are disgusted here,** but to twist **Gertrude Stein’s** line about Oakland, Calif., there is a here here,” he went on.

“We tattoo Texas on our arms, buy Texas-built trucks and climb fire escapes with Texas dirt in our pockets. **Place, we are unsubtly suggesting, matters.**”

It’s interesting to see what others say about us. Or as Scottish national poet **Robert Burns** wrote in 1786 “**O wad some Power the giftie gie us/ To see oursels as ithers see us.**”

Speaking of newspapers, **Dr. Louis Overholster** raised his eyebrows when he read this headline: “Parents Keep Kids Home to Protest School Closure”!

Sincerely,



Editor/Publisher