

Austin leaders plot 2011 job growth

After local successes of 2010, hobbled California remains a key target.

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When LegalZoom, the Los Angeles-based online legal document provider, began scouting last year for a new regional headquarters site, it sized up 10 cities. But the final decision Austin was an easy call.

"It stood out immediately," said President Frank Monestere. "It wasn't just the cost savings, the work force or the schools. We chose Austin because it was a real cultural fit for our business."

As many U.S. cities continue to reel from job losses and a stagnant business climate, Austin is regaining its footing, thanks in part to its ability to draw outside employers like LegalZoom, which plans to hire 600 workers over the next five years.

Twenty-seven companies, including nine from California, moved their headquarters or other operations to Austin in 2010, making it one of the Greater Austin Chamber of Commerce's most successful recruiting years.

Still, it will take years for Austin to fully bounce back from the deepest national downturn since the Great Depression, experts say. And the weak national job market — coupled with looming state layoffs — could slow Austin's momentum.

In addition, Texas lawmakers are expected to consider scaling back state incentive programs as they look for ways to cut costs in the upcoming legislative session. Austin has a big stake in the outcome because money from the state has been crucial to the region's ability to lure companies.

For Austin, the course that is charted in 2011 will help determine how fast the region recovers when a national economic turnaround takes hold.

The question is, what's next?

For Austin business leaders, the plan starts with placing a giant bull's-eye on California. Its ravaged economy, with high taxes and a government budget shortfall of more than \$28 billion, makes the state ripe for exploiting, economists say.

"This is the time to be poaching business," said Bernard Weinstein, an economist at the Cox School of Business at Southern Methodist University. "California is perceived as being so anti-business, and its taxes are so high, and it is so dysfunctional. The question for CEOs there shouldn't be, 'Why Austin?' It should be, 'How fast can we get there?'"

In an opportunistic move, the Austin chamber of commerce has hired a California firm to scout for candidates. The RSH Group, an Irvine, Calif., consulting firm specializing in site selection and incentive negotiations, will work on Austin's behalf to identify and assist companies.

"This gives us boots on the ground," said David Porter, senior vice president of economic development for the Austin chamber, who said he doesn't know of any other city that has hired a full-time California recruiter.

"Most of our success comes from California, and there are healthy companies using this downturn to re-evaluate their locations and get out of high-cost areas," Porter said. "We want to be first on their list."

But Austin's not alone in looking to poach. Other cities and states are revving up recruiting. San Antonio, for instance, has been aggressively pursuing — and succeeding in luring — expansion projects, including data centers.

Although it might be hard for Austinites to fathom a company wanting to locate anywhere else, other cities inside and outside of Texas are tough competitors, said Steve Sanders, a veteran Austin real estate deal-maker and an executive with Stratford Land, a Dallas-based land investment management company.

The issue, Sanders said, is incentives. Many other cities, including Dallas, Houston and San Antonio, are far more aggressive in terms of what they offer, he said.

"Austin looks great on a number of metrics, but if you're even with another community that's offering millions of dollars of incentives, you're probably not going to win. Even if you're ahead, you may not win," Sanders said. "It's a true statement that Austin has everything going for it. But I don't think employers are enamored with the physical beauty and the quality of life as we think they should be."

Critics of incentives argue that they don't create any net jobs; they just move jobs around to whoever is the highest bidder.

Weinstein, who says incentives can spur economic activity, said Austin's work force and lower cost of doing business will keep it in the recruiting game.

"We've got three states — California, New York and Illinois — with bankrupt economies. All the factors that have made Texas an attractive place to live and work are still here, from the lower cost of living and doing business to the skilled work force," he said. "It's not nice to prey on the ills of others, but for Austin, the opportunity is big."

Going harder after smaller game

In contrast to many regions, Central Texas has added jobs — 17,000 — over the past 12 months. But it still hasn't caught up from the ground lost during the recession. Today, the Austin metro area has 4,900 jobs fewer than it did at the area's peak of 783,400 jobs in 2008.

And unlike the high-paying software and semiconductor design jobs that drove growth during the past decade, the biggest percentage gain in 2010 was in the lower-paying leisure and hospitality category, which includes hotels and restaurants.

With some exceptions, technology and professional services employers are adding workers in small numbers, said economist Jon Hockenyo, president of Austin consulting firm TXP.

"If you've got a job, you're working harder than you ever have in the past. If you don't have a job, you know how hard it is to convince people it's time to hire," Hockenyo said. "They're still holding back."

As high-tech manufacturing moves offshore, growth is unlikely to come from multimillion-dollar expansions by companies such as Applied Materials, Advanced Micro Devices and Samsung, which have driven Austin employment in the past. Samsung, which is investing \$3.6 billion to expand its Austin chip manufacturing operations, creating 500 jobs last year, is probably the last local project of its scale for some time, area economist Angelos Angelou said.

"But Austin can emerge as a leader in other promising areas, including investment banking and renewable energy," Angelou said. "Individually, the companies tend to be small. But when combined, you can build an industry."

Austin's recent recruitment wins are the result of significant changes to the way it offers incentives. The idea was to develop a strategy tailored for smaller job-creation projects, and it is now being used to target companies in areas including life sciences, clean energy, software, semiconductors and data centers.

After losing out in 2009 to San Antonio for a highly sought health care company, Austin shifted its incentive goals from attracting major capital investments to landing high-quality, knowledge-based jobs, such as those the health care company offered.

Austin's recruiting plan now combines relatively modest city incentives, tied to job creation, with bigger money from the state through the Texas Enterprise Fund, which awards tax dollars to firms that relocate or expand in Texas.

That strategy was used in the four incentive offers Austin made last year. Those lured Hanger Orthopedic Group, which moved its headquarters from Bethesda, Md.; Facebook and LegalZoom, which both opened Austin offices; and California solar panel technology company SunPower, which has started hiring for a new 450-employee operations center.

For San Jose, Calif.-based SunPower, the city will pay \$233 every year for every job the company creates and retains through 2020, with a maximum total payment of \$901,710. In addition to city incentives, the state will provide SunPower with \$2.5 million from the Enterprise Fund. The average salary at the Austin operations center, with jobs in marketing, finance and other areas, will be \$70,000, and 80 percent of the 450 jobs will be filled locally, SunPower said.

"We're looking at every new 2011 hire and asking, 'Why not in Austin?'" said Jim Pape, president of SunPower.

But Austin's reliance on the Enterprise Fund might have to change if the Legislature scales the fund back in light of the state's \$24 billion budget shortfall. The Texas Emerging Technology Fund, which grants state funding to tech startups — including more than two dozen in Austin — also might be downsized.

That has put Austin business leaders on the offensive. Michael Rollins, president of the Austin chamber, said that the Enterprise Fund helped Central Texas survive the dot-com bust a decade ago and that the Emerging Technology Fund helps Austin's technology sector compete globally.

"In our opinion, we should double down with the Enterprise Fund," Rollins said. "And we want to be a creative community with the next best technology. But that takes a long runway to take off."

'A newcomer's perspective'

Executives of LegalZoom, which was founded in 2000 by a team of attorneys, including celebrity lawyer Robert Shapiro, never intended to expand the company outside of Los Angeles, Monestere said.

The company, which has 400 employees, provides an online service that more than 400,000 people have used to write wills, create legal trusts, handle cases in small claims court and assist in other legal matters.

"For the longest time, we wanted to keep everybody together in LA," Monestere said. "When you start a new office, a big concern you have is how do you keep continuity in the company's culture?"

But the fact that 35 of the company's 400 employees asked to move to Austin — many more than expected — made a big difference, said Mike Wilson, vice president of operations. Now they're getting settled in Austin, with some buying homes for the first time, and working from the new 25,000 -square-foot office at the Quarry Oaks development in Northwest Austin.

"We never expected that many people would want to relocate," said Wilson, who is commuting to Austin and scouting schools in preparation for moving here with his wife and two children in July. "We take that as a sign that we made the right decision."

Courtesy of JB Goodwin