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Dear Client:

**Add Austin Mayor Kirk Watson to your watch list for statewide political candidates in 2002.** Democratic Party officials, hungry for popular, credible candidates, are courting at least two big city mayors for possible runs: Watson and Dallas Mayor (and former legislative lobbyist) **Ron Kirk**.

The running legal battle between **Attorney General John Cornyn** and the plaintiff's lawyers in the tobacco case has increased speculation that Watson may challenge the incumbent AG. A statewide race would be an expensive proposition for the Mayor, whose name identification outside Austin is virtually non-existent.

However, Watson, a prominent **plaintiff's lawyer** in his own right, would likely find ready **support (and substantial financial backing) from heavy-hitting Democratic givers**, many of whom belong to the trial bar. And Watson's success in bringing relative peace to Austin's troubled political landscape could be a strong selling point in a statewide campaign.

Watson's high visibility during the last legislative session is one indicator of his statewide ambitions. Despite hiring a million dollar lobby team, the Mayor personally handled much of the direct lobbying, and relied heavily on the Texas Municipal League (a statewide association of cities) to protect Austin's interests at the Capitol. Watson thus **enhanced his statewide political standing**, while advocating policy positions near to the heart of his core base at home.

Historically speaking, Texas mayors — even popular big city ones — have not generally translated their local success to the statewide level (e.g., San Antonio's **Henry Cisneros**). But, that was before the era of the mega-city in Texas.

Whereas in the past a mayor could command a voter base of only a few hundred thousand, today's mega-cities — Houston, Dallas, San Antonio, Austin — stretch over huge multi-county areas, affecting millions of potential voters. A politically savvy mayor is thus able to **cultivate a powerful phalanx of sophisticated voters**.

Mayor Watson's challenge, it would seem, is to get more than 5-10% of Austin voters to turn out for this May's city elections. If he can show a large, enthusiastic following, **he could be a force to reckon with in 2002**.

**Texas realtors and mortgage bankers are sending mixed messages about the near-term outlook for the Texas real estate market.** According to a recent survey by the Real Estate Center at TexasA&M, commercial and residential realtors are upbeat about continuing market growth in the first quarter of 2000, while mortgage bankers are more pessimistic.

Not surprisingly, **Austin builders are the most confident in the state**, with a confidence index of .74 on a scale of 0-1. Since the survey measures shifts in attitudes from quarter to quarter, that number is significant because it represents a .13 jump from the fourth quarter of 1999. At the same time, Austin mortgage bankers scored only a .33 confidence level, a .11 drop from the last quarter, 1999.

Why the difference? **Rising interest rates.** “The mortgage banking industry is only partly tied to the rest of the real estate market,” explains **Dr. James H. Leigh**, who developed the index for the Real Estate Center. “The number of new loans depends on new housing construction, sales of existing homes and mortgage refinancing activity. Long-term interest rates have been creeping up for some time, and it is not as attractive for homeowners to refinance their mortgage as it was six months ago.”

If interest rates continue to increase, as most observers believe they will, the question becomes **whether Austin’s red-hot housing market will begin to cool.** Higher borrowing costs, coupled with skyrocketing real estate values, an already tight market, and mounting local property taxes, could quickly price residential and commercial real estate out of reach for many Austinites.

While overall confidence among Austin realtors and mortgage bankers combined remains high(.67), the potential impact of interest rates on continued growth certainly bears watching.

**The final costs are in for the new Austin-Bergstrom International Airport — and the tally is \$4.3 million less than the \$585,090,000 budget.** That’s amazing when you consider it was the largest single construction project ever undertaken by the City of Austin and it came right on the heels of the Denver Debacle (their new airport was waaaaayy over budget and waaaaayyy late).

Moreover, the sources of **funds were \$42.7 million higher than needed.** How did that happen? Well, you add \$4.3 million in excess construction budget money, a greater number of federal grants than anticipated, higher interest earnings, and voila!, you get a huge surplus.

That’s a lot of money sitting around. So, what will happen to it? According to Aviation Department Executive Director Charles E. “Chuck” Griffith, “the surplus will be used to **retire debt or fund future Capital Improvement Projects.**”

**Last week's announcement that the Austin Independent School District is considering another 6 cent tax hike has many taxpayers steaming.** Already reeling from this year's 12 cent boost in AISD taxes and subjected to a continuous stream of negative news about the district, Austin's residential and business taxpayers have a right to be skeptical about the latest school tax talk.

This time AISD officials are blaming the State of Texas for making them raise taxes again. Two weeks ago the Texas Education Agency officially notified AISD that it will be designated as a "high wealth" district as of 9/1/00.

Simply put, Austin's **property wealth per pupil is now so high** the district must share some of its largesse with other, less fortunate school districts under the state school finance system. For example, Eanes, Lake Travis, and Manor are other local districts classified as "wealthy" by the state.

The financial impact on AISD of this designation is expected to reach about \$55 million: \$33 million for redistribution to poor districts and \$22 million in "lost" state revenue (of course, state revenue is only "lost" because Austin has gotten so rich in property wealth). AISD claims these funds will have to be made up out of local revenue. Hence, the district is talking up a **minimum tax increase of 6 cents**.

In 1993, Comptroller John Sharp recommended that AISD cut 116 administrative positions and reduce administrative hiring at a **savings of \$12.8 million**. Was any of this done? Now Comptroller **Carole Keeton Rylander**, a former AISD board president, is auditing the district. Her recommendations are likely to point toward similar cost-saving measures. **Will AISD implement them, or continue to layer on new administrative costs?**

The burden of proof is squarely on the district. It must show that it can **cut administrative expenditures to the maximum possible extent** before asking Austin taxpayers to foot another enormous tax increase — especially in light of AISD's continuing management problems.

**Austin's 14 million annual visitors can now plan their River City business or vacation trips online.** Austin is one of the **first cities in the nation** to launch an on-line reservation service complete with hotel accommodations, tickets to local events, car rentals, and other activities.

Internet users can go to [www.austintexas.org](http://www.austintexas.org) to view pictures of hotels and rooms before making their selection. They can also choose from a variety of fun activities, events, and attractions to fit anything from a weekend getaway to a family vacation — all of which will **automatically be organized into an itinerary** for their visit. "What makes [www.austintexas.org](http://www.austintexas.org) unique is the ability to choose a hotel and purchase tickets to events such as the Austin Symphony Orchestra, Umlauf Sculpture Garden, One World Theater, and Austin Duck Adventures," said Austin Convention & Visitor Bureau Executive Director, Ric Luber.

**Austin's growing downtown residential market — at least the high-dollar end of it — will be on display** in this year's annual tour of homes. Sponsored by the Austin Heritage Society and the Downtown Austin Alliance, this year's tour has a distinctly urban flair, featuring apartments in the Avenue Lofts, Brown Building, and Brazos Lofts. The tour will be held Saturday, 5/13/00 from 10 a.m. to 6 p.m. You can get your tix at the portico of the newly refurbished Driskill Hotel on 6<sup>th</sup> St.

Liberty Bank President and CEO **Eddie Safady** will show his Congress Avenue home during the preview party on Friday evening, 5/12/00. That alone should be worth the price of admission, but attendees will likewise get a glimpse of the Stephen F. Austin Hotel penthouse. Even **Luci Johnson** has been asked to show her Brown Building residence (she is still considering whether to open it up for public view).

Clearly, as the Heritage Society's home tour indicates, Smart Growth and other sustainable growth initiatives, both locally and nationwide, have shifted the focus away from suburban life styles toward urban ones. However, **construction** of central business district residential units **may not be keeping up with the growing interest in urban living.**

According to the Austin Investor Interests' Multi-Family Trend Report, published for the fourth quarter of 1999, the vast majority of new units under construction, submitted, or proposed are in the 'burbs. Central Austin still shows only 200 units under construction and only a couple of hundred are on the drawing board.

While the CSC project will help, the fact is that **downtown living is really only available at the high end** — and that might not change for a while. Nevertheless, as demand for affordable central residential space grows, it will undoubtedly spur increased development and perhaps even more spectacular downtown home tours in the future.

**Dr. Louis Overholster** has a warning for his patients who eat too much spicy Mexican food on a regular basis. "I have a name for it," he explains. "Mexican food a la Benedict Arnold. After a while, it turns on you!"

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