

THE

*Real Spelce*

# AUSTIN LETTER

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Dear Client:

**Austin stands to gain -- or lose -- millions of dollars of federal funding in next year's revised census count.** Everyone knows Austin is growing fast, but until the official numbers are released sometime next spring, we won't know just how fast, or how many education, health and human services, and transportation infrastructure dollars might be at stake.

That's why the Austin Chamber of Commerce is joining the City of Austin, Austin Independent School District, and Travis County in helping get the word out on the importance of completing and submitting census surveys. The USCensus Bureau began mailing the surveys to each Austin household 3/15/00, so they should be arriving in your mailbox anytime now.

The Chamber reports **Austin lost at least \$50 million** in federal funds during the 1990's because of a 17,500 undercount in the 1990 Census. The undercount likewise cost AISD funding for low-income assistance programs, math and science education, drug prevention programs, and technology and vocational education.

According to Deputy Superintendent **Joy McLarty**, AISD currently receives about \$21 million in federal population-based funding. If the 2000 census misses someone, as it did in 1990, Austin could again leave federal money on the table.

But counting heads is not as easy a task as it seems — nor as accurate. Minority groups, claiming that the “head-count” method of taking the census chronically **undercounts minorities** (1.6 % in 1990), wants the Census Bureau to use **statistical sampling** to estimate actual minority populations. This could help Austin by increasing the total population count, meaning more federal dollars for the city.

But as you might expect, **statistical sampling is politically controversial.** Democrats like sampling because they believe it maximizes the minority population, which generally votes Democratic. Republicans (including Governor George W. Bush) don't like sampling because they believe it produces suspect numbers that may disadvantage the GOP in elections and redistricting.

As things stand now, the Census Bureau is planning to release **two sets of data, the actual head count and a statistical estimate.** Congress will then fight over which set it will use to distribute federal aid. Either way, **big bucks are on the line for Austin.**

**Air quality is quickly ascending to the top of next spring's legislative agenda**, according to the Chair of the House Committee on Environmental Regulation. And that has serious implications for the Austin area which, up to now, has not had a major air quality problem. However, if forecasts are accurate, **Austin's air quality will deteriorate** enough this summer to fall below federal air quality standards or, as the Feds put it, reach non-attainment status.

“Compliance with federal air quality standards is a high stakes game with serious consequences,” wrote State Rep. **Warren Chisum** (R-Pampa) in a memo to committee members. “Along with redistricting, air will clearly be one of the most important issues addressed by the Legislature in 2001,” Chisum predicted.

If the state does not comply with federal air quality standards in its four current non-attainment areas (Houston-Galveston, Dallas-Fort Worth, El Paso, and Beaumont-Port Arthur), the EPA can take one or more actions. And they are all serious.

The first three: promulgate and enforce a federal implementation plan for Texas, stripping the state's “flexibility, control and enforcement”; and/or **prohibit** the Secretary of Transportation from **disbursing federal highway funds** to the state (except for safety projects and projects promoting cleaner air).

Another option for the Feds: require businesses seeking an air permit to prove that their operations will reduce emissions twice as much as will be added by the permitted activity (i.e., to get the permit, the business would have to **take out twice as much emissions as it puts in**).

Both the Texas Natural Resource Conservation Commission and the Texas Department of Transportation are taking the threat of losing highway funds very seriously. The two state agencies cite a recent Georgia federal court decision, which suspended \$700 million in highway projects in Atlanta.

That decision led TxDOT to warn that **\$847 million for 18 highway projects in Austin**, and another \$791 million for 46 projects in San Antonio, could be **at risk** if those areas reach non-attainment this summer, as they are expected to do.

In view of River City's impending non-attainment status, Austin business leaders would do well to follow the lead of their counterparts in D-FW and Houston, who have banded together with local elected officials to **forge compliance plans**. For example, the Greater Houston Partnership (our Chamber equivalent) is taking responsibility for developing a workable State Implementation Plan (SIP) for Harris-Galveston counties.

Perhaps this is an opportunity for the Greater Austin Chamber of Commerce to reassert itself as Austin's premier business organization and prime mover of the city's economic future. Certainly the issue is important enough.

**Austin will be the site of a daylong conference on developing international markets for the technology industry.** Entitled “Growing Internationally: Advice for the Technology Company Growing Globally in the New Millennium,” the conference will be held on 3/31/00 at the Four Seasons Hotel. It will focus on structuring international business arrangements, protecting intellectual property, and establishing global business relationships.

The TechLaw Group, Inc., an international network of law firms representing technology clients, is hosting the conference, which will feature a luncheon keynote address by Mayor **Kirk Watson**. He will be joined on the program by **Barry McBee**, Lieutenant Governor Rick Perry’s Chief of Staff; **Dirk Buikema**, director of strategic alliance management for Motorola, Inc.; and legal experts representing TechLaw member firms in the United States, Canada, Mexico, France, Ireland, and the Netherlands.

A series of panels will address a broad array of issues, both legal and strategic. Some of the specific panels include: state incentives for new and established high-tech companies to expand internationally; successful international high-tech business deals; basic approaches to doing business overseas; issues and risks involved in foreign market activities; and the risks of international Internet sales.

“This is a rare event to have this many international technology specialists and proponents in the same place at the same time,” said attorney **Dennis Cassell**, a partner in the Austin office of Haynes and Boone, Texas’ only TechLaw member firm. “As Austin comes of age as a technology center, the next step is to broaden its economic perspective internationally.”

Bringing this conference to Austin demonstrates the city’s **rising international status**, not only in the technology sector, but in intellectual property law and related high tech legal services. In fact, Austin is attracting increasing numbers of intellectual property lawyers from both coasts, and the business and law schools at UT Austin are quickly becoming leading edge international programs.

This synergy will continue to attract additional high tech businesses seeking to take advantage of Austin’s unique blend of professional and educational assets.

**Texas created more jobs than any other state during the 1990s – substantially outpacing much-larger California and 3<sup>rd</sup> place Florida.** Texas tallied 2.35 million new jobs during the past decade. California created 1.79 million jobs and Florida 1.72 million, reports the State Comptroller. If you’re keeping score, Texas ended the millennium with 9.31 million jobs, more than a fourth of which were created in the last decade. Put it another way: for every three Texas jobs when the decade of the 1990’s began, we now have four.

**Is this the beginning of a market correction in Austin-area investment properties, especially in the office and retail market?** Well, that's the forecast of NAI/Commercial Industrial Properties.

“The challenge for the investment market during 2000 will be reaching equilibrium between existing property owners, who may have **unrealistic expectations of property values**, and investors' return requirements,” reports NAI/CIP. “The market will need to adjust to increased capitalization rates due to the higher cost of leveraged capital on properties.”

That adjustment may mean **fewer land transactions**, as investors shy away from higher cap rates and a more restrictive credit market, fueled in part by higher borrowing costs. “In essence,” NAI/CIP notes, “the beginning of a market correction may be in store for 2000.”

At the same time, **demand for raw land is at record levels** in the tri-county area, with prices topping \$20,000 per acre for land that can be converted to single-family homes. Mixed-use developments are under construction in Manor, Buda, and Del Valle, marking the continuing transition of Austin's rural neighbors into the spreading Austin metropolis. And more than 10 million sq. ft. of new office, industrial, and retail space are on the board for the next two years, boosting demand for multi-family housing units away from the city core.

NAI/CIP's projections thus suggest a slight **slow down in the investment market** as well as a **continuing red-hot development market**. One thing is clear: Austin's transformation into a regional metro area is **faster than government services and infrastructure can keep up**.

**Dr. Louis Overholster** on computers: “a computer lets you make more mistakes, faster, than any invention in human history – with the possible exception of handguns and tequila!”

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