

THE

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AUSTIN LETTER

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P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail News@AustinLetter.com

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Dear Client:

Through recent agreements with the Lower Colorado River Authority, Austin has achieved a secure supply of water for roughly the next 50 years — barring a catastrophic drought. Our neighbors in San Antonio have been less fortunate, and Austin's relatively bright water picture has ironically created an environment for new business opportunities in water sales.

In the 1997 massive overhaul of Texas' water law, the Legislature changed the priority dates of water rights involved in interbasin transfers, making them junior to all other rights. For example, if the LCRA wanted to sell water to San Antonio from the Colorado River system, the law does not permit LCRA to convey its senior rights from one river basin to another. **San Antonio would thus have no uninterruptible water supply in the event of a drought.** While the Legislature may change the law in 2001 to eliminate senior water rights, the fact remains that water-starved cities such as San Antonio and Corpus Christi have few places to turn.

However, underground water entrepreneurs are rushing into the void created by the interbasin transfer prohibition. With no similar restriction on the transfer of underground water, landowners lucky enough to tap these supplies are **making a killing in the water market**, and hungry investors are scouring the state for rights to pump and sell underground water.

In the process of developing its Bastrop County lignite mine, for example, Alcoa is pumping water out of the Simsboro Aquifer and selling it to San Antonio. In fact, Alcoa will deliver between 40,000 and 60,000 acre feet of water per year for the next 40 years from Milam, Lee, and Bastrop counties. Ironically, local environmentalist opposition to Alcoa's mining operations in Bastrop Counties could have a major adverse impact on San Antonio's future water supplies.

Another major water entrepreneur appears to be **T. Boone Pickens**, who cleaned up in the natural gas industry during the late 1980's. Pickens is rumored to be purchasing the rights to tens of thousands of acres in the Panhandle for the purpose of reselling the water. Similarly, a company called Metro Water Supply Company is buying water rights in Burleson County.

Look for this type of **lucrative groundwater brokering** to complicate the senior/junior rights issue during the next legislative session, as water profiteers unite in an attempt to block river authorities from interbasin sales. At the same time, it may also accelerate efforts to regulate groundwater even further.

The AISD Citizen's Committee, appointed to help the district identify potential budget cuts, should take a close look at what Midland citizens are doing to improve public education in their community.

Concerned with the future of Midland's public school system, local business leaders have organized a citizen's committee to conduct an **"accountability" audit of the district**. The group selected several performance standards for study, including student performance, teacher salaries, and administrative costs. The idea is to compare Midland ISD to other comparable districts and reach some conclusions about how the district measures up. The group's findings will be reported to the district along with recommendations for changes.

In performing its study, the Committee should also get input from the best business minds in the community: the **Chamber**, the **Downtown Austin Alliance**, and the **Austin Network** (the group set up at the 360.00 Summit "to guide strategic commitments for the Austin region"). Surely, no "strategic commitment" is more important to the high tech community than public education.

Specifically, such a review could address what Comptroller **Carole Keeton Rylander's** soon-to-be released AISD audit (and the district's own self-studies) probably won't: the hard choices necessary both to **reduce the AISD's skyrocketing property tax rate** and to produce the kind of workforce city employers need now and in the future.

Those choices could include recommendations for major structural changes in district and campus-level administration, New Economy-based curriculum modifications, increased emphasis on hiring teachers with specialized skills, and dramatic reductions in central administrative costs.

AISD Superintendent **Pat Forgione's** decision to change class schedules in middle and high schools may be justified, but it's hard to evaluate without a thorough, independent study of what the community needs and how those needs should be met. The Citizen's Committee should seize this opportunity to look at all aspects of the district's operations and establish performance and accountability measures. Certainly, if Midland can do it, so can we.

Texas will add 44,100 new jobs each year for the next decade in the large business services sector – high tech communications, engineering, research and business services (e.g., software and data processing). That's according to the State Comptroller's economists.

There will also be 36,700 new openings each year for the next ten years in the retail sector, and another 25,600 per year in local government. Politicians like to claim that government is getting smaller, but the fact is that Texas government will be one of the state's largest job generators over the next decade. Two-thirds of those jobs will be created by school districts.

Austin Letter readers may be the first to hear that State Senator Bill Ratliff (R-Mount Pleasant) appears to be a leading candidate to assume the Chancellorship of the University of Texas System. Current Chancellor **Bill Cunningham** is retiring this year, and the UTSystem Board of Regents is in the midst of a national search for his replacement.

Senator Ratliff (whose brother **Shannon Ratliff** is a prominent local attorney and ex-UTSystem Regent under Governor **Mark White**) was first elected to the Texas Senate in 1989. As Chair of the Senate Education Committee, Ratliff, along with House Public Education Chair **Paul Sadler** (D-Henderson), was a primary architect of landmark public education reform in 1995. Since then, he has chaired the powerful Senate Finance Committee, where he has co-authored the last two state budgets with House Appropriations Chair **Rob Junell** (D-San Angelo).

If it hires Senator Ratliff, the UTSystem Board of Regents will be following the lead of the Texas Tech University System, which hired Ratliff's predecessor as Senate Finance Committee chair, former Senator **John Montford** (D-Lubbock). The theory is that the senators have the key to the budget. With UTAustin, TexasA&M, Tech, and other state universities primed to ask the Legislature for substantial budget increases in 2001, **Senator Ratliff is a logical choice.**

Aside from his budget mastery, however, Senator Ratliff is probably the **Senate's most highly respected member**. He is best known for his personal integrity and for keeping partisan politics out of the budget-writing process — no small feat if you've ever watched it happen. He may be just the ticket for the UTSystem, which needs to cultivate Republicans and Democrats alike in order to achieve lofty funding goals next year.

An Austinite has become Chairman of the Board and Chief Executive Officer of one of the world's largest forest industries and financial services conglomerates.

Kenneth M. Jastrow, II, has recently replaced the retiring **Clifford J. Grum** as head of Temple-Inland, Inc., which is based in the deep East Texas town of Diboll. Jastrow, 51, has served as president and chief operating officer of Temple-Inland since 1998, and has been a fixture on the Austin business scene since he assumed the leadership of Temple-Inland subsidiary Guaranty Federal Bank, F.S.B. several years ago. Jastrow will split time between his office in the Temple-Inland building on South Mopac and central headquarters in Diboll. In a related move, **Tony Bennett**, Temple-Inland's Vice President for Government Affairs, has relocated from Diboll to Austin.

Jastrow is a familiar figure, both at the Capitol and in statewide business circles. He is **Chairman-Elect of the Texas Taxpayers and Research Association (TTARA)**, an Austin-based statewide business association that provides the business perspective to the Legislature on state tax and fiscal policy. TTARA's current chairman is TXU (the old Texas Utilities) president and chief executive officer **David Biegler**, if that gives you any idea of TTARA's clout in the business community.

1998 saw record housing construction in Texas, with 170,000 units built statewide (7,200 multi-family residences and 14,000 single-family homes in Austin alone). This pace is expected to continue well into this decade. Non-residential construction is likewise expected to remain a hot 150 to 200 million sq.ft. per year.

As expected, **new construction jobs will follow**, but not quite as fast as in the 1990's: annual job growth is projected at 1.8%. Also, the demand for building supplies (which has delayed numerous Austin projects as builders waited on backed-up drywall plants to crank out gypsum board) will drive 2-to-2.5% annual growth in lumber and wood manufacturing industries.

Along the same industry lines, **paper manufacturing is increasing**. The Comptroller's *Texas Economic Update* reports that paper manufacturing will grow rapidly in the next decade (2.8% per year), as paper demand skyrockets. It was once thought that paper use would decline dramatically as electronic mail, file sharing, and digitized transactions and records would replace good, old-fashioned paper copies. In reality, computers have actually intensified paper consumption. For example, mass mailings are now cheaper because of computers. Likewise, catalogue sales and on-line purchasing need large supplies of packaging and packing materials.

As the Comptroller points out, two of the highest volume Internet companies sell a slightly "dated" product — books! Technology hasn't replaced or replicated the feel and experience of real paper. And that means **more jobs for Texas in both the "new" and "old" economies**.

With this issue, we've started our 22nd year of publishing this newsletter. All subscribers should have renewed by now. That means we're ready to kick off our web site for those who've indicated they want to receive this newsletter via the Internet. We'll send Internet subscribers a personal e-mail notification about its availability in a matter of days.

Dr. Louis Overholster said he'll never be able to come up with a good idea for a dot-com company

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Sincerely



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