

THE

Deal Speake

AUSTIN LETTER

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Dear Client:

With almost \$1 billion of venture capital already invested this year, the Silicon Hills of Austin ranks side-by-side with the entire Midwest, Mid-Atlantic, Southeast, Northwest and Rocky Mountain regions. What is particularly incredible about this recently released data is Austin's extremely competitive position vis-à-vis Silicon Valley, New England, and other much larger geographic regions of the country.

PricewaterhouseCoopers' recent report on venture capital activity (which shows that Austin continues to attract record levels of investment) is confirmed and amplified by the National Venture Capital Association (NVCA).

According to a survey released 8/7/00 by the NVCA and Venture Economics (VE), venture capital investments nationally increased a dramatic 96% in the second quarter of 2000 -- \$24.5 billion from \$12.5 billion during the second quarter of 1999. Venture capitalists are also broadcasting their seed money more widely than ever: all in all, 1,695 companies got venture financing in this year's second quarter, up from 1,627 in 1Q-2000.

However, while the total dollars invested were about the same in Q1 and Q2, the percentage of **e-commerce investment plummeted 44%**. NVCA Research Chairman **Steve Lazarus** attributes this shift to a new emphasis on technologies other than "e-tailing." While online specific, communications, and computer software and services companies receive the bulk of venture capital (Internet-related technologies accounted for 81% or \$19.9 billion of total investment in 2Q-2000), growth is occurring in technologies other than e-commerce.

For example, the **communications/infrastructure** category experienced substantial growth in the second quarter (20.1% in 1Q to 26.9% in 2Q). Another category seeing significant growth was online software and services, which jumped from 12.3% in 1Q to 19.2% in 2Q. And, online software and services got a healthy boost, accounting for 19.2% of total investments in 2Q versus 12.3% in 1Q.

From a regional perspective, the **Left and East Coasts saw the biggest influx** of investment dollars during the second quarter: about \$11 billion in Northern and Southern California and just over \$5 billion in the Northeast. The Southwest region of the country received more than \$1.2 billion in investment in 112 companies, up 33% from the first quarter of the year.

Silicon Valley high tech entrepreneurs have created a Political Action Committee to help Centrist Democrats. PAC.com will give pre-IPO stock to politicians, as well as cash!

Help is on the way for UTAustin faculty and staff who may be miffed at the disparity between their salaries and the compensation paid to the top Athletics Department personnel. You'll remember we told you 8/11/00 the highest paid staffer at UTAustin is -- not surprisingly -- the football coach, **Mack Brown**, who makes almost \$1 million a year.

Basketball coach **Rick Barnes** (\$676,000), baseball coach **Augie Garrido** (\$255,306), Men's Athletic Director **DeLoss Dodds** (\$255,000), and physics professor and Nobel Prize winner **Steven Weinberg** (\$342,574) likewise ranked ahead of UTAustin president **Larry Faulkner**, whose \$233,000 salary includes only \$66,000 of state money. (Last week Faulkner declined to accept a raise offered by the UTSystem Board of Regents.)

But, as we pointed out last week, it is not unusual for the top-paid university employees at a major state university to be located in athletic departments. UTAustin Athletics attempts to compensate its coaches at the top 10-15% of similarly situated coaches nationally, and that means near-million dollar salaries and supplemental income for football and basketball coaches. (By the way, women's basketball coach **Jody Conradt** is the only woman in the top ten, coming in at \$231,750 annually.)

This trend obviously creates **tension between athletics departments** (which are funded entirely from ticket receipts, private donations, endorsements, camps, and other non-state revenue sources) **and academia**. To combat this inevitable friction, as well as to improve UTAustin's recruiting and retention of top faculty, President Faulkner is phasing in a series of salary increases for UTAustin faculty and staff. Individual academic departments can also supplement faculty salaries from their own budgets. However, even with the raises, UTAustin salaries **still lag as much as 10% behind comparable big state universities**.

Indeed, one of Faulkner's major initiatives for the 2001 legislative session is to convince the Legislature to grant UTAustin the authority to **set its own tuition rates**. Faulkner argues that a primary purpose of this "flex-tuition plan" is to rationalize the way UTAustin charges for its services (it currently supplements the state-established per-hour tuition rate with a myriad of special fees and charges) and encourage students to take bigger course loads in order to graduate sooner **(in four years rather than the current five-year average)**.

If students cycled through the university faster, it would open up more room for incoming freshmen and transfers thereby easing the enrollment crunch. At the same time, Faulkner's plan would allow UTAustin to charge a market-based price for particular academic programs, which would presumably allow **tuition rates to reflect the cost of attracting top faculty and staff** in those programs.

The results of AISD's parent satisfaction survey provide a much-needed boost for beleaguered Superintendent Pat Forgione and his board of trustees. As widely reported in the local media, about one-quarter of the 1,176 parents surveyed gave the district a perfect "10" rating, and 57.5% rated Austin schools 8 or better.

But, as with all surveys, the results can be interpreted in radically different ways depending on one's perspective. For example, AISD Board President **Kathy Rider** was quoted as saying, "We have long enjoyed the community support for public schools because we deliver quality education services. So I'm not really surprised, but of course, it's always good to have it validated."

On the other hand, a whopping 40% of white, Asian, and Latino parents -- and an even more astounding 56% of African American parents -- said they would **leave the district and put their children in private schools if they could.**

District spinmeisters and Superintendent Forgione were quick to acknowledge the high number of parents who would opt out of AISD is cause for concern. Yet one has to wonder **why parents feel that way** (a question the survey didn't ask) and what AISD can do to change those feelings (which the Superintendent declined to get into at the press conference).

Clearly, if the survey can be believed, **almost half the parents of AISD students perceive that their child would be better off somewhere else.** Is this because they believe that private schools are intrinsically superior to public schools, or that something specific is wrong with AISD? But, the survey also found that about three-quarters of parents believe their children's teachers care about them and that they would recommend their child's school to other parents. Are these findings contradictory?

One answer might be **public perception.** For example, polls that ask people to rank professions by trust level. Invariably, politicians and lawyers bring up the rear in these surveys, yet people tend to rate their own congressman or lawyer very highly. So, it's probably not surprising that people tend to rank their own teachers and schools favorably—it is, after all, *their* school.

However, it's also conceivable that some of those same parents **might not look as favorably on the district as a whole.** If this is the case, the district may do well to concentrate on building neighborhood schools and promoting site-based management to allow parents more control over local campuses.

In what could be an ominous trend for the future, only 53% of Austin households can now afford to buy a median-priced home. That's a significant drop from last year's figure of 63%. However, this downward move tracks a parallel trend in other Texas cities and nationally, and Austin is still in relatively better shape than the US as a whole. But this is definitely a trend to watch.

According to the Internal Revenue Service, more Americans are filing more tax returns and paying more income taxes than ever before. Taxpayers filed 124.7 million individual tax returns for 1998, up 1.8% from the 122.4 million returns filed in 1997. Adjusted gross income (AGI) less deficit increased 8.4% to nearly \$5.4 trillion, and taxable income leaped 9.5% to almost \$3.8 trillion. Total income tax increased 7% to \$783.9 billion, and the alternative minimum tax rose 26.1% to \$4.4 billion.

At the same time, the IRS reports that **taxpayers took more deductions and tax credits** in 1999 -- about \$1,119.1 billion in deductions, a 6.6% increase from 1998, and \$29.1 billion in credits, up a whopping 151.3%. The total earned income credit for all income classes likewise increased 3.7% to \$31.8 billion.

The complete 1997 IRS data shows some interesting trends as well. Even though lower capital gain rates were introduced in 1997 (instead of the uniform maximum rate of 28% on long-term capital gains, a variable rate from 10% to 28% applies), the **average tax rate on taxable returns increased for the sixth year in a row.**

That average rate was 15.3%, the highest average tax rate on capital gains since 1986. And as you might expect in an extended period of market expansion, the total amount of capital gains reported by taxpayers increased 41.4% for the 1997 tax year, generating \$63.8 billion for the federal government's coffers — **a 35.5% increase** over the prior year.

The data also indicates that **the rich are getting richer, but apparently so are other taxpayers.** The total average AGI increased for all taxpayers 6.8% from 1996 to \$50,980, and total AGI jumped 9.7% to \$4,765.2 billion. At the same time, the percentage of AGI reported by the top five percent of taxpayers skyrocketed 31.8%, its fourth consecutive increase.

Dr. Louis Overholster spotted this “Men Seeking Women” ad in the personals column: “I haven’t smoked, taken drugs or gambled in three years. I never look at other women. I work hard, am quiet and obedient. I go to bed early and rise at dawn, and attend chapel services every Sunday. I’m ready to meet that special someone the minute they let me out of prison!”

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Sincerely



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