

THE

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AUSTIN LETTER

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Dear Client:

Even though the control of the USHouse and Senate is as close as it's been in recent history, a George W. Bush presidency could, within a few months after inauguration, tip Congressional power a little more heavily toward the Republicans. This would be important for Bush's programs in the first two years of a Bush administration – prior to the mid-term Congressional elections in 2002, when the party in power traditionally loses seats.

This could be accomplished with Bush magnanimously appearing to bring Democrats under a “big tent” strategy of inclusiveness – seemingly in the interest of “bringing the country together.” How? By **picking elected Democrats for his administration**, who could be replaced in special elections by Republicans.

Take West Texas for example. Congressman **Charlie Stenholm** is a conservative Democrat from Abilene, who has impressive credentials for the cabinet position of Secretary of Agriculture. Bush would get good marks by naming a Democrat to his cabinet and, because of the GOP-leaning nature of Stenholm's district, **a Republican would likely be elected to replace Stenholm in Congress** – shoring up the GOP margin in the USHouse of Representatives.

The USSenate is even more critical. It is split evenly– 50 Republicans, 50 Democrats. But, if Bush tapped Louisiana Democrat USSenator **John Breaux** for a post in a Bush administration, it's entirely possible Louisiana – which went for Bush in November – would send a **Republican to the USSenate**, tipping the margin to 51-49 in favor of the GOPers.

There are many Democratic members of the USHouse and USSenate who fit this profile. Especially in states where the GOP is strong. So, Bush, on the one hand could get **credit for bringing Democrats into his administration** and, at the same time, help his programs in Congress by **increasing the number of Republicans** in the House and Senate.

The downside is this strategy would not go unnoticed and Bush would probably be lambasted by his critics for taking this tack. Bush might be willing to take such a risk, especially in the **first few honeymoon months** of an administration. However, after all the recent acrimony of the drawn-out election process, you would be wise to bear in mind what **Dr. Louis Overholster** says: “how can you have a honeymoon, if you haven't had a marriage!”

A single tenant in Travis County is currently leasing 2.7 million sq.ft., in 74 locations at an annual cost of \$35 million. The average lease cost is about \$13/sq.ft., while the going rate is approaching \$30/sq.ft. You need to be concerned about this.

Ninety-nine percent of these leases will expire by 2005. This means the annual rents for this single tenant could increase by up to 70%, or as much as an additional \$25 million each year. Why should you be concerned? Because the **single tenant is the State of Texas** and the state is paying those lease rates with your tax dollars.

This is not a black/white issue if you are affected by Austin's economy. A resident of Dallas might say to the state, hey, take those bucks and **build your own office space**. It'll be better use of my tax dollars. (In fact, the state owns about 5 million sq.ft. in Travis County already.)

But if you live in Austin, you have to be concerned the state office buildings do not pay property taxes, but the privately-owned office buildings with state leases pay huge tax bills for local services. So, while **statewide tax dollars** are used to pay office leases in Travis County, our local governments rake in property tax money from landlords to support local schools, police, EMS, fire, etc.

While 2005 may seem a long way down the line, it really isn't when you **combine the constraints of the real estate market with dealing with the state bureaucracy**. If new state office buildings are to be built, the Texas Legislature must be consulted. When the next session of the Legislature ends in May 2001, it will not re-convene until January 2003. If no action is taken within the next six months, there will be a lot of scrambling two years from now. And, if you think real estate prices and construction costs have escalated in recent years, hang on.

All of this is compounded by the fact there is no single controlling authority monitoring commercial space the state owns or leases. The General Services Administration (GSC) has statutory authority to manage and control all state buildings, grounds and property but **the state agency is hard-pressed to provide a clear picture of the state's real estate assets**.

"It is almost **impossible to verify** the extent of the state's real estate holdings because of the lack of a consistent method of record keeping and a cohesive database," says **Laure McLaughlin**, an analyst with the State Comptroller's Office. GSC's authority excludes property owned by: 1) an institution of higher education, 2) a state agency to which control has been specifically committed, and 3) a state agency to which the commission delegates that authority. In fact, GSC manages only about 5% of the state's holdings.

"**True asset management for the State of Texas does not exist**," maintains McLaughlin. GSC's **Mike Lacy** says "There is no single source repository of information in a consistent format that would enable us to get the best ideas and the best value for the state."

Admissions have become much tighter at UTAustin and many qualified students are not gaining admission. UTAustin president **Larry Faulkner** admits this, but he says the “Top 10% Law” is not the reason for this situation.

The “Top 10% Law” guarantees Texas high school graduates who rank in the **top 10% of their senior class be admitted to any state institution of higher learning.** Two years ago, 42% of UTAustin freshmen were top 10% grads. This year, the figure is 47%.

Faulkner blames “the **growth** in the population of 18-year-olds and a very sharp **rise in the number of applications**” as the main reasons for many students not being admitted to UTAustin. “In 1997, UTAustin received 14,982 applications compared to more than 21,000 this year, an increase of 43%,” he added.

He also points to a benefit of the “Top 10% Law.” It has “enabled us to **diversify enrollment...** Our 1999 enrollment levels for African American and Hispanic freshmen have returned to those of 1996, the year before the *Hopwood* decision prohibited the consideration of race in admissions policies.”

Continental Airlines is getting very close to moving past Delta Airlines to claim the #3 spot in Austin’s battle for the air traveler. And with Delta’s current labor troubles, it could come sooner than later. Southwest Airlines (with a 37% market share) and American Airlines (with 24% market share) are in no danger of losing the #1 and #2 spots. But it’s a dogfight for #3.

In the latest figures, Delta has an uneasy hold on a 10.7% market share, with Continental inching up at 10.3%. For the first seven months of this year, Delta beat Continental each month in the monthly passenger totals. However, since August, **the trend has been reversed.** Continental carried more passengers than Delta in August, September and October.

Delta’s problems with its pilots caused the **cancellation of hundreds of flights this week.** If this situation is allowed to fester, Continental will cry all the way to the bank. Stay tuned.

Beware when you check into your next hotel. Soon after you get to your room a telephone call could greatly increase your hassle factor. The Better Business Bureau warns credit card scammers are calling your room, claiming it’s the front desk. The caller tells you your room charge didn’t go through and asks if you could give them your number one more time.

Don’t do that. Ever. Even though it’s more work for you, volunteer to go back to the front desk to let them get a new imprint of your card. Chances are, the caller will tell you that’s not necessary and move on to call the next sucker.

Not since October 1979 has the Texas unemployment figure been as low as it was in October 2000. It was 3.8% then, it's 3.9% now. And the Austin metro area's unemployment was a staggeringly low 1.9% in October 2000.

Normally, the number of employed workers increases from September to October, due to the increased demand for seasonal workers for the holiday spending spree. If these numbers hold up through December, then you're going to have a **hard time finding someone to wait on you** as you try to complete your holiday shopping.

While Austin is the envy of the nation, many of the rest of the state's metro areas are also better than the state's 3.9% average: Bryan-College Station (1.4%), Lubbock (2.2%), Dallas (3.0%), Fort Worth-Arlington (3.1%), Wichita Falls (3.1%), San Angelo (3.2%), Waco (3.2%), Abilene (3.3%), Amarillo (3.3%), Killeen-Temple (3.3%), San Antonio (3.3%), Sherman-Denison (3.5%), Victoria (3.5%), and Houston (3.8%).

With the recent cold weather slicing through Central Texas, what are the probabilities of waking up the morning of 12/25/00 to a White Christmas in Austin? Zero, Zip, Nada!

The National Climatic Data Center ranked the probabilities of Austin and other Texas cities experiencing a White Christmas with at least an inch of snow on the ground. **Austin was at the top (bottom?) of the list with 0%**, along with other Texas cities such as Dallas, El Paso, Galveston and Houston.

But, if you want to spend Christmas in **Amarillo**, your probabilities rise to 7% (though some say that may be a **high price to pay for a White Christmas!**).

Speaking of Christmas, **Dr. Louis Overholster** says he likes to give computers for Christmas. As he put it: "It's a gift that keeps on giving – aggravation!"

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Sincerely



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