THE Neal Spelce AUSTIN LETTER

www.AustinLetter.com

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Dear Client:

You want to buy a pig in a poke? **In an election that has old foes switching sides**, **the question of whether single-member city council districts is adopted next week may boil down to whether citizens are willing to vote for a *concept*, and then trust the Austin City Council to draw boundaries they deem fair to their particular viewpoint**.

And, except for the side-switching this time, this has been the situation the last five times the proposition was turned down by Austin voters. The Council just a few weeks ago had maps already drawn dividing the city into eight districts with populations roughly equal in each district. (The mayor and two other council members would be elected citywide.) But, when it was pointed out the **high-turnout**, **largely liberal bloc that has controlled recent city elections would be compressed into only two or three of the eight districts**, **and that no district could** "**guarantee**" **an African American or Hispanic majority**, the Council reneged and decided not to offer the voters a map along with the concept.

In the past five election defeats, those who favored districts were largely minorities and environmentalists, more-liberal groups. Those opposed to the concept were generally more conservative and business oriented. Now, after a number of elections where business interests were kept out of the council majority, **blocs of the business community have been supportive** of single-member districts.

They point out it might be possible to elect a majority of the council more friendly to their views, because four, maybe five, districts in the discarded map were in suburbia, **outside the central city and were more conservative leaning**. Hard-core conservatives, however, still maintain opposition to districts in principle ("How dare you take away my right to vote for *each* member of the council!").

Hispanics and African Americans, **without single-member districts**, **have had representation on the Council roughly equal to their population numbers for the last 30 years**. Even though they have pushed for single member districts in the past, many of them are now leery of change.

If adopted, a map must be drawn. So, no matter which side you come down on this time, there is still a question of what the map will be. Propositions with unanswered questions generally fail. Why vote for a plan when you don't know how it would be implemented – a pig in a poke?

The single-member district proposal may be the most drastic change on the 5/4/02 ballot, but many of the seven remaining propositions would also make major changes in the way our city is governed. So, they deserve your attention.

As an example, Proposition Number One. **It would take public funds (your tax money) and give campaign cash to any person who qualifies to run for the Austin City Council**. There is no agreement on how much it will cost a cash-strapped city to fund these candidates – some say it could be more than a million bucks an election cycle. But with “free money” to get someone’s name before the public, there apparently is no doubt it would attract a much larger number of candidates than in the past.

One wag suggests perennial mayoral candidate street person Leslie would have enough money to buy TV spots to show off his latest high-heel, fish-net hose, thong bikini outfits! Another calls it the **Campaign Consultant’s Retirement Act**! Those who worked to get this proposition on the ballot say it **opens up governing the city** to those who can’t afford a high-dollar campaign.

Another proposition, #7, would dramatically **alter the powers of the City Manager and Austin’s form of government** by establishing a consumer advocate in the city-owned electric utility that reports directly to the Council. This would be the only position, other than the City Manager, who reported directly to the Council. Proposition #4 **repeals the two-term, six-year limit for council members and the mayor**. Proposition #2 **repeals the $100 campaign contribution limit**. You get the picture. All eight props deserve your careful consideration.

The surprise return to Austin of President George W. Bush’s trusted adviser, Karen Hughes, shouldn’t drastically alter his reliance upon her counsel. But, Hughes is going to dramatically increase her frequent flier miles between Austin and Washington.

The professional relationship and loyalty between the two is so deep and has been in place for so many years (long before Bush was on the national stage) Bush will no doubt continue to **get Hughes’ thinking on any matter he wishes**. It just means phone, fax, e-mail and courier services will become a more important part of Hughes’ life than it was in the White House.

There is no reason to read anything sinister in this first key resignation of the young Bush administration. Hughes is deeply committed to her teenage son and husband and Bush respects her decision to put family first in their move back to Austin. Besides, as we’ve noted, her services will not be totally lost.

One thing to note: Hughes will not be on a federal payroll. She will be free to earn money from a variety of sources. **Therefore, her access to and knowledge of this president will no doubt be quite valuable**. And, who wouldn’t prefer Austin over Washington as a place to live!

There is no other metro area in the nation more at risk of a significant decline in home prices over the next two years than the Austin area. **Whoa**! **What's this**?

This is the conclusion of a nationwide study conducted by PMI Group, a NYSE company that specializes in mortgage risk management technology as a supplier to the mortgage finance industry. PMI publishes its Risk Index and **Austin leads the nation in home price decline risk**, followed by San Jose, Portland, San Francisco, Dallas, Phoenix and Denver.

On the surface, this is a heart-stopper. But, delve a little deeper and you find that, yes, PMI places Austin at the top of the national list of 50 metro areas. However, everything is relative. PMI, from its San Francisco headquarters, points out "**the relative chances of a significant decline**, **even in Austin**, **Texas**, **are still only moderate**." Based on its own analysis and experience, PMI believes the housing sector of the economy will remain strong. Phewww!

Generally, areas that were graded "higher risk" were those areas that may have previously experienced **strong home price appreciation and are heavily dependant upon manufacturing**, **particularly high tech manufacturing** or travel-related industries. If you'd like more details on this study, go to http://www.pmigroup.com. Click on "PMI Newsroom" and under "Press Releases," select the 4/22/02 release on Single Family Home Prices.

Scott Burns created a monster. **After he declared an investment in home ownership beat the stock market**, **he is being hammered for the third week in a row**, **with comments such as**: "**You forgot about mortgage payments**! **What about taxes**? **What about insurance**? **What about repairs**, **new roofing and replacing the carpets**? **What about the cost of buying and selling**? **When you ignore all those costs**, **you are misleading people**."

"In fact, I didn't ignore those costs," said Burns (see our 4/12/02 and 4/19/02 editions). So, the financial adviser is sticking to his guns. Does this mean you can't lose money on home ownership? "Absolutely not. **There are lots of ways to lose money on home ownership**. If you sell too soon, selling costs absorb your profit. You can buy the wrong house at a good time. Or you can buy the right house at the wrong time. Or the wrong place."

He went on. "You can lose your job or be forced to sell. A divorce can create a forced sale. You can over-improve the house, as many do. You can be burdened with a fetish for fuchsia walls that is not shared by most homebuyers. It's a long, long list," he points out. But he also says "**common stock ownership has similar pitfalls**, **as many have discovered**."

"**Homeownership and stock ownership are not mutually exclusive**. I would not sell my house to increase my investment in common stocks. Nor would I buy so much house that I couldn't afford to invest in equities," he says. For more, go to http://www.ScottBurns.com.

The current debate over whether growth will be 2% or 4% this year, whether housing sales will hold up, or whether business investment will rebound anytime soon, misses an essential point: The American economy of 2002 is a remarkable sight to behold.

That's the conclusion of *FORTUNE* magazine (4/29/02 issue). "At 5.7% in March, unemployment is certainly up from the 3.9% of October 2000. That stuff happens when you have a recession. But, it's at a level that would have signaled near boom times during the 1970s and 1980s," the mag points out. "**While growth was slow last year, it wasn't negative**. Real after-tax personal income rose 3.6% for the year. **Productivity**, that flawed but powerful measure of how much economic value Americans generate per-hour-worked, **grew a stunning 5.2% in the fourth quarter**. And while it won't keep up that pace, it does appear to have returned to an upward trajectory not seen since the 1960s."

> "What is going on is this: After the longest expansion ever, the economy screeched to a halt last year. Then, after a brief and not very deep recession, it started growing again. It survived a stock market slide and an outright crash in the tech and telecom sectors. It survived a near-vertical drop in corporate profits. It survived the bankruptcies of Enron, Kmart and Global Crossing. It survived the destruction of the World Trade Center," the publication pointed out.

Justin Fox writes: "My point is not that everything's perfect and the business cycle is dead and Priceline should again be selling for $160 a share. It is that statistics like the level of consumer debt or the size of the trade deficit don't matter in and of themselves. What matters are the basics: **How fast is the economy growing**? **How may people have jobs**? **How much money are they making**? Those numbers have been holding up pretty well."

The magazine also points out pitfalls, even listing "Ten things to keep you up at night." But, we thought it important to share an interesting assessment of the national economy.

After viewing one of the more violent action movies this week, **Dr. Louis Overholster** said "Several tons of dynamite were set off in this picture – none of it under the right people!"

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Sincerely

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