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Dear Client:

You know those hundreds of multi-million dollar homes that sprang up on the hilltops of Austin in recent years? Well, due to the economic downturn, many of their owners now face financial difficulty. The good news is the owners may be able to keep those huge mansions when they file bankruptcy – IF ... and this is a big “IF.”

A big change in the bankruptcy laws is about to happen, as we've been telling you for more than a year (starting with our 3/2/01 issue). And, Texans have feared they would lose a very favorable provision if that occurs. You see, Texas is one of the best states in the US in which to declare personal bankruptcy. **If you had \$5,000,000 equity in a home and went belly-up in Texas, you could claim bankruptcy and still keep your high dollar asset.** Creditors couldn't touch it. (Only four other states – Florida, Iowa, Kansas and South Dakota – allow this.)

Congress is trying to change this in HR333. The Senate voted to **cap at \$125,000** the amount of home equity that could be shielded from creditors in a bankruptcy, and the House limited the **cap to \$100,000** if the home was purchased within two years of filing. Because the two versions differed, the bill went to a conference committee where it's languished for a year. Now, it's moving again.

The word we get from Washington is the conferees have agreed to a compromise to keep the Texas homestead exemption from being gutted. As it now stands, **you can keep your home from being seized to pay creditors – no matter how valuable it is – as long as the home was purchased at least 40 months prior to the bankruptcy filing.** That's the big “IF.” Forty months.

In other words, you can't take a wad of cash and buy a huge home free-and-clear and protect that asset when you take bankruptcy – unless you do it more than forty months from the time you file. (Thank Enron for this!) **This may not be much comfort for the dot-comers who went wild and made big purchases a couple of years ago, only to see their net worth disappear – unless they can hang on till the 41st month.** Or, they can file for bankruptcy ASAP.

What are the prospects for this to become law? Pretty good. President **George W. Bush** has said he would sign whatever Congress sends him in the way of a Bankruptcy Reform Act. And, under the rules, **whatever the conference committee agrees upon, the House and Senate must adopt it without change – or kill it.** Look for it to pass and become law.

As UTAustin focuses the next couple of weeks on the pomp and circumstance of graduation (and the not inconsiderable fact of pushing a lot of bodies off the campus to make room for even more), it's appropriate to analyze how UTAustin's successes may be slowly strangling the Austin campus.

There is no doubt UTAustin carries a **well-deserved national reputation as one of this nation's premier state universities**. It is the flagship institution in a large, highly-regarded, diverse system of state institutions. UTAustin is a research university (as opposed to UTPanAmerican, which is primarily a teaching university).

As a research university, **UTAustin sits atop the higher education hierarchy**. It attracts millions of dollars in state and federal grants and offers a broad range of professional and doctoral degrees. **The best and brightest students in Texas, by and large, want to attend UTAustin**. And therein lies the problem.

There are too many students enrolled at UTAustin. The campus has the dubious distinction of having the **largest enrollment of any campus in the nation** – by far. Last fall's official enrollment was 50,616. Way back in second place, with 48,447 students, is Ohio State University. Bigger is not best in this case.

Higher birth rates in the mid-1980s mean more bright students are probably on the way. And, since Texas tax dollars support (in ever-diminishing percentages, by the way) UTAustin, **many Texas families consider it their birthright that their kids should be allowed to attend UTAustin**. A high admission bar helps hold down enrollment, but remember, to help minorities attend all state higher education institutions, the Texas Legislature passed a law in 1998 insuring automatic enrollment to the top 10% of high school grads.

This is not simply a problem for parents, students, faculty and staff. **The single most important engine driving the Austin area economy is UTAustin**. Period. The success and prestige of UTAustin is important to anyone with an interest in the economic health of Central Texas. You need to be concerned.

Why is too big too bad? Well, for starters – the student-teacher ratio. **UTAustin has way too many students for the number of faculty members**. That's not just bad for students, but it hurts in recruitment of top-rank faculty. Another: for all practical purposes, **the campus is land-locked in Central Austin and expansion is limited**. Also, the bigger the enterprise, the costlier it is to maintain. There are many other reasons, but you get the drift.

Other states are facing similar problems, but UTAustin's problems loom over all the others. The leadership at UTAustin has long been aware of this enrollment problem and has been **trying various solutions for years**. Without those efforts, there is no telling how large the enrollment might be today. But, it can't address this tightening stranglehold without the help of the Legislature. The 2003 legislative session will be all-important for UTAustin – and Austin.

The slippage in Dell's service — which we've chronicled for months — was noticed this week by *USAToday*. But, the national publication tempered its criticism ("Dell Computer's once-legendary service has slipped...") by noting Dell is aware of the problem ("The No. 1 personal computer maker is taking steps to bolster it").

Dell customers are not taking the service problems quietly. For instance, the Better Business Bureau here in Austin reports receiving 1,195 complaints about Dell from October to March, compared to 616 for the previous six months. **Rick Chase**, a Dell customer service VP, said "We recognized it and we responded to it."

How did Dell respond? **The Round Rock-based PC maker has added hundreds of techs to its team of 3,000.** But training takes six to eight weeks and that gap has left the service department understaffed. How did Dell get in this box? Fast growth and layoffs. No service staff reps lost jobs during Dell's layoffs last year, but support staff did. However, let's keep our perspective. Dell is still #1 in customer service, only now its competitors have closed the gap.

Colliers International has just released its analysis of Austin's first quarter office market status and, no surprise, it found "It's a tenant's market in Austin, as rental rates continue their decline and options increase." Colliers reinforced this week what we've been telling you for some time: landlords are reducing rates, permitting concessions and becoming more innovative with building use and amenities. However, there is **one big change**. Colliers says landlords are looking for short-term leases "so they will be able to benefit from future expected increases due to what they **perceive as an improving (tighter) market.**" Maybe they think we're near the bottom.

Slowly, but surely, air travel is picking up at Austin-Bergstrom International Airport. But, it has a long way to go to get back to the bustling, record-setting days of 2000. Remember the slowing 2001 economy impacted air travel to where it just barely kept pace with 2000. Then the 9/11/01 terrorist attacks dropped air travel at Austin-Bergstrom to way below 1998 levels.

One of the reasons we like to keep tabs on airline travel is that it's a good indicator of economic health. Business travel is obvious. But, **leisure air travel also is a barometer of consumer confidence** ("Why don't we save a few bucks and drive to Aunt Maude's this year, instead of flying."). When leisure travel picks up, it's a good sign.

That's why it's a step in the right direction that, **while 2002 air travel at ABIA was paralleling 1999 levels, in March the numbers rose above those levels.** If April travel, which traditionally dips below March travel levels, holds up it will be another good indicator of the local economy's resurgence. It'll be another 2-3 weeks before April travel numbers will be released. We'll keep an eye on this for you.

One of the effects of the downturn is home prices have dropped in many cases, or at least stabilized. So, when you got your mail this week you may have been surprised to see the Travis County Central Appraisal District had *increased* the appraisal on your home and other property – meaning you’ll be paying even more taxes in a down market. What’s going on?

There are a number of reasons this could be true. One, since the law says you can’t be hit with more than a 10% increase in appraisal in any given year, the Central Appraisal District (CAD) is simply “playing catch up” and **may have you targeted for 10% increases each year for several years in the future**. If that’s the case, and *if* the district is accurate, you can thank the big boom a couple of years ago for the rapid run-up in real estate prices.

But, what if the Travis County CAD is *not* accurate in its assessment of your property? And believe me, this could be the case – especially when you look at the number of appraisal protests that have been successfully filed in recent years.

We’ve made it easy for you to start the process of **determining if your appraisal is fair**. As you know, appraisals are based on a number of factors – recent sales, values of like property, etc. Let’s take your home. What about your neighbor’s house? And other homes on the block? You know, the house that’s bigger and newer than yours? How is it valued?

All you have to do is click on the “Links” button on our website, and look under “Governmental Information.” We have a category called “Property Tax Appraisals,” where **you can check every single piece of taxable property in Travis County for the last five years, 2002-1998**. Look at how your property has increased in appraised value, and then check your neighbor’s or other comparables. You may find a basis for protest right there.

We hope this is helpful – and maybe even save you a few bucks.

Dr. Louis Overholster says he has a tax preparer: “What he prepares me for is abject poverty!”

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