

THE

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AUSTIN LETTER

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Dear Client:

The last time there was a general state tax increase in Texas was 1991. Before that, in 1986, the oil-and-gas/real estate recession forced the governor to call a special session of the Texas Legislature to cut the budget and raise taxes. Is state government facing another fiscal crisis?

The question is more important in Austin than in other cities. **State government is usually the rock-solid, steady underpinning of our economy.** While the high tech sector is characterized by dramatic ups-and-downs, state government – for the most part – has helped the Austin area weather economic storms due to the relative security of state jobs. As you wait for the high tech portion of our economy to recover, you need keep a wary eye on our state government.

When the Texas Legislature reconvenes in regular session in January 2003, **lawmakers could be forced into cutting jobs in the Austin area or raising taxes.** Neither option is attractive. Remember, a year ago State Comptroller **Carole Keeton Rylander** predicted there will be a \$5 billion revenue shortfall for the fiscal 2004-2005 budget years.

The problem could be compounded by what is *not* happening now. The biggest revenue generator for the state is the sales tax. **With the slow economy, sales tax collections are down for the year-to-date.** Not by much. But down. If that trend continues, state government could slide into a deficit in this budget year.

The state constitution prohibits operating the state budget at a deficit. That's where the cost-cutting or tax-raising comes in. Realistically, state leaders will probably skirt the question temporarily by shifting bucks around between programs and agencies. But, the problem will not go away. It will fall squarely in the laps of the Texas Legislature in January.

If the pundits are correct, the Texas House and Senate will have Republican majorities after the November election. **Most Republicans would rather vote for Bill Clinton than vote for a tax increase.** This leaves cost-cutting as the most likely option. And, because the massive bulk of state government jobs are in Austin, the **Capitol City will be hit the hardest by any job cuts or state layoffs.**

Keep an eye on this. Just as the high tech sector starts bouncing back, the positive impact of a high tech rebound on the Austin area could be offset by cuts in state government.

With all the talk of homeland security, what about one of the first ideas tossed out that you haven't heard much about lately? Air marshals.

Air marshals are the law enforcement personnel who travel undercover on selected flights to provide security to passengers and the flight crew while the plane is in the air. **They are armed and trained for such duty.** The air marshal program has existed since the 1960s, but it was expanded when the president signed the Aviation and Transportation Security Act last November. So what's the status of this expansion?

Because of the covert nature of the air marshal program – **you're not supposed to recognize who they are as they join you on your flight** – the Federal Air Marshal program does not release the total number of agents it plans to hire. But, based on other reports, it appears they are successful at luring experienced law enforcers to apply.

For instance, there is a report from the Rio Grande Valley that about **100 US Border Patrol agents left the agency to join the Air Marshal program.** They are being lured by higher pay and the ability to choose their duty station. And, they are only part of the 200,000 applicants with law enforcement and military backgrounds from around the country who want the job that pays \$31,110 to \$46,700.

You may not hear much about the Air Marshal program. **But, rest assured, the feds are moving forward with putting them on airplanes.** By the way, it was originally announced they would not necessarily be on all flights. Neither you, nor the bad guys, will know whether one is on your next flight.

The busy summer travel season is in full swing at Austin-Bergstrom International Airport (ABIA) and officials are hoping passenger traffic will start heading back toward the record levels of last year before 9/11.

They have a long way to go to reach that level, but ABIA officials are trying to make your air travel a little more enjoyable as the crowds increase. For instance, now you can stop in to the Austin Business and Technology Center, across from the Southwest Airlines ticket counter, and grab a **Krispy Kreme donut and cup of coffee** before your next early morning flight. Or, later in the day, you can sample some **Earl Campbell sausages at the Highland Lakes Bar**, across from Gate 9. The donuts and the hot links are new additions.

A reminder if you still haven't locked in a summertime trip to a beach: **Funjet Vacations is back for the fourth summer in a row**, booking special trips — such as low-cost flights to Cancun and Cozumel, direct from Austin to the popular destinations in the Mexican Caribbean.

Because Austin's economy is more and more dependent on the national economy, it's important to track what's happening around the US. And one of the best economic trackers is the survey of businesses conducted by the Federal Reserve. Let's break down its latest report released just this week.

The Fed's so-called Beige Book snapshot of business activity around the country found **some major sectors showing signs of improvement in April and May, while others softened a bit or remained weak.** (By the way, the data gathered in this report will be used by the Fed when it meets to discuss interest rates later this month.) Here's what's up and what's down.

Manufacturers are reporting higher production levels, shipments and orders. Home sales are generally strong, thanks to low mortgage rates. But, retail sales are generally flat all across the country, auto sales mixed, and the all-important jobs market also remains sluggish.

Interestingly, Central Texans were being surveyed about their attitudes at the same time the Fed was compiling its data. The local folks were discouraged about the national economy. **Almost 59% of those in our 5-county metro area** (Travis, Hays, Williamson, Bastrop and Caldwell) **described the condition of the national economy in negative terms.**

"This is a radical drop from last spring, when 78.1% of Central Texans described the national economy as either 'very good' or 'fairly good' and 21.9% said it was 'fairly poor' or 'poor,'" said **Jeff Montgomery**, the president of the firm (Central Texas Directions) that conducted the survey from May 9-18, 2002. The margin of error is plus or minus 3.7%.

"But like last year, we see that the national numbers are lower than the local numbers," he observed. "This year, the local economy's positive rating of 60.5% is about twenty points higher than the national economy's positive rating."

As far as the future is concerned, **almost 44% of the Central Texans interviewed said that during the next six months they expected national economic conditions to get better,** according to Central Texas Directions. Interestingly, the percent saying the economy was getting better was higher outside the Austin city limits (50%) than inside (39%), and much higher among high tech workers (58%) than non-high tech workers (42%).

If you're in the market for a million dollar home, now's the time to be shopping around the finer areas of Austin. There are a lot of mansions for sale right now. And, if you want to borrow money to make the purchase, well, interest rates are still low. Frankly, though, you don't need to rush into a deal. There are more than 200 homes on the market with a price tag of more than a million bucks and they're not selling very fast. Realtors are telling sellers their palatial palaces may be on the market for as long as three years.

If you're concerned about driving and parking in the downtown Austin area, you have a little less than two weeks to get up-to-speed and make your feelings known before the Austin City Council considers a number of downtown transportation projects 6/27/02.

This is not about simply re-striping Congress Avenue or moving around a few parking spaces. The City's Transportation, Planning and Sustainability Department has a cafeteria line of choices for Council consideration. Some examples:

Restricting left turns from downtown Congress Avenue and Lamar Boulevard at both Fifth and Sixth Streets during peak hours ... **constructing dual turn lanes** at Lamar Boulevard and Barton Springs Road ... converting Second Street to two-way traffic to support a retail district ... and **converting a number of other downtown streets from one-way to two-way traffic.**

If you don't want to tilt at the City Hall windmill all by yourself, and you're a member of the Greater Austin Chamber of Commerce or the Downtown Austin Alliance, **contact either group for additional info, or to add your two-cents worth** for their consideration. The GACofC and the DAA will be in the middle of the debate as the Council considers what to do.

Forbes.com has labeled Austin as the nation's Second Best City For Singles, among the 40 most populous metro areas. Forbes.com uses seven criteria: **number of singles** (Austin came in first); **cost of living; nightlife; projected job growth** (Austin ranked second); **culture; "buzz"**, which was determined by reader feedback (Austin came in third); and **"coolness,"** which included measures for diversity, bohemianism, innovation, talent and high tech industrial output. Boston was 1st this year, Houston 8th, Dallas-Fort Worth 12th and San Antonio 32nd. By the way, Austin was ranked 15th last year.

Dr. Louis Overholster says his goal is to give his patients such great medical care that they will live long enough to actually use all the return address stickers they get in the mail!

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