

THE

Neal Spelce

AUSTIN LETTER

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Dear Client:

Try this number on for size: \$12 billion. This is the shortfall that may be facing Texas Senators and Representatives when they return to Austin in four months.

Let's put this big number into perspective for you. For many months, the "official" estimate by State Comptroller **Carole Keeton Rylander** was a state budget shortfall of \$5 billion. That's still a hefty sum and, so far, Rylander is sticking with her estimate.

But, along came a very influential Senator who, in effect said, "I don't think so." Senator **Chris Harris** of Arlington is the chair of the Senate Finance Committee and also sits on the powerful Legislative Budget Board. Harris will be in the middle of all budget wrangling in the next legislative session. He predicts **state lawmakers could easily be looking at a \$12 billion shortfall**. If you take Rylander's lower number or Harris' higher figure, we're still talking big bucks

So, here's the important perspective to keep in mind. These estimates have to do with "*shortfall*" – not "*deficit*." There's a big difference. **The shortfall is not a spending deficit**. Unlike in Washington DC, deficit spending is prohibited in Texas by the State Constitution. Here's all you need to know: **a shortfall represents how much more money may be needed to keep government operating at the same level**. The state's two-year budget totals \$114 billion.

We don't want to minimize the problem. After all, you know how **prices and wages have gone up** since the Legislature set the current budget two years ago, and **Texas is one of the fastest-growing states** in the nation. If you want to, say, provide the same law enforcement support for this growing population, then the Department of Public Safety needs to put more troopers on the streets and buy them new equipment and autos. The examples are endless, but you get the drift.

Keep an eye on the election coming up in less than two months. Many political boundaries were re-drawn using new USCensus numbers, so all 31 Senate seats and 150 House seats are on the 11/5/02 ballot. (With a 4-year term, Senators normally elect only half their members every two years, but not in the first election following a census.) If the House and Senate both end up **controlled by smaller-government-is-better-government Republicans**, state agencies and universities will have their work cut out for them. Of course, as we've told you in several recent letters, those who have been mumbling about raising taxes are now raising their voices.

Here in Our City Of Perpetual Roadway Construction, the last thing some may want to hear is that more roadway construction is imminent. But, it's going to happen. And, when all is said and done, it may keep your traffic problems from getting even more out of hand.

A lot of money is going to be spent to build **SH130, the IH35 bypass that will run for 49 miles** between Georgetown and Southern Travis County. Two other projects are a 3.5 mile northern extension of Loop1/MoPac and a 12.2 mile segment of SH45 north.

Besides helping alleviate traffic in this unbelievably fast-growing region, the projects are being built with a first-of-its-kind method of financing. The three roadway projects will be toll roads. **Drivers will pay 12 cents per mile to use the roads.** This is how the construction of the roads will be paid for ultimately.

But, you have to have money on the front end to build the roadways and that's where the unique financing comes in. **This is the first time the state has sold bonds to build state roads.** Other toll roads in the state were built with bonds sold by local entities.

The state has sold **\$2.2 billion in bonds** to build part of the Central Texas Turnpike System. And, when you add up all the federal, state and local money involved, **the total cost will be almost \$3 billion.** For the timetable, don't use US183 or the IH35/Ben White Blvd construction projects as examples. Because of the financing, and because these toll roads will go through relatively undeveloped areas, all three should be open by the end of 2007 – just five years from now.

With all the talk about young, high tech entrepreneurs who lost huge fortunes when the tech bubble burst, did you know that three of the forty richest people in America under the age of forty live in Austin – and two of them are worth more today than they were last year?

In recent years, *FORTUNE* magazine has methodically researched the wealth of those people under 40 to come up with "America's 40 Richest Under 40." If most of their wealth was inherited, they were disqualified from consideration. It should not surprise you that #1 on the list – by far – is **Michael Dell**, the 37-year-old Chairman/CEO/Founder of Dell Computer. *FORTUNE* estimates **Dell's personal wealth is \$16.49 billion.** (That's up from last year's tally of \$16.30 billion.) Significance: Dell is richer than all of the other 39 combined.

Two other Austinites are on the list. **Joe Liemandt**, 34, the Chairman/CEO/Founder of Trilogy has a personal wealth estimated at **\$250 million to rank #13 in the nation.** Last year, *FORTUNE* said his wealth was \$390 million. But, **Nav Sooch**, 39, is worth more this year than last. At #18 on the list, the Chairman/CEO/Co-Founder of Silicon Laboratories, has a **personal wealth valued at \$186 million**, compared to last year's estimate of \$162 million. Sooch says he's not worried about being too poor for next year's list: "The distressful thing is turning 40."

Home prices have been rising at a rapid rate in the Austin area for more than a decade. With median prices higher than in Dallas, Houston or San Antonio, there are rumblings that the high-flying home prices might crash.

The housing “bears” have a word for it – a “bubble,” that is about to burst, and those who paid a high price for their home will be sorry when that bubble bursts. But, a Texas real estate expert has a different view. **Jack Harris**, research economist at TexasA&M’s Real Estate Center, **does not think the Texas housing market is in a bubble.**

A housing bubble is usually accompanied by **high inflation, high interest rates, a short supply** of homes and **speculation** in the market. Harris says that, although housing has appreciated substantially and inventories have been low, other “bubble factors” are not present.

One bubble indicator, **speculation, is directly related to inflation.** Investors buy houses when they expect home prices to continue to rise. Even though the cost of borrowing money is high during periods of inflation, speculative buyers gamble that the future return on their investment will more than make up for the cost of borrowing money. In this environment, home prices are driven up between speculative buyers.

But, these have not been inflationary times. **Inflation has been kept in check for the past ten years.** Consequently, the Federal Reserve Bank has been able to cut interest rates repeatedly since January 2000, keeping short-term interest rates low. **These trends are the reverse of those associated with the speculative buying that often creates housing bubbles.**

Harris says the Texas housing market is strong partly because **homes are affordable.** As we told you 8/23/02, increases in Austin area home prices have been offset by low mortgage interest rates. The average rate on a 30-year, fixed-rate mortgage loan dropped to 32-year low this summer.

“Sellers have been in the driver’s seat for the past several years, and many have chosen to hold out for a good price,” Harris says. **“Strong demand and limited supply,** not speculative bidding, have created the run-up in home prices.”

Harris sees the market shifting now. The current situation could be viewed as a balloon, instead of a bubble. **It is more likely to deflate than to pop.** In areas where prices continue to increase, they are unlikely to continue to climb as quickly as they have in the past. In fact, year-to-year prices are diminishing as inventories grow.

It is not a buyer’s market. But it is no longer a seller’s market either. What do the experts at the Real Estate Center foresee? Harris says **prices can be expected to moderate by the end of 2002,** with appreciation running close to the general rate of inflation.

With all the storms that have moved through the Austin area during this wet summer, it's amazing we haven't had the power outages we've experienced in past years. Why is this?

Ten years ago, a typical thunderstorm with lightning and winds could roll through Austin and there would be **20,000 – 50,000 customers of Austin Energy without power**. Today, a similar thunderstorm rolls through Austin and there may be **only 5,000 – 9,000 customers** who lose electrical power. The numbers keep getting smaller each year. What's the reason?

As the song says, the answer, my friend, is blowing in the wind (okay, okay, I know it's corny!). According to Austin Energy, trees are the number one cause of power outages during storms — **tree limbs blown into power lines**. Once trees are trimmed in a neighborhood, outages decrease by up to 60% or more.

Since 1996, **Austin Energy has spent \$6 million a year on a comprehensive, system-wide tree trimming program**. Contractors do the job for the city, under strict supervision. For instance, trees such as oaks are not trimmed during times of the year when tree diseases are more likely to occur.

As a matter of fact, **state law requires adequate tree trimming**. Texas, like most states, adopted the National Electrical Safety Code, establishing clearances that must be maintained between tree limbs and power lines and equipment. On the current schedule, **Austin Energy takes about ten years to clear almost 3,000 miles of power lines**. The standard for tree trimming is four years. So, property owners who help facilitate tree-trimming play a direct role in reducing power outages for themselves – and their neighbors.

Austin is noted for its trees. In addition to their beauty, trees are practical — as shade from trees can keep a home 2-5 degrees cooler. But the more trees we have, the more trimming is required. And when you trim your trees, you reduce the chances of power outages.

Dr. Louis Overholster has picked up the high tech lingo. For instance, he now describes his overweight condition as not gaining weight – his stomach has simply downloaded his chest!

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