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Dear Client:

**With talk about a multi-billion dollar shortfall in the Texas state budget next year, how does a billion bucks in new revenue sound? That's how much a buck-a-pack increase in cigarette taxes would generate each year.**

“A cigarette tax increase is a win-win-win solution for Texas – a **health win** that will reduce smoking and the tremendous harm it causes, a **financial win** that will generate roughly \$1 billion per year in new revenue, and a **political win** that is supported by 70% of Texas voters in a poll conducted last June,” claims **William V. Corr**, ExecVP of Campaign For Tobacco-Free Kids. “Texas should act to join the twenty states across the country that have increased cigarette taxes in the past year.”

What tripped his wire was an earlier suggestion by the Texas Association of Business to take the roughly \$14 billion Texas will receive over the next 20 years as part its tobacco lawsuit settlement and **sell that future income for a present-day price of about \$6 billion**. TAB argues if you do this, as well as other moves (such as tapping the Rainy Day Fund), then Texas could balance its budget next year without raising taxes or cutting spending.

Corr calls TAB's proposal “**a raw deal for kids and taxpayers**,” because it “would make it virtually impossible for the state to adequately fund a **comprehensive tobacco prevention program** in the future.” He also calls it “a nearsighted approach to the state's budget crunch that will **cost taxpayers more in the end**.” He wants to shift the focus to the buck-a-pack cigarette tax hike.

This vividly illustrates the **push-pull debate** going on now (though many campaigning politicians prefer to speak in generalities about “scrubbing budgets” and “no new taxes”). And, the debate will **ratchet up dramatically** in less than 90 days when legislators descend upon Austin to try to write a two-year budget for a growing state with growing needs before June.

At this stage, nothing is sacred. Even though some pols will utter the “no new taxes” mantra, they still might vote to increase the “**sin taxes**” on tobacco, beer, wine and whiskey. Or, they will claim we're facing a shortfall downpour and tap the **Rainy Day Fund** (which is close to \$1 billion now). Or, do some bookkeeping slight-of-hand by **delaying payments** due at the end of one year into the first of the next year. Or this, or that. It's all on the table. Unless a huge crisis bubbles up, the predominant legislative issue January-May, 2003 will be the budget.

**How about a few interesting little tidbits to sprinkle into your conversation about the governor's race – such as, if elected, Rick Perry will be the first Aggie to be elected governor and Tony Sanchez, if elected, will be the first Catholic since Sam Houston.**

As a boy, when asked by a teacher if he wanted to be a Christian, Perry said “Nope, I want to be an Aggie.” Perry's father was an elected County Commissioner and his wife an elected school board trustee. Perry and Democratic Lt. Gov. candidate **John Sharp** were TexasA&M classmates. Perry, a fifth generation Texan, spent five years as an Air Force pilot. He was quarterback on his high school (Motto: “No Dream Too Tall For A School So Small”) six-man football team.

Sanchez, a seventh generation Texan, was the first in his family to receive a college degree. After he graduated from St. Mary's University in San Antonio (with a bachelor's and a law degree), he worked for Lt. Gov. **Ben Barnes**. His wife is a former schoolteacher. He was president of the Laredo Little League. He has condos in New York City and Aspen. Sanchez says his father, Tony Sr., was his closest friend and he keeps a calendar open to the day in 1992 his father died of leukemia.

**If you just can't wait to vote — *for* a favorite candidate or *against* a turkey — then you can vote early starting 10/21/02. If you do vote early, you will get to vote on the new voting machines that will be used in elections starting next year. Those who wait until November will not get the chance to try out the new machines.**

**The renovation of Palmer Auditorium has been delayed because the project expanded, increasing the cost, and it's been tough raising money since 9/11/01. But, have you noticed something has changed about how Palmer looks – even though no construction has begun?**

It's the trees. Or, more precisely, the trees are gone. Thirteen stately live oak trees that have graced the northern curve of Palmer since the building was built about four decades ago **have been moved so they won't be damaged**, while Palmer undergoes its transformation into The Long Center For the Performing Arts. When the Long Center construction is complete in a few years, 13 new trees will be planted around the renovated building.

You don't have to look very far to find those familiar transplanted trees. **They are part of a new Live Oak Grove at the corner of Barton Springs Road and South First Street.** They were moved in mid-April (the best time of the year for such an effort) as part of a plan to carry Town Lake Park past the new parking garage, softening its lines and offering a partial screen from the street. Currently, only two trees remain at the old location near Palmer. They will be moved at a later date when improved access to them can be arranged.

**The United States moved closer to an armed conflict this week when President Bush signed a measure (passed by a huge majority of the US House and Senate) authorizing him to use force, if he felt it was needed, against Iraq. If war happens, it will have an economic impact in Austin and throughout the state of Texas.**

**Ray Perryman**, the Waco-based economist, sees some good and bad developments for our economy if the US moves against Iraq. First of all, he points out that just the fear of war leads to uncertainty and that triggers a premium in world oil prices. This is **good for the oil business** in Houston, East Texas, the Permian Basin and parts of South Texas. But, you'll be facing **higher prices at the pump** for your vehicles.

Perryman feels that "if war comes, oil price effects will be short lived." The actual risk is limited because of excess supply and production capacity. And, because the war is likely to be brief, a **massive supply interruption is not a notable concern**. He points out that sympathetic producing countries simply can't afford to shut off this major revenue source.

But, as we've noted previously, he thinks consumer and investor confidence will suffer once hostilities begin. Perryman says this will drive down stock prices and create an environment not conducive to enhanced capital formation. Then, until an attack decision is made, he thinks **the economy will not gain substantial momentum**. It will dampen a comeback in telecom, electronics and other Texas industries.

He doesn't think interest rates will be significantly impacted by war and he feels investors will flock to safe instruments. **Inflation? Perryman believes it will be minimal** due to the oil supply situation and the state of the economy. In other words, weakened investment and consumer confidence will keep prices in check.

Where do we stand on the possibility of war? The US and the UK are continuing to build up forces in the region – even "retaliating" when their planes are fired upon, thereby softening up Saddam Hussein's antiaircraft defenses. While no one is predicting for certain **when the US might attack**, what we told you several weeks ago still appears to hold true – **December, January or February**. The cool temps make it easier to defend against chemical/biological warfare.

FYI, there are reports surfacing about sophisticated new weaponry the US might employ in an attack on Iraq – designed for urban skirmishes. One is a thermobaric **rocket that can slow down and turn corners in a building**. Another is an **e-bomb that would fry computers** and electronic grids and disarm launchers. Also, there is talk about tiny, model-airplane-size, drone planes that could fly miles ahead of troops and detect the usage of chemical weapons.

Again, if it occurs, **the war should end quickly** – but the effects will be far-reaching.

**So, Austin's city-owned utility has this new plan. Austin Energy is going to install electric meters on your home and business that will automatically transmit their readings daily via wireless communications.**

As this move will eliminate the need for manual meter readings, it could lower operating costs at the electric utility. **The plan is already being implemented on apartment complexes.** By April 2003 about one-third of Austin Energy's 350,000 customers (mostly apartment units) will have the automated meters. Apartments are the first to be outfitted because of the frequent beginning and ending meter reads required when tenants move in and move out.

When fully implemented, folks at Austin Energy will be able to check your energy usage each day. Sure it's an efficient way to read your meter. But, it has some **folks worried about the loss of privacy.** For instance, they complain, when you're at home – or not at home – or gone for long periods of time, someone has access to that info each day. And they worry about how that info might be used.

It's sort of like years ago in Austin, a newspaper carrier used the knowledge of when **newspaper deliveries were stopped (while residents vacationed) to easily burglarize their homes** – knowing full well nobody was at home.

Meantime, if you're an Austin Energy customer, **you can see your electric usage history** by logging in at [www.AustinEnergy.com](http://www.AustinEnergy.com). Click on "For Your Home" and then "Free Online Energy Analysis". Once you have completed the analysis, you can enter your Powerlink and Account numbers from your utility bill. That will produce a graphic showing your last 12 months of electric consumption by month.

To earn his medical degree, **Dr. Louis Overholster** spent a lot of time in med school taking various science courses. So, doctor, what did you learn? "Well, I learned that not all chemicals are bad. For instance, without chemicals such as hydrogen and oxygen, there would be no way to make water – which is a vital ingredient in beer!"

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