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Dear Client:

At a time when Texas needs all the economic development efforts it can muster, there's a move to abolish the Texas Department of Economic Development. However that may not be all bad.

Texas is coming off a big economic development "win" (the location of a Toyota manufacturing plant in San Antonio) and is **facing an immediate challenge** (the effort to beef up support for International SEMATECH and nano- and bio- technology initiatives right here in Austin). So why is it "not ... all bad" to abolish the state's economic development office?

Because, if it goes according to plan, **the effort will be shifted to the Office of the Governor** – giving it a higher priority and more prestige. And it will let prospects know the state's CEO is heavily involved in the effort to create jobs in Texas.

The catch is: "if it goes according to plan." There are moves in the Texas Legislature to effect this transition, **but the form and funding it will take have yet to be worked out**. So we need to see what will be hammered out in the next few months of this legislative session.

Longtime Texas economist **Ray Perryman** believes strongly that "Texas must maintain a department tasked with the most visible aspects of promoting business expansion and job creation." And he recommends "this activity should be **integrated with the Office of the Governor** to ensure the flexibility, comprehensiveness and responsiveness that is needed."

But Perryman goes much further. For instance, to help the economic development effort, he says education "**performance levels must be enhanced, dropout rates reduced and college enrollments increased.**" He says the state must support efforts to meet federal environmental mandates "while promoting environmental quality within a predictable and common-sense regulatory framework."

There's more. He calls for **expanded transportation infrastructure**: "efforts to enhance mobility are critical to future competitiveness." He also says the "availability of state-of-the-art **capability to support technological progress** is essential." Insurance reform? Perryman says that "eliminating any forms of rate discrimination or disparity that are not justified by actuarial experience can increase accessibility." Perryman has many more recommendations. You can see economic success is not as simple as moving the Eco Dev Dept to the Governor's office.

No matter how distasteful they may be in principle, monetary incentives are a fact of life in modern economic development.

In fact, economist **Ray Perryman** says “viewed in the appropriate framework, they are an integral part of the ‘market’ for new and expanded economic engines.” He points out there is certainly **nothing new about economic incentives**, and “they are not without long-standing historical precedent in the Lone Star State.”

He reminds us the **very first settlers** who migrated to Texas from Mexico (the legendary “Texicans”) **received free land and tax incentives** as an inducement to inhabit this rugged territory.

So, how does Perryman see these incentives working on the state level? First of all, he recommends Texas create a “Strike Force Capability” or “Deal Closing Fund.” “The designation of a **discretionary pool of money to secure key incentives on an expedited basis** for major projects represents one of the most significant opportunities facing Texas,” he said.

“Providing the governor (possibly with input from a few others) the ability to **deploy such revenues as part of an overall state and local government inducement strategy** can be (and often is) the difference between success and failure,” said Perryman. “The governor, as the primary spokesperson for the State, is a vital part of modern economic development and needs to have the **flexibility to make things happen.**” He says this approach appears to be gaining momentum.

Some other Perryman recommendations: 1) increase existing research and development incentive programs; 2) expand and simplify the investment tax credit and jobs tax credit programs; 3) maintain and strengthen the economic development sales tax; and 4) develop a more equitable and competitive taxation system for inventories. Perryman recognizes these items **can’t all be accomplished at once in the midst of a budget crisis**. But he says, “there is a genuine realization among state leaders that we need to move forward.”

After we told you 2/28/03 a high-level Dallas report released last week indicated Big D did not have the resources to compete economically with Austin, we learned about a move to offset what they see as their biggest competitive disadvantage.

The blue-ribbon report said there is no world-class research university, such as UT Austin, in the Dallas-Fort Worth metroplex. But, several months ago, the UT System is reported to have **anointed UTDallas as the next big research institution in the System. That didn’t sit well with the folks at UT Arlington. So there’s a squabble underway in the metroplex.** When/if they get their act together in the D/FW area, a major research university could emerge – helping their long-range economic development prospects.

The amount of sublease office space in the Austin area is declining only slightly, so it's still a factor pushing rental rates downward. But two interesting things are happening now.

According to **Michael Buls**, who has been tracking sublease space for the past couple of years through his company (Buls Hodge Consulting), landlords are not sitting around taking their existing tenants for granted. He reports that landlords "are contacting tenants early to have them renew." This is obviously being triggered by the fact that existing tenants are also taking the initiative to re-negotiate to get a better deal.

And, secondly, the downtown office market is moving away quicker than the other areas of town from being driven by subleases. In fact, Buls says the Central Business District (CBD) has dropped significantly – **from 17% of the total sublease market down to only 9%**. As he put it: "The CBD is emerging as a *direct* market for 2003."

Bill Parcells, the new superstar coach of the rebuilding Dallas Cowboys, will start his task of turning the downtrodden club into a contender again in San Antonio.

The word we get from Dallas is the Cowboys are set to sign with San Antonio to hold training camp in the Alamo City in both 2003 and 2004. While some money will flow into Santone's hands, the city will fork over about \$900,000 to **Jerry Jones'** team. Remember, Austin hosted summer training camp for the Super Bowl champion Cowboys in the past, but hasn't put forth a major effort to entice them to return in recent years.

In one encouraging economic sign, passenger air travel in Austin took a little step back toward normalcy at the beginning of the year.

The December 2002 passenger totals at Austin-Bergstrom International Airport were below those recorded in 1999. But, in January 2003, the passenger traffic surpassed that of January 1999. Not only that, **the totals for this January were up 6.15% compared to January 2002**, so the trend lines are heading in the right direction.

As usual, Southwest Airlines (up 6%) and American Airlines (up 4%) led the charge. **The two carriers command more than 60% of the Austin passenger market** – 36.9% for Southwest and 25.2% for American

We need to take the January numbers with a grain of salt, because January and February are typically slow aviation travel periods. The February numbers will be out in a couple of weeks.

If you're a golfer, you've picked the best place in the state to work and play. Austin is surrounded by some really great golf courses.

Of the Top Fifteen Best Golf Courses in Texas, the **Austin area boasts that five are located here.** Each year for the past fifteen, *the Dallas Morning News* has assembled a panel of experts (this year, 89 golf pros and players from all over the state) to rank the fifty best courses on versatility, shotmaking, design, beauty, maintenance, afterthoughts and enjoyment.

Here's how the Austin area courses ranked this year: **#5 Barton Creek/Fazio Foothills, #8 Horseshoe Bay/Ram Rock, #9 Austin Country Club, #13 The Hills Country Club and #15 Barton Creek/Canyons.** Horseshoe Bay/Apple Rock and Horseshoe Bay/Slick Rock also made the Top Fifty. The Top Four: #1 Colonial Country Club, Ft. Worth, #2 Champions/Cypress Creek, Houston, #3 Crown Colony, Lufkin and #4 Brook Hollow, Dallas.

That's not all. Austin area courses had **six of the 18 Best Holes** as picked by the experts: Barton Creek/Fazio Foothills, No. 9, No. 16 and No. 18; The Hills, No. 7 and No. 18; and Austin Country Club, No. 11. And we had a whopping **ten of the 18 Most Beautiful Holes:** Barton Creek/Fazio Foothills, No. 4, No. 9, No. 10, No. 12, No. 16 and No. 18; Austin Country Club, No. 3 and No. 18; The Hills, No. 7; and Horseshoe Bay/Ram Rock, No., 10.

And many of these great Austin area courses are not off limits. When you take out the high-dollar, hoity-toity, private clubs, **six courses made the top 17 Best Daily Fee/Resort listing**, with – you guessed it – Barton Creek/Fazio Foothills #1 in the state. Horseshoe Bay/Ram Rock is #4, Barton Creek/Canyons #5, Horseshoe Bay/Apple Rock #10, Barton Creek/Lakeside #15 and Horseshoe Bay/Slick Rock #17. By the way, in the ranking of the Most Difficult Courses, Austin Country Club, at #11 and The Hills Country Club at #19, made the Top Twenty.

Dr. Louis Overholster is convinced that latté is the name they came up with when they were too embarrassed to charge \$4 for coffee.

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