

Volume 26, Number 11

June 11, 2004

Dear Client:

With one failed legislative session behind us and another (possibly) looming, which taxes — yes, taxes — are favored by the state's largest business group?

Moving from the so-called Robin Hood plan to other methods to finance Texas public schools is plainly and simply a tax question — because one of the stated legislative objectives is to lower the school property tax. The big hang-up before, and will be again, is **which taxes should be levied and/or raised** to offset the loss of the property tax revenue.

How many different ways will your pocketbook be hit when legislators finally are re-convened by the governor – if the gov decides to do that? The Texas Association of Business (TAB), **the state's largest business lobby group, has a list of taxes it will support.** “We must ensure that employers are not the sacrificial lambs” when new taxes are raised or levied, says the TAB.

Which taxes are acceptable to TAB? The biggest revenue chunk (\$2 billion) would come from a **one-cent sales tax hike**. The next would be revenue from Video Lottery Terminals (**slot machines**), if they are legalized – bringing in \$1.5 billion. **Increasing the car tax to 7.75%** would generate \$590 million and **broadening the sales tax to include personal services** would raise \$460 million.

TAB is not alone with a preferred list. Just about every legislator and lobby group has other tax combinations they like and dislike – and, of course, some oppose *any* new taxes. For that reason, you can't find many who predict a successful session.

This raises the question of when a 2nd special session might be called. **There are all sorts of calendar conflicts through the summer months** (the national political conventions in Boston and NYC, for example). A trial challenging the school finance formula is scheduled for August. And don't forget legislators have other lives and their families like to take vacations while the kids are out of school. When fall rolls around, you are in the final throes of political hardball season running up to the November election. Then there's Thanksgiving and Christmas. You get the idea.

Only the governor can call a special session and, as of this writing, he has given no indication when it might be – if at all. Meanwhile, a handful of legislators are trying to sort out a plan during this wait-and-see time. So, we really have no choice — but to continue to wait-and-see.

Want another positive sign the economy is really accelerating? You'll see it soon when the Federal Reserve raises interest rates for the first time in four years. What? Rising interest rates – a *positive* sign?

Most everyone you know seems to have taken advantage of interest rates that have reached 40-year lows. Just think what's happened the last few years — refinancing of home mortgages, upgrading to a new home because low interest means you'll pay less to buy more, business loans allowing for expansion, personal loans to improve your lifestyle, and on and on. **Yes, low interest rates have been a good thing for many.**

But low interest rates really mean the economy is weak. During the recent downturn, after thoughtful calculation and analysis, the rates were carefully pushed down to help a weak economy. When the economy starts gaining strength is when interest rates start rising. **The economy is getting much better day by day** and now, interest rates will rise – as surely as the sun rises in the east.

But won't the stock market go to hell the moment the Fed starts raising rates? Won't the housing industry suffer? What about financial institutions? Don't worry. **A rise in interest rates is an indication things are getting better.** The stock market, the housing industry, financial institutions – practically all strong businesses and institutions – have done quite well when interest rates were higher than now.

Take the stock market for instance. In a study by Ned Davis Research of 22 initial rate hikes since 1917, it was found the Dow was **down an average of 1% in the month before a hike and up nearly the same amount the following month.** Really, not much impact — because the overall economy is strong enough to support success in various enterprises. In summary, don't let the naysayers sway you when the rates start an eventual, and inevitable, creep upward.

Speaking of economic highs, you can look for high energy prices to be with us for awhile. Gasoline prices, for example, are not going to drop back to last year's levels anytime soon.

As our economy improves, the need for energy increases. This is also happening in big consuming regions such as China. This isn't all. **Supplies are being stretched and it will take years to expand refinery capacity** (outside the US, because US regs make it almost impossible to build here).

But there is another little-discussed factor at work that will keep energy prices higher than in the past – the cost of terrorism. **Oil is a top terrorist target.** And the oil and gas markets are highly sensitive to disruptions, especially as the supplies are stretched to the max. The price of oil will continue to include a **high risk premium.** Reality: higher energy prices for a while.

When you walk up to any one of 4,400 soft drink vending machines in Austin, don't be surprised if you hear it turn on as you approach. But even though it's been turned off, your favorite beverage may be colder than ever.

In this energy conscious city, the City of Austin is saving energy and keeping its diet Cokes colder with devices called Vending Misers. The city received a grant from the Public Utility Commission to install 4,400 of these machines around town in the **largest such program in Texas**. You can find them in state agencies and businesses, including the H-E-B grocery stores.

Each device can save about \$350 a year by switching vending machines off when no one is around, according to **Paul Lustig** with Austin Energy. "That's a very conservative estimate," he says. "They can save at least a third in energy costs, more like 40%, really. Basically, the vending machine goes to sleep. If the Vending Miser detects someone nearby, it will turn the machine back on."

Okay, if the machine has been turned off say, all night, how does it keep your Fresca cold? Oddly enough, according to Lustig, **beverages come out colder after a Vending Miser has turned a vending machine off**. Say what? "Cokes turn out to be one degree colder," he said. "There are fans inside a vending machine that circulate cold air, but they also circulate warm air from the compressor and the motor." With the machinery off, the warm air rises above the drinks, lowering the temperature on your can of Dr. Pepper.

Lustig can be reached at paul.lustig@austinenergy.com for further info on the machines that are sold by the manufacturer, Denver-based USA Technologies.

If at any time you have been less than candid about how much alcohol you've had to drink, you could soon be given away – by your hair. This could be used on motorists or pilots.

A series of tests developed in Switzerland look for chemicals produced in the body as the body processes alcohol. As you may know, alcohol itself disappears from the body within hours after consumption. But chemicals called fatty acid ethyl esters (FAEEs) appear in the blood within hours after someone has a drink – and are **eventually stored in a person's hair**.

The Swiss research showed FAEE levels in human hair could **distinguish between light and heavy drinkers**. Another test lasts for up to three weeks in the blood of people who have previously consumed alcohol regularly, or more than three beers a day. The researchers said they found **no false negatives** in their tests.

The applications of the test, when widely available, could one day be used by airlines to **determine whether pilots have been drinking** – or by police after a traffic accident, to disprove the claim of "Honest, Ossifer, I only had two beersh!"

A fledgling, unique and ambitious Austin film studio is drawing national attention even before it starts its first production. There are enthusiasts and skeptics.

Burnt Orange Productions is thiiiiisssss close to starting production on the first of three films that have moved beyond the storyboard stage. Burnt Orange Productions (BOP) is the for-profit arm of the UTAustin Film Institute that has **recruited some big-time movie names and cold hard cash for the endeavor**. How bold and how brash is this pure Texas effort?

“No American film school has ever tried such an ambitious foray into commercial filmmaking, and the project is being watched with great interest, and great skepticism, in academia and Hollywood,” reported *The New York Times*. “Previous ventures by film schools, even in a small way, have not worked out well. In the mid-1990s the University of Southern California began a program to help its graduates make low-budget movies. But the program produced only one, which never found a theatrical distributor.”

BOP has three movies in the works. **Low budget, yes – two for about a million each and the third has a budget of around \$3 million.** (*The Alamo*, the bombshell recently filmed here, had a budget just south of \$100 million!) The first flick, *The Marfa Lights*, has a big name moviemaker, **Terrence Malick**, as a producer, and the person who directed the highest-grossing domestic production ever released in Mexico is the director. Key ingredients for success are present.

Of course, UTAustin film students will be swarming all over the set – without pay, learning and hoping to pad their resume with a film credit before they graduate. And, even though the students won’t make a buck if the movie is a financial success, **UTAustin’s bottom line will be enhanced (as it will be for those who invested in the project)**. Stay tuned.

Dr. Louis Overholster says the big problem with the Internet today is spam: “Spam is when every time you turn on the computer, you get messages trying to get you to part with your money. It’s like having a kid in college!”

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