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Dear Client:

Two huge problems standing in the way of true greatness for UTAustin could ultimately be resolved if one new recommendation by President Larry Faulkner is adopted.

UTAustin is the single most important engine driving the Austin area economy. One example: **Austin would not even be a player in this high tech age** if The University of Texas was located elsewhere, plain and simple. There are other examples, but take it to the bank that what helps UTAustin gain in stature and greatness benefits our economy immeasurably.

Two of the problems slowing UTAustin's climb to the pinnacle of public universities are: 1) the ridiculously high student-faculty ratio (exacerbated by an enormous student body), and 2) the continuing scramble for funds as state appropriations continue to dwindle as a percentage of the total budget. In a significant move, the Texas Legislature in its last session gave **UTAustin the power to set its own tuition rates**. And now, if Faulkner's new tuition plan is put into place, it could help boost UTAustin up the ladder of world-class status.

The UTSystem Board of Regents is considering raising tuition for academic year 2005-2006 by 4.75% and establishing a *single flat rate* for each college, covering all tuition, mandatory fees and other required academic charges. This is a major change. **For the first time, a student will pay one price – regardless of course load**. No longer will a student taking just a few courses pay less money.

One of the reasons for large class sizes at UTAustin is the huge enrollment. And one of the reasons for approximately 50,000 students tromping across the campus for years now is a majority of students take fewer courses, and it takes them five or six years to get a four-year undergraduate degree, (and their cost per year is correspondingly lower). With a higher flat rate, regardless of course load, **momma and daddy will probably pressure the student to take more courses and graduate sooner – or the cost of a UTAustin degree goes up dramatically**.

As a result, if Faulkner's proposal is successful, **the student body should diminish in size, reducing the faculty student ratio**. And the **funds available to the university should increase** due to the higher, flat rate. The actual proposal is more complicated than this explanation, but this is the effect of the plan. The Board of Regents is scheduled to review these tuition policy proposals at a meeting in early spring. We'll keep you posted.

A new program to encourage college students to pursue careers in nanotechnology was kicked off up the road in Waco, and it could soon spread to the Austin area and the rest of the state.

A \$500,000 federal grant, administered by the Texas Workforce Commission (TWC), will go to Texas State Technical College (TSTC) to launch the **Nanotechnology Workforce Development Initiative**. TSTC will partner with Baylor University, Del Mar College in Corpus Christi and Zyvex Corporation, the industry's commercialization leader.

The money will be used to provide **internships and apprenticeships for engineering students** at TSTC and Del Mar to work in advanced nanoscale manufacturing environments at Zyvex. It's expected 40-50 students will get on-the-job experience with this initiative.

Once the program is operational, the TWC will use the same model to **replicate other technology initiatives at Austin Community College** and the state's 50 other community colleges. The grant is funded through the federal Wagner-Peyser Act.

For at least 140 days from 1/11/05, you will be bombarded with information about the actions of The Texas Legislature that convened in Austin this week for its 79th regular biennial session. There is one important thing to keep in mind.

You can expect a **\$26.3 million positive impact on our economy** by the time the regular session ends. Any special sessions that may be called by the governor will simply add to this total. The 181 legislators will reside in Austin between now and the end of May and spend at least \$3 million directly on housing, food, transportation and retail.

Also during this time, almost 1,000 legislative staffers will be drawing paychecks and spending that money locally. And don't forget the 20,000 or so folks who come to Austin during this period because of the legislature – lobbying, testifying or simply gawking at the lawmaking. A word of warning: **your favorite restaurants (especially the pricy ones) or watering holes may be quite crowded during the week**, as lobbyists wine and dine your lawmakers.

While discussing economic matters, we should tell you about a new group in which you may have an interest. It was formed to focus on the Austin economy. The non-profit Austin Economic Club is open to all and it has already lined up a bipartisan list of impressive list of business and public affairs lecturers – such as Cisco Systems Pres/CEO **John Chambers**, former US Commerce Secretary **Don Evans** and former US Energy Secretary and UN ambassador, New Mexico Governor **Bill Richardson**. For info, you can go to www.AustinEconomicClub.com or call the club at 512-225-5890.

As we dive headlong into the New Year, let's examine ten major business issues shaping 2005, with some educated forecasts.

These predictions come from our friends at the private Kiplinger Washington Editors, who have been **tracking every business and economic issue imaginable for 80 years**. They're not always right, but they have a solid track record. Here's a brief summary of what they see.

Energy prices will spike higher by Memorial Day. And this is the best-case scenario. Large scale terrorism in Iraq could add \$10 a barrel within days.

Look for modest economic growth, around 3½%. This is nearly a full point less than in 2004. The silver lining: about 200,000 new jobs added each month.

The situation will worsen in Iraq. Insurgent attacks will increase as the 1/30/05 Iraq election draws nearer – and will not let up after it. More allies will withdraw and Iraqi forces won't be ready to contribute much till the end of 2006.

The US dollar should hit bottom by spring. Then the greenback's value will edge upward through the rest of the year. However, in historical terms, the dollar will remain soft. But by year-end, the deficit may even turn the corner.

You can anticipate higher prices for most items, but a LOWER inflation rate. The inflation rate should be about 2½%, instead of 3½%, even though most US firms will raise prices for goods. Even automakers will make price hikes stick. Long-term and short-term interest rates will inch upward throughout the year.

This will be a catch-up year for stocks, with better returns than in 2004. Kiplinger sees total returns in the 12%-15% range, including 2% from dividends. This is in contrast to 2004 when returns were held to only around 10%, while profits soared by more than 20%.

There will be an even more contentious US political arena. Surprised?

Employer health care costs will rise about 10%. Although this is steep, it's not as bad as it has been.

Keep your eye on China as it buys up or buys into foreign firms. China should improve product quality and form vast global distribution networks.

Telephone and Internet providers will roll out new services and technologies. The resulting intense competition will trigger lower rates.

Hopefully these guidepost forecasts will keep you ahead of the game throughout 2005.

Texas coined the phrase “Third Coast” to compete with California and New York for film production. If the phrase is accurate for the state, then Austin is both Hollywood and New York City combined.

Even though the Austin area is a much smaller metro than Dallas, Houston, Fort Worth or San Antonio, it **lead all Texas cities in film and television total production budgets** for the fifth consecutive year. But it’s not just *leading* the others, it’s dominating them.

The budgets of productions filmed in Austin this past year **accounted for 86% of total film budgets in** the Lone Star State. This is domination. And, not only that, this represented a two percentage point increase over the previous year.

According to the Texas Film Commission, Austin earned the number one spot with approximately \$151 million in film production budgets. Houston was a distant 2nd, with \$10 million. Typically, **50% of a project’s budget is spent locally**, benefiting not only the local film industry, but also suppliers and services, including hotels, restaurants and many other local businesses.

It’s a “clean” industry, similar to tourism. In the main, they bring in all these dollars from outside the area, **spread the money around and then leave town.** This is new money that keeps re-circulating through our economy.

The most high profile feature film that is coming soon to a theater near you stars **Tommy Lee Jones**, who plays a Texas Ranger assigned to protect female UT Austin cheerleaders who witnessed a murder. Some of the scenes were shot at last fall’s football games in Darrell K Royal-Texas Memorial Stadium. The movie’s title is *Man of the House* (while shooting in Austin, it was tentatively titled *Cheer Up*).

Dr. Louis Overholster went back to his 50th high school reunion and immediately recognized the girl he took to the prom by three things: her gorgeous smile, her vivacious personality and — her name tag!

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