

THE

*Paul Spelce*

# AUSTIN LETTER

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Dear Client:

**By most measures, there are three mega-states that will lead this country in population growth in the immediate future – California, Texas and Florida. In the past, the national trend-setter has been California. Hopefully it will not set certain future trends for Texas.**

To exaggerate to make a point: California is about to collapse under its own weight. As we said, this is an exaggeration, but based on past growth rates, in just 30 years – from 2000 to 2030 – the equivalent of the **entire state of Illinois will move to California**. Or, to put it another way, California will grow by 13 million people. This is equal to the current population of the *metro* areas of Miami, Denver, Atlanta and Portland, Oregon, and California's population is already double that of New York state.

Texas and Florida are caught up in this same, significant population shift. Pause and let this sink in: the USCensus Bureau predicts that within the next 25 years, **about 25% of all Americans will live in these three mega-states**. One fourth of the population of our 50 states will live in just three states.

It doesn't matter what we do to try to discourage this growth. It will happen. And the implications for us are staggering. **Just about every facet of our daily and personal lives will be impacted**. Oh sure, some of this will be positive. But to make sure the positive outweighs the negative, we need to watch what is happening in California.

Take just one example – the *location* of the growth. The fastest growing counties in California are not on the coast, they are not in the big metro areas of LA, San Diego, San Francisco or Sacramento. The fastest growing county – by percentage – is the inland Southern California county that stretches to the Arizona border. Other counties away from the urban centers are also among the fastest growing. Why is this important? Because these are the **state's poorest sections, the less developed areas with minimal infrastructure in place to handle the growth**. As a result, it's the most expensive kind of growth.

California's private and public sector leaders are squabbling over how to handle this influx. No consensus decisions are being made. No consensus plans are in place. It's piecemeal. And **California is in a high-tax, tight budget situation**. The glow on the Golden State is dimming quickly and Texans need to take note to avoid California's problems.

**Amidst all the hoo-hah over the Texas Legislature's failure to pass school finance and tax reform bills, it was overlooked by many that a ton of money was, once again, put into a pot to be doled out to create jobs in Texas.**

In fact, it could turn out to be a lot more money than was appropriated two years ago, \$380 million compared to \$295 million. In addition, a new Texas Emerging Technology Fund (TETF) was created to complement the Texas Enterprise Fund (TEF). There are those in the high tech field who feel **the creation of the TETF may be the most important economic development tool of all.**

As is the case with many legislative appropriations, it's not cut-and-dried. The existing TEF is slated to get about \$140 million from the General Revenue Fund and some additional money out of a different state pot. **The TETF will get \$100 million from General Revenue and another \$100 million, contingent upon the size of the state's Rainy Day Fund.** As one observer put it, this contingency money will almost assuredly be available "unless the bottom falls out of the oil and gas market." With what's happening to the price of a barrel of oil these days, it'll take a major turnaround for the bottom to drop.

Governor **Rick Perry** had asked for \$300 million for *each* fund for the next biennium. But with the legislature, there's always the "askin' and then there's the gettin'." The bottom line, though, is more money is available for statewide jobs than in the past.

While there will be pressure to allocate these funds all around the state, **the new fund, the TETF, is tailor-made for the Silicon Hills of Austin.** As we mentioned way back in our 12/17/04 edition, these dollars will be dedicated to investing in emerging fields of technology. As we told you then, "Austin economic development leaders are already working on a project" that precisely fits the Texas Emerging Technology Fund's reason for being.

By its very definition, **state money used to kick-start a high-tech start-up ("emerging technology") can expand job creation exponentially.** And these jobs will, again by their very definition, be the jobs of the future. While it is not always the case, most emerging technology firms usually have close ties to the brainpower and research capabilities with major institutions of higher education. Is this made for Austin, or what?

If you pored over newspapers from around the state for a summary of legislative activity, it was difficult to find anything about the TEF and the TETF. The headlines about school finance and property tax reform dominated and almost screamed at you. "**Session Fizzles Without Fix For School Finance**" (*McAllen Monitor*), "**Give 'em An F**" (*Fort Worth Star-Telegram*), "**Lawmakers Are Left With Unfinished Business**" (*Houston Chronicle*), and "**In The End, Key Goals Unreached**" (*Austin American-Statesman*) were typical headlines this week. True, these were the big stories. But sometimes big stories overwhelm other important stories.

**With a hold-the-line-on-taxing-and-spending GOP-controlled Texas Legislature, what happened to the budget for the next biennium? Would you believe double-digit *increases*?**

In case you missed it, and included here for emphasis, the total budget for Texas for the next two years is \$139 billion. This includes state and federal money and is a **whopping 19% increase over the \$117 billion budget approved in 2003**. Oh, but you say, what about *state funds only*? Well, state funds are up about 10%, still greater than inflation.

You can spin this anyway you want, but it indicates Texas is one of the fastest growing states in the nation (see the first item) and, **while a growing state generates additional revenue, it also means a growing populace still needs to be served**. And even if the populace is served at the same level (or lower, in some cases), the tab is still higher. Fact of life, #472.

Will the state actually have this much money to spend? Good question. You'll find out no later than 6/19/05. This is the date by which the State Comptroller must certify the budget. Unlike your leaders in Washington, the state is mandated to keep away from deficit spending. The budget must match the anticipated dollars. State Comptroller **Carole Keeton Strayhorn**, who has often been at odds with legislative leaders and the governor, has the **sole power to say whether the income will match the outgo**. If she says it doesn't, a special session may have to be called to make the budget match her figures. Stay tuned.

Two final legislative notes on hot topics in the Austin area: **before an existing road can be converted to a toll road, a public election will now be required**. And term limits were eliminated for the members of Capital Metro's board. This means those familiar faces who guided you through light rail and commuter rail elections will continue to serve a while longer.

**Now that the butts have been banned inside most public establishments in Austin, more cigarette litter is likely to follow.**

Cigarette butts are the most littered item on earth, according to Keep Austin Beautiful (KAB). They already make up approximately 20% of the litter on the streets and often find their way into creeks and rivers, including Austin's Town Lake, reports KAB.

KAB is concerned the new ban on smoking in bars and clubs will mean **entrances to those establishments "could become a cigarette litter nightmare."**

So, this summer, KAB will introduce a new cigarette litter prevention program downtown. It will include new ash containers, pocket ashtrays, a media campaign and more. More than just bars and clubs, KAB is seeking other businesses and government offices to partner with it. If interested, contact **Brian Block** at [brian@keepaustinbeautiful.org](mailto:brian@keepaustinbeautiful.org).

**Thunderstorms, hail, high winds, flooding and tornadoes are the major weather events that normally pummel the Austin area. However, even this far inland, you can't discount hurricanes. And this season could be among the worst for those massive storms.**

Hurricane season officially started this week and runs through 11/30/05. According to most forecasters – especially the guy who has been eerily accurate in recent years – this could be one of the most active seasons in years. If you believe in the law of averages, you have to say **the Texas coast is long overdue for a major hurricane** and a big one could be felt here in Central Texas. Let's look at the numbers.

Storms are not given names until they reach the tropical storm stage, that is, they have a defined mass, but have not yet reached hurricane-force sustained winds of 75 miles per hour. **A major hurricane is one that has sustained winds of 111 miles per hour or higher.** Over the years, we have averaged nine named storms, six more that have reached hurricane levels, and only two that have surpassed the 111-mile-an-hour threshold to become a major hurricane.

Earlier this year, forecasters predicted there would be more activity than normal this year (13 named, 7 hurricanes, 3 majors). But then, this week, **Dr. William Gray**, the guru of hurricane forecasters, **upped his estimate to 15 named storms, eight hurricanes and four major hurricanes.** If these predictions are reached, and they have been very accurate in the past, it should be quite an active season.

As for Austin, well, look first for activity in the Gulf of Mexico. The Texas coastal cities have the most to fear, but after the big storms slam ashore, they usually turn into massive rain events – spawning tornadoes – and take an unpredictable pattern across land. **In the past, some hurricanes have caused widespread flooding in Central Texas.** Yes, poor Florida got four-biggies-in-a-row last year, increasing the odds Texas may get its share soon.

Describing his two-week vacation, **Dr. Louis Overholster** told us he drove to the Austin airport during afternoon rush hour, went through security “and, then for the second week ... !”

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Sincerely



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