

Dear Client:

You may have missed it because of the holiday scramble or, more likely, because the careful wording obscured the real significance of the announcement. The true meaning: a tangible investment was announced that could ultimately lead to creation of a medical school in Austin.

Nowhere in the announcement was there a reference to a medical school being established in Austin. **This is because a lot of approvals, commitments – even bureaucratic and legislative sensitivities – are still hanging out there.** But millions of dollars have been committed already and millions more will be coming down the pike to make it a reality.

Just before Christmas it was announced that a **Clinical Education Center (CEC)** (see, **no mention of a med school**) **will be established at Brackenridge Hospital** in a portion of the space that will be vacated in June when the Children's Hospital of Austin moves to the Dell Children's Medical Center of Central Texas at the old Mueller Airport site.

The Seton Family of Hospitals is committing \$10 million for the CEC.

Seton will be working with the UTSsystem, UTAustin, UTMedical Branch, Austin Community College and Concordia University. Other institutions may be asked to join the collaborative, but Seton is the only one to pony up any bucks so far.

The CEC will be a unique medical institution that, according to the announcement, will “provide interdisciplinary, team-based educational experiences for students and graduate trainees in medicine, nursing, pharmacy and public health, as well as health-related educational opportunities in bioengineering, informatics, social work, law, psychology and public law.”

Importantly for Austin, this will provide a **future pipeline of doctors, nurses and other medical professions for a growing Austin** (see our 1/5/07 story about the doubling of Austin's population, surpassing San Antonio – which, incidentally, already has a medical school).

Make no mistake. This is a big deal **now** – and for the *future*. Dr. **Ken Shine**, UTSsystem Exec Vice Chancellor says “Central Texas is fertile ground to be the home for some of the most **innovative medical research and education in the nation.**” This move, along with the Dell Children's Center nearing completion, are the early steps. We have more in the next item.

Why is Austin an exceptional site for a medical school? A combination of great higher education institutions, a talented medical community, great hospitals and an abundance of entrepreneurial and venture capital leadership.

Those are not our words, but the words of one of the nation's top medical educators, Dr. **Ken Shine**, the UTSysystem Vice Chancellor for Health Affairs. He's also, obviously, **one of the key cogs in the development of a future medical school in Austin**. But more than the above list of attributes, there is a very real *need* and *benefit* to be derived from an Austin med school.

For instance, the new Clinical Education Center at Brackenridge Hospital will house Austin Community College (ACC) classes for as many as 100 nursing students in the next academic year, beginning this fall. ACC is the largest producer of nurses in Central Texas and yet it has a **waiting list of 200 potential students hoping to enter the two-year program**. By the way, ACC is not just a "factory" cranking out nurses with no regard for quality. ACC has one of the highest licensure pass rates in the state.

But what about docs? What is the need here for doctors? "This region will **need more than 600 doctors** by the end of the decade," predicts Dr. **Sam Shomaker**, Dean of Austin Programs for the UT Medical Branch. "The evidence is clear that **doctors overwhelmingly decide to live in the community where they do their post-graduate training**." This is his argument; in fact, he calls it "imperative" that we increase these educational opportunities in Austin for new doctors.

Another element that supports this innovative move toward a future full-fledged medical school is that **UTMB has had medical students in Austin since the 1950s**. Additionally, it recently signed an agreement with Seton establishing a 30-year partnership for the expansion of student and resident education, research and clinical programs. In fact, today, UTMB has more than 90 residents who do their clinical training in Austin. And there are about 1,000 UTMB alumni in the Austin area who already play a significant role in the local medical community.

All the pieces are coming together for a medical school to be established in Austin. But the powers-that-be will not say as much publicly because of the sensitivities and relationships with many governmental, educational and medical entities. For example, the Texas Legislature started its biennial session this week and the UTSysystem is going to the legislators, with hat in hand, seeking additional funding for existing programs.

In view of the growing shortages of physicians and nurses, the UTSysystem is seeking funds to: increase enrollment at existing medical schools, increase nursing faculty to allow a higher enrollment of qualified candidates for nursing schools and to **increase the number and funding of medical residency positions**. The increase in physician residents would offer another benefit: this could significantly increase the amount of care provided to those individuals who have no health insurance. A lot is happening. We'll keep you posted.

Speaking of the Legislature, there are several initiatives of importance to the Central Texas economy that will be considered between now and the 5/28/07 end of the 80th session.

First of all, there are two recently-formed funds that provide a stash of cash incentives to be used in economic development statewide. And economic development devotees want to see them continued.

The Texas Enterprise Fund (TEF) was the first to be set up by the Legislature and it was funded again in the last session two years ago. **It is a “deal-closing” fund that allows the state to step-in and sweeten the kitty** when companies are considering Texas locations to create jobs for Texans.

The Emerging Technology Fund and associated Regional Centers for Innovation and Commercialization (RCIC) **serve as financial catalysts** for emerging technology research, start-up incubation, commercialization and development. Continuation of these two programs will be up for consideration.

In addition to backing the continuation of the TEF and RCIC programs, the Greater Austin Chamber of Commerce is planning to push for **reinstatement of the research and development, job creation and capital investment tax credits**. These three tax credits enable Texas to compete for the projects that will benefit Texans for decades to come. They were previously available under the old franchise tax system (that was modified two years ago) and were **key to the recruitment and retention of many large employers in the Austin area – including 3M, Samsung and Home Depot**.

There are other items on the Austin economic legislative agenda – such as setting up the **sales tax exemption for pharmaceutical plant clean rooms to match those for semiconductor clean rooms**. Generally, legislation must not be written for the benefit of one local area, so most of these efforts apply statewide. However, as you can see, Austin is a major direct economic beneficiary of many of these statewide initiatives.

You may remember we told you your postal rates were going to increase in 2007. For your planning purposes, here’s the latest on how much – and when.

Your postal rates are not only going up this year, but you can also look for another hike in 2008. The reason for the quick hikes is that a new pricing law takes effect in 2009. From that point forward the US Postal Service will still be able to raise rates on an annual basis, if it so chooses, but it will be limited to the amount of the prior year’s inflation rate. **So, look for the price of a first-class stamp to jump from the current .39-cents to .42-cents in May 2007**. Business mailers will go up about 9%, catalogs and periodicals will increase 10% and odd sizes, such as oversized envelopes, will increase 12%. The 2008 increases should be smaller.

***Expansion Magazine* has named the Austin-Round Rock MSA “the top metro for future business locations.” Heady stuff for the immediate future.**

The designation came after an analysis of the local climate in 2006. Specifically, what did the magazine see that caused such a forecast? Well, according to the Oxford Commercial Market Report that focuses on industrial highlights in the Austin-Round Rock metro, the mag took note that **“in 2006 Samsung, AMD, Dimensional Fund Advisors, PRC and eighty other firms announced plans to expand into the Austin market.”**

Austin’s industrial market, including warehouse, manufacturing and R&D/flex space comprises 38 million square feet, according to Oxford. And, at the end of 2006, **the industrial market reached a five-year high in terms of both occupancy percentage and rental rates.**

The occupancy increased 5.7 percentage points over the past year to reach 88.2% occupancy at the end of 2006. **The year ended strong.** For instance, the 4th quarter’s increase in occupancy amounted to a significant 45% of the year’s total.

Oxford noted that “as occupancy and rental rates continue to increase, construction and investment activity in the Austin industrial market will follow.” One of the trends noted by Oxford is that **“companies seeking to obtain lower rental rates are looking into R&D/flex space as a logical alternative for office space.”** This is taking place because the Austin office market stood out as one of the strongest in the US in 2006.

But with vibrancy, comes a downside. Operating expenses for office buildings are going up and with one building, Frost Bank Tower, selling in 2006 for a Texas record price of about \$355 per square foot, property taxes will likely continue to escalate – as appraisals keep rising.

Dr. Louis Overholster, while watching one of those celebrity shows on TV, turned to his wife and said “I’ll never understand why the biggest jerks have the most attractive wives!” She responded sweetly, “Why, thank you, dear.”

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