

THE

Neal Spelce

AUSTIN LETTER

www.AustinLetter.com

P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail News@AustinLetter.com

Volume 29, Number 13

June 29, 2007

Dear Client:

One of Texas' biggest economic development coups in recent years is about to undergo some dramatic changes. It's an example of pressures from the global economy.

We're talking about the location of a Toyota manufacturing plant in nearby San Antonio, with the economic ripple effect being felt in the Austin area. We've chronicled the Toyota decision from Day-one. **The plant is up-and-running and some suppliers for the major Alamo City operation have located in the Austin metro area.**

Toyota is making its new generation Tundra pickups at the San Antonio plant, squarely **targeting the pickup-loving Southwest population with several models that directly compete with the long-dominant Ford and Chevrolet pickups.** It's a bold, brassy move by Toyota in a land where Ford and Chevy pickup owners get into fistfights over which truck is the best.

Toyota has been smashing its US competitors, recently replacing General Motors as the world's largest automaker. Talk about a knock-down, drag-out battle that is largely being waged on GM and Ford's home turf. **But now, Toyota is showing some signs of strain – and that is dictating change here in Texas.**

The Wall Street Journal reports "In the automobile industry, having too much manufacturing capacity is bad business. **Toyota can now make more than 100,000 more Tundras each year than it can sell.**" **This slices profit margins.** You may have noticed the effects of this excess capacity in ads running on Austin TV where Toyota is offering unusually large discounts on Tundras, including zero interest financing for five years, a tactic borrowed from GM.

This is not all. The Japanese yen is in such a favorable value relationship with the US dollar, and labor costs are so low, that it is **cheaper for Toyota to make a vehicle in Japan and ship it to the US** than it is to make it here and sell it locally.

The change in Toyota Texas? Look for Toyota to change its San Antonio assembly line to **produce more than just the Tundra pickup** (its' most efficient plants worldwide operate more than one assembly line each). It may **revamp its US pay policies** and, for now, it looks as if no more Toyota plants will be built in the US. We'll watch for you how all this shakes out.

In the Texas legislative session just concluded, Democrats and Republicans could not agree to move the state primary election dates to early in 2008 – as all other big, politically-powerful states did. As a result, the Ds and Rs unwittingly may have helped potential *Independent* candidate New York City Mayor Michael Bloomberg in Texas.

And if the Independent candidate is helped in Texas, the converse could also be true – **the Dem and GOP candidates could be hurt**. How is this “unintended consequence” shaping up? It’s really quite intriguing and could still change as the dynamics of presidential politics change. And there are a lot of moving parts. But Texas, long a Republican lock in recent national elections, may not be so solidly GOP. Let’s start with some facts and an assumption.

FACT: The big, influential states – tired of letting small states such as Iowa and New Hampshire have an outsized influence in selecting presidential nominees because of their early primaries – have rebelled. **They have lumped their primary dates (with huge delegate votes) right up against the small states**. Candidates now will be pressured to campaign early and heavily in the big states.

FACT: Despite a move to do so, Texas did not change its election dates that are some six weeks after the new “clumping” of primaries. As a result, it is **conceivable the Dem and GOP nominees could be selected before Texans even have a chance to vote in March 2008**.

ASSUMPTION: If this holds true – or even if the candidate field is winnowed down to a few hopefuls – Texas could become almost irrelevant in selecting a party nominee. If this is the case, **why would the nominees bother spending money trying to convince Texans to support them?**

Along comes billionaire Bloomberg who doesn’t have to go through the primary election process and, instead, would use his considerable personal fortune to get on the ballot in the 50 states. **The first state where the independent ballot access will be decided is Texas.**

Because Texas Dem and GOP primary elections could be of little consequence, Bloomberg could have the field almost to himself as he tries to persuade Texans he deserves a slot on the November 2008 ballot – all the while **running scads of ads appealing to both Ds and Rs, raising his name ID and converting voters who already are expressing deep disdain for both political parties**. Pulling from both Dems and GOPers, he could be formidable force in November.

All this would not be possible if the Texas Legislature had followed the lead of California, Florida, New York, etc and set an early February primary election date. If this scenario plays out, **the Independent candidate could get a tremendous head start to try to carry Texas**. He would need it because the Lone Star State offers a steep hill for him to climb. If he summits this peak, he can write a thank-you letter to the Texas Legislature.

Financing of roadways around Austin, and throughout Texas for that matter, is an issue that will ratchet up considerably. In fact, look for more entities to compete to provide the money the feds and the state have normally provided.

Easy money – and lots of it – is going to be flying fast and furious at a time when local and fed funds are woefully short to meet demand to build roadways needed by an expanding population. We've already seen one example here in the Austin area when a foreign firm, Cintra, pledged billions of dollars to build a major toll road system. **There's a lot more where that came from, not just from foreign firms, but Wall Street is also gearing up to get in on the action.**

It's a textbook economic scenario. The demand to handle the skyrocketing number of vehicles crowding existing roadways is reaching the breaking point. But traditional government funding sources – gasoline tax revenue, etc. – have not expanded enough to meet the demand. Private sources have run the numbers and they see that if they put up **vast amounts of cash to build toll roads, in return for a huge chunk of the revenue, they can have a decades-long, stable source of revenue at a good rate of return.**

This is where the competition comes in. Wall Street firms are rapidly opening infrastructure funds. And if this new trend develops as it appears it may, a whole new investment arena will be opening up – moving beyond roadways. **Firms such as Morgan Stanley, Goldman Sachs and The Carlyle Group are licking their chops at opportunities** to lease/operate toll roads and other public projects such as airports, waterworks and ports.

It will be dicey because political entities are at the core of this trend. Witness the fighting in the just-ended session of the legislature. Austin State Senator **Kirk Watson** said “the Legislature just missed its best opportunity in years to make some hard transportation decisions.” As a result of no clear legislative guidance the political heat will build, and rules and regs will be tossed about like popcorn.

But building and operating toll roads is such an attractive investment that some competition is coming from beyond the private sector. Yesterday (6/28/07), just up the road in Dallas, the same Spanish firm (Cintra) that cut a deal here in Central Texas was outbid for the proposed SH121 toll road – by *another governmental entity*. **The North Texas Tollway Authority proposed paying the state of Texas \$2.5 billion up front, plus \$833 million over time to build and operate the tollway — \$333 million more than Cintra proposed.**

Make no mistake, this trend could be huge. Already, the Austin area has been in the forefront of this movement and our friends at *Kiplinger Forecasts* predict by **mid-2009-or-so, \$100 billion in public property will change hands.**

There will be a lot of push-pull as the pols and investment companies plow this ground. And there is no doubt the forces are there to make this a major force in our immediate future.

Unlike practically every other airport worldwide, Austin-Bergstrom International Airport (ABIA) regularly serenades incoming and departing passengers with live music at three different locations. So, who pays the musicians for these gigs?

There are nine gigs a week at ABIA. The airport's stage is across the concourse from Gate 10 between the two heavily-traveled areas that lead to the baggage reclaim area. **The airport's stage hosts performances during the busy 3:30 pm-5:30 pm timeframe, Monday thru Friday.** The adjacent bar offers refreshments for those whose flights are delayed or if the traveler got through security more quickly than anticipated (yeah, right!).

The airport stage has long been the site of performances, but now there are two other locations where performers showcase their talents live. **The Hill Country Bar**, near Gate 15, hosts singer/songwriter acts on Thursdays and Fridays, 3:30 pm -5:30 pm. And you can hear live music at **Lefty's Bar & Grille** from 1 pm-3 pm, Wednesdays and Thursdays.

When Austin's big music festivals and meetings are in full swing – such as the Austin City Limits Music Festival, SouthBySouthwest and the International Music Products Association – more performances are added at all venues in the airport. The venues are past security screening points and available to ticketed passengers.

The entire live music approach is a nice touch. You know when you walk into an event and music is playing, it livens up the experience. The same can be true, even for a weary and frustrated traveler. So, where does the money come from to pay for these “free” concerts? **The airport concessionaire, Delaware North Companies, and local businesses such as the Hyatt Regency Lost Pines Resort and Spa are the mainstay funding sources.** And more sponsors join in to put on extra bands during the passenger-increasing music festivals.

When **Dr. Louis Overholster** found out that Starbucks launched its own music label, featuring a new **Paul McCartney** selection of 16 songs, he said “That’s one song for every drink the person in front of you has ordered!”

NEAL SPELCE AUSTIN LETTER (ISSN 1071-0612) is published weekly, except last two weeks of the year, for \$150 (plus tax) per year or \$249 (plus tax) for two years. To subscribe, call 512-498-9495. Periodical Postage Paid at Austin, TX 78767 by Austin Letter, Inc., 4105 Bee Creek Rd, Spicewood, TX 78669. POSTMASTER: Send address changes to: Neal Spelce Austin Letter, P.O. Box 1905, Austin, TX 78767-1905.

Sincerely



Editor/Publisher