

Volume 29, Number 40

January 18, 2008

Dear Client:

**Toll roads, in and of themselves, are a major new factor in the economy of our area. But if you look at the long haul, they are likely a harbinger of a new way of doing business for the Austin area and the state of Texas.**

A realist will tell you toll roads are here to stay and will probably **expand exponentially due to the growth of the area and the scarcity of funds** to keep up with the transportation needs of that growth. Oh sure, the roads will continue to be controversial. But when you get down to where the rubber meets the road (to use a tired old cliché), they are the most practical option.

Because toll roads can be a **guaranteed money machine**, many private companies have made moves to “privatize” the process, giving governments a steady source of revenue while allowing those public entities to reduce risk and cap worker costs. **Look for this trend to expand beyond state toll roads into other state, city and county government operations.** In fact, it is already picking up steam.

Texas has recently privatized certain toll roads, and while some hiccups were encountered at the last session of the legislature, delaying some projects, a blueprint for how this privatization process can work is emerging. Meantime, **a privatization wave is sweeping the country.**

**Chicago got \$1.8 billion** for leasing its 8-mile Skyway toll road. The state of **Indiana pulled in \$3.8 billion** for a longer road and **Virginia received \$522 million** for a 99-year lease on a little road linking two interstate highways.

**Now this trend is moving beyond roads.** Boston, New York City and Kansas City, Mo, are letting the private sector oversee and **maintain city parks.** North Carolina is allowing private firms to **manage state liquor stores.** Texas flirted with **privatizing the lottery**, and it may come up again in the next legislative session because Illinois and Massachusetts are also exploring the possibility.

According to our friends at *Kiplinger Forecasts*, other jurisdictions are **privatizing prisons, public vehicle maintenance, street cleaning, debt collection, printing, water treatment plants** – you get the picture. Privatization, as a source for governmental revenue, reduces the need for taxes and can cut the size of government. It is a trend that bears watching.

**Despite the mantra being heard of “live and work downtown,” Austin traffic patterns could change dramatically once the surge in downtown high-rise condo construction nears completion and occupancies reach saturation.**

The problem is simple. **Currently there are not enough jobs in the downtown area** to support full occupancy of the new high-rise condos and apartment buildings that are nearing completion. And the pace of job creation in the downtown area is not yet vigorous enough to meet that demand, should the demand materialize. So, **living downtown and walking to work may not be possible for hundreds of residents** in the Central Business District.

What does this mean? Well, it means that many of those who rush to live downtown will find themselves part of **a new traffic pattern during rush hour. You might call it a reverse commute.** Cars will start streaming *out* of the downtown area to places of employment at the same time cars are converging on the downtown area from the suburbs and other neighborhoods.

This potential alteration is based on the assumption that downtown living units will be occupied at a reasonably fast clip (as owners, developers and lenders are hoping!!!). **With that assumption, the only thing that could stem this traffic pattern change would be for more major employers to move into the downtown area.** These major employers would need to pay a higher-than-average wage so their employees could afford these new units. So far, not many major employers have rushed to acquire pricey downtown space for their companies.

Remember, **the majority of the employees in the downtown area right now draw government paychecks;** they don't fit the target profile for the new condo and apartment marketers. When the day is done, they head to their living units in the less expensive parts of town. It will be interesting to watch this develop as our downtown undergoes dramatic changes.

**How to get to, and around, downtown Austin looks to be a major focus for 2008 with widely differing proposals being cussed and discussed and some even coming to fruition.**

You may need a program to keep them all straight. **A rail service, called MetroRail,** is scheduled to begin running this fall between Leander to the northeast, to downtown Austin near the Convention Center. Austin Mayor **Will Wynn** last fall called for an election in November 2008 for a **different rail service** to serve downtown, UTAustin, the Mueller development and Austin-Bergstrom International Airport.

Capital Metro and the Real Estate Council of Austin are touting different plans that call for a **new system of parking garages and bus routes downtown.** The Austin City Council is creating a city agency to oversee **new city-built parking garages** and the **Dillo circulator bus system** is bound for change. Whew! We'll keep an eye on these for you in the coming months.

## **What does Delta Air Lines' wide-open-throttle to become the largest airline in the world by merging with Northwest Airlines or United Airlines mean for Austin?**

It was reported this week that Delta is pushing fast and furious to merge with Northwest or United, talking to both airlines simultaneously. No matter which airline ends up as the merger partner with Delta, **it would make Delta the largest airline in the world, overtaking American Airlines.** United is the 2<sup>nd</sup> largest US carrier, while Northwest is #5.

As it stands now, Delta would be the surviving entity. This is a big deal. And it becomes more important when you realize that **Delta is hoping to reach an agreement with one of them within the next two weeks.**

All these airlines service Austin-Bergstrom International Airport (ABIA), so you have somewhat of a stake in what happens. As you know, airlines lease gate space at airports – the more passengers, the more gates are leased. So, **Delta as part of the final merger agreement would probably pick up additional gates at ABIA** that are currently being used by either United or Northwest.

The additional gates will give Delta the opportunity to more aggressively pursue Austin travelers. Delta, after emerging from bankruptcy, has ramped up its Austin efforts and **just before year-end 2007 its local passenger traffic was up 27%.** So a merger would give more opportunity to Delta.

What will Delta do at ABIA after the merger? Don't know. In fact, Delta probably doesn't know yet. But in the larger scheme of things it should not have a major impact for Austin travelers. And the reason is: **these three airlines, while serving key markets from Austin, are not that big of players in Austin.**

Even though Delta would jump past American to become the world's largest airline, its Austin presence is not all that great. It doesn't matter the ultimate merger partner, because **Delta's total merged Austin passenger base would still be less than half of what American carries out of ABIA.**

And Southwest Airlines carries more Austin travelers than American. In fact, Delta currently has only the fourth largest market share in Austin, and after the merger it would simply move up to a **neck-and-neck battle with Continental Airlines as the #3 carrier at ABIA.**

It'll be interesting to see what Delta does on a new Austin-Los Angeles service if its merger partner is United. **In just a few weeks – on 2/13/08, to be exact – United will begin new, daily non-stop service to LA.** In the process, this new LA service means that ABIA will be connected with all five United hubs in the US – San Francisco, Denver, Chicago, Washington, DC and LA. From these hubs, United connects to more than 200 destinations worldwide.

**An important deadline for Austin's energy future is looming and, so far, it has received little notice.**

As regular readers know, we have continually pointed out that **nuclear power is the cheapest and among the most reliable of suppliers for electricity to the City of Austin-owned Austin Energy.** Austin voters decided in 1973 to participate, to the tune of 16% ownership, in the South Texas (Nuclear) Project (STP). San Antonio and managing partner NRG Texas LLC own the remainder of the project.

For decades, no nuclear power plants have been built or expanded. Now, **NRG is applying for a license to expand STP in Matagorda County near the Gulf Coast.** Other nuclear power plants are also on the drawing boards. Go to our archives section and type in "nuclear" for what we reported about them in the past.

Decision-time for Austin is fast approaching. **NRG has notified the City of Austin it has until March 4, 2008 to make a decision** on whether to invest in the nuclear power plant's expansion. The kicker to all of this is the Austin City Council has decided it will **put the issue to the voters if it decides to go-ahead.** The same voter approval would not be needed to expand or build other sources of electricity such as a coal-fired plant.

It is not anticipated such a vote would generate the passions (some called it "craziness") that was seen when the initial approval was granted in a very close, hotly-contested election more than 30 years ago. **But, you never know what might happen when an item as controversial as nuclear power is placed on a ballot.** There is no question the growth of the Austin area will result in the need for more electrical power to service this growth. It takes years from decision-making to delivery of any source of electrical power. The decision by 3/4/08 is looming as very important for Austin's future.

**Dr. Louis Overholster** says a business meeting where everyone sits around discussing why a deadline was missed or a project failed and who was responsible should be called "blamestorming!"

Sincerely



Editor/Publisher