

Volume 32, Number 38

December 17, 2010

Dear Client:

As the New Year dawns, look for the debate over new urban rail system routes in Austin to ratchet up. The system, no matter which routes are proposed, will be costly and controversial. And downtown will be the focal point.

It's far from a done deal, but serious planning is taking place inside Austin city government. How serious? Well, for starters, the **structural integrity of the Ann Richards Congress Avenue Bridge and the First Street Bridge has been probed** in case the rail line might cross one of those bridges.

Questions will abound. For instance, if the Congress Avenue Bridge is selected as a route, **how will that affect the huge bat colony** living under the bridge that has been heavily promoted as an Austin tourist attraction? **Or will a new bridge spanning Lady Bird Lake need to be built** at the cost of about \$30 million?

Oh yeah, the cost. It's not just the possibility of the cost of a new bridge. The City is estimating it could pony up about **\$190 million with local bond funding**. Another **\$114 million would be needed in incremental tax** financing along with public-private partnerships.

And the federal government? Well, the City is talking about **almost \$100 million coming from the feds**. The idea of big federal dollars being available for rail projects was a key element of the current Democratic administration's economic stimulus plan. Now, with a new Republican majority seated in the US House next month, it is likely there will be a tighter grip on spending in Washington.

There's more to this rail plan, much more. But you get the idea of the **complexity and extraordinary expenditures** needed to make this a reality. This is why we started out talking about "**debate ratcheting up**" and used words like "costly" and "controversial."

Underlying the upcoming debate will be Capital Metro's operation of the Capital Metro Red Line. Many voters will not be able to separate CapMetro's rail project from the proposed plan. (In fact, CapMetro's leadership is already saying it would like to manage the new rail line.) So, another **part of the debate could center around Cap Metro's worthiness as an operator for the new line**. Stay tuned. It should get interesting.

Speaking of transportation, you'll recall JetBlue Airways set up a high-profile advertising partnership with the UT Austin Athletics Department. And then, the Texas Longhorns football team ended up with the worst record in Coach Mack Brown's tenure. So, what impact did the football nosedive have on JetBlue's passenger traffic in Austin?

At the beginning of this year's football season, we detailed the advertising relationship. (You can see what we wrote by clicking on the "Archives" button at the top of this page and scrolling to Volume 32, Number 27, October 1, 2010.) Suffice it to say, **there were a lot of JetBlue promotional activities, especially during the home games this fall.**

Did Texas football's falling fortunes have a negative impact on JetBlue's business? **Was it a "good" business deal gone bad for the airline?** Obviously, we don't have access to JetBlue's business plan to determine what the airline's marketing gurus were projecting. But we can check the number of passengers that flew JetBlue through Austin-Bergstrom International Airport (ABIA).

Such a check lets us see what kind of **increase in passenger traffic**, if any, may have occurred and how it **compared to the other airlines**. This is a good bottom-line measurement. The most recent ABIA figures only go through October (another info dump won't occur until 2011).

But October is a very telling month. For example, **by the end of October the Texas Longhorns had already lost to UCLA, Iowa State and Baylor at Darrell K Royal – Texas Memorial Stadium and were also defeated by OU in Dallas.** These were four of the seven defeats suffered by the football team throughout 2010.

In spite of these disheartening losses, **JetBlue's passenger traffic at ABIA during October 2010 was – hold on – up 25% compared to the same month the previous year.** And this tally was recorded when the total ABIA passenger traffic for all airlines was up only 4.5%, compared to October 2009.

Possibly even more telling was the fact that during the same timeframe Austin **market-leader Southwest Airlines' passenger traffic was down 2%** while the other biggie at ABIA, American Airlines, was up 4%, compared to JetBlue's 25%.

Let's look at it another way. **JetBlue became an "official partner" with the UT Austin Athletics Department in 2009.** So, let's check out the entire 2010 year through October to see how the airline fared. Again JetBlue has to be pleased with its increased business at ABIA. Through 10 months of 2010, JetBlue's passenger totals are up a whopping 23.5%.

The year-to-date totals for JetBlue show the airline is outperforming the Austin market in a big way. The total of *all* 2010 airline passengers was up only 4.5% and the top two airlines, Southwest and American, had 10-month tallies, respectively, of +0.1% and -3%. So, even with the worst football season in many a moon, it looks like JetBlue did okay.

Without question, Texas leaders will confront a difficult financial situation when the Legislature convenes in Austin 1/11/11. The Austin area has more at stake in their deliberations than any other metro area. So, fasten your seat belts.

It's a complicated situation. Texas is the fastest-growing state in the nation. This means more people using state services. It also should mean more revenue. But the state is facing a **shortfall that some predict will approach \$20 billion**. And the leadership has echoed House Speaker **Joe Straus** who has committed to **balance the state budget with no tax increases**.

A noted Texas economist, who holds a powerful position, had some words of advice to newly-elected members of the Texas Legislature. **Richard Fisher** is president/CEO of the Federal Reserve Bank of Dallas. Here is what he recently told the newbie legislators:

“You have a lot on your plate as new legislators. **Don't lose track of this simple, unalterable, indisputable, critical fact: We have done well so far; our economy is mighty**. But to stay ahead of the curve and compete in tomorrow's global marketplace, Texas must do better in educating its population ...

“My plea is that each of you make it one of your principal goals to **make Texas an educational powerhouse**. High-value-added, job-creating businesses that are world beaters will not move their top executives to Texas unless they can **send their children and grandchildren to top schools and universities** ...

“Whatever our ethnicity or origin, Texans are a race of risk takers. We have from the very start defied conventional wisdom. **We must now take risks, defy conventional wisdom and turn around our educational system. Our economic future depends upon it.**”

Austin and the major metros of Texas are on an economic roll right now. In fact, *Newsweek* recently commented that **“for sheer economic promise, no place beats Texas.”** It went on to describe Austin as having the nation's strongest job growth, both in the last year and over the last decade.

Newsweek reported that Austin **“enjoys good private-sector growth, both from an expanding roster of homegrown firms and outside companies**, including an increasing array of multinationals such as Samsung, Nokia, Siemens, and Fujitsu.”

This simply underscores what Fisher told the large group of first-time legislators who will be making the tough decisions in the next few months. Yes, Austin and other important Texas cities are among the nation's economic leaders. But **“to stay ahead of the curve and compete in tomorrow's global marketplace, Texas must do better in educating its population.”** We'll know at the end of the 140-day legislative session, at the end of May 2011, if Fisher's advice is heeded.

One indication of a region's economic vitality is the amount of venture capital flowing into a given area. So, how does Austin measure up using this economic yardstick?

According to the Austin Chamber of Commerce, venture capital investment was up dramatically in the 3rd quarter. In fact, Austin ranked 12th for total VC investment in the 3rd quarter among major US metros. That's not all. **Total investment for the first 3 quarters of 2010 reached \$317.1 million. This is nearly double the total for all of 2009.**

For an entire decade, the English-speaking world has disagreed on how to pronounce the first years of the decade. For instance, is 2010 pronounced two-thousand-ten or twenty-ten? No doubt you have worried about this every day. Never fear. As you ponder this "calamity," a language authority has decreed what will happen as you start 2011.

The Global Language Monitor (who?) is the authority. (The Monitor must be legit, because it is based in Texas!) The monitoring group has projected there will be no more disagreement. **It confidently predicts that 2011 will likely be commonly pronounced as – ta-dahh! – twenty-eleven.** There. You now have one less calamity to worry about in the New Year.

Speaking of the New Year, this is the last issue of the newsletter that will carry a 2010 date. As has been our custom since founding this enterprise in 1979, we take a two-week hiatus during the last two weeks of the year. We've found that with all the holiday hoopla, travel, distractions, etc., this is the best time for us to take a little break.

As a result, the next edition of The Neal Spelce Austin Letter that shows up in your email in-box will carry a date of January 7th 2011 (remember: everyone will start pronouncing it "twenty-eleven.") As you say goodbye to a difficult year, remember this bit of negative wisdom from **Dr. Louis Overholster**: "If you don't learn to laugh at trouble, you won't have anything to laugh at when you are old!" We wish for you and your family the best of joy for the holiday season and better times ahead in the New Year.

Sincerely



Editor/Publisher