The NEAL SPELCE AUSTIN LETTER

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Dear Client:

**Deadly US train collisions in 1998 and 2002 triggered Congress to pass the Rail Safety Improvement Act of 2008. It mandated all commuter rail systems, like the one operated by Capital Metropolitan Transportation Authority in the Austin area, install expensive safety equipment by 2015. Did CapMetro meet this deadline? Nope. The deadline was then extended to December 31, 2018. And CapMetro, finally, this week voted to install a Positive Train Control (PTC) system. Now what?**

First of all, this is a big deal – big, as in big bucks. **CapMetro voted to spend $65.7 million to install a PTC system on its 32-mile Red Line**. What is this PTC? Without diving into the technical aspects of it, here is the way the national railroad association describes it:

> A PTC system is advanced technology designed to **automatically stop a train before certain incidents caused by human error can occur**. **Stopping derailments, collisions and other mishaps is a good thing** – especially if it can prevent injuries or death.
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> It's a large and complex process. **CapMetro's contractor is planning to begin the effort next year, including installation of an elaborate fiber optic network**. How long will it take? Good question. CapMetro has already indicated it will request another extension from the feds so its contractor **can continue working through 2020**.
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> Financing the installation will take a big bite out of CapMetro's budget. **The $65.7 million price tag** will be offset somewhat if it is successful in applying a **$12.8 million federal grant**. Still, the remaining cost is a huge chunk to pay.

There are at least three different options. CapMetro's board decided to use a PTC system that is proven in several cities. It is called Enhanced Automatic Train Control. **It is being used in Portland, OR., Salt Lake City and Denton County here in Texas**. Contracting for a proven system could be the value of waiting until now to take the leap.

The contractor that will begin installing the Enhanced Automatic Train Control system next year is a company known as **Modern Railway Systems**. CapMetro is now on the hook to spend a large sum that could have a significant impact on its budget for the next couple of years.

**For years, the Texas Legislature has been putting money into a piggy bank. Seldom has it been significantly tapped. As a result, it has become the largest such savings account of all the US states. It now contains a whopping $10.3 billion. The official name is the Economic Stabilization Fund. But it's commonly referred to as The Rainy Day Fund. Texans have just gone through the most damaging "rainy days" in US history. More than 50 inches of rain has fallen in parts of the state. So, what will now become of that $10.3 billion pot of money**?

The governor can't just draw down the Rainy Day Fund. Besides he has *another* pot of money – at least $110 million, effective today – he can tap. **Only the Texas Legislature can okay pulling money out of the Rainy Day Fund.** And, there are severe guidelines that must be followed before funds can flow from the Fund.

**Yeah, but as it now stands, legislators are not due back in Austin until January 2019** when the next session is scheduled to convene. So they can't take action to spend any of that $10.3 billion until that time, unless Gov. **Greg Abbott** calls a special session for that purpose.

At any rate, the timing may not be all that dire. As every state employee knows, **the state's fiscal year begins today** – **September 1, 2017**. So, as of today, each agency's annual budget is available to be tapped as needed.

Besides, the **federal government**, through the Federal Emergency Management Association (FEMA) and other federal agencies, is already **funneling money and resources into Texas**. And, don't forget the massive volunteer effort underway as many boat owners came from all over, rushing to the scene to help rescue Texans stranded by the high water.

**Also, businesses ranging from Walmart to Whataburger are donating millions of dollars in cash, goods and services**. Churches, schools, cities, counties are all stepping up to the plate to help. The list goes on and on.

Now, back to The Rainy Day Fund and its $10.3 billion of cash. Obviously, the total tab to rebuild the Gulf Coast region will not be known for months. But, you can bet when the Texas Legislature gets involved, there will be those who urge **draining the Fund as much as possible to meet the needs**. And other well-meaning legislators will likely argue to **keep as much money as possible in the Rainy Day Fund – for the next unanticipated event**.

An interesting sidebar will play out here in Austin that may not be all that visible. We're talking about the **state agencies that are right now responding to an all-hands-on-deck call**. Two weeks ago, they were anticipating handling their normal functions. Now, much of that planning is on the back burner as they respond – rightly – to the Hurricane Harvey crisis. **This will be a test of the management of those state agencies headquartered in Austin to see how they cope with what is a major disruption of their normal operations**.

**Quick update: in case you haven't yet noticed, Austin area service stations are running out of gasoline. So are stations in San Antonio. And, the travel-oriented Labor Day holiday is looming. Obviously this is the result of Hurricane Harvey's damage on the Texas Gulf coast and the priority placed on taking care of those victims.**

Just how serious is it? Anecdotally, a local locksmith said late Thursday afternoon he had **no luck finding gasoline at seven stations and then finally had to wait about 30-minutes in a half-mile long line at Costco in North Austin**. The Exxon station across the street had two cops helping out when the pumps ran out of gasoline. Be advised.

**Longtime Texas economist Ray Perryman weighed in Thursday afternoon with his assessment of the economic impact – long-term and short-term – of Hurricane Harvey on Texas. He said "the best available, most recent estimate from AccuWeather indicates the damage caused by Harvey could be as high as $190 billion, *making it equal to the cost of Hurricanes Katrina and Sandy combined.*" This is a big number, even for an economist. Then Perryman added: "this estimate is obviously preliminary."**

He said it will be months before a clear picture can be obtained. Those who have followed Perryman's work in Texas for decades know **he has analyzed similar issues related to Gulf Coast storms on numerous occasions**. So, how does he see it at this stage (caution, you are about to see some eye-glazing, really-big economic numbers. But, if you want to skip the details, you can jump to the last two paragraphs)?

Let's start with the *nation* as a whole, where he suggests that over an extended period of time, **losses of $145.0 billion in real gross domestic product** could occur. In addition, he said there could be **losses of $95.9 billion in real personal income** … and a **loss of 1.01 million person-years of employment**.

The bulk of the impact, he noted, falls on Texas and Louisiana. In *Texas* he said the losses could amount to **$110.3 billion in real gross state product** … **$73 billion in real personal income … and 771.6 thousand job years**. For *Louisiana* he forecasts losses of **$8.7 billion in real gross state product** … **$5.7 billion in real personal income and 60.8 thousand job years.**

See, we warned you the numbers could cause your eyes to glaze over. And while they have deep meaning and importance to economists, here's his perspective in plain language: he says these **values represent about 7% of the annual output and income levels of Texas** that will be felt over a long period of time.

Perryman's conclusion: "while the effect on the Texas economy is significant, **it is not likely to derail its long-term pattern of growth for an extended period of time."**

**Have you noticed those blue highway signs near intersections all around the area**? **They feature logos of up to 6 local businesses**. **The idea is to entice you to pull over to patronize those businesses**. **After all**, **they're just around the corner**. **Yep**, **it is localized, targeted advertising**. **And it is a product of your state government**. **So what are the guidelines and what is the price to place a logo/ad on these signs**?

It's a money-maker for the Texas Department of Transportation. **TxDOT has contracted with LoneStar Logos & Signs to peddle the space to businesses within three miles of the signs**. TxDOT builds, erects and maintains the signs. Some neighborhoods have objected to the roadside "eyesores," while backers claim the signs are a service to the traveling public.

Can any business put up the bucks and slap a logo on the blue signs? Nope. According to the guidelines, they must be travel-related … such as **gas**, **food**, **lodging**, **campsites**, **24-hour pharmacies**, **or at least those companies that offer at least one** "**primary motorist service**." Oh yeah, major shopping areas are also allowed to lease individual signs.

Now to the nitty gritty: what does it cost each individual entity? Just like privately-owned billboards, **the cost is directly tied to the daily traffic counts of vehicles that move past each sign**. In other words, more eyeballs cost more.

Okay, break it down. Give us an example. **If the sign is on a main lane**, **the cost can range from $900 to $3,250 per year** to lease the space (much less than the cost of a billboard, but you can only use your logo). Obviously, the variance is tied to the traffic count for that specific location.

Yeah, but what about *lower traffic count* locations? Well, as an example, for signs on an exit ramp (which may not be all that bad because traffic slows down), **costs can range from $150 to $750 per year**. With *annual* contracts, it looks as if the signs will be with us for a while.

**Dr. Louis Overholster** saw a billboard that read: "Well, you *did* ask for a sign … God."

Sincerely,

Neal Spelce

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