

THE

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AUSTIN LETTER

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Dear Client:

For the first time in aviation history, more passengers are flying through the Austin airport than are using much-bigger San Antonio's airport. In fact, Austin ranked as the nation's 6th fastest growing major airport in the first quarter. Austin-Bergstrom International's 3,025,219 passengers year-to-date through May compares to San Antonio's 2,984,317. While San Antonio's June numbers are not yet available, the Alamo City will be hard pressed to match Austin. ABIA shattered the previous monthly record by a whopping 3.5% to tally 707,046 passengers in June.

Even though ABIA is just more than a year old, expansion is already underway with a \$3,375,000 grant from the FAA's Military Airports Program to be used primarily to build additional hangar space for general aviation and to add new overnight parking space for commercial airlines. "It is a wonderful indicator of how fast ABIA is growing that even the airplanes need additional parking," commented Congressman **Lloyd Doggett**, whose behind-the-scenes work in Washington undoubtedly helped get the deal done.

Congressman Doggett's assessment of the airport is right on target. According to ABIA officials and the Greater Austin Chamber of Commerce, the airport experienced a greater than 10% increase in both the number of scheduled passengers *and* volume of air freight during the first six months of 2000. And remember, as we told you last month, Continental Airlines leased Gate 22 in the west concourse of the terminal building, leaving **only two of the 25 gates not currently leased to a carrier.**

This is good news for Mayor **Kirk Watson**, who continues to benefit from one success story after another generated by our booming economy. It also highlights an important political relationship that doesn't get much ink — the longstanding professional and political ties between Austin's mayor and its congressman.

Both Watson and Doggett were (Watson still is) successful plaintiff's attorneys before entering political life. Both were active in local Democratic Party politics and built a base of support among West Austin's political establishment. Both carry on a tradition of progressive politics that has come to characterize Travis County, albeit growth is bringing more conservative political change.

This is a long way of saying that Austin benefits economically from the close political alliance between Mayor Watson and Congressman Doggett. Federal grants don't just fall from the sky.

The average number of people employed for the first half of the year in the Austin area has grown 5% from the average for the same period a year ago. That's a big hike – bigger than most projections. The actual numbers: from 624,800 a year ago to 656,300. That means we've added about 31,500 jobs to our economy. This is all the more significant when you realize that unemployment in June – when students pour into the workforce – is a very low 2.4% (compared to last year's June number of 2.6%).

Texas Republicans and Democrats circled the wagons when Vice President Al Gore chose the Alamo as a setting to fire potshots at the State of Texas. You may have noticed Gore's attacks on Texas and Governor Bush's administration provoked a group of prominent Texans into organizing the "Proud of Texas Committee." The committee's purpose is to refute the Gore campaign's characterization of Governor Bush's record on education, health care, criminal justice, the environment, and other issues.

To recap, the committee is comprised of *Texas Monthly* founder/publisher **Mike Levy**; former Texas Natural Resources Conservation Commission executive director **Dan Pearson** (now a lobbyist for Hillco Partners); **Mark Stiles**, a 16-year Democratic state representative from Beaumont and Senior Vice President of Trinity Industries in Dallas; Texas Tech University Health Science Center President **David Smith**, M.D., who served as Texas Health Commissioner during **Ann Richards'** tenure in the Governor's office; and **Will Davis**, an Austin attorney who has served as Chair of the Texas Democratic Party and currently represents Central Texas on the State Board of Education (retiring this year).

The committee has already come under fire for its lack of minority representation and for "spinning" Texas data to make Governor Bush look good. However, it is important to note that those criticisms generally come not from Democratic elected officials (with a few exceptions), but from media sources and Democratic political partisans.

The fact is, a significant number of Democratic House and Senate members want Governor Bush to succeed and have thus far stayed out of the presidential race (most notably House Speaker **Pete Laney**). This isn't because they always agree with him or aren't loyal Democrats, but because they like Governor Bush personally and realize that a Bush presidency could have political benefits for both Texas and Texas Democrats down the road.

Note also that Austin political consultant **Bill Miller** of Hillco Partners is the committee's press spokesperson. Indeed, the committee, to some extent, has a distinctly "Millerean" flair. Miller was former Rep. Stiles's campaign and political consultant; Pearson, as we have pointed out, works with Miller and lobbyist **Buddy Jones** at Hillco. Although Miller and the committee will operate independently of the Bush campaign, their defense of the Bush Administration's record in Texas will position Hillco favorably with the Governor — a win-win for Hillco and its clients.

The decision by Jack Martin's multi-state Public Strategies Inc. (PSI) to end its aversion to registered lobbying enhances one of Austin's major industries: trying to influence government.

PSI officially crossed the line into the lobbying business by bringing aboard **Rusty Kelley**, one of Austin's most influential, respected, and effective hired gun consultants. Kelley earned his spurs as House sergeant-at-arms and assistant to former House Speaker **Billy Clayton** and joins PSI strategist **Jack Gullahorn**, another former Clayton aide, as part of Martin's growing Texas legislative brain trust. Gullahorn, who left the hired-gun lobby several years ago, already provides Martin with expert strategic planning for major legislative initiatives. Some of Gullahorn's more recent efforts include the successful legislative and constitutional amendment campaign authorizing home equity lending in Texas, and last session's historic restructuring of the electric utility industry.

Kelley brings a raft of heavy-duty clients to PSI. According to the Texas Ethics Commission, Kelley's client list includes American Airlines, AMERIGROUP Corporation, Andersen Consulting, Bass Enterprise Production, Co., Dell Computer Corporation, Entergy/Gulf States Utilities, First Southwest Company, General Electric, General Motors, Hillwood Development Corporation, Longhorn Pipeline, Dallas millionaire **Peter O'Donnell**, Southwestern Bell, Texas Bankers Association, and Texas Rangers Baseball Partners — and that's not all of them.

Kelley gives PSI the full-service capability it previously chose not to develop. With other consortiums and partnerships already in the full-service field (primarily freelance lobbyist **Buddy Jones's** and media consultant **Bill Miller's** Hillco Partners), some traditional lobbying and public affairs practitioners might worry whether there will be any scraps left over for them.

But most folks close to the scene aren't concerned about that. There is an ever-expanding need for representation. **Texas is one of the world's largest economies**, and with a state budget approaching \$100 billion, both the pie and the number of people wanting a piece of it just keep growing. In other words, as government proliferates, so does the number of lobbyists. Public interest groups may wring their hands about this trend, but it's not likely to change.

Sales of existing homes in the Austin area have been stable, even though home prices have increased significantly. During the first six months of this year, the number of homes sold is almost identical to last year's white-hot pace – 8,841, compared to 8,844. It's amazing the torrid residential real estate pace is still continuing. That's a testimony to the vibrancy of our economy.

But that vibrancy has a price. **The median home price in June was higher by 18.2%** -- that's right, 18.2% — than in June last year. Last year, the median price was \$127,800; this year, it's \$151,100. It looks like the median price of homes in the Austin area is going up at the rate of about 1.5% per month. This also impacts the value of existing homes that are not for sale.

The Texas Turnpike Authority's decision to endorse the eastern route for proposed State Highway 130 appears to settle the local dispute over the highway route, but the Texas Department of Transportation and Federal Highway Administration still have the final say on the \$900 million project that will relieve traffic on IH35.

Nevertheless, SH130 proponents should be heartened by expressions of support from the communities that will feel the brunt of the impact. Despite complaints from some landowners along the route, who argue that SH130 will only benefit Austin, city officials in Lockhart and Seguin expect the toll road to help their local economies. Both anticipate commercial activity to cluster around toll road access points, and Lockhart has already either annexed or is planning to annex those areas to take full advantage of their economic potential.

With local political difficulties apparently solved, the effort now turns to finding the money to build SH130. No federal highway funding has yet been obtained for the project, and TxDOT hasn't yet determined whether SH130 should be paid for out of user tolls. This is where the political clout of Austin's legislative delegation, Texas Turnpike Authority chair **Pete Winstead**, Mayor **Kirk Watson**, and Congressman **Lloyd Doggett** will once again be tested. That's not a bad lineup. We're willing to give pretty fair odds the deal will ultimately be done.

If you have need for hotel rooms and/or meeting space in Austin during the first two quarters next year, you better make reservations now. Austin's hotel occupancy from January through May this year averaged 77.2%. That's up from 70% last year. But, and this is what is important, January through May *next* year is when the Texas Legislature is in session. A legislative session always greatly impacts the hotel/restaurant business in Austin. A word to the wise: plan ahead.

Dr. Louis Overholster likes to recall the time he got a call from an excited, expectant father saying his wife's contractions were two minutes apart. "Is this her first child?" asked Overholster. "No, you idiot!" yelled the man. "This is her husband!"

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Sincerely



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