

THE

Neal Spelce

AUSTIN LETTER

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Dear Client:

While redistricting is the single biggest issue of the legislative session, which started this week, look for it to have its biggest *public* impact during April and May. Oh sure, it will figure into almost every other issue, because each member of the House and Senate's own political futures will be impacted by the final drawing of the boundaries of their districts. But, the detailed numbers from the USCensus Bureau, which will be used to finalize the lines, will not be available until April.

And, if you think the state House and Senate members are antsy about what might happen, consider the members of the US House of Representatives. At least the members of the Legislature are here every day, **looking out for their own self-interest.** But, the members of Congress spend the bulk of their time in Washington during this process. To give you an idea of the importance some members of Congress place on the reapportionment, six – count them, six – were in Austin for the Legislature's opening ceremonies – lobbying and schmoozing.

The Congressional redistricting is really dicey. The current 30 members of Congress know each of their districts will probably have the boundaries re-drawn to encompass a **population as close to 646,947, the national average,** as possible. Add or drop a city or a county here and there and, all of a sudden, a district can change from Democratic majority to Republican majority or vice versa.

Because of Texas's fast population growth, two new seats will be added to the 30-member Congressional delegation. The three fastest-growth areas of Texas that will fight over the two new districts: **Austin** (Williamson County, to the north), **Dallas-Ft. Worth** (Collin County to the north) and **Houston** (Montgomery County, the north). You can bet any number of current state reps and state senators will want to carve out Congressional districts in which they can run.

If you've never lived through this every-ten-year battle, be prepared for a mean session. Legislators have been known to hold up major pieces of legislation if they think their district is not being drawn to suit them. **Political allies turn into personal enemies** when political survival, or upward mobility, is at stake.

If legislators can't agree (and that's happened in the past), then the law calls for a Redistricting Board to draw the boundaries. **Democrats don't want this to happen,** because only one D is on the committee, the House Speaker. The remaining members are all R's – the Lieutenant Governor, Attorney General, State Comptroller and Land Commissioner. Stay tuned.

When Dell Computer sneezes, you should start checking the Austin area's economic health.

Well, Dell is sniffing – and it's not from cedar fever. Dell's vitality is important. With more than 21,000 employees in Travis and Williamson counties, Dell is, by far, the largest private employer in the area. Also, much individual wealth is tied to the performance of Dell's stock.

Before we mention some symptoms that need to be carefully watched, we need to state the obvious: **Dell is NOT a dot-com that is struggling just to survive.** The powerful, successful homegrown computer giant is still generating millions and millions of dollars of profit, with a very healthy balance sheet.

That's not the problem. The problem is we've been spoiled by Dell's spectacular past successes and now the company is leveling off – much like the Austin economy. Many of the world's best companies would be thrilled to post a **20% annual growth rate, as Dell is expected to report next month.**

But, Dell is caught up in an unDell-like situation. Wall Street analysts this week **lowered earnings estimates** for Dell's fiscal fourth quarter – which ends 2/2/01 – from 26-cents per share to 21-cents, saying they don't feel Dell can outrun the PC industry's slowdown. Obviously, this will impact the price of Dell's stock, which is already **down about \$40 per share** from its 52-week high of around \$59.69.

As far as the Austin area economy is concerned, Dell is reportedly **slowing down its' hiring rate** at its Central Texas operations because of weak home PC sales industry wide. Some analysts fear this weakness could spread to the Corporate PC market. In its fast-growth period of the late 1990s, Dell had been hiring at the rate of 4-5,000 employees per year.

Again, if Dell is coughing a bit here, this may not be all bad for our overall economic health. Our unemployment rate is still amazingly low – less than 2%, among the lowest of any major metro area in the nation. So, a Dell hiring slowdown can only **make it a bit easier for other companies** in the area seeking the same sorts of employees who have been on Dell's radar list.

The prognosis for Dell? Well, **no one is predicting a big run-up in Dell's stock price.**

Apparently, that negative impact will continue to be felt for a bit. However, no need to worry for the time being about a hiring slowdown. Keep an eye on the PC industry as a whole to see whether there's an upturn there. And, mark 2/15/01 on your calendar to see what the company says when it reports results on its operations.

“First quarter '01 will be lousy for most firms. Second quarter probably a bit better but still pretty limp. By second half of year, a much rosier picture coming into view.” FYI, that's the national economic view this week from *The Kiplinger Letter* Washington editors.

With the movement picking up this week on airline mergers, failures and expansions, you need to know how it will affect those who fly in and out of Austin. The two major players in the race to become even more dominant, are the world's top two airlines – American and United. American carries four times more passengers at Austin-Bergstrom International (ABIA) than does United. So, let's focus first on American.

The activity this week centers around American's efforts on two fronts that would propel it to a size comparable with United, after United's proposed merger with USAirways. If American's plans stay on course, the Texas-based airline would **acquire struggling Trans World Airlines (TWA)**. And, in a complicated deal that would also help United's merger prospects, American would **acquire substantial assets of USAirways**.

The loss of TWA at ABIA would have a minimal impact on Austin air travelers. In fact, TWA filed bankruptcy, again, this week. It hasn't made a profit in 12 years, was facing a cash crunch and a huge debt that starts coming due next week. TWA carries only 3% of local travelers and most of those are on five daily non-stops to St. Louis. AA covets TWA's St. Louis hub, so Austin air travelers would probably not lose the St. Louis service if AA consumes TWA.

American's other move would be to **buy more jets from USAirways** (along with TWA's fleet, this would add about 300 more planes to AA's current fleet of 700). AA would also get gates and landing slots in the Northeast. USAirways has no presence at all in Austin so this part of American's plan would do nothing but enhance Austin traveler's options on AA. This is contingent on approval of the USAirways merger with United, which now becomes more likely because it is scaled down in scope – making the merger more agreeable to the feds.

As far as United's proposed merger with USAirways, that, too, could ultimately **enhance options for Austin air travelers** – if United offers more flights and expands service at ABIA. Currently, United carries only about 6% of Austin's passengers, primarily to Denver.

If American and United were successful in their expansion efforts, the two airlines would control **more than half the US air travel market** – way ahead of #3 Delta. And that could have long-term implications for ABIA. Delta and Continental Airlines are neck-and-neck in their battle for the Austin traveler. Delta has 10.6% of the Austin market, Continental 10.4%.

While they trail far behind Southwest Airlines (37%) and American (24%), Delta and Continental are aggressively competing for passengers at ABIA. Airline analysts are speculating that, if they are to compete against the Big Two, **Delta and Continental may have to get bigger themselves**. Depending on how this shakes out, it could have more impact on the Austin traveling public than the AA and United gyrations. Because, frankly, with USAirways and TWA the pawns in the current moves, Austin air travelers would not be impacted nearly as much as mergers involving Delta or Continental. It's something to watch.

What do you call the man many believe may be the most powerful state official in Texas besides ‘Sir’? Bill Ratliff’s new letterhead gives you three choices. On the issue of title, the law is vague that allowed State Senators to pick Ratliff from their number to be Acting Lieutenant Governor to preside over the Senate. So, Ratliff has apparently decided to do away with this “Acting” stuff. On his personal letterhead **the most prominent title, front-and-center in the biggest type, proclaims Ratliff “Lieutenant Governor of Texas.”** Period. If that’s what the 600-pound gorilla wants, you can bet very few will quarrel with him.

Then, with a bow toward the action that put him in this position, Ratliff also lists, just below “Lieutenant Governor of Texas”, the title **“President of the Senate”** in a tad smaller type. But Ratliff also holds another distinction unlike Texas Lieutenant Governors who are elected by a statewide vote. He is still a State Senator, representing folks from East Texas. So, off to the side of the letterhead, in still smaller type, is the title **“State Senator, District 1.”**

Ratliff can be reached at 512-463-0001. His mailing address is The Capitol, Austin, Texas 78711-2068. Five state Capitol veterans were hired this week to round out his staff. Joining Chief of Staff **Eric Wright** and Exec Assistant **Vatra Solomon** are General Counsel **Denise Davis**, Director of Fiscal Policy **Michael Morrissey**, Director of Research **Patricia Hicks**, Director of Legislative Policy **Leah Erard** and Director of Communication **Nick Voinis**.

The 5-county Austin metro area covers 4,226 square miles and the city limits of Austin encompass 263.59 square miles. And Austin’s elevation varies about 600 ft. – going from 425 ft. above sea level to 1,000 ft on the western edge of the city. However, there are no statistics on how many juniper trees over this vast area are pollinating right now, covering everything with dusty cedar pollen (cedar fever!). But the numbers of itchy, red eyes, runny noses, scratchy throats, sneezes and coughs run into the multi-gazillion range, by actual daily count!

Dr. Louis Overholster says “I used to dread getting older because I would not be able to do all the things I wanted to do. But now that I’m older, I find I don’t want to do them!”

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Sincerely



Editor/Publisher