

THE

Real Spelce

AUSTIN LETTER

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Volume 23, Number 1

April 6, 2001

Dear Client:

If you've been concerned about disruption caused by construction as you try to move around on the ground in Austin, get ready for more of the same when you fly in and out of Austin.

If preliminary estimates are correct, the number of air passengers in 2000 (7.7 million) will almost **double by the end of the decade**. This means the newly opened (5/23/99), built-from-the-ground-up Austin-Bergstrom International Airport (ABIA) will almost surely be expanded.

You may recall that even as ABIA was under construction, the Austin City Council wisely increased the airport's capacity, including parking, because the 1993 Airport Master Plan became woefully outdated due to our booming economy. For example, the 1993 forecast called for **6.7 million passengers in 2002, but we hit that number in 1999**. The plan also predicted we wouldn't hit **10 million passengers until 2012** – we should hit that total **within three years**, not eleven years from now.

Now what? The City's Department of Aviation is currently revising the 1993 plan. Though now worthless, the 1993 plan provided the basis for converting the old Bergstrom Air Force Base into ABIA. The new Airport Master Plan, addressing the airport's needs for the next 20 years, should be complete by August with a final document adopted in October. And, it should provide the **basis for massive expansion** of a brand new facility that's not yet two years old.

What can you expect in the new plan? **Expansion of the terminal**. The likely first step will be to add more gates by extending the facility on the east side beyond the existing Southwest Airlines gates. **More parking**. The existing garage can handle several more floors without increasing the footprint. **A third runway**. **Reworking roads**. **An additional site for cargo needs**. You get the picture.

While the projections are preliminary, they paint a picture of **unbelievable growth**. From 7.7 million passengers in 2000 to 11 million in 2005, 13.2 million in 2010 and 18.4 million in 2020. The parking alone is forecast to grow from 6,590 average daily transactions in 2000 to 9,500 in 2005, 11,440 in 2010 and 15,920 in 2020. And remember, the last Master Plan, drawn up only eight years ago, **dramatically underestimated the actual growth**.

So enjoy the **construction-free zone** at the airport while you can. **It can't last**. This fall, you'll get an idea of the timetable for all the expansion activity to be implemented.

The prospect of moving Boeing Co.'s headquarters operation from Seattle to the Dallas-Ft. Worth area has long term implications for Austin's high-tech community, but D-FW needs to overcome some serious historical problems if it is to beat out Chicago and Denver. On the surface, the move of 500 Boeing HQ staffers away from its major manufacturing and R&D facilities in the Pacific Northwest doesn't necessarily signal an economic boon for the new location. But, the **symbolism, prestige and long-range impact** make the effort to lure the 86-year Seattle resident to the Dallas-Fort worth Metroplex worthwhile.

Texas has to be considered a favorite in the six-week decision-making process. The Lone Star State has no corporate income tax, no personal income tax. Washington state has the nation's fifth-highest rate of unionization, while Texas has the fifth-lowest, etc. **The business climate comparison would give the edge to Texas** over Washington state, Denver and Chicago.

But, there's a possible pitfall and Governor **Rick Perry** moved quickly to offset the potential problem. There are as many as 90 different entities in the D-FW area hoping to woo Boeing and Perry knows a unified pitch to Boeing is the only way to go. That won't be easy. Lack of regional cooperation (no, make that intense competition) has been the history of the Metroplex. In fact, legend has it that longtime Fort Worth civic leader and newspaper publisher **Amon Carter** would take a sack lunch to Dallas rather than spend money in a competitor city.

The Governor's Office is now the single point of contact for Boeing, who has hired Ernst & Young to evaluate proposals. Precedent for the Governor's involvement was set by Gov. **Mark White** in 1983, who used the resources of his office to get competing cities (such as San Antonio) and universities (such as TexasA&M) to join Austin and UT Austin in successfully wooing MCC to Austin to start Texas' high tech revolution.

By the way, this is contrary to the *Austin American-Statesman's* claim it was "during the second term of former Governor **Bill Clements**, the governor's office became more deeply involved" in economic development. Three years before Clement's 2nd term, White pulled out all state government and higher education stops to woo MCC. (He was so "involved" he even personally poured whiskey in the kitchen of the governor's mansion as he pitched MCC decision-makers.)

Now, why does Boeing's decision have long-term implications for the high tech community? Because Boeing is in the early stages of diversifying from just manufacturing airplanes, missiles and military aircraft. **It sees much of its future in technology.** For instance, the company is already taking the initiative to use satellites to bring broadband Internet access to its aircraft passengers so business travelers will not lose productive time while in the air.

It is even exploring the possibility of **beaming first-run movies to theaters via satellites**, saving distributors the cost of shipping 60 pounds of costly film prints to the nation's theaters. But, Boeing won't pick Texas if D-FW's competitive cities don't pull together under Perry's leadership and make a **unified pitch** for the good of the state, as happened in Austin in 1983.

If Boeing is considering moving its headquarters operation from Seattle to Texas, could Microsoft be far behind? The idea may not be as far-fetched as it sounds, especially when you consider the reasons Boeing articulated for moving its headquarters operations to Dallas-Fort Worth, Denver or Chicago.

One of the major reasons Boeing gave for its HQ move to the middle part of the country is to be **near its major customers**. As an example, American Airlines (with a D-FW hub) is its major airplane purchaser. Well, Microsoft's two biggest customers – the world's two largest computer manufacturers, **Dell** (Austin/Round Rock) and **Compaq** (Houston) – are located in Texas.

Then when you analyze the other factors such as cost of doing business, ease of travel for its executives and sales people, tax climate, cost-of-living, etc., you see that Texas is a much better location than Seattle in the far northwest. Face it, Boeing and Microsoft could operate exactly as they do now in Seattle and **make more corporate money** (no corporate income tax in Texas) and **all their employees** who would move to the Lone Star State would **get an effective pay raise** at no cost to the company (no personal income tax in Texas). This Microsoft scenario is pure speculation, but you can see the logic behind such musing.

Austin's rank as the nation's 5th fastest-growing metro area in the past decade was not the only interesting bit of info released this week by the USCensus Bureau, though it is extremely significant. The growth of *other* key statewide areas also points to the increasing strength of Texas and makes Austin a major part of a very dynamic whole.

For instance, while Austin was growing at 47.7%, the **Dallas** metro area earned the distinction of being the **fastest growing large urban area in the nation** with a 29.3% growth during the 1990s. The D/FW Metroplex is the 9th largest metro area in the nation, barely behind Detroit and Boston, two cities that had less than 7% growth.

Texas also boasts **three of the nation's ten largest cities** (not metro areas). Houston is #4, Dallas is #8 and San Antonio is #9. And, **two of the nation's ten most populous counties** – Harris County (Houston) is #3 and Dallas County is #10. There's more, much more, in the USCensus numbers, but you get the idea.

While some will argue "size is not important", what the growth represents is very important. It signifies to the rest of the nation, and the world, the **attractiveness of Texas** as a place to live and do business. Because the state has **handled this massive growth reasonably well** from an economic standpoint (low unemployment, etc.), it also underscores future opportunity in the Lone Star State. **Austin is an economic leader** among some very dynamic portions of the state -- Houston, Dallas, San Antonio. Therefore, it is properly positioned for maximizing this statewide synergy in one of the three most important states in the nation.

This month kicks off the Texas showcase of Professional Golfers' Association (PGA) and Ladies Professional Golfers' Association (LPGA) events, with Austin spotlighted 4/26-29/01 during the Kathy Ireland Invitational Honoring Harvey Penick. South Austin's Onion Creek Country Club will host the **Kathy Ireland** (yes, *that* Kathy Ireland of *Sports Illustrated* swimsuit issue fame) LPGA event.

The first PGA event in Texas is the Shell Houston Open at the Tournament Players Course (TPC) at The Woodlands in the Houston area, 4/16-22/01. The Dallas-Fort Worth area is featured during May with two big PGA events – the Verizon **Byron Nelson** Classic at the TPC Four Seasons – Las Colinas and Cottonwood Valley Country Club, 5/7-13/01, and the MasterCard Colonial at Fort Worth's Colonial Country Club the following week, 5/14-20/01.

The tourney planners wisely take time out during the blistering Texas summer heat and don't schedule another PGA pro golf event in Texas until the fall. The Texas Open at San Antonio's La Cantera Golf Club is set for 9/24-30/01 and the Tour Championship tournament at the Champions Golf Club in Houston will take place 10/29/01-11/4/01.

It's fitting so many pro golf events are held in Texas because **the Lone Star State is home to more than 70 of the top PGA and LPGA players.** (We also have more than 800 golf courses in the state, with some of the best right here in Central Texas). And when we talk about the state being spotlighted, each of these six events will be nationally televised, with usually glowing comments about the venues from the sports commentators. Can't hurt.

You may have noticed at the beginning of this newsletter the words "Volume 23, Number 1." This signifies this is the first issue as we begin our 23rd year of publishing weekly inside information on Austin and Texas, its business, economy and politics. Thank you for allowing us to provide this service for 22 consecutive years. We look forward to many more.

Dr. Louis Overholster's negative economy sign: more doggie bags than doggies!

NEAL SPELCE AUSTIN LETTER (ISSN 1071-0612) is published weekly, except last two weeks of the year, for \$150 (plus tax) per year or \$249 (plus tax) for two years. To subscribe, call 512-498-9495. Periodical Postage Paid at Austin, TX 78767 by Austin Letter, Inc., 1407 Wild Cat Hollow, Austin, TX 78746. POSTMASTER: Send address changes to: Neal Spelce Austin Letter, P.O. Box 1905, Austin, TX 78767-1905.

Sincerely



Editor/Publisher