

THE

Real Spelce

AUSTIN LETTER

www.AustinLetter.com

P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail News@AustinLetter.com

Volume 23, Number 6

May 11, 2001

Dear Client:

The bottom line (some might say, callous) view of Dell Computer's layoff of 4,000 people over the next six months is that it will be good for the Austin economy and the thousands of Dell shareholders who live here. This is not to minimize the personal impact felt by those who will be getting pink slips — more about some of them in a minute. But, face it, a strong Dell — the largest private employer in our area — is critical to a strong local business environment. And, the layoffs could put Dell in a stronger competitive position.

Dell's strategy in this downturn is simple. Dell is not in serious trouble. It generates billions of dollars in *profit* each year; it is strong. And, as the old saying goes, "when the going gets tough, the tough get going." **Dell is laser-focused on becoming even more dominant** (increasing market share) as its competitors struggle in the tightening marketplace.

This is one of the reasons Dell is dramatically slashing prices on its products. Dell has the lowest manufacturing costs in the business, therefore, **the way to cut costs and maintain profits while slashing prices, is to cut a bloated payroll.** The financial guru behind Dell's past success, **Tom Meredith**, was quoted in New York City as saying Dell was going to be "ruthless." You're watching "ruthless" at work.

If Dell gets even stronger, bigger and more dominant during tough times in the industry, it will emerge as a much **more powerful business force.** That's good for Austin. And it's great for Dell shareholders.

What about those poor souls who are being laid off? Won't this be a big negative for our economy? If you recall what we told you in our 4/20/01 issue, the majority of high tech layoffs are in the high-20s-to-early-30s age group, who party and network with other high techies. They know which companies are hiring and many of them will probably be **hired at another high tech company long before their Dell severance package runs out** — enjoying two paychecks for awhile.

The biggest problem with the Dell layoffs may be its **impact on consumer confidence.** When consumers read doom and gloom headlines about their neighbors being laid off, they tend to **pullback on non-essential spending** until their confidence returns ("honey, let's hold off on that new car for awhile" or "let's just stay home and watch TV tonight"). Consumer confidence is a fragile thing and it will bear watching over the next few months.

The day after the Dell layoffs, a survey of Central Texas high tech workers showed most tech workers are still bullish on Austin. Most tech workers are still optimistic about the Austin area and say they plan to stay. This is significant, because only tech workers — those most likely to relate to the layoffs — were surveyed by The Benchmark Company.

In fact, 80% said the recent layoffs have **not dampened their enthusiasm** for the Austin area. The survey indicated 78% of the tech workers see themselves living in Austin five years from now. That compares to 84% two months ago. And, 88% said they think Austin will continue to be a major center for technology. As for their own employers, 75% of those techies surveyed rated their company's financial prospects as either "very strong" or "strong."

Benchmark Company CEO **Rob Balon** commented: "The results show a continued **optimism and resilience on the part of the Austin area tech workforce**, particularly considering the scope of the Dell announcement. Most plan to stay, and most of those who have lost jobs are planning on looking in the Austin area first."

Vignette's announcement this week it would not build its headquarters on downtown land adjacent to the Austin Convention Center, now frees up that property for its highest and best use. And, you may see some movement in that direction ASAP. This could provide a solution to a knotty and growing problem. Frankly, many feel it may be better for Austin's long-term future than having Vignette's HQ in that specific downtown location.

The problem is the City of Austin is nearing the completion of the convention center expansion (doubling its size). But, a planned nearby 800-room **Hilton convention center hotel still doesn't have its financing locked-up and land for a much-needed parking garage hasn't been acquired.** As a result, convention center honchos find it's almost impossible to book conventions for the expanded facility 2, 3, 4 or 5 years out, as is standard in the industry.

The Vignette site, just across the street from the convention center, has enough space for **two high-rise convention hotels and a parking garage.** And, we understand major hotel operator/developers are already expressing interest.

It is in the City of Austin's best interest to do all it can – and, we're talking **financial incentives** here – to immediately encourage the development of the Vignette site as a hotel/garage site. Otherwise, the City will have a very expensive white elephant of an expanded, mostly-vacant, convention center on its hands.

A high tech HQ could locate anywhere in the downtown area. But, convention hotels must have proximity to the convention center. That's why **it's time for the city to move quickly to expedite this highest and best use of the property.** It'll pull the city's irons out of the fire, it's good business, and when Vignette rebounds, other downtown locations will work for them.

With all the stories about the shortage of electricity causing high-priced energy costs and rolling blackouts in California, if you live and do business in Texas, your only concern is that there may be an electric power glut – so much so, electricity prices could plummet in the future. And, unlike the normal supply and demand scenario, there is no possibility Texas's excess electricity will be siphoned off to help the electricity starved East and West coasts. Texas is in the most enviable electricity position in the US.

The nation's business leaders now know this because it was the topic of the lead story on page one of the 5/7/01 *Wall Street Journal*. Just how solid is the Texas position? The *excess* electric capacity in Texas this summer is nearly enough to light up New York City. Next summer, the *excess* capacity will be enough to power 15 million homes. And, there are **27 new generating plants under construction**, more than any other state, according to the *WSJ*.

Many of the nation's business leaders should be concerned about the future of their companies now operating on the East and West coasts – especially if all their company eggs are in those geographical baskets. As a result, **it is hard to overestimate the value of what Texas has to offer in the way of electricity reliability**, now and in the long-term future.

How did this economic competitive edge develop? The *WSJ* reports “Texas wide-open spaces and relatively weak zoning and environmental rules have helped make the Lone Star State a magnet for power-generation companies. Unlike most other states, it decided to charge grid users a **flat rate to move power anywhere in the state, so they could put plants in low-cost construction rural areas, far from their customers.** These policies set off a flurry of power plant construction.” Since 1998, \$11 billion worth of power plants have been competed or started in Texas and more are on the drawing board.

Well, why can't the Feds step in to force Texas utility companies to sell power to other states strapped for power? After all, California is getting electricity from some nearby states. Following a complicated four-year legal battle, Texas utilities are effectively operating solely within the borders of the state and are **not engaged in interstate commerce**. The Texas grid is not under federal jurisdiction. Texas power companies are regulated in Austin, not Washington.

The prices for electricity reflect this supply and demand equation. For instance, the *WSJ* notes electricity futures prices for the summer are as much as **\$400 per megawatt hour in the Northwest** and around \$100 in the Northeast. In Texas, futures prices are averaging only \$72 to \$74 per megawatt hour. This is good news for Texans using electricity for air-conditioning and other “essentials.”

Keep an eye on the marketplace. If Texas power companies see this disparity in price continuing for a lengthy period, and the excess capacity continues, look for some power generating companies to break ranks and start exploring the cost effectiveness (and regulatory problems) of **offering power across state lines** – to earn the bigger bucks.

If you drove to work on any of Austin's freeways during 2000, you spent more time stuck in traffic than drivers in St. Louis, San Francisco-Oakland, Orlando, Miami, Boston, San Jose or Nashville. The Texas Transportation Institute studied the 68 largest urban areas in the nation to find out how much time drivers spent in traffic jams during the year. Austin fared badly.

Austin drivers spent **45 hours during the year watching the brake lights of the driver in front of them.** This tied Denver as the 7th worst in the nation. The nation! Think about this. An entire workweek spent in traffic jams. The average amount of time in the nation for motorists, and of course their passengers, to spend in traffic jams was 36 hours.

Obviously there are worse commuting cities in the nation. Los Angeles is the worst, with 56 hours. Seattle and Atlanta were next, tied at 53 hours. **Houston was close behind as motorists spent 50 hours tied up in traffic.** (Houston has been the butt of traffic jokes for years in Texas and now Austin is approaching Houston's level of problems!)

Austin is not that far behind Dallas. **Big D tied Washington, DC with 46 hours wasted per year in traffic jams.** The cities mentioned above round out the Top Ten (actually 15, because of ties), with 42 hours being the magic number to qualify for this dubious honor.

Fort Worth and San Antonio each had their problems, but ranked way behind Austin. **Fort Worth was #27**, with 33 traffic tie-up hours, and **San Antonio ranked 39th** in the nation, with 24 hours logged in traffic jams. Smaller Texas cities did okay – Beaumont, #61, 9 hours; Corpus Christi #64, 7 hours; Laredo, #66, 5 hours; and Brownsville #68, 3 hours. Frankly, **it's going to get worse in all these fast-growing Texas cities before it gets better.** Texas is so far behind the curve now, it will take decades to solve the state's traffic problems.

Dr. Louis Overholster offered this perspective on the study that said bottled water isn't any healthier for you than tap water: "There's a difference in the way it's consumed. Folks who drink tap water tend to be sippers. Folks who pay for bottled water tend to be suckers!"

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