

THE

Neal Spelce

AUSTIN LETTER

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Dear Client:

Some encouraging economic news went largely unnoticed this past week. Hopefully, it signals the bottoming out of the Austin area economy and is the first sign of a new upward trend, not just a blip on the radar screen.

Here's what happened. On the surface, it appears small. But when you dig deeper, you see what could be a little economic light at the end of the downturn tunnel. **The unemployment percentage for the month of October in our 5-county metro area was 4.5%.** That's good all by itself. Anything below 5%, the economists will tell you, is basically full employment.

Even during this period of bad economic news, the percentage did not go up. It didn't stay the same. It went down. The month before, September, the Austin metro area unemployment was 4.6%. This is not a big change. But, **it's a change in the right direction.** And when you put hard numbers behind the percentages, it becomes even more impressive.

In just one month, the number of those looking for a job dropped by more than a thousand (1,067). This is significant. But, what's more important is **the increase in the number of those *with* a job almost tripled the drop in those *without* a job.** The ranks of the employed in the Austin area workforce swelled by 2,915.

The number of unemployed could go down if a thousand jobseekers just gave up and moved out of town. That's why you match up the employed with the unemployed. It's impressive that almost 3,000 people were hired in one month.

There's another reason this positive move from 4.6% to 4.5% is important. **For one full year, the Austin area unemployment numbers have been moving relentlessly in the wrong direction.** Would you believe a year ago, the Austin metro area's unemployment was among the best in the nation at an unbelievably low 1.8%. So, after watching this key indicator move way up in a year's time, it's **good to see a reversal in direction.** Remember, this is also occurring in the context of economic uncertainty, following the 9/11/01 terrorist attacks.

Now, we need to sit tight until next month to see if these lower unemployment numbers are the **beginning of a new, positive trend** or if it just happens to be an economic hiccup. You can be certain we'll keep a close, analytical eye on this for you.

Sure, you just finished focusing on a special election for Mayor of Austin, but you may have another very important election on city issues coming up in less than six months. It isn't set yet, but you need to be prepared.

Austin's City Charter can only be changed every two years. And the only way the charter can be changed is by a vote of the people. **Look for the Austin City Council to probably vote within the next few months to call an election on possible charter changes.** The likely election date is 5/4/02.

And what are the likely topics? Several. An **old perennial** may be trotted out again even though Austin voters have defeated the concept many times. And there may be some **new goodies** put on the table as well. Here are four possibilities for you to ponder.

SINGLE MEMBER DISTRICTS. Yep, here we go again. Practically every voter on this current City Council favors the concept of single-member districts. But, **every time a version of electing council members by district has been presented to Austin voters, the plan has failed.** History, however, may not deter this council from putting the charter change on the ballot once again.

"INCUMBENT PROTECTION PLAN." This is a facetious (though not totally inaccurate) way to refer to campaign contribution limitations. The charter was changed recently by petition of voters, to set a **\$100 limitation on individual campaign contributions.** Now, the leader behind the petitions thinks it's a bad idea. The question will be what form a change would take.

INDEPENDENT UTILITY BOARD. With all the changes in the deregulation world of electric utilities, there may be an effort to **move the control and management of the city-owned Austin Energy away from the City Council to an independent utility board,** similar to San Antonio's setup. (When is the last time you saw someone campaign for the City Council, touting expertise at utility management? And yet, the huge utility enterprise is guided by the council.)

COUNCIL-MANAGER CHANGES. Even though it may not always be recognizable at times, Austin's government is set up for the Council to act as a Board of Directors, and the City Manager as the Chief Operating Officer. What sort of changes might be proposed? Well, **the city has a \$2 billion budget, yet the manager must go to the Council for approval of any expenditure in excess of \$40,000.** There could be some "housekeeping" changes to the charter.

Nothing is set yet. This is simply an early alert because the **calendar may cause this election to slide under the radar.** There will be a heavy emphasis on the party primaries in March (a wide-open seat for the USSenate as well as all other statewide posts will be on the ballot). This could mean a May election might get overlooked.

Look for an announcement before year-end on what will happen to the idle Intel skeleton building downtown. What the long-term plan will be (including selling the unfinished building) is anybody's guess, but an Intel spokesman is quoted as saying Intel's intentions will become known in December.

It was in February, when the high-tech world was being battered all over the world, that Intel abruptly **called a halt to its \$124 million chip design center construction near Fourth and San Antonio streets downtown.** Concrete had just been poured for the sixth floor of the proposed 10-story building. It has been standing as-is for ten months now, with the only construction activity being the erection of a chain-link fence around the incomplete edifice.

A hue and cry was raised at the time, not just because it was a **very visible negative symbol of a troubled high tech economy**, but also because the City of Austin, with much fanfare, had given Intel a **\$7.6 million incentive package** to break the mold of suburban building and to bring the design center downtown.

The original concept for the building was to provide central space to **consolidate Intel's 550+ employees scattered in five different locations outside Austin's Central Business District.** Also, it would give Intel room to grow its Austin chip design operations. It'll be interesting to learn of Intel's plans. In the meantime, UT Austin art students, with \$30,000 from Intel, will unveil a massive art installation that will drape a part of the unfinished building.

Everybody's talking about what a big hit the airlines are taking from the one-two punch of an ailing economy and terrorist hijackings. But, going unnoticed is that in terms of percentages, many airport retailers, trying to operate under new security restrictions, are being devastated.

Not many businesses can survive an almost overnight **cut in revenue by about 40%**. However, that's what's happening to some **retail and food operations** at Austin-Bergstrom International Airport (ABIA) and many of the other airports you frequent as you fly from here to there. Airports are becoming No-Buy Zones. (Booze sales are something else! Some places are reporting *increased alcohol sales* to travelers, who are jitterier than ever before!)

One of the problems is that only those with a boarding pass are allowed past security checkpoints. And at many airports, including the recently-built ABIA, the bulk of the **food/retail operations are inside the security perimeter** — sealed off from those who are there as greeters or goodbye-ers. As someone observed, the new security footprint doesn't quite match the shoe.

Also, with the new carry-on requirements, travelers are less likely to answer the question of **"Mommy/Daddy, what did you bring me?"** at the airport. It's tough in the airline industry these days — and not just for the airlines.

Many traditional business enterprises are, or will be, benefiting immensely from the Internet (one Texas businessman who has run his traditional business for more than 30 years told me he lowered costs and increased profits *solely* through an Internet presence). But, there may be legal barriers for some.

A recent Fifth Circuit Court of Appeals ruling on a Texas case (closely watched by many due to implications it may have for future business on the Internet) **shut down competition from a traditional business trying to operate via the Internet in Texas.** Pete Lando, an attorney with Hughes & Luce, said the case began when Ford Motor Company, taking advantage of the efficiencies of the Internet and in an effort to directly connect with consumers, began marketing used cars within Texas — via a website.

However, **Ford ran afoul of a couple of protectionist laws passed by the Texas Legislature.** One law prohibited businesses from selling cars in Texas without a dealer's license and another law prevented automobile manufacturers from obtaining a dealer's license – a big double-whammy. So, Ford filed suit, claiming the laws violated its constitutional rights and a number of other clauses.

The district court **ruled against Ford on all counts** and now the Federal Appeals Court has upheld the setback against Ford. The appellate court also ruled that way even after admitting, in a concurring opinion, "Texas' outright prohibition on retail competition from out-of-state auto manufacturers is about as negative toward interstate commerce as legislative action can get."

Lando says "the Ford decision, and others like it in industries as diverse as insurance, healthcare and the sale of alcoholic beverages, could be **powerful weapons in the fight by traditional regulated business to avoid inroads from Internet competition.**" Of course, it depends upon which side you're on, or as they like to say in the Legislature, "whose ox is being gored."

Dr. Louis Overholster points out that even precise measurements are still subject to interpretation: "For instance, the length of a minute depends upon which side of the bathroom door you're on."

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