

THE

*Neal Spelce*

# AUSTIN LETTER

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Dear Client:

**Besides financing much of their statewide campaigns out of their own personal fortunes, what do Democratic candidate for Governor, Tony Sanchez, and Republican candidate for Lieutenant Governor, David Dewhurst, have in common? They're both running behind their opponents, and they are both running negative ads about the opposition.**

Summer hasn't even officially arrived and it's exactly five months before voters must make up their minds for whom they are going to vote. The vast majority of voters aren't paying attention. Yet, these two guys are **spending money on TV like they are in the final weeks of a campaign slamming their opponents as if they are desperately trying to salvage a fading campaign.** What's going on here?

Well, frankly, the polls tell these wealthy candidates that if the election were held today, Sanchez would lose overwhelmingly to Republican Governor **Rick Perry**, and Dewhurst would be defeated by his Democrat opponent, former State Comptroller **John Sharp**. They've got the bucks to do something about their low poll numbers, so they're doing it.

Negative TV ads are a major way to narrow the gap. Most consultants will tell you that ads savaging your opponent won't necessarily increase your positive numbers, but they will **cut your opponent down to where his numbers are closer to your tally.** The big question is do voters really care this far out from decision day, 11/5/02? And because it's so early, will the negative ads backfire?

It's more serious for Sanchez right now. **Perry has a double-digit lead over Sanchez** – even though Sanchez has already spent about \$25 million in media ads winning the Democratic primary. That raises early **questions about the Democrat's "dream ticket"** being the key to winning back some of the statewide offices they lost during recent statewide elections.

Sanchez was recruited to run because the Dems felt he would energize the Hispanic vote enough to propel a Democrat into the governor's mansion. And, it was thought former Dallas mayor **Ron Kirk**, an African American Democrat, could do the same with black voters. But, Kirk is also running behind his Republican opponent for the USSenate, Texas Attorney General **John Cornyn**, although by a narrower margin. It'll be interesting to see how these campaigns evolve. One thing about it: there is still enough time for dramatic poll swings, up or down.

**Imagine the lights going out in the city of artificial light — Las Vegas. Not likely to happen, but it's closer now than ever before. The city's energy problems are representative of what's happening in US regions competitive with Austin and Texas.**

The summer season is always a concern because of peak electric energy usage. And, **Las Vegas is right now having trouble contracting for its needs.** It's not likely there will be a brownout there this summer. After all, electricity is the lifeblood of a 24-hour-a-day city that needs to keep hotels and casinos operating without a hitch. So, you can *bet* they'll solve their problems, though at what price is yet to be determined. However, this situation is symptomatic of what could be a widespread problem in California and other areas with whom we compete.

Serious misfortune – or even the **possibility of electricity interruptions** – could work to the advantage of Texas and, specifically, the Silicon Hills of Austin. After all, we compete for talent, dollars and companies with areas such as California, that are potentially vulnerable a few years down the line.

Face it. When companies or investors are making long-term decisions, **the ability to do business, without interruption and as economically as possible, is near the top of the short list of considerations.** Places with potential problems: California, New England, New York City, much of the northwest, some Midwest cities and even some areas of the Southwest.

Texas is in the best position of all states in the union. As far back as our 5/11/01 edition, we were telling you of our unique, and highly favorable situation. Where others are facing brownouts and shortages – along with high prices — **Texas has excess capacity, enough to power 15 million homes this summer. And, new generating plants are under construction.** There are two major reasons for this enviable position.

First of all, Texas charges electric grid users a **flat rate to move power anywhere in the state.** As a result, electric generating plants can be built in low construction cost, rural areas with little or no zoning or environmental concerns — far from their customers. Not only do Texas users have plenty of electric power, the cost is low.

Secondly, the Texas power grid operates entirely within the state's borders, therefore, it is not engaged in interstate commerce. This is significant, because it means the **Texas grid is not under federal jurisdiction and, as a result, cannot be forced to sell electricity outside the state.** Texas power companies are regulated in Austin, not Washington.

There is not an immediate problem for other states/regions, though many are facing price spikes and shortages now. **But, it can be a huge problem for them in just a few years.** That's a short horizon, because companies take several years to make decisions to move operations. The smart companies are looking ahead – and what they see in Texas and Austin is piquing their interest.

**There are 2,700 fewer people working in the Austin metro area now than there were a year ago, when our 5-county area was flying high with a bottom-scraping 2.8% unemployment. This is a further indication we're still feeling the effects of the downturn.**

That's not all. According to the latest available numbers, there were 19,500 more people in the Austin metro area looking for work this April than in April 2001. **This is why last year's 2.8% unemployment went to 5.3% in April 2002.** Our unemployment was also 5.3% in March, so at first glance, it appears to be holding steady rather than rising. But, when you check the trend lines, you find that April historically declines by two-tenths of a percentage point from March. That didn't happen this year. As a result, we still can't claim a turnaround.

Two major Texas metro areas have moved ahead of Austin in the unemployment measurement – **San Antonio was at 4.5% and Houston was at 5.1%.** Austin joined them to come in below the statewide average of 5.6%. Dallas, meantime, had 6.5% unemployment in April. The national average: 5.7%.

In checking other Central Texas cities outside our metro area of Travis, Williamson, Hays, Bastrop and Caldwell counties, it's interesting to see some smaller tourist spots holding up well. **For instance, Fredericksburg has only 2.0% unemployment and Kerrville is close behind at 2.9%.** Both have a thriving visitor industry (as does San Antonio, by the way).

**Last week we told you air travel and air cargo shipments at Austin-Bergstrom International Airport in April were down 13% from the year before. But, we didn't tell you how that compared to previous years. The news is not good.** Passenger travel is still just barely above the 1999 levels and cargo poundage is below what it was in 1999. 2001 and 2002 (prior to 9/11) were the pacesetter years.

**So far, through April, the number of homes sold as tracked by the Austin Board of Realtors is exactly 100 more than were sold at this time last year. However, the average and median prices are above what they were last year.**

Last year, the average price of the 5,004 homes sold in April was \$196,185. **This year, the average price of the 5,104 homes sold in April was \$200,628.** The April median price shows the same trend — \$154,900 in 2001 and \$159,950 in 2002.

But, it takes longer to get these higher prices. **If you put a home on the market now, the odds are it will stay available for sale for 55 days.** That was the average in April 2002. Homes sold much faster, an average of 39 days, in April 2001. One of the reasons for this timeframe is there were more homes listed for sale (7,464) in April this year than last year (6,085).

**Austin, because of a mammoth local lawsuit judgment, and the fact the state insurance board is headquartered here, is one of the centers of a nasty problem that is costing homeowners a bundle in insurance costs — and there is no end in sight.**

We're talking about mold – not the kind that you see on the daily allergy report – but, the **toxic mold that invades buildings and causes serious illness**. Mold spores especially flourish when sheetrock, used in most buildings, gets soaked. Mold first started grabbing headlines about ten years ago. One of the first mold lawsuits was filed in California (where else?) in 1995.

But, it was a lawsuit filed in the Austin area in 2001 that really created the biggest stir. **Melinda Ballard was awarded \$32 million after she sued Farmers Insurance** for not moving quickly enough to stop a mold that ultimately caused serious health problems for her family, and forced the Ballards to abandon their dream home.

Soon thereafter, Farmers said it would no longer cover extensive mold claims when policies came up for renewal. **Mold claims against Farmers in Texas alone rose from 200 in all of 2000 to 2,500 in January 2002 alone**. Mold claims have been filed now in virtually every state. Texas homeowners pay the highest insurance rates in the nation and insurers have **substantially increased premiums for less coverage** – many of them well beyond the benchmark set by state regulators.

There are all kinds of mold – thousands, in fact – but only a handful can cause serious health problems. For that reason, there are those who think the mold spore problem may never be as serious as asbestos, where litigation is costing insurers and manufacturers billions and billions of dollars. But, the problem is big enough for you to be concerned about. **Farmers Insurance, State Farm and Allstate have all stopped selling comprehensive homeowner's policies to new customers in Texas**. The candidates for governor are making it a big campaign issue. So, it appears to be a problem that will only grow in the near future.

**Dr. Louis Overholster** was intrigued by the report that a short fortuneteller had escaped from a Texas prison. Overholster observed: "He was a small medium at large!"

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Sincerely



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