

THE

Real Spelce

AUSTIN LETTER

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Dear Client:

To see how dramatically the economic face of this nation has changed in just a few short decades, all you have to do is analyze the *FORTUNE 500* list released this week. Texas has come a long way, baby.

The economic heft has changed in so many ways in the past 48 years. There have been many seismic shifts – from heavy industry to high tech, from million-dollar companies to billion-dollar ones. But, **few changes have been as dramatic as simple geography**, especially as far as Texas is concerned.

In 1956, the ten biggest *FORTUNE 500* COMPANIES were headquartered in the Northeast and upper Midwest. Now look at the landscape. Wal-Mart, #1, is headquartered in Arkansas, General Motors, #2, is in Michigan, #3 Exxon Mobil is in Texas. **New York no longer dominates.**

The key is the percentage of revenues. In 1956, New York – the home of 159 companies in the *FORTUNE 500* – totaled 39% of revenues. Texas was not in the Top Five states. **Now, New York's total has dipped to 14% and Texas is in second place with 11% of the revenues.** The others: California, 10%, Michigan, 8% and Illinois 7%. Ohio and Pennsylvania dropped out of the Top Five.

New York City still has more *FORTUNE 500* headquarters than any other city, 40. But guess which city is in second place. **Houston, with 18, is #2** — followed by Atlanta (12), Chicago (11), Charlotte (7), Dallas (7), Philadelphia (7), Pittsburgh (7) and San Francisco (7). San Antonio, by the way, ranks #20 in the nation with 5 companies headquartered there.

Texas has moved into third place on the list of headquarters' locations of *FORTUNE 500* companies, with 45 in the Lone Star State. California has moved past New York, 53 to 52. Who are the biggies in Texas and where do they rank in the nation? Exxon Mobil (#3) Irving, ConocoPhillips (#12) Houston, SBC Communications (#27) San Antonio, **Dell Computer** (#36) **Round Rock**, J.C. Penney (#42) Plano, Marathon Oil (#52) Houston, Valero Energy (#55) San Antonio, Sysco (#73) Houston, Electronic Data Systems (#80) Plano and Fleming (#102) make up the Top Ten in Texas. **Austin's Temple-Inland is 33rd in Texas and #353 in the nation.** And Neiman Marcus in Dallas made the list at #500.

In the early to mid-1990s, Texas was the undisputed leader in the race for new capital investments, job growth and new and expanding facilities. No more.

The state's economic development position has dropped significantly, according to Texas economist **Ray Perryman**. In fact, he points out that Texas fails to appear even in the Top Ten when per capita measures are used for total new and expanded facilities, total capital investment or total new jobs created. He says **other states have seen their positions improve**. How did that happen? "In most cases, proactive measures to enhance the business climate (such as tax cuts and other incentives) can be directly linked to success," he observed.

"Location decisions which vitally impact long-range expansion and fiscal soundness are made in a market framework driven by considerations of costs and profitability," Perryman maintains. "**Incentives are a fact of life in that marketplace**. Effective financial inducements, precisely targeted job training and enhanced capital access are part of the supply and demand mix in site selection competition."

One of the factors – and there are several – driving the current situation is that firms are becoming much more aggressive in playing one site against another. After all, there is seldom one *perfect* site. "**Firms have come to recognize that they have significant bargaining power with state and local governments** and are using it effectively to reduce costs," said Perryman.

Perryman points out Texas lags other large states in direct incentives, employer-driven job training, marketing and other key areas essential to attracting business locations. In fact, he said "one major study concluded essentially that **Texas is not on the radar screen when it comes to industrial site selection incentives**." He says the "state has a reputation for not being able to meet the marketplace in terms of programs that impact decision-making."

Well, what does Texas have going for it? "**Texas is generally viewed as a desirable place to live and work**, often ranking at or near the top of performance surveys," he says. But that's not enough, is it? No, because the state has seen a marked deterioration in recent years in new locations.

So what can be done? "Although the state is currently facing a significant budget deficit, **economic development initiatives must proceed** if we are to avoid jeopardizing our future," Perryman warns. "Without appropriate action today, it will be difficult (if not impossible) to regain the momentum of the recent past."

Perryman says "there are several promising proposals on the table, many of which require minimal financial commitments but a basic change in attitude." His challenge: "It is in the interest of all Texans to see that our legislators not only **protect the fundamental business climate**, but also **add to our competitive position** the right mix of incremental incentives."

One of the highest awards that can be given to those who have graduated from UTAustin is to be named a Distinguished Alumnus. Six more names have been added to that roster.

The 2003 recipients of the Distinguished Alumnus Award will be honored 10/3/03, the evening before the Texas/Kansas State football game. They are:

Hal Box, architect now living in Mexico who was the former Dean of UTAustin's architectural school; **Pete R. Coneway**, Houston, advisory director for Goldman, Sachs & Co.; **Jeff M. Heller**, Plano, President/COO Electronic Data Systems; **Tom G. Loeffler**, San Antonio, attorney Loeffler, Jonas & Tuggey; **Carole Keeton Strayhorn**, Austin, Texas Comptroller of Public Accounts; and **Judith Zaffirini**, Laredo, Texas State Senator and owner, Zaffirini Communications.

The Distinguished Alums are selected each year by The Ex-Students' Association of The University of Texas.

To keep your perspective as you watch the Attack On Iraq wind down, let's look at some recent conflicts to see how they compare. In a word: swift.

It took 42 days to oust the Taliban, and 7,000 US troops are still in Afghanistan hunting down what's left of al Qaeda. The first Gulf War a dozen years ago lasted 43 days and it took 148 US lives. How long did it take to push the Serbs out of Kosovo? 78 days. All of these conflicts were regarded as very swift victories. This attack on Iraq is wrapping up its third week.

Because air travel has tailed off even more due to the hostilities in Iraq (and the threat of disease in the Far East), you can fly cheaper and with less hassle the next few months if you book soon. And some new options are now available out of Austin.

Beginning 5/23/03, new charter flights will be available between Austin and Cancun, as well as Austin and Cozumel, Mexico until 8/10/03. These flights, on large jets, are on Transmeridian Airlines and Allegro Airlines booked through **Funjet Vacations**. Funjet vacation packages include air only, hotel and all-inclusive, and are available from travel agents.

These summer charter flights are in addition to new Mexicana/Aerocaribe Airlines **scheduled nonstop flights direct from Austin to Cancun and Mexico City**. This service kicked off a month ago, 3/6/03.

And while security is still tight at Austin-Bergstrom International Airport, you can argue the hassle factor is down because passenger traffic is still way below 2000 and 2001 levels.

It's that time of year again. Between now and 10/31/03, the likelihood of higher ozone levels will create a health hazard in the Austin area.

High ozone levels make breathing difficult, especially for children, the elderly and people with existing respiratory conditions. **Ground level ozone is a clear, odorless gas** formed when certain pollutants “cook” on warm, sunny days where there is little wind. Spring and summer months produce the weather conditions that allow for ozone formation.

If the ozone levels exceed certain federal standards over an extended period of time, **the feds have the authority to impose controls to limit the pollutants in the air.** In fact, the Houston area was recently slapped with a controversial speed limit on its freeways when it exceeded the standards.

This hasn't happened in Austin yet. The past climate has helped. And the effort of an organization representing business, government and community leaders has also **worked to keep the Austin area from exceeding the acceptable standards.** The non-profit group is called The CLEAN AIR Force of Central Texas. It is the group that urges residents to reduce driving, to refuel and mow after 5pm, ride the bus, etc. to reduce air pollution.

It has also encourages permanent solutions – such as urging fleet owners to use ultra-low sulfur diesel (ULSD) fuels. Capital Metro is the first organization in Central Texas to use USLD. As a result, its **buses emit fewer airborne pollutants – as much as 92.5% fewer sulfur dioxide emissions.** Capital Metro also provides free rides on those buses on Ozone Action Days, those days where pollution levels reach unacceptable standards.

The CLEAN AIR Force, launched its “Clean Air Partners” program two years ago with six charter members. Today there are more than 30 members, ranging from major to small employers in both the public and private sector. For more info, visit www.cleanairforce.org.

Dr. Louis Overholster recommends his patients “look on the bright side of filling out your income taxes.” As he put it: “How often do you get to spend quality time with your aspirin bottle!”

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