

THE

Neal Spelce

AUSTIN LETTER

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Dear Client:

Don't let the partisan Congressional redistricting hi-jinks at the Texas Legislature obscure the fact that Texas, despite the table pounding over this purely political issue, is still way out in front of its competitor states when it comes to economic and business issues.

All you have to do is check out the 8/11/03 issue of *FORTUNE* magazine. The headline on page 33 of this leading business publication: "Greetings From California, The State That's Bad For Business. **What Message is California Sending to Companies? Get Lost!**"

You think that's strong? Here's more: "The state government under embattled Democratic Governor **Gray Davis** is turning so **stridently anti-business that it threatens to inflict permanent structural damage**. Since 2002, the left-leaning legislature has enacted or expanded half-a-dozen laws dealing with burdensome regulations like family leave and overtime pay.

"I've never seen anything like this in 35 years,' says **Angelo Mozilo**, CEO of Countrywide Financial, the big mortgage company based near Los Angeles 'The state is punishing business, yet it's somehow convinced business will not leave.'

"Wrong: Companies – and jobs – are departing in droves. The state has lost 289,000 manufacturing jobs since 2001. Though Countrywide is growing rapidly, Mozilo is shrinking operations in California and **shifting all expansion to low-cost states like Texas**. By his estimate, the flood of new legislation will increase Countrywide's cost per worker by \$4,000 to \$5,000 per year."

The article, read by business leaders worldwide, points out California has a long tradition of bombarding businesses with regulations, from rules that give Native Americans wide latitude to veto construction projects to environmental laws that favor exotic plants over power plants. But the Golden State's sumptuous assets – its climate, its appeal to immigrants, and its splendid universities – always trumped the business bashing. At least until now.

One CEO was quoted as saying the jobs that have to stay in California are the ones that involve direct contact with customers. **But the mobile jobs – in systems development, manufacturing, call centers – are moving to other states**. As we said 7/11/03: "We're in the midst of a classic, competitively advantageous time. We can't afford to miss this opportunity."

If you think it is difficult at times to do business in Texas, let's look further at the harsh regulations California is inflicting on business — for example, family leave and overtime pay.

FORTUNE magazine's 8/11/03 issue reports "California recently approved the nation's only paid family-leave act. Starting in July 2004, employees can request **six weeks' leave every year (which can be taken days at a time)** to care for a new baby, a sick relative, or a host of other medical tasks a state agency deems legitimate – **even migraines qualify**. Companies themselves have no say in the decision."

Workers earning as much as \$69,000 will collect 55% of their pay tax-free (highly compensated workers would collect a much smaller percentage). All employees – even those with no intention of taking time off – will pay a small payroll tax into a state fund that will foot the bill for workers on leave.

"We'll spend a lot more training replacement workers, and our productivity will decline because of all the absenteeism," says **Tim McCallion**, Verizon's chief in California. Other companies worry that so many people will take advantage of the generous leave policy that the state fund will be quickly depleted – and that businesses will be forced to assume most of the costs."

As if this family leave law is not a big enough problem for businesses, **California is imposing onerous rules on overtime**. As you know, federal law requires that companies pay overtime when employees work more than 40 hours a week. Well, California has expanded that.

California companies must pay overtime to anyone who works *more than eight hours a day*. This is a particular **hardship for businesses whose employees choose to log, say, four ten-hour days**, or for call centers, where flexible schedules often entail 12-hour days.

Though this regulation has been around for two years, California legislators are constantly making it tougher and **extending it to previously exempt workers**, according to *FORTUNE* magazine.

These are just two of the half-a-dozen rules the publication referenced. It also quoted Countrywide and Verizon as saying **they pay "four to five times more in workers' comp per employee in California than in Texas."** You get the picture.

Yes, Texas is getting a black eye nationally because of the Democrat-Republican-knock-down-drag-out state battle over redistricting. But most business leaders in Texas and around the nation view this with a wink and a nudge, because it doesn't directly affect them, and it's just the old "politicians will be politicians" game. However, **California is doing itself serious damage as a place to do business**. Again, not to beat a dead horse, but now is the time for Austin and Texas economic development specialists to be very aggressive.

National and local retailers see the Austin area as a long-term growth opportunity where they can build on the stability of future growth and prosperity. The numbers bear that out as several dynamic retail trends are emerging throughout our area.

In fact, the signs are everywhere. During the past six months, rental rates for retail space have been increasing, according to NAI Commercial Industrial Properties (NAI CIP), a commercial real estate firm that has been tracking trends in the Austin area for decades. **“Well-anchored, well-located Class ‘A’ Centers are in great demand and rates in these centers continue to trend upward,”** the company reports.

Where is this happening? **“The Arboretum continues to be a ‘bulls-eye’ for retailers in Austin or those looking to expand into the Austin market,”** noted NAI CIP. “The Arboretum has created enough demand that several prominent local and national developers with large projects on the drawing board are vying for a select breed of tenants to fill space in the latest retail ‘lifestyle’ concepts.”

But it’s not limited to the Arboretum area in North Austin. **“Municipalities have shown growing interest in investing in signature retail developments** in order to generate the sales tax revenue that new retail development can bring to their communities,” note NAI CIP. “This trend has been seen in Austin, Round Rock, Georgetown and Bee Cave. **Look for this trend to continue** as long as budgets are tight and new sources of funding are few.”

What other trends should you keep an eye on? As national big boxes (the Wal-Marts, the Targets, the Home Depots, etc.) dominate much of retail sales, **the anti-box or niche retail market is growing in strength.** According to NAI CIP, the maturing of South Congress Avenue as a retail node is a prime example of a stable niche retail corridor in Austin, as well as West Sixth Street and Guadalupe Street (“The Drag”), across from UTAustin.

For those who argue for “keeping Austin, Austin” (some call it “Keep Austin Weird”, but that is too limiting for our taste) there is good news in this retail trend. **You can look for a continued maturing of these niche retail markets and to new areas,** such as South Lamar Boulevard and Burnet Road, to evolve into a similar “anti-box” shopping experience that will allow the flavor of Austin to survive, predicts NAI CIP.

What about the Central Business District in this retail mix? Frankly, the demand to have viable retail space in the downtown area is still largely unmet. But NAI CIP has good news. Now that Whole Foods has finally broken ground for its new flagship store and national HQ at West Sixth Street and Lamar Boulevard, you can **“look for the development of the Second Street retail district and the redevelopment of the Whole Foods Market to provide the synthesis for a real retail node in the downtown area”** NAI CIP observed. All in all, those involved in retail are putting down big bucks right now, betting on a major uptick in the Austin economy.

Which Texans have raised the most money for fellow Texan, President George W. Bush, in the 2004 Presidential Campaign so far?

As of 6/30/03, there were only two Texans who reached the \$200,000 plateau in money raised for Bush – **Michael M. Boone** and **Nancy G. Kinder**. The amount earned them the designation as a “Ranger” in the Bush campaign. Those raising \$100,000 are called “Pioneers” and eleven Texans joined that group – State Senator **Teel Bivins**, **Peter R. Coneway**, **Dan Cook**, **Thomas L. Johnson** of Austin, **Tom & Nancy Loeffler**, **Stephen P. Payne**, **Raul R. Romero**, **John T. Steen, Jr.**, **Ray Washburne** and **J. Roger Williams**.

After passage of the Campaign Reform Law, **individuals can now give \$2000 to a presidential candidate**. The previous limit was \$1,000. Last time around, those who raised \$100,000 were given special status by the Bush campaign. Many who gave \$1,000 previously have been hit up for \$2,000 this time around – hence the *two* fund-raising categories. You can look for many more Texans to be added to these categories. You can check it out personally by going to www.gerogebush.com where every single donor to Bush’s campaign is posted.

A good trend appears to be emerging in passengers using Austin-Bergstrom International Airport.

After May’s passenger traffic totals moved past those recorded in 1999, the June numbers showed the same trend – in fact, increasing the margin by which they surpassed the 1999 totals. This is not only an important gauge of the local economy, but it also **marks two months in a row now that travel has picked up after dipping in April**. That was when the total number of passengers flying through ABIA was actually fewer in number, than flew out of the old Robert Mueller Airport in its last full month of operation, four years ago.

Film buffs have always wondered why the bride of Frankenstein let out that terrible scream when they first met. **Dr. Louis Overholster** thinks it may have been the pre-nuptial agreement!

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