

Volume 28, Number 8

May 26, 2006

Dear Client:

Texas's biggest business organization weighed in on GOP presidential hopeful Gov. Mitt Romney's working solution to the health care problem. Interestingly, it was a mixed response.

The response by the Austin-based Texas Association of Business (TAB) can best be described as a **mixture of skepticism and hope** – with no reference to the presidential prospects of the popular Massachusetts governor (see our 5/5/06 edition). TAB President **Bill Hammond** decried the health care insurance situation in Texas, but complained that “Mittcare” places an “enormous burden on employers to become major payors of health care.”

Hammond says if the Massachusetts plan “works as intended, 95% of the uninsured will be covered within the next three years.” He added “**it is a miracle that any legislative body could agree to pass such an innovative reform**, but by reading the fine print one will realize the new plan is a prescription for disaster.”

What does he not like about it? “Your only choice in the Romney plan is to **get health insurance, pay stiff penalties or move out of the state**. An individual making just over \$29,000 will be forced to pay the full costs – up to 20% of their annual income – or find a job that provides health insurance. Individuals purchasing their own insurance must buy HMO policies. Preferred Provider Plans (PPOs), which give individuals more flexibility, are not allowed,” he noted.

“Employers with more than 10 fulltime employees must provide health insurance ... or opt out by paying a \$295 annual tax per worker. **Employers who do not provide health insurance will be liable for up to 100% of the cost of medical care** for their workers and/or families,” he continued. He also had other concerns.

But Hammond said “with all its flaws Romney should at least be congratulated for thinking outside the box to get more citizens insured in Massachusetts. **Texas has the highest uninsured rate in the nation** and thus far, lawmakers have been all hat and no cattle when it comes to serious reform. Texas still ranks dead last for insuring its residents.”

Hammond closed by saying “We will learn from Governor Romney. **His bold vision, although flawed, will hopefully be the impetus for change in Texas.**” So if the Romney plan succeeds, it could be a model for Texas – as well as a springboard for a presidential run by Romney.

What has happened in the four years following the controversial action by the Texas Legislature that opened up competition in the retail market of electricity? One economist claims consumers are getting more control with more choices — at prices lower than they would have been under regulation. And that’s not all.

Competition was introduced in the retail market for electricity in Texas 1/1/02. Austin Energy, an electric utility totally owned by the City of Austin, was not a part of this mix. However, anyone who has watched Austin’s utility operate observed a **noticeable up-tick in its approach to its customers** as the deregulation process moved its way toward implementation. One example: it changed its name to Austin Energy to convey a fresh image.

It’s safe to say the **deregulation had an impact on Austin Energy, even though the door was not opened to another utility moving into their market to compete.** Of course, as long as there is a Texas Legislature, this possibility still looms. If complaints and dissatisfaction reach a zenith (such as following the recent storm-triggered lengthy power outages), it is possible such a legislative effort could rear its head. If it does, proponents of de-reg could point to the successes in other Texas cities in the last four years.

The Perryman Group, a Texas-based economic firm recently completed an analysis of the situation. Some highlights: “Numerous innovations have been introduced and **prices are lower** than they would have been in a regulated environment. Market forces are having the desired effects of providing more consumers with more control and more choices at prices lower than they would have been under regulation. At the same time, **substantial emission reductions have occurred** and notable gains in alternative energy development have been realized.”

This is not all. As a result of deregulation, **almost 48,000 jobs have been added in Texas by electric utilities** – more than five times that of the initial phase of the high-profile Toyota manufacturing facility in San Antonio (including multiplier effects) and more than ten times as large as the job gains for the Texas Instruments 300mm wafer fabrication facility in Richardson (including multiplier effects).

There have been difficulties in transition to competition in *other* states, notably New Jersey and California. “**Texas has clearly avoided the most serious of these problems,**” notes The Perryman Group in its report.

However, there’s a “yeah, but” out there. **Electricity prices are going up in Texas.** The Perryman Group answers: “The pertinent issues are whether prices are lower and choices are greater than they would have been in the absence of competition. By that standard, **Texas has by far the most successful program in the US.**” There is no effort as far as we know to move Austin Energy under the de-reg umbrella. But just as non-union companies introduced better practices years ago to keep out unions, Austin Energy appears to be trying, even with a hiccup or two, to stay ahead of the game.

Austin has just been ranked #5 on a list of “Fifty Smart Places to Live” in the US, but if you dig deeper it gets even better – only one other city (#40) matches all the qualities found in Austin.

This list is special and unique in that readers of *Kiplinger’s Personal Finance* magazine were asked “**what factors you consider the most important when choosing a place to live.**” Then *Kiplinger* asked **Bert Sperling**, co-author of *Cities Ranked & Rated* (Wiley, \$25) and host of www.BestPlaces.net, to design a database to take these factors into account.

The survey respondents said first and foremost they “**wanted good value in home prices and a reasonable cost of living** – not surprising, considering that choosing a place to live is one of the biggest financial decisions you’ll ever make – combined with a great quality of life,” the magazine concluded.

What else did they want? **Quality health care** and a **low crime rate**. Other key criteria: **weather, education** (primary, secondary and higher), **cultural amenities** and **transportation**. “To broaden the appeal of cities on the list, we also factored in **economic vitality** – we gave points to well-diversified economies that are good places to start or expand businesses. In addition, we looked at **quality of life**, which by our definition means the variety of cultural and recreational activities available,” reported the editors.

“Among other things, we looked for places where you could **buy an attractive house for \$300,000 to \$400,000 or less**. Access to quality health care was also a must,” the mag noted. “Next, we traveled to the cities that bubbled to the top of the list, to speak with residents and **savor the flavor of their neighborhoods.**” Among other things, they asked: Were commutes reasonable? Did suburbs have personalities? Were downtowns clean, interesting and vibrant?

The report on Austin referenced the view of downtown from the capitol, Barton Springs, Zilker Park, the laid-back atmosphere and the night life, UT Austin, the Zachary Scott Theater Center, the Umlauf Sculpture Garden & Museum, community support for public schools, the lure of jobs – even pointing out more traffic and rising home prices. All in all, a very favorable summary of Austin.

The list, presented as the cover story in the June 2006 edition of the magazine, lists their top five, in this order: **Nashville, Minneapolis-St. Paul, Albuquerque, Atlanta** and **Austin**.

But what may be the most intriguing aspect of the study is how they **ranked the cities for residents in different stages of life**. They analyzed each city to see how it stacked up as the “best place” for singles, young couples, families, empty nesters and retirees. **Only Austin out of the Top Fifty US cities** (except for #40 Boise, Idaho) **was listed as “best” for all five life stages**. This is very significant and may explain more about Austin than any other ranking.

For more than 27 years, this newsletter has focused on the elements that separate Austin from other leading cities. This week, the *Austin American-Statesman* released some of its research that, while not overwhelming in its revelations, is still an intriguing insight into our city.

You may not have seen the data, because it was buried in a massive, full-color, four-full-page ad spread in the *Statesman* that was **chock-full of self-promotional info**. More about this in a minute. This bit of data has to do with your habits and activities.

You and your fellow Austinites **go to more movies, consume more beer, eat out more often, shop more frequently in music/video stores and attend more country music and rock concerts** than your counterparts in Dallas/Fort Worth, Houston or San Antonio. (Looking at this data, someone would be justified in asking if you ever stay home!)

The biggies are eating out, shopping in music/video stores and movie-going. **A whopping 83% of Austinites eat out during a week** (compared to 74% in Dallas/Fort Worth, 76% in Houston and 79% in San Antonio). Sixty-five percent of Austinites patronize music/video stores and 56% attend movies in a 3-month span – all greater percentages than the other big Texas metros.

By the way, this major advertising campaign by the *Statesman* signals what could be the **largest promotional effort the local daily newspaper has run** in the decades we've been involved in the communications biz in this city. Newspapers are losing readers all across the nation (as are other media outlets, such as TV, magazines, radio, etc.). The *Statesman* has apparently decided to get aggressive with a cheeky, though info-loaded, ad campaign within its own pages and other local media outlets. The theme: "Get it!" (it slips into double entendre at times). Advertising within its own pages, while obviously not costly for them to do, is apparently aimed at *stopping circulation slippage*. Ads in other media are designed to *build circulation*.

Dr. Louis Overholster, whose middle age spread is spreading, wonders if that standard clothing label shouldn't be changed to "One Size Gives Fits To All!"

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., 4105 Bee Creek Rd, Spicewood, TX 78669. POSTMASTER: Send address changes to: Neal Spelce Austin Letter, P.O. Box 1905, Austin, TX 78767-1905.

Sincerely



Editor/Publisher