The NEAL SPELCE AUSTIN LETTER

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Dear Client:

A $289 million much-needed expansion at Austin's airport kicks off big-time this year and it won't cost taxpayers a dime. The city's Austin-Bergstrom International Airport (ABIA) is setting passenger traffic records each month. The solution to handle this surge – along with more flights to more destinations – will create construction impediments to travelers. But, when completed in a couple of years, it could handle airport growth until 2025.

The centerpiece of the construction: **adding nine gates to the Barbara Jordan Terminal's east side** (generally referred to as the Southwest Airlines side of the building). ABIA currently has 24 contact gates with boarding bridges. But the project includes more than just building new gates. No need to go into all the boring construction details, such as baggage handling, but one point is interesting:

As you know, airplanes are getting bigger. **The majority of the equipment using ABIA is Boeing 737s, with a wingspan of about 125 feet. The newer Boeing 787s have a wingspan of almost 200 feet.** So construction has to take into account that more space is required for taxiing, parking, etc. for the bigger craft.

Frequent fliers will tell you a lot of construction has been going on at ABIA for a long time now. And they're right. **For example, a new five-level rental car complex opened for business last October.** The official name: Consolidated Rental Car facility or CONRAC. This construction freed-up closer-in covered parking spaces near the terminal for the public to use.

Okay, let's go back to the top. We mentioned it won't cost the taxpayers a dime. Why is that? **This is because the airport generates its own revenue, primarily from the airlines that utilize ABIA.** Concessions also contribute to its bottom line, as do revenues from the rental car companies, a passenger facility fee tacked onto departing tickets, etc. And with ABIA's sustained year-after-year growth, it is relatively easy to get interim funding to handle major construction projects.

In effect, those who don't use ABIA are not facilitating the financing. But a successful airport is an important economic engine. **And by most measures, ABIA is a successful city-run enterprise.** The controversies that have surrounded other city enterprises, such as energy and water, have not encumbered ABIA. Pretty good for a city program with a 16-year track record.

As we just mentioned, the city's operation of the airport is a model for a well-run city enterprise. However, here is some recommended reading for you: a newspaper piece that offers a candid, not pretty, assessment of another city operation. Austin Energy is far from a model operation based on the view of the energy pro who is bailing out on AE's top job. His comments are worth noting.

This week, the *Austin American-Statesman* ran a lengthy interview it conducted with **Larry Weis**, Austin Energy's General Manager since 2010. He is leaving his $315,000 a year job to run Seattle's electric utility. **For more than five years he tried to work with different Austin City Councils until figuratively throwing up his hands and saying "enough.**" He was quite candid in the interview. Interviewer **Lilly Rockwell** reported:

> "**The council that took office last year is 'very naïve**. They are all nice people and well-intended (but) they are vulnerable to other people's views and to **making statements and things they really haven't thought through very much**'."
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> "Weis said the trouble with having the City Council set policy for Austin Energy is the board is stretched thin, and **the utility has gotten too big and complex for the council to adequately run**."
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> "The answer, Weis said, is to change the city charter to allow for an **independent board appointed by the City Council to oversee much of the policymaking for the utility**. The council should still have final authority over approving rates."
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> "**The governance structure of Austin Energy was a factor in why he took the Seattle job**, he added. At that utility, he reports to the mayor, and an energy committee helps set policy."

Rockwell continues: "Much of the interview focused on the role the Austin City Council and city manager play in setting policy for the utility. **That makes the job inherently political, with near-constant public debates with a wide range of stakeholders, from environmental and low-income taxpayer advocates to large power users, such as tech companies and hospital groups**. And from time to time the Texas Legislature also gets involved with ominous threats to deregulate Austin Energy."

> (Weis also addressed the controversial issues of rates that have risen while he was GM. **In fact, Weis suggested raising residential rates even higher**.)

Obviously, this interview was not met favorably by City Manager **Marc Ott**, who hired Weis. According to Rockwell, Ott fired off a memo to *his* bosses, the Mayor and Council, **taking "issue with the characterization of the City Council as naïve** and told the council they have gotten up to speed quickly on utility issues. He concluded with an apology for how the City Council was conveyed in the article."

While on the topic of Austin city-run enterprises, here's a heads-up on Austin Water: it is entirely possible the city will make permanent a one-day-per-week watering schedule. This is a significant change.

The way you know this is likely to happen is that – even though we are in the midst of a major turn from drought to the wettest period we've seen in years -- **Austin Water is preparing a new watering proposal for City Council action**.

How soon could this happen? Well, throughout the month of January Austin Energy is holding Open House meetings on the proposal at neighborhood library branches. **A "Public Workshop Wrap-Up Meeting" will be held Wednesday, February 3rd**. You can get more information at www.austintexas.gov/onedayperweek.

Okay, turning away from city-run enterprises, how about a little good economic news. Once again, running counter to trends occurring throughout Texas, Austin is still showing economic strength – according to precise September numbers (not predictions) released this week.

We're talking sales tax collections, a good measure of retail activity. **For the third consecutive month, sales tax revenue has declined *statewide***. What gives?

State Comptroller **Glenn Hegar**, whose office processes all Texas sales tax collections, says this decline was "**largely due to spending reductions in oil and gas-related sectors**. This was expected, given the ongoing weakness in oil and natural gas prices. **Remittances in other sectors, such as construction and information, continued to grow**."

However, while the state's sales tax revenue dropped 1.1% in this week's report, Austin's tax collections were *up* 6.2%. Quite a positive contrast. This is where Austin continues to shine.

Even though these numbers were just reported, they are what economists call "lagging." **They reflect only the beginning of the all-important retail holiday selling season**. **This report is based on sales taxes collected in November**, reported by retailers to the state in December and then released in January. But these are *real* numbers, not some economic estimate.

As before, not all cities in the Austin area reported increases. Most of the area cities were in positive territory, but some cities were not, such as **West Lake Hills** (-3.8%) … **Taylor** (-2.9%) … **Leander** (-1.9%) and **Buda** (-1%).

Back on the state concerns, how serious is the oil and gas weakness? This is not the week to ask: **oil prices fell every day this week, plunging to 12-year lows** with $30/barrel in view.

Years ago, when people ordered a Dr. Pepper they frequently said something like "gimme a Waco," because that's where the beverage was invented. A Dr. Pepper Museum still exists there. But a different beverage is a major industry in Waco today.

Already a big-time presence in the Central Texas city, **Coca-Cola Refreshments received a significant tax abatement and invested $13.3 million to expand its manufacturing facility** that first opened there in 1995. The facility will retain 327 permanent, full-time positions.

Don't know if this is news you can use, but did you know a recent study ranked US airlines by the type of beer served on domestic flights? Yep. Travelpulse.com conducted such a study ranking brands of beer. Okay, okay, we fell for it. We'll give you the results.

Delta Air Lines took first-place. It offers its fliers a choice of **Blue Moon Belgian White**, **Heineken, Miller Lite**, **Samuel Adams** and **Sweetwater 420 Extra Pale Ale**. The last place carrier, **Spirit Airlines** serves only **Budweiser**, **Miller Lite** and **Dos Equis**.

The two major carriers that carry the majority of Austin travelers were near the bottom.

The biggest airline in the US, **American Airlines**, **was next to the bottom, at 8th**, **serving Samuel Adams Boston Lager**, **Budweiser**, **Bud Light**, **Dos Equis** and **Heineken**. **Southwest Airlines** was just above American, ranking 7th, serving **Bud Light**, **Miller Lite**, **Dos Equis**, **Fat Tire Amber Ale** and, get this, **Leinenkugel's Cranberry Ginger Shandy**.

Each beer was scored by *Beer Advocate* magazine.

Dr. Louis Overholster didn't have a quick comeback when an overweight patient responded to the good doctor: "Exercise? I thought you said 'extra fries'."

Sincerely,

Neal Spelce

Editor/Publisher