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Dear Client:

The City of Austin is investing heavily in wind and solar power as a source for electricity, even though it is generally known to be more expensive than electricity generated by natural gas. Currently, Austin Energy is also using several *other* power sources to provide cheaper electricity to its customers. One of them – nuclear power – just passed a major test, at the same time it was receiving federal authorization to operate for another 20 years near the Texas coast.

Back in the 1980s, Austin, San Antonio and Houston invested in building the South Texas (Nuclear) Project in Matagorda County, near Bay City. As a result, **Austin owns 16% of the plant with a priority to access its power to generate electricity.** As you well understand, from construction until today, nuclear power has been controversial. But, nuclear power has been a “clean” industry and is relatively reliable and inexpensive.

One of the major concerns about the nuclear plant has always been its location. The criticism: the **site made it subject to the ravages of a hurricane** that could come roaring into the Texas coast. Well, the monster Hurricane Harvey came and went. And the **1,200 employees of the South Texas Project kept the plant producing power without missing a beat.**

Another important recent development: the **US Nuclear Regulatory Commission has renewed the license for 20 years for the South Texas Project’s two units.** The units are now cleared to operate through 2047 and 2048. This is significant, because the renewal applications were first filed in 2010 (for licenses that were set to expire in 2027 and 2028).

By the way, the South Texas Project is one of the newest and largest nuclear power plants in the US. Austin’s portion of power to provide electricity to Austin Energy customers is **part of the project’s 2,700 megawatts of power that is in use in almost 2 million homes.**

Activists have been trying for years to get Austin out of using fossil fuels to provide electricity. Efforts have been aimed at pulling out of a **coal-fired power plant** in La Grange and the city is *not* adding another natural gas plant. Of course, the same activists aim their criticism at nuclear power-generated electricity, as they continue to press for more reliance on solar and wind.

Okay, let's see. It has been about a year since Austin City Manager Marc Ott stepped down and moved to Washington DC. Where does the search for his replacement stand after all this time? Can you look for an announcement pretty soon? Not really. The search continues.

Right now, the search consultant is suggesting six to eight candidates be interviewed by the Austin City Council over two days in about three weeks. **It'll be a closed-door session. The candidates' names will not be revealed.** They are talking about ushering-in each candidate, individually, to face all ten councilmembers and the mayor at the same time. If all goes as planned, three finalists will be selected for more interviews. No timetable is set for this.

Meantime, the Austin area economy continues to be performing admirably. In a report this week, Austin's economy grew an outstanding 4.9% in 2016. This makes it the fourth fastest growing major metro economy in 2016, according to the Chamber's VP/Research Beverly Kerr, citing the US Bureau of Economic Analysis (BEA).

Which metros ranked higher than Austin? When examining the 50 largest US metro economies, #1 **San Jose** grew by 5.9% ... #2 **San Francisco** was at 5.4% and #3 **Raleigh** grew by 5.3%. By the way, Kerr tells us that while Austin ranks as the 31st largest US metro based on population, **Austin's economy ranks as the 27th largest.**

As always, growth is uneven. Not all sectors of any economy grow at the same rate. So, what was the **most significant driver of Austin's economic growth in 2016?** It was **professional and business services** with financial activities and trade also important, according to Kerr.

Where did other Texas cities rank by this BEA measure that pegged Austin as #4? **San Antonio** grew 3.1% and ranked 13th. **Dallas-Fort Worth** was right behind with a 3.0% growth rate, ranking 15th in the nation. **Houston's** economy is struggling. It dropped from 4.9% in 2015 to 3.0% growth in 2016, ranking 50th.

Speaking of growth, the *Austin American-Statesman*, in an exclusive report this week, revealed Amazon quietly more than doubled its Austin workforce in the past year, and "indications are that more local growth could be in the works, separate from the e-commerce giant's splashy purchase of Austin-based Whole Foods Market and its high-profile search for a second corporate headquarters (Amazon HQ2)."

Amazon increased its **350 employees last year to more than 900 now, with another 100 positions currently open but unfilled.** And a secret (not Amazon HQ2) "Project Rainforest" is in the works. Check the next item for a Texas economist's thinking about Amazon HQ2.

“I’ve spent more than 35 years helping communities with their strategic planning and companies with their location decisions. While the decision is complicated, I think Texas has a very good shot at Amazon HQ2.” And this includes Austin, says renowned Texas economist Ray Perryman. Let’s check his logic.

Perryman says Amazon’s \$5 billion investment for its second headquarters (with 50,000 jobs ultimately) is an “enormous” economic development prize. And he says such a situation “has **not been in the spotlight to this extent since the massive competition for Microelectronics and Computer Technology Corporation (MCC) in 1983 -- which Austin won.**

In addition to the essentials of a large pool of technology workers and universities turning out more every year, he says “these days, locations usually come down to dollars and sense. The first criteria that must be met are **basic requirements such as workforce size, location and essential infrastructure.**”

“The next layer consists of things that can be affected by government entities, community and business leaders and individuals,” he continued. “These include the **regulatory environment, tax climate, economic development incentives, and workforce training and education.**”

“Quality of life is also important, particularly for a firm which needs to attract and retain highly skilled and in-demand workers, many of whom will be Millennials,” Perryman said. “**Amenities such as nearby lakes, parks, recreational activities, museums, sports and entertainment venues, attractive and affordable housing, and the quality of the public schools will be considered.**”

Perryman’s decades-long concentration on Texas led him to proclaim “Texas cities will compare well for **workforce, cost of living, tax climate and infrastructure.** We have **renewable energy** readily available, **excellent universities** nearby, and a warm and sunny climate to offer an attractive option to any Amazon employee who gets tired of cool and wet Seattle. I feel certain that the proposals coming together across the Lone Star State will list all of these benefits and more.” The Texas population centers he references: **Austin, the Houston area, Dallas and Fort Worth and San Antonio.**

Perryman listed other pro-con factors but said “**the winning proposal will likely involve a joint effort.** The State, local governments at all levels, economic organizations, and others will need to work together to be successful.” He didn’t say it, but this is exactly the **successful process Austin followed in securing MCC’s site selection in 1983 that triggered Austin’s high-tech resurgence.**

He concluded by saying “**Amazon is interested in the full range of what a community has to offer, and proposals will be judged accordingly.**” October 19th is the submission deadline. We’ll examine other aspects of this competition next week.

Austin and Texas car dealers are gearing up for increasing sales. One industry estimate says almost a million more vehicles will be sold in the US, compared to the same period a year ago. Remember the sight of all those flooded vehicles on Houston streets? Well, many of them will need to be replaced.

Wards Total and Domestic Vehicle Sales reports total US sales will improve sharply from a monthly tally of 16.03 million to 17.1 million. **In Texas, IHS Markit estimates about a half million new vehicles will eventually need to be purchased.** About a million vehicles were lost or damaged by Hurricane Harvey. Hurricane Irma caused similar, though smaller, numbers of damaged or lost vehicles in Florida.

What about Texas homes damaged or lost due to Hurricane Harvey? What is going to happen to the financial institutions that hold those mortgages, many of them with offices in Austin? They might not be as bad off as you may think, according to Black Knight Data & Analytics.

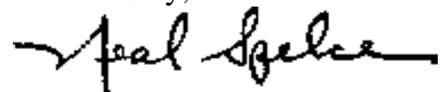
After analyzing the homes in the FEMA-designated disaster areas, and looking at the loan-to-value ratio of these homes, Black Knight came to the conclusion there was **approximately \$131,000 in equity per borrower.**

“That works out to a lot of skin in the game,” reported the company, **“and will likely serve as strong motivation for borrowers not to walk away from a storm-damaged home.”** The company also concluded “the majority of borrowers affected by the storm should be able to find assistance under the various foreclosure moratoriums and forbearance programs that have been instituted.”

So it looks as if the mortgage holders will not take too big a hit from Harvey.

After a number of verbal gaffes recently, **Dr. Louis Overholster** was overheard to bow his head and pray “Lord, keep your arm around my shoulder and your hand over my mouth!”

Sincerely,



Editor/Publisher