

Volume 25, Number 43

February 6, 2004

Dear Client:

Austin businesses and residences paid \$73 million more to the City of Austin's electric utility in 2003 for electricity than it cost the city to deliver that electricity.

Austin Energy, the utility owned by the City and overseen by the Austin City Council, is the **sole provider of electricity to residential and commercial** entities within the city and to certain outlying areas surrounding Austin. It has no competition to force it to keep rates down. Last year, Austin Energy made \$73 million dollars profit.

So, what does the not-for-profit entity do with that profit? The money goes into the City's budget as revenue. It is simply **another source of revenue for the city** – such as property taxes and the sales tax. The funds are then spent on city services.

Some have argued the city should not operate Austin Energy as if it were an investor-owned private entity. It should do business as its non-profit status implies and **charge only what it costs to generate and deliver electricity**. If it did this, your electric bills collectively would have been \$73 million *lower* last year.

Those who favor the profit arrangement say the profit is considerable revenue for the city, and that if the city didn't have this money it would need to raise property taxes – or other taxes and/or fees – to get a like amount of revenue. They further note that even with these profits, Austin's **electric rates are lower** than those in Dallas and Houston – and **property taxes are also lower** than in those cities.

Austin Energy likes to point out that its base electric rates have not increased since 1994. But, when you look closely at your bill that arrives this month (for January's usage), you'll note an increase. **Effective 1/1/04, the "fuel charge" on your electric bill increased** from 2.265 cents per kilowatt hour (kWh) to 2.796 per kWh. Put it another way: the average residential monthly usage will cost \$5.31 more in January than it did the previous month.

The city explains it's not making a profit on the fuel charge — it's a **dollar-for-dollar recovery** of what Austin Energy pays for natural gas to generate electricity, as well as what it pays on the open market for power when outages occur at its generating units (such as the nuclear plant in South Texas or the coal-fired facility in LaGrange). But the bottom line is the bottom line – your electric bill is going up, and as Austin grows, the profits for Austin Energy will increase.

The Austin apartment market is expected to continue a slow but steady, positive movement during 2004. But, 2003? Well now, that was a year to forget.

“All in all, revenues were shot, budgets were cut, even paper advertising was gone,” said **Robin Davis**, who tracks local apartment trends through her company, Austin Investor Interests. She assessed 2003 by noting “the market was seen **operating at a ‘survival of the fittest’ level** where the ultimate choice was occupancy or revenue ... and the seesaw played out.”

Calling it “bad timing for a market gone absolutely flat,” Davis said “2003 began with an excessive oversupply of new units screaming for occupancy.” So what happened? “With in-migration next to null, **the only action to be found was extensive tenant trading in a market flooded with concessions.**”

Low interest rates were luring Austin apartment dwellers into purchasing starter homes. So, apartment managers/owners responded by **offering specials to current tenants** just to keep them from leaving. This led to warfare between the upper level apartments (Class A), the mid-range (class B) and the lower priced units (class C).

Davis estimates that during 2003, more than 89% of the Austin apartment units were offering concessions. **The Class A units offered attractive specials to go with their great amenity packages.** This caused a trickle-down effect. “Class B properties were pressured to reduce rates to maintain market share and ultimately ended the year with the same average rental rate as Class C units,” said Davis.

So what happened when the Class C units were pounded? They lost the occupancy war. Davis said “**even affordable housing units were unable to maintain their share,**” so they fell “further behind their conventional counterparts.” If you had an investment in Austin apartments in the first half of 2003, you were hanging on.

Then, about mid year, there was a glimmer of hope. Davis reported “the bottom had been found.” And in the third quarter, “occupancy held the largest increase in over five years while rental rates remained stable for the first time in 24 months.” And even though the fourth quarter is seasonally slow, it “actually saw an improvement,” she said.

“Although Class B properties held the highest occupancy of all classes throughout the year, **Class A reported its largest annual occupancy increase in more than 3 years,**” reported Davis. So is this an aberration, a blip on the radar trend screen? Nope. “This trend is simply the beginning,” said Davis. “With the number of new Class A additions on the decline, this class has begun to **stabilize and the competition is expected to be less fierce in 2004.**”

The big help for 2004: new apartment construction completion over the next few quarters is small in number and widely dispersed geographically. Keep your fingers crossed.

There has been a dramatic increase in the use of local hospital emergency rooms and community clinics by people with mental disorders in recent months. What's causing this?

A special analysis of new data from hospitals and community health clinics was completed for the Mental Health Association of Texas (MHAT) by the Indigent Care Collaboration (ICC). This data shows a **43% increase in mental health encounters and utilization of hospital emergency rooms and community health clinics** from February to September 2003 in Central Texas.

And from July to August and September alone, there was a **dramatic increase in mental health encounters**. At the same time, *overall* encounters remained constant in number during the same period.

What this means is that costs are being shifted. "The cost for this care is enormous to communities and in large part falls to county taxpayers," reports MHAT. "In the Austin area, community emergency rooms and community clinics have **spent over \$1 million between January and September 2003 to care for low income Texans who need mental health care.**"

Only a small portion of this cost is reimbursed by the Children's Health Insurance Plan (CHIP) and Medicaid – estimated at 12%. And this is the where the problem originated, according to MHAT. The mental health component in CHIP was reduced and then partially restored 10/20/03. But, according to MHAT, "families are not yet able to get these services because the systems for billing CHIP are not yet set up. **Families can't afford to front the cost on the promise that they might get reimbursed.**" So they go to emergency rooms as indigents.

MHAT cites other reasons for the cost shift to local hospitals and clinics, such as the reduction in Medicaid benefits, and that the Texas Department of Mental Health and Mental Retardation received \$58.5 million less than it requested in the most recent legislative appropriations. MHAT also says the average **cost of community mental health services are much lower than costs for visits to the emergency room**. And, the scaling back of *state* benefits shifts the burden to *local* entities that run emergency rooms.

This could become a major issue later this spring, when area voters will be asked to **create a health care district** that could change the way indigent care will be financed and governed.

In the year ending 9/30/03, fewer people sought assistance from Travis County to pay their utility bills and less people sought assistance with food. But, demand for assistance with rent increased. To further paint the picture of what our County's neediest citizens are requesting, there was a 25% increase in the number of calls from people seeking social services from 2002 to 2003, such as utility (16%), food pantry (26%), and low-cost/subsidized housing assistance (40%).

If as some believe, the Texas Primary election, 3/9/04, could be the day the Democrats finally settle on a presidential nominee, there are some important Web sites you can check between now and then – and return to for the General Election campaign this fall.

These are not propaganda sites – far from it. These are sites where you can **monitor the media** and how various outlets are reporting the contest, whether **what the candidates say is actually the truth** and, for the most heavily addicted political junkie — a site where you can check the day-to-day schedules of the candidates.

Our first recommendation is www.factcheck.org. As its name implies, this is where you see **if what the candidates are saying is accurate**. It is housed at the University of Pennsylvania's Public Policy Center. Each day it **nails the false claims, attacks and accusations** leveled by the candidates – and sets the record straight. No political agenda here. Just an interest in the truth.

The other university-based site we recommend is www.campaigndesk.org. This site, run by the Columbia University Journalism Review, polices the media with the objective to **stop bad journalism before it spreads**. Its arguments are bolstered by supporting documents and links.

The **hopeless political junkie** will love ABC's *The Note*. This site tells **the location of each candidate every hour of the day – plus other arcane data**. You can go to www.abcnews.go.com/sections/politics/TheNote/TheNote.html to coordinate your viewing of C-Span each day (we told you this was for those with a "sickness."). It also summarizes major political stories in the morning papers.

The Wall Street Journal turned us on to the above sites. Check them out.

The Academy Awards will be given out at the end of the month. **Dr. Louis Overholster** hasn't followed the process too closely but he thinks an Oscar for a top performance should be given to Martha Stewart for "Best Plating Of A Cooked Goose!"

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., 1407 Wild Cat Hollow, Austin, TX 78746. POSTMASTER: Send address changes to: Neal Spelce Austin Letter, P.O. Box 1905, Austin, TX 78767-1905.

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