

THE

Neal Spelce

AUSTIN LETTER

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P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail News@AustinLetter.com

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Dear Client:

One of the states hardest hit by housing's subprime, no-doc mortgage mess is Florida, a one-time shining example of a growth state. Now one major news outlet is asking "Is Florida Over?" and giving examples to bolster the question.

In years past, a steady flow of newcomers has kept Florida right up there with Texas as a population growth leader. But the Sunshine State is now under a cloud. *The Wall Street Journal* reports that "moving company Atlas Van Lines brought **6,700 families into Florida last year and took 8,000 out**, the first time it has moved more out than in." Schools are losing students and the number of out-of-staters switching to a Florida driver's license is down 8%.

The Florida phenomenon has been largely overlooked here in Texas as **the Lone Star State is not one of the leading places from which residents migrate to Florida**. That designation goes to the cold Northeastern and Midwestern states. But Florida's current woes are instructive as you consider the ripple effect of the mortgage mess.

Florida has notched a 41% drop in home sales in the past year. **Home prices doubled over four years while personal income increased only 31%**. It's a mixed bag. Unemployment, while not nearly as good as the Austin area, is still relatively low. It has so far avoided a recession. However, retail sales are down.

One big problem is property taxes. Florida has a two-tiered system.

Permanent residents pay less than newcomers. A North Tampa house assessed at \$214,764 owed \$1,992 in taxes, but a newcomer's tax bill would be \$3,820 on the same property. The state is now moving to lower property taxes.

Hurricanes have done more than just batter Florida with wicked weather in recent years. Insurance rates averaged \$929 in 2004. Now they have skyrocketed to as much as \$2,313 a year.

Florida will survive and ultimately thrive. It has too much going for it. But it is clear the **domino effect from the subprime, no-doc mortgage crisis is having a major impact**. The Austin area, as we have noted before, did not fall prey to the excesses of Florida (or California, etc.), but the resulting tightened credit is being felt here and around the nation.

One of the biggest problems facing a growing region such as the Austin area is to provide enough electrical power to meet the demands of burgeoning businesses and homes.

The formal closure of the Holly Street Power Plant, while Austin is experiencing one of the nation's fastest growth spurts, once again brings into sharp focus the question of how to **provide enough electricity to meet future needs. This is a serious – and public policy – problem.** Private companies, competing to meet demand, will not be a part of the solution.

Remember, electricity is provided to much of the Austin area by a utility owned by the city, under operating policies set by the Austin City Council. **Elected officials, who have more *political* experience than *operational expertise* in running a utility, will make the policy decisions to spend taxpayer money to meet future demand.** And various energy options for Austin are rife with controversy, often driven by political constituents.

Consider the problems with Austin's sources of electrical power. **Natural Gas:** Easy-to-tap reserves are tapped out and supplies are expensive. **Coal:** One expert says "there is no such thing as clean coal" as it requires heavy emissions cleanup, and carbon dioxide and mercury reduction processes are still being developed. **Nuclear:** plants are expensive to build and retire and radioactive waste is with us for thousands of years. Alternative sources, such as **wind and solar:** they are in early developmental stages and have very little generating capacity.

The city-owned electric company, Austin Energy, uses all these sources right now to generate electricity. And, if stirred-up, opposition to each of these sources can have a major political impact. **There's another problem: lead time.** Once the decision is made to expand one source or another, it takes years for plants to be built or capacity to be expanded. **So decisions must be made long before it nears a crisis stage** when there is not enough electricity to meet all the needs of those served by Austin Energy.

Recent headlines implied Austin's nuclear power electricity providers had just made a decision to expand capacity. Not so. Readers of this newsletter were told more than a year ago (see the 6/23/06 edition) of the plans to **add two new units** to the South Texas Project. The development clock has been running for some time.

But Austin's political leaders have not yet made a decision to tap into this expanded source of electricity, even though nuclear power is the cheapest power used by Austin Energy. We told you previously (in the 7/13/07 edition) of a brand new potential source of nuclear-generated electricity in a plant to be built by Exelon just a few miles from Austin's South Texas Project. **No decision has been made to acquire electricity from this new source.**

True, it will be years before this new nuclear capacity will be available. But there will be no lack of customers for this power in the future and Austin needs to act so it won't be shut out.

Speaking of energy, the news media did not give significant coverage to a major announcement that will increase oil refining capacity in Texas. This is huge. Nothing like it has occurred in the US in 30 years.

An expansion of the Royal Dutch Shell oil refinery in Port Arthur will make the plant one of the biggest in the world and *the* biggest in the US. When completed, it will **increase capacity by 325,000 barrels per day (bpd)**. Currently the Port Arthur refinery has a capacity of 285,000 bpd, so this represents an enormous increase. **At a cost of \$7 billion, it represents the first US refinery expansion in more than 30 years.** In fact, there have been no approvals for new refineries during that time, so expansion is the main option to increase capacity.

Shell said it was confident it could finish the expansion within the budgeted \$7 billion and on time by 2010. The expansion is expected to include additions to the refinery's crude distillation capacity, along with hydro cracking and coking capacity. The main construction contract has been awarded to a Bechtel/Jacobs joint venture.

The refinery is owned by Motiva Enterprises LLC, Shell's US unit. Shell is the world's second-largest non-government controlled oil group by market value. As we said at the top, after years of criticism and complaints that refining capacity has been at a standstill in the US for decades, **this major investment in a Texas operation could signal a breakthrough for the US** in the continuing struggle to find a solution to the energy crisis.

ExpressJet, an upstart, no-frills regional carrier that flies smaller jets, started servicing Austin this year. So how is it doing so far?

Not bad, not bad. In fact, it may be surprising to some how well their first few months have gone. ExpressJet hit town with a fairly heavy ad budget, touting its "no-middle-seat, valet service for your luggage, non-stop flights" to smaller airports generally underserved by larger carriers. Austin travelers have responded in impressive numbers.

For instance, in August **ExpressJet carried more Austin-Bergstrom International Airport travelers (26,347) than JetBlue Airways (22,865), Frontier Airlines (22,603), Northwest Airlines (21,328) and Aeromexico (3,282).** Its August passenger totals almost matched US Airways (27,845). Not bad.

It'll be interesting to see if this continues. When the ads touted "no middle seat", it was because the regional jets were **too small to have "three-across" seating**. When the ads touted "valet service for your luggage," it was because the **overhead bins are relatively small**. But when it bragged about non-stop flights, it was right-on. And Austin air travelers may put up with smaller aircraft for the **opportunity to fly point-to-point**, without changing planes.

What is the best region for golf in the entire state of Texas? Why, the Central Texas Hill Country region, of course – according to some golf enthusiasts.

Consider this rave review: “The Hill Country boasts the best grouping of courses in the entire state of Texas. Not only does it have challenging layouts from some of the best course designers in golf (**A.W. Tillinghast, Tom Fazio, Arnold Palmer, Arthur Hills, Keith Foster, Ben Crenshaw**), it also has some of the most stunning courses your eyes will see,” wrote **Joel McColl** and **Robert Rodriguez** on MyAvidGolfer.com.

One of the amazing parts of this glowing review is that it left off this list such acknowledged great course designers as **Robert Trent Jones, Sr., Tom Weiskopf, Tom Kite, Jack Nicklaus, Jay Morrish**, etc., who have designed acclaimed golf courses throughout the area. In fact, the Hill Country is the only place in the world where there are *three* Robert Trent Jones Sr. golf courses in one location – Horseshoe Bay.

The authors named the **Barton Creek Resort and Spa as the Best Overall** – citing its “four championship golf courses, a four-star resort and spa, four spectacular dining options and 4,000 acres of secluded Hill Country serenity.” They also pointed out Barton Creek was “the home to the famed **Chuck Cook Academy**, with stay/play/learn specials offered throughout the year.”

It singled out a number of golf courses, highlighting their unique features that have brought them widespread acclaim. But, just as their quote above left out some of the biggest golf course designer names in the world, **the article also bypassed some exceptional Hill Country golf courses without so much as a mention**. So, while the “best golf region in Texas” claim is probably justified, their premise was not backed up as thoroughly as it should have been – leaving open the possibility that their claim could be challenged.

Speaking of superlative claims, **Dr. Louis Overholster** likes to point out that passion in any argument is inversely proportional to the amount of real information advanced!

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