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Dear Client:

Austin isn't alone in its approaching decision about expanding its nuclear power-produced electricity. In fact, so many nuclear plants are planned elsewhere in Texas and around the nation that you could see a major US nuke expansion, unlike any in our nation's history.

Based upon plans in the pipeline and publicly-announced indications of interest, one report says you may see about **30 new nuke facilities built in the US over the next 20 years, with as many as 140 total in operation by 2025.** This is a huge expansion. But if it comes to pass, nuclear power would still only generate about 25% of the US's electricity (up from about 20% currently) due to increases in the *total* US power supply. What's fueling this record expansion?

Here are a few factors. The rising **cost of natural gas** and the fast growing **opposition to coal-fired plants** – both sources that generate a portion of Austin Energy's electrical power. **Cheaper cost of nuclear-power-generated-electricity.** Anticipation that the Feds will place **greater limits on emissions of carbon dioxide by 2010** (nuke plants are zero-emission). **Enhanced safety features**, offsetting some of the arguments about dangers at nuke plants.

There are a couple of other factors at play here. First of all, the Nuclear Regulatory Commission is streamlining its application approval process so that the **lead time on new building can be cut to five years from twelve.** And the Feds are providing **tax credits**, as well as **guaranteeing up to 80% of the cost** of building these very expensive nuclear power plants.

Nuclear plants are not all positive by any means. They are still controversial, with one of the loudest criticisms focusing on **how to dispose of nuclear waste.**

All this is important to know, because as we reported last week, the Austin City Council is facing a **3/4/08 deadline to determine whether to invest in an expansion of its current source of nuclear-generated electricity**, the South Texas Project on the Texas Gulf Coast. Austin currently owns 16% of the nuke. That plant, in which San Antonio is also one of the owners, will be expanded with or without Austin's participation.

The point to realize: Austin is approaching a decision during a major nationwide **trend toward more nuclear power.** The situation is very different from Austin's first decision 30 years ago.

When it comes to wind energy, Texas blows away other states (forgive the pun!).

A long-term source of electricity for Austin Energy and the state of Texas could be generated by wind energy (no jokes, please, about those blowhards in Texas!). If you've driven in West Texas you've probably noticed those propeller-driven, modern-looking giant metal windmills arrayed in rows, usually on high level mesas. **Well, they crank out electrical power and sell it to entities such as Austin Energy.**

And the industry is really growing. **In fact, Texas expanded its wind energy capacity by 57% last year to widen its lead over all other states.** At the end of 2007, Texas installed capacity was 4,356 megawatts, far ahead of #2 California (2,439 installed megawatts), Minnesota (1,299), Iowa (1,273) and Washington (1,163). In addition, Texas has 1,238.28 megawatts under construction, far more than any other state, according to the American Wind Energy Association.

To give you an idea how much electricity these numbers generate, **the Association says 3,000 megawatts would generate enough energy to power 3 million homes.** Wind energy is a long way from providing the massive amounts of electricity needed to meet growing demands. But it is an alternative upon which many utilities are relying.

With weather problems all around the US recently, air travelers have had more hassles than normal (which is saying a lot), but the problems will not ease much when the skies clear.

Sure, changes at New York's JFK International should help somewhat because so many connections are impacted by that busy airport. But, in general, **the airlines have cut back on the frequency of flights and this makes each flight more likely to be jam-packed.** This causes a domino effect if your flight is delayed or cancelled, because alternative flights generally will be full. Not to mention the difficulty frequent fliers will have getting those cherished upgrades that make flying a bit easier.

There will likely be another factor at play as you look down the road a bit. Remember, we told you last week about Delta Air Lines' full-court press to effect a merger with either United or Northwest. One of the reasons for the urgency, and one of the reasons a merger is likely to happen, is **airline execs feel they need to press ahead with merger plans while the Bush administration is still in power** – betting the current administration will be more willing to OK mergers than a new administration, especially if the Democrats gain the White House next year.

If this merger takes place, and others crop up (as is possible), **this will make the market even tighter.** Mergers generally result in a reduction of personnel and a cutback in services. So, keep your eye on this bit of activity as well.

Okay, okay, we've heard enough about all the problems (real and perceived) with the American economy. What are the *positive* signs – especially those that make this situation different from the real estate recession of the 1980s?

If you pay attention to the daily news reports, you can almost recite by heart the **mantra of all those things ticked off each day that are *wrong* about the economy** – tighter and costlier borrowing, the housing problems, the potential for inflation, high energy prices, lower corporate profits in some sectors, a greatly-fluctuating stock market, etc. You get the picture. **To hear these daily rumblings, you'd think the US economy was Going to Houston In a Hand Basket.** (Sorry, Houston; couldn't resist a little jab!)

But where is the daily recitation of those **elements that are propping up the economy**? Let's see if we can tick off a few for you – starting with some of the basics. Workers are working and they have a reasonable amount of money. **Employment continues to gain**, even though it is at a bit slower pace than before. But it is growing. **Per capita personal income gained at a 2.5%** annual rate in each quarter last year, after accounting for taxes and inflation.

Though it is decelerating a bit, **productivity is strong**. Businesses are getting more output from an input hour of labor. Consider energy conservation. **Businesses use just half as much energy today** as they did three decades ago to produce the same amount of output. Thank you, technology.

The Federal Reserve has said in no uncertain terms it will do what it can to keep economic growth strong and to **keep the credit pump primed**. **Foreign investment in the US remains strong and steady**. Oil prices have dropped back a bit and it is not predicted there will anything like the 2007 hike this year.

This is really important. There is a slew of important industry groups that are doing really well in this economy – though you don't hear that much about them. **Look at health care; very robust growth. Information Technology. Electronics. Food and agriculture. Aerospace and defense.** They are thriving.

There's more. Services, such as **engineering, insurance, law, education, transportation, utilities** – **they're all growing steadily**. Demand from abroad is giving a big boost to **chemicals and pharmaceuticals**. Foreigners are coming to the US in droves due to the dollar's weakness relative to foreign currency. **This foreign tourism is a boon to hotels and restaurants.**

Final point (and one we have made over the years): **In modern times, US recessions, when/if they occur, are *regional* in nature**. When Austin was being hammered in the 1980s real estate recession, other parts of the US were doing well. Now the shoe is on the other foot. **This part of the US is doing better than elsewhere**, but the national focus is not on this region. Pity.

Heads up for your planning: changes in taxes and postage are looming – some this year, one possible next year.

In just a few months (starting in May 2008), the US Postal Service will **raise the price of first class stamps a penny**, from 41-cents to 42-cents. Business class postage will rise 2.5% and overnight delivery will go up 5% — with some variance for volume and pre-sorting. But there *will* be an increase starting in May. You'll get a bit of a break this year if you calculate mileage for your **business travel; the IRS credit is up 2-cents to 50.5-cents per mile**. But your rate for medical and moving travel drops a penny to 19-cents a mile. Charitable driving remains at 14-cents a mile. **Tolls and parking fees are deductible.**

Texas is getting ready to join 22 other states on a streamlined sales tax (SST). This is a simpler and more uniform set of sales tax laws to help state and local governments receive **sales tax revenues from online and mail order sales**. By agreeing on uniform laws, the coalition of states hopes to persuade the US Congress to pass a law making it mandatory for online and mail order businesses to collect state and local sales taxes from their customers.

The City of Round Rock was heavily involved in the effort to convince the national Governing Board that will make the recommendation to Congress. When enacted, ***intrastate sales will be taxes at the seller's location (origin sourcing) and interstate sales will be taxed at the rate in effect where the merchandise is delivered (destination sourcing)***. Originally the SST plan called for destination sourcing for both interstate and intrastate sales.

State Comptroller **Susan Combs** called this “a plan that protects local governments from sales tax losses.” She said “in fiscal 2006, Texas lost an estimated \$541 million in state sales tax on Internet and mail order sales.”

Dr. Louis Overholster said America is turning into “Generica” – where features of the American landscape are exactly the same no matter where you are, such as strip malls, fast food joints, etc.

Sincerely



Editor/Publisher