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Dear Client:

**The record string of triple-digit temperatures is Topic-A these days. The Austin area is facing the possibility of electric brownouts, and in more extreme cases, Austin Energy can draw on the ERCOT grid for *electricity* if Austin's demand exceeds the utility's capacity. There is no back up if the area runs low on *treated water*.**

A shortage of treated water could have serious consequences for public safety, public health and quality of life. Action could be taken by the Austin City Council within a week that would have an impact on this. **Construction of a new \$508 million water treatment plant, WTP4, is about halfway complete and so far it is on time and under budget.** But the City Council is considering a stoppage of its construction for five or maybe more years.

The result of the vote is in doubt. Recent support on the Council has been tenuous, usually on a favorable, tight 4-3 vote. Then the 4<sup>th</sup> vote, **Randi Shade**, lost her re-election bid to **Kathie Tovo**, who has spoken out against WTP4. Those opposed to continuing construction say **the plant is not needed now and the money could be re-directed toward other solutions such as water conservation efforts.**

The opponents are correct in saying the treated water generated by WTP4 is not needed today. It is planned to meet the city's demand for about 50 years. But the two existing plants are really old. In fact, **WTP4 will be the first water treatment plant to be built in more than 40 years.** And the Austin area is one of the fastest-growing in the nation, creating increasing demand each year.

Then there's the cost of a work shutdown. The estimates vary. The Council is waiting for a staff estimate due next week. One contractor, **Patrick Flynn**, president of Flynn Construction says **"In my estimation, the delay cost could exceed \$8 million and possibly surpass \$50 million."**

**WTP4 was first approved by Austin voters more than 25 years ago. It is scheduled to be completed by 2014.** One of Austin's largest construction projects, it consists of water intakes, a pump station and pipelines to get **water from Lake Travis into the treatment facility.** It also includes an associated transmission system to carry treated water from the plant to the existing water distribution system. See the next item where we drill deeper into other factors, especially the cost, if the construction is halted.

**Construction of the half-billion dollar, half-completed Water Treatment Plant #4 (WTP4) could be halted for five-or-more years. The Austin City Council next week will weigh the cost of the shut-down. And the cost could be considerable.**

The #4 is a bit of a misnomer. There are only two other water treatment plants servicing the Austin area and they are aging. At times in the past, one of the two older plants was shut down due to planned and unexpected events. So WTP4, near Lake Travis at RR620 and RR2222, will provide **system redundancy and water treatment reliability for the existing aging plants.**

But voters approved WTP4 for reasons other than that. The new water treatment plant will **help manage the risks of drawing water from a single lake.** WTP4 will serve the northern Desired Development Zone where the City and environmental advocates have long urged developers to build, and it can do so **using dramatically less energy than would be required to serve the area from existing plants** even though the first phase of the plant will produce 50 million gallons of water a day.

In the next five years, Austin Water will invest **\$25 million annually on improving and maintaining more than 3600 miles of its underground water distribution system.** Why “improving?” Well, just this past week -- during these stressful 100+ degree days -- there were more than 100 water repairs citywide. This is compared to an average week of about 40-to-50 repairs.

As for cost of the plant itself, **the City of Austin is contractually obligated for \$427 million.** This includes **\$123 million spent** through June 2011 and an additional **\$304 million under contract.** But there are major *additional* costs that will be incurred if construction work stops and the incomplete construction is “mothballed” for years. City staff has been charged with coming up with **an estimate next week** of what those charges might be.

But there is no doubt it will be costly and difficult. After all there are **500-foot-deep tunnels** that have already been drilled. No telling how much concrete has been poured and steel installed. **What about complicated equipment?** All will need to be protected from the elements for years.

And what about future costs? The current \$508 million price tag assumes completion in 2014. **How do you compensate the current contractor if work stops?** And what will be the cost for a new contractor, considering the inflation factor, if work is not resumed until 2016-2020?

And what about the City of Austin’s reputation? **Mayor Lee Leffingwell says a work stoppage would raise questions about the governance of Austin** (not to mention possible lawsuits). Also, there is the factor of **lost jobs.** Workers on site range from 130-to-200 and should rise to 250-300 for the next phases. A major decision is looming. Stay tuned.

**Speaking of water, a vote by the Lower Colorado River Authority (LCRA) to sell as much as 25,400 acre feet of water a year out of the Highland Lakes for a proposed new coal plant near the Gulf Coast has been postponed.**

Set to make a decision this week, the LCRA Board pulled the contract from its agenda. It wasn't because of the controversy surrounding the proposal. **The LCRA said the company proposing the plant “substantially changed the terms of the contract.”** No new board date has been set for further action. For background, check our report in Volume 13, Number 18 July 29, 2011 by clicking the “Archives” button at the top of the page.

**The current apartment rents are at the highest level ever seen in the Austin area. And they are poised to go even higher.**

While the apartment occupancy soared almost 4% over the 2<sup>nd</sup> quarter last year, **rents zoomed higher at an even greater percentage – 9% higher than was recorded last year at this time.** And **Robin Davis**, who has been tracking apartment trends in the Austin area for years, says you haven't seen the end of this surge.

“With the historically strong 3<sup>rd</sup> quarter approaching, expect this upward trend to get **another boost over the next three months and continue throughout the next year,**” Davis predicted.

What happens then? **“At that point,” Davis said, “the area may be poised to see a new trend emerge,** as budding construction projects will begin to deliver new units into a market that may or may not have a stabilized tenant base.”

The average occupancy is 95%, so are there any apartment “deals” still out there? After all, these numbers are a composite of the entire area. Yes, but. Davis said **concessions to renters have declined to the point that only 36% of the available apartments are offering specials** and they equate to only about 2.4% off of market rents.

In addition to Davis's market overview, it's pretty obvious that the **surging population growth in the Austin area is contributing to this squeeze on existing apartment units.** And, as **UTAustin students** prepare to descend on Austin for the fall semester, you can only hope they already have made their living arrangements – or they may be in for a big financial surprise.

**It's widely-known it is difficult to get a home loan these days, even with low interest rates. So what are almost one-fourth of homebuyers doing? They are paying cash.** The Austin Multiple Listing Service reports that 2,291 buyers paid cash for their home – out of 9,670 transactions.

**If you are considering a job offer to move from the Silicon Hills of Austin to the Silicon Valley of San Jose, how much of an increase in your after-taxes income would you need to maintain your present lifestyle? Would you believe a 66% increase!**

This is one nugget of info found in the ACCRA Cost of Living Index for the 2<sup>nd</sup> quarter 2011. The survey is conducted three times a year. The bottom line result: **Austin's cost of living is only 91.2% of the national average.** This is a very significant finding. And, importantly, Austin is in a better position than in years past.

First, an explanation. The *average* cost of living index is pegged at 100. An index of *less than* 100 shows how much **lower the cost of living is** than average and, obviously, a number *above* 100 gives you the margin by which a given area's **cost of living is greater** than the average.

As an example, the cost of living index for NYC, specifically Manhattan, is 220.8, meaning **the cost of living in Manhattan is well above twice the national average.** San Francisco is 166, again 66% greater than the national average. On the less expensive side are Dallas at 95.8, Salt Lake City, 94.5, Raleigh, 92.4, Atlanta, 97.5 and Phoenix 98.3.

Now, to explain why Austin, at 91.2, is better than in years past: In 2010, the cost of consumer goods and services in Austin was 95.5 and in 2009 it was 96.5. **"This difference from previous periods does not mean prices declined in Austin, only that the difference between Austin and the national average widened,"** explained **Beverly Kerr**, the Austin Chamber's VP/Research.

Living costs can vary between areas within a metro. As an example, **San Marcos** had a lower living cost index of 89.4 and **Round Rock's** index was lower still, at 87.5 in the 2<sup>nd</sup> quarter.

As he ponders the burn ban during this drought, **Dr. Louis Overholster** wonders why one careless match can start a wildfire, but it takes him a whole box to start a campfire!

Sincerely



Editor/Publisher