

THE

Neal Spelce

AUSTIN LETTER

www.AustinLetter.com

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

Volume 34, Number 33

November 9, 2012

Dear Client:

The plan to release water from the reservoir that provides Austin's drinking water changes almost as much as the weather. Well, in fact, the weather is the biggest variable. As a result more weather-wise and water-wise changes may be on the way.

Central Texans who rely on lakes Travis and Buchanan for **business and recreation** have a lot at stake. So do farmers downstream on the Colorado River toward the Gulf Coast who have decades-long contracts for **agricultural water usage**. The same is true for **power plants** that rely on the water to generate electricity. And of course cities, such as Austin, have been sucking water out of these reservoirs/lakes for **residential and commercial purposes**.

Who gets how much water, and when, is determined by the Lower Colorado River Authority (LCRA). "Many factors go into managing the Highland Lakes, which were built to rise and fall with weather patterns and customer use," said **Becky Motal**, the LCRA GM. "**They were never conceived to be maintained at a specific level.**"

"Inflows from tributaries, floods, rain events above the dams and rainfall in the lower basin – and, yes, extended droughts – affect how much water is in the reservoirs and how much is available for customers, including for downstream irrigation. Mother Nature is the biggest variable in all our calculations."

Those variations have triggered two changes just in the last month or so. In October, LCRA staff said at the time it **did not recommend seeking emergency relief** from the Water Development Plan. In other words standard water releases would not be affected.

That was then, this is now. Since the beginning of October, **"conditions have not measurably improved, and updated weather forecasts call for drier conditions,"** reported the LCRA. So, next week, the LCRA Board of Directors will consider seeking "emergency drought relief" from state regulators.

When this last occurred, **most downstream farmers received no water from the Highland Lakes in 2012. What will happen now? The LCRA is not saying,** only that it will be "different" from the current Water Management Plan and the emergency plan in force this year. So next week, the LCRA will reveal details of its recommendations. Stay tuned.

Unlike many elections in the past, Tuesday's Austin election results will have major consequences for governance of the Capital City and for the metro area's economic prospects. It will be obvious immediately, but the long-term impact will be significant on both fronts.

Let's look first at the economic impact. Despite a guerilla, low-funded, anti-tax campaign, Proposition One that levies a **property tax increase to support a new UT Austin medical school in Austin passed** – and passed with a very solid margin. Proponents called it a “**once in a lifetime opportunity**” and this message obviously resonated as residents of Travis County voted to accept a substantial 63% increase in property taxes for healthcare in 2014. Aside from the healthcare benefits, how does this enhance the *economic* wellbeing of the Austin area?

Regular readers know we have long maintained, and documented, that **UT Austin is the most powerful economic engine in the 5-county Austin-Round Rock metro.** As UT Austin grows in importance and stature this economic engine revs up exponentially. Here's why UTSystem Chancellor **Francisco Cigarroa** calls the establishment of a medical school at UT Austin a **once-in-a-generation milestone**:

“The medical school at UT Austin would be the **first, and only, comprehensive, research-intensive school of medicine on an academic campus in Texas.** Such a move will complement many of UT Austin's programs, including **natural sciences, nursing, social work, pharmacy and engineering.** We have a unique opportunity right now to design a medical school that is a research-intensive institution combined with strong, community-based educational experiences.”

“**A medical school will catapult the university to rank among the most elite schools in the country and the world,**” Cigarroa continued. “Already, UT Austin is an undisputed Tier 1 Research institution with a **global reputation for excellence.** Just a few weeks ago, UT Austin was ranked among the top 25 universities in the Times Higher Education World University Rankings.”

The Austin taxpayers' money authorized by Tuesday's election is only part of the equation. **The university is also making a significant financial investment** In fact, the UTSystem Board of Regents has committed \$25 million a year in perpetuity and another \$5 million a year for eight years to purchase equipment.

So, how quickly will all this get underway? Is the process going to get bogged down in bureaucracy? Well, even though UT Austin and the UTSystem have already given broad okays to the med school, **the Texas Higher Education Coordinating Board must also approve,** which could be almost perfunctory. Meantime, UT Austin has already announced architects and designers will be hired within the next year. **Groundbreaking could take place in 2013 or 2014.** The location has not been officially nailed down, but put your money on the fact it will **likely be on a tract of land near UT Austin's Frank Erwin Center and University Medical Center Brackenridge** because UT Austin already owns the land in that vicinity.

The governance of the City of Austin will be changing dramatically as a result of the wishes of the voters Tuesday. The full effect of the coming sea change in electoral procedures, however, will play out over a couple of years.

From time to time, the process of electing Austin city leaders has changed dramatically. During the last half of the 1900s, for instance, Austinites elected **five members** of the City Council and after they were inaugurated, the members caucused and **elected one of their number mayor**.

The next major step occurred when the City Charter was changed to elect the Mayor directly and the late **Roy Butler** was the first to be elected by a direct vote of Austin citizens. Along the way the **Council expanded to seven places** on the dais and **terms were staggered** so there would not be a total turnover by “voting out all the rascals.”

But on six different occasions during this timeframe, **voters refused to elect council members from neighborhood districts – instead opting to keep the status quo where all voters vote on each council member as well as the mayor**. All that changed Tuesday when voters decided to expand the council to ten members, with each elected from a different neighborhood by voters in those neighborhoods and only the mayor elected by *all* the voters.

To further change the dynamics, voters decided to **move city elections from May to November in even-numbered years** and to **expand each council/mayor term in office from three to four years**. Taking all these results together, the dynamics of city elections and politics now move into uncharted waters.

Add to all this some **pesky details** that will further impact who is elected to the City Council in the near future. For instance, the boundaries of each district have yet to be drawn. And if you’ve tracked legislative re-districting – though different – you can readily see that **boundaries can dramatically impact the political beliefs of the various districts** and who is ultimately elected.

As for electing future mayors and councilmembers in November, this should result in greater voter turnouts – as November is when a variety of issues and other elected offices will be up for grabs. Some have charged the May elections, with lower turnouts, give more “say” to well-organized special interest groups.

You get the point. Big changes, with questions still to be answered. So, when will all this take place? The best guess is that **the first election in November that includes the ten districts may fall in 2014**. Well, how much will it cost? After all, you’re adding more politicians, and their staffs to the city payroll. And what about office space for those new office holders? The estimates are it may take around **\$900,000 to construct offices at City Hall for four new council seats**. And recurring payroll costs? Well, at the current rate of pay, it is estimated it could take about **\$1.4 million per year for salaries for new councilmembers and their staffs as well as office costs**. Yep, big changes are on the way.

A faraway election Tuesday could have strong, *positive* implications for the Austin and State of Texas economy. You got it. One more time, California voters followed their leaders and raised income taxes and sales taxes.

The total increase in taxes in California after voters, by a wide margin, approved Proposition 30 is **estimated at \$6 billion**. Leaders said the revenue is needed to fix the state's budget deficit and to keep from making major education cuts. But look at how the tax breaks down. California has long hit its residents with a state income tax (of course, Texas is one of a handful of states with no income tax).

The vote this week gives **California the highest income tax in the nation**, surpassing Hawaii's 11%. The tax includes three new brackets for high earners and an **increase in the top rate to 13.3% from 10.3%** for individuals with annual income of more than \$250,000, or couples with more than \$500,000, and small business owners making more than \$1 million. But that's not all. What about everybody who pays the sales tax? Well, Prop 30 **increases the state portion of the sales tax by a quarter-of-a-cent to 7.5%**.

Now, put yourself in the position of a CEO of a company in California – that has an already-soaring cost-of-living – looking at Austin and saying: “Hmmm. I can move my company and all its jobs to Austin, cut employee salaries a bit and since there is no income tax, my employees will still **take home more money than now**. **And the cost of groceries, gasoline, housing, etc. in Austin are all lower to boot**. Such a deal. My company will make more money and **my current CEO salary, even with no pay raise, will shove more money into my jeans**. My investors and shareholders will be pleased. What's not to like?”

Austin and Texas already have a **competitive advantage for jobs**. Now California voters this week have increased that advantage.

Dr. Louis Overholster says a fine is a tax for doing wrong. And a tax is a fine for doing well!

Sincerely



Editor/Publisher