



Volume 36, Number 2

April 4, 2014

Dear Client:

A powerful state official this week criticized the Lower Colorado River Authority's (LCRA) proposed water rate hike, as the LCRA struggles with dangerously-low, drought-driven water supplies and the City of Austin considers raising your water rates -- once again.

It doesn't seem appropriate to call this situation a "perfect storm," but a number of factors are coming together that revolve around a **rapidly-diminishing supply of water in this Central Texas area that, ironically, is dotted by lakes**. The situation is *severe* today, but if there isn't a massive rainfall soon in the right places, it would reach *emergency* status in a couple of months -- by mid-summer in fact. Let's take it in small bites. First, the LCRA.

Changing what it first proposed in January, **the LCRA now is suggesting a 28% to 91% rate increase for many of its water customers**. There's more to it and it is complicated. But no matter how you slice it, the proposed increase is significant. It brought a sharp rebuke this week from the Chair of the Texas Senate Natural Resources Committee, Sen. **Troy Fraser**, who represents Horseshoe Bay. As he put it: **"It seems the LCRA is trying to cover the cost of bad business decisions made by a bloated bureaucracy."** More on his comments in a minute.

Existing contracts mean the City of Austin is protected from these proposed LCRA rate hikes, but **Austin Water is planning a rate hike of its own because customers followed its advice to conserve and, as a result, water revenues declined**. (Click on the Archives button at the top for more detail in our 3/21/14 issue). In fact, a city committee met this week to plan for "upcoming water rate increases projected for Fiscal year 2015 ... to address expected revenue losses."

Make no mistake, the water situation is dire and is worsening by the day. Current water storage in Lakes Travis and Buchanan reservoirs dropped to 37% this week. The LCRA projects it could **drop below 30% during June 2014** if very dry conditions persist. If so, this would **trigger an emergency declaration**. Right now, the LCRA is requiring its water customers – such as cities, industries and community water providers – to limit their customers to **watering their lawns and landscapes no more than once a week**.

We don't mean to be an alarmist. But you need to be informed. And as we keep an eye on the sky, we have more information on this vital topic in the next item.

More than a million Central Texans, businesses, industries, agriculture and the environment rely upon water from the Highland Lakes. So when the possibility of the worst drought in the region's history looms in just a couple of months, it gets your attention.

The lakes are refilled by rain and inflows (water that flows into the lakes from Central Texas streams and tributaries, generally upstream from Lake Travis). **Inflows have been at or near historic lows during much of the current drought that is now in its seventh year.** How bad is it? The amount of water flowing into the Highland Lakes the first two months of 2014 was even lower than the first two months of 2011, a year that had the **lowest total inflows in history.** **Put it another way: inflows were only about 10% of the average.**

So if water is not falling from the sky, why was the chair of the Texas Senate Natural Resources Committee so harshly critical of the price increases proposed by Lower Colorado River Authority (LCRA) that manages this water supply? Here's how Sen. **Troy Fraser** put it: **"All of the lakes in the LCRA system were built before 1960,** and the debt of building those reservoirs has been totally paid off. **The LCRA has not constructed a new water source since that time period,** so there is absolutely no reason for an increase in rates to LCRA's firm customers."

To the LCRA's credit, it is pursuing a **reservoir in Wharton County near the Gulf Coast** that is expected to be completed by 2017. And it is drilling **five groundwater wells in Bastrop** that are coming online as we speak. Yeah, but. These are downstream from lakes Buchanan and Travis and will not add water to those reservoirs, right?

Right. But as they add water to the Colorado River downstream, it **reduces the need to release water from the Highland Lakes** to service LCRA's downstream customers. Two big LCRA water users downstream: **the Fayette coal-fired power plant and the South Texas nuclear power plant.** **Both provide electricity to City of Austin customers.**

Enough of facts. Let's move to speculation. **When is it gonna rain?** Good question. While the science of meteorology has improved over the years, **how many times have you been told it's gonna rain and you didn't see a drop?** Realizing that, let's rush right in (remember the old saying about "fools rush in where angels fear to tread"?).

The weather guys tell us **local rainfall could improve slightly in April and May** if a ridge of high pressure along the West Coast finally begins breaking down. *Slightly* is the operative word here. Well then, what about long term? There could be some good news here. The National Weather Service now says there is a **50% chance an El Nino could develop later this year.** **If it does, it could bring wetter weather in the coming fall and winter.**

Obviously it's wait and see time. Keep watching the clouds.

Austin-area homebuilders are slammin' hammers at a much faster pace than last year, hoping to keep up with the demand for housing in a still-tight market.

Metrostudy is a company that tracks new home sales and building permits in the Austin area. It has sifted through the data to determine there has been a **16% increase in single-family home starts** when you compare the first two months of 2014 to the same period a year ago.

But with this increase in activity, there has been a subsequent *reduction* in the number of lots available for building. As a result, Metrostudy points out **demand for lots is outstripping supply.**

And the supply of lots is less than what is needed to keep the market in equilibrium. **For a market to stay in balance, 20 months of supply is ideal. Right now, there is less than 18 months of supply – a condition that normally pushes prices higher.** Metrostudy further stated the market is moving into new submarkets and is introducing some new product offerings.

In an announcement this week, a large land investor and master-planned community developer revealed it has quietly put together a bit more than 10,000 acres in Central Texas. So where is this huge acreage located? Not where you might expect.

Walton Development and Management has big plans for its land **south and east of Austin.** Walton is based in Canada. It has about 83,000 acres under its ownership in the US and Canada. So the Central Texas 10,000 acres represent a significant portion of Walton's land portfolio. The *Austin Business Journal* (ABJ) reported exclusively that **Walton is "ramping up relationships with homebuilders and commercial developers"** in anticipation of a couple of groundbreakings. Here are the project locations, with acreage:

Caldwell Valley, near the town of Umland, 3,634 acres ... **Camino Real**, near the town of Niederwald, 1,736 acres ... **Cornerstone**, near Mustang Ridge, 194 acres ... **Cotton Center**, between the town of Martindale and San Marcos, 2,706 acres ... **Gas Lamp District**, in the city of San Marcos, 495 acres ... **Kyle Estates**, in and near Kyle, 640 acres and **Pecan Woods**, in and near Kyle, 763 acres.

ABJ reports Gas Lamp District and portions of Caldwell Valley could be the **first projects to come to fruition.**

The Austin area has risen to the top of Walton's "hot list," according to ABJ, as well as Washington, DC ... Atlanta ... Charlotte ... Orlando ... Dallas ... Phoenix ... Tucson and Southern California. Walton's main Canadian markets are Calgary, Edmonton, Toronto and Ottawa.

The powerful Texas Automobile Dealers Association (TADA) located in Austin is in the midst of a major battle that could prevent a \$5 billion factory employing 6,500 people on 1,000 acres from locating in the state. But there's more to it than that.

The high-priced electric Tesla automobile company is looking at four states to locate a **10-million sq.ft. solar-powered Gigafactory** that will produce lithium batteries for its cars. **San Antonio, New Mexico, Nevada and Arizona are in the running.** Tesla is unique in that it sells its vehicles direct from the factory to the consumer, bypassing local dealerships.

There is no problem selling cars direct from the factory in Nevada and New Mexico. Arizona's legislature is in session and will likely change its law to allow factory-direct auto sales. Not so in Texas. TADA fought such legislation in the last session and the next Texas Legislature does not convene until 2015, but **you can bet your bottom dollar TADA will continue to oppose Tesla's factory-direct sales model, arguing that all vehicle sellers follow the same rules.**

Still, San Antonio is going all-in to attract the facility. Bexar County Judge **Nelson Wolff**, recognizing the Texas law is a negative – but not a deal-killer in his view – is optimistic that the Alamo City, already home of a Toyota manufacturing plant will prevail. And it's likely San Antonio's CPS Energy will join in the quest for the plant. **But San Antonio faces tough competition, even if the direct sales question is taken off the table** (and that's not likely given TADA's opposition).

In fact, the reports we've seen from various media outlets is **the odds-on favorite is northern Nevada.** One possible Nevada location is the site of a 5,000-acre former US Air Force base 15 miles north of Reno, with a rail spur option that Tesla indicated it needed. One report suggests **Tesla execs are already negotiating with Nevada officials** about zoning, permits, etc. and are *not* engaged in such talks with other locations. **It appears TADA's lobbying muscle during the previous legislative session may have accomplished the goals of Texas car dealers.**

Assessing some of his failed investments, **Dr. Louis Overholster** is convinced the best way to double your money is to fold it and put it back in your wallet!

Sincerely,



Editor/Publisher