The NEAL SPELCE AUSTIN LETTER

Volume 35, Number 50

March 21, 2014

Dear Client:

The City of Austin is giving serious consideration to raising your water rates. **Why**? **Because you followed their drought-driven advice to conserve water**. **That reduced water sales**. **Now Austin Water is losing millions of dollars**. **Duh**. **What did you expect**? **But there is a different way to cover that shortfall than punishing you for being a good steward of water usage**.

As recently as our 2.28.14 edition, we asked if the shortfall could be eased by **cutting back on expenses that are volume-dependent**? On that very day, a trio of thoughtful Austinites who hold water-related positions **posed a much broader approach** in a commentary in the *Austin American-Statesman*. It deserves serious consideration.

> As **Robin Campbell**, **Clif Drummond** and **Donna Howe** bluntly put it: "the Austin Water Utility would **not be facing these shortfalls if it were not sending close to $60 million annually in revenue to other city departments and funds**. Nearly 33 cents of every dollar of Austin Water Utility revenue goes out the door to other city priorities. **Conservation and drought are just excuses for imprudent transfers**."

To make matters worse, they point out "the utility has increased rates to the point that water revenue drops with each rate hike. In other words, **every time the city raises rates**, **revenue decreases**." It's the law of demand: if all else is equal, as the price of a good or service increases, the quantity demanded tends to decrease.

> They make another point: **the city pays cash for too many large construction projects**. "Prudent utilities use bonds to fund large construction projects. Instead the water utility uses a high percentage of its cash to fund large infrastructure projects, **artificially raising current water rates for all its customers**," they say. We must "stand up and stop allowing the city to burden all of us with unnecessary charges to fund other city departments or pet projects."

The solution to the "alleged shortfall is simple," Campbell, Drummond and Howe maintain. "By eliminating the transfer of almost a third of every dollar the utility collects in revenue, Austin Water Utility will not only have **enough income to cover its projected budget shortfall**, **but it will also have enough money to begin investing in future water supplies and still lower water bills**."

As the debate continues over a possible price increase for the water you use, the availability of water is still a matter of great concern. The Central Texas region's two major reservoirs now stand at about 38% capacity in this 7th year of a severe drought.

Lake Travis is hovering around 627 feet above mean sea level (feet msl). **If the persistently dry conditions continue, Travis is predicted to fall to 608-599 feet msl by August 1st.** The historic low set during the worst drought of record in 1951 was 614.18 feet msl. The same situation is true for Lake Buchanan, that now hovers around 989 feet msl. **If the same dry conditions continue, Buchanan is predicted to fall to 980-967 feet msl by August 1st.** The 1952 historic low for Buchanan was 983.70 feet msl.

But, you say, we have had some significant rainfall around the area recently. This is true. But it fell in the *wrong* places, according to the Lower Colorado River Authority (LCRA) that controls the Highland Lakes. **Well then, where are the *right* places for rain to fall**? What should we watch for?

"In order for water to fill the lakes, **it must fall in or above the lakes watershed, an area upstream of Austin stretching north past San Saba and west past Fredericksburg and Junction**," reports the LCRA. "The region needs not just rain, but rain in the right spots, to significantly increase the region's water supply."

One more perspective: we mentioned the combined storage of lakes Travis and Buchanan is 38% of capacity. **The predicted combined capacity by August 1st if these dry conditions persist is 21%-16% of capacity**. The historic low set in 1952 was 31% of capacity.

A major re-organization of the top brass at the Lower Colorado River Authority (LCRA) became effective this week. Now, six of the top ten senior managers are new to the LCRA.

After about six weeks on the job, General Manager **Phil Wilson has put into place 6 new power team members** for the LCRA, all of whom report directly to him. The new players:

John Hofmann, ExecVP Water (former regional manager for the Brazos River Authority) … **Ken Price**, Chief Commercial Officer (from Luminant wholesale power) … **John Miri**, Chief Administrative Officer (former CEO of Bluewater Technology Services) … **Richard Williams**, Chief Financial Officer (formerly with Energy Future Holdings and its predecessor, TXU) ... **Bill Lauderback**, EVP Public Affairs (most recently with Hill+Knowlton Strategies) … and **Clint Harp**, special assistant to the GM (formerly in the governor's office).

Four LCRA direct reports were *retained*: **Ross Phillips**, ExecVP Transmission … **John Rubottom**, General Counsel … **Julie Eby**, Exec Asst to GM and Board … and **Charlie Johnson**, General Auditor. These ten make up the LCRA senior management team.

What percentage of buyers of homes in the Austin area in January 2014 paid cash? And what percentage of buyers of area homes in the same month were "institutional investors" (purchasing at least ten homes)?

RealtyTrac calculated all-cash buyers of residential and foreclosure sales in the four big Texas metros in January. **Austin came in #1 in one category and last in the other, among the state's four major metros.**

In an analysis of *investors who buy at least ten properties* in a calendar year, **Austin had the highest share at 18%** of all home sales in January. Institutional investors made up **8.4% of the Dallas total**, **5.3% of the Houston metro** and **3.6% of all home buyers in San Antonio**.

It was a different story when RealtyTrac looked at the *total of all-cash transactions* in January. **San Antonio led the state with 42.3%** of all home sales in the all-cash category. **The Houston metro tallied 41.9%**, **Dallas 40.7% and the Austin metro**, **at 27.6%**, had the smallest share of all-cash buyers.

Austin did NOT rank in the top 25 as a place to live if you want to save money -- on a list of 100 of the nation's biggest metros.

Nope. **Austin came in at #27**. However, other Texas metros peppered the Top Ten, with **Houston nailing down the #4 slot** … **Lubbock**, **#6** … **Arlington/Garland**, **#7** … **Plano #8** and **Fort Worth**, **#9**.

The list of the 100 largest cities where Americans have the **best chance of growing their savings** was compiled by GoBankingRates.com. It factored such variables as higher savings yields, **lower taxes**, more jobs with higher incomes and **less expensive homes**.

GoBankingRates.com managing editor was quoted as saying "no one can take advantage of even the best interest rates if taxes are through the roof, homes are unaffordable and there aren't any jobs." The bottom five on its list: **Mesa**, **AZ** … **Riverside**, **CA** … **Long Beach**, **CA** … **Stockton**, **CA** and **North Las Vegas**, **NV**.

Okay, **so**, **interns – if they are paid at all – are among the lowest paying jobs around**. **Right**? **Wrong**, **if you're a tech company in the Silicon Valley**. Interns at one company in Palo Alto make $7,012 *per month*. It pencils out to about $84,000 a year. The #2 company pays interns $6,966. And another three pay interns an average base monthly salary of $6200 a month or more.

There is a move afoot to play havoc with the Internet. Three companies have applied to create a "dot-sucks" website. That's right. Surely, no one would apply for a NealSpelce.sucks domain name. Right? Right? Or *your* name? Or *your* business?

Surely, this is a joke? It can't be a serious effort, right? Wrong. It's being taken seriously. In fact, the applicants claim the "sucks" domain will foster debate and benefit consumers. The agency that would grant the request is called the Internet Corporation for Assigned Names and Numbers, commonly referred to as ICANN. **It is considering whether to add "sucks" as a generic top level domain (gTLD).**

What are the odds? Don't know. But the requests have come to the attention of the USSenate. And the Chair of the USSenate Commerce Committee, Sen. **John D. (Jay) Rockefeller IV**, (D-W.Va) has expressed his concern to ICANN, saying "sucks" has "little or no redeeming value." But he went further.

"**I view it as little more than a predatory shakedown scheme**. The business model behind this gTLD seems to be the following: force large corporations, small businesses, nonprofits, and even individuals, to **pay ongoing fees to prevent seeing the phrase 'sucks' appended to their names on the Internet**," wrote Rockefeller to ICANN.

Surely, ICANN will turn down these "sucks" requests, won't it? Won't it?

Don't know if you noticed at the top of this edition, it read "Volume 35, Number 50." Translation: this is the 50th issue in our 35th year of weekly publication. Next week's edition will read Volume 36, Number 1 – beginning our 36th year. So much has happened and so much has changed all around us since we began writing this letter each week in 1979. This newsletter has been a rewarding enterprise, allowing us to track changes, analyze them, take a look ahead, and to share insights and perspectives with our subscribers.

Speaking of hanging around for a long time, **Dr. Louis Overholster** says he likes to point out to his patients that one of the many little things no one tells you about aging is that it's such a nice change from being young!

Sincerely,

Neal Spelce

Editor/Publisher