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Dear Client:

**Monthly electric utility bills for many customers of Austin Energy are running almost two-to-four times what they were just a few months ago. But for those who live *outside* Austin and still buy electricity from Austin Energy, the June bills reflect a discount. What gives?**

Don't call those with a discounted rate "lucky." Why? Because they **fought City Hall and won**. And it was a classic battle with overtones of "taxation without representation." When the City of Austin initially did not heed their arguments, **these out-of-city customers went over the heads of city leaders**. In summary, here's how it played out:

Austin Energy, the city-owned electric utility, **provides electricity to a number of residents outside Austin's city limits**, such as residents in suburban communities as well as in unincorporated parts of Travis County. **These residents cannot vote in Austin Mayoral/City Council elections.**

The Austin City Council, as we have reported to you, voted October 2012 to **raise electric rates enormously**. Now, this is where it gets a bit dicey. **The City Council also siphons millions of dollars from Austin Energy to pay for city services and operations.** The out-of-city residents argued that much of the utility revenues were being used like "tax dollars." Instead of the money being kept in Austin Energy and possibly used to keep electric rates lower, the funds went to augment the city budget. See, the "taxation without representation" approach.

At any rate, the **Texas Public Utility Commission approved a settlement agreement** between Austin Energy and the outside-city customers. What it amounts to is that outside-city residents will be charged a different rate structure.

Here's the net result: **the negotiated settlement reduces rates for Austin Energy residential customers living outside Austin by an estimated \$5.5 million this fiscal year.** Businesses located outside Austin will see a much smaller benefit.

**It just goes to show you that, sometimes, you can fight City Hall and come away a winner.** Meantime, the inside-city residents will continue to see at least double their spring time electric bills through September as the double-whammy of increased *year-round* rates are coupled with the high *summer* rates, when you use your air-conditioner the most.

**Temps touched 100-degrees several times this week. And the A/C's have been humming. But more than that, if this hot, dry weather continues the reservoirs that provide water for the region could dip to record lows by the end of the year.**

Lakes Buchanan and Travis, Central Texas's major water supply reservoirs, are **currently only 36% full** – way below what is average at this time of year. For instance, Lake Travis is standing around **625 feet above mean sea level** (feet msl) and the monthly average is a still-low 668 feet msl. Lake Buchanan is around **988 feet msl** and the monthly average is 1013 feet msl.

And the really scary part -- what is projected by the experts. Based upon the **persistent dry conditions**, and taking into account the **temporary emergency changes** that are in effect, Lake Travis is predicted to drop to around **618-620 feet msl by September 1<sup>st</sup>**. And December 1<sup>st</sup> the 65-mile-long lake could dip **below its historic low, registering between 613-620 feet msl**. The same scenario holds true for Lake Buchanan.

What does this mean for storage capacity? **For the combined lakes, it could drop below 25% full**. The historic low is 31% combined capacity. Talk about drying up! And before it reaches this level, you will see all sorts of rationing and conservation measures enacted to avoid what may be inevitable.

In addition to heat-induced evaporation and lack of rain, another culprit is weeds. Yes, weeds. **Because of the extreme drought weeds are restricting the flow of what little water is available**. Water weeds commonly grow during the summer, but this year is the **worst in modern memory**. Aquatic vegetation acts as a sort of dam, restricting inflow into the lakes.

And inflows are at, or near, all-time lows. **Inflows in 2011 were the worst in recorded history and 2013 inflows are tracking about the same as 2011**. All this data, by the way, is provided by the Lower Colorado River Authority (LCRA).

Okay, okay, enough of this doom and gloom. Tell us something positive. All right. The LCRA says **the lakes still need more than one-million acre feet of water to fill up**. How much is that – besides being “a bunch?” **It was in June 2007 when 19 inches of rain fell on Marble Falls in one night**. One night. Situated on the banks of the Highland Lakes chain, the rain that fell on Marble Falls that night **contributed more than a million-acre feet**. So, the water problem can be solved in one day. Rare. But it happened just six years ago.

Realistically, though, help is more likely to come from the tropics. The hurricane-tracking weather gurus say this should be a **more active tropical storm season than normal**. **And they point out the Gulf of Mexico is “overdue” for its share of activity**. Ideally, a tropical storm (not a damaging hurricane) would head inland from the Gulf and settle in over Central Texas for a big dump of rain. Tropical storm season lasts until the end of November. It's happened before so this isn't dreaming. Keep your eye on the tropics.

**“Sooner or later a worst-case hurricane will hit Texas. And we’re not ready,”** the *Houston Chronicle* editorialized this week.

Hurricane Ike was the last big hurricane to hit the Texas coast. A category 2, it made landfall at 2:10 am CT September 13<sup>th</sup> 2008. **It carried winds clocked at 110 mph, with gusts to 130 mph and created a 22-foot storm surge.** It caused \$19.3 billion in damage and killed 84. Galveston was all but devastated.

In its wake, the governor formed a Protection and Recovery District. So what has the district done? **“Underfunded and unloved, it’s done diddly squat,”** the editorial inelegantly noted. So, what could happen if a **Category 4 storm made landfall 30 miles west of the spot where Hurricane Ike came ashore?** Here is how the *Houston Chronicle* described it.

“A storm like that would generate a **25-foot surge of water** into the Houston Ship Channel. And that’s not counting the waves crashing atop that wall of water. Imagine our coast’s **barrier islands completely submerged**, their expensive beach houses wiped away, the **residents who didn’t evacuate, drowned.**”

“Imagine that wall of water crossing the Ship Channel’s Superfund sites, carrying **toxic goo as far as water will spread on flat land.** Imagine the large-scale debris borne by those **waves slamming into thousands of chemical storage tanks, toppling some of them off their foundations.**”

**“Imagine the heart of the US petrochemical industry brought to a standstill for months.** Imagine our whole region – including Texas’ largest city – reeling from a **blow we might never recover from.** Sooner or later, scientists say, a storm like that will come.”

So, why aren’t we doing anything to save ourselves, the editorial asked? The *Chronicle* cited New York City’s action following Hurricane Sandy in 2012 – a 430-page action plan with 250 recommendations. **“New York already knows where it’s going. Texas – where major hurricanes are far more likely – still doesn’t,”** noted the newspaper.

The editorial concluded: “A major hurricane strike on the Ship Channel would be not just Texas’ problem, but the nation’s. **It would shake both national security and the US economy. The nation runs on our chemicals, our oil. Texas needs a plan.**”

**Speaking of the economy, mortgage interest rates last week saw the largest single weekly reported gain in 30-year fixed-rate conventional loans since April 17<sup>th</sup> 1987.** This is more than 26 years. The 30-year rate is now at the highest level in almost two years. But it still remains *highly affordable at 4.46%* -- so no significant slowdown in buying is anticipated in the near term.

**May was a good month for retail sales in the Austin area – indicating a solid economy where businesses are doing better and consumers are spending more.**

**Sales tax receipts for businesses inside the City of Austin city limits were up 12.3%** from last year at this time. (The State Comptroller reported sales tax figs this week for sales made in May and reported to the state in June.) Other cities in the metro also did well. Here's a random selection of the cities showing double-digit increases: **Georgetown**, up 18.7% ... **Buda**, up 13.5% ... **Cedar Park**, up 12.9% and **Pflugerville**, up 12.9%. The other reporting cities in the metro showed single-digit percentage increases.

**Even small business is bigger in Texas, according to a report in *Fortune Magazine*.**

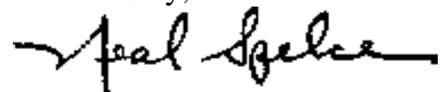
“When you think of Texas businesses, large corporations like Exxon, Mobil, Dell and Texas Instruments are generally the first that come to mind. **But over the past few years, from the inner cities to out-on-the-range, smaller firms have been stirring the Lone Star State economy,**” said *Fortune*. “Not only is Texas listed as one of the five *friendliest* states for small business, but **Austin, Houston and San Antonio are included among the top five cities.**”

Especially singled out by *Fortune* was an annual ranking of the **fastest growing urban businesses** in the US. The magazine said Texas' representation on the list “is larger than at any other point in the program's 15-year history.”

The article also pointed out that the immigrant population is a valuable demographic for entrepreneurship, saying many of the small urban businesses were started by “**middle and upper-class Mexicans looking to start anew in the US.**” A recent study showed foreign-born citizens were nearly twice as likely as native-born people to start businesses in 2012.

**Dr. Louis Overholster**, a self-proclaimed cynic when it comes to Washington, defines an elephant as being a mouse built to government specifications.

Sincerely,



Editor/Publisher