



Volume 38, Number 21

August 19, 2016

Dear Client:

**The management of Austin, the nation's 11<sup>th</sup> largest city, will soon change for the first time in almost nine years. The implications are huge for the city's future. Austin's Mayor and City Council should have an amazing array of applicants to replace Marc Ott as City Manager, who will officially stay on-the-job through October. What can we expect after that?**

By most measures, Austin is widely-recognized as one of the nation's hottest cities. You would think **almost every City Manager** (outside the Top Ten cities) **and City Manager Wannabees** (some maybe from the Top Ten, looking to move up to CEO) are carefully considering making a run for the Austin job. **Austin's Mayor/City Council need to make the right decision on a CEO to manage this complex city** – especially over the next five years. Pressure? You bet.

Each good-to-great city probably thinks it is unique. **But, Austin can make a serious claim to being one of the few cities that is truly complex.** (No, I'm not referring to its activist citizens right now. That's to be covered later.) In addition to regular city functions such as fire, police, libraries, parks, roads, etc., **Austin is the rare US city that manages *three* major enterprises.** And "major" is underlined, because in other cities many of these types of enterprises have their own governing boards that are not subject to Mayoral/Council control.

**We're talking about an international airport, an electric utility and a water utility – all subject to increasing problems** due to demands of fast growth. They are essential enterprises and they are revenue-generating. Is there a city manager applicant out there who can claim to be able to **manage 13,000 employees performing city functions (where traffic is near-crisis levels)**, with about a billion-dollar budget, **and have experience overseeing an airport and two utilities?** If so, the city better pay big bucks for such a highly-qualified individual.

**A city manager candidate looking at the three enterprises will correctly assume that only two out of the three are going to need serious oversight.** The exception? Austin-Bergstrom International Airport. It is a jewel of operation, with minimal concerns. It regularly garners accolades, and is expanding to meet growing demand.

**But, the other two – Austin Energy and Austin Water – are going to need top managerial focus.** More about that in the next item – as well as a look at some personnel concerns.

**Embattled utilities Austin Energy (AE) and Austin Water (AW) are essential to the functioning of this fast-growing area. The two money-making enterprises are subject to the policies of the Austin City Council. Their operations are overseen by the City Manager. Both utilities have been targets of recent criticisms – especially for their high charges to customers in a city that is constantly struggling with its affordability.**

While both utilities need attention, **Austin Energy should probably get the new city manager's priority examination.** Remember last November, a consultant hired by the City recommended building a new natural gas-fired plant to generate electricity. It would replace the old Decker Plant.

**Well, the current City Council shelved the natural gas option -- taking no action for now.** Instead, it continued to emphasize expanding wind and solar power as sources to generate electricity. However, **AE's General Manager Larry Weis publicly criticized the City Council for its priorities and actions,** before leaving to become Seattle's highest-paid city employee at \$340,000/year.

You've got to be realistic. **The Mayor and City Council set policy and the Manager executes those policies.** So any major change would have to emanate from the Council. A new manager *could* have influence on those policies, and a manager hired with special expertise *could* be a powerful persuader. **But the ultimate decision rests with those you elect to office.**

There is a special factor at play with Austin Energy (AE). A new AE General Manager was to take over the utility's reins this week. **Jackie Sargent's hire by outgoing City Manager Marc Ott generated some criticism.** Some were concerned her previous management experience was in operations much smaller than Austin Energy.

This is where it could get interesting. **If past history is any indication, a new CEO might want to bring in a new management team with whom he/she has worked in the past.**

So, what does this mean for new-hire Sargent? Not only for her, but for other top level city department heads and managers? **Would a new manager bring in a trusted team?** Of course, this is getting a bit ahead of the game. However, these questions need to be asked.

Now, about timing? How is this likely to play out? First of all, **an interim city manager will probably be appointed.** Then a search (possibly costing \$100,000) will begin with words like "We're going to cast a nationwide net to find the best qualified candidates, etc." During this process, **several City Council members will face re-election November 8<sup>th</sup>.** There will be **interviews with finalists** and maybe sessions with public interest groups. In all likelihood, **a new City Manager will probably not be selected until next year.** Hang on.

**Speaking of alternative sources to generate electricity, do you know which company is the largest *private* owner of solar power systems in the Austin area? H-E-B. It has 11,364 solar panels able to produce almost 5 million kilowatt-hours per year. The company is spending \$10 million on the project. So, how will this affect its bottom line?**

H-E-B execs say it will **reduce the grocery retailer's grid energy's usage by more than 15%** during periods of peak daytime demand. However, the execs didn't put a dollar figure to this percentage. Maybe it is because other factors could also favorably impact H-E-B's bottom line.

For instance, the City of Austin has approved up to **\$1.5 million in Austin Energy rebates** over the next decade as solar energy production benchmarks are met. H-E-B is not a public company. It is privately-owned, so it is not required to report specifics of its financials. **But, hopefully, the company will share the financial results of this experiment at some point.**

If you can take a drone's-eye-view of the area, you will **see solar panels covering the roofs of 20 of H-E-B's Austin-area stores.** Austin is the first community where H-E-B has done this.

**Even though H-E-B is a 1,000-pound Texas *grocery* gorilla, Walmart is a *multi* 1,000-pound *retail* gorilla. And Walmart is making moves to slug it out with H-E-B for the loyalty of Texas grocery shoppers. It's a real, live heavyweight battle.**

The *Dallas Morning News* has been watching this Texas-size slugfest. Consider the newspaper's tale of the tape (continuing the nod to a heavyweight boxing metaphor):

**Walmart claims the greatest share of the grocery market in the Dallas-Fort Worth metro.** Kroger is in 2<sup>nd</sup> place in D-FW. **H-E-B is tops in Austin, San Antonio and Houston.** But, Walmart has the second biggest grocery market share in these three metros. H-E-B tops Walmart's market share of grocery shoppers in eight of Texas ten biggest metros.

But. And this is a big "but" when you project what might happen in the later rounds of this fight. **Walmart has a whopping 572 total stores throughout Texas and H-E-B is also strong, but only has 370 outlets.**

For now, however, when you compare the records of these battle-tested veterans, you must give the nod to H-E-B. Are you ready? According to the *Dallas News*, **Walmart rakes in between \$20 million and \$25 million annually in grocery sales in Texas.** Not bad, in a notoriously low-margin grocery business. But, get this. **H-E-B rakes in about \$21.5 billion** (with a "b"). As for "intangibles," H-E-B also gets the edge with massive dollar support for local schools, teachers and civic projects in general. **Loyalty is a funny thing.** Keep watching.

**A San Antonio business reporter decided to see what type apartment \$1,000/month would get you in the bigger Texas cities. Not scientific. After all, in Austin a thousand bucks a month will get vastly different results depending upon the area of town. Still, we found some of her comments interesting.**

Not surprisingly, she found her hometown of San Antonio is “still far behind prices seen in other large Texas markets.” Her comments about Austin were especially interesting.

**“The hormonal price swings in Austin have blown through another ceiling,”** it starts out. Then it goes on to comment that “Austin was tough, less than 1% of the units in the ZIP code she was after were less than \$1,000 a month.” She finally said she found a 580 sf, 1-BR unit going for \$985 per month.

Her observation: “Let’s just say that when a complex advertises features such as ‘retro ceramic tile’ and a refrigerator, you won’t be moving into anything that comes close to Class A.”

Houston, she wrote, “is still figuring out how much of an impact the oil and gas industries will have on its multifamily market.” As we said, **this was very much an unscientific survey**, but her comments about Austin were a tad instructive.

**Claude, Texas, is a small panhandle town near Amarillo. Its school district is displaying this sign: “Please Be Aware That the Staff at Claude ISD is Armed and May Use Whatever Force Necessary to Protect Our Students.”**

While he enjoys unique signage, **Dr. Louis Overholster** is partial to actual newspaper headlines like: “Statistics Show That Teen Pregnancy Drops off Significantly after Age 25” ... “Marijuana Issue Sent to a Joint Committee” ... “Worker Suffers Leg Pain After Crane Drops 800-pound Ball On His Head.” You can’t make up this stuff.

Sincerely,



Editor/Publisher