



Volume 37, Number 37

December 4, 2015

Dear Client:

One of Austin's biggest "industries" is state government. The many state agencies in Austin provide jobs that are a strong underpinning to the Austin economy. And this past week, more than \$1.13 billion was diverted from going into the state's Rainy Day Fund. This comes after the State Comptroller said his revenue estimate to run state government was going to fall short of expectations. What's happening? It's not all that good. But it's not all bad either.

No surprise. With the price of oil and gas hovering very low for much of this year, state tax revenue has been impacted. Now, Comptroller **Glenn Hegar** is estimating that the 2-year budget cycle will see **revenue amounting to \$110.4 billion** -- \$2.6 billion short of his earlier estimate. Not good. But the reason it is not all that bad is that the Texas Legislature approved a budget that calls for **\$106.2 billion in spending**. So there's still a bit of a cushion.

Yeah, but what about last week's diversion of \$1.13 billion from the state's Rainy Day Fund? That can't be good, can it? It's okay. It is the result of a constitutional amendment that voters overwhelmingly approved in 2014 to **allocate more money for Texas roadways – some of which will be spent in the Austin area.**

You see, according to a complicated formula, about \$2.27 billion was in play. **One half of that amount went into the State Highway Fund** for use on non-toll highway construction, maintenance and right-of-way acquisition. **The other half goes into the state's Rainy Day Fund** (Economic Stabilization Fund, if you want to be precise in your wording).

Okay, so the Rainy Day Fund only got half of what it would have received if the constitutional amendment had not been passed. So where does that leave the Rainy Day Fund? **The new savings account balance is \$9.61 billion – a record high. Impressive.**

Most states can only dream about having so much money in the kitty to protect against unforeseen circumstances. Texas revenues have been a cash-flow machine during these heady economic times in recent years. And it is to the credit of Gov. **Greg Abbott**, Lt.Gov. **Dan Patrick**, Speaker of the House **Joe Straus** and the GOP-controlled Texas Legislature that all of them committed to keeping the Rainy Day Fund in a strong position. And, for now, state agency payrolls that stimulate the Austin economy are in good shape as we face 2016.

Speaking of state money that works to the benefit of Austin and Central Texas, the Texas Water Development Board (TWDB) closed on a \$255 million financing package that will facilitate construction of a reservoir that not only saved millions of dollars, but should ease the area's water worries in the future.

The project is the Lower Colorado River Authority's (LCRA) Lane City Reservoir downstream from Austin in Wharton County. It will have a **holding capacity greater than that of Lake Austin and two other smaller lakes** upstream in the Highland Lakes chain.

It will capture water that falls there in greater amount than in the Austin area. It will supply **downstream water interests who have been sucking water out of Lakes Travis and Buchanan** -- the two main reservoirs serving more than a million customers.

The TWDB financing is important. The money will be used to **finance the planning, real estate acquisition, design and construction** of the off-channel reservoir. And due to the favorable circumstances of the TWDB financial arrangement, the **LCRA is expected to save more than \$18 million**. The Lane City Reservoir is expected to be operational in 2018.

Lotsa folks like to point to the burgeoning tech businesses in Austin as major drivers of the local economy. And they're right. But when you look at who is gobbling up Austin area office space right now, the tech companies are taking a back seat. Let's crunch the numbers.

In a robust market, traditional office users recorded the largest annual growth rate over the past 12 months, according to REOC Austin's survey of the office market. Who are "traditional users?"

Well, they are generally those classified in the **professional services industry – accounting, consulting, law firms, research** – you get the drift. **This is not to downplay the tech sector, because many of these professional service firms are "servicing" tech companies.**

There is also another indicator of the strength of the Austin economy. Companies continue to open up their wallets to place a bottom-line bet on the strength of Austin's future economy. **Savvy investors are continuing to place big bucks on Austin.** REOC Austin reports: **"Investors continue to be very bullish on Austin office assets evidenced by historically high sales prices."**

Even though these investors are paying top dollar for office buildings, their analysis shows they will get a solid return on their investment in the coming years. And they are making these major commitments in the face of increasing competition, because construction of new office buildings in the Austin area shows no signs of slowing down.

So, how's that 10-1 Austin City Council thing working out for you? After moving from a smaller City Council (each member elected citywide) to a larger group (with each member elected from a smaller subset of the city), have dire predictions -- or optimistic hopes -- come to pass? No, and no – not yet.

A careful analysis has to include at least three elements – **philosophical, logistical and your own prism** through which you view the workings of this city. Let's break it down.

Philosophical. By most measures, Austin is viewed as a left-leaning city – an anomaly in conservative state. In past years, it has been rare indeed to have conservative voices on the Austin City Council. Nor have all sections of the city had representation. In fact, this may have reached its zenith during **the last term of the smaller council when all members were left-leaning and lived within a small radius of downtown.**

Well then, **have the 10 new single-member districts made a philosophical difference in the direction of the City Council? Not when you consider final votes on key issues.** The majority is still left-leaning. But there is a major difference now. More conservative voices have a seat at the dais. And, especially in the case of Councilmember **Don Zimmerman**, his voice has been loud but in most cases runs contrary to the majority.

Logistical. The expanded council was re-organized under the direction of Mayor **Steve Adler** (the sole leader elected citywide). **A new committee structure, with new rules for items to be considered, has created a new layer of logistics.** A part of the plan was to reduce the length of marathon City Council meetings. This part has succeeded. But some criticize the structure as too cumbersome. It remains to be seen if the committee system needs to be tweaked.

Your Prism. Your view may be colored by where you're coming from. But a few observers seem to share the **"it's still too early to tell"** assessment. You can quarrel with, or agree to, various actions. And the verdict is still out on some key issues. It's interesting to note that unlikely alliances seem to be forming among the councilmembers on certain actions. This could bear watching.

And, of course, previous council actions play into all of this. The 10-1 Council is operating under those decisions – such as heavy investment into solar and wind power energy.

So, this analysis is a bit simplistic because of The Big Picture -- **growth, at a rate seldom seen by other cities, is playing into all this.** And this growth impacts other really big issues such as **energy, water and most irritating of all – traffic.** There are those who would argue that all of these growth-induced developments may make the city all but ungovernable. But that's a discussion for another day.

One way to get a feel for the impact of higher education institutions in the Austin area is to check out the number of students enrolled each year. Everyone is aware of the 1,000-pound gorilla – UT Austin – whose student body population is among the largest single-campus universities in the nation. But did you know that UT Austin's enrollment is only about one-third that of *all* higher ed institutions in the area? And this statistic underscores the high quality workforce for which Austin is well-known nationally.

No question UT Austin is the dominant university in the area, by any number of measures. But UT Austin's **50,950 student enrollment in fall 2015**, while impressive, is not that far ahead of two other area institutions. The approximately **42,000 students on 11 local campuses of the Austin Community College** come in at 2nd place. And San Marcos's **Texas State University counted 38,006 students** enrolled this fall. That's a lot of potential employees crammed into three public institutions. But it's only part of the 140,000+ student picture.

What about the smaller, private higher education institutions cranking out quality grads? Count 'em. **St. Edward's University, 4,620 students ... Southwestern University in Georgetown, 1,515 students ... Concordia University, 1,495 students** and **Huston-Tillotson University, 1,023 students**. Then there are the other smaller, more-specialized institutions such as DeVry and Acton, etc.

Stories have been rife for decades about students who come to Austin for college degrees, love the city and want to stay. But in the past, when **other-than-government-jobs were hard to come by, many left Austin to find work**. Now, with new jobs being created at a quickening pace, grads of these institutions are highly-sought educated workers.

These institutions are economic engines on their own. Just consider the number of staff employed to support well-paid faculty, who train the grads. And while the staff and faculty are not to be diminished, their numbers are **smaller compared to grads who enter the workforce**.

Dr. Louis Overholster likes to remind university grads that multi-tasking does not mean wasting time ... being unproductive ... and procrastinating all at once!

Sincerely,



Editor/Publisher