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Dear Client:

The formal announcement this week that former City Councilmember Laura Morrison will run against Mayor Steve Adler should trigger spirited discussion about Austin's governing policies up until the November election day. Many of their positions differ dramatically, but the mayor only has one vote out of eleven in Austin's Council-Manager form of government. It could be a good time to explore the possibility of changing to a "Strong Mayor" form of government called a Mayor-Council.

In the Mayor-Council form of government, under which most big US cities currently operate, the Mayor is paid a full-time salary and takes over most of the functions allocated to a City Manager. **The mayor is the city's CEO and directs day-to-day affairs of city departments. The mayor does the hiring and firing.** And of course, the mayor answers to the voters, unlike the city manager who is hired by the Council.

Based on the 2010 USCensus figures and according to the National League of Cities, **Austin is one of only nine of the nation's 30 most populous cities operating under a Council-Manager form of government.** The five biggest cities, including Houston, are all governed by a Mayor-Council.

Austin is listed as the 14th most populous city on this list. And, frankly, it is **one of a very few cities that manages and sets policies for three very complicated enterprises – an airport, an electric utility and a water utility.** Most cities utilize independent entities to manage one or several of these enterprises, negotiating contracts, etc. As a result, running Austin is a formidable management task.

The arguments pro and con for the two forms of government have valid points. The City Manager has too much power. It's better for the city to be managed by one who answers to voters, rather than a bureaucrat. Or the flip side, you need to remove politics from these decisions. You get the picture.

If a change is made, **it would be a laborious process that would need to be put on the ballot by the Austin City Council and approved by the voters** – much in the same way the City of Austin expanded to a ten-member council elected by districts and a mayor elected citywide, in 2014. Frankly, it's a long shot to happen. But as the campaign for mayor and other council seats unfold, it will be a good thing to keep in mind for the future direction for a growing city.

One of the basic economic truisms is that business runs in cycles. Remember the words boom, bust, slowdown, recession, course correction, depression. These words are identified with business cycles. So, where is Austin in its own business cycle? Numbers released this week are impressive, indeed.

Consider: **The Austin Business Cycle Index has risen every month since October 2009, and the rate of growth has increased in each of the last 12 months.** This is a powerful statement, (even when compared to other Texas cities) passed along to us by the Austin Chamber's VP/Research **Beverly Kerr**. It's especially important when you consider recent concerns expressed about the rising cost of Austin residential real estate.

Kerr is getting her information from the just-released Federal Reserve Bank of Dallas' Business Cycle Indexes showing **"Austin's overall economic activity is expanding at a rapid pace, gaining 7.4% in the last 12 months."** This is amazing, when you look at the similar stats for other major dynamic Texas metros.

Taking the same activity Index that showed the Austin metro with a 7.4% gain, Kerr reports **"gains among Texas' other major metros over the same period range from 1.9% in Houston to 4.8% in Dallas."** Look at the lead currently enjoyed by Austin.

Yeah, but, this is over a year-long period. What about even more recent Austin metro numbers? **"Growth from October to November was 0.7%, or 8.9% at an annualized rate,** Kerr reports. And November's growth Kerr points out is **the fastest the index has expanded since August of 2015.** Hmm, the cycle could even be picking up steam. At least it's not tapering off. And it still exceeds other major Texas metros.

The reason for this powerful showing is two-fold: **strong employment gains in the second half of the year and declines in the unemployment rate.** A recitation of numbers can cause your eyes to glaze over. We recognize this. But it is so impressive we're willing to risk boring you a bit. So bear with us for some more impressive stats.

Let's go back to the recession that lasted until around October 2009, when every Texas metro faced an economic squeeze. Kerr points out the **"five major metros began expanding again between October 2009 and January 2010."** Austin came out of gate faster than the others, according to Kerr's report.

"Since the end of 2009, Austin's index has grown 83%, while Dallas, San Antonio, Houston and Fort Worth have grown 48%, 45%, 35% and 31% respectively." Fed Sr. Economist **Keith Phillips** says **"The Texas economy is firing on all cylinders going into 2018. If oil prices remain above \$40 per barrel, Texas likely will see continued broad-based growth across regions and sectors."** Check out the next item on what this means for Austin.

Austin's economy is known for a lot of things – tech, education, state government, etc., but energy? Well, it won't displace Houston or the Midland-Odessa/West Texas area when it comes to energy. But, Austin is a bigtime beneficiary of the vibrant oil/gas statewide economy. And a just-announced downtown project could soon become a massive symbol of this.

Eighteen stories of office space, sitting atop 13 stories of above ground parking, a **420-foot skyscraper will displace the current Sullivan's Steakhouse at 300 Colorado St. to become home for Austin oil-driller Parsley Energy.** All of the pre-leased building – 300,000 sf of it – will be taken over by the energy company.

Wait a minute. You might ask who is Parsley Energy to take over huge buildings like a Google or Apple? First of all, starting in 2008 by **Bryan Sheffield**, it is heavily invested in the Permian Basin in West Texas. It began with about 100 wells. **Now it is a publicly-traded company operating more than 1,200 wells and is closing in on production of about 100,000 net barrels per day**, with about 450 employees in Austin and Midland.

But, Austin's energy vitality is evidenced by more than just another tall downtown building. **Revenue from the statewide oil/gas business goes a long way to fuel state government and contributes salaries to many Austinites.** And, the future of Texas' oil/gas business is bright indeed (though the words “boom” and “bust” seem to have historically been coined for the oil and gas bizness).

How bright is the oil/gas-related future for Texas? Just one example as the price of oil continues a relentless rise in price: **US crude oil imports into China hit an all-time high in November.** US producers continue to make inroads into China two years after Congress lifted a 40-year ban on crude oil exports.

Texas-produced product can be effectively shipped to China through the close-by, newly-expanded Panama Canal. Remember, the **Port of Houston** is already ranked #2 by tonnage among US ports. And other oil-connected Texas ports, **Beaumont (#5)** and **Corpus Christi (#6)** are not far behind in a report released in December, 2017.

But, don't discount other Texas ports playing an expanded role shipping Texas oil and liquefied gas in the future. All state ports are closer to the Panama Canal than other US ports. The **Port of Texas City** is ranked #15 in the same report. Other rankings for Texas ports: **Port Arthur (#20) ... Port Freeport (#33) ... Port Brownsville (#66)** and **Port Victoria (#74).**

The rising oil prices? Will they continue? Who knows? But Texas economist **Ray Perryman** recently reported **“I think that oil prices will continue to trend upward in response to general supply and demand conditions, but volatility may well increase.”** Stay tuned.

Business and financial eyes are fixed on four companies (with major Austin presences) to see which will become the world's first company to be valued at \$1 trillion. Will it be: Apple, Amazon, Facebook or Alphabet (the parent company of Google)? And could it happen this year? Good questions. Let's look at one forecast.

The London *Guardian* writes: "Financial commentators and investors predict **2018 will herald the first firm with a stock market valuation of \$1 trillion or more**, if technology share prices continue to rise as strongly as in 2017." Okay that speaks to whether it could happen this year.

Now, what about which of the Big Four will be the first to break that valuation barrier? Again, the *Guardian* writes: "**Apple is leading the way with a (recent) market valuation of \$869 billion**, a figure arrived at by multiplying the company's share price by the number of shares in circulation." It will be an interesting race to see which of these big contributors to the Austin economy will be the first to reach this milestone.

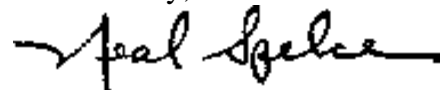
The Pew Research Center is a well-regarded US independent firm that tracks a wide array of topics both in the US and around the world. Each year, Pew manages to uncover some striking findings. Sometimes they mark a new milestone in public opinion. Other times, it may be an about-face. Here are a few 2017 findings you may find of particular interest.

In the past 10 years, **the share of US adults living *without* a spouse or partner has increased.** It has jumped from 39% in 2007 to 42% today. And roughly six-in-ten adults younger than 35 are now living without a spouse or partner.

About six-in-ten Americans ages 18 to 29 say the primary way they now watch TV is with streaming services on the Internet. Older Americans tend to rely on cable connections. Overall just 28% of Americans cite streaming services as the primary way they watch TV.

Dr. Louis Overholster says lies fall into 3 distinct categories: lies ... damn lies ... and statistics!

Sincerely,



Editor/Publisher