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Dear Client:

**The Texas economy – especially as it impacts the Austin area – is so strong it has triggered an action not taken in 30 years. State government, so important in Austin, is benefitting significantly from what is happening throughout the state – not to mention the impact of the red-hot Austin economy. All this is due to better-than-expected economic and revenue growth around Texas.**

We've long maintained the Austin area is uniquely positioned economically. **Steady government paychecks provide a solid underpinning for the area.** In general, these jobs are not subject to ups-and-downs or twists-and-turns of the private sector. So, add to this, the Silicon Hills of Austin is right now riding the crest of tech-driven private sector job growth, that is the envy of the rest of the nation.

Consider this: **the sky-rocketing Austin private sector tech economy is set to get a rocket-boost from normally-staid state government.** What? How's this? The Texas Legislature that sets budget parameters for the many state agencies in Austin doesn't even meet for almost four months.

Texas Comptroller **Glenn Hegar**, by law, is the state official who decides money guidelines the legislature must follow. He says to legislators **“this is how much money you will have to spend during the next two years of the biennium and you can't spend any more than that.”** Last October, he issued his forecast for fiscal year 2019.

**For the first time other than a legislative session in 30 years, the State Comptroller has increased his certified revenue estimate he made last October.** And it was a *big* increase. Remember, the Texas Legislature meets only once every two years for 140 days. **So it's a big deal for setting a two-year budget.**

His reason for saying state agencies will have more money to spend starting in 2019 than earlier predicted are several fold: **sales tax revenue is up 10.5%** over FY 2017 ... **oil/gas natural gas production tax revenue is up 56.1%** ... general revenue-related revenue, up 9.3%, etc.

The legislature will have more money to dole out. If state agencies get bigger bucks, it will mean **bigger paychecks circulating through the Austin economy.** A nice future boost.

**When you look to the future, it helps sometimes to assess the recent past. It's been ten years since the national financial crisis, so *The Wall Street Journal* (WSJ) took a look back at what happened and the lessons learned. Because residential real estate plays such a large part in the Austin area economy, we examined the *Journal's* view of this important segment.**

First of all though, after the failure of Lehman Brothers, countless investors lost faith in financial markets and never got it back, *WSJ* observed. **“Banks are no longer the power brokers on Wall Street,”** the *Journal* reported. “Profits, assets and influence have moved from investment banks such as Goldman Sachs to **money-management giants such as BlackRock and Vanguard.** Today they direct huge flows of capital and capture the lion's share of the finance industry's fees.” Okay, so what about home-buying?

**“The financial crisis changed home buying forever. It was easy – too easy – to buy a house during the boom years. Not today,”** noted the *Journal*. Now what? Well, it's obvious to all who deal in Austin area residential real estate. **“Lenders have tightened their standards, and many banks now view mortgages as a side service to offer to a small group of wealthier customers rather than a big-volume revenue generator.”**

So where are we as a result of the bank's changing focus? **“The new mortgage kings are companies you've probably never heard of,”** reported *WSJ*. **“The home-lending business has shifted to specialized mortgage lenders that fall outside the banking sector.”**

And, apparently, it's been a huge shift. **“Such nonbanks now have 52% of US mortgage originations, up from 9% in 2009,”** reported the *Journal*. “They symbolize both the health reinvention of the mortgage market – and how the growth in that market is almost exclusively in its less-regulated corner.”

All this was triggered by the national financial crisis ten years ago. What will trigger the next crisis? **“The person who predicts the next financial crisis, and there will be at least one, should get credit for luck rather than forecasting skill,”** hedged the *WSJ*. “Predicting what factors would trigger a global downturn is near impossible.” Okay, then, toss out some possibilities. **“Potential threats include bad loans, a euro exodus, China's debt levels and earthquakes.”**

**As mentioned in the first item the state's tax revenue from oil and gas has jumped more than 56% in one year, due primarily to an oil *export* boom – unthinkable just a few years ago.**

*The Wall Street Journal* reports the West Texas Permian Basin is at the center of this revolution **“that will next year see the state producing more oil than either Iraq or Iran.”**

**The new UTSystem Chancellor James B. Milliken begins his official duties (and starts drawing his hefty paycheck) next week, Monday, September 17th. He replaces interim Chancellor Larry Faulkner, who was filling-in following Chancellor Bill McRaven's resignation that became final at the end of May. This begins a new leadership era for the 14-campus UTSystem that of course includes UTAustin. What can you expect?**

After locating the restrooms, and getting used to military uniforms from the USArmy's Futures Command in the elevators of UTSystem's sparkling new downtown high-rise, **Milliken will probably hit the ground running.** After all, his previous roles as a **Chancellor** (City University of New York), a **campus president** (University of Nebraska) and a **Senior VP of another system** (University of North Carolina), attest to his top qualifications for the job.

In addition to building his executive team (including holdovers and new hires), he will probably not waste too much time before he starts **getting acquainted with state leaders and legislators who control the budget.** This work will contain a sense of urgency. Why the urgency?

*Because in almost four months,* Texas Senators and State Representatives will convene January 6, 2019 in Austin. And if all goes according to schedule, they will adjourn sine die May 27, 2019. At that point, **the budgets for the System institutions, including UTAustin, will be set in stone for the next two years -- from September 1, 2019 through August 31, 2021.**

So what Milliken does in **his first nine months on the job will in large part drive what happens for the next two-and-a-half years.** No pressure, Chancellor.

Of course System operations and planning have not been at a standstill while waiting for him to take the reins. **Under the able guidance of former UTAustin president Faulkner in his interim role, the System has been humming right along.** And, the Board of Regents has been making long-range decisions.

As an example, the Regents recently unanimously endorsed 13 construction projects at a number of campuses. For UTAustin, it is recommending to the **Legislature that it approve \$100 million in bonds to help fund a \$150 million renovation of the J.T. Patterson Labs Building,** home of the highly-rated Integrative Biology department. Approval is not guaranteed. **It'll be up to Milliken to shepherd all these projects through the legislative process.**

To say Milliken will have a lot on his plate is an understatement. **Just guiding the day-to-day operations of a multi-billion-dollar enterprise is daunting enough.** On top of the legislative urgency and the normal operations, the Regents are working on plans to **streamline the System's Austin administrative offices.** Oh yeah, there's the **first-time-ever collaboration** with its new tenant, the massive USArmy Futures Command operation. Good luck, Chancellor.

**September marks a consecutive three week run of home games for Texas Longhorn football fans. When Burnt Orange footballers take the field at UT Austin's DKR-Memorial Stadium, they play in front of about 100,000 fans. And, the word "fan" can be short for "fanatic." You know them, the guys who show up shirtless with their chests and faces painted -- screaming. They probably feel they are the biggest supporters of the team. But, one statesman-like gentleman can truly claim that title. And he did it quietly, just blending into the crowd.**

**Frank Denius** died recently at his Austin home -- wearing his Longhorn pajamas. **His support for his alma mater's football team is legendary.** He was an undisputed war hero, an Austin attorney who was part of many major decisions in Austin and **he supported UT Austin philanthropically (as well as rival TexasA&M)** in ways too numerous to mention.

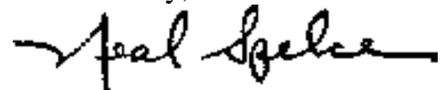
**But, it was his unabashed loyalty to the Texas Longhorn football team that was his deepest passion.** Probably most telling, he would leave his law offices at mid-afternoon to attend practices in the field named in his honor. **Former Coach Mack Brown famously said "Frank attended more practices than I did."** He holds the record for attending the most Texas-Oklahoma games in Dallas' Cotton Bowl. And he followed the team to all of their games away from home.

Denius served on the front lines in combat in World War II. He was wounded; many of his close friends were killed. **His bravery, facing enemy fire, earned him four Silver Stars, a Presidential Unit Citation and two Purple Hearts.**

**So, this made what happened to this fearless, brave man when the Longhorns won a national championship all the more compelling.** After pouring so much of himself into Texas football for decades, when Texas beat USC 41-38, January 4, 2006 in the Rose Bowl -- a thriller dubbed "the greatest college football championship ever" -- the man sitting next to Denius, **Eric Hershmann, said Denius, with tears streaming down his face, claimed "this is the happiest day of my life."** It was the courageous soldier's 81<sup>st</sup> birthday.

**Dr. Louis Overholster** doesn't make jokes. He gets laughs by reporting what Congress does!

Sincerely,



Editor/Publisher