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Dear Client:

**Transportation in Texas is at a critical intersection. Choices made by the Texas Legislature over the next several months will have both short-term and long-term implications.**

This is the view of Austin State Senator **Kirk Watson**, who points out the costs of road building materials have risen by 60% over the past five years and the primary tax used for transportation funding has been frozen since 1991. Among the changes he proposes:

**End Transportation Funding Diversions.** For several years, the State Highway Fund has been diverted to other agencies, such as the Department of Public Safety.

**Support Regional Financing Tools.** Watson feels the Legislature should offer new voter-approved funding mechanisms for regions to plan and pay for roads, rail lines and other projects.

**Re-Write the Gas Tax.** Watson suggests the 20-cents/gallon motor fuels tax should be “restructured” by indexing it to inflation. While he doesn’t use the words “raise the gasoline tax,” this would be the net effect if the amount of the tax is tied to inflation.

**Explore New Alternatives.** “This should begin by funding the Rail Relocation Fund that voters overwhelmingly approved in 2005,” said Watson as he called for a “comprehensive statewide system for moving people and freight.”

**Reform the Texas Department of Transportation.** Charging TxDOT with “overt advocacy of privatization and occasional disregard for the Legislature,” Watson says the Legislature must “fundamentally reform the agency so that Texans are fully aware of its activities and never question its objectives.”

He has other suggestions as he points out that “we spend more and more of our lives in traffic instead of with our families” He went on to say that “we seldom, if ever, see major roads built without tollbooths ... and the rail lines and highway lane miles we know we need are being **scaled back or scrapped in the face of a hopeless inability to pay for them.**” This position was co-authored by GOP Senator **John Carona**, the chair of the Senate Transportation and Homeland Security Committee. Watson, a Democrat, is the committee’s vice chair.

**A Texas real estate economist unveiled a plan this week to solve America's housing crisis. And he says the solution to the problem is really fairly simple, but it will take bold action.**

"The housing problem is fairly easy to understand. We have too much supply and not enough demand, and we need to reverse that," says Dr. **Mark Dotzour**, the Chief Economist at the Real Estate Center at TexasA&M University. Decreasing supply and increasing demand can be accomplished in four stages, he says, as follows:

**"First, we must curtail the supply of new homes in the market."** Dotzour says falling home prices are at the center of the current economic and financial crisis and yet, new homes are still being built – even in places like Detroit and Sacramento where foreclosures are at the highest levels. The problem is obvious. Here's the way Dotzour put it: **"When new homes are built in challenged markets and sold with massive price concessions, prices for all homes in the community trend downward."**

**"Second, we have to slow the supply of homes coming back into the market through foreclosure."** To this point, government efforts to do this have not worked, he maintains. Simply "helping people stay in their homes" has disturbing repercussions. As he put it: "If you are 90 days delinquent in your mortgage and the government reduces the principal amount of your mortgage and lowers your mortgage payments significantly, what incentive do you have to get back on track?" Dotzour says "it appears the FDIC plan used to mitigate losses at IndyMac Bank offers a workable solution."

**"Third, we have to increase demand for houses, and we have to do it quickly."** What are we waiting for? How long do American homeowners have to be punished before the government will step in and help stave off a larger catastrophe as house prices continue falling? How can the government do that? Simple, he says. **"It needs to give investors an incentive to purchase vacant homes and rent them to tenants.** With solid mortgage underwriting standards, investors can buy these homes. There must be adequate down payment so the investor has a big incentive to keep the house."

Okay, those last items will keep investors from racing to flip the houses. But how do investors make money within those restrictions? Dotzour said "this can be done by **lowering the depreciation schedule** for investors who buy foreclosed houses to around five to seven years. If we really want to solve the problem quickly, offer these investors **zero percent capital gains tax** if they hold the properties for more than five years." Has this been done before? "A similar tax incentive was offered to all businesses after Y2K to buy computers and software because of an acute lack of demand," he noted.

Wait a minute. Dotzour said *four* stages need to occur. This is only *three*. See the next item.

**Any discussion involving housing must include mortgage interest rates. After all, homeowners are driven by that monthly payment and interest rates are a key to setting the total payment.**

In the previous item, the Chief Economist at the Real Estate Center at TexasA&M University, Dr. **Mark Dotzour**, had three suggestions for solving the housing crisis. His fourth stage revolves around that old bugaboo – interest rates.

**“Fourth, mortgage rates are way too high.”** Dotzour reports that “over the past ten years, the 30-year mortgage rate has been priced somewhere around 1.5% higher than the ten-year treasury rate. The ten-year treasury rate has been about 3.7% in recent weeks. This means that under normal circumstances everyone in America should be able to get a **30-year mortgage for about 5.2%.**”

“Unfortunately, mortgage rates have been much higher than that,” he said. Why? Dotzour minced no words: **“In my opinion, it’s due to a complete lack of confidence in the financial integrity of Fannie Mac and Freddie Mac.”**

Now that the government has nationalized these two institutions, what should happen? “Why not go ahead and make the government guarantee on “Frannie” bonds explicit,” he suggested. “Just tell the world that, for the foreseeable future, **Frannie mortgage bonds are guaranteed by the full faith and credit of the US government. This would drop mortgage rates substantially and let all Americans refinance their homes at a very low rate.**”

Dotzour says that on 11/20/08, the ten-year treasury rate dropped to 3%. **“This should create an opportunity for all Americans to refinance with a 30-year mortgage around 4.5%.** Everyone knows that the federal government ‘*implicitly*’ was behind Frannie bonds. Now that they have been nationalized, make the guarantee *explicit.*”

As Dotzour said previously, no matter how complex this situation appears to be, it can be reduced to supply and demand. (Isn’t it refreshing to hear an economist state things simply!) He concludes by saying that “in the housing market, we’ve got too much supply and inadequate demand. We need public policies that address these fundamental wounds in the US economy. **Simply printing money is a temporary bandage that merely delays the inevitable.**”

**Don’t get used to these low gasoline prices. Eventually the market will correct itself.**

But the prediction is that the price will not start to head up until spring 2009. Just as oil was *overpriced* at \$150+ per barrel, economists believe it is *underpriced* at less than \$50/barrel. Look for oil prices to begin climbing after signs of economic recovery emerge next year.

**With the blast of cold air this week, and even light snow in parts of the Austin area, it's time to look ahead to see what winter holds for Central Texas.**

Winter doesn't officially start for another week or so, but the cold temps this week – made even colder by high winds – could be a harbinger of things to come. You'll be pleased to know the Austin-Travis County Emergency Operations Center earlier this month gathered all the appropriate local governmental entities to discuss **winter season planning strategies for handling potentially disruptive weather events**. (None too soon, apparently.)

Two longtime local meteorologists were asked to give the planners the latest outlook for the upcoming winter season. UTAustin meteorologist **Troy Kimmel** and **Bob Rose** from the Lower Colorado River Authority laid out their expert predictions. What do they foresee?

Well, the drought is expected to continue. But this doesn't mean the area will be immune to icy conditions. **There may still be periods where cold air mixes with light precipitation, generating freezing rain or freezing drizzle.** As always, the chances for a *significant* snowfall are low.

**The continuing severe drought will keep the potential for fires quite high.** Winter cold fronts can bring very dry air with little rainfall, but high winds. This is a combination that could trigger wildfires in already-dry conditions.

The attendees reviewed Austin's Winter Weather Response Plan so that all will **be on the same page if dangerous and disruptive conditions occur**. This included such items as sanding and street closures, coordination of school closures, transportation for hospital and public safety personnel in the event normal travel routes are disruptive, etc.

**Dr. Louis Overholster** assessing all the economic turmoil involving government intervention, bailout talk and financial institutions said he wouldn't be surprised to see signs that proclaimed "All Deposits Are Now Guaranteed by FDIOU!"

Sincerely



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