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Dear Client:

Funny thing about projections. Differing numbers are being forecast for Texas' financial state of affairs in the near future. Now a powerful state official who can actually impact the state's financial future weighs in on the topic. And his perspective is worth sharing.

A bona fide expert on Texas finances is the one individual whom many claim is **the state's single most powerful political figure, the Lieutenant Governor**, who sets the State Senate's agenda, appoints all the Senate leaders and presides over that 31-member body. So, what does **David Dewhurst** think will happen when the Texas Legislature convenes in Austin 13 months from now to write a budget for 2011-2012?

First of all, the state constitution prohibits the legislature from spending any money that is greater than what the State Comptroller certifies will be available. No deficit financing, such as you see in Washington DC. And, as you noted in last week's newsletter, Comptroller **Susan Combs predicts the state's Rainy Day Fund will have about an \$8.2 billion balance when this budget biennium ends**, even though there is expected to be a shortfall in the state's operating budget heading into the next budget cycle.

Dewhurst met this week with the *Austin American-Statesman's* editorial board and suggested it will be real tough to write the next budget doc but it won't be as difficult as some in years past. **He talked about using some of the money in the Rainy Day Fund**, though it is difficult to tap that fund (click the Archives Button at the top of this page and go to page 2 in last week's edition to see the hoops that legislators must jump through to drain dollars from the fund).

He also indicated he will huddle with House Speaker **Joe Straus** to possibly issue an **order for all state agencies (except for public education and health and human services) to cut as much as 2½% out of their current budget** that just started its 2-year cycle in September 2009.

Dewhurst is counting on additional revenue from an improving Texas economy and seemed optimistic the state could overcome loss of other funds to end up with a **balanced budget with a carry-over of \$4 billion to \$6 billion in unspent monies**. A lot can, and will, happen prior to decision-making time, suggesting this, and other, expert scenarios may need to be adjusted.

Speaking of things legislative, a new major topic is emerging to join budget problems and redistricting as key issues when legislators convene in Austin in about a year.

The every-ten-years re-drawing of legislative and congressional boundaries has always disrupted a legislative session. This is the singular issue that **affects the political lives of each of the 181 members of the Texas Senate and House.**

For many legislators, it is a question of survival to make sure their district is “safe” for their re-election. For others, it is an **opportunity to shape a district that would allow a “move-up”** to a State Senate or a Congressional seat. And then, there is the pressure from the political parties for **control of the legislative apparatus, possibly for a decade.** *The stakes are high – and very personal.*

If there were no other big issues to consider, the “redistricting session” would be enough by itself to entangle legislators in a battle royal. But there are others, of course. **The budget battle is a biggie**, as you’ve noted in our reports this week and last week.

And now what could be *another* far-reaching and vital topic is about to surface. We’re talking about water. Remember the old Texas bromide: **“Whiskey is for drinkin’ and water is for fightin’.”** Well, Lt. Gov. **David Dewhurst** has said that “with our population expected to double in the next 30 years, **safe, reliable water resources are critical** to the health and quality of life of our citizens as well as business and industry.”

Interim legislative committees are hard at work now trying to craft additional measures that relate to the State Water Plan. And where water – a finite resource – is concerned, there are the haves and have-nots within the state’s borders.

Just look a short drive down IH35 and you’ll see thriving **San Antonio that is taking legal action to get some of the water from the Highland Lakes** here in Central Texas.

And yet, the lakes formed by the Colorado River are waiting for the next deluge to fill the **lakes that are still in a “hydrologic drought.”**

Perennially dry West Texas looks covetously at the water-rich area of East Texas. You get the picture. Vital interests are at stake.

The three critical issues of redistricting, state finances and water, while not intertwined on the surface, are going to be **inextricably linked during what could be a very contentious session of the next Legislature.** Final thought: throughout much of 2010, you will be asked to elect the members of the Legislature who will determine the results of these issues.

Counter to conventional wisdom, we first reported to you three weeks ago that Austin may soon face a housing shortage. Some scoffed at that prospect as the nation struggled to come out of a housing crisis. But numbers released this week give support to our prediction.

It's still a homebuyers' market throughout much of the Austin metro. Home prices are dropping, buyers are driving hard bargains. **Deals are still out there.** (We know of one home that sold in 2006 for more than \$600,000, was foreclosed by the bank, and this week is listed by the bank at less than \$300,000.)

For qualified buyers, **mortgage interest rates are near all-time lows.** And the government has extended the period for granting tax credits for first-time homebuyers at the same time it expanded the tax credits to include current homeowners and raised the price of homes that would qualify for the credits.

So, how does this all translate into a possible housing shortage? (Click on the "Archives" box at the top of the page and go to the Volume 31, Number 34, November 20, 2009 edition for the details of what went into our analysis.) **The possibility of a local housing shortage is bolstered by new numbers** just released this week.

There are now close to 20% fewer homes listed for sale in the Austin market that at the same time in November 2008. Twenty percent is a big number. (Actually, it was 19.8% according to a study by ZipRealty Inc., a national real estate brokerage outfit, but who's counting?)

The pace of homebuilding has slowed dramatically, so the trend lines are slowly coming together. If the trends continue, and the figurative lines intersect, demand starts outpacing supply. This defines "shortage" and a buyer's market moves to a seller's market. While it is not certain this will happen, it bears watching.

Another national report this week reinforces the view that the Austin economy is expected to lead the nation out of the recession.

According to Pitney Bowes Business Insight, **Austin is the most likely city in the nation to experience retail growth now and into 2010.** This data includes an analysis of high-end, mid-tier and value retail sectors, along with drug stores.

Retail is a key indicator of economic health. It is generally viewed as meaning the job situation is healthy, residents have money in their jeans and they are confident enough about their future prospects to spend money in retail outlets. Again, this is a prediction, not a report on an existing situation. But it is always good to be #1 in any ranking.

Get ready. Your nose will be counted within the next few months. The USCensus next year will try to count everybody in the US, but it will probably be pretty messy.

The legislative redistricting effort in the 2nd item depends heavily on the totals tallied by the census counters. Texas has grown tremendously since the last census and, with a little luck, the census will reflect that growth. So what does it mean for you?

Well, first of all, unlike some years in the past, **the 2010 census form will be short – only 10 questions for you to answer.** Back in 2000, there was a lengthy form that asked many questions and that brought some objections. **The forms will be mailed in March** after a \$200 million ad campaign, that starts in a few weeks, letting you know the form is coming to your mailbox.

But it could get messy. Why? Well, first of all, the count will be tabulated during a time that a number of people have been displaced, due to **high unemployment and foreclosures** that have forced some folks out of their home.

Then there is the immigration issue – whether those who are in the US, but are not US citizens, will be counted. Also, some Hispanic groups are urging a boycott by documented US citizens of Hispanic descent because they object to lack of action on the overall immigration situation.

Also, there appears to be a growing number of people who are **distrustful of government's involvement in their lives and may refuse to provide info to the census takers.** If forms are not returned, census counters are planning to go door-to-door to get the information. Some are fearful there could be confrontational problems with this approach. Be that as it may. The law requires all US residents be counted. And the process will begin within a few months.

Dr. Louis Overholster says he can diagnose when his patients are under stress, especially when they turn on a light switch and can't wait for the electricity to start moving.

Sincerely



Editor/Publisher