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Dear Client:

Central Texas families returning from Spring Break this week tend to look toward summertime for their next vacation. However, some are not yet setting specific dates for getaways this summer. The reason: the specter of a Special Session of the Texas Legislature.

There. We said it. "Special Session." Most Legislative leaders don't like to talk about it at this stage, but they know full well that when this biennial session adjourns at the end of May, it is entirely possible that certain critical legislative items will not have been enacted. **For instance, there could be a stalemate on the budget. Or redistricting.**

If this occurs, the Governor – and only the governor – has the power to call a Special Session. And the governor controls the timing and the agenda of a special session. **There is no limit on the number of Special Sessions, though each is limited to 30-days.** As a practical matter, the state's fiscal year ends August 31st, so solutions must be in place by then.

Wait a minute. Don't the Republicans control the House, the Senate, the Speakership, the Lieutenant Governorship and the Governorship? **Can't they simply muscle through whatever they want? Adjourn? Then, go home?** Well, yes, but there's this little matter of rules.

The House is overwhelmingly controlled by the GOP. But the margin is closer in the State Senate, and under Senate operating rules, **Republicans must stick together as a block and convince a couple of Democrats to join them** just to bring up the budget for debate. So it is not as clear-cut as it may seem.

And, if the no-new-taxes, no-more-tapping-the-rainy-day-fund stances hold firm, all the state and local agencies, institutions and entities whose budget ox gets shoved in the ditch may **rise up and raise all kinds of hell as the session nears the end.** Add to that cacophony, the **always sticky issue of redistricting** that affects each and every member of the Texas House, State Senate and USCongress and you can see why Special Session(s) can easily become the order of the day.

There you have it. All those listed above and lobbyists, journalists, etc. may have **summer vacation plans** affected by the yet-unknown outcome of the legislative squabbles.

The number of homes sold in the Austin metro in February was roughly comparable to a year ago, but that number is a bit deceiving.

At first glance those latest statistics from the Austin Board of Realtors might indicate a stagnant market, until you delve deeper and remember that the 2010 numbers were “inflated” because of a one-time-only federal tax credit for homebuyers. **So, take away the “artificial” boost last year to compare with a “normal” market, and sales of homes in the Austin metro have increased.** The median price is also up 2% in 2011.

Looking ahead, what can be expected to happen to the value of your home? Mission Mortgage’s **Mark Sprague** has been singing the song for some time now that the number of lots available to build a house is diminishing. **Austin will have a lot shortage shortly**, he maintains.

How does he get to that point? Start with a steady diminution of available lots along with Austin’s **steady population growth** and meld this with the fact that **very little, if any, acquisition, development or construction money is available**. Then consider it takes at least two years to bring new developed lots to market and, bingo, you get a shortage of lots.

Economics 101 kicks into play here – supply and demand. As the supply of new homes diminishes and demand increases (due to the continuing influx of new residents), prices of new homes should go up. And **existing home values would increase** as a part of this equation. So, by examining *where* the supply of lots is the *lowest*, you can draw a general conclusion about the neighborhoods that should see the first rise in home values.

At the current rate of absorption, Sprague predicts that areas in **West Round Rock and Southwest Austin will run out of developed lots this year**. Average home values should rise here. Lots will also run out in the Del Valle school district in 2011, but other factors may be at work to hold values down a bit.

In 2012, Sprague said Cedar Park, Kyle and Pflugerville should run out of lots – triggering a rise in home values. He’s less bullish about Southeast Austin and East Round Rock, though they, too, will run out of lots.

And then by 2013, his calculations show northwest Austin, northeast Austin and Leander will also be out of lots. He thinks it will be about 4 years before Lakeway, Jonestown/Lago Vista, Liberty Hill, Bastrop, Dripping Springs and Southwest Travis County (out Hwy71) run out of lots.

Obviously this is an inexact science, though Sprague is using actual lot totals in his calculations. Another key point: **home values rise higher in highly-rated school districts**. If you overlay school district boundaries with the “out-of-lots” areas, you get more laser-focused indicators.

An exclusive TV partnership with ESPN guaranteeing \$300 million to UT Austin over 20 years is the envy of the other schools in the Big 12 athletic conference. But those other schools stand to gain an increase of many millions per year in a deal that may be announced soon.

According to a report in *Street & Smith's Sports Business Journal*, the Big 12 is nearing a cable TV agreement with Fox that will **more than triple the conference's revenue of its current contract**. The Big 12, now with only ten teams, is close to finalizing a long-term deal that will pay the league more than \$60 million a year, well up from the \$20 million it now receives.

That's not all. This hasn't been widely reported. But Fox has been in discussion with eight of the league's schools about establishing a **conference-specific channel for a handful of football games, up to 60 basketball games and Olympic sports**. The channel will *not* include programming from UT Austin (because of its ESPN partnership) or the University of Oklahoma, which is planning its own channel, as well.

The eight schools involved are Baylor, Kansas, Kansas State, Iowa State, Missouri, Oklahoma State, Texas A&M and Texas Tech. **The two arrangements – Fox's cable deal with the league and Fox's potential channel with the eight teams – are separate negotiations**. The Texas A&M athletic director is on record as supporting the creation of a channel.

None of this is locked-in yet, but **it's now clear that talks are getting more serious and that the idea of a conference channel for eight schools has significant support**. What *is* locked-in is the UT Austin/ESPN deal. In fact, it is moving along quickly. The Texas Longhorn network is scheduled to begin broadcasting in September. The programming will not only showcase the athletic programs, but will also feature facets of the academic enterprise.

The ballot positions are all set for the May 14th 2011 Austin City Council election.

Only three of the seven positions are on the ballot this year, due to the way the 3-year terms are staggered. The mayor's and three other councilmembers' terms do not expire this go-around. **The incumbents in Places 1, 3 and 4 are all seeking re-election and all are opposed**. Here's how the ballot will stack up, with the candidates listed in the order in which they will appear:

Place 1: **Josiah James Ingalls, Chris Riley** (incumbent), **Roger Chan** and **Norman Jacobson**. Place 3: **Kathie Tovo, Michael "Max" Nofziger, Kris Bailey** and **Randi Shade** (incumbent). Place 4: **Laura Morrison** (incumbent), **Eric J. Rangel** and **Toby Ryan**.

Early voting starts Monday May 2nd 2011 and runs through Tuesday May 10th 2011.

Speaking of politics, it's interesting how elections play into high-level Cabinet appointments.

US Secretary of Defense **Robert Gates** has let it be known he will step down later this year. Then the President will name a replacement. And two Democratic USSenators are *not* likely to receive the nod. Each is highly-qualified. But the problem is their home states.

USSenator **Jim Webb** and USSenator **Jack Reed** are both Democrats who have extensive experience that would qualify them for consideration for the Secretary of Defense Cabinet position. **The problem is they both hail from states that have Republican governors.** If the president picked either of them, **it is likely the GOP governor will name a Republican to the USSenate to replace either Webb or Reed.** And with the narrow margin between parties in the USSenate, it is not likely the president would do anything to alter that balance.

So look for the Gates replacement to be someone other than those two Senators, possibly even a Republican. A Republican? Sure, if the president is looking for someone easy to confirm he might tap former GOP Senator **Chuck Hagel** from Nebraska, who is a Vietnam veteran and former member of the Senate Intelligence Committee. And remember, Gates was a **George Bush** appointee held over by **Barack Obama**.

Don't know if you noticed, but at the top of this edition of the newsletter, it read "Volume 32, Number 50." In publishing parlance, "Volume" refers to the number of *years* of publication and "Number" refers to the number of editions within the year. Next week, it will read Volume 33, Number 1 – marking the beginning of our 33rd year of publication. It's been an eventful economic time to be preparing these reports. We appreciate your subscription.

Dr. Louis Overholster likes to tell the story of an actress who wasn't picked as a spokesperson for an anti-smoking campaign after she said in her interview "Smoking kills. If you're killed, you've lost a very important part of your life."

Sincerely



Editor/Publisher