

Volume 33, Number 3

April 15, 2011

Dear Client:

If you keep track of Texas energy developments, you know that the state is in the midst of a veritable oil and gas boom. South Texans who own hardscrabble land thought to be only good for growing rattlesnakes and cactus are becoming millionaires. But they are not the only beneficiaries. You are, too, indirectly.

Until about a year-or-so ago, there was very little oil and gas activity in this relatively desolate area of Texas. **Oldtimers knew that they were sitting atop a geological formation known as Eagle Ford Shale.** But wildcatters abandoned drilling efforts years ago because it was impossible to get oil and gas out of the South Texas shale formation.

A new extraction technology, hydraulic fracturing, has changed all that. Now there is a frenzy of activity as oil and gas are being pumped out of the Eagle Ford Shale as fast as the drillers can make it happen. For instance, 1,229 drilling permits were issued in 2010, compared to just 94 in 2009.

But it is not just the landowners, who are leasing the mineral rights to their property, who are stuffing sacks full of money. The oil and gas companies are selling their product and generating millions of dollars a month. **Some are saying this is the hottest oil and gas play in the country.** And this is where you are the indirect beneficiary of this activity.

The State of Texas collects taxes on natural gas and oil production. And, as you would expect, **collections are rising dramatically – generating revenue for a revenue-starved state,** struggling to find a way to fund state services.

In fact, for the first seven months of the state's fiscal year 2011, **natural gas and oil production tax collections combined are 49% higher,** compared to the same period in 2010. It's even more impressive when you consider fiscal 2010 oil and natural gas production tax collections combined were 24% lower than in 2009.

Also, this week **\$830 million federal dollars were released to be spent on education in Texas.** And **sales tax receipts in March 2011 were 2.9% higher** than for March 2010. Any increase in revenue for Texas is welcome as the Legislature is trying to pass a 2-year budget with no tax increases. And it is a positive sign for the state's economic recovery.

Speaking of Texas oil and natural gas, hurricanes have a way of impacting the energy industry. What are the prospects for the upcoming hurricane season?

The odds are increasing for a major hurricane to make landfall along the Gulf Coast during the June 1 – November 30, 2011 hurricane season. According to the hurricane specialists at Colorado State University, **the average annual probability for a hurricane to make landfall along the Gulf Coast is 30%. But the odds have been upped to 47% for this summer.**

In fact, the full Atlantic hurricane area is expected to generate **above-average activity** this season. The average over the years is 11 named storms, six hurricanes and two major hurricanes. **The current forecast calls for 16 named storms, nine hurricanes and five major hurricanes.** What is a “major” hurricane? **Sustained winds of 111 miles an hour or greater.**

Even with some dire forecasts in the past, the US – and specifically the Gulf Coast – has been relatively lucky except for 2004-2005 (remember Katrina and Rita). **With those exceptions, there have been no other major landfalling hurricanes since 1999.** Colorado State’s **William Gray** says “this recent 9-of-11-year period without any major landfall events should not be expected to continue.”

As a result, the impact of hurricanes on the oil and gas industry since 1999 has been minimal. If the projections for this hurricane season come true, it could be a different story this year.

An expert on relations with Mexico (and a former Austin resident) is bullish on business in the country that shares a long, sometimes violent, border with Texas.

Despite all the security problems and accompanying headlines generated by violence in Mexico, the former US Ambassador to Mexico, **Tony Garza**, says “**the real headline is that CEOs, investors, and business leaders are feeling quite bullish about Mexico.** And I think there’s plenty of reason for them to feel that way.”

“The truth of the matter is when you benchmark Mexico against other emerging markets and its Latin American counterparts, **Mexico compares quite favorably,**” said Garza. “If there’s one key message I’ve tried to make clear is that **this will be Mexico’s decade.** Mexico is clearly on solid economic footing. And, should the country embrace even modest competitive reform, then **Brazil, Colombia or Chile will soon be asking how they can keep pace with Mexico.**”

A UT Austin business school grad with a law degree from SMU, **Garza is a former Chair of the Texas Railroad Commission and was Texas’ 99th Secretary of State.** He started climbing the political ladder along the border with Mexico as County Judge of Hidalgo County.

When eBay and PayPal made it official this week that they were investing heavily in the future of Austin by expanding operations, dueling press releases were issued about investments made by the City of Austin and the State of Texas. It was interesting to see how this was handled.

You see, not only did **Austin ante up with \$1.2 million in incentives**, but the State of Texas raised the incentive game when it put **another \$2.8 million in the pot**. eBay and PayPal looked at that \$4 million stack of incentives, showed its winning hand, and scraped the table clean.

Not to make light of it, because this should prove to be a major economic boost to the Austin area. But if you read the press releases put out by the City and the State, you might think each was the only **entity enticing the Internet companies to expand their operations in the Austin area**. Governor **Rick Perry** crowed about how this was a great use of the Texas Enterprise Fund and Mayor **Lee Leffingwell** also emphasized that the city's effort helped create "great jobs."

The Austin area will receive two economic benefits from this action – short-term and long-term. **Long-term, eBay/PayPal committed to create at least 1,000 jobs in Austin over the next ten years**. These are not just minimum wage jobs.

By the end of this year, for example, the companies are committing to create at least **50 jobs with an average salary of \$107,000**. **And by 2020, the average salary is projected to be \$139,000**. These are not chump change jobs.

Short-term, the economic benefit is more subjective. And it is not guaranteed. But let me tell you, **CEOs around the nation are taking notice of what just happened**. This is a big deal during this economic time. For Austin. For Texas.

Austin has enjoyed positive notoriety for being last-in, first-out of the recession, and for ranking at the top nationally in most "Best in the US" surveys. Now the CEOs are seeing well-respected companies of the future casting their lot in the Austin area. **It's a powerful message to CEOs who are making long-term decisions about expansion or re-location**.

The city has run the numbers and is convinced that, over a ten-year period, **the Austin area will reap much more dollar value than what has been invested in incentives** to lure eBay/PayPal into a major expansion commitment. For its part, eBay/PayPal said the incentives "were instrumental in our decision to choose Austin as a location for growth."

The SrVP and Chief Technology Officer for eBay Inc., **Mark Carges** says: "**Austin is a vibrant, exciting city with a strong heritage for technology expertise and lots of growth potential**. Our state-of-the-art facility there has room for expansion and the support we have received from the State of Texas and the City of Austin reinforces our **commitment to attracting top talent** in regions where we operate."

“South by Southwest may have overstayed its welcome in Austin.” This was the headline in a San Antonio publication that questioned if the Alamo City should make a bid for the event.

Writing in the *San Antonio Business Journal*, **W. Scott Bailey** cited a number of sources that complained about South by Southwest (SXSW). He claimed that **“Austinites are tired of the hassles and intrusions,”** and he wrote that “some of the venue operators who participate in the 10-day music/film/interactive conference are apparently equally perturbed.”

Bailey writes that **“among the concerns in Austin is the volume of people who now converge on the city for SXSW.** The *Austin American-Statesman* puts that number at about 200,000. The San Antonio Convention & Visitors Bureau says some 80,000 people turn out for Night In Old San Antonio (NIOA) each year.

“NIOA, just one of many Fiesta events, lasts only four days this year and is staged in a relatively small area in the heart of downtown. **So if San Antonio can withstand the mob-fest that is Fiesta, why couldn't it handle SXSW?”**

Bailey answers his question this way: “Heavens, no, some will argue, insisting that **San Antonio doesn't need Austin's headaches.** Others will insist that **San Antonio is not nearly hip enough** to host something such as this. But San Antonio's **hospitality industry could use the bump** from pre-Fiesta visitation. And the city's music industry could sure benefit from serious exposure.”

“Then there is this,” he notes. “The annual economic impact from SXSW is reportedly about \$100 million. Most cities would step in and make sure they held on tightly to something like SXSW, fearful that other communities are all too ready to poach their event. **Austin is a different animal. Anything is possible.** So what's the worst that could happen if San Antonio tossed its hat into the ring?”

Dr. Louis Overholster was wondering how a slim chance and a fat chance can be the same, while a wise man and a wise guy are opposites!

Sincerely



Editor/Publisher