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Dear Client:

The rapid increase in Texas oil output over the last few years is one of the most remarkable energy success stories in US history. The oil and gas boom gets much of the credit for Texas' resurgent economy, but the technology sector is contributing, too. Let's look first at the shale miracle.

To give you some perspective, just three years ago the Texas statewide oil production had bottomed out at a little more than 1.1 million barrels a day. This was at the end of a 25-year decline from the boom times of the early 1980s. Now, **by February of this year, the daily output had more than doubled to 2.295 million barrels a day. Talk about a quick, almost astonishing turnaround.**

And it is due to the relatively new drilling process, called fracking, that releases heretofore unavailable oil and gas reserves located in shale strata about a mile below the surface. **The economic benefit to Texas, and to Austin, is big and getting bigger.** Wait a minute, how does Austin benefit? There is no major fracking activity in the 5-county Austin metro area, such as occurring in booming South and West Texas.

First of all, **anytime the state does well there is a spillover benefit felt in the Austin area** because the Austin area economy does not operate on an island. Take tourism for instance. If jobs are being created in the rest of Texas, Texans travel and Austin is a prime destination. Houston doesn't have any shale oil wells, but it is booming because it is the de facto HQ for the oil and gas industry. And Houstonians love Austin.

But more than that, **the oil and gas industry paid about \$12 billion in taxes during 2012.** Much of the state tax revenue is doled out to state government and the lion's share of state agencies are in Austin. Those dollars are recycled every day in Austin area grocery stores, barber shops, retailers, movie houses, cafes, etc.

Texas state government has a budget surplus that is growing daily. The positive financial picture contributed to what many called a "successful" regular session of the legislature that just concluded with a **significant increase in the state operating budget for the next two years.**

So why has this shale miracle happened in Texas and not elsewhere? See the next item.

Three fundamental reasons contribute to the shale oil and gas success in Texas, while other states – with comparable oil and gas reserves – lag way behind. It’s clear why the Lone Star State is outpacing others when you examine these reasons.

Reason #1: Texas is fortunate to have a variety of world-class oil and gas reservoirs beneath its surface.

Of course Texas is not alone sitting atop such an asset. Other states can boast of similar resources. In fact, California is generally recognized as having what may turn out to be the **largest oil resource ever discovered in North America**. So, why is Texas making the most its fortunate circumstance, while others dither? His brings us to the second reason.

Reason #2: Texans are by and large used to having the oil and gas industry active in their communities and understand the benefits it provides.

This goes back to the state’s up-and-down, boom-and-bust, oil history. In fact, many economists who trace the history of Texas industry say the state moved from a cattle-and-cotton economy to an oil-and-gas economy, giving importance to economic eras in Texas.

Reason #3: The Texas state government works very hard to maintain a healthy legal and regulatory environment in which to do business.

These last two reasons are the factors that differentiate Texas from states like New York and California – both with world class oil and natural gas resources. But **those two states, according to one oil and gas public affairs writer, “seem to be almost constitutionally incapable of taking advantage of them.”**

This writer, **David Blackmon**, is the one who espoused the “three reasons” theory, writing in *FORBES* magazine. Speaking of California and New York, Blackmon says **“the policymakers in these states really have very little understanding of the benefits of a healthy oil and gas industry – or really any industry, for that matter – and that makes them more vulnerable to falling prey to the phony arguments and fake “studies” put out by anti-fracking activists.”**

“In Texas, policymakers are educated enough about the industry to identify nonsense as nonsense pretty much as soon as they see it,” Blackmon continued. “California and New York continue to lose businesses in droves, many of which relocate to Texas, whose booming economy runs circles around their own.”

“There’s no mystery how and why this is happening. The only mystery is why **timid policymakers in California and New York can’t grasp the clear reasons why their own state economies continue to lag so far behind.**” And then he adds: “God Bless Texas.”

But what about the technology sector’s contributions to the Texas economy? After all, Austin is in the middle of all that. Check out the next item.

Even though Texas is the nation's leading *energy* state, you may be surprised to learn the number of workers in the Texas *technology* sector is twice the number in the oil and gas business in the Lone Star State.

Of course, numbers are important in this instance. But what really is significant is **the *mix* of jobs provided by these two economic sectors** that are keeping Austin and the state in the forefront of any national business and economic discussion. Each is important in its own way and there is no, or very little, overlap – providing job diversity that should help steady the economic ship in less stable times.

Tech jobs are relatively higher paying jobs. For instance, **in Texas tech workers made an average of \$92,000 last year, compared with about \$50,000 for everyone else**, according to a report in *The Dallas Morning News*. That's a valuable economic multiplier. Especially when you consider the tech sector added almost 10,000 jobs statewide last year. And the state added almost 2,500 tech companies in the last four years.

Austin is known as a tech hub and energy-centric Houston is a big tech employer, too. But the number of tech jobs in Dallas-Fort Worth is greater, so the North Texas Metroplex is the state's largest tech center. All this is good. Spread the wealth around. Too much concentration can result in too much vulnerability.

Yet, by itself the tech economy is no panacea, in large part because it is less and less focused on middle-class jobs. **Tech can drive the economy, but it is simply not enough by itself.** This is where the oil and gas boom fits into the *mix* of Texas economic opportunity.

Energy continues to create a high number of good-paying jobs – 200,000 in Texas – for both white- and blue-collar professions. Oil riggers may not often be celebrated like many of the creative class, but they are a **boon to the middle-class economy**.

Texas is a highly-intertwined geographic region. **And a broad array of job opportunities is vital.** Think of it as exemplified by the differences between ***fingers* guiding discoveries on a computer each day** and ***hands* dirtied by mud working oil rigs in the field each day**.

Both job sectors contribute mightily to the enviable state of today's Austin and Texas economies. One sector should not be favored over the other or the economy falls short of what it could be (Exhibit "A" – California and New York). **And right now the major Texas regions seem to be moving lock-step in the right direction – each enhancing its own assets and, as a result, contributing to the greater good of the intertwined Texas economy.** One little exception surfaced this week – a "voice" in San Antonio expressed concern about Austin's encroachment on its "turf." It may not be a biggie, but it's noted in the next item.

“Austin poses increasing challenge to San Antonio’s major industries” – *San Antonio Business Journal (SABJ)*. Come on now, is that a neighborly headline?

Here’s what reporter **W Scott Bailey** wrote in the SABJ: “There has been plenty of talk over the years about how **San Antonio and Austin can work together, as a regional juggernaut**, to chase after economic opportunities that may benefit both cities.

“While neither city is writing off such a strategy, **Austin is now aggressively pursuing its own growth opportunities in two critical industries, which could bring the Capital City major economic gains at San Antonio’s expense.**” Hmmm. Does this smack of Austin-envy?

What is Bailey talking about? **“Health care and the bio sciences, along with tourism, are two of San Antonio’s largest industries”** – greater than \$41 billion combined annually, he estimates.

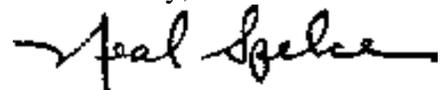
Well, well, well. **Doesn’t he realize the tourism pond is large enough for more than one big fish?** That Austin’s hotel building spree will bring visitors to the area who may want to make a side trip to The Alamo? That a concentration of attractive visitor sites (think Orlando) results in a synergistic benefit?

And health care and the bio sciences? Again, doesn’t he realize a world-class **UTAustin medical school, with its ancillary spinoffs, will build upon the area’s regional reputation** and not necessarily siphon industries from San Antonio?

The development of the Austin-San Antonio Corridor Council decades ago envisioned such a synergistic benefit for both cities. In fact, while not a reality yet, a heightened rail connection between the two cities has always been its goal. **A spirit of cooperation, not competitiveness, has been the watchword for both cities and those in between for almost a half-century.** Let’s keep it that way and encourage each city to be the best it can be.

Dr. Louis Overholster says the reason he remembers his wife’s birthday is he forgot it once!

Sincerely,



Editor/Publisher