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Dear Client:

Saudi Arabia and OPEC have declared a gasoline war on America and if they are successful, it could be devastating to the Texas and Austin economy. On the surface the economic war appears beneficial to us. After all, how long has it been since you have seen prices at the pump this low? But low gasoline prices, they gamble, will make the Texas oil boom go bust.

The battle plan goes like this. The Middle Eastern Organization of Petroleum Exporting Countries (OPEC), that have long controlled the world's oil supply, are determined to **produce enough oil to make the price per gallon go way low**. If they can get the price low enough, they figure this will **greatly reduce oil and gas production in Texas** and the rest of the US.

And this, in turn, will result in **severe cutbacks in the energy business**, because they can't make enough money if the price drops dramatically. When this happens, **massive layoffs will occur and the tax revenue that is gushing into Austin's state government operations will slow to a trickle**. At least, this appears to be the OPEC countries' strategy as they battle to maintain their oil dominance.

So far, it appears to be working. In fact, most predictions say gasoline prices at the pump will fall further. And the price American companies are getting for their crude oil – due to a glut on the market – is falling as well. Crude oil prices at one point were north of \$100 a barrel. **But this Thursday the 11th, US crude oil fell below \$60 a barrel – the lowest finish since July 2009. Some are suggesting the price could fall even more severely, all the way down to \$40 a barrel.**

Can oil producing companies handle such a drastic reduction in revenue? Or will they cut way back, resulting in a massive layoff of workers and reducing significantly the taxes they pay to support state government operations (upon which Austin depends heavily)? On CNBC, CEO/Chair of Exxon Mobil **Rex Tillerson said Exxon Mobil can withstand \$40 a barrel crude oil prices.**

But there is more to it than that. **Small Texas oil field service companies and producers, who are are highly leveraged with debt, could struggle** (making them takeover targets). On the flip side, **you are paying less for gasoline. And airlines (man, are they happy!) are seeing their stock prices soar** – up 30% to 40% -- with help from low jet fuel costs. For more on this important economic development, check out the next item.

Next month, when Texas legislators begin to determine the amount of state money that will flow into the Austin economy until 2017, should they worry about the major oil and gas tax revenue drying up? Not really. Even though long-term forecasts are all over the ballpark.

The 84th Texas Legislature will be gaveled to order January 13th 2015. As you know, the lege meets in regular session every two years and the biennial sessions are limited to 140 days. During that time, **its main task will be to approve a state budget that will dictate the amount of money to be spent – much of it in Austin – through the fall of 2017.**

No question the oil and gas business in Texas is feeling a bit of short-term hurt. **Drilling has been cutback, employees have been laid off, the hellbent-for-leather pace in most areas has slowed considerably.** Low prices that cut into revenue will do that to practically any business.

So, what is the prognosis for this ailing, important economic sector? The answer depends upon whom you ask. Researchers at UTAustin reported this week that **natural gas production in certain shale plays could peak in about a decade.** Flip that coin over and you find major energy players such as Exxon Mobil betting the farm that **demand for natural gas could increase 65% by 2040.**

But back to the original question. What about the **short-term economic impact on the Texas state budget and the subsequent fallout for the Austin economy?** Well, the Energy Information Administration (EIA) phrased the question something like this: **“Can Texas have \$2 gasoline and a robust shale oil and gas play?” It answered its question with a resounding “Yes.”**

The EIA administrator admitted crude oil production growth will slow next year, but its annual output is forecast to still **increase to the highest level since 1972.** Texas produces 36% of all US crude oil. And the administrator said **“oil prices are expected to remain high enough in 2015 to support new drilling in the major shale areas in North Dakota and Texas,** which account for most of the growth in US oil production.”

Near term, no problem -- according to most forecasts. And that is the horizon to be used by the new **State Comptroller Jerry Patterson who analyzes available data and forecasts, then establishes a revenue estimate** that, by law, cannot be exceeded by legislators. It will simply become a matter of priorities -- how to split up the pie of the largest budget amount in history.

Don't expect decisive action to occur early. In fact, the first few weeks will be consumed by organizational activities and some pomp and circumstance. Though it will be a formality, San Antonio Rep **Joe Straus** will be re-elected Speaker of the House. The presiding officer of the Senate, Lt.Gov. **Dan Patrick,** will formally take the oath of office January 20th 2014 when he and Gov. **Greg Abbott** are inaugurated on the south steps of the State Capitol.

Never before have you witnessed the massive change in the top leadership positions of Austin and Texas that will occur in January. In fact, you may need a printed program with photos to keep them straight.

Obviously this is an interesting fact. **But it is more than that for those who are impacted by city, county, state and educational policies/actions.** It brings an air of uncertainty to their lives, and by extension, to practically everyone who lives and works in Austin. Consider this:

Locally you will have a **new County Judge presiding over the Travis County Commissioners Court** (the administrative body for the county, analogous to the work of the Austin City Council). Speaking of that, you will have a **new mayor and nine of the Austin City Council members will be newbies** when they take office in January.

There's more. Consider educational institutions that are so important locally. You will have a new **Chancellor of the UTSystem. A new president of UTAustin** will be selected during the next few months. You will have a **new president of Huston-Tillotson University** and a **new superintendent of the Austin Independent School District.**

And state government that is so integral to the functioning of the Austin area? In just a few weeks, you will have a new **governor**, a new **lieutenant governor**, a new **attorney general**, a new **state comptroller**, a new **land commissioner** and a new **agriculture commissioner.**

The change doesn't stop with all of these new top officials. In most cases, each of those individuals will make a clean sweep by **replacing previous staffs, installing their own key staff members who will do the day-to-day, nitty-gritty grinding work of the offices.**

When you think about it, much of **what you knew about the operations of the Austin area and the state will need to be re-assessed.** The year 2015 should be quite interesting.

While admitting his 2014 residential real estate projections were off, a local observer has taken a stab at what 2015 will be like. Mark Sprague sees increasing home starts and sales.

For Austin, Sprague predicts 2014 will close out the year with 11,500 new home starts and 32,000 home resales. **Looking ahead, he predicts "2015 will see more home starts, but probably less than a 10% increase."** Sprague said his 2014 projections were off "due to lack of lots and entry level product" below \$200,000. He also said his 2014 luxury home (above \$2 million) sales were off about 30%.

Signs appear good for the most important retail selling season of the year in the Austin area. At least, based upon sales tax receipts leading up to the season.

Official sales tax numbers – a reasonably good barometer of retail sales – lag behind a bit. For instance, the totals released this week were for sales made in October. But those sales were really strong for most of the Austin metro. As an example, **Austin sales were up 11.4% over the same month a year ago.**

Selected other area city October totals compared to last year: **West Lake Hills**, up 38.8% ... **Leander**, up 38.4% ... **Cedar Park**, up 19.5% ... **Bastrop**, up 15.9% ... **Dripping Springs**, 14.8% ... **Pflugerville**, 10.9% ... **Bee Cave**, 9.9% ... **Lakeway**, 8.7% and **San Marcos**, 7.9%. It will be interesting to see if these increases hold up through year-end. If so, area retailers will have a good year.

A big step to help the future of the Central Texas water supply was taken this week more than a hundred miles away.

Ground was broken on a reservoir in Wharton County, near the Gulf of Mexico. **It will capture and hold water for use by interests along the Colorado River downstream from Austin.** Currently water in Central Texas lakes Travis and Buchanan is released to serve consumers, business and agriculture interests downriver – even when those lakes are very low, like right now, due to drought conditions.

The Lane City Reservoir will **hold more water than the capacity of lakes Lady Bird, Austin and Marble Falls combined.** This is water that may not be needed to be released from lakes Travis and Buchanan in the future. The new reservoir should be completed in 2017.

Dr. Louis Overholster finished reading a medical journal article in time for the holidays: “Study Finds Link Between Red Wine and Letting Your Mother-in-law Know What You Really Think!”

Sincerely,



Editor/Publisher