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Dear Client:

In about six months, the Texas Legislature will convene in Austin to determine how much money the vast majority of state agencies will spend in Austin and around the state. Revenues have been impacted *negatively* due to the downturn in the oil and gas business. So what are the prospects for this important Texas revenue source? Let's drill down to find the new magic number for oil prices.

You don't have to dig very far when you examine reports from the Federal Reserve Bank of Dallas. (First, a quick review: **oil prices were north of \$100/barrel** just a couple of years ago. When Middle Eastern interests started flooding the global markets with oil, Texas drilling slowed and even stopped in some quarters. **The price plummeted to about \$26/barrel.**) So, where does it currently stand and how far is that from the "magic number"?

Oil is bouncing around the \$50/barrel mark right now. The Dallas Fed issued a new report this week that shows **\$53/barrel might be the new magic number for the nearby Eagle Ford Shale play in South Texas.** The Fed suggested the magic number was closer to \$51/barrel in the Permian Basin of West Texas.

Just a minute, what do you mean by "magic number?" Participants operating in the Eagle Ford area told the Fed they would hit a breakeven number – **enough to cover their drilling costs – in the mid-\$50-\$60/barrel range.** One economics expert was quoted as saying this pricing structure would need to be sustained for at least two months or longer to be effective.

After two years of the worst oil price rout in a generation, large and mid-sized producers expressed cautious optimism this week to Reuters news agency reporters. During this downturn, many producers said they **slashed costs in half and doubled down on improved techniques to squeeze more oil from each new well.** Now they are eyeing growth again as leaner organizations.

As we've said many times, even though you don't see drilling rigs in the Austin area, the **income generated for the state is vital to Austin's economic success.** The Dallas Fed launched a new energy analysis Monday that will give you a snapshot of the state of the oil/gas industry each quarter. This will provide you, and state lawmakers, a tracking tool on this vital energy sector.

It's not just about oil. According to some energy analysts, demand for natural gas production and piping continues to boom. "Boom?" Wait a minute. That word hasn't been used in quite a while in Texas. Well, take a look at some recent developments.

Natural gas is an often-overlooked part of the oil/gas equation. However, **gas generates a portion of the electricity you use every day** in the Austin area and, like oil, the taxes from natural gas fuel the state's budget -- much of which is spent in the Austin area. Consider a few recent examples as you ponder the appellation of "boom" to Texas gas production.

Mexico's state-owned power company just last week entered into an agreement to build **two pipeline projects that will transport natural gas from Texas to Mexico**. And, a Houston energy biggie said this week it will build a **cryogenic natural gas processing facility**, as well as additional pipelines, between West Texas and southeastern *New Mexico*.

These new plants and pipelines reflect a growing trend – a trend aimed at meeting **demand for natural gas that will increase by more than 40% over the next decade**, according to the National Association of Manufacturers.

Speaking of state revenue, a feasibility study was recently initiated that could result in Texas selling 192 acres inside the Austin city limits. No, we're not talking about the controversial proposal to sell Austin Lions Municipal Golf Course. That's for discussion at another time. We're talking about two large tracts in Central Austin and in West Austin.

The way prices have escalated, this could be a high-dollar transaction if it takes place. This could **pour money into the state's coffers** and free valuable property that could generate **millions each year in property taxes** for the City of Austin after final development.

The first property has 39 buildings on 99 acres and is currently home to Central Austin's aging **Austin State Hospital**. The second is the **Austin State Supported Living Center** with 65 buildings on 93 acres of land in West Austin. The Texas Health and Human Services Commission is conducting the feasibility study. Results of the study should be released around September 1, 2016.

Oh yeah, these very valuable tracts of land have no zoning restrictions. What? That's right, the City does not zone state-owned land.

Interesting tidbit relating to Air Force One seen at the Austin airport last week. A recent pilot of the presidential aircraft for Bush and Obama was Austin High grad, Col. Bruce Ybarra.

Even though you may not have been directly affected by the recent flooding in Central Texas, you may receive a bit of tax relief being offered to those who actually suffered from the floods. It's the way the law works when the President declares a county a "disaster" area, as it did with several counties in Texas -- including Travis and Bastrop.

The presidential disaster declaration permits the IRS to **postpone certain deadlines for taxpayers who reside or have a business in the disaster areas.**

For instance, certain deadlines falling on or after May 26, 2016, and on or before October 17, 2016 have been **postponed to October 17, 2016.** This includes the June 15 and September 15 deadlines for making **quarterly estimated tax payments**, the **2015 corporate and partnership returns** on extension through September 15, and the August 1 deadlines for **quarterly payroll and excise tax returns.** There's more, as you might expect when dealing with IRS regs.

The IRS says it "automatically identifies taxpayers located in the covered disaster area and applies automatic filing and payment relief." **Our advice to you: contact your tax counsel.**

It just keeps on keeping on. In May, Austin area home sales and prices continued a record red-hot pace. The jobless percentage remained an astonishing 2.9%. And for 12 months up to now, Austin is sitting at #3 in the nation for net new jobs. This is simply amazing.

It sounds like a broken record, repeating itself month after month. But it is more than that. **It is a trend that is the envy of the nation.** Sure, trends have a way of slowing or stopping. But, for now, **enjoy this blistering economy with all its warts. It sure beats the alternative.**

Look! Up in the air! It's a bird! It's a plane! It's Supe....oooops. Nope. It's a drone. In fact lots of drones that will, as a result of action this week, start multiplying like mosquitos.

After years of trying to govern this new wave of aerial activity, the Federal Aviation Administration this week simply created a **new set of rules designed for drones.**

In effect, the Feds ruled that commercial enterprises can fly **drones that weigh less than 55 pounds without getting special permission.** And with technology advancing "faster than a speeding bullet" (apologies for continuing a bad Superman metaphor), this weight limit is almost a blank check.

Consider the possibilities in the Austin area: **commercial and residential real estate ... filmmakers ... traffic ... you name it.** They'll soon be humming in your air space.

No matter how much you pride yourself on your knowledge about Texas, the betting here is that you won't recognize *all* the following Texas small-town names – much less where they are located, or whether you've been there. And those “new” to Texas will probably just shake their heads and mutter “no way” there are towns with these names in the Lone star State.

But no less an authority than the Real Estate Center at TexasA&M has come up with a “**ya gotta see these names to believe some of them**” list. There really are some head-scratchers here, in alphabetical order:

Bacon, Bigfoot, Blanket, Blessing, Bugs, Chickenfeather, Coffee City, Cool, Cost, **Cut 'n Shoot** and Cuthand. Dicey, **Dime Box**, Ding Dong, Eclipse, Elmo, Fort Spunky, Frognot, Grannie's Neck, **Gun Barrel City**, Gunsight, Halfway, Hogeye, Hoop and Holler, Jot 'Em Down, Kickapoo, Lick Skillet and Loco.

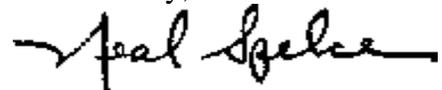
Mars, Mayflower, Mount Calm, Nameless, No Trees, Noodle, North Zulch, Oatmeal, Old Dime Box, Old Glory, Paul's Store, Pep, Pinetucky, Pluto, Pumpkin, Quicksand, Rising Star, Rising Sun, Salty, Shallowater, Smiley, **Snook**, Sunny Side and Sweet Home.

Tarzan, Telegraph, Telephone, Trout, Twitty, Uncertain, Veribest, Weeping Mary, **Winchester**, Winnie and Zipperlandville.

Final comments on these tiny towns. **The bold-faced names listed above are the only towns we have actually visited.** How about you? Secondly, there are many more towns on the Real Estate Center's original list. Space prevented us from listing all of them.

Speaking of cities, **Dr. Louis Overholster** is repeating jokes (at least, he *thinks* they were jokes) that Austin Mayor **Steve Adler** told delegates at the State Democratic Convention last week in San Antonio. Adler said Austin is “where you go as a 20-something to retire” saying further that he couldn't be an advocate for hard-working Texas families because he'd be “ignoring a large part of my constituency.”

Sincerely,



Editor/Publisher