ECONOMIC OUTLOOK

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3RD QTR 2016

TEXAS

"The Texas economy expanded in August. Employment grew overall and in the oil and natural gas sector, which had declined each month for over a year. Existing-home sales had mixed growth across Texas' major metros, while exports continued their rapid decline. Indicators of the energy sector continued to improve, and the index of leading indicators turned positive in July, though its three-month net change was negative. Finally, the Texas Manufacturing Outlook Survey indicated that conditions in the manufacturing sector are improving." – Dallas Fed

AUSTIN

According to the Dallas Fed, "The Austin economy slowed slightly in August. Growth in the Austin Business-Cycle Index has steadied over the last two months but remains well below its long-term trend." The Real Estate Center reports that total employment in the Austin MSA dropped from 1,075,114 in July to 1,068,645 in August. Drops in August employment are not unusual as August drops also occurred in 2014 and 2015. Total August employment is 3.41% higher than prior year.

UNITED STATES

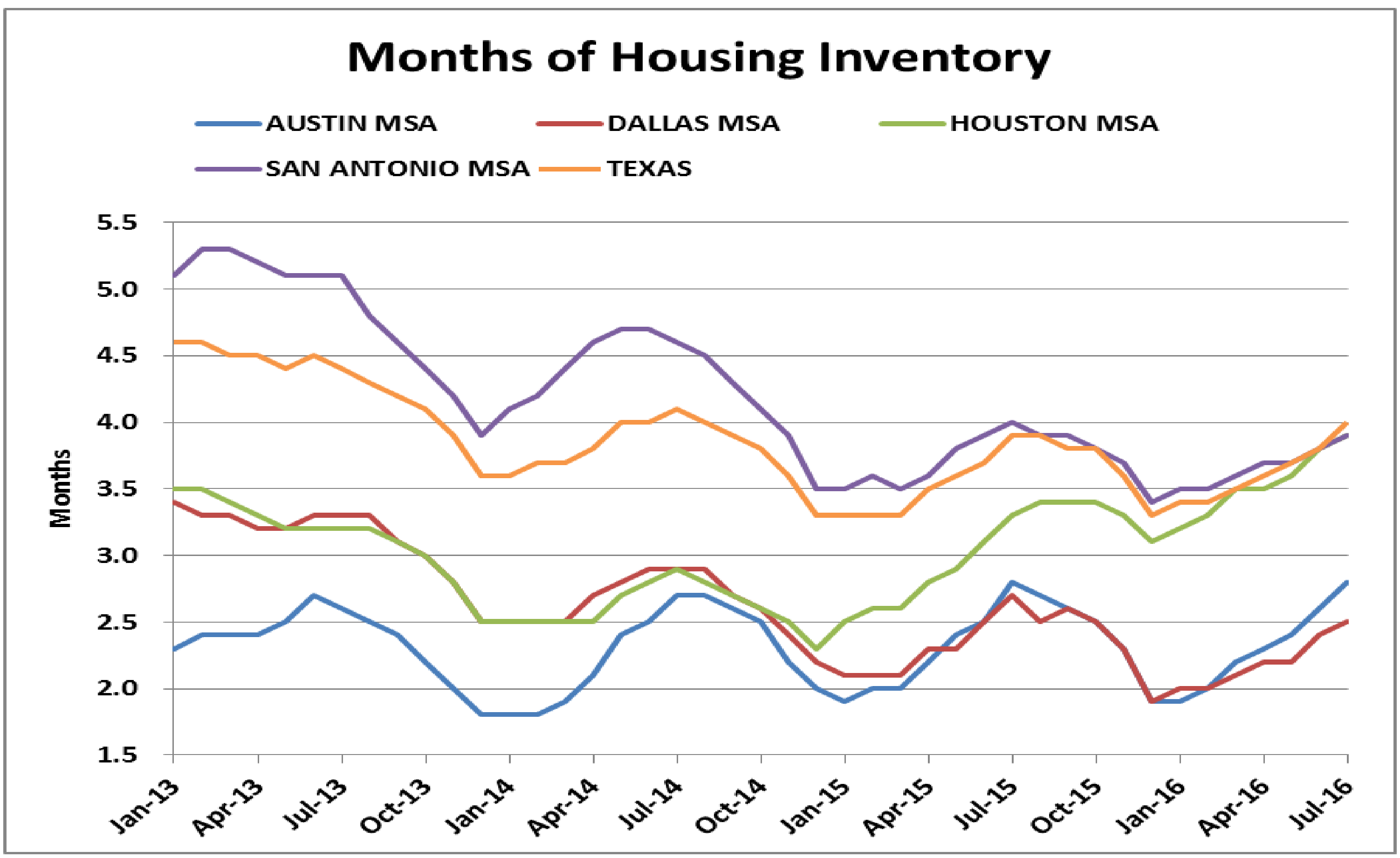
Daniel Chapman, a research assistant at the Federal Reserve Bank of Dallas reported in late September that "Economic indicators released in August and September have been mixed. Consumption spending got off to a strong start in the third quarter, and employment growth slowed but remains solid. However, the more timely purchasing managers' surveys were unusually downbeat. Still, forward-looking indicators and professional forecasts point to stronger growth in the second half of the year. Inflation remains muted and below the Federal Reserve's target rate of 2 percent, with goods and services inflation exhibiting differing trends."

HOUSING

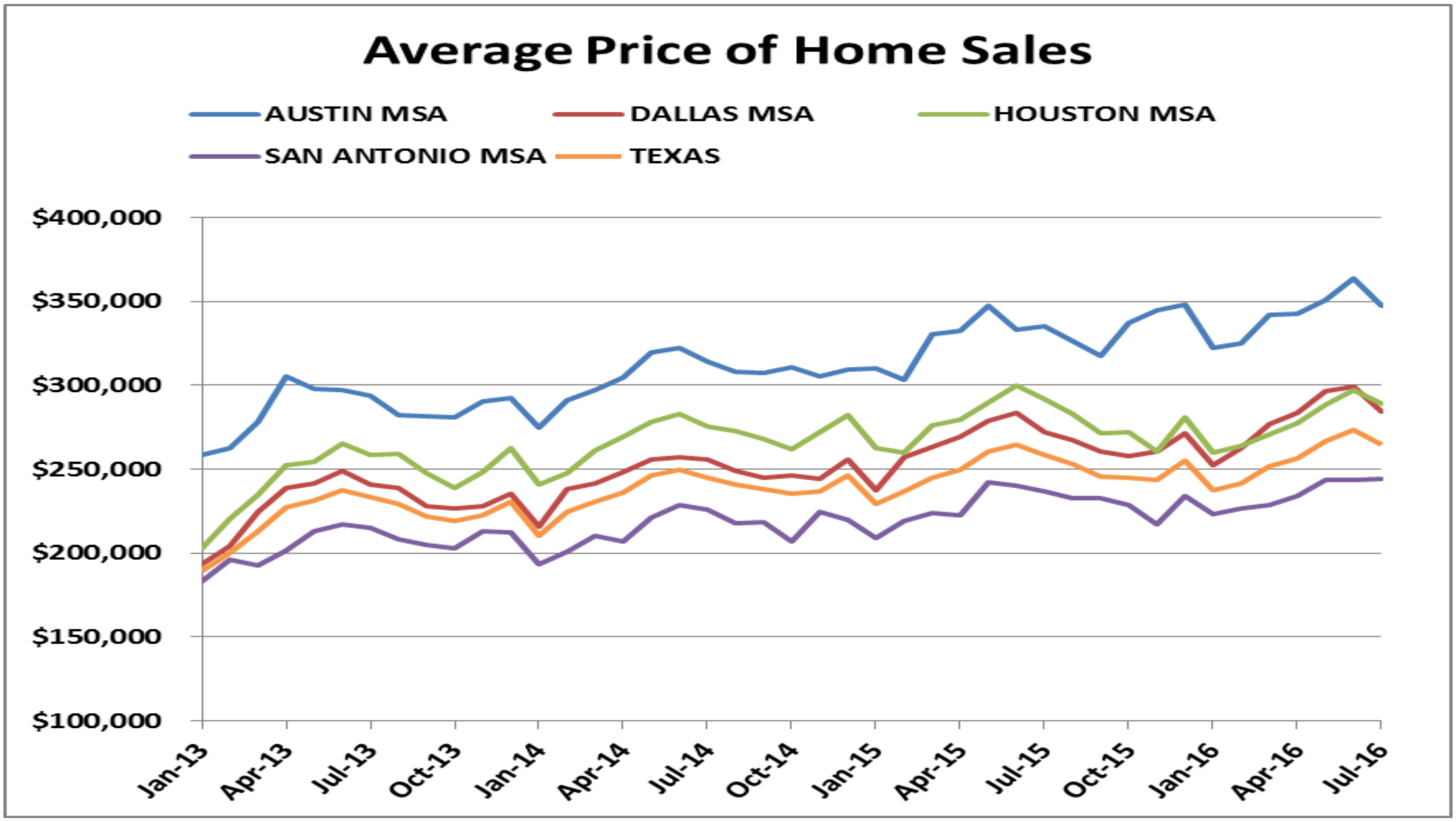
"Texas housing demand was relatively robust after a hiccup during July but fairly mixed at the metro level. Statewide housing sales increased 7.4 percent year-over-year on a seasonally-adjusted basis (positive 7.2 percent not seasonally adjusted), while continuing a monthly cooling that began in early spring. Austin (positive 4.7 percent), Dallas-Fort Worth (positive 5.2 percent), Houston (positive 8.3 percent), and San Antonio (positive 12.1 percent) all increased annually. Dallas-Fort Worth has exhibited a slowdown the past few months following rapid expansion the past couple of years. On a year-to-date basis, Houston is ahead of the same period during 2015 by 1.1 percent while Dallas-Fort Worth is up by 4.8 percent (nonseasonally adjusted)." - Real Estate Center (REC) August 2016 Summary

The Austin MSA's months of housing inventory increased from 1.9 in January 2016 to 2.8 in July 2016. This is consistent with prior year when housing inventory increased from 1.9 in January 2015 to 2.8 in July 2015.

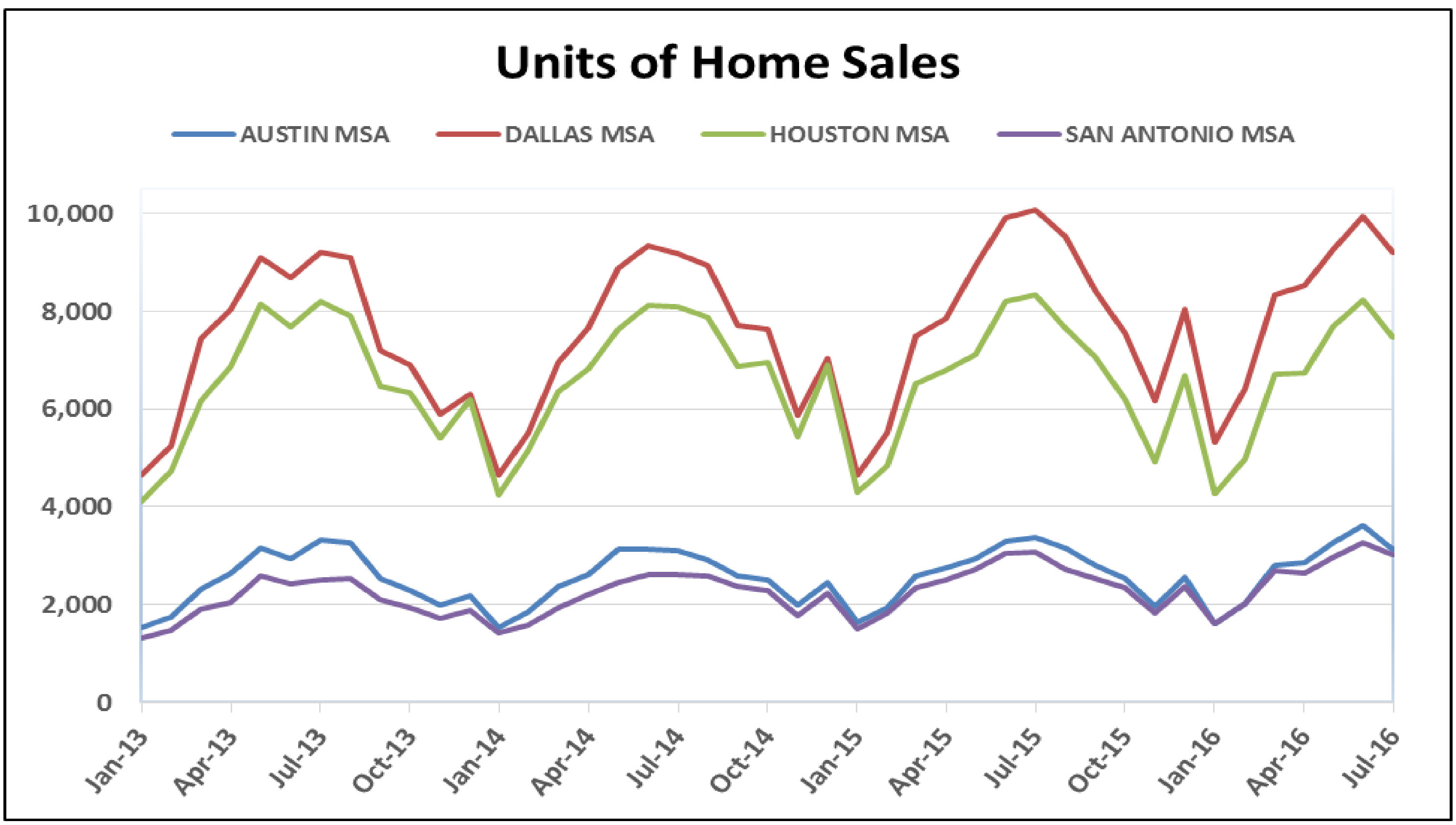
The REC has estimated that **"seasonally adjusted; around 6.5 months of inventory is considered a balanced housing market in which neither sellers nor buyers dictate prices**."



Source: Real Estate Center at Texas A&M University



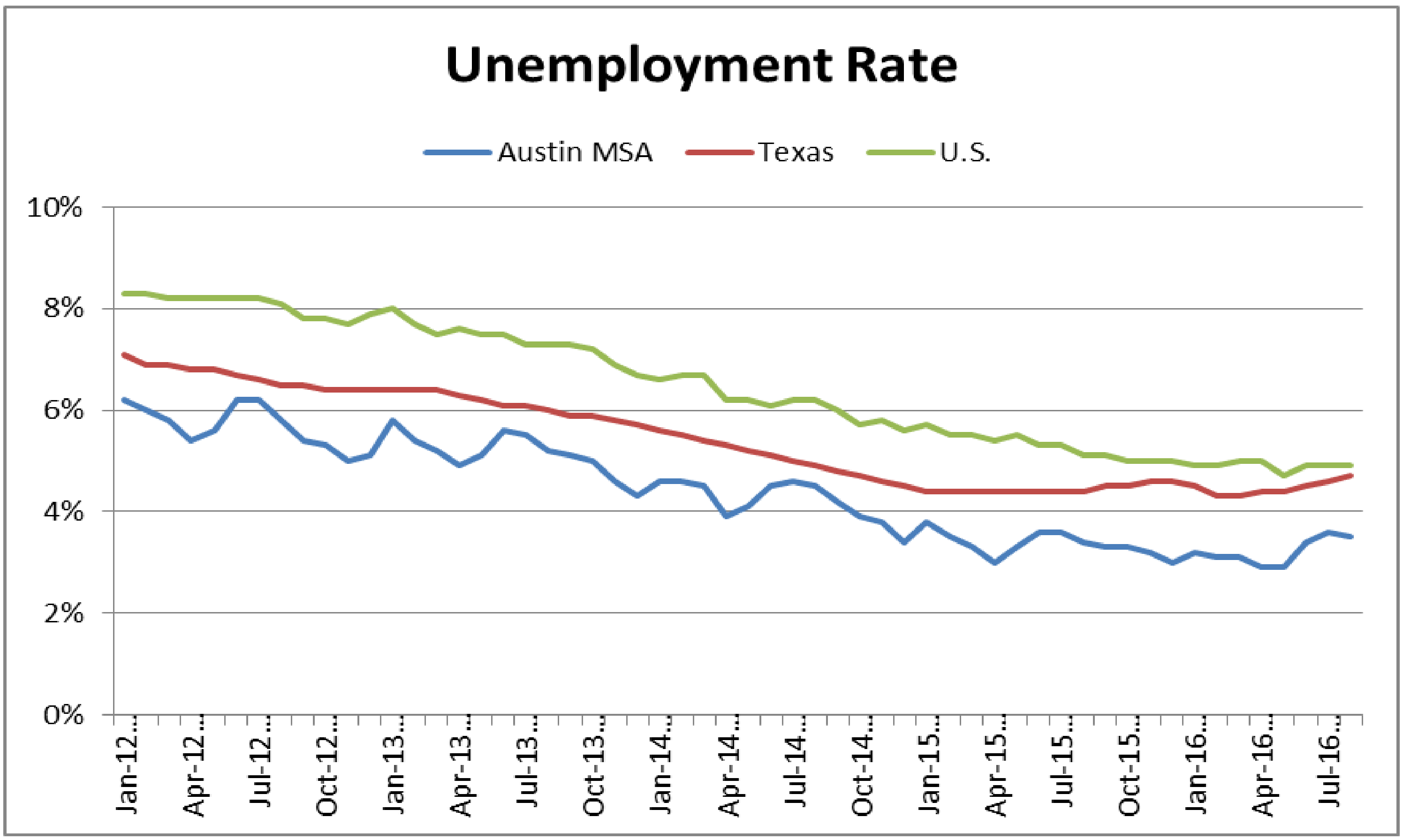
Source: Real Estate Center at Texas A&M University



Source: Real Estate Center at Texas A&M University

JOBS

The preliminary August 2016 Austin MSA unemployment rate is 3.5%. This number is slightly lower than the July rate of 3.6%, but substantially higher than May's rate of 2.9%. The Austin MSA unemployment rate compares favorably to both the preliminary Texas unemployment rate of 4.7% and the U.S. rate of 4.9%. The Texas unemployment rate has been at or below the national rate for over nine years.

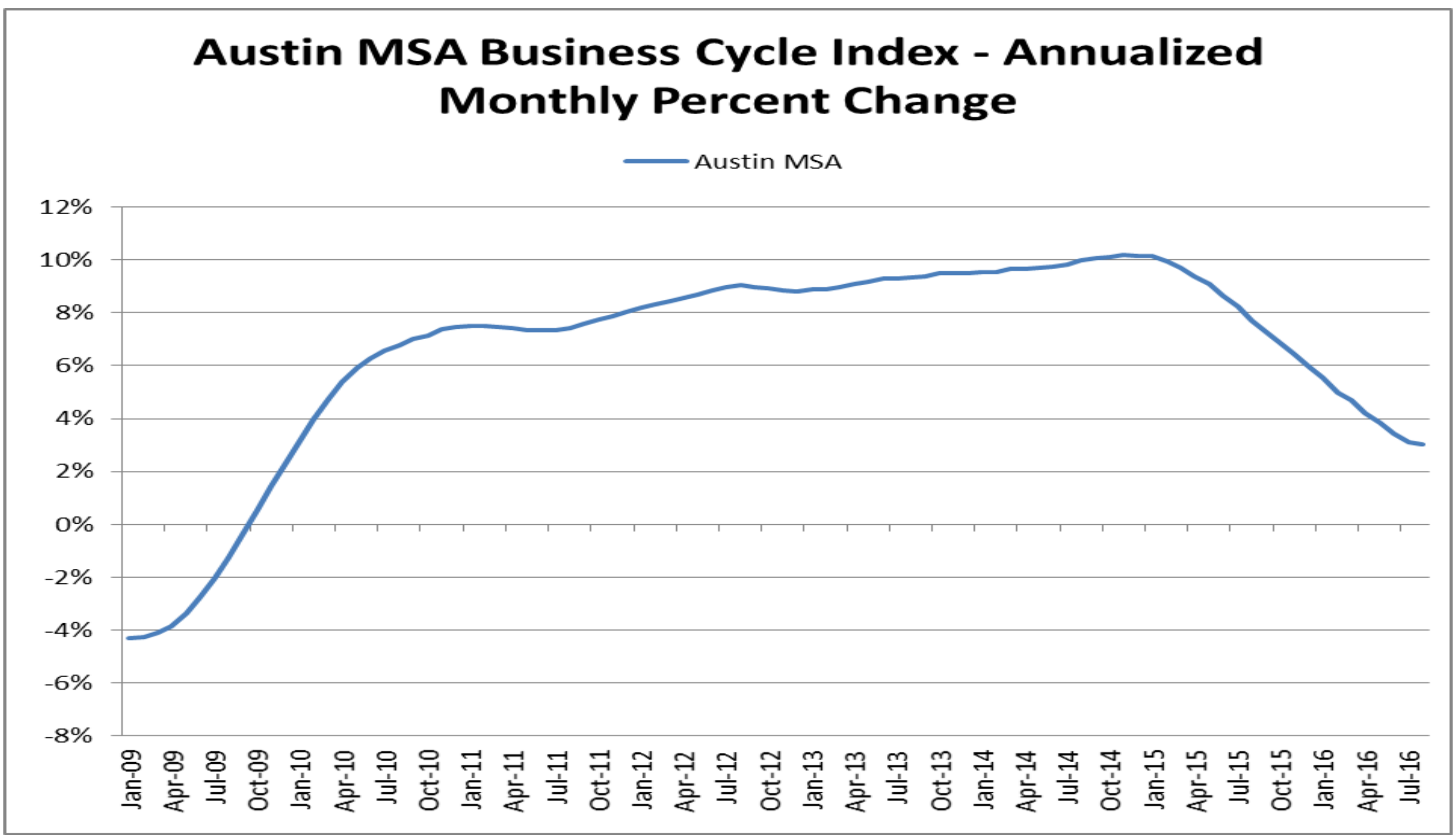


Note: U.S. and Texas seasonally adjusted, Austin MSA not seasonally adjusted.
Source: Bureau of Labor Statistics

BUSINESS CYCLE INDEX – AUSTIN MSA

Business Cycle Indexes are meant to reflect broad movements in local economic conditions. The Dallas Fed states that "the [local area] indexes are constructed based on the aggregated movements in the local area unemployment rate, nonagricultural employment, inflation-adjusted wages, and inflation-adjusted retail sales. The weights of the components are statistically optimized for each metropolitan area in order to best capture the underlying cyclical movements in the local area economy."

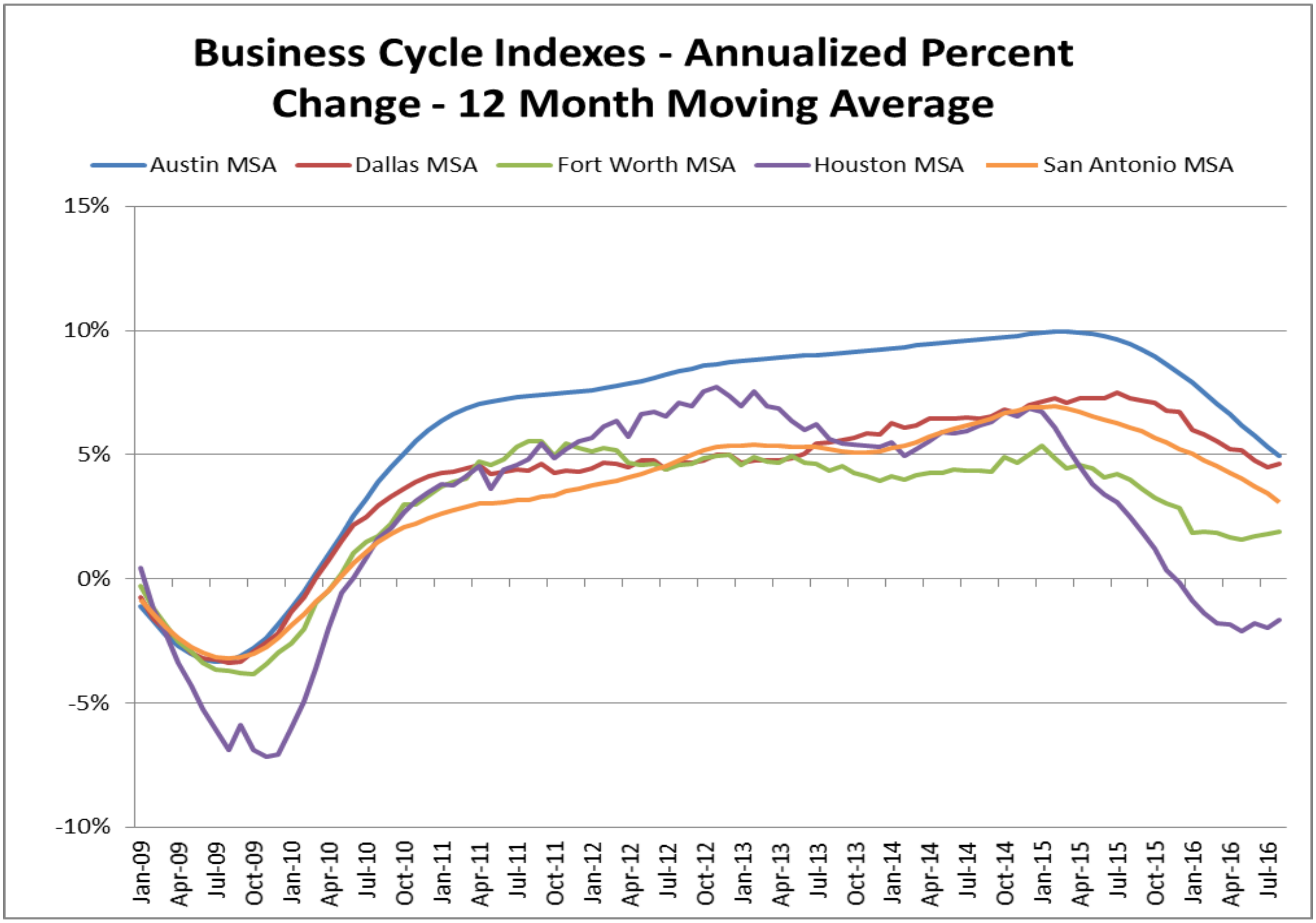
"Expansion in the Austin Business-Cycle Index decelerated slightly to a 3.0 percent annualized rate in August, which is down from a 5.5 percent growth rate at the beginning of the year and from its recent peak of 10.2 percent at the end of 2014. This slowing is largely due to weak job growth and a rising unemployment rate in recent months. Although economic activity has slowed since the beginning of the year, leading indicators such as help-wanted advertising suggest moderate labor demand in the months ahead." – Dallas Fed



Source: Federal Reserve of Dallas – Index,1980 = 100

BUSINESS CYCLE INDEX – MAJOR METROS

In the chart below, a twelve month moving average was incorporated to smooth out short-term fluctuations and highlight longer-term cycles. The Dallas and Ft. Worth August indexes increased as a result of continued job creation. “Future revisions to the index may change the picture, but [the Houston index] is now indicating that the economy has reversed course from the declines in the first half of the year.” - Dallas Fed.



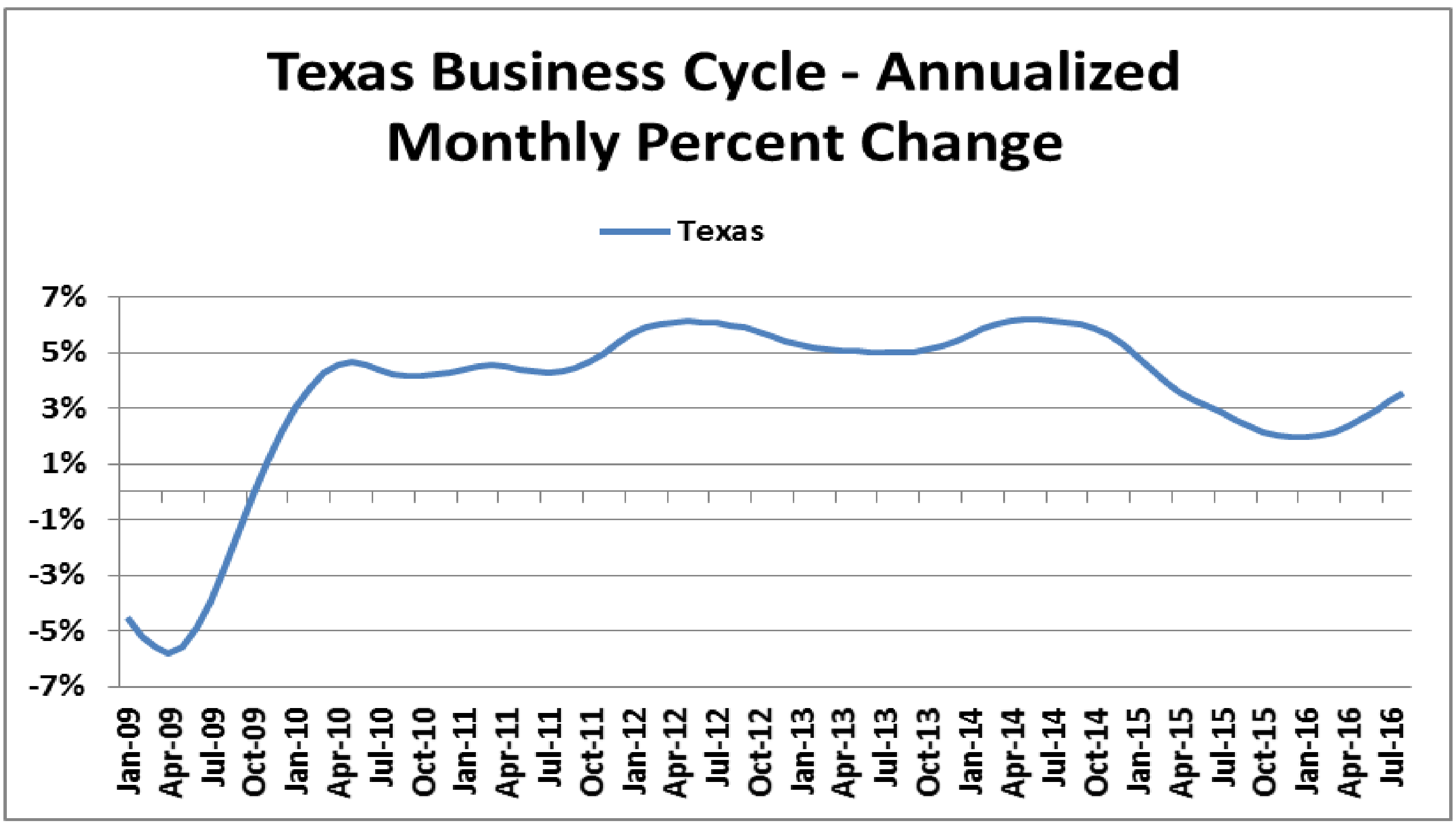
Source: Federal Reserve of Dallas

Source: Federal Reserve of Dallas – Index,1980 = 100

BUSINESS CYCLE INDEX - TEXAS

The **Texas Business Cycle Index** measures the current state of the Texas economy. The Dallas Fed constructed the index using payroll employment, gross state product, and the unemployment rate.

The Texas Business Cycle Index that measures current economic activity continues to increase.

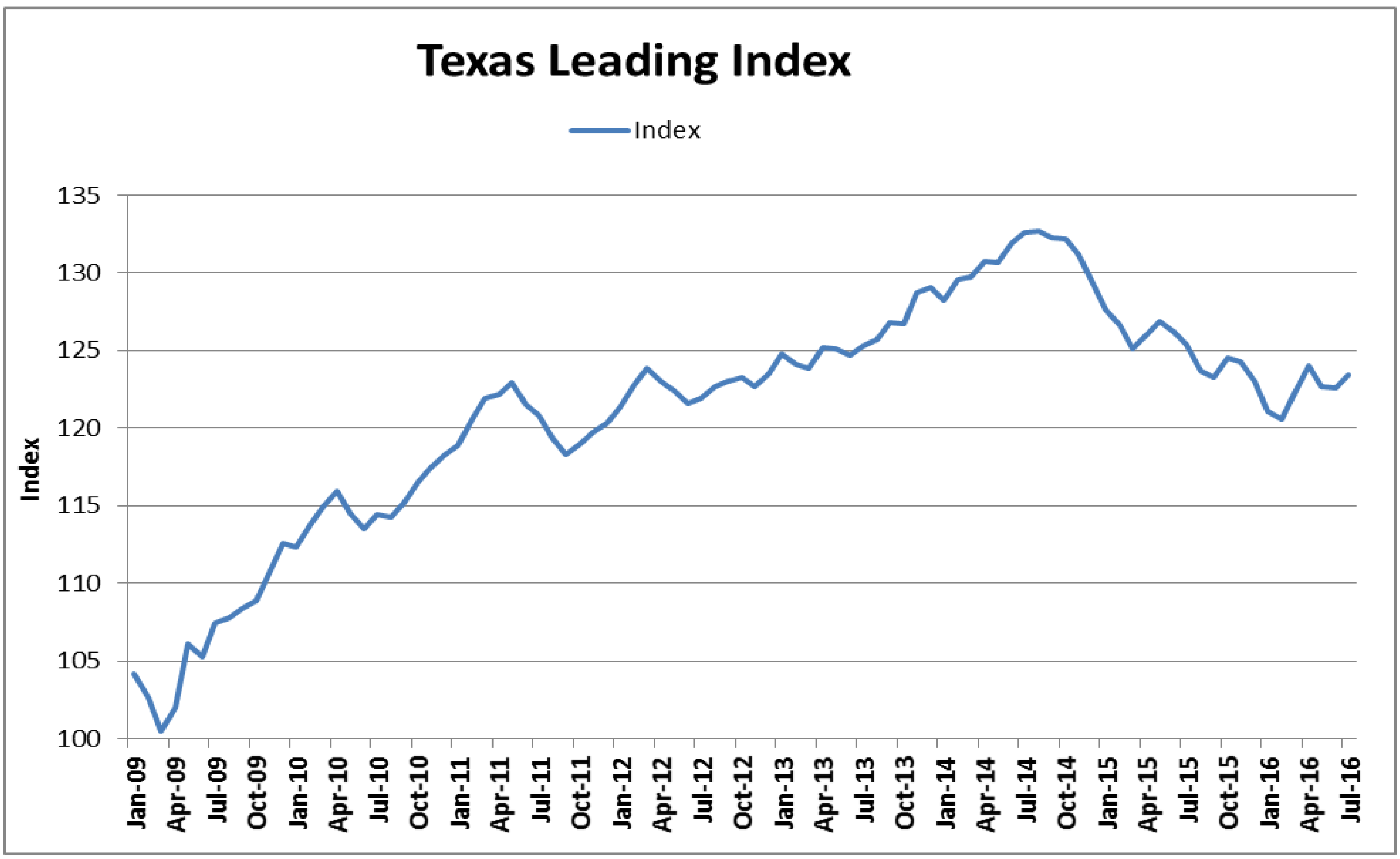


Source: Federal Reserve of Dallas – Index,1987 = 100

LEADING INDEX - TEXAS

Dallas Fed has defined the **Texas Leading Index** as the "single summary statistic that sheds light on the future of the state's economy." The Texas Leading Index is made up of eight leading indicators that have been shown to change direction – up or down – before the overall economy. The eight indicators used by the Dallas Fed are the Texas value of the dollar, U.S. leading index, real oil price, well permits, initial claims for unemployment insurance, Texas stock index, help-wanted index and average weekly hours worked in manufacturing.

The Texas Leading Index increased in July. The Real Estate Center said "the index was positively affected by the U.S. leading index, oil prices, stock prices of Texas companies, and average weekly hours worked. The index was negatively affected by the appreciating Texas value of the dollar, decreasing well permits, new unemployment claims, and a slowdown in the amount of new workers sought after."



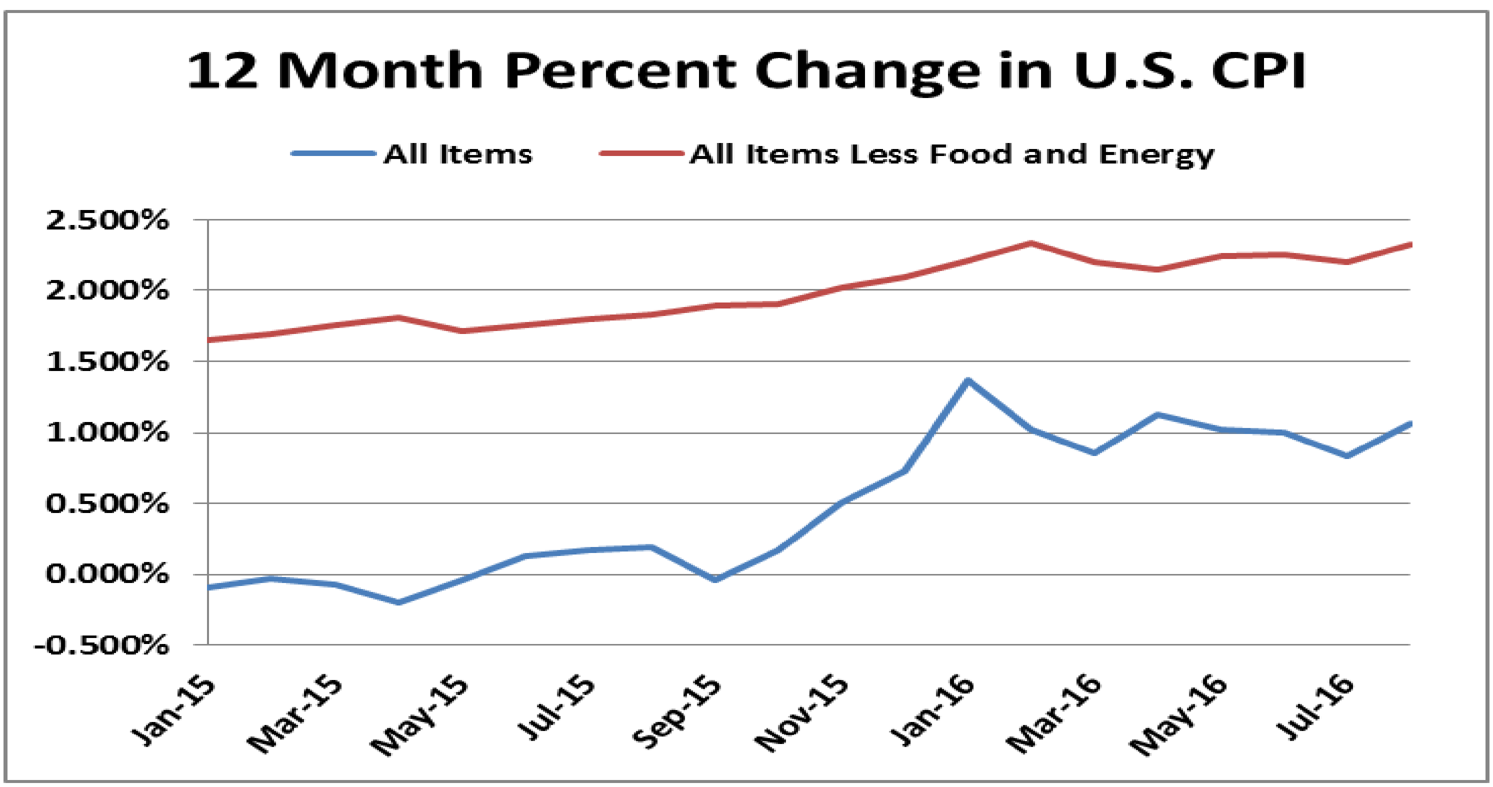
Source: Federal Reserve of Dallas – Index,1987 = 100

CONSUMER PRICE INDEX

According to the Bureau of Labor Statistics (BLS), "The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services." Basically, the CPI measures inflation as experienced by 87% of the total U.S. population in their day-to-day living expenses.

There are a variety of CPI numbers generated each month. In the graph below, two numbers are compared. The first is the ***Official CPI Number*** that is reported to the media. It is the broadest and most comprehensive CPI and is called the ***All Items CPI for All Urban Consumers***. The second one is called the ***All items less food and energy***. The BLS mentions that "Some users of CPI data use this index because food and energy prices are relatively volatile, and these users want to focus on what they perceive to be the 'core' or 'underlying' rate of inflation."

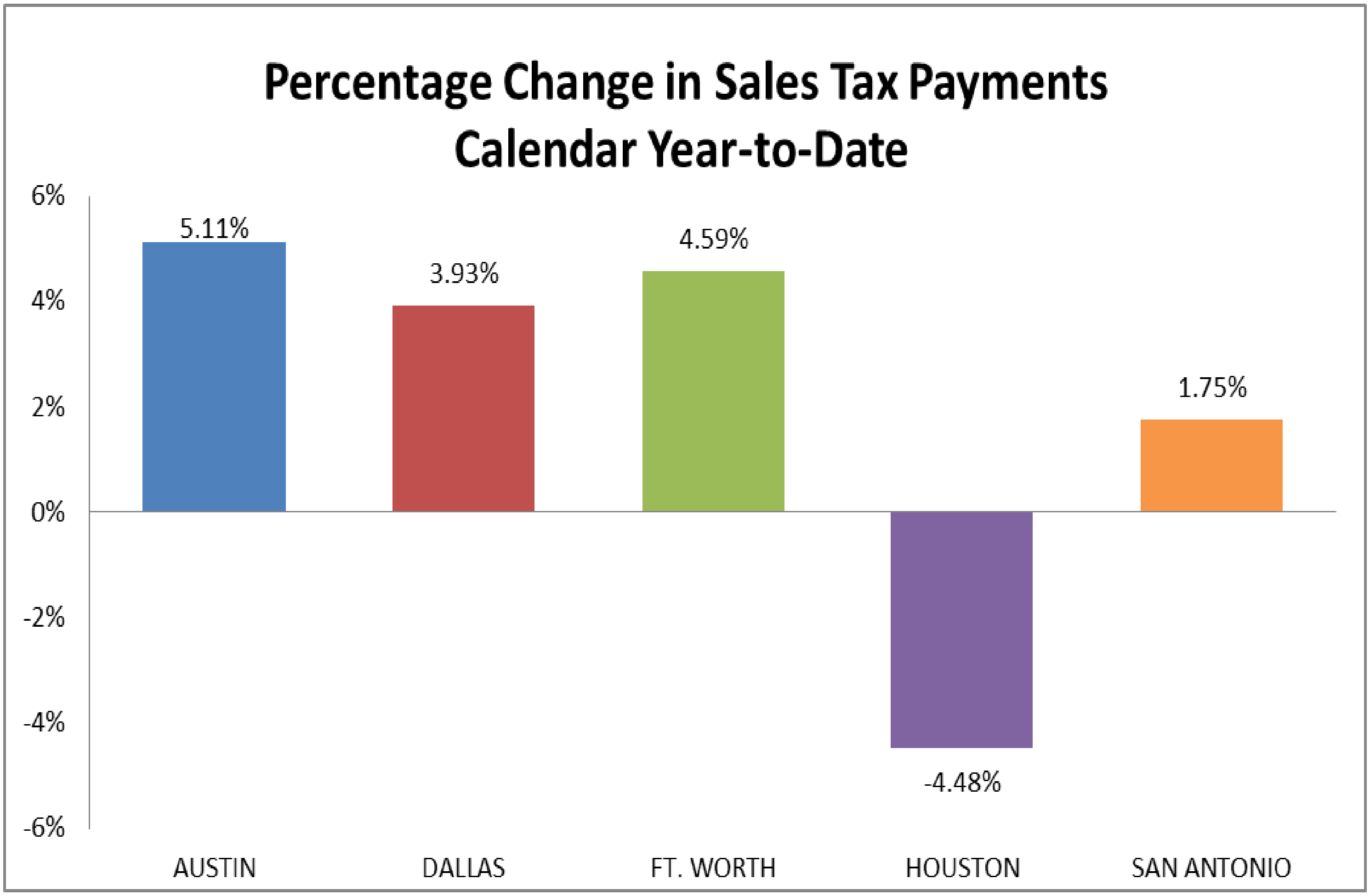
"The all items index rose 1.1 percent for the 12 months ending August, a larger increase than the 0.8 percent rise for the 12 months ending July. The index for all items less food and energy rose 2.3 percent for the 12 months ending August. The food index was unchanged over the last year, while the energy index declined 9.2 percent." – BLS – Economic News Release



Source: Bureau of Labor Statistics, not seasonally adjusted, 1982-84=100

SALES TAX - METRO

Below is a graph of the 2015 vs. 2016 year-to-date percentage change in Sales Tax Payments made by the State to the five major cities in Texas. Based on the September 2016 report, Houston is the only top five city in Texas that has experienced a decline in revenue. The increase in Austin's year-to-date revenue is $7.5M.



Source: Texas Comptroller of Public Accounts

TAXES - TEXAS

Below are the FY 2016 Total Tax Collections for the **General revenue-related funds** for the State. In FY 2015, Total Tax Collections represented close to 88% of the Total Net Revenue for the General revenue-related funds.

Texas Comptroller Glenn Hegar blamed the year over year drop in sales tax on declining purchases by oil and gas drilling companies. The falling oil and gas severance taxes are a major concern. In preparing the biennial revenue estimate, Hegar predicted that oil would average $64.52 a barrel in fiscal year 2016 and $69.27 a barrel in fiscal year 2017.

Insurance Taxes, Motor Vehicle Sales Taxes and Alcoholic Beverages Taxes are bright spots among an overall dismal picture.

Tax Collections by Major Tax (amounts in millions)	**Aug YTD FY 2016**	**Aug YTD FY 2015**	**Variance**	**Percentage Variance**
Sales Tax	$ 28,137	$ 28,787	$ (651)	-2.3%
Motor Vehicle Sales and Rental Taxes	4,577	4,475	102	2.3%
Motor Fuel Taxes	933	924	9	0.9%
Franchise Tax	2,845	2,874	(29)	-1.0%
Insurance Taxes	2,226	2,049	177	8.6%
Natural Gas Production Tax	579	1,280	(702)	-54.8%
Cigarette and Tobacco Taxes	562	573	(11)	-2.0%
Alcoholic Beverages Taxes	1,183	1,139	44	3.8%
Oil Production and Regulation Taxes	1,704	2,879	(1,175)	-40.8%
Utility Taxes1	435	481	(46)	-9.5%
Hotel Occupancy Tax	521	526	(5)	-0.9%
Other Taxes2	79	164	(85)	-51.6%
Total Tax Collections	$ 43,780	$ 46,151	$ (2,371)	-5.14%
Totals may not add due to rounding.				

Source: Texas Comptroller of Public Accounts

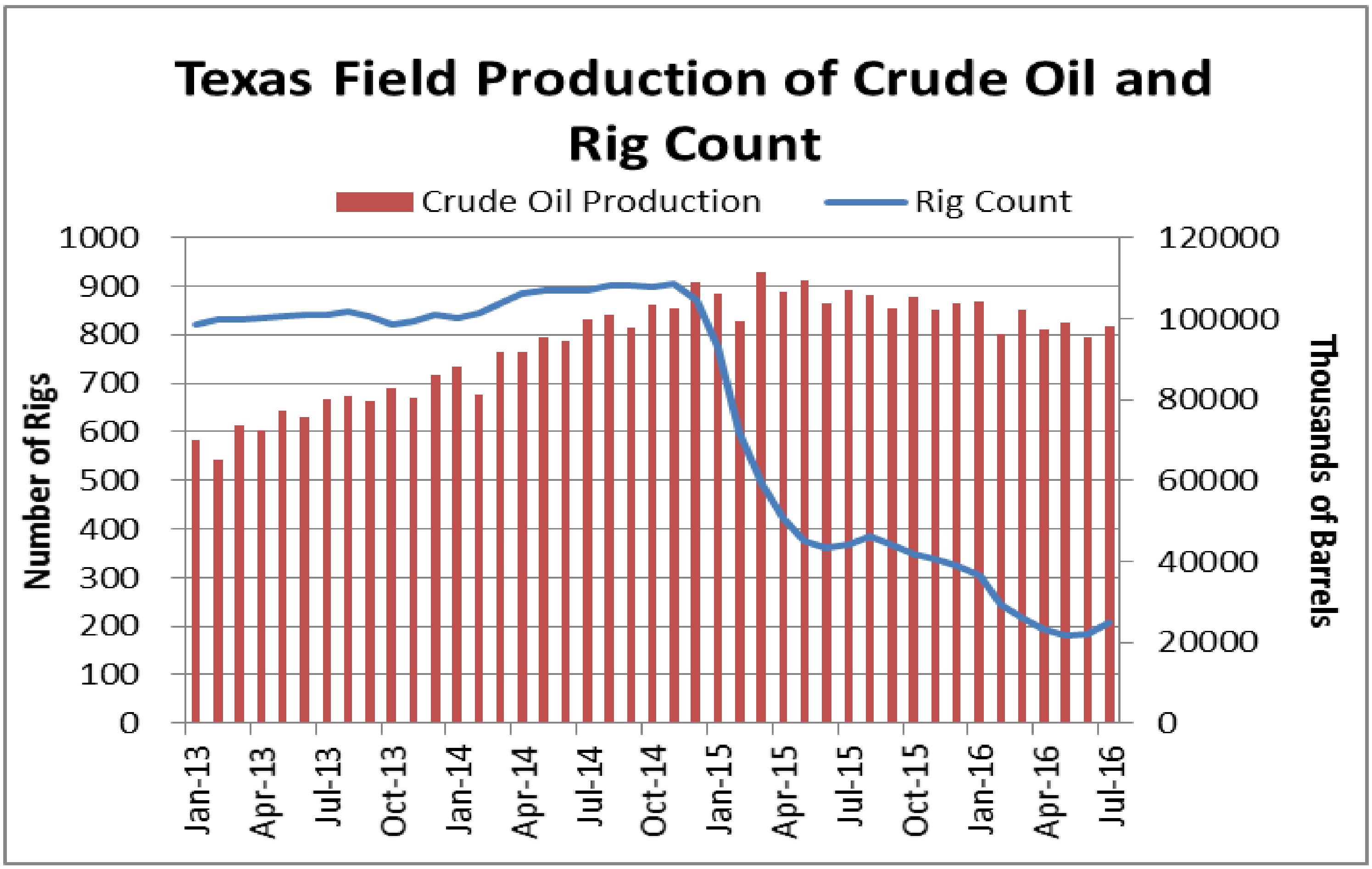
OIL AND NATURAL GAS

After reaching a low in May 2016 the Texas rig count has increased each month.

“Many publicly-traded exploration and production companies that have reported quarterly earnings thus far have signaled an intention to stand up more oil and gas rigs, following a 75-percent collapse in the rig count from the highs of 2014.

But nearly all of the additions are planned for the prolific Permian Basin of Texas, and in the natural gas-rich Marcellus Shale field of Pennsylvania, West Virginia and Ohio. Meanwhile, North Dakota's Bakken formation and the Lonestar State's Eagle Ford will see little increased activity.

‘The Permian is going to be the future of the U.S. and help in world supply ... It's got the best rock, obviously the best margins, and it will provide essentially the only growth long-term.’ - Timothy Dove, COO, Pioneer Natural Resources” - CNBC



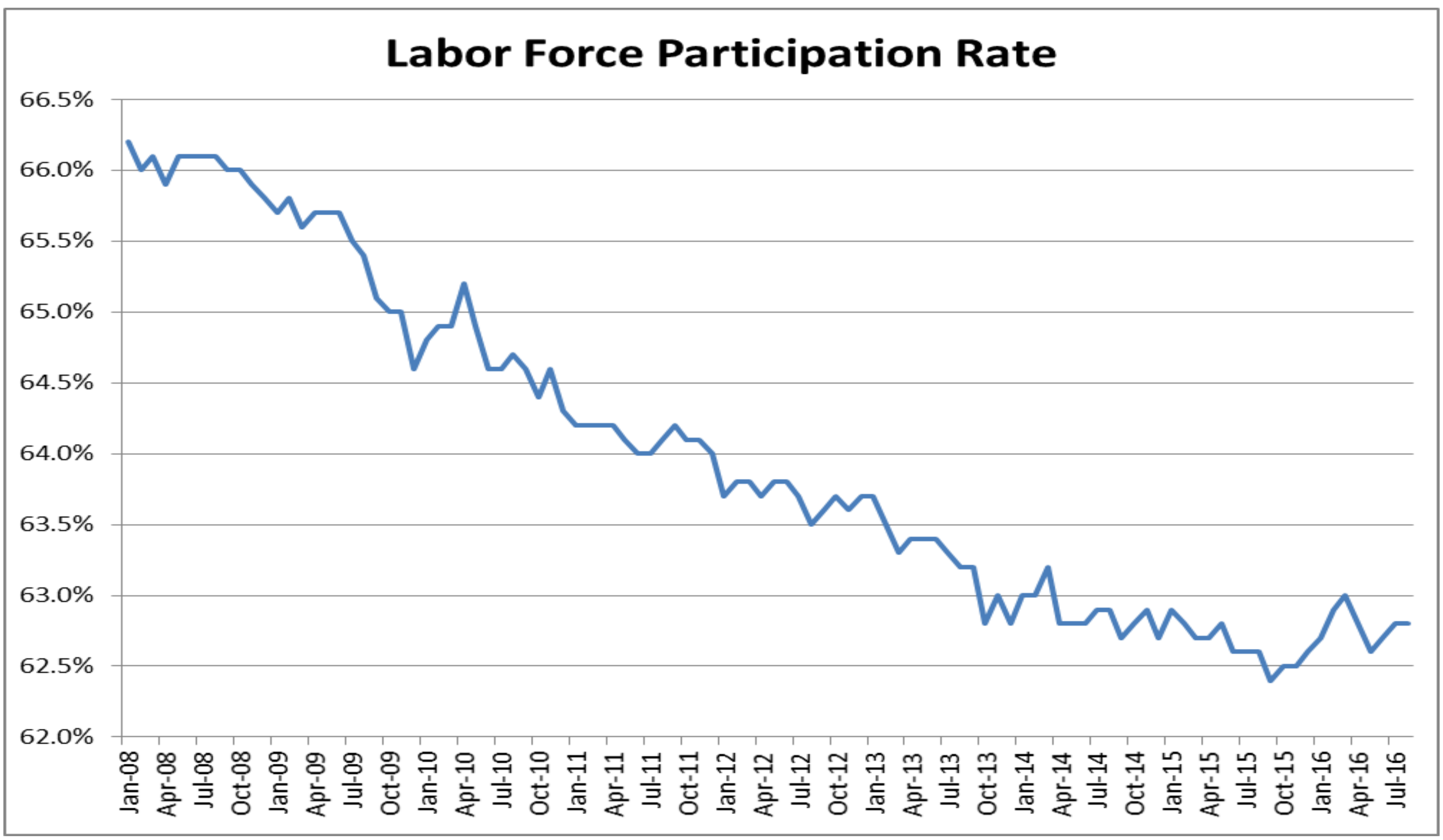
Source: of Data: Baker Hughes and U.S. Energy Information Administration.

LABOR PARTICIPATION RATE

The **labor force participation rate**, as defined by the Bureau of Labor Statistics (BLS), is "the percentage of the population [16 years and older] that is either employed or unemployed [that is, either working or actively seeking work]."

"94,391,000 Americans were not in the labor force in August…" - CNSNews

"The labor force participation rate remained unchanged at 62.8% for the month of August. It remains significantly below the peak of the previous business cycle (December 2007) of 66.0% (a difference of 3.2 percentage points). The rate for 25-54 year olds is 81.3%. It is down 1.8 percentage points compared to the peak of the last business cycle, when it was at 83.1%. When broken down into five-year age cohorts, only workers age 60 and older have seen their participation increase since the start of the recovery. By comparison, workers age 59 and younger, particularly ages 16 to 19 and men ages 20 to 24, have seen their workforce participation decline significantly over the course of the recovery." – United States Congress Joint Economic Committee.



Source of Data: Bureau of Labor Statistics

IN-DEPTH – MONEY MARKET FUND REFORM - NEW RULES OCTOBER 2016

WHAT IS THE DIFFERENCE BETWEEN A MONEY MARKET DEPOSIT ACCOUNT AND A MONEY MARKET FUND (MMF)?

"Money market deposit accounts are a cross between a checking and a savings account. They earn a bit more than interest-bearing checking accounts, but restrict the number of deposits or withdrawals that can be made each month.

These **deposit accounts are offered by banks and are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per person, per bank**. As long as the balance in the account remains below the insurance limit, every bit of principal and interest earned on the account is 100% guaranteed.

Money market mutual funds are offered by investment companies. They are investment pools that buy safe, short-term securities, such as Treasury bills, certificates of deposit, and commercial paper. (Commercial paper is an IOU issued by a company that needs money in the short term to finance accounts receivable, inventories, or other short-term needs.) Unlike money market deposit accounts, but like other investment accounts**, money market mutual funds are not federally insured**." - NOLO

IF MONEY MARKET FUNDS ARE NOT INSURED BY THE FDIC WHY HAVE THEY BEEN PERCEIVED AS A VERY SAFE INVESTMENT?

"There are **three main reasons that money market funds have a safe track record**.

- The maturity of the debt in the **portfolio is short-term (397 days or less),** with a weighted average portfolio maturity of 90 days or less. This allows portfolio managers to quickly adjust to a changing interest rate environment, thereby reducing risk.
- The **credit quality of the debt is limited to the highest credit quality, typically 'AAA' rated debt**. Money market funds can't invest more than 5% with any one issuer, except the government, so they diversify the risk that a credit downgrade will impact the overall fund.
- The **participants in the market are large professional institutions that have their reputations riding on the ability to keep NAV above $1." -** Investopedia

IN-DEPTH – MONEY MARKET FUND REFORM - NEW RULES OCTOBER 2016

WHAT IS THE SIGNIFICANCE OF MAINTAINING THE NET ASSET VALUE (NAV) AT $1?

"Money market funds seek stability and security with the goal of never losing money and keeping net asset value (NAV) at $1. This one-buck NAV baseline gives rise to the phrase **'*break the buck*,'** meaning that if the value falls below the $1 NAV level, some of the original investment is gone and investors will lose money." "Prior to the 2008 financial crisis, only one small institution fund broke the buck in the preceding 37 years." - Investopedia

WHAT HAPPENED DURING THE 2008 FINANCIAL CRISIS?

In September 2008, Lehman Brothers filed for bankruptcy. The Reserve Primary Fund held 1.2 percent of its $62 billion assets in Lehman commercial paper. As a result, the Reserve could not maintain a $1.00 Net Asset Value (NAV) becoming only the second money market fund ever to "break the dollar." The value of its shares had dropped to $0.97. This announcement led to a wave of money market funds redemptions by institutional investors forcing the U.S. government to provide deposit insurance to investments in money market funds.

It should be noted that the Reserve Primary Fund was not the only fund in trouble at the time. As reported by Liberty Street Economics "at least twenty-nine MMFs had losses large enough to cause them to break the buck in September and October 2008 despite significant government intervention and support of the sector. Five funds or more experienced losses exceeding the 3 percent reported by Reserve, and one fund reported a loss of nearly 10 percent. Among the twenty-nine funds that would have broken the buck without sponsor support, the average loss was 2.2 percent.

Yet, the losses for twenty-eight of these MMFs may have gone unnoticed during the crisis, as neither their shareholders nor almost anyone else could have observed their magnitudes at the time. As in other episodes in which MMFs suffered significant losses, the losses were absorbed—and hence obscured—by voluntary financial support from MMF sponsors (the MMFs' asset management firms or their parent companies)."

IN-DEPTH – MONEY MARKET FUND REFORM - NEW RULES OCTOBER 2016

HOW DID THE SECURITES AND EXCHANGE COMMISSION (SEC) RESPOND?

To address risks of investor runs in money market funds the SEC made some rule changes. On July 23, 2014, in a narrow 3-2 vote, the SEC adopted amendments to Rule 2a-7 under the Investment Company Act of 1940, the rule that governs money market funds. The amendments became effective October 13, 2014 with a final implementation date of October 14, 2016.

WHAT MAJOR CHANGES WERE IMPLEMENTED ON OCTOBER 14, 2016?

1) **Distinct categories of money market funds were created**. The SEC amendments "require all money market funds to be designated as 'retail,' 'institutional,' or 'government' type funds, each of which have different restrictions in terms of liquidity, fees and/or investor profiles." - TIAA

- "A **retail money market fund** would be defined as a money market fund that has policies and procedures reasonably designed to limit all beneficial owners of the money market fund to natural persons." – SEC Generally, a natural person is an individual with a Social Security number.
- An **institutional fund** is a fund that is neither a government fund nor a retail fund. This type of fund is set up for owners who are not natural persons like corporations and partnerships.
- "A **government money market fund** would be defined as any money market fund that invests 99.5 percent (formerly 80 percent) or more of its total assets in cash, government securities and/or repurchase agreements that are collateralized solely by government securities or cash." – SEC Government money market funds are available to both retail and institutional investors.

CONT'D

IN-DEPTH – MONEY MARKET FUND REFORM - NEW RULES OCTOBER 2016

WHAT MAJOR CHANGES WERE IMPLEMENTED ON OCTOBER 14, 2016? CONT'D

2) Under the new rules, **liquidity fees** may apply to give fund boards a new tool to directly address runs. Depending on the money market funds category, it is possible that if the fund's liquid asset level falls below a certain amount the fund will charge a liquidity fee to investors seeking to take their money out of the fund.

3) The new rules allow the money market's fund board to impose a **redemption gate**. Basically, a redemption gate temporarily suspends the right of the investor to take any money out of the fund.

4) "Under the floating NAV amendments, **institutional prime money market funds would be required to transact at a floating NAV, instead of at a $1.00 stable share price.** The floating NAV amendments are designed to reduce the first mover advantage inherent in a stable NAV fund, by dis-incentivizing redemption activity that can result from investors attempting to exploit the possibility of redeeming shares at the stable share price even if the portfolio has suffered a loss. They are also intended to reduce the chance of unfair investor dilution and make it more transparent to certain of the impacted investors that they, and not the fund sponsors or the Federal government, bear the risk of loss." – SEC

WHY DID THE SEC DIFFERIATE BETWEEN RETAIL INVESTORS AND INSTITUTIONAL?

"Interestingly, retail funds saw net inflows during this time as retail investors sought safety, while it was the prime institutional money market funds that experienced over $170 billion in net outflows from September 15 to 17, 2008. The majority of that outflow moved into government institutional money market funds. This is the key reason why the new Rule 2a-7 differentiates between the retail and the institutional investor, and imposes the floating NAV on institutional money market funds rather than retail funds." – Putnam Investments

IN-DEPTH – MONEY MARKET FUND REFORM - NEW RULES OCTOBER 2016

SUMMARY OF NEW RULES BASED ON CLASSIFICATION

Rule Change	Retail	Institutional	Governmental
Fund Definition	Limit all beneficial owners to natural persons	Funds that do not qualify as retail or governmental funds.	Invests 99.5 percent or more of its total assets in cash, government securities, and/or repurchase agreements collateralize by government securities or cash
NAV	$1.00	Floating	$1.00
Liquidity Fee	Based on weekly liquid assets: If <30%, max 2% fee at board discretion; If <10%, 1% fee required, unless board increases, decreases or removes; up to 2%	Based on weekly liquid assets: If <30%, max 2% fee at board discretion; If <10%, 1% fee required, unless board increases, decreases or removes; up to 2%	May opt in with prior prospectus disclosure
Redemption Gate	Based on weekly liquidity: If <30%, board may suspend up to 10 days in a rolling 90-day period	Based on weekly liquidity: If <30%, board may suspend up to 10 days in a rolling 90-day period	May opt in with prior prospectus disclosure

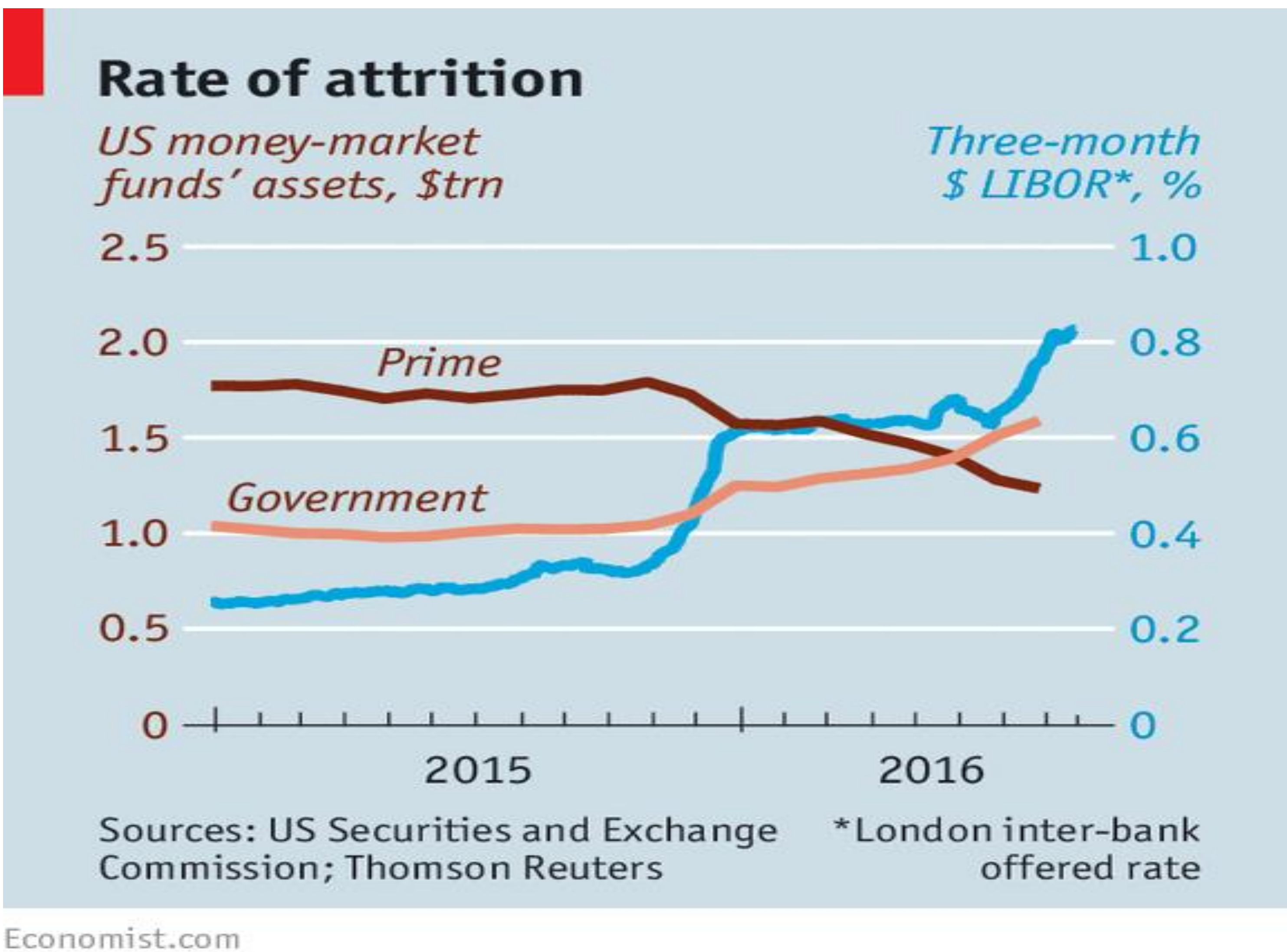
Source: of Data: SEC and Putnam Investments

IN-DEPTH – MONEY MARKET FUND REFORM - NEW RULES OCTOBER 2016

HAVE THE NEW RULES CAUSED A SHIFT IN FUND ALLOCATION?

“Impending rules have prompted a switch into money market funds that invest in government debt and out of prime funds, which lend to companies and banks.” – The Wall Street Journal – August 2016

“Between October 2015 and July 2016 all prime funds’ assets declined by more than $550 billion, to $1.2 trillion, according to the SEC; ‘government’ funds that invest in Treasuries and the like have swollen by a similar amount, to $1.6 trillion (see chart). Prime funds have also pushed their liquidity ratios well above the 30% threshold as the October deadline approaches; they are loth to lend for as long as three months.” – The Economist – Sept 2016



IN-DEPTH – MONEY MARKET FUND REFORM - NEW RULES OCTOBER 2016

WHAT IMPACT HAS THE SHIFT TO GOVERNMENTAL FUNDS HAD ON RATES?

As seen from the chart on the previous page, Libor has increased. Libor is a benchmark rate that some of the world's leading banks charge each other for short-term loans. Its "primary function is to serve as the benchmark reference rate for debt instruments, including government and corporate bonds, mortgages, student loans, credit cards; as well as derivatives such as currency and interest swaps, among many other financial products." - Investopedia

Bloomberg reported on October 11, 2016 that "Not since the financial crisis of 2008 has Libor, to which almost $7 trillion of debt including mortgages, student loans and corporate borrowings, is pegged — experienced such a surge. The three-month U.S. dollar Libor rate has jumped from 0.61 percent at the start of the year to 0.87 percent currently — a 42 percent rise — ahead of money market reform that's due to come into effect on Oct. 14.

The new rules require prime money market funds — an important source of short-term funding for banks and companies — to build up liquidity buffers, install redemption gates, and use 'floating' net asset values instead of a fixed $1-per-share price. While the changes are aimed at reinforcing a $2.7 trillion industry that exacerbated the financial crisis, they are also causing turmoil in money markets as big banks adjust to the new reality of a shrinking pool of available funding.

Some $1 trillion worth of assets have shifted from prime money market funds into government money market funds that invest in safer assets such as short-term U.S. debt, according to Bloomberg estimates. The exodus has driven up Libor rates as banks and other corporate entities compete to replace the lost funding."