

ECONOMIC OUTLOOK

As the U.S. economy continues to recover from the Great Recession of 2009, various economic indicators continue to improve, albeit at a fairly mild rate. Overall unemployment is lower than it was at this point last year, although its decline has taken a somewhat slow and sometimes stagnant path. Consumer spending has continued to increase and U.S. Gross Domestic Product (GDP) has remained positive. Since the beginning of 2011, quarterly GDP growth has averaged 2 percent. However, GDP growth through the first 3 quarters of this year has averaged 2.1 percent, which is lower than the average growth of 2.6 percent for the first 3 quarters of last year.¹ Other economic indicators, such as property values, housing starts, jobless claims, and consumer confidence have all continued to show improvement. This being said, the scars from the 2009 recession are still visible and confidence in future growth is still very vulnerable due to the slow nature of the recovery.

As the economy modestly improves, states and local governments continue to be under pressure to spend more as the effects of federal government stimulus programs continue to fade and further contraction of the federal government is expected. As the U.S. moves further away from the risk of another recession, local governments must continue to adapt to the “new normal” of slower revenue growth while simultaneously attempting to meet growing service demands. Bexar County has continued to adjust to the economic changes by exploring efficient and cost effective ways to deliver services to a growing population.

NATIONAL ECONOMY

Since the 2010 announcement that the Great Recession had officially ended in June 2009, the U.S. economy has seen tepid growth in the range of 2 percent.² Part of the reason for this slow growth is the completion of the federal stimulus programs enacted by the American Recovery and Reinvestment Act (ARRA). The ARRA, which was passed to spur economic growth and save or create jobs, allocated \$840 billion for stimulus programs, of which \$803.1 billion has been spent as of September 30th, 2013.³ To date, Bexar County has received \$1,041,901,166 in ARRA funding.⁴ The sectors that have received the largest portions of this funding are education (42.1 percent), contracts (16.1 percent), and transportation (9.0 percent).

As has been the case since 2011, the debate in the U.S. Congress about increasing the maximum amount the U.S. would carry on its balance sheet also had a major political impact as public support for Congress continued to drop. The Federal Government shutdown for 16 days in October 2013 over the debt ceiling debate before an agreement was eventually reached to fund the government through January 15, 2014 at sequestration levels and suspend the debt limit until February 15, 2014. Unfortunately, the agreement did not address future budgets, which left intact the lingering uncertainty about future financing of the U.S. government. As the recovery nears its final stages, Congress will have to find ways to reduce its medium to long term spending, while minimizing negative effects on overall confidence in the economy.

In addition to continued debate over the debt ceiling, the first round of the federal government sequestration went into effect on March 1, 2013. The sequester cuts came into effect because of a provision in the Budget Control Act of 2011 stating that if Congress was unable to produce legislation by November 2013 that would reduce the deficit by \$1.2 trillion over ten years, then a series of automatic, across the board cuts would take place. The cuts reduced spending by approximately \$85.4 billion for fiscal year 2013, with similar cuts scheduled for years 2014 through 2021.⁵ The cuts are split evenly

¹ U.S. Bureau of Economic Analysis – Interactive Data

² “End of Recession.” National Bureau of Economic Research, Business Cycle Dating Committee. <http://www.nber.org/cycles/sept2010.html>.

³ “Tracking the Money.” <http://www.recovery.gov/pages/default.aspx>.

⁴ “American Recovery and Reinvestment Act: A Texas Eye on the Dollars.” <http://window.state.tx.us/recovery/transparency/map/index.php>.

⁵ “The Budget and Economic Outlook: Fiscal Years 2013 to 2023”. CBO. Retrieved February 2013.

between defense and non-defense categories, although some major programs like Social Security, Medicaid, federal pensions, and veteran's benefits are exempt. The sequester lowers spending by approximately \$1.1 trillion versus pre-sequester levels over the 8 year period from 2013 to 2021.⁶ The Congressional Budget Office predicted that the sequester would reduce overall economic growth in 2013 by 0.6 percentage points, from 2.0 percent to 1.4 percent and prevent the creation or retention of about 750,000 jobs by year end.⁷ Although many economists predicted that markets would react violently to the sequester cuts, they remained relatively unaffected by the news.

Another way the U.S. Federal Reserve has tried to spur the economy is through the initiation of a program known as quantitative easing, in which the Fed would buy approximately \$1.75 trillion in Treasury bonds. During November 2010, the Federal Reserve announced a second round of monetary easing as the economy was still showing signs of weakness. The Fed purchased an additional \$600 billion in Treasuries, while reinvesting \$300 billion. The Federal Reserve's second round of quantitative easing was completed by July 2011, with rumors of a possible third round dubbed "QE3".⁸ In September 2012, a third round of quantitative easing was approved in which the Federal Reserve decided to launch a new \$40 billion per month, open-ended bond purchasing program of agency mortgage-backed securities.⁹

In June of 2013, Ben Bernanke announced that the Fed planned to scale back its bond purchases from \$85 billion to \$65 billion per month during the upcoming September 2013 policy meeting, contingent upon positive economic data.¹⁰ However, on September 18, 2013 the Fed decided to hold its bond-buying program steady at \$85 billion per month based on the latest economic data, putting off any decision for tapering until later in the year.¹¹ Economic indicators had not improved as much as anticipated, and the Fed did not feel that the overall economy was healthy enough to justify easing back on its stimulus efforts.

Although markets responded positively to QE3, with the S&P 500 and the Dow Jones Industrial Average both closing at record highs on the day of the announcement, the third round of quantitative easing furthered concerns about the health of the U.S. economy more than four years after the official end of the Great Recession. The *Global Competitive Report 2013-14* ranks nations based on their economic competitiveness. After having declined for four consecutive years in the ranking, the United States reversed its downward trend, moving up two spots to 5th.¹² The Fed has forecasted that the pace of economic expansion will likely remain moderate through 2014. Additionally, a tool that the Fed has continued to use to help aid in the recovery is keeping interest rates at historic lows near 0 to 0.25 percent. The Fed has said it will keep the target rate near zero until the unemployment rate is below 6.5 percent and inflation is under control.¹³ Most Fed policymakers expect to see the first interest rate hike occur in 2015 and the federal funds target rate will be 2 percent by the end of 2016.

The U.S. public debt is still a serious area of concern. Currently, the federal government has accumulated over \$17.1 trillion in debt.¹⁴ The interest owed on the public debt has now grown to over \$256.3 billion. The largest budget items are Social Security (\$808 billion), Medicare (\$776 billion), Defense (\$604 billion), Income Security (\$348 billion), and Federal Pensions (\$229 billion). The total U.S. debt—which combines households, businesses, state and local governments, financial institutions, and the federal government—has grown to over \$60.1 trillion and the total interest owed is over \$2.7 trillion.

⁶ "CBO Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act". CBO. Retrieved February 2013.

⁷ "Automatic Reductions in Government Spending -- aka Sequestration". CBO. February 28, 2013. Retrieved March 1, 2013.

⁸ Fed to Buy \$600 Billion of Treasuries.

⁹ Jensen, Greg (19 September 2012). "QE3 Launched: The Ever Decreasing Effects of Monetary Stimulus".

¹⁰ <http://www.foxbusiness.com/economy/2013/06/19/fed-decision-on-tap/>

¹¹ Fed decides not to taper" <http://projects.marketwatch.com/short-history-of-qe-and-the-market-timeline/#9>

¹² The Global Competitiveness Index 2013–2014: CountryProfile Highlights

¹³ "New Fed Chair Could Mean Interest Rates Near Zero Until 2017" – Yahoo Finance

¹⁴ U.S. National Debt Clock: Real Time. <http://www.usdebtclock.org/>

Additionally, total unfunded liabilities have grown to \$126.5 trillion: \$16.7 trillion for Social Security, \$22 trillion for prescription drugs, and \$87.8 trillion for Medicare. It is unclear how the federal government plans to balance the needs of keeping this historically weak recovery on track and bringing medium and long-term federal spending to sustainable levels. Additionally, the decision on when and how much the Fed will eventually let interest rates rise will play a very key role in future debt negotiations.

U.S. Labor Market

The U.S. unemployment rate and the overall job market continue to be major concerns of economists. Many have dubbed this recovery as the “jobless recovery”. During the recession, the unemployment rate rose to 10.1 percent and shed more than 5 percent of its non-farm payroll jobs.¹⁵ The unemployment rate declined from the high of 10.1 percent to around 9.0 percent throughout most of 2011. Many economists did not expect this rate to change anytime soon and believed that the unemployment rate would remain around 9.0 percent through 2012 and drop to 8.5 percent by 2013.¹⁶ During October 2011, the unemployment rate was 9.0 percent, a change of 0.5 percent since August 2010.¹⁷ By the end of 2011, the unemployment rate had dropped 0.1 percent to 8.9 percent.¹⁸

In June 2012, the unemployment rate dropped to 8.2 percent. This drop to below 8.5 was somewhat encouraging considering that economists predicted that it would remain at 8.5 in 2013. In September 2012, the unemployment rate had dropped to 7.9 percent, marking the first time it has been under 8 percent since January 2009. By August 2013, the unemployment rate was 7.3 percent, where it hovered for the next 3 months.¹⁹ It should be noted that the unemployment rate is based on those still seeking employment and doesn't take into account those who have given up on finding employment. Currently, only 62.8 percent of potential civilian workers are employed or seeking employment, which represents a .4 percentage point drop (or 720,000 people) from September 2013 and the lowest participation rate in 35 years.²⁰ Additionally, over 8 million people are currently employed part-time for economic reasons, which is up from 7.8 million in October 2012. Total non-farm payroll employment increased by 204,000 in October and job growth averaged 190,000 per month over the prior 12 months.

There is still some reluctance by businesses to hire new employees due to the slow recovery and uncertainty about capital markets in the near future. More than 8.5 million people lost their jobs between the beginning of 2008 and early 2010, and there are currently 11.3 million people out of work. Of 11.3 million, 4.1 million have been unemployed longer than 27 weeks. Of the 8.7 million jobs lost during the Great Recession, 6.7 million have been regained in the first 40 months since employment growth resumed.²¹ In addition, the number of part-time workers relative to full-time workers is at a record high. This is partly due to the sluggish recovery and partly due to employers anticipating the increased costs of labor as a result of the Affordable Care Act. As of August 2013, 75 percent of all jobs added during the year were classified as part-time.²² These part-time workers do not show up in unemployment numbers, but their decreased productivity and disposable income have the same effect on the economy.

¹⁵ Estimates of Job Creation from the American Recovery and Reinvestment Act of 2009. Council of Economic Advisors. The White House.

¹⁶ Congressional Budget Office Report, (2011, August), “The Budget and Economic Outlook: An Update.”

¹⁷ Bureau of Labor Statistics

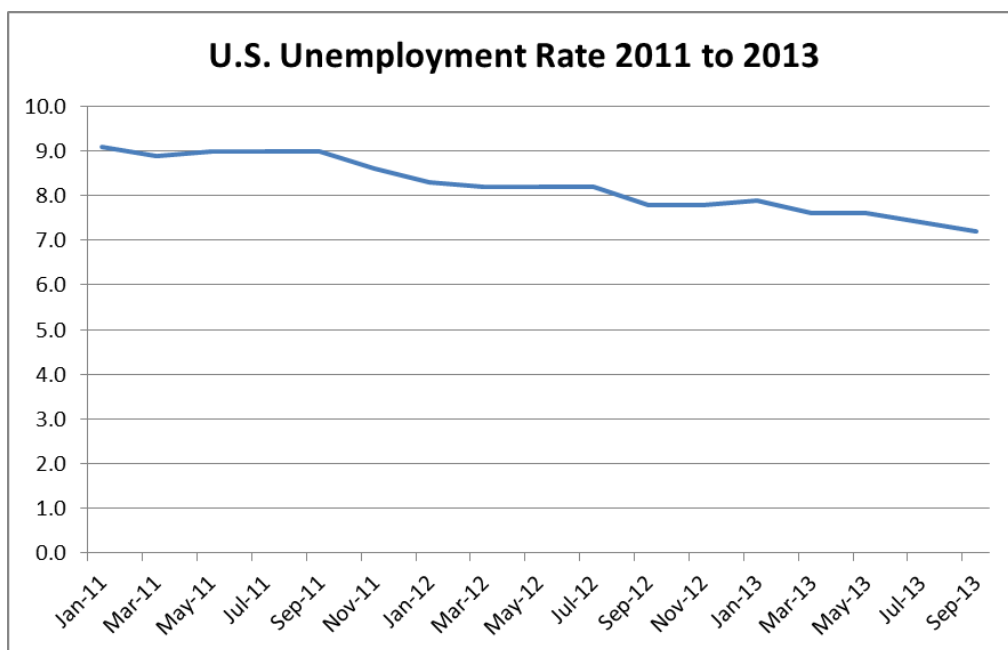
¹⁸ “Labor Force Statistics from the Current Population.” Bureau of Labor Statistics. <http://www.bls.gov/cps/>. 2012.

¹⁹ “Labor Force Statistics from the Current Population Survey” – Bureau of Labor Statistics

²⁰ “How the October Jobs Report Affects the Average American” – Fox Business, November 2013

²¹ American Staffing Association

²² “75 Percent Of Jobs Created This Year Were Part-Time Due To Weak Economy, Obamacare Concerns” The Huffington Post August 2013



Source: Bureau of Labor Statistics

Consumer Confidence

Just as with the unemployment situation, Consumer Confidence and Consumer Spending have also indicated a sluggish recovery. In October 2013, the Consumer Confidence Index dropped from 80.20 in the previous month to 71.20.²³ The 16-day government shutdown yet another battle over the debt limit dampened consumers' expectations. Similar declines in the index were seen after the payroll tax hike earlier this year and the fiscal cliff discussions in late 2012. The index has been relatively volatile in 2013 as the result of an economy that has been somewhat tumultuous. However, there has been slight improvement, as the index averaged 72.8 through the first 10 months of 2013 compared to 66.9 for the same time period in 2012.

Somewhat encouraging is the continued rise in demand for durable goods, manufacturer's shipments, inventories, and orders.²⁴ New orders for manufactured durable goods in September 2013 increased \$8.2 billion or 3.7 percent to \$233.4 billion. This was the 5th month out of the last 6th that an increase was seen. Inventories of manufactured durable goods, also up 5 of the last 6 months increased 0.9 percent or \$3.3 billion. Total shipments of manufactured goods, up for two consecutive months, increased 0.2 percent or \$0.5 billion. Nondefense new order for capital goods also increased in September, up a robust 6.9 percent or \$80.7 billion from August. In July of 2013, overall manufacturing expanded at the fastest pace in more than two years.²⁵

Conversely, food and gasoline prices are rising. Food price indices have risen consistently for eight years. Food prices rose by 5.5 percent in 2008, 1.8 in 2009, 0.8 in 2010, 3.7 in 2011, 2.6 in 2012, and likely between 1.5 and 2.5 in 2013.²⁶ Average gasoline prices per gallon have also remained consistently above \$3.00: \$3.53 per gallon in 2011 and \$3.39 in 2012. However, the average price per gallon so far in 2013 is 5 cents per gallon, or 5 percent lower than it was over the same period last year.²⁷ Rising food and gasoline prices have been cutting into U.S. households' discretionary income at a time when families

²³ The Conference Board, Consumer Confidence Survey, October 2013

²⁴ "Advance Report on Durable Goods Manufacturers' Shipments, Inventories and Orders September 2013", U.S. Census Bureau News

²⁵ "Manufacturing in U.S. Accelerates More Than Forecast" Bloomberg August 2013

²⁶ "Changes in Food Price Indexes, 2011 through 2014" <http://www.ers.usda.gov/data-products/food-price-outlook.aspx>

²⁷ "Recent gasoline prices above last year, but 2013 year-to-date average lower than 2012" U.S. Energy Information Administration August 2013

have already been made vulnerable by a sub-par economy. If the rate of increase in food prices continues to decline as it did in 2012 and the price of gasoline continues to slowly drop, it could go a long way in putting more disposable income in the pockets of middle-class families and in turn, boost consumer confidence.

Consumer Expenditures also saw a healthy increase from 2011 to 2012. Average expenditures per household in 2012 were \$51,442, an increase of 3.5 percent from 2011 levels.²⁸ This surpassed a consumer spending peak reached in 2008, and was an almost 7 percent increase over the 2010 low of \$48,109. The 3.5 increase in spending also outpaced the 2.1 percent increase in prices for goods and services over the same period, as measured by the Consumer Price Index. This is an improvement from 2011, when the increase consumer expenditures mirrored the increase in prices. The biggest increases in spending were seen in cash contributions (11.2 percent), transportation (8.5 percent), and health care (7.3 percent). On the flip side, increases in spending on housing and entertainment (.5 percent and 1.3 percent, respectively) were less than the increase seen in 2011 (1.5 percent and 2.7 percent, respectively). Consumer spending has been volatile so far in 2013, with a stronger summer making up for a very weak start to 2013.²⁹ However, consumers still aren't spending like they were before the Great Recession. Spending is up by approximately 3.7 percent over the last year, which is about half the rate we see in periods of stronger economic growth.

U.S. Real Estate Market

Five years after the collapse of the housing bubble sent shockwaves through the economy and helped cause the financial meltdown, the U.S. housing market seems to have recovered quite well. Bank lending is at an all-time high, which acts as a domino effect for other industries, sparking demand for raw materials and housing-related services.³⁰ Sales of single family houses were 276,000 in July 2010, according to the U.S. Department of Housing and Urban Development. As of May 2013, the number was 454,000. Also, in July 2010, the median sales price of a home was \$204,000. As of May 2013, it was \$271,600. People are buying homes again at or near pre-recession levels and although home prices are not nearly at the level they were in 2007, they made steady gains from 2012 to 2013.

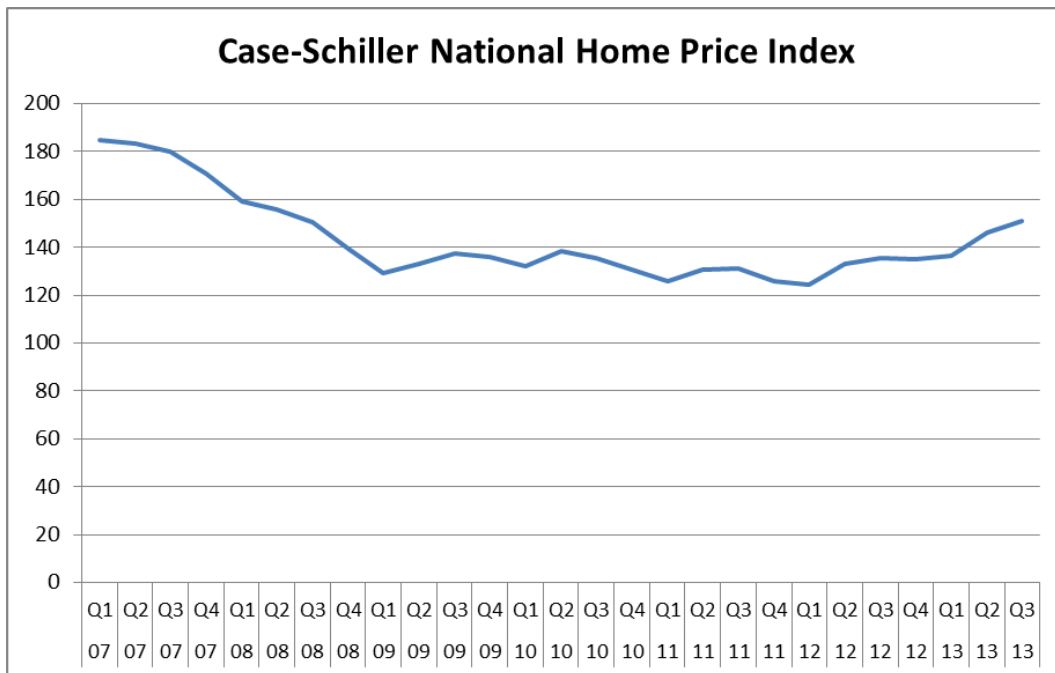
In 2014, forecasters expect home prices to rise at 6 percent due mostly to a low supply of homes on the market.³¹ This would represent a step back from 2013, when prices gained 11 percent. Forecasters also expect homes sales to remain flat in 2014, which would buck the trend of rising home sales the last two years. The lack of income growth, higher home prices, and slowly rising interest rates are all expected to make a dent in home sales. Existing home inventory is also at a 13-year low and new home construction is far from pre-recession levels. Forecasters say increases new home construction is what is really needed to expand existing inventories. Home sales could also see an unexpected boost next year if lenders loosen home loan-lending standards, expanding the pool of potential home buyers. Because of a recent drop off in refinance demand, lenders may choose to do this. Refinance volume is expected to hit a 15-year low next year, according to the chief economist at the National Association of Realtors (NAR). This is because interest rates have been at record lows for the last 5 years and there are simply not many people left with mortgages to refinance. However, any potential boost in sales from reduced lending standards will have to overcome rising mortgage rates. The NAR expects the average 30-year fixed mortgage rate to hit 5.4 percent by the end of 2014 as the Federal Reserve pulls back on its stimulus measures.

²⁸ "Consumer Expenditures– 2012" Bureau of Labor Statistics September 2013

²⁹ "Consumer spending bounces back in August" Market Watch September 2013

³⁰ "The U.S. Housing Market: Home Improvement is Real" Forbes May 2013

³¹ "Realtors forecast flat sales, rising prices" USA Today November 2013



Source: S&P Dow Indices

The U.S. foreclosure situation also continues to edge closer to a pre-recession state. Since the financial crisis began, approximately 4.6 million were completed as of September 2013.³² There were 51,000 completed foreclosures in September, which was down 39 percent compared to September 2012. Currently, fewer than 2.1 million residential mortgages, or 5.2 percent, are seriously delinquent. The seriously delinquent rate is at its lowest level since December 2008. National foreclosure inventory is also down 24 percent year to date in 2013. In addition, approximately 902,000 homes were in some stage of foreclosure as of September 2013 compared to 1.4 million in September 2012. This makes the 23rd consecutive month with a year-over-year decline in this regard. When foreclosure inventory is down, overall home prices benefit because there are fewer homes selling at foreclosure prices in the comparable markets.

U.S. Stock Market

In 2012, the U.S. stock market hit double digit gains despite continuing concerns about the global economy, a near fiscal crisis, and a bitter Presidential election race.³³ By year's end, the Nasdaq Composite was up 15.9 percent, the Dow Jones was up 7.3 percent, and the S&P was up 13 percent for 2012. These gains were realized despite a late year scare which was caused by fears that Congress would not be able to strike a budget deal that would avoid growth-suppressing tax hikes and spending cuts, otherwise known as the "fiscal cliff". Fortunately, a deal was reached in the 11th hour to avoid the cliff, providing a sigh of relief for investors. Also helping markets was the third round of quantitative easing (QE 3) by the Fed, which was announced in September 2012. QE 3 involved buying an additional \$40 billion in the mortgage-backed securities each month indefinitely.³⁴ As Stephen Stanley, chief economist at Pierpont Securities put it, "The FOMC took as aggressive a set of measures as one could imagine, hitting hard on both the communications and QE fronts."³⁵ Although the markets recorded healthy gains in 2012, they were also marked by high levels of volatility. With the U.S. and Europe still working

³² "National Foreclosure Report September 2013" CareLogic

³³ "In uncertain 2012, stocks saw double-digit gain" USA Today December 2012

³⁴ "What is QE3?" Investopedia October 2012

³⁵ "Stocks Go Bonkers As Bernanke Unleashes QE3: Analysts React" Wall Street Journal September 2012

through the fiscal damage created in 2008 and the increased reliance on the Federal Reserve for economic stimulation, investors reacted en masse with each new headline.

In 2013, the markets continued to perform well, with the Dow Jones and S&P 500 both hitting record highs. The Federal Reserve made it clear that it was not willing to pull back on its stimulus efforts until certain economic indicators hit a desired threshold. The recovery has not progressed nearly as quickly as hoped and the prevailing logic seems to be that the risks of falling back into recession outweigh any desire the Fed might have to ease off its bond-buying program, an idea that they have publicly contemplated. The first quarter in 2013 was terrific for the markets.³⁶ The Dow Jones not only hit a 52-week high, but also hit a new record high of 14,585, closing out the first quarter with an 11.25 percent gain.³⁷ The S&P 500 and Nasdaq also logged gains in the first quarter, with increases of 10.03 percent and 8.21 percent respectively. The aversion of the fiscal cliff, coupled with improved risk appetite, caused investors to reallocate from bonds to stocks.³⁸ However, the slow recovery in Europe simultaneously hit a speed bump. Disappointing economic data from Spain, political gridlock in Italy, and an unexpected rise in German unemployment caused the euro to hit a four-month low against the dollar.

The second quarter of 2013 represented the first time that Fed Chairman Ben Bernanke indicated that the Fed may taper the size of its monthly bond-buying program. On May 22nd, Bernanke told Congress that the Fed may cut the pace of bond purchases at some point during the next few meetings if policy makers saw indications of sustained economic growth.³⁹ This caused markets to drop and interest rates to rise. This development from the Fed erased much of the gains made up until that point, with the Dow Jones finishing the quarter 2.9 percent higher. The third quarter saw solid gains in the stock market as the Fed did not follow through on tapering its bond-buying efforts. However, disappointing quarterly news from Wal-Mart Stores and Cisco Systems, companies regarded as bellwethers for the broader economy, weighed on the market in August.⁴⁰

In addition, the growing likelihood of U.S. military strikes in Syria also added a feeling of bearishness for investors. In September, talks of a possible diplomatic solution for the crisis in Syria caused markets to rebound. Stocks received a bigger boost on September 18th when the Fed decided to further delay any tapering moves, causing the Dow Jones to hit a then all-time high of 15,676. However in the last week of the quarter, stock prices backtracked over concerns about a possible government shutdown over the debt ceiling debate. In a quarter that was filled with mixed news, the Dow Jones gained 2.12 percent, the S&P 500 gained 5.24 percent, and the Nasdaq closed out very strong with a gain of 10.21 percent. In November, the Dow Jones actually hit the 16,000 mark for the first time and the current all-time high sits at 16,072, which was hit on November 25.

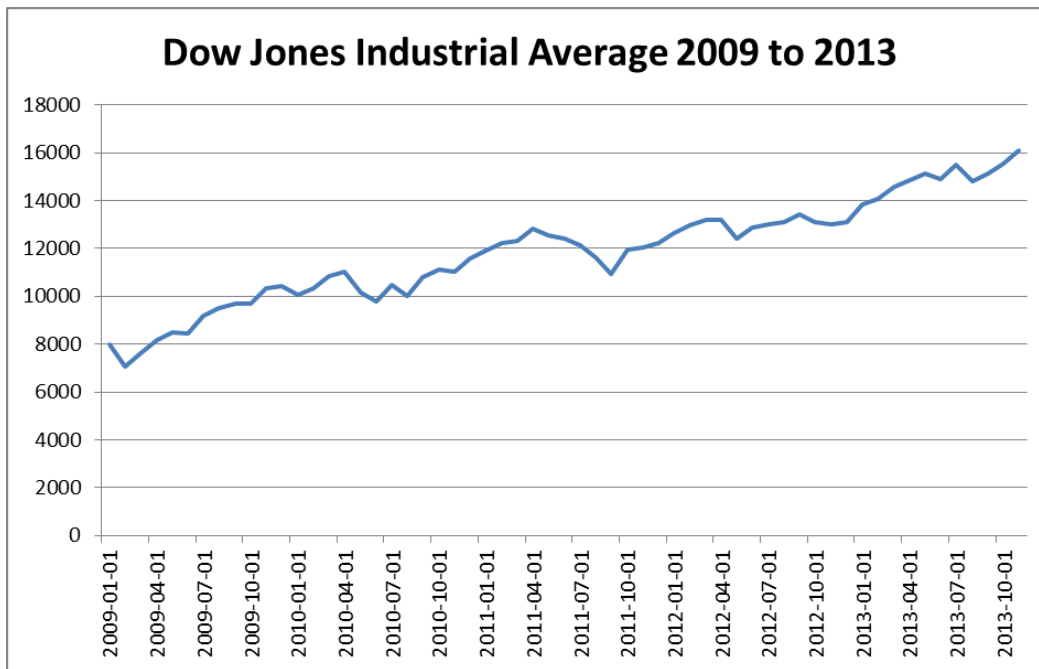
³⁶ "Q1 Market Update: Looking Beyond the Headlines" T. Rowe Price April 2013

³⁷ "Q1-2013- Dow Jones, S&P 500 and NASDAQ log solid quarterly gains." Volume Watchers March 2013

³⁸ "Quarterly markets review - Q1 2013" Schroders Talking Point April 2013

³⁹ "U.S. 10-Year Yield Tops 2% as Bernanke Says Fed May Taper Buys" Bloomberg May 2013

⁴⁰ "Q3 2013: Fed delays tapering QE, stocks keep rising", Mass Mutual October 2013



Source: Federal Reserve Bank of St. Louis

Although the government did shut down for a 16-day period in October, markets had a surprisingly mild reaction. Conventional wisdom among analysts was that any real damage would be minimal before lawmakers could hammer out a deal. Maybe the biggest factor that will influence markets in 2014 is new leadership at the Federal Reserve beginning on January 1st. President Obama has nominated Janet Yellen, the current Vice Chair of the Board of Governors of the Federal Reserve System, to fill Ben Bernanke's spot when he steps down. Yellen shares many of the same beliefs as Bernanke and most analysts expect her to continue the commitment to quantitative easing, while at the same time managing inflation and interest rate pressures. According to research from Bank of America Merrill Lynch, the majority of investors expect the Fed to begin tapering in March of 2014.⁴¹ It remains to be seen whether the market fundamentals are there to withstand reduced stimulus from the Fed, whenever that occurs, without serious consequences. The upcoming congressional elections and continued debate over our nation's unresolved fiscal issues will also undoubtedly leave their mark on the markets in 2014.

TEXAS ECONOMY

As with the rest of the nation, Texas was hit by the recession in 2009. Nevertheless, Texas continues to be one of the leaders in the economic recovery. Most point to stable home prices and a robust business environment as reasons why Texas' recovery will continue to outpace most other states to recovery from the Great Recession.

Texas Housing Market

While Texas did not experience a major housing crisis like many other states, there was a slight decrease in home values during the recession.⁴² Fortunately, recovery was quick. Throughout 2011, the average price of a single-family home increased 6.14 percent. During 2012, the price increased 8.65 percent. Through the first 8 months of 2013, prices dropped backed down 7.21 percent. Even with this drop however, prices are still 16.5 percent higher than they were in 2009. The number of permits to build single-family homes increased 0.6 percent during 2011. A total of 67,234 permits were issued. In 2012,

⁴¹ "Majority of fund managers expect tapering in March 2014" Fundweb November 2013

⁴² Texas Building Permits. Real Estate Center at Texas A&M University. <http://recenter.tamu.edu/data/bp/bps/st48.asp>

75,533 permits were issued, a 12.34 increase from 2011. And in the first 8 months of 2013, a total of 60,853 permits were issued, which represents a 16.39 percent increase over the same time period in 2012.

In addition, the Texas housing market is expected to have a great year in 2014.⁴³ The reason for this optimism is the state's top-notch job market and still historically cheap mortgage rates. According to the Texas A&M University Real Estate Center, even if mortgage rates were to rise to 7 percent, houses would still be just as affordable as they were in 2007. However, like many areas in the U.S., Texas currently has a low housing inventory. A 6.5 month inventory is viewed as a balanced market and the current statewide average is 4 months. This constrained supply of homes is likely to continue through 2014 as home builders are having a difficult time getting loans to build new houses. Home builders will not be able to build homes fast enough to meet the growing demand and prices will continue to rise in 2014.

Texas Labor Market

According to the Federal Reserve Bank of Dallas, the Texas economy is expanding at a healthy pace. The 2012 annual job growth rate was 3.34 percent compared to only 2.06 percent in 2011. As of August, 169,000 jobs have been added in 2013, which represents an annualized growth rate of 2.31 percent.⁴⁴ From August 2012 to August 2013, the Texas Economy gained 258,500 nonagricultural jobs.⁴⁵ This represented an annual growth rate of 2.4 percent compared to the 1.7 percent national growth rate. Over the past year, Texas added jobs in all of the major 11 industries.⁴⁶ Of the jobs added from the start of 2013 to August, the Trade, Transportation & Utilities (+19.9 percent), Government (+16.2 percent), Education & Health Services (+13.4 percent) and Professional Business Services (+13.0 percent) industries showed the biggest relative gains. Pre-recession employment peaked at 10,635,700 in August 2008. This number was surpassed in September 2011 and by August 2013, an additional 548,000 jobs had been added. Additionally, according to the Bureau of Labor Statistics, Texas entrepreneurs have added more jobs over the last year than any other state.⁴⁷

The current Texas unemployment rate is 6.4 percent, 0.9 percent lower than the U.S. unemployment rate of 7.3 percent. Texas' unemployment rate has now been lower than the national average for 80 consecutive months. And unlike the U.S. as a whole, Texas' unemployment rate is not the result of a shrinking labor force. In fact, the state's labor force has increased 1.4 percent over the last year compared to a nationwide increase of just 0.5 percent. All data shows that Texas continues to be at the fore-front of job creation.

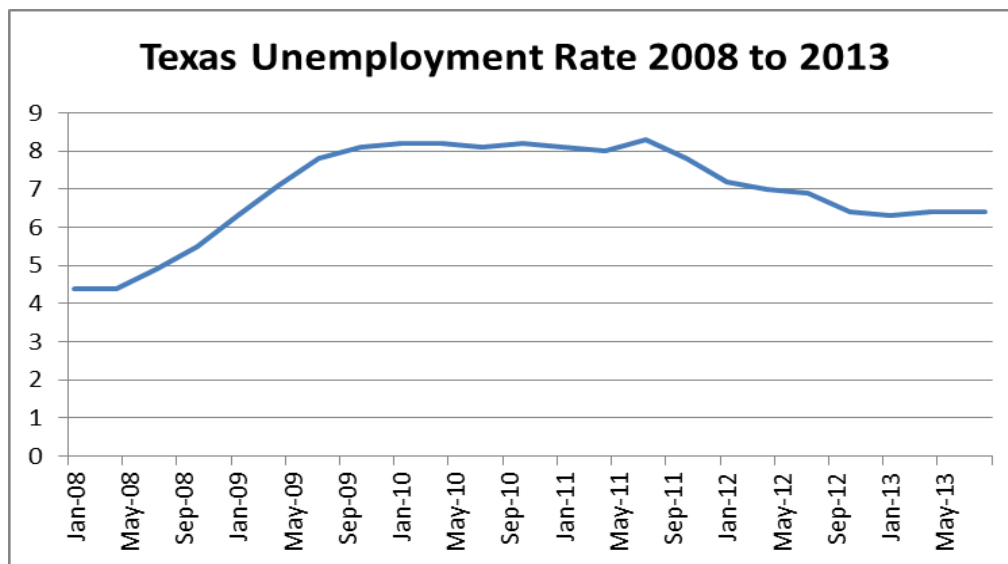
⁴³ "Hotter Texas Housing Market Predicted for 2014" <http://recenter.tamu.edu/news/pdf/NewsRel01-0913.pdf>

⁴⁴ Federal Reserve Bank of Dallas.

⁴⁵ "Monthly Review of the Texas Economy—September 2013" Texas A&M Real Estate Center

⁴⁶ "Comptroller's Weekly Economic Outlook" Texas Comptroller of Public Accounts November 2013

⁴⁷ "Texas' Job Growth Rate Outpaces Nation" Texas Public Policy Foundation September 2013



Source: The Bureau of Labor Statistics

Texas Industry

In 2012, the Texas Gross State Product (GSP) was an estimated \$1.3 trillion, making Texas the world's thirteenth largest economy in the world, just behind Canada and Australia.⁴⁸ In 2013, while the economic recession did have an impact on industries located in Texas, advantages such as stable home prices and a stable political environment have made Texas attractive to companies wanting to relocate. Texas is an industry leader in the global marketplace. In 2012, for the eleventh year in a row, Texas was ranked as the number one state by export revenues. Texas exports totaled over \$264.7 billion in 2012, which was up 5.3 percent from 2011. The state's exports outperformed overall U.S. exports, which grew only by 4.4 percent in 2012.

Manufacturing

According to the Dallas Federal Reserve, Texas is the second leading manufacturer, just behind California, accounting for almost 10 percent of the entire amount of goods produced in the United States and represents over 93 percent of Texas exports.⁴⁹ Texas is home to over 20,030 manufacturers. Total manufacturing output in exports is over \$192.2 billion. Manufacturing employs over 810,800 jobs directly and 731,800 jobs indirectly. The top four manufacturing sectors in Texas are petroleum and coal products, computers and electronics, chemicals, and machinery. From 2003 to 2010 the growth of manufactured goods exports has increased 105 percent. Texas produces more than 11 percent of total manufactured goods in the U.S., ranking second behind California in factory production.

Agriculture

Rural lands, including privately owned forest, total 144 million acres, 86 percent of the state's total land area. Texas has more farms and ranches than any other state in the United States—247,500 farms and ranches covering 130.4 million acres. Its top exports include cattle, cotton, sheep, wool, goats, mohair, and horses.⁵⁰ These are the top 10 commodities in terms of cash receipts: cattle, cotton, milk, broilers, greenhouse & nursery, corn, wheat, timber, grain sorghum and vegetables. One in seven of Texas workers are employed in agriculturally-related occupations. Nationwide, Texas is the number one producer of

⁴⁸“Overview of the Texas Economy” Office of the Governor

⁴⁹ “Texas Manufacturing Facts.” National Association of Manufacturers. nam.org/statedata.

⁵⁰ Texas Department of Agriculture Strategic Plan FY 2011-2015.

cotton and cottonseed, exporting over \$1.7 billion. It is the number two producer of feeds and fodders, producing a worth of \$509 million, and the number two producer of peanuts, producing a worth of over \$56 million. Moreover, it is the third largest exporter of live animals and meat, producing over \$740 million; the third largest exporter of hides and skins, producing over \$341 million; and the third largest exporter of animal fats, producing over \$180 million.⁵¹ Texas is also the fourth largest producer of tree nuts, exporting over \$41 million. Yearly, Texas exports over \$6 billion in agricultural products to foreign countries. The economic impact of the food and fiber sector totals more than \$100 billion.

Yet, drought and overpopulation are ever-present concerns in many parts of Texas, leading to pressure on its water infrastructure. The drought was the worst drought since recordkeeping began—and it may prove to be one of most devastating economic events in state history, possibly even reversing Texas' agricultural prosperity. According to the Texas Water Development Board, demand for water will rise by 22 percent by 2060.⁵² Estimates by the Texas AgriLife Extension Service put Texas agricultural losses for the year at \$5.2 billion. A December economic analysis by BBVA Compass Bank found that indirect drought losses to the state's agricultural industries could add another \$3.5 billion to the toll. However, drought conditions have improved significantly in 2013. The fall season provided much relief to Texas, significantly decreasing the portion of the state that is considered to be experiencing "drought" conditions.⁵³ In fact, the 2013 recovery has the state in the best position it's been in since the beginning of the great drought of 2011.

Texas has a dynamic biotechnology marketplace with an estimated economic impact of \$75 billion. The state is home to over 4,100 biotechnology, biomedical research, business and government consortia, medical manufacturing companies, and world-class universities and research facilities, employing over 104,400 at an average annual salary of over \$67,300. A significant number of top global biotechnology and pharmaceutical companies have Texas locations, underscoring the state's vitality. Government support; a highly trained work force, excellent educational, medical, and research institutions; a first-rate transportation and logistics infrastructure; and a top ranked business climate all strengthen the state's status as a biotechnology leader.

The Life Sciences industry generates a significant economic impact on the state of Texas, as companies and institutions purchase equipment and inputs and well-paid employees spend money in their home communities.⁵⁴ The industry's total economic impact on the State of Texas is estimated at \$75 billion in economic activity, 236,000 jobs, and \$31 billion in payroll. State and local governments receive an estimated \$2 billion each year due to these impacts. For every job created in the industry, another 2.3 jobs are created elsewhere in the Texas economy.

Texas is a leader in nanohealth, a fairly new biotechnology area defined as healthcare and medical technology at the nanoscale level.⁵⁵ The state has developed strong nanohealth resources, based on its long-standing leadership in the biotechnology, medical, and healthcare industries. The Alliance for NanoHealth, an innovator in national and global nanohealth R&D and commercialization, is located in Houston and is comprised of members of the renowned Houston-based Texas Medical Center (TMC), the world's largest medical center. Texas-based nanohealth technologies include personalized molecular-level drug delivery systems, wireless neurostimulation solutions to treat chronic pain and other neurological conditions, and new cancer treatments and pharmaceuticals.

Texas researchers are making great strides in the field of tissue engineering, testing new procedures for reducing infections and diseases that result from bone marrow transplants, as well as pioneering in nano-

⁵¹ "Texas Agricultural Statistics." Texas Department of Agriculture. <http://www.texasagriculture.gov/About/TexasAgStats.aspx>.

⁵² "The Impact of the 2011 Texas Drought and Beyond." Susan Combs. Texas Comptroller of Public Account. <http://www.window.state.tx.us/specialrpt/drought/>.

⁵³ "Weekly Weather: Texas drought conditions are the best they've been in three years" Houston Chronicle November 2013

⁵⁴ "Texas at a Glance." Texas Healthcare & Bioscience Institute. <http://www.thbi.com/>.

⁵⁵ "Texas Biotechnology Industry Report." Texas Healthcare & Bioscience Institute. <http://www.thbi.com/>.

medicine. The Texas Workforce Commission reports that Texas is home to 153 pharmaceutical manufacturing companies employing 9,873 (NAICS 3254) and 2,556 medical research, development, and testing laboratories employing 47,584 (NAICS 6215, 54138, and 54171).

The production of medical devices is the state's second largest biotechnology sector and a growing industry area strongly associated with health care and medical research. It includes establishments primarily engaged in the manufacturing of medical equipment and supplies, such as surgical, dental, orthopedic, ophthalmologic, and laboratory instruments and apparatus. Examples of products being developed and produced in Texas include surgical sutures, syringes, eye-care products, cardiac catheters, urinalysis and blood transport vials, and medication delivery systems. The Texas Workforce Commission reports that the state is home to 1,225 medical equipment establishments, or approximately 29 percent of Texas' biotechnology businesses, employing 35,592 skilled workers, or approximately 34 percent of Texas' biotechnology employment (NAICS 3391 and 3345).

Energy

Texas is a leading producer of both oil, natural gas, and wind powered energy in the nation. Texas' petroleum factories can produce almost 4.7 million barrels of crude oil per day. This production makes it the single largest oil producing state in the nation, second only to Federal offshore areas. Drilling activity steadily increased over 2012, with many new rigs focused on land-based ventures primarily seeking oil. More than one-fourth of all U.S. natural gas production occurs in Texas, making it the nation's leading natural gas producer.⁵⁶ Additionally, according to Wind resource areas in the Texas Panhandle, along the Gulf Coast, and in the Trans-Pecos region offer some of greatest wind power potential in the United States. With over 2,000 wind turbines in West Texas alone, Texas leads the nation in wind powered generation capacity.⁵⁷

Exxon Mobil Corp. is also expanding its Baytown complex to boost its capacity for turning natural gas into petrochemical building blocks.⁵⁸ Exxon Mobil is the largest U.S. producer of natural gas and plans to expand its petrochemical facilities in the Gulf Coast, including the new steam cracking capacity at its Baytown plant. When the permits are approved, construction of the plant will take about three years, and Exxon Mobil says the plant could be up and running by the end of 2016. The expansion will increase the Baytown plant's capacity to convert ethane, a natural gas liquid, into the chemical building block ethylene, and from that to produce the plastic polyethylene. According to Steve Pryor, President of Exxon Mobil, the expanded plant will have features that will keep it economically competitive even if the price of natural gas rises.

BEXAR COUNTY ECONOMY

Bexar County Real Estate Market

Fortunately, the number of homes facing foreclosure in the San Antonio area continues to drop.⁵⁹ As of July 31, 2013, 1.11 percent of all outstanding mortgages in the San Antonio/New Braunfels metro area were in some stage of the foreclosure process, down from 1.33 percent in July 2012. 3.69 percent of all mortgages in the San Antonio/New Braunfels metro were 90 days or more delinquent, down from the 4.34 percent of mortgages that were delinquent as of July 2012. In October 2013, the number of properties that received a foreclosure filing in San Antonio was 33 percent lower than the previous month and 50 percent lower than the same time last year.⁶⁰ The median sales price of a home in foreclosure was \$83,700 in September 2013, up 1 percent from than the same time last year. The foreclosure situation in

⁵⁶ "Texas Energy Quick Facts" Susan Combs, Texas Comptroller of Public Accounts

⁵⁷ US Energy Information Administration, State and Energy Profiles

⁵⁸ "Exxon doubles down in multibillion-dollar Baytown plant expansion" Houston Chronicle March 2013

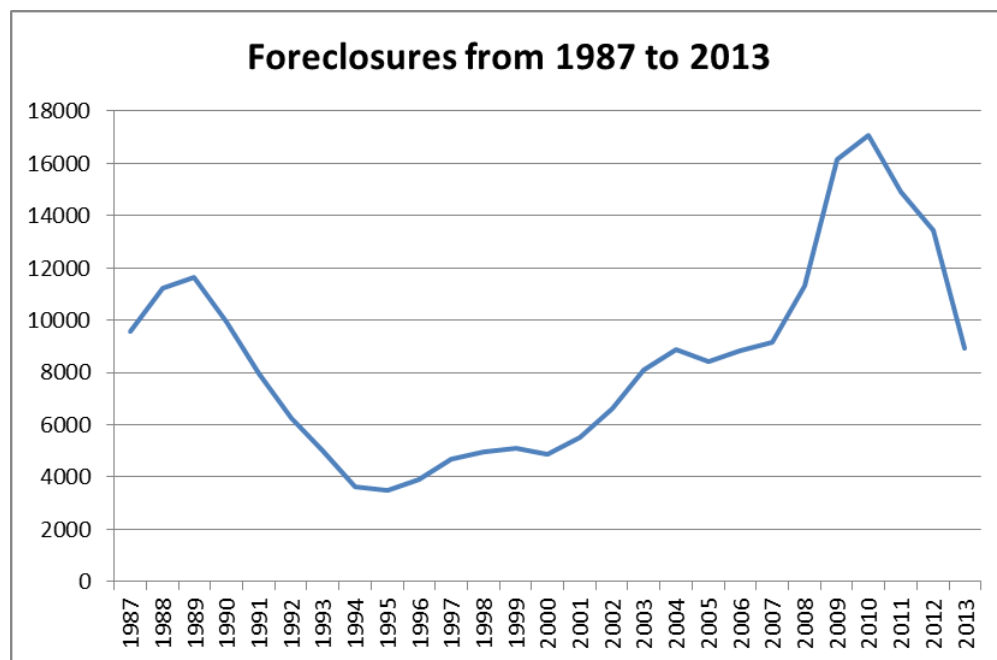
⁵⁹ "Delinquency, foreclosure figures down in July for San Antonio's housing market" San Antonio Business Journal September 2013

⁶⁰ "San Antonio Real Estate Trends & Market Info" RealtyTrac October 2013

the San Antonio area continues to outperform the U.S. as a whole, as the national delinquency rate on mortgages currently sits at 5.44 percent.

Another major issue that was affecting the Bexar County housing market was falling appraisal values. The Net Taxable Base for FY 2011-12 was \$97,400,452,480, which was flat when compared to FY 2010-11. However, this was due to new construction in the amount of \$1.46 billion; existing values actually declined by \$1.6 billion. The net taxable base for FY 2012-13 increased 7.15 percent to \$104,364,039,107. Of this increase, \$2,122,931,877 was due to new construction. This significant improvement from FY 2011-12 to FY 2012-13 further reinforces the fact that the Bexar County housing market, along with the Texas housing market, is starting to show strong signs of recovery from the housing crisis of 2008.

The San Antonio housing market in 2014 will most likely be highlighted by rising home prices.⁶¹ Over the past 12 months, the supply of housing has fallen while demand has risen, forcing buyers to compete for fewer properties. Rising population and growth in the job market ensure that there will be a larger pool of home buyers in the market next year. The median home sales price rose more than 10 percent in the last year for the San Antonio area. Given this trend, it is realistic to expect annual home price gains of 6 to 7 percent in 2014.



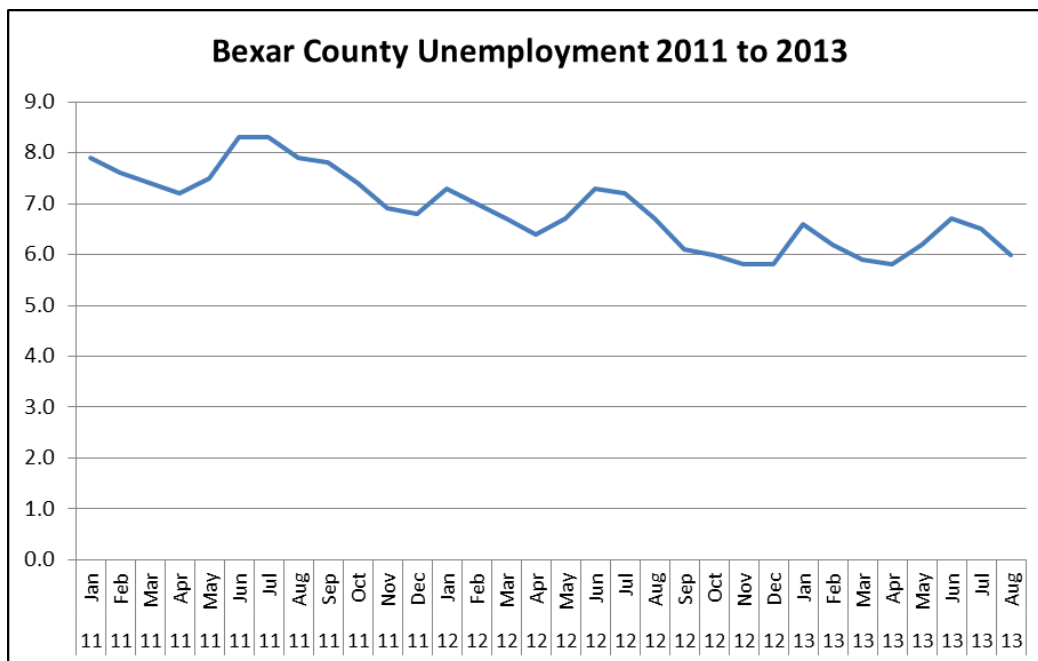
Source: Bexar County – County Clerk; *2013 is an estimate

Bexar County Labor Market

Currently, the unemployment rate for the greater San Antonio area is 6.0 percent. This is 0.4 percent lower than the state-wide unemployment rate and 1.3 percent lower than the U.S. unemployment rate. This also represents an improvement over the annual unemployment rate in 2012, which was 6.5 percent. Current unemployment is down 0.6 percent from where it was at the start of 2013 and went down by 0.5 percent from July to August. The biggest gains in employment over the last year occurred in Mining and Logging (+7.1 percent), Construction (+5.1 percent), and Information (+3.5 percent). Employment in Financial Activities (-1.9 percent) and Professional and Business Services (-0.3 percent) both decreased when compared to the last year.

⁶¹ “Texas Housing Outlook for 2014: Market Trends for Houston, Austin, Dallas and More” Home Buying Institute November 2013

San Antonio also ranks number 3 on the list of cities creating the most middle class jobs, right behind Austin and Houston, according to Forbes.⁶² In 2013, 310,290 “middle skill” jobs have been created, which is a 3.4 percent increase over 2007. Bexar County’s favorable business environment and growing economy has made Bexar County a popular place for existing business to relocate and new business to start.



Source: Bureau of Labor Statistics

Bexar County Industry

Bexar County is home to a wide variety of industries, which include biosciences, medicine, aviation, tourism, aerospace, military and information technology sectors. The local economy is a healthy mix of business services, biomedical technology and research, a diversified manufacturing sector, a rapidly growing information technology industry, and a thriving military community. Many companies continue to choose San Antonio due to its geographic advantages, high quality of life, affordable housing, and low cost of living.

Military/Defense

Bexar County has a strong military presence and remains “Military County, USA,” home to Fort Sam Houston, Lackland Airforce Base, Randolph Air Force Base, Brooks City-Base, Camp Bullis, and Camp Stanley, as well as leading government contractors such as Boeing, Lockheed Martin, Pratt &Whitney, General Electric, and Sin-Swearingen.

The Base Realignment and Closure process is nearing completion in San Antonio. The United States Base Realignment and Closure Commission’s decision to consolidate all field medical training for all Armed Services branches at Ft. Sam Houston in San Antonio. The realignment will bring the largest training facility for medical technicians in the world to Fort Sam Houston in San Antonio, Texas. The Military Transformation Task Force (MTTF) estimates that 12,500 new jobs will come to San Antonio, including 4,000 trainees and 8,500 military and Department of Defense (DOD) personnel. The economic impact was estimated to be nearly \$8.3 billion with the majority of that attributable to construction of the training

⁶² “The Cities Creating the Most Middle-Class Jobs” Forbes October 2013

facility which continued through 2011. Ongoing economic impact post-construction is estimated to be nearly \$1.6 billion annually. The economic impact of this project is expected to be \$621 million per year. Included in the construction is an aircraft taxiway at Randolph Airforce Base, an urban assault course at Camp Bullis, and building renovations at Lackland Airforce Base.

Aerospace and Aviation

The aerospace and aviation industry is growing faster in the San Antonio MSA than the national average, and far outpacing the growth of larger and more established industries in Dallas, Phoenix, and major cities in California. This industry includes establishments that are engaged in one or more of the following areas: manufacturing complete aircraft, missiles or space vehicles; manufacturing aerospace engines, propulsion units, auxiliary equipment or parts; developing and making aerospace product prototypes; aircraft conversion; complete aircraft or propulsion systems overhaul and rebuilding; flight training; air transportation and support activities for air transportation. The 13 aerospace companies at Port San Antonio have created nearly 9,000 jobs and account for about \$1.46 billion in annual economic activity for the San Antonio region. A 2010 study indicated that 4,300 area residents are directly employed by aerospace companies at Port San Antonio. Most of them work in aircraft repair, maintenance and overhaul. Also, the aerospace companies create indirect or induced employment for an additional 4,500 people. Combined, this local workforce earns \$487 million annually.⁶³

Auto Industry

In August 2009, Toyota announced it would shift production of its Tacoma Pickup from its NUMMI Plant in California to San Antonio. Production commenced for the Toyota Tacoma on August 6, 2010. The shift involved new direct investment of \$100 million and the addition of a 1,000 jobs to the Bexar County economy. Production of the Tacoma pick-ups in San Antonio returned the plant to two shifts and 80 percent of Toyota's pickups are now made in San Antonio.

On October 17th, 2013, Toyota celebrated its 1- year anniversary in San Antonio. In the 10 years since Toyota broke ground in San Antonio, they have experienced their share of challenges. Multiple safety recalls, the 2011 tsunami in Japan, and the economic crisis of 2008 all represented serious setbacks to Toyota and in turn, its San Antonio plant. However, these setbacks have not changed the fact that Toyota's presence in San Antonio has been a huge contributor to economic activity in the last decade. Recently, the San Antonio plant hit a milestone as the one millionth truck was produced, proof that Toyota's estimated \$2.2 billion dollar investment has paid off.

According to the CEO of Toyota's North American region, Jim Lentz, the San Antonio plant will have helped export Tundras and Tacomas to some 11 countries around the world. He added, "It's safe to say that the number of countries and the number of exports will continue to grow well into the future." Lentz says that the plant's future growth will play into the company's plans to make North America a major manufacturing hub. The south-side factory, which broke its annual production capacity of 200,000, currently sits on 2,000 acres and has the space to essentially double in size. As Bexar County Judge Nelson Wolff put it, "We've now gone through 10 years of marriage." Noting the "tough, tough times" of the recalls, natural disasters and recession, "We look forward to an easier 10 years of marriage", he added.⁶⁴

Throughout these developments, Bexar County has been working to address the needs and realize the opportunities of our automotive industry. Since 2008, Bexar County has lead the development of the Texas-Mexico Automotive SuperCluster (TMASC) initiative, which aims to preserve and grow existing industry, recruit foreign direct investment, spur innovation in new technologies, and develop the human

⁶³ San Antonio Development Foundation. www.sanantonioedf.com.

⁶⁴ "Toyota marks first decade in Alamo City" San Antonio Express News October 2013

capital necessary for a next-generation workforce. Bexar County continues its commitment to improve the local economy by working creatively and collaboratively to advance this initiative.

Healthcare and Biosciences

Bexar County's well established community of healthcare and medical service providers—including hospitals, physicians, other specialty providers and nursing homes—forms a strong foundation for the County's \$24.5 billion Healthcare and Bioscience Industry. The industry includes both direct and indirect healthcare services. Direct healthcare services include care provided in hospitals, physicians' offices, nursing homes, offices and clinics of a variety of other healthcare providers, and various other outpatient and ambulatory care settings. Indirectly related industries complement and support the provision of medical and healthcare. These industries include health insurance carriers, pharmaceutical companies, medical equipment producers and manufacturers, civilian and military medical education, biomedical research organizations, residential care and social service providers, and a variety of related endeavors. The Bioscience and Healthcare industry is more than \$24.5 billion.⁶⁵ The industry paid \$6.5 billion in wages and salaries to 141,251 employees.

Bexar County Medical Society, the first county medical society in Texas and the eighth largest in the U.S., includes more than 4,000 physicians, representing virtually every specialty and sub-specialty. The County is home to more than 40 hospitals, including four major hospital systems, with a total of more than 5,000 staffed beds. In addition to acute care hospitals, a number of specialty hospitals and treatment centers provide care to targeted populations.

County hospitals continue to expand the delivery of healthcare services to the community—both in place and into rapidly growing suburban areas—while providing significant levels of uncompensated care to the uninsured population and caring for the nation's wounded warriors. The Greater San Antonio Hospital Foundation represents over 125 hospitals and healthcare organizations in the South Central Texas Region.

Bexar County is currently the only U.S. County with three Level I trauma centers, serving the civilian and military populations. All hospitals in the county are linked in real time to coordinate patient reception, staffing and resource allocation during disasters, positioning the county second only to New York City in terms of disaster preparedness.

The 900-acre South Texas Medical Center (STMC), located in the County, boasts the region's largest concentration of medical treatment, research, education and related activity. Its more than 75 medical-related facilities comprise approximately \$2.1 billion in infrastructure values and employ nearly 28,000 medically related personnel. Two of the County's four major hospital systems, Methodist Healthcare System and University Health System, are based in the Medical Center, while two other major systems have a Medical Center presence. The South Texas Veterans Health Care System is also based at the Medical Center. Currently, the System provides health care services for 80,000 unique veterans.⁶⁶ Approximately 30 percent of patients treated at the center's non-government supported hospitals are from outside Bexar County, a recent study shows. Capital improvements valued at approximately \$550 million are now in progress or projected over the next five years.

Other healthcare hubs are also located in Bexar County. Two major hospital systems, Christus Santa Rosa Health Care and Baptist Health System, are based downtown, along with the Nix Health Care System. Local medical facilities are keeping pace with the County's rapid population growth in new areas such as Stone Oak, Westover Hills, and Boerne. Construction of new hospitals and expansions of existing facilities are in the works, or recently completed, by all of the city's three of the major hospital systems.

⁶⁵ BioMed SA. <http://www.biomedsa.org/research>.

⁶⁶ U.S. Department of Veteran's Affairs

Long known as “Military County USA,” Bexar County is also becoming the “Home of Military Medicine.” As a result of the most recent Base Realignment and Closure Process, San Antonio’s Brooke Army Medical Center (BAMC) is being consolidated with the U.S. Air Force hospital, Wilford Hall Medical Center, to become the largest national military medical center. The consolidated San Antonio Military Medical Center will be the only Department of Defense medical facility with a Level I trauma center that treats civilians as well as military personnel. Already, BAMC is home of the world-renowned burn unit and the Center for the Intrepid for rehabilitating wounded warriors. Additionally, the Army’s Medical Department Center and School, based at Fort Sam Houston, will expand to become the Department of Defense training center for military allied health medical training and education for all branches of the service.

The University of Texas Health Science Center at San Antonio is the region’s leading provider of health professions education, with almost 3,000 students enrolled in five schools: the School of Medicine, the Graduate School of Biomedical Sciences, the Dental School, the School of Nursing, and the School of Allied Health Sciences. Together, the schools award 69 health-related degree specialties and pre- and post-baccalaureate certificate programs. Opened in 1968, the Health Science Center is one of six academic health science centers in The University of Texas System. It encompasses six campuses in Bexar County and South Texas, with more than 2 million square feet of education, research, treatment, and administration facilities.

Another welcome addition to San Antonio’s healthcare industry is the University of Incarnate Word (UIW) School of Osteopathic Medicine. On October 10, 2013, the San Antonio City Council officially approved the Medical School to be built on the currently vacant practice fields at Fox Tech high school in downtown San Antonio.⁶⁷ According to Incarnate Word President Dr. Lou Agnese, “This is basically going to create a second Medical Center for the City of San Antonio.” According to the agreement approved by the San Antonio Independent School District Board (SAISD), the University will pay \$1.5 million to SAISD over a two-year period to enhance the expansion of SAISD’s health careers programs at Fox Tech and Edison High Schools, as well as provide scholarships for SAISD students to attend Incarnate Word. A 25 year lease for the property has also been approved by the school board. The Medical School should be a major economic generator for the downtown region. Plans are for the school to be constructed and the first class enrolled by the fall of 2016.

In addition to being a regional hub for medical care in South Texas, Bexar County is increasingly recognized as a national center for bioscience research and innovation. The County’s vibrant research community is discovering and developing new treatments, vaccines, and prevention techniques for some of mankind’s most challenging and complex diseases, such as cancer, cardiovascular disease, and diabetes, as well as bio-threat agents like smallpox, Ebola and tularemia. The biomedical research community is anchored by The University of Texas Health Science Center at San Antonio (UTHSCSA), which ranks in the top 5 percent of the 1,650 U.S. universities and non-profit institutions that receive federal research funding. Its research strengths include aging, cancer, cardiopulmonary disease, transplantation, infectious disease, metabolic biology, neuroscience, trauma and women’s health.

The most recent growth in the bioscience industry was in 2009 when Medtronic’s new Diabetes Therapy Management & Education Center began operations in San Antonio. When fully staffed, Medtronic’s San Antonio center is expected to generate more than \$700 million per year in economic impact for the city and state, according to an impact study generated by SAEDF. In May 2010, BD opened its North American Professional Services Center Headquarters with plans to hire 300. This is the first of four professional services centers planned across the globe.

Another recent win for Bexar County’s bioscience sector was the opening of InCube Labs, a local branch of a life science incubator based in the Silicon Valley of California. InCube expects to bring up to five

⁶⁷ “UIW Medical School Posed to Get the Green Light This Week” WOAI October 2013

biomedical startup companies and a locally-focused venture capital fund to the County. The first three companies were announced in the fall of 2010.⁶⁸

Eagle Ford Shale

The Eagle Ford Shale is rapidly becoming one of the largest domestic crude oil and natural gas discoveries in more than 40 years. Roughly 50 miles wide and 400 miles long, the Eagle Ford spreads across Texas from the Mexican border covering 24 Texas counties. It is a hydrocarbon producing formation of significant importance due to its capability of producing both gas and more oil than other traditional shale plays. Because the shale contains a high amount of carbonate, making it brittle, using hydraulic fracturing to produce the oil or gas is easy. The oil reserves are estimated at 3 billion barrels, with potential output of 420,000 barrels a day.

There have been numerous recent announcements by oil and gas companies concerning their plans to bring new jobs to Bexar County. Oil-field-services giant Halliburton Co. began work in November 2011 on a \$50 million base of operations in San Antonio and plans to hire 1,400 workers to support its operations in the Eagle Ford Shale. Baker Hughes Inc. also has plans to build a \$30 million operations center and administrative headquarters in southeastern Bexar County to support drilling in the shale and will look to employ 400 people. Weatherford International Inc. and Schlumberger Ltd. are two other oil-field-service companies that plan to build facilities in the County and will be looking to hire 120 and 200 workers, respectively. Other companies that plan to establish sites in Bexar County and contribute to the Eagle Ford Shale job growth include Chesapeake Energy, Cudd Energy, EOG Resources, Inc., Marathon Oil, and Platinum Energy.

In February 2011, the University of Texas at San Antonio released an Economic Impact Study which showed that, as of 2010, Bexar County benefited from its proximity to the Eagle Ford Shale with close to \$104 million in total output, around \$58 million in total gross state product, and almost \$28.3 million in payroll for 590 employees. Projections for the County showed that by 2020, involvement in the Eagle Ford Shale would result in close to \$703 million in total output, around \$394.5 million in total gross state product, and almost \$191 million in payroll for 3,924 employees.

The study was recently updated to better grasp the full economic impact. According to the update, the Eagle Ford Shale added an estimated 20,000 jobs to Bexar County in 2012, up from less than 5,000 in 2011.⁶⁹ Close to \$161 million in construction activity for oilfield service corporations such as Halliburton and Platinum Energy Services and close to \$24 million in pipeline construction produced direct impacts in Bexar County.⁷⁰ Including both direct and indirect economic impacts, the Eagle Ford Shale has produced a gross county product (GCP) of just over 3.14 billion and total output of \$5.11 billion. This amount will support 20,000 full-time jobs with a total payroll of over \$920 million.

San Antonio is the largest metropolitan area adjacent to the Eagle Ford Shale and will continue to receive serious economic benefits. The County benefits from refinery operations both here and in the Corpus Christi area. In 2022, it is projected that Bexar County will use 14,000 barrels of oil per day for refining. Additionally, in 10 years, the gross county product will be an estimated \$3.92 billion and the total output will be an estimated \$6.65 billion. For the estimated 24,280 jobs supported, the total payroll will have increased to \$1.1 billion.

⁶⁸ San Antonio Economic Development Foundation. <http://www.sanantoniodef.com/industry-clusters/biosciencehealthcare>.

⁶⁹ "Eagle Ford Shale's impact topped \$60 billion in 2012, report says" San Antonio Business Journal March 2013

⁷⁰ "Economic Impacts of the Eagle Ford Shale" March 2013

Information Technology

The Information Technology (IT) industry plays a major role in Bexar County. The economic impact of IT and cyber business already measures in the billions: \$10 billion in 2010, with conservative estimates of growth to \$15 billion by 2015. The industry itself is both large and diverse, including IT and Internet-related firms that produce and sell information technology products. Information Security is a strong field in Bexar County, with the U.S. Air Force's Air Intelligence Agency, a large and growing National Security Agency presence, and the Center for Infrastructure Assurance and Security at the University Of Texas at San Antonio.

Texas is number two in the nation for science and technology and Bexar County is firmly established as number two in the nation in cyber security. The County's association with the military and with scientific research has helped to create a unique combination of cyber resources useful to many business operations. The Air Force Cyber Command's (24th Air Force) recent choice to locate within the County was both highly prestigious and highly publicized. The County offers the kind of network connectivity needed to support all security levels of Global Cyber Operations such as the Joint Worldwide Intelligence Communication System and the National Security Agency Nets, DISA GIG Network (Defense Information Systems Network) and GIG-BE (Global Information Grid Bandwidth Expansion, which helps link major government intelligence community sites). The County also has the second largest concentration of data centers in the U.S. and 80-plus companies specializing in defense technology.⁷¹

HEB Expansion

In October 2013, HEB revealed plans for a \$100 million expansion of its downtown San Antonio headquarters.⁷² The expansion would double HEB's downtown workforce by 2030 and transform the area just north of the historic King William neighborhood. The expansion will also include a new downtown grocery store, to be called Flores Market. The proposed market will cover an estimated 10,000 square feet and will include several mixed-use buildings, new public spaces, and a bike trail along South Flores Street. This expansion effort will only further aid in San Antonio's push to revitalize downtown both culturally and economically.

SUMMARY

Although the United States as a whole continues to experience a slow and sluggish economic recovery and uncertainty about its long-term economic future, Texas and Bexar County continue to remain above the national average in several economic indicators. Bexar County continues to be a popular place for business to relocate existing operations and begin new initiatives. The County looks to continue to maintain and draft new policies that will attract businesses and support a healthy labor market. This should continue to result in more families choosing to make Bexar County their new home. Increased population growth has already led to an increase in demand for services. Although the property tax base has started to grow again, the tightening of fiscal policy at the federal and state level as a result of economic struggles necessitates that the County continues to find efficiencies in its business processes and new innovations in order to remain an economic leader, while still proving valuable services to a growing population. The fiscal pressures the County currently faces should continue to subside, but the pace at which this happens depends on several factors that are influenced by every level of government.

⁷¹ San Antonio Economic Development Foundation.
http://us.yhs4.search.yahoo.com/yhs/search?p=San+Antonio+Economic+Development+Foundation&hspart=att&hsimp=yhs-att_001&type=att_my_portal_home&togle=1&cop=&ei=UTF-8&fr=att-portal

⁷² "H-E-B plans \$100 million investment around downtown store" San Antonio Express News November 2013