
Abbott Takes Reins in Texas as Crude Stalks Economy: Muni Credit.

(Bloomberg) -– Greg Abbott, Texas's first new governor in 14 years, takes over as an oil boom that helped stoke the economy and tax collections shows signs of fading.

Abbott, a 57-year-old Republican who was sworn in Tuesday, faces the challenge of extending the "Texas Miracle" that added 1.5 million jobs since the end of the recession and left the government with a $7.5 billion budget surplus. He confronts pressure to cut taxes and bolster the second-mos--populous state's infrastructure even after crude prices sank more than 50 percent since June.

"The major price correction represents a significant change in Texas," said Robert Dye, chief economist at Comerica Inc., a Dallas-based bank. "It will result in slower economic growth, and will result in lower revenues to the state as well."

Abbott, Texas's former attorney general, follows Republican Rick Perry, the longest-serving governor in state history and a former presidential contender who may try again in 2016.

Perry Era

The economy, equivalent to the world's 13th-largest as of 2013, expanded under Perry as the population swelled, businesses moved in and energy discoveries revived oil and natural gas production.

The state has added 2.2 million jobs since Perry took office in December 2000, accounting for more than a quarter of the growth in the U.S.

The crude-price slide — to about $47 a barrel from above $100 in June — casts a pall over the biggest oil-producing state. The energy industry has benefited from new drilling technologies, including fracking, that are unlocking shale reserves. The discoveries reversed a decades-long decline in production, creating high-paying jobs and lifting tax collections.

The Federal Reserve Bank of Dallas said in a report this month that job growth may slow to as little as 2 percent this year from 3.6 percent in 2014. Comptroller Glenn Hegar forecasts that economic growth will slow to about 3 percent this year, from 3.7 percent in 2014.

Tax Trickle

That may trickle through to tax collections, said Douglas Benton, senior municipal credit manager for Cavanal Hill Investment Management, a Tulsa, Oklahoma-based company that handles about $6 billion, including Texas municipal bonds.

"We'll look closely at those holdings that will be impacted," said Benton, who works from the firm's Richardson, Texas, office. "It will have a ripple effect that will be felt in other parts of the state's economy."

The biggest and third-largest oil-field service providers, Schlumberger Ltd. (SLB) and Baker Hughes Inc. (BHI), are cutting about 16,000 workers. The second-largest, Halliburton Co. (HAL), said on Tuesday it expects to make reductions in line with its competitors. Though the companies are mainly based in Texas, the cuts will come worldwide.

Abbott said last month that there would still be money for schools and infrastructure.

Spending Money

Texas may have $113 billion for general-purpose spending through 2017, an increase of about 10 percent from the previous two years, according to the comptroller. It has top ratings from Standard & Poor’s and Moody’s Investors Service.

The state faces rising costs for pensions to make up for underfunding the plans, according to Moody’s. The Employee Retirement System, the main plan for state workers, requested a 59 percent funding boost for the next two-year budget cycle, according to Moody’s.

The governor didn’t mention oil prices during his inaugural address.

“I will ensure that we build the roads needed to keep Texas growing,” he said in a speech on the steps of the Capitol in Austin. “Taxes raised for roads will be spent on roads. I will speed up our needed water projects, and I will secure our border.”

Texas has struggled to build roads and infrastructure fast enough to accommodate new residents.

While the population has grown by 125 percent over the past four decades, to 27 million, capacity on the state’s roads and highways has increased by only 19 percent, said Scott Haywood, president of Move Texas Forward, a group that advocates more spending on transportation projects.

Wall Street hasn’t punished the state yet. In August, Texas sold $5.4 billion of one-year notes at a record low 0.13 percent yield to cover the cost of schools and other expenses before tax money flows in. It was the state’s smallest short-term note sale since 2007, underscoring how its finances have strengthened since the recession that ended in 2009.

1980s Shadow

Comptroller Hegar said in a press conference this month that he didn’t expect Texas to repeat the 1980s oil-induced recession, when plunging crude prices led to a crash in housing prices and bank failures.

“I — in no shape, form or fashion — am saying that Texas is going into a recession,” he told reporters earlier this month.

The Texas economy is more diverse than three decades ago, cushioning against plummeting oil. The industry comprises 2.7 percent of employment, compared with 4.5 percent in the early 1980s, according to the Dallas Fed.

JPMorgan Chase & Co. Chief U.S. Economist Michael Feroli foresaw a broader impact in a December report. He warned that a prolonged slump in crude prices may push Texas into recession.

“The challenge for the state is going to be in meeting all of its spending expectations amid slower revenue growth,” said Nick Samuels, a Moody’s senior credit officer. “This is going to a very different story for Texas.”

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