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AUSTIN LETTER

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Dear Client:

While economic concerns top all lists as 2009 begins – and rightfully so – another concern limited to Central Texas would, during other times, merit greater attention. It’s a dreaded word in Texas – drought.

Ironically, as the Austin area is faring better economically than practically any other area of the nation during the national recession, it is *hurting more than most* when it comes to severely dry weather conditions. The year just concluded, 2008, was **the driest year in Central Texas since the 1950s, when the worst drought ever was recorded in Texas.**

“Scientifically speaking, we’re currently in a period caused by a very long-term weather pattern that favors more dry years across Texas than wet ones,” said **Bob Rose**, meteorologist for the Lower Colorado River Authority (LCRA). “**But what is surprising is just how dry this year has been**, especially following the very wet year in 2007.” And, most especially, for the Austin area.

As a result, the impact on the Austin area is somewhat unique. “This drought seemed to happen by chance, with several large rain storms just missing our region in one direction or another while other storm systems weakened and fell apart just before they moved through,” Rose pointed out. “**In how many years do you find much of West and deep South Texas wetter than Central Texas,**” he asked.

As a forecaster, Bob, what is your prognosis for this drought? “Like the two-year droughts of 2005-2006 and 1998-1999, the drought of 2008 still may **continue for another six months to a year, possibly longer.** No one knows for sure.” he said. However, he held out a ray of hope.

“**I have some hope the drought may back off some later this winter and going into spring.** Looking back at the weather from other years with somewhat similar ocean and atmospheric conditions, specifically 1950, 1974 and 1989, dry weather continued into January of the following year, but some fairly generous rains began to develop February into March in each of those years,” he opined.

All this raises larger questions. What about lake levels, lakeside businesses, lake recreation activities and, most importantly, **what about the supply of drinking water for those who live and work in the Central Texas area?** Check out the next item for answers to these questions.

Water is the lifeblood of any area. And the lakes, created all along the Colorado River as it courses through Central Texas, are symbolic of what many feel is an ample water supply. But what is happening to the amount of water in the Highland Lakes in the midst of this drought?

The manager of River Management for the Lower Colorado River Authority (LCRA), **Mark Jordan**, has a sobering observation: Because of the extreme drought conditions along the river, **“inflows into the Highland Lakes have been the lowest measured since 1942 when Lake Travis was completed.** As a result, the levels of lakes Travis and Buchanan have fallen considerably this year.” Not only has there been very little inflow into the Colorado River basin, the hot, dry conditions have promoted higher-than-normal evaporation levels in the lakes.

“The Highland Lakes were built for capturing and storing flood waters for dry times. Lake levels for **lakes Travis and Buchanan, our two water supply reservoirs, fluctuate with the changing wet and dry patterns,**” he explained. The other lakes in the system, such as Lake Marble Falls, Lake Austin, Lady Bird Lake, etc. are considered to be constant level.

The City of Austin, other municipalities, and various water districts that furnish water to other jurisdictions depend on the LCRA for their supply of drinking water. So are we nearing a problem? **“Despite prolonged drought conditions, there’s enough drinking water for the Central Texans who depend on it,”** said Jordan.

Well, yeah, but what happens if the severe drought continues for an extended period and the supply of water continues to diminish? What, then? The LCRA is operating under a state-approved Water Management Plan that includes a number of **steps that will be implemented if certain low-water “trigger points” are reached.**

A trigger point was just reached on January 1st 2009. As a result, the LCRA cut off supply of water to a small group of customers that have what is called “interruptible” water contracts. And the LCRA has now reduced the freshwater inflows from the Colorado River into Matagorda Bay at the Gulf of Mexico.

“If the weather patterns hold, we’ll likely see much lower lake levels in 2009 and the implementation of further curtailment measures,” Jordan predicts.

One factor contributing to lower lake levels will be the release of water from Travis and Buchanan downstream to rice farmers near the Gulf who rely on water from the LCRA to irrigate their crops. This should start in March.

The LCRA’s Plan is designed to **ensure a dependable source of water for its municipal and industrial customers even during the worst drought on record.** To do so, the LCRA may implement *even more aggressive water conservation measures* – such as curtailing or reducing water for agriculture and environmental purposes. Ultimately if the lake water levels diminish dramatically, many other customers would see a reduction in water. This goes way beyond having enough water to keep your lawn alive. It’s serious. And it bears watching closely.

With an important legislative session opening in a few days (1/13/09), Governor Rick Perry is still making “national noises” as he focuses on Texas issues. It’s interesting to say the least.

Before the year-end holidays you may recall we pointed out that even though Perry is saying he is running for re-election, he’s been **speaking out on national issues** (see Volume 30, Number 38; 12/19/09). Well, since that time two things have happened that continue this trend.

First of all, right after the first of the year, he put out a statement – not responding to any question – about **his position on the military clash in the Gaza Strip**. He says he’s a longtime supporter of Israel.

Then, without advance notice, **he shows up in Iraq, Kuwait and Germany visiting US troops just a week before the Texas Legislature convenes in Austin.**

He explains all this by saying “the governor of Texas matters” and that Texas probably has more troops serving in the Middle East than any other state and **the troops appreciate the state’s governor visiting with them and telling them they are doing a good job.**

But as we pointed out 12/19/09, **“you could make the case that this sounds like someone jockeying for a national leadership role as the GOP is searching for a new direction** in the wake of the Democrats’ big November victories. Perry’s name is mentioned *occasionally* in the list of new GOP leadership. Maybe he is angling to be mentioned *frequently*.”

You can’t find many state governors that, within the past few weeks, have been as aggressive as Perry in making waves on national issues – as well as speaking out against the policies of the national leadership of the Democratic Party. Among other things, he said the Republican Party needs to “chart a course to fiscal conservatism that serves as a steep contrast to the profligate spending of the Democrat-controlled federal government.”
HmMMMMM.

Speaking of the governor, the “Big Idea” he unveiled in 2002 to address the state’s transportation infrastructure needs was declared dead this week. But, is it?

The Trans-Texas Corridor (TTC) came under harsh criticism due to the 2,000-ft-wide-swath that it would cut all across the state. So, RIP Trans-Texas Corridor. But it may be in name only. **Many of the big TTC projects – including the SH130 roadway that goes through Central Texas – will still go forward**, even though the right-of-way may be scaled back to a width of 600 feet. This would nix parallel rail and truck-only corridors. So the transportation debate will continue, but without the TTC to kick around anymore.

No matter how it looked on the surface, the word this week that Austin area new home “starts” were down significantly for the past two years and predicted to be down in 2009, could be just what the doctor ordered.

The housing market does not want to be in an “overbuilt” situation in a downturn. If there are too many houses on the market, it will slow the recovery. Builders, especially those with operations in severely depressed markets around the US, out of necessity have put the brakes on new construction.

With potential homebuyers having difficulty getting financing, **this should keep the Austin housing market fairly stable.** And because fewer new homes are being built, it should help homeowners who want to sell their houses. As a result, the value of your home should remain relatively solid. Even though sales are down, prices have not dropped dramatically. New jobs are being created so the demand should also remain steady. As always, compared to the rest of the country, this is a comparatively good situation for the Austin housing market.

Another Austin area economic indicator is declining in the closing months of 2008, but possibly not for the entire year.

Passenger travel at Austin-Bergstrom International Airport was dropping at the onset of the 4th quarter 2008, compared to 2007. **Passenger totals were down 9% comparing November to November** (the December numbers will not be released until February). For the year, traffic is up 2%. Southwest Airlines Austin numbers were flat in November, but the other major carriers were off – American, down 22.5% ... Continental, down 15% ... and Delta, down 16%. By the way, now that jet fuel costs are low and passenger traffic is down, **the airlines are offering some sweet travel fares for the first quarter 2009.**

Dr. Louis Overholster is convinced that tattoos are what young people get to make sure they have something to regret in middle age!

Sincerely



Editor/Publisher