

THE

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AUSTIN LETTER

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Dear Client:

The biggest single economic engine powering the Austin area economy, UTAustin, is scrambling to maintain its position. It's a struggle.

Like other institutions and agencies that rely upon the Texas Legislature for appropriations, **UTAustin is under the gun as far as state-allocated revenue for the next two years is concerned.** Frankly, the *proportion* of funds from the state appropriated by the state has been diminishing for many years. But that doesn't diminish the need for UTAustin for state funding.

So, while the legislature is slogging through the state budgeting process, what is happening on the Austin campus from a financial standpoint? Well, first of all, **UTAustin has reduced its annual budget by \$14.9 million since 2009.** President **Bill Powers** said this reduction was "in response to state mandates, and these **cuts were largely made to administrative operations.**"

But what about the immediate future? Powers points out that "the 2012-13 budgets proposed by the House and Senate will **reduce UT's funding over the biennium by about \$100 million.**" How does Powers view this? "Although it is early in the session and much will change before adjournment in May, **budget cuts on this scale could have a significant impact on teaching and research at UT.**"

Anything that significantly impacts UTAustin has a direct impact on the Austin area economy. At the end of this newsletter, you'll see the list of companies that made major investments in creating jobs in the Austin area during 2010. **UTAustin's presence was a major factor in most of those location decisions, if not all of them.** To be able to tap into the labor market of qualified UTAustin graduates is critical. And the ability to partner with UTAustin in many cases to "grow my company" is also vital.

UTSystem Chancellor **Francisco Cigarroa** says it is crucial that legislators "recognize that university research, especially at our flagship (UTAustin) and emerging institutions, powers the Texas economy. **University research puts money directly into the Texas economy and creates a stronger economic future for our state.** This research leads to innovations and discoveries that transform lives, which **creates additional jobs and economic prosperity.**" That's it in a nutshell. **And Austin benefits more than any city in the state from such activity.** What's UTAustin doing about this financial problem? We'll examine that next.

UTAustin has not taken its hands off the financial rudder, waiting for what some consider inevitable. Neither has TexasA&M, that is in the same appropriations boat.

TexasA&M President **Bowen Loftin** and UTAustin President **Bill Powers** have been traveling around the state, meeting with alumni and elected officials to **emphasize the importance of Tier 1 research universities to the future of Texas**. TexasA&M and UTAustin are the only *public* universities designated as top Tier 1 institutions in Texas. (Rice University, a *private* school, is the only other Tier 1 university in the state.)

Even though these two big public universities are inordinately competitive in college *sports*, they have the same *academic* goals – to be the best they can be in their fields. So they banded together to carry a similar message to legislative funding decision-makers. Their first message: **there should be no disproportionate cuts to public higher education**.

While we haven't examined the itinerary of Powers and Loftin, it is not likely they traveled to all 254 counties. But you can bet they hit counties in the **home districts of key legislative decision-makers**. And you can bet the alumni they met with in those counties were leaders, who were asked to "carry the message" to elected officials.

It's not as if this is a last-minute scramble. In fact, Powers recently told the UTAustin faculty and staff that "we have been preparing for this scenario for more than a year and a half." And part of that process included "**examining our financial situation, cutting costs, improving efficiency, and planning for a possible reduction in state funding.**"

UTAustin appears to be realistic about its prospects as the Texas Legislature works on a state budget that may contain cuts across the board for all state agencies and institutions. **It is simply trying to contain the drain of funds to a manageable level.**

By the way, **Powers continues his recovery from a pulmonary embolism that began as a blood clot in his leg**. He is being treated with medication and is on the job, albeit on a reduced work schedule. Even with that reduced schedule, he continues to testify at the Legislature, as appropriate. And he was strong enough after his release from the hospital to attend a Longhorn basketball game.

One economic indicator has moved upward for 10 straight months, signaling a positive trend.

Sales tax collections – the largest single revenue source for the state of Texas – were up about 6.45% statewide in January, and reported this week. In Austin, the January increase over January 2010 was pegged at 4.4%.

With spring just around the corner (3.20.11), the prospects look dim for a lot of rain. In fact, the dreaded “D” word is being bandied about for spring and summer. Is a major drought on the horizon for this year?

It hasn't received much notoriety, but **Central Texas is in the midst of moderate-to-severe drought conditions as we speak.** And Chief Meteorologist **Bob Rose** with the Lower Colorado River Authority (LCRA), the agency that manages the groundwater supplies in this area, is saying that **drought conditions are likely to worsen toward summer.**

The 2009 drought is not far enough in our rear-view mirror to obliterate some major fears of what a similar drought could do in 2011 – especially for those who **make a living off water recreational activities**, not to mention the impact on most everyone when normal **everyday water usage is somewhat curtailed.**

Fewer people visit the Highland Lakes in Central Texas when levels are substantially lower than usual or when boat ramps are closed – reducing lake access. During severe dry periods, the **lower Colorado River may flow at greatly reduced rates and lakes Travis and Buchanan may drop significantly** as water is used to help meet the needs of LCRA's water customers around the lakes and downstream.

In 2009, Lake Travis businesses reported a decrease of 30% to 45% in sales and rentals from the previous summer when the lake was much higher. By Labor Day in 2009, the level of Lake Travis was 630.6 feet above mean sea level. That was about **34 feet below its average elevation** for that time of year. And, at that level, only one of a dozen public boat ramps was still in the water for boaters to access the lake. Marinas endured the costs of moving their boat slips further out into the diminished main body of the lake.

What are the current conditions? Certainly nothing like the summer of '09, but early indications are they could be headed in that direction. **This week, Lake Travis was about 5.5 feet below its historic March average, and falling slowly.** Or, to put it another way, it is about 75% full. (By the way, the surface water temperature near Mansfield Dam hasn't yet warmed up. It is still a chilly 55 degrees)

The problem is the forecast. Rose says the La Nina weathermaker is weakening, but still is strong enough to create **below normal rainfall from March through May.** And while he hedges his bet a bit when he looks down the line to summertime, he says indications are that **below normal precipitation and warmer than normal temperatures appear likely this summer.**

Some help could be on the way. If La Nina dissipates totally, Rose indicated it could lessen the effects of a drought. And he also said the **predicted “very active tropical season” in the Gulf of Mexico could increase the chances for rain in Central Texas,** if it materializes.

How many new jobs and businesses from around the US and the world converged on Austin during 2010? And what was the impact?

The Austin Chamber of Commerce's economic development effort, Opportunity Austin, issued its report for 2010. The objective of the effort was simple: **create jobs in the Austin area**. How did they do? Not bad. In fact, **the results were impressive**. The Chamber reports that **28 new firms crated 3,113 new jobs** in the Austin metro area in 2010. And the estimated economic impact was \$756,462,268. These are the companies, with direct and indirect job totals listed in parentheses.

Abrams Learning Trends (69) ... Accruent (105) ... Banker's Toolbox (112) ... BountyJobs (43) ... Cinsay (20) ... Environmental Systems Corp (197) ... Facebook (431) ... Hanger Orthopedic Group (532) ... HostGator (605) ... Ihiji (29) ... INCISENT Technologies (21) ... Joule Unlimited (100) ... Legal Zoom (1,166) ... National Scooter Co (382) ... New Media Learning (84) ... Owens & Minor (100) ... and Pain Therapeutics (286).

There's more. **Pioneer Surgical Technology (66) ... RRE Austin Solar (RRE Power) (26) ... Samsung Austin Semiconductor (1,945) ... Social Media Business Council (21) ... Soundcheck Austin (10) ... Sun Water Systems (21) ... SunPower (939) ... Unicast (111) ... Vermillion (62) ... and Waste & Recycling Plastic Containers (21)**. The great majority of these companies, not all, were assisted by the Chamber in their decision to choose the Austin area.

While the Austin Chamber was the catalyst and manager of Opportunity Austin, it was also what they called "**A Central Texas Business Initiative**." And it lived up to its name as the cities of Bastrop, Cedar Park, Elgin, Georgetown, Hutto, Jarrell, Kyle, Leander, Lockhart, Pflugerville, Round Rock, San Marcos and Taylor joined Austin in the Initiative.

Dr. Louis Overholster has perfected the fine art of "Percussive Maintenance" — whacking the crap out of an electronic device to get it working again!

Sincerely



Editor/Publisher