

Crashing oil prices hit former Texas boomtowns

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 **Rick Jervis**, USA TODAY 10:14 a.m. EST January 21, 2016



(Photo: Getty Images)

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PEARSALL, Tex. – Back when the oil money flowed, the Location 581 Saloon would be crammed with pipefitters, welders, derrickhands, truck drivers and all sorts of oilfield workers – as many as 35 of them a night together shelling out more than \$2,000 for drinks and good times.

These days, the bar in this South Texas city 50 miles southwest of San Antonio sits mostly empty, except for a few locals. On a recent early evening, three clients sat at the bar. Only two were drinking.

"It's just like a ghost town again," said Troy Reeves, the bar's owner.

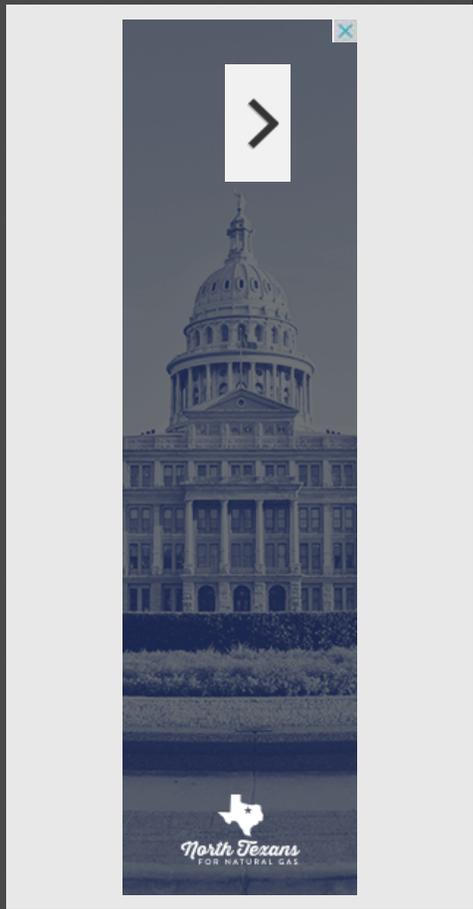
Pearsall, like other towns that sit atop of the Eagle Ford Shale and soared during the recent oil boom, has had a harrowing crash back to Earth, as the price of crude has plummeted. On Wednesday, the price of West Texas Intermediate dipped below \$27 a barrel – a 12-year low. Just 18 months ago, the crude was trading for more than \$100 a barrel.

Crude's free fall has rattled world markets, erased billions of dollars in stocks worldwide and led to thousands of layoffs in the oil and gas sector. rly a year. But the steady march of declining prices – with no end in sight – and recent news that lifting of sanctions on Iran could deliver even more oil to the market has nudged the outlook in South Texas from depressed to near desperate.

The number of active oil and gas drilling rigs in the Eagle Ford Shale has shrunk from 259 at the boom's peak in 2012 to 68 today, according to oil field services firm Baker Hughes.

"Blood in the streets," said David Martin Philips, a Karnes City investor who used his royalty checks from the oil companies to buy seven radio stations in the area. Not everyone diversified as smartly, he said.

Those who put their money in hotels and RV parks to house the deluge of oilfield



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workers that came during the boom are losing money fast as those workers were let go, Phillips said. "Those people are sweating bullets right now," he said. "There's a tremendous amount of bankruptcies about to take place."

Ironically, Eagle Ford Shale's success and the technology used to unlock millions of barrels of oil stuck in previously unreachable crevices contributed to the oil glut and low prices. Other factors include China's faltering economy, Saudi Arabia's unwillingness to scale back its own production and overall weaker global demand.

Texas has experienced oil busts before, most memorably in the mid-1980s, when crude fell to under \$10 a barrel and bankrupted towns across the state. This one feels similar to that bust in its length and global impact, said Scott Tinker, director of the Bureau of Economic Geology at University of Texas at Austin.

"This one is deeper and longer than the other ones in 1999, 2007, 2009," he said. "And we haven't seen signs of the bottom yet."

Some towns anticipated the downturn. In Cotulla, which saw a boom of hotels and revenue, city officials made sure to pay off debts on new projects and not overextend their budgets, city administrator Javier Dovalina said. A \$1 million loan for a new convention center, for example, was paid off in two payments with their new oil money, he said.

Though down, Cotulla's revenue is still way up. The city's annual hotel/motel tax revenue soared from \$44,000 a year in 2008 to \$1 million at the peak of the boom before settling to just under \$800,000 this fiscal year, he said. Similarly, sales tax revenue climbed from \$440,000 in 2008 to \$3.2 million at the peak to around \$2 million today.

"We may have plateaued and we may be there for a while," Dovalina said. "But it's a comfortable plateau."

In Pearsall, city officials watched in alarm as its oilfield workers streamed out of town and its sales tax sank 30%, city councilman James Leal said. Hordes of workers left Pearsall to seek jobs as construction workers or office clerks in San Antonio, emptying the city's bars, restaurants and hotels, he said. "We just hope it goes back up," Leal said of the price of oil. "And sooner rather than later."

Reeves, the bar owner, moved his oil and gas service company from Shreveport, La., to Pearsall during the recent boom. Business was so robust, he hired three dozen employees for the service company and opened the Location 581 Saloon with his wife.

As of last year, he had let go 35 workers at the service company, leaving him with a skeleton crew of eight. The bar limps along on the business of a handful of locals, but he's not sure how long that will last, either.

"No one expected it this soon," Reeves said of the current decline. "All everyone heard then was, '10-15 years – boom – boom – boom.' It made it to about six."

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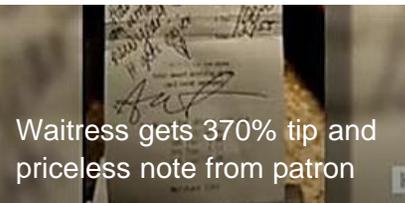


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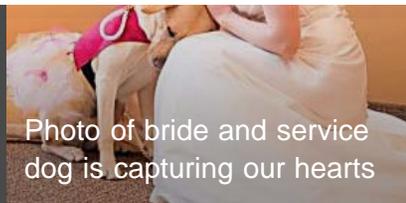


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