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Dear Client:

The expanded Texas franchise tax, levied on state's businesses 10 years ago, is a failure. University researchers examined the tax's effectiveness and found the tax has failed to generate the predicted revenues every year since its expansion. Will the legislative session that convenes in Austin in January address this report? And, if so, what are the alternatives they might consider?

The researchers at the Mosbacher Institute at TexasA&M's Bush School argue the **franchise tax should be abolished and replaced with what they call a more efficient and equitable tax**. They called it a "good idea in principle, but not in execution." How did this tax come into being? Well, because in 2006, Texas faced a fiscal double whammy.

Not only had the Texas Supreme Court ordered the state to **pick up more of the tab for K-12 education**, but the legislature also promised voters **significant property tax relief**. So, to try to solve both these situations, the legislature expanded the state's franchise tax – which was really a form of corporate income tax -- to include businesses other than corporations.

The tax is complicated. **It is particularly hostile to smaller businesses and the business services industry**. A key feature of the Texas franchise tax is that businesses have **three choices to determine how they are taxed**. And this, say the researchers, may sound business friendly, but it isn't – **because all of the choices are bad**. And they detail the reasons why.

Okay, if this source of revenue is abolished, **what do they suggest in its place?**

The TexasA&M research team proposes two alternatives. Each has been broached in the past, but not taken seriously enough to gain broad legislative support. One option is the **Value Added Tax (VAT) that taxes all businesses on the difference between their revenues and the total amounts they paid for inputs from other firms**. The other is to **broaden the sales tax to include consumer services**. The latter has been floated over the years, and has never gotten to first base because of lobbying and opposition from services that don't want to be taxed.

What does the legislative landscape look like for this to be considered? Check the next item.

When members of the Texas Legislature convene in Austin five months for their every-two-year session, they will face money demands greater than anticipated revenues. This will come at a time of a weakened oil/gas tax income base and a possible move to repeal and replace the business franchise tax. On top of this, there will be increased demands as a result of a fast-growing and fast-changing population.

Okay, members of the Texas House and Senate, nobody said your job would be easy. Important, yes. Difficult, yes. But hard choices will need to be made. One of the jobs for longtime Texas economist **Ray Perryman** is to look down the road to report on what you can expect in the foreseeable future. **His outlook is generally positive. But he raises concerns.**

Perryman points out that as the Texas population increases, the state will “also grow older and, most likely sicker. Public schools in the state will need to accommodate nearly twice as many students, many of whom will be more difficult and expensive to educate. **The implications for infrastructure, education, health care systems, and social services are profound and in need of immediate recognition and attention.**”

“Texas also needs to deal with **unfunded pensions**; restructure programs in crisis such as indigent health care, foster care, and child protective services; **improve education at all levels**, and make a dent in infrastructure shortcomings,” he continued. He added the future will be characterized by “**slower economic growth and the need to commit even more resources to public needs.**”

This is an impressive list of to-do’s. Not all in one legislative session. But your state leaders need to **keep an eye on where the state is headed**, as they face immediate decisions.

Okay, now about revenue. The State Comptroller is anticipating there will be a **shortfall in the current two-year budget**. But it should be offset by a \$4 billion surplus set aside by the 2015 legislature. Still, it’s a shortfall. And the state’s largest single source of revenue – **sales tax collections – so far are about 2.3% less than for the same period a year ago.**

Much of the decline is due to lower oil and gas prices that are way below the recent boom years. Perryman puts a positive spin on this saying “**the end of \$100 oil was not catastrophic.**” Looking to the future, Perryman said “once crude oil prices recover (which is inevitable due to expected global demand conditions), **drilling activity in Texas will increase and be a catalyst for longer-term growth.**”

Perryman didn’t address the possible repeal/replacement of the franchise tax, or expanding the sales tax. **He said he expects relatively healthy economic gains**, but added “we have some business to take care of, and **the better we deal with population changes and other challenges, the stronger the pattern of growth.**”

The major discussion (cussin?) topic for Austin motorists is the traffic problem. But another transportation topic -- rail service -- is also a focal point, though not part of a widespread debate. This doesn't keep the critics quiet. Example: a *FORBES* magazine article recently slamming Capital Metro's MetroRail line running between Leander and downtown Austin.

There are several topics about rail service we'll mention here. But let's get the *FORBES* gut job out of the way. What do we mean when we say "gut job?" Two quotes: "**perhaps America's leading rail transit failure,**" and MetroRail is "**a monument to government waste.**" Pretty strong words, wouldn't you say. What led author **Scott Beyer** to make these claims in one of the nation's leading business publications?

Beyer cites a number of stats to bolster his opinion ... and the article is obviously *his* opinion. But one stat is compelling. **He claims the 32-mile route running from Leander to downtown Austin costs Capital Metro twice as much to operate as its express buses running between the same two locations.** This is cost per rider.

Okay, let's move from that transportation topic to another. **There have been a couple of developments to share with you about high-speed passenger rail.**

One development is about a high-speed rail link involving Austin and San Antonio. San Antonio Congressman **Henry Cuellar** announced the Federal Railroad Administration and the Texas Department of Transportation have released **10 service and route options for high-speed passenger rail connecting San Antonio with Austin, Dallas, Fort Worth and Oklahoma City.**

Even though the Alamo City effort started in 2008, it's still in the early stages. The other news concerns the **Dallas-Houston privately-funded bullet train** that could expand to Austin.

A federal transportation board ruled recently it did not have jurisdiction over approvals and punted the project back to Texas. Simply, this means **the project's future will be in the hands of legislators when they come to Austin in January.** And the battle lines – some, along rural vs urban lines – have been drawn. This bears watching.

Speaking of battle lines, one has been drawn by Austin City Council member Don Zimmerman against the City Manager and City Staff in the upcoming budget battle.

Zimmerman charges the bar has been lowered on key performance measures such as: **police response times, percent of roads in fair to excellent condition, building inspections performed within 24 hours and percent of residents 'satisfied' or 'very satisfied' with traffic flow.** He says lowering of the bar isn't fixing the problems. Stay tuned.

Texans love hamburgers. And many Texans not only love Texas-born Whataburgers, some border on fanaticism in their adoration. In fact, a Rockport couple – back in 2012 – decided to eat one of Whataburger’s “bigger, better burgers” at every store in the chain. Big job. There are literally hundreds of their burger stores. How’s that going?

In 1950, the story goes that an adventurous and determined entrepreneur named **Harmon Dobson** decided to serve a burger so big that it took two hands to hold, and so good that after a single bite customers couldn’t help but exclaim “**What a burger!**” He opened a small stand on Ayers Street in Corpus Christi to do just that. Today there are more than 790 Whataburger stands across the nation. Which brings us to **Karl and Carol Hoepfner**.

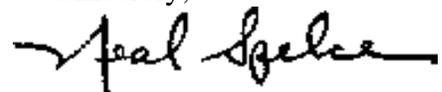
Together, the retired Air Force master sergeants passed the 730 mark in 10 states when Carol, after 59 years of marriage to Karl, died in February this year of eye cancer. She was 77. As Karl told a reporter who caught up with him at his **757th store visit in Brownsville**, “**I’ve been kind of lonesome and I don’t have much to do, so I decided I’d go out and visit some more stores.**” Karl is 79.

Whataburger, still a family-owned enterprise continuing to add stores, gave Karl a list of the restaurants built since he last hit the road with Carol. **Whataburger bought a van for the Hoepfners in 2013 after they racked up more than 22,000 miles traveling to Whataburger locations.** The van’s license plate is WB1FAN, is covered with decals and has a sign in back that invites other motorists to **follow him to Whataburger. Last we heard he’s still on the road.**

Whataburger, meanwhile, continues to expand a family-owned-and-operated Texas success story. Dobson’s three children, **Tom, Lynne and Hugh**, are leading the company now. Just as their father before them, they still use **100% pure beef and serve it on a big, toasted, five-inch bun that is made when ordered.** What started during the golden age of drive-ins and car hops has obviously changed. But as Dobson’s kids say: “We’re still sticking to what got us here.”

Reader discretion advised: **Dr. Louis Overholster** says seven days without a pun makes one *weak!*

Sincerely,



Editor/Publisher