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Dear Client:

**It's been almost three years since IH35 running through the Austin area was supposed to be humming with big 18-wheeler truck rigs from Mexico. It hasn't happened yet. Instead, US trucks are hauling cargo up IH35 from just this side of the border with Mexico.**

You may remember when the North American Free Trade Agreement (NAFTA) opened up the largest free trade area in the world, **IH35 was predicted to carry millions of trucks with Mexican license plates each year.** The predicted increase was accurate, but those trucks have US plates. That's because the US (some say in violation of NAFTA) has kept Mexican trucks within 20 miles of border cities.

This has been great for Texas trucking companies that meet the Mexican trucks on this side of the border, transfer cargo, and come barreling back through Austin. The open trade policy has generated a massive increase in truck shipments between the two nations. While we don't have a daily truck count through Austin, we do have some numbers from border crossings. **Since NAFTA, truck crossings from Mexico have doubled from 2.7 million to 4.3 million in 2001.** Almost 1.5 million Mexican trucks a year crossed to IH35 at Laredo. And most of them transfer cargo to big US rigs that high-ball-it through Austin.

The trucking lobby in Texas, Austin's Texas Motor Transportation Association (TMTA) endorses NAFTA as long as **highway safety is not compromised**, the maintenance of the Texas highway system does not suffer from an increase in truck traffic and equal opportunities exist for Texas truckers through NAFTA.

What does that mean? "If NAFTA allows carriers from Mexico to come in and only be required to obey safety regulations and nothing else, then it would be possible for them to **not have any obligations to pay any social security taxes, school taxes or any workers' comp**, or any of the economic burdens that the US carriers experience," says TMTA's **Les Findeisen**.

Bottom line: **don't look for an overnight lifting of the restrictions on Mexican trucks** allowing them to travel up-and-down IH35. It will likely happen – **gradually**. In the meantime, the count of 18-wheelers on IH35 will continue to go up. The big difference is, for now, the trucks will be US trucks, adhering to US safety standards and paying US taxes as all businesses based here must do. And there are millions of them a year.

**Now that the Texas Attorney General has told UTAustin it can't levy an infrastructure fee to get \$20 million from students to repair and maintain buildings without legislative authorization, what next? How about the power to set its own tuition rates.**

Nationally about 15 states let public universities set their own tuition and fees. Another 20-or-so states give the legislature the power to do that. The rest of the states work with some hybrid version to generate revenue. **In Texas, the legislature controls tuition and fees.** And, for UTAustin, there's the rub. Also an opportunity.

For years, UTAustin officials have maintained that it shouldn't be called a state university, but a state-*supported* university since, with every passing year, the **state of Texas provides less and less of the total revenue needed to operate the university.** More and more, UTAustin relies on other sources of funding in its quest for excellence as a flagship research institution.

The Texas Legislature is getting ready to reconvene in Austin in January facing the **worst budget crisis in decades.** The possibility for a big increase in appropriations for UTAustin (and other state educational institutions) is diminishing with every passing day. This combination of circumstances is setting up what could be a pretty bloody fight at the State Capitol next year.

The UTSsystem, TexasA&MSystem, and the UofHSystem are teaming up to lead a charge in the halls of the Senate and House to get **authority to set tuition rates.** This means only one thing, if it is successful: **tuition will probably go up.** You can hear the arguments against it already — about asking the poor students to pay a heftier portion of their college education. After all, they say, one of the functions of a state university is to make an education available to all state residents, regardless of circumstance. And, of course, legislatures have always been reluctant to relinquish any of its powers to anybody.

But, these schools have been down this road before and will have their arguments fine-tuned (financial aid will be set aside for the needy, etc.). What could work in their favor are the **dire straits in which legislative budgeters find themselves.** Every state agency, every institution, state employees – all of those who rely on state appropriations – will be **trench-fighting for their piece of a small pie.**

And here come the universities saying, **“just let us set our own tuition and that's money you won't have to find** in the budget process this year.” The timing could work in favor of the universities.

Two interesting bits of information to factor into this effort: **Mark Yudof**, the new UTSsystem Chancellor, comes to this job from the University of Minnesota, which sets its own tuition – and the **TexasTechSystem is not a part of this movement** (so it's not a solid front presenting itself to the lawmakers). The effort could have many subplots. We'll keep an eye on it for you.

**Each time a budget crisis is predicted for a session of the Texas Legislature, tax talk starts early. It's happening now, and those with a dog in the fight are already priming for a knock-down, drag-out battle. Especially businesses.**

In fact, the Republican-leaning Texas Association of Business (TAB) hired a leading Democrat pollster to probe the public on how you and I feel about taxes. Not surprisingly, **you and I** – according to the poll taken this summer – **don't like new, or higher, taxes.**

So the TAB is going to take this message to legislators during the 2003 session that starts in Austin in January: **Texans overwhelmingly oppose new taxes** in any form. It will also point out **more than three in five voters, 68.2%, said the state should cut spending** to trim the \$5 billion shortfall facing lawmakers, while only 24% said taxes should be increased. (Only voters were polled because they are the ones legislators listen to.) Others either had no opinion or said, “it depends.”

Almost three out of four voters, 74%, said that state taxes are “just about right”. Only 4.6% said taxes – in the form of sales, consumer and business taxes – are too low. While 18.6% reported that taxes were too high. TAB says “the poll findings **contradict what many at the Capitol are crying for – an overhaul in the state's tax structure and an increase in business and/or personal taxes**”.

“There is an insidious attitude among some state officials that we have no choice, but to raise taxes,” said **Bill Hammond**, TAB president. “Clearly the public agrees with our members – no new taxes.”

Voters were also asked if business taxes should be increased in light of the projected budget shortfall. Here the tally was closer as 47.6% said no, while 42.5% said yes. **Jeff Montgomery** and his firm, Montgomery and Associates, conducted the poll. It sampled 1,016 voters across the state between 6/24/02 and 7/12/02. There is a 3% margin of error.

We should remind you **Texas is one of a handful of states without a personal income or business income tax** (though many will argue the corporate franchise tax is really a business income tax). The sales tax is the big kahuna when it comes to generating revenue. You can look for an effort to **increase the sales tax**, even though it is close to the highest rate in the nation. And you can anticipate a move to **broaden the sales tax** to include more items under its umbrella. “**Sin taxes**” (on alcohol, beer and tobacco) **are always a favorite target.**

But, in the next legislative session, **don't expect a move to levy a personal income tax to get very far** for two reasons. One, to levy a personal income tax would take a 2/3 vote of both houses to put it on the ballot — for voters to then agree to being taxed. And, two, by most estimates, a majority of the Texas House and Senate will be conservatives who would rather publicly support **Osama bin Laden** than vote for a personal income tax.

**You may have noticed they're making a big deal these days about the new Texas Heritage Trails program. Heritage tourism is the fastest growing segment of the tourism industry, generating as much as \$1.43 billion per year in Texas alone. But, this "new" program has its roots back in the 1960s.**

If you've got a little gray in your hair you may remember that the state highway department, back in 1968, under the direction of then-Governor **John Connally**, designed and erected signs for **ten historical driving tour routes that passed through almost every county in Texas.** The trails were established in conjunction with the HemisFair, an international exposition that commemorated the 250<sup>th</sup> anniversary of the founding of San Antonio. The program died a slow death in the late 1970s when gas rationing hit.

Now the Texas Historical Commission (THC) is using the old historic trails as the backbone for its Texas Heritage Trails program. Frankly, **this is an idea worth resurrecting.** Almost half the people who travel these days say they plan to visit historic sites. And Texas can be one of the biggest beneficiaries of that trend.

For starters, the THC has **developed regional tourism programs along three of the original driving trails:** The Forest Trail (through the Piney Woods of East Texas), The Forts Trail (beginning in Abilene and leading to eight of the famous forts of West Central Texas) and The Independence Trail (that starts at the Alamo and covers the 28-county "Cradle of Texas Liberty").

The Commission has funding to start regional tourism programs along four more of the trails in the next three to four years and eventually hopes to have programs along all ten. *Texas Monthly* magazine and Frost Bank are teaming to advertise the resurrected trails. Tourism is one of the best industries a city, region or state can develop. **It's a clean industry that brings in dollars from "outside."** **Visitors spend big bucks, pay taxes, then leave.** You don't have to spend tax dollars to educate their kids or provide libraries or fire protection. It's good business.

**Dr. Louis Overholster** says he always thought of "comfort food" as the olive in a martini!

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