THE Neal Spelce AUSTIN LETTER
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Dear Client:

Texas Republican leaders, who control every aspect of the executive and legislative power positions, are speaking with one "no tax increase" voice – even as they face a major financial crisis. But if the pressure is such that current programs and obligations will be financed at the same level for the next biennium, where will they turn to get $9.9 billion extra dollars?

There are five sources being laid out by the Austin-based Center for Public Policy Priorities. The Center suggests first "**scrubbing the budget**" **to eliminate waste**, then considering the following (this is what you should be alert to when it gets down to legislative crunch time):

Expand the 6.25% Sales Tax. The Center says the state could generate up to $7.5 billion by expanding the state sales tax to cover *services* that aren't taxed – and still exempt medical and dental services.

Raise the Cigarette Tax. Texas now charges 41 cents a pack. A buck a pack could bring in anywhere from $1 billion to $1.5 billion over the next two years.

Close Franchise Tax "Loopholes." Some Texas companies shift profits made in Texas to subsidiaries in Delaware. Tightening that, according to the Center, could raise another $500 million.

Tighten Property Tax Provisions. Businesses are supposed to report equipment and inventory to local appraisal districts. But, the Center claims that since there is no penalty for failing to do so, there is now an estimated $36 billion of unreported business property that, if taxed properly, would generate $1 billion in school property taxes. A higher local tax income for schools would reduce the need for state aid, suggests the Center.

Raid The Rainy Day Fund. Lawmakers have been setting aside money in past sessions for future financial crises. The fund will have $1.3 billion available.

No matter how much slicing and dicing is done to the next biennial budget, it is the Center's position it is still going to take more money to finance a growing state. **It's highly unlikely the GOP leaders will enact all five of the above**. But, the Center is laying the groundwork for when the pressure builds toward the end of the Legislative Session in May.

The conservative Texas Association of Business is voicing the flip side of increasing and expanding taxes. However, TAB agrees with one proposal from the pro-tax side.

TAB and the Center for Public Policy Priorities agree on one source of new money for the budget for the next biennium: raid the rainy day fund. "**It is raining and the people of Texas need the fund's shelter to weather the storm**," argues the TAB. But this is the only money item on which the two groups agree.

The TAB has its own approach to solving the $9.9 billion shortfall. And, since the group is much more likely to have the ear of the GOP leadership, its' proposals are much more likely to receive serious consideration — **especially since they don't involve tinkering with taxes**.

Take Tobacco Settlement Money Now, Instead of Later. Texas stands to get as much as $14 billion in tobacco settlement revenue – over time. However, by taking all or a portion of it now (and, as a result, discounting it), TAB says the state could get anywhere from $3 billion to $6 billion now. Some could be used to balance the budget, with the remainder going into a fund for health care expenses.

Sell The Lower Colorado River Authority. The LCRA, headquartered in Austin, is a hugely profitable utility. With more than $2 billion in assets, it might bring a sales price in that range.

Implement some "accounting" maneuvers. The TAB suggests the state should use "legitimate fiscal devices", such as consolidating funds into general revenue, delaying certain payments and fund transfers and requiring early remittance of certain taxes.

Reform Medicaid. The TAB is proposing to adopt managed care principles for Medicaid. The TAB claims this could generate more than $1 billion in savings "without sacrificing services."

Additionally, the TAB recommends adopting every single recommendation in State Comptroller **Carole Keeton Strayhorn**'s E-Texas report that suggests 179 ways Texas could institute **consolidations and efficiencies to the tune of nearly $3.7 billion** during the next biennium, including $1.7 billion in general revenue funds. One suggestion: merge the Texas Railroad Commission and the Public Utility Commission.

Economic downturns are temporary and tax increases are forever – claims TAB. The business group says "if we make the mistake of raising taxes now, that guarantees increased government spending when the economy recovers – setting in motion the next budget shortfall and the next tax hike." When the TAB says **the state must "rein in spending**," and you have an interest in the Austin economy, remember that **cutbacks affect the Austin economy more heavily than other cities** because of the concentration here of state employees and government services.

Speaking of spending your tax dollars, the Austin Independent School District has a financial crisis of a different kind: it has raised your taxes to the limit and now must find ways to cut.

AISD has reached the state-mandated tax cap of $1.50 for school maintenance and operations, so it cannot raise local property taxes. As a result, the district must implement about $**59 million in cuts and reductions if it wants to have a balanced budget** for the upcoming 2003-2004 school year. Other than day-to-day operations, there are three major factors at play here.

First of all, because of the declining economy, **property values are expected to decline in 2003** (good news if you own property, bad news for the schools that rely most heavily on property tax revenue). This means there will likely be fewer tax dollars for AISD in the next fiscal year.

Secondly, under the state's Robin Hood "share the wealth" law, Austin – classified as a "property rich" school district – **must give up $169 million from its local tax revenue** and send the money to school districts considered "property poor."

Finally, **AISD is one of only 13 Texas school districts required by federal law to make Social Security payments**, in addition to Texas Teacher Retirement System payments. This will cost AISD about $20 million.

AISD is not unique as it tries to make do with less. **Dallas ISD** is facing an $80 million shortfall, **Houston ISD** is projecting a whopping $154 million shortfall, while **Fort Worth ISD** is looking at covering $20 million. But, unlike AISD, these three metro school districts are *not* classified as "property rich" and do not have to come up with a "share the wealth" payment.

This didn't start out to be a "tax" edition of the newsletter, but we need to tell you about an intriguing effect of President George W. Bush's tax cut plan that could benefit Texas in its competition with other states.

The president is proposing that 50% of stock dividends be exempt from federal income taxes. On the surface, it would encourage companies to declare dividends more freely and would help individual shareholders who receive those dividends. But a consequence of that proposal, if enacted, would **slice revenue to *states* that levy personal income taxes — because most states with *local* income taxes tie them to the *federal* income tax**.

Since Texas has no state income tax, it's not a factor here. But cash-strapped California would stand to lose $454 million, New York $220 million, Ohio $101 million and New Jersey, $99 million – just because of the stock dividend exemption. **Texas's competitive position, vis a vis the states with whom we compete for jobs, gets a little bit better every time the federal income tax bite is reduced**. And no one is proposing a state income tax for Texas.

Finally (**you sigh**!), **a non-tax item**. **Guess which major Texas city car-pools** ***less*** **than the others**. **You got it**. **Austin**.

We're not talking public transportation. This is car-pooling – more than one person riding in the same vehicle to and from work. **In vehicle dependent**, **and highly independent**, **Texas**, **car-pooling actually increased during the decade of the nineties**. In fact, Dallas led the nation in the percentage of its commuters sharing rides to work when the new century began.

Even though the percentage of workers who were carpooling in Austin in 2000 was less than other big cities, we still ranked 12th in the nation and above the national average. According to the US Census Bureau, here's how the cities' stacked up: #**1 Dallas** (17.8%), Phoenix (17.4%), Detroit (17.1%), and #**4 Houston** (15.9%).

Also, #**5 El Paso** (15.8%), Memphis (15.7%), Baltimore (15.2%), #**8 San Antonio** (15.2%), Los Angeles (14.7%), Chicago (14.5%), San Jose (14.1%) and #**12 Austin** (13.9%). The national average is 12.2%. As far as Texas goes, when you figure it the other way, 77.7% of all Texans drive to work alone.

While car-pooling went down nationwide during from 1990 to 2000 (**13**.**3**% **down to 12**.**2**%), **it increased in the big Texas cities**. Dallas showed a huge two percentage point increase, while Austin increased only six-tenths of a percentage point.

Why the big increase in Texas, contrary to the national average? The answer is a no-brainer. **Increasing traffic congestion** in a fast-growing state. Also in some cities, particularly Dallas and Houston, **car-pooling is encouraged**. High occupancy vehicle (HOV) lanes are set aside on Dallas and Houston freeways for vehicles with more than one occupant and those lanes speed you to your destination quicker than the normal rush hour flow.

Noting recent scientific reports about the medicinal benefits of moderate drinking, **Dr**. **Louis Overholster** said there were effects other than medical. As he put it: "Beauty is in the eye of the beer-holder."

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Sincerely

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