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Dear Client:

Tuition increases have just gone into effect at UTAustin, and this fall, for the 2004-2005 academic year, that tuition will double. When you examine how the money will be spent, you'll see the Austin economy will benefit.

Tuition increases are a done deal now. There's no more debate. But throughout the almost year-long discussion it somehow escaped public attention that most of these **new dollars will come from outside the Austin metro area and then be circulated throughout our recovering economy**. How much are we talking about? UTAustin president **Larry Faulkner** said "to fully support what we really need to do in the period extending through August 2005 would require nearly \$100 million in additional recurring resources."

But Faulkner is not trying to get all \$100 million from the tuition increase. He said "we cannot and do not ask students and their families to cover all of that. **Our plan calls for them to bear about 60% of it.** The plan will fully fund faculty expansion for two years, about half of the long-discussed gap in funding for repair and renovation of facilities and a compensation program for our faculty and staff that has a chance to keep us even with the competition."

In other words, **new hires, pay raises and construction dollars** will use up the \$60 million tuition increase. These outside dollars will be spent right here and will help beef up our economy.

Will the higher costs for an education at UTAustin put the largest single-campus institution in America at a disadvantage? Faulkner doesn't think so. "Among nine major state universities across the nation that we use consistently as benchmarks, **UT Austin's cost of attendance will remain lower than all but that of the University of Washington.**" If you read this another way, it could mean even greater tuition increases are on the horizon because other universities around the nation will continue to ratchet up their rates – and UTAustin can maintain its favorable competitive position, while continuing to hike tuition.

Make no bones about it: **getting authority to set its own tuition was a major coup for the university.** The Legislature, always reluctant to give up control over anything, "granted our universities greater financial flexibility, because it was unable to support them as needed through appropriations," Faulkner observed. The genie may be out of the bottle.

While UTAustin is gaining big bucks with tuition increases, it is shaving expenditures in other areas. However, the net result is still an increase in spending in the Austin area.

So, how does a behemoth of a bureaucracy such as UTAustin cut costs? The old fashioned way. For many years, various departments made their own individual purchases. For instance, university departments purchased office supplies from more than 200 vendors at varying prices. By **consolidating the university's combined purchasing power** with just two vendors (Office Depot and Hurricane Office Supply), the university was able to take advantage of **substantial discounts** it previously lost. Savings to UTAustin: an estimated \$2.7 million each year.

This didn't come easy in many of the fiefdoms on the Forty Acres. "There was resistance to changing the culture of purchasing, with one obstacle being the **thought by some that while change indeed was needed, it was needed in every area other than their own,**" observed **Kevin Hegarty**, UTAustin's chief financial officer and VP/Financial Affairs.

The university also has the potential to save about \$1.5 million annually through an office equipment efficiency program. Hegarty says this program could **reduce the thousands of individual machines** the university uses to copy, fax, print and scan to a tenth the number – by using multi-function machines that do it all, and **located for shared use**.

"I'm not asking someone to walk down the hall to pick up their print, but I am **asking them to get up from their desk,**" said Hegarty. He said most people don't realize how expensive it is to operate individual function machines such as the personal printer on someone's desk.

Another money-saving business practice that already has saved money for the university is the implementation of a new credit card policy that went into effect last April. The new policy **assesses a 1.75% convenience charge on credit card and debit card payments** for tuition and mandatory fees. Savings to UTAustin each year: nearly \$2 million.

What gives here? This sounds like someone is trying to **run UTAustin's operations like a business**, not like a typical governmental entity. All you need to know is one of President **Larry Faulkner's** most important hires was Hegarty. Hegarty is not an academic. Faulkner **hired Hegarty away from Dell** and solidly supports his initiatives.

When you thumbed through your favorite magazines during 2003, did you ever think "there sure seems to be more advertising in *Texas Monthly* than many other pubs." You were right.

TM ranked #22 in the nation in number of ad pages, ahead of such pubs as *Cosmo*, *Rolling Stone*, *ESPN The Magazine*, *USNews&WorldReport*, etc. – up an impressive 22.5%.

As we have reported month after month after month, the jobs picture continues to improve in the Austin area. In fact, Austin's *improvement* last month was greater than for any other major Texas metro.

This is a positive economic story that's not getting told the way it should be. The problem has to do with the way the unemployment figures are reported in the media each month. When the December figures were released, the headlines noted that **Texas unemployment went UP from November to December**. But, as you know, employment fluctuates dramatically, due to seasonal hiring. To get a more accurate trend measurement, you should compare to the *same month the previous year*.

First of all, the **December Austin metro unemployment was an impressive 4.5% – in contrast to the state tally of 6.4%**. And the Austin numbers went in the right direction, down. It's even more impressive when you compare it to December a year ago, when our unemployment was 5%. The drop was a full .5%.

Of all the big Texas metros, Austin not only has the best unemployment percentage, but it improved the most. Dallas was 6.4% in December a year ago and 6% in December 2003. Fort Worth-Arlington went from 5.6% to 5.3%. San Antonio was closest to Austin — going from 4.9% to 4.8%. Houston's unemployment picture actually worsened – from 5.6% a year ago to 5.9% in 12/03.

The worst is over. As we reported 1/23/04, it looks as if the downturn bottomed out in March 2003. The labor market has not only stabilized in the Austin area, it is improving almost daily.

The 2004 top priority for the Greater Austin Chamber of Commerce is jobs, and more jobs. In other words, it is pursuing an aggressive business recruitment and retention program.

If you want to know who to contact (or hold accountable), here are the key volunteer leaders. The chair is Wells Fargo bank president, **Rick Burciaga**. Attorney and former mayor **Kirk Watson** is the chair-elect. The GACofC vice-chairs who make up the remainder of the chamber's Executive Committee: **Charles Barnett** (Education), **Elizabeth Christian** (Regional and Transportation & Development), **Gary Farmer** (Economic Development), **Jon Foster** (Government Relations), **Glenn Hodges** (General Counsel), **Robert Huthnance** (Membership), **Bobby Jenkins** (Small Business), **Bill Morrow** (Communications) and **Ellen Wood** (Finance).

The creation of jobs isn't the only focus for the Chamber. Transportation, improving the business climate, workforce training, etc. (see the portfolios listed above with each vice chair) are also the focus of Austin's largest business organization. But there is no question, the ultimate success of the GACofC this year will be measured against its ability to create jobs.

The level of air travel through Austin was flat in 2003, compared to last year. But the relative position of the airlines competing for Austin travelers solidified a bit.

Passenger traffic for all of 2003 at Austin-Bergstrom International Airport was roughly the same as 2002. Okay, it was actually *down* two-tenths of 1%, but that's close enough. The really significant comparison, though, is with the years prior to 9/11/01. The December 2003 totals at ABIA were **below the year-end numbers of the record-setting year of 2000 and even the previous year, 1999**. So we still have some high hurdles to clear for 2004. We'll keep an eye on it for you.

In tough times, the competitive picture has a way of separating companies. This was true in 2003. For several years, Delta and Continental have been neck-and-neck in the battle for third place in market share. In 2003, **Continental Airlines impressively separated from Delta to claim the #3 spot**, carrying 11.8% of Austin air travelers – compared to #4 Delta's 8.2% market share.

Southwest continued its domination, carrying one out of every three travelers, notching a 35.6% market share. This compares to American Airlines that had a solid hold on the #2 slot, carrying one out of every four travelers, for a 25.8% market share. Northwest (with a 3.3% share), United (3.0%) and Frontier (2.0%) were the other major airlines back in the pack.

By the way, in 2003 **Southwest – for the 31st consecutive year – earned a profit**. While this record is simply amazing in the up-and-down world of airline competition, it surprised no one. In fact, Dallas-based Southwest is so strong (with about \$1.9 billion cash in the bank) it announced a move to buy back about \$300 million in company stock.

Speaking of business developments, **Dr. Louis Overholster** said the other day: “Don't you just hate it when you're told to think *outside* the box – by the same people who put you *inside* the box to begin with!”

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