

Volume 26, Number 23

September 3, 2004

Dear Client:

**The annual fall ritual of where as many students as possible are crammed into the campuses of the state's two flagship institutions, UT Austin and Texas A&M, is underway. But now there is a push to change this situation – by elevating a 3<sup>rd</sup> state university to flagship status.**

Since the beginning of higher education in Texas, UT Austin and, thereafter, Texas A&M, were singled out as the institutions where research and teaching were taken to such a level they became the **most prestigious universities in the state**. Inevitably, they were more attractive to students seeking the best education. Simultaneously, the state of Texas was growing enormously. As a result, overcrowding, especially at UT Austin, has long been a problem.

For decades, the concept of a 3<sup>rd</sup> flagship institution has been resisted, primarily due to the fear it would dilute the quality at UT Austin and Texas A&M. But it's different now. No less than a former UT System Chancellor/UT Austin President is championing moving one more state institution – such as UT Dallas, UT Arlington, Texas Tech, etc. – into this rarefied educational atmosphere. But **Bill Cunningham** is doing so with several caveats.

First of all, he wants a commitment to **raise the support (spelled f-u-n-d-i-n-g) for UT Austin and Texas A&M** to a “rate that is consistent with how other states fund their flagship schools.” Secondly, he wants to **change or modify** the state law that requires Texas public universities to **admit any student in the top 10%** of his or her high school class – because this is overwhelming the population at the two schools and admits students from lesser quality high schools whose chances of achieving at the university level are iffy.

Cunningham argues the cost to the state for a 3<sup>rd</sup> flagship would not be as expensive as many believe. He proposes that communities, who want to upgrade their universities to this elite level, prepare proposals to show which community is “willing to **invest the most additional resources to assist the state in its effort to expand high quality educational services**”. In other words, cities pony up big bucks, etc. to attract industry, why not do the same to enhance a proven economic engine such as a world-class research and teaching university?

**A 3<sup>rd</sup> flagship would be good for UT Austin.** It would remove enrollment pressures and allow UT Austin to focus on becoming better in its mission to serve the education needs of Texas.

**The creation of a 3<sup>rd</sup> flagship university in Texas would not happen overnight. But a step-by-step roadmap has already been laid out.**

Former UTSystem Chancellor/UTAustin President **Bill Cunningham** is recommending the state create a special commission with three charges. First, it would carefully review the state's need for additional elite university educational services. Assuming the commission determined there was a need, the 2<sup>nd</sup> charge would be to **determine how best to meet these needs**.

Cunningham, in effect, dismisses the notion of increasing the size/capacity by as much as 40% at the two flagships, UTAustin and UTA&M, by pointing out UTAustin is already the largest university on a single campus in the United States. He also argues there is a **less expensive alternative** – letting communities, where a good public university is established, jump into a bidding war for a 3<sup>rd</sup> flagship.

“We believe a very strong case could be made in the Legislature for investment of state resources over a number of years to upgrade one existing public university to flagship status,” Cunningham said. Much of that case revolves around enrollment pressures. “The real problem that university admission officials face is that the demand for undergraduate services has increased so dramatically **the two institutions cannot possibly admit all qualified freshmen who would like to enroll**,” he added.

Cunningham stresses upgrading another public university should not come at the expense of the two existing flagships. As he put it: “An even stronger argument must be made that to build additional educational facilities by taking away resources from UTAustin and TexasA&M would be a **shortsighted tragedy for all the people of Texas** and must be avoided at all costs.”

**Speaking of “population” problems, are you aware that after centuries of a growing population, we are at the point of declining population numbers?**

Living and working in one of the most dynamic and growing regions in the US, it is understandable if you think the worldwide population boom is continuing. But, according to **Phillip Longman**, who has written a book about falling birthrates, the opposite is true. Because of declining birthrates, he predicts that **by 2050 the population of Europe will be what it was in 1950**. In fact, all around the world – China, India, Japan, Brazil, the Middle East, etc. – women are having fewer children.

We're almost reaching a declining level in the US. Longman, an economist, says you need to have 2.1 births per woman to maintain a level population. Just fifty years ago, the birthrate in the US hit a record 3.7 births per woman. **He says it is now at 2.07 per woman — below the replacement rate**. This major population trend in the US is not that obvious in fast-growing areas such as Austin and the state of Texas, but in the bigger picture, it is there nonetheless.

## **Slowly, but surely, Austin air travelers are once again taking to the skies. Travel in July 2004 at Austin-Bergstrom International Airport inched closer to the July 2000 record.**

In our 7/30/04 edition we pointed out that, for four long years – since the go-go, economic record-setting year of 2000 – we have struggled to get air travel back to vibrant levels. The economic decline, as evidenced by the drop-off in business and leisure travel, started more than a year before the airline terror attack in September 2001. The events of 9/11 would probably have devastated the US airline industry beyond repair if the US government had not intervened. So it's been a long haul for this economic segment to regain its health.

Even now, high fuel costs are keeping airlines reeling. Just this week, American Airlines told investors **higher fuel prices would help increase its 2004 fuel bill by \$1 billion**. You think the cost to fill your jalopy has risen when gasoline goes up a penny a gallon. American paid 87.7 cents a gallon for jet fuel in 2003. It has now ratcheted up to \$1.17 a gallon. **Each penny per gallon increase in jet fuel costs American nearly \$33 million a year**. Talk about a hit.

Austin air travelers in recent months are doing their part to help. June's passenger travel was up 10.57% over 2003 and now **July has come in with a solid 5% increase**. It's getting close to the record year of 2000. August travel traditionally drops off, as does September. We'll watch it for you to see how the 2004 drop compares to previous years.

## **It's official now. You will get a chance to vote on whether to install commuter rail in Austin. But don't expect the vigorous campaign that led light rail down the road to defeat in 2000.**

In 2000, a lot of high tech money (remember the boom years?) was spent trying to pass a very expensive and elaborate light rail system. This invigorated the opposition to fight back with an inexpensive "Costs Too Much, Does Too Little" campaign and they **defeated the \$1.6 billion light rail dream — narrowly**. But on a cost-per-vote basis, the defeat was overwhelming.

This time around, it's different. The cost of the commuter rail proposal is much less – about \$60 million total. The big high tech bucks are not there to spend on a campaign for the 11/2/04 election. **The opposition doesn't seem as energized**. Alliances to help rail were forged during the summertime toll roads decision.

By the way, don't let the \$60 million cost fool you. You can't run a railroad without rail cars and the **initial price tag does not include the cost of the cars to haul the passengers** along the 32-mile route from Leander on the north to downtown Austin on the south. Another \$30 million will be needed to acquire the rail cars on a lease-purchase basis. Capital Metro officials say they will cover the cost of the rail cars out of the operating budget. What will it cost to ride the train? CapMetro hasn't said, yet. Probably more than a 50-cent bus ride, though.

**When you're hot, you're hot! When you're on a roll... whatever! The top brass in Round Rock at Dell Inc. have to be grinning ear to ear after reviewing the 9/6/04 edition of *FORTUNE* magazine's "The 100 Fastest Growing Companies."**

Face it. Dell is no spring chicken. It's been around long enough to solidify its position as the world's largest PC maker. In other words, its huge growth spurts are mostly behind it. But guess what? **Dell is prominently featured in this highly-respected publication.** And it comes at the expense – underline expense – of its biggest competitor, Hewlett-Packard. Here's how it came down. *FORTUNE* presented a special, perforated-edge, tear-out section in this "100 Fastest Growing" premier edition called "What Drives Growth." It was a look back at *FORTUNE*'s rankings since the start in 1991.

As *FORTUNE* put it: "The numbers are a guide. They help us find the businesses in a sweet spot, the managers with the big ideas who get the little things right. The numbers are only part of the story, however. Most of our companies can't sustain the rapid pace. Growth can be fleeting. **But when the right factors come together – a great product, relentless execution, creative management – the best ones find a way to use change to their benefit.**"

After praising the sustained growth of Starbucks and Express Scripts, *FORTUNE* said "Then there's Dell, **the only company to appear seven times.** The reward: Dell's share price is up 18,306% since 1991."

How did this come at the expense of H-P? First of all, **Dell didn't spend a dime** to be mentioned so positively in the section that is read by the nation's business leaders. But, since H-P didn't make the list, **Hewlett-Packard had to pay probably hundreds of thousands of dollars** just to be included in the ads *FORTUNE* allowed to run in the section.

**Dr. Louis Overholster** is amazed at the new cell phones that send/receive e-mails and photos, provide you with stocks, weather, etc., and if you want to *call* someone, the cell phone's GPS will give you the location of the nearest gas station with a *pay phone*!

NEAL SPELCE AUSTIN LETTER (ISSN 1071-0612) is published weekly, except last two weeks of the year, for \$150 (plus tax) per year or \$249 (plus tax) for two years. To subscribe, call 512-498-9495. Periodical Postage Paid at Austin, TX 78767 by Austin Letter, Inc., 1407 Wild Cat Hollow, Austin, TX 78746. POSTMASTER: Send address changes to: Neal Spelce Austin Letter, P.O. Box 1905, Austin, TX 78767-1905.

Sincerely



Editor/Publisher