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Dear Client:

**For years, the mantra has been that California is the innovator — California is the leader; the rest of the states are followers. Let's hope this is no longer the case. For example:**

**California has compiled a long list of bad news:** a) the state's budget process meltdown, b) the ugly combination of escalating fees, reduced programs and access at the California State University and University of California systems, c) the K-12 teacher layoffs resulting in increasingly crowded classes, and d) the Friday closings of state offices, etc. etc.

Barring major fixes, **California faces a \$20 billion deficit in the 2010-11 budget year and more of the same for the years beyond**, according to the state's Legislative Analyst Office. California's official unemployment rate is 12.3% (tied for 3<sup>rd</sup> highest in the US). This is close to a postwar record.

**Peter Schrag**, former editorial page editor for the *Sacramento Bee*, says for decades **California, stuck in political gridlock, "was living too close to the edge**, spending more than it was taking in, liquidating assets, borrowing, fudging, deferring to make each year's budget 'balance'." And now, he says, "the state is no closer to fixing its dysfunctions than it was 20 years ago."

Tossing out a little "cheer," Schrag says "**California isn't the only state in deep budget doo-doo and run by a dysfunctional government.**" He points out that the "public colleges in Florida, New York and Illinois are as overcrowded and underfunded as ours."

Calling for continued budget and tax reform, outgoing governor **Arnold Schwarzenegger** last week promised to **protect education funding** in his new budget proposal and plans to submit a constitutional amendment to **prohibit the state from spending more money on prisons than higher education.**

These steps brought praise from University of California President **Mark Yudof** (who left the Chancellorship of a much more financially-sound University of Texas System for the UC job). However, Yudof said that in the short term, "there are still critical budget shortfalls." So, what about the great economic engine for Austin? **How is UTAustin facing critical financial issues while other state's educational institutions are being seriously damaged?** See the next item.

**UTAustin President Bill Powers said “we face serious financial challenges through 2012, and we will need to continue working hard to address them.” Okay, what steps are being taken?**

Powers points out what we have reported previously: “**unlike many of our national peer universities, UTAustin has not experienced severe budget cuts imposed by external forces.**” And he added, pointedly, that “we are not facing a budget shortfall of hundreds of millions of dollars, which the University of California System is confronting.”

**But this doesn't mean there isn't budget stress across the campus.** Powers says “we aspire to be the best public university in America.” And to do so, his highest priorities in 2009-2010 are to “create more competitive **faculty and graduate student compensation, continue faculty expansion and increase student scholarships.**”

In other words give raises, hire more higher-paid faculty and pay more in scholarships to students. But his budget is essentially flat. So how does Powers intend to pay out *more* money in specific areas when his budget has not increased? In short, he suggests **taking money from low priority programs to fund the high priority programs** he has listed. “This kind of change occurs every day in the private sector,” he said.

To implement this strategy, **he has put this burden of financial reallocation on the deans, department chairs and vice presidents because, as he put it, they “know their programs better than anyone.”** He went on to say that “instead of managing by presidential edict, I have asked the individuals with direct responsibility for our programs to make these decisions” and he acknowledged that “this is very difficult and painful work.”

Will it work? “Some areas, such as Information Technology Services (ITS), have already seen reorganizations and reductions in force,” he noted. “**The changes at ITS alone will save more than \$5 million per year.**”

Powers says “sometimes leaders must make tough decisions. I understand that these decisions have human costs and affect real people. **But doing nothing also comes at a cost – a cost to the future of our programs, a cost to our aspirations, and a cost to the value of a degree from the University of Texas at Austin.** I believe we must strive for excellence, in good times and bad.”

In the midst of these financial reallocations on the Forty Acres, Powers has had to deal with harsh criticism following the \$5 million annual salary, with incentives, for football coach **Mack Brown.** Powers has staunchly defended the decision to make UTAustin's football coach among the **highest paid in the nation** – at a time he is asking his deans, department heads, etc. to find a way to cut some budget items in order to increase allocations to his priorities. We'll share with you how he justifies this aspect of UTAustin's finances in next week's edition.

**Can you believe it's so close? In just six weeks, you will be asked to make some very important decisions at the ballot box. And most folks don't know who will be on the ballot 3/2/10 in the Democratic and Republican primary elections. We'll straighten that out for you.**

Soon the Democrats and the Republicans will decide which candidates will represent their party on the November General Election ballot. **The Libertarians will also have candidates on their primary ballot for the March 2<sup>nd</sup> primary** but, candidly, none of these Libertarians who made the filing deadline appear to have the organization, money, name ID, etc. to be a factor this year in Texas. So, in the interest of your time, let's focus on the D's and R's.

Let's start with the race for governor of Texas, where seven Dems, five Libertarians and three Republicans say they want to be governor. Incumbent Republican Governor **Rick Perry** is being challenged by USSenator **Kay Bailey Hutchison** and **Debra Medina**. Perry and Hutchison will get the most press.

In the Democratic primary, the seven people on their ballot will be **Bill White, Farouk Shami, Star Locke, Clement Glenn, Bill Dear, Felix Alvarado and Alma Ludivina Aguado**. White, a former Houston mayor, and Shami, a wealthy businessman, should garner most of the attention.

For lieutenant governor, the Democratic ballot will have **Marc Katz, Ronnie Earle and Linda Chavez-Thompson**. Earle and Chavez-Thompson each have their own constituencies, so both may garner ample coverage. Incumbent lieutenant governor **David Dewhurst** is unopposed in the GOP primary.

For attorney general, incumbent Republican **Greg Abbott** and Democrat **Barbara Ann Radnofsky** are unopposed in their respective primaries. Incumbent Republican State Comptroller **Susan Combs** is unopposed and no Democrat filed to challenge her in March to be on the ballot in November.

For land commissioner, Democrats **Hector Uribe** and **Bill Burton** will vie to see who will challenge, in November, incumbent Republican **Jerry Patterson**, who has no GOP opponent.

And **Hank Gilbert** will duel **Kinky Friedman** in the Democratic Primary for the right to challenge incumbent agriculture commissioner **Todd Staples**, who has no opponent in the GOP primary.

As you might expect, **the governor's race will generate the most coverage due to the high profile of both GOP candidates and the massive advertising spending that will occur for both the Dem and GOP primaries**. The other down-ballot candidates will struggle to get news media coverage and their war chests will probably be so small they will not be running paid ads until just prior to the March 2<sup>nd</sup> election day.

**The “Cornhusker Kickback” is not the phrase used to describe the devastating defense the University of Nebraska Cornhuskers unleashed on the Texas Longhorns as the ’Horns won the Big 12 football championship. However, it is a political term that describes what could lead to an ironic “win” for the state of Texas.**

Nebraska USSenator **Ben Nelson** cast the filibuster-breaking 60<sup>th</sup> vote for the health care bill. To secure his vote the Democratic Senate leadership agreed to make **Nebraska the only state where the Federal Government will pay all of Nebraska’s new Medicaid costs forever.** This is huge, and the other 49 states will not only have their Medicaid costs rise under the proposed reform bill, but the other states will, in effect, pick up the tab for Nebraska’s costs as well. Those states outraged at this turn of events are calling it the “Cornhusker Kickback.”

But there’s a bit of irony in all of this. **States that have expanded Medicaid on their own in the past will not receive as many federal dollars** to help cover those increased costs — as will those states that have yet to expand their programs.

Because liberal and heavily Democratic states have traditionally been more generous in their Medicaid programs, they are likely to be the ones shortchanged, reports **Kate Pickert** and **Karen Tumulty** with *TIME* magazine.

**And states like Texas that have generally kept a lid on massive Medicaid expansions up to this point, will likely get more funds.** Texas’s two GOP USSenators have been highly critical of health care reform – fighting it all the way, and voting against it as did all their other fellow Republican Senators.

As a result, Pickert and Tumulty say the **biggest beneficiaries for Medicaid funding under the pending health care reforms will likely be those states, like Texas, that have fought the hardest against it.** And that, they say, may be reform’s biggest political irony of all.

**Dr. Louis Overholster** is still chuckling over the reader board at El Arroyo on West Fifth that read on Monday of this week: “If the Dallas Cowboys win the Super Bowl, free enchiladas tomorrow.”

Sincerely



Editor/Publisher