Texas Borderlands: Frontier of the Americas

October 2000

Senator Eliot Shapleigh
29th Senatorial District
El Paso County

Capitol
P.O. Box 12068
Austin, Texas 78711
Tel: (512) 463-0129
Toll Free: (800) 544-1990
Fax: (512) 463-0218

District
800 Wyoming, Suite A
El Paso, Texas 79902
Tel: (915) 544-1990
Fax: (915) 544-1998

email: eliot.shapleigh@senate.state.tx.us

ACKNOWLEDGEMENTS

The author wishes to recognize the following individuals, agencies and organizations for their contribution to this report:

- Comptroller of Public Accounts
- Dick Lavine - Center for Public Policy Priorities
- DRI McGraw Hill
- El Paso District Attorney's Office
- El Paso Economic Summit
- El Paso Education Summit
- Equity Center
- Eva de Luna Castro - Center for Public Policy Priorities
- General Services Administration
- Greater El Paso Chamber of Commerce
- Higher Education Coordinating Board
- Jim Marston - Environmental Defense
- John Henneberger - Texas Low Income Housing Information Service/ Border Low Income Housing Coalition
- LBJ School of Public Affairs
- Legislative Budget Board
- Secretary of State
- State Board for Educator Certification
- Teachers Retirement System
- Texas Association of School Business Officials

- Texas Department of Economic Development
- Texas Department of Health
- Texas Department of Housing and Community Affairs
- Texas Department of Public Safety
- Texas Department of Transportation
- Texas Health and Human Services Commission
- Texas/Mexico Border Health Coordination Office (University of Texas - Pan American)
- Texas State Data Center
- Texas Workforce Commission
- University of Texas at El Paso
- University of Texas System
- U.S. Attorney's Office
- U.S. Department of Treasury
- U.S. General Accounting Office

OVERVIEW

In a new era of North-South trade, we stand at a crossroad, and the choice is ours: whether to correct gross historical inequities in state tax and spending policies and allow Border families to succeed, or to continue past policies that promote poverty and deny an entire region the opportunity to succeed. With Texas now positioned as the Frontier of the Americas, the case for investment in our Border is not just a moral mandate, but now forms an economic foundation without which we cannot prosper.

Texas' 43 Border counties, home to one in five Texans, are the center of poverty in America today. For decades, per capita income along the Texas-Mexico Border (as a percentage of the national average) has plummeted such that in key areas of the Border it is now 52% of the national average.

If ranked as the "51st" state, the 43 Border counties rank dead last in the U.S. in per capita income; Texas without these counties would rank 21st in the nation. Sadly, the income gap between Border and non-Border counties widens every day. As we enter the 21st century, in countless ways, we find that federal and state governments play a leading role in perpetuating poverty along the Border.

Today, some 150 years after Texas independence, federal and state policies foster Border dependence. At the federal level, six years after NAFTA, Border counties bear significant burdens, but few benefits of increased trade. In infrastructure, workforce, health, environment, and law enforcement, disproportionate burdens have been transferred to a few, desperately poor counties.

At the state level, policies on funding and taxation can no longer be called neglect. Rather, such policies are systematic, pervasive and intentional state actions that have thwarted for a whole region the development of a sound economic foundation. State underfunding is so chronic and profound in this region that it has provoked decades of civil rights litigation. In one instance, a state claim alleged funding levels so low as to constitute "criminal negligence." In 1994, the Governor and her opponent each pledged to change Texas' system and allocate resources based on need. Despite repeated reports, requests, lawsuits and even criminal complaints, in the absence of compulsion, our state has not seen fit to allocate equitable resources to ensure the economic well-being of this key region.

Transportation funding provides a stark example of this systematic underfunding. Between 1990 and 1999, the difference in funding between one central Texas highway district and a South Texas district (both home to nearly one million residents) was almost $1 billion dollars. Over the last decade, despite the burden of moving four-fifths of the nation's Mexico traffic, Border districts received $89 per resident in transportation/highway funding while the state average was $109.

Despite a 42 % increase in Texas exports to Mexico (1994 to present), volumes of NAFTA reports, and a 1994 federal highway report that cited the failure of U.S.-Mexico Border

states to address critical NAFTA infrastructure, the federal government likewise has made no real attempt to address Border infrastructure needs. In 2000, despite the burden of moving 80% of NAFTA traffic, Texas received only 15% of federal funds allocated to address Border and corridor need.

In higher education, now clearly a key to economic success, the 43-county Border region has not fared well. Although this area is home to four million Texans, the nine Border universities now offer only 18 doctoral programs. By contrast, in a region with a declining population, one university in Lubbock County has 58 doctoral programs. In housing, Dallas has fewer than half as many people living in poverty as the Border region yet between 1989 and 1998 received four times the number of subsidized housing units. In workforce, tax credits, childcare and other areas critical to building a sound economy, Texas has failed to allocate appropriate financial resources based on population growth and need.

Boards and commissions that govern state agencies and control billions of dollars in state and federal block grant funds continue to operate with few Border appointees. In the last quarter century, the Texas Department of Transportation (TxDOT) has not had a full-term commissioner from the 21 counties adjacent to the Texas-Mexico Border. Predictably, these boards respond to member regions with increased allocations, hold harmless approaches and a host of formulas tailored to deliver funds with little regard for need. The result is that Texas policies neglect those most in need and least able to pay while forcing them to subsidize their more affluent neighbors to the north.

In terms of revenue, Texas relies on consumption taxes for 80% of all tax revenues collected by the state. In recent decades, Texas has dramatically increased its reliance on the sales tax. Today, 55% of all state revenue derives from the sales tax alone. With a sales tax rate of 6.25%, Texas has the third highest state sales tax rate in the nation. With a combined local/state tax rate of 8.25%, Texas is tied with Illinois and New York as having the highest rate of the 15 most populous states.

Because Texas relies so heavily on consumption taxes, the tax burden falls most heavily on those who can least afford it. In Texas, this means that families in the lowest income bracket (one-fifth of the state's population) pay an average of 6.9% of their annual income in state sales taxes. Families in the middle-fifth of the income distribution pay 3.4% of their earnings to state sales tax, while those in the top fifth pay just 1.5% of their income each year. With family incomes below the statewide average, Border residents bear a disproportionate share of the Texas tax burden.

Further, by requiring school districts to rely heavily on local property taxes for education revenue, Texas has effectively limited the ability of Border school districts to deliver an "efficient system of free public schools." Current school finance formulas permit wealthy districts, which comprise approximately 10 percent of the districts in the state, to raise an average of about $900 more per student per year than the other districts in the state. In a classroom of 30 students, this amounts to $27,000 per year, which is enough to pay the salary of a teaching assistant or buy computers and other resources.

Border school districts, which possess some of the nation's lowest per student tax bases, educate one of the nation's youngest and fastest growing school populations. By way of example, El Paso is our nation's 17th largest city in population, but only 156th in tax base. Such a ratio is common the length of the Border. According to data provided by the Legislative Budget Board, the wealthiest district in the state, Glen Rose ISD, provided $8,600 per student in 1999-2000, while San Elizario ISD provided only $4,000 in the same year, a difference of more than $120,000 per classroom.

In Border counties, wages and salaries are nearly 25% lower than the national average. Currently, a carpenter in El Paso can cross the New Mexico state line and work at White Sands Missile Range at wages and benefits of approximately $21 per hour, while the same work on a state project in Texas pays around $11 per hour. By actively depressing Border wage rates, Texas has effectively limited the ability of the Border workforce to create nonwage income, which in the rest of Texas is one of the fastest growing sources of family income.

While NAFTA has delivered dramatic benefits across Texas, especially in the Metroplex and San Antonio-Austin corridor, it has placed additional burdens on the Border. Entrepreneurial drug cartels now warehouse and distribute in Border cities along Texas' major trade corridors. In El Paso, federal caseloads are now ten times the national average. Federal agents have declined to prosecute all but the largest drug busts and shifted the responsibility for prosecution and incarceration to state and local law enforcement, which rely on Border tax bases for revenue. Recently, a U.S. federal judge visiting El Paso heard more cases in a single day than the average federal judge hears in an entire year.

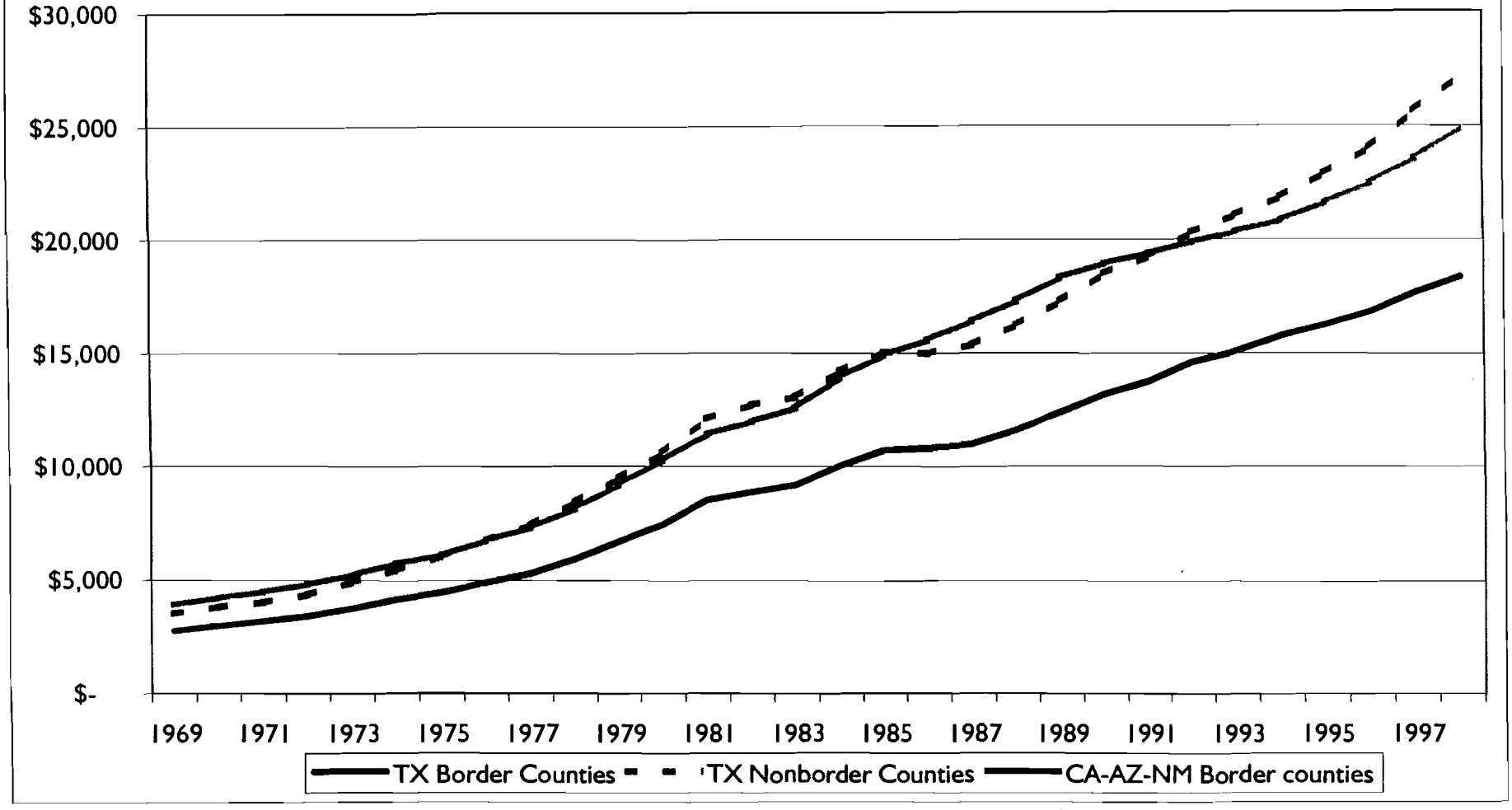
In addition to the costs associated with the drug war, the Border has also suffered significant environmental degradation and health-related effects as a result of NAFTA. From Matamoros to Ciudad Juarez, Mexican cities eager to attract the migration of manufacturers have grown nearly 40% between 1980 and 1995. Ciudad Juarez alone has grown from 276,995 in 1960 to a city of 1.5 million inhabitants today. Unfortunately, programs designed to meet water and wastewater needs have not met demand. In Ciudad Juarez alone, 64 million gallons of raw sewage is dumped daily into the Rio Grande, which local Texas users need to clean. Air quality in Border communities is also negatively impacted by commercial vehicles idling for hours at key ports-of-entry. Further, under paired-city arrangements, trucks that are severely overweight routinely destroy our local roads. Once again, the poorest tax bases in the country are left to subsidize Texas' trade and federal obligations.

Despite dire public health threats from dengue fever, tuberculosis, hepatitis and other developing world diseases, Texas residents living in the Border region continue to suffer from a seriously inadequate medical infrastructure. Further, per capita health professional staffing levels on the Border are among the lowest in the nation. Under current Children's Health Insurance Program (CHIP) and Medicaid formulas which rely on "historical costs", Border counties on average have the lowest reimbursement rates in Texas, thus thwarting development of health resources in the very areas most in need.

By 2008, Texas will be a majority- minority state. With vast population growth occurring in our Hispanic population, continued state underinvestment will have dramatic consequences. Under current policies, the state demographer predicts that the average Texas household income will decline between $3,000-$4,000 by 2030. Underinvestment costs Texas now, and will cost more in the future.

By failing to invest, Texas will define a future where not only Border lives are worth less, but the lives of all Texans will suffer. So many of the issues we face on the Border are not issues of our own making, and together we can go far to remove burdens not ours alone to carry. If we capture this historic opportunity, we will indeed position Texas as the "frontier of the future."

Per Capita Income Trends, 1969-98



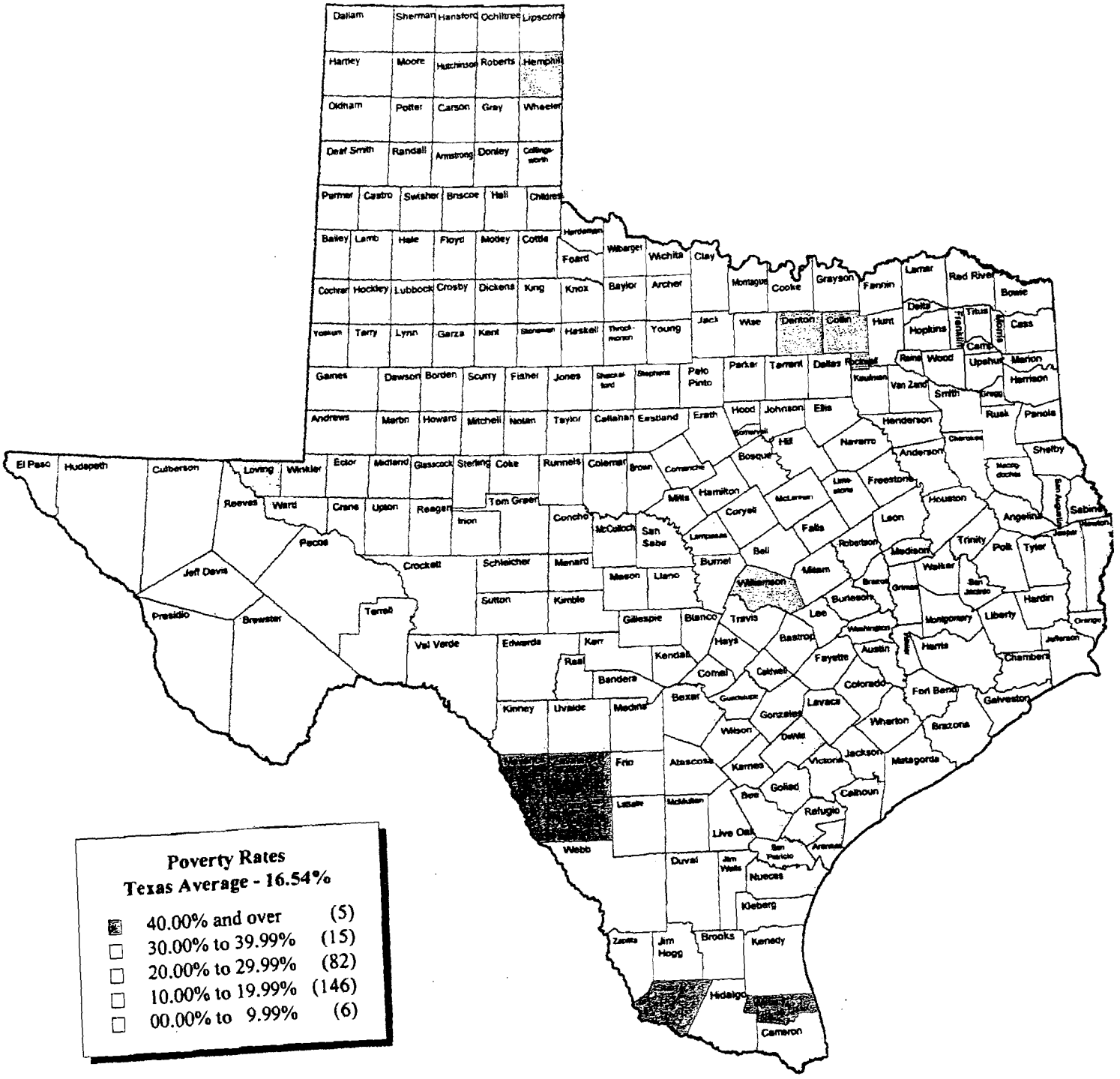
Per Capita Personal Income, 1969-98

	TX Border Counties	TX Nonborder Counties	CA-AZ-NM Border counties
1969	$ 2,746	$ 3,532	$ 3,919
1970	$ 2,971	$ 3,815	$ 4,226
1971	$ 3,196	$ 4,028	$ 4,486
1972	$ 3,431	$ 4,385	$ 4,845
1973	$ 3,757	$ 4,921	$ 5,208
1974	$ 4,173	$ 5,454	$ 5,728
1975	$ 4,496	$ 6,056	$ 6,098
1976	$ 4,914	$ 6,732	$ 6,732
1977	$ 5,296	$ 7,408	$ 7,281
1978	$ 5,933	$ 8,414	$ 8,119
1979	$ 6,680	$ 9,494	$ 9,173
1980	$ 7,428	$ 10,587	$ 10,269
1981	$ 8,502	$ 12,108	$ 11,421
1982	$ 8,856	$ 12,727	$ 11,981
1983	$ 9,184	$ 13,071	$ 12,587
1984	$ 10,040	$ 14,222	$ 13,935
1985	$ 10,724	$ 15,049	$ 14,909
1986	$ 10,799	$ 14,996	$ 15,575
1987	$ 11,003	$ 15,355	$ 16,412
1988	$ 11,629	$ 16,249	$ 17,329
1989	$ 12,405	$ 17,305	$ 18,351
1990	$ 13,206	$ 18,522	$ 18,969
1991	$ 13,766	$ 19,253	$ 19,394
1992	$ 14,615	$ 20,294	$ 19,879
1993	$ 15,082	$ 21,040	$ 20,332
1994	$ 15,761	$ 21,833	$ 20,814
1995	$ 16,268	$ 22,884	$ 21,583
1996	$ 16,861	$ 24,025	$ 22,482
1997	$ 17,701	$ 25,623	$ 23,548
1998	$ 18,390	$ 27,165	$ 24,879

SOURCE: Center for Public Policy Priorities, using data from the U.S. Bureau of Economic Analysis, Regional Economic Information System.

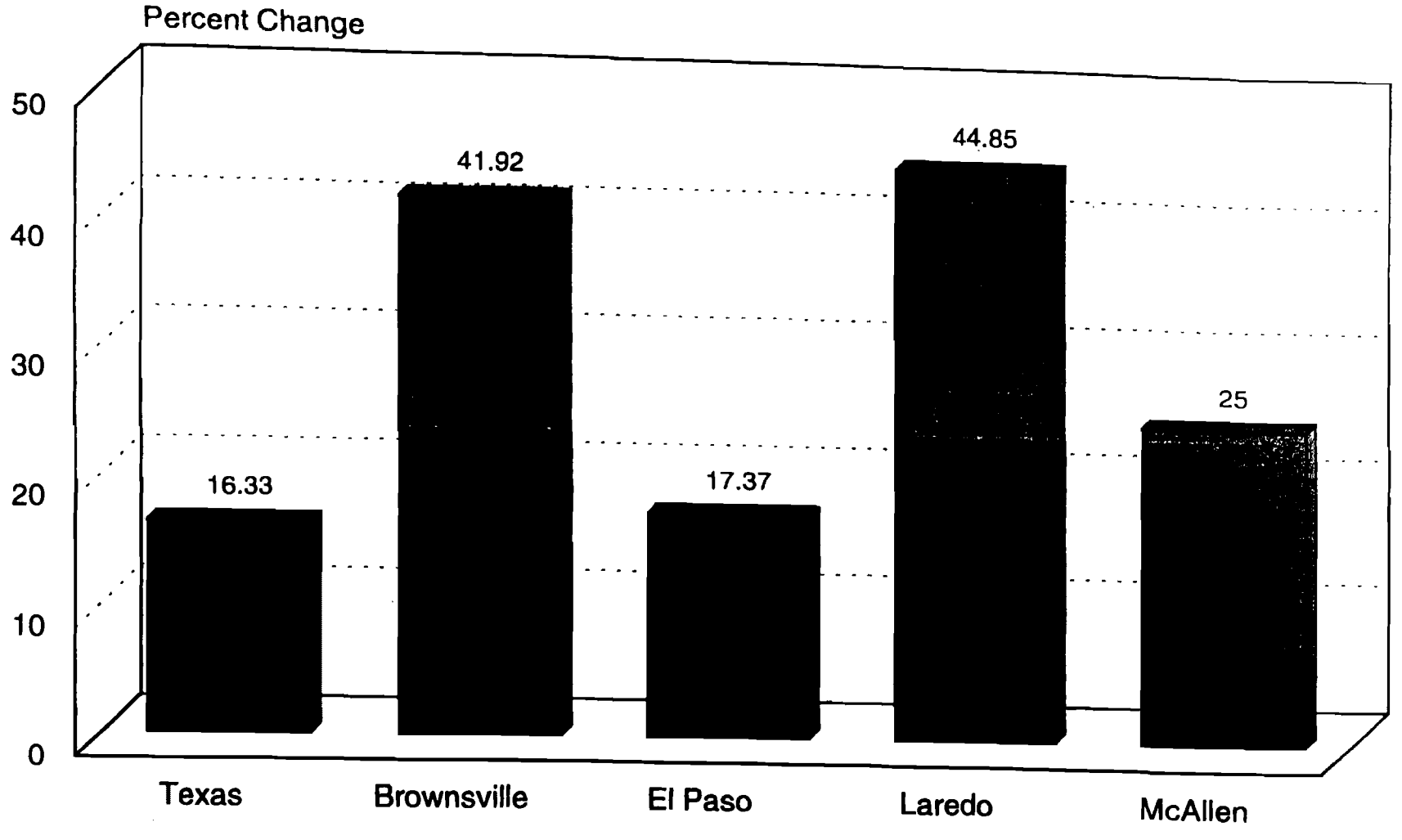
TX Border = 43-county region defined in TX Comptroller's Report (July 1998)
CA-AZ-NM Border = Imperial and San Diego Counties (CA); Cochise, Pima, Santa Cruz, Yuma (AZ); and Dona Ana, Eddy, Grant, Hidalgo, Lea, Luna, Otero (NM).

Poverty Rate by County -- 1999
Percentage of Population Below the Poverty Level

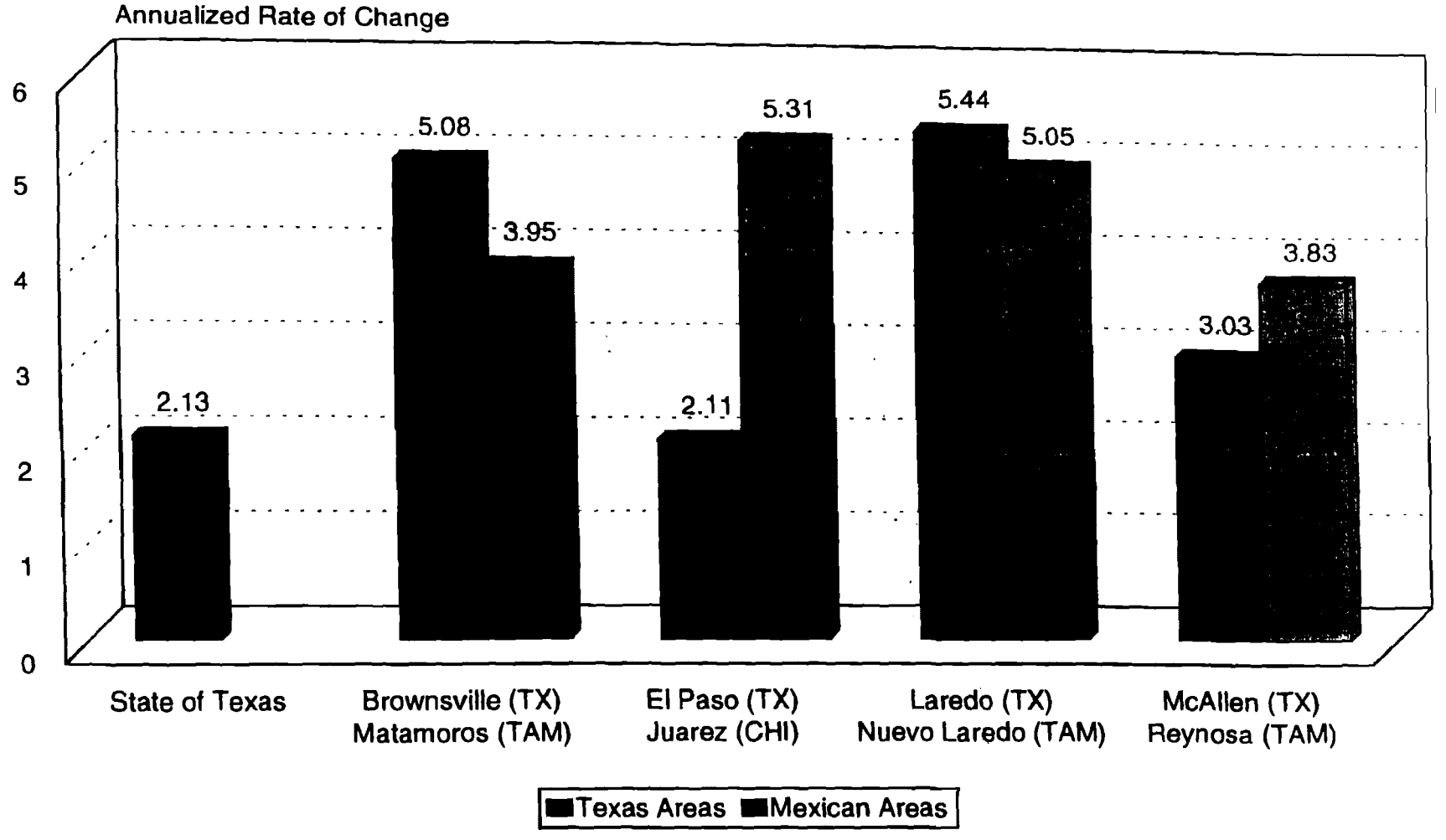


Source: Texas Department of Human Services
Prepared by the Texas Workforce Commission, TWC, 7-13-00.

Percent Change in Population in Texas and Selected Texas Cities Bordering Mexico, 1990-98



Annualized Rates of Change in Population for Texas, Selected Texas Border Cities, and Selected Mexican Cities Bordering Texas*



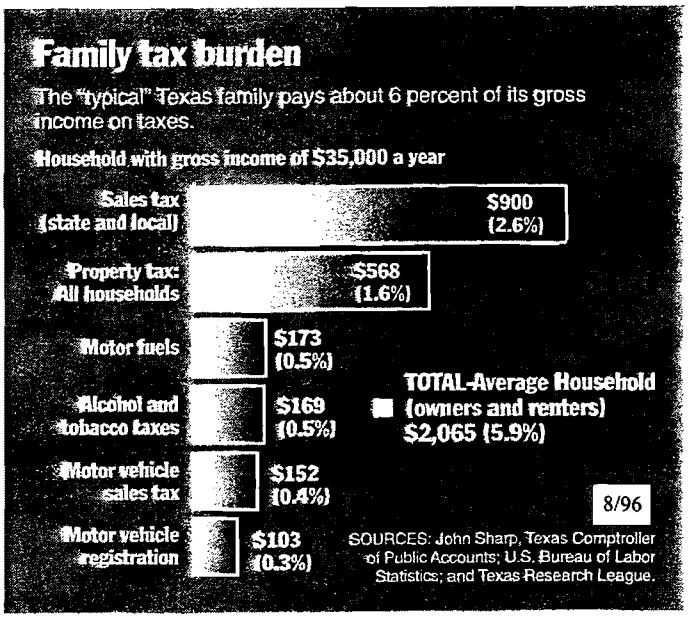
* Annualized rates for Texas and cities in Texas are calculated from the 1980 to 1998 change in population. Annualized rates for Mexican cities are calulated from the 1980 to 1995 change in population.

TAXES

Issues/Analysis:

The state of Texas relies on the sales tax for more than 55 percent of all state tax revenues.[1] The sales tax places a heavier burden on lower-income families than on higher-income families. Because border residents have lower average family incomes than residents of the rest of the state, they pay a larger percentage of their income in state taxes than do other Texans.

The state imposes the general sales tax of 6¼ percent on purchases of most goods and services. The state also levies a 6¼ percent sales tax on the sale of motor vehicles, plus excise taxes on gasoline, alcohol and tobacco. (Excise taxes resemble sales taxes, but are computed on the amount of an item sold, rather than on the sales price.)



Both sales and excise taxes are considered "consumption taxes," since the amount an individual pays is linked to the amount that individual consumes. Consumption taxes account for more than 80 percent of all tax revenue collected by Texas state government.[2] In contrast, the average state generates less than half of its tax revenue from consumption taxes. [3] Consumption taxes are especially important in states that do not tax personal income. Texas is one of only three of the 15 most populous states that do not tax personal income. [4] Sales and excise taxes make up three-quarters of state tax collections in each of these three states, while no other large state derives more than one-half of its tax revenue from sales and excise taxes. [5]

The sales tax has grown in importance in Texas in recent decades. The sales tax provided state government with less than 40 percent of tax revenue as late as 1985, [6] but rate increases and expansion of the services subject to tax propelled the sales tax past the

50 percent mark in 1988.[7] Texas state government now relies on the sales tax for 55 percent of all state tax revenue [8], compared to the average state, which counts on the sales tax for just 33 percent of tax revenue. [9] (The local sales tax is much less important to local governments, which rely mainly on property taxes and receive only 15 percent of local tax revenue from sales taxes.[10])

Texans pay more sales tax per person than residents of most states. The state collected $631 per person in sales taxes in 1998, ranking it fifth among the 15 most populous states and 15th among the 50 states. [11] Local sales taxes for cities, counties, and transit authorities added another $197 per person.[12] At a rate of 6¼ percent, Texas has the third highest state sales tax rate in the nation.[13] Among the 15 most populous states, only one state (Washington) imposes a levy higher than Texas and one other state (Illinois) imposes that same rate as Texas.[14] The maximum combined state and local rate of 8¼ percent is the fourth highest sales tax rate in the nation.[15] Among the 15 most populous states, only New York and Illinois permit a combined rate as high, and none have a higher rate. [16]

The burden of the sales tax falls most heavily on those who can least afford it – families and individuals with below-average income.

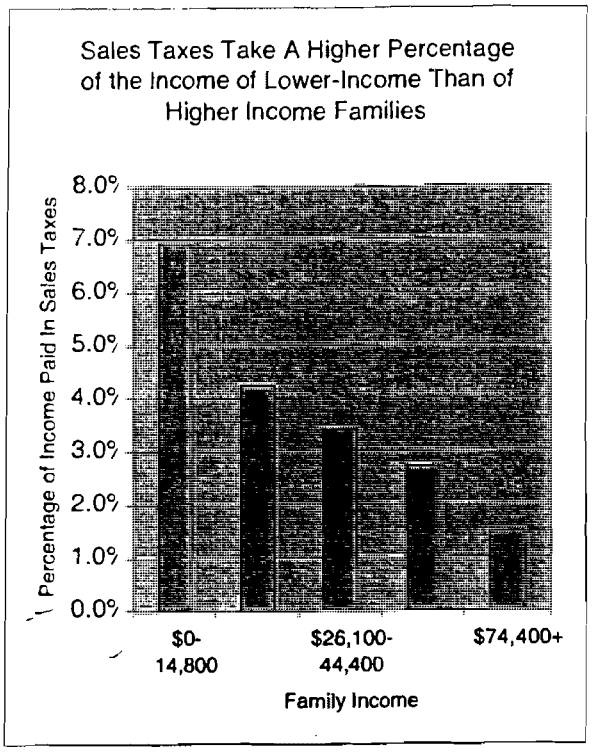
Because the sales tax is a consumption tax, the percentage of a family's income that is paid in sales taxes is directly related to the percentage of its income that the family must spend. Since families with lower income usually spend everything they earn (and often more, by going into debt), while families with higher income can often put money aside in savings or spend it out-of-state, families with lower incomes pay a larger portion of their earnings in sales taxes than do families with higher income.[17]

The comptroller issues a biennial report[18] that indicates, by family income level, who pays Texas taxes.[19] The report distinguishes between the *initial impact* of a tax and its *final incidence*. The initial impact of a tax describes who receives the tax bill. The final incidence shows who actually bears the cost of the tax.

For instance, a business may have to pay a sales tax when it purchases an item to use. The business would probably consider that sales tax expense as just another cost in producing its product, and would raise the price of its product to reflect the cost. The consumer, who would pay the higher price, would actually bear the final burden of the tax.

The initial impact of the sales tax is split roughtly evenly between individual consumers, who absorb 52 percent of the intial impact of the tax, and business, which is charged with 48 percent of the tax.[20] But the final incidence of the sales tax falls entirely on consumers.[21]

This table shows, by family income level, the percentage of income paid in state sales taxes in fiscal year 2000.[22]

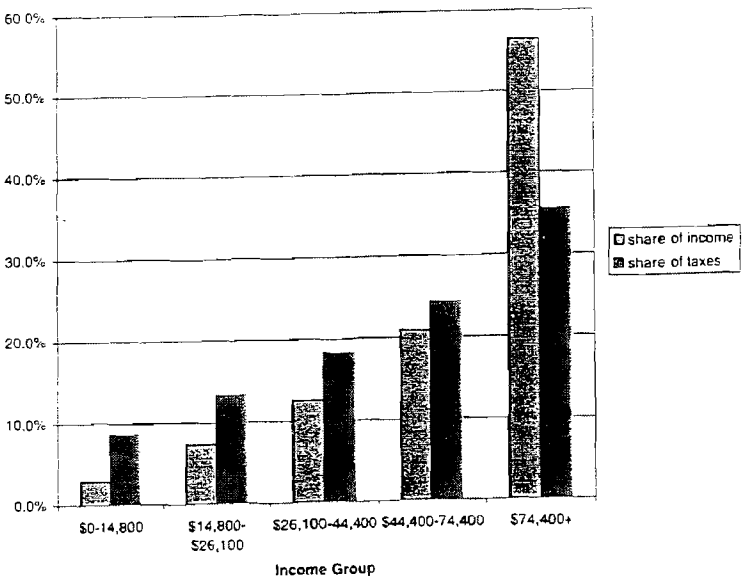


Texas families in the one-fifth of the population with the lowest income (less than $14,800 per year) pay an average of 6.9 percent of their income in state sales taxes each year. Families in the middle of the income distribution ($26,100-44,400 annual income) lose 3.4 percent of their earnings to state sales taxes. But the one-fifth of Texans with the highest income (more than $74,400) pay only 1.5 percent of their income each year — less than half the rate paid by middle-income Texans and just more than one-fifth the rate borne by the poorest families.

Another way to look at the equity of a tax is to examine the portion of total state income that goes to each income group and compare it to the portion of total state sales taxes paid by that group. The poorest 20 percent of Texas families earns 2.9 percent of all income, the middle income group receives 12.5 percent of state income, while the one-fifth of Texas families with the highest income gets 56.4 percent of all income - more than all other groups combined.

Although the bottom one-fifth of families received only 2.9 percent of all the income, they paid 8.4 percent of all state sales taxes - almost three times their proportionate share. The middle income group paid 17.3 percent of sales tax - over one and a third times more than their share of state income. But the highest income group paid just 38.3 percent of state sales taxes - slightly more than two-thirds of their fair share.

All Texas Families, Except the Wealthiest 20 Percent, Pay More Than Their Fair Share of the Sales Tax



Texas does not charge a sales tax on groceries, medicine, or residential utilities. Since people with lower incomes tend to spend a larger proportion of that income on necessities, such as food and utilities, these exemptions help reduce the regressivity of the tax system. However, the exemptions are an expensive way to lessen the tax burden on the poor, since they are not available exclusively to the poor and tend to provide larger dollar amounts of benefits to upper income households. Exempting these items will cost the state $2.1 billion a year in potential tax revenue in 2001.[23]

Other states provide rebate checks or income tax credits, rather than broadly available sales-tax exemptions, to provide tax relief to low-income residents. These programs help compensate poorer households for paying sales taxes on other necessities. The tax credit approach targets tax relief to those taxpayers least able to pay taxes and is much cheaper for the state than an exemption available to all consumers.

Other sales-tax exemptions reflect the political influence of certain groups. For instance, the Legislature in 1999 granted a partial exemption to data processing and information services.[24] These services, which include such Internet-related activities as designing and maintaining Web pages, are among the fastest growing sectors of the state economy. Supporters of this exemption said it was necessary to improve the state's business climate and keep Texas competitive with other states in attracting New Economy businesses. However, this exemption is estimated to cost the state $17.9 million in lost revenue in 2001[25], and to nearly triple in cost by 2004 and presumably continue to grow quickly thereafter.

Many services are not subject to the sales tax. Most of these are business and professional services, such as doctors, lawyers, architects, real estate brokers and accountants. These services, which would generate $2.8 billion in sales tax revenue in 2001,[26] are disproportionately used by upper-income households and by businesses.

A fair tax system distributes the burden of paying taxes according to the ability of each taxpayer to bear that burden. Most people agree that it is fair to charge more to those who can afford to pay more.

But the Texas tax system does just the opposite. The lower your income, the larger the portion you pay in taxes. Nowhere is this tax burden felt more acutely than the Border.

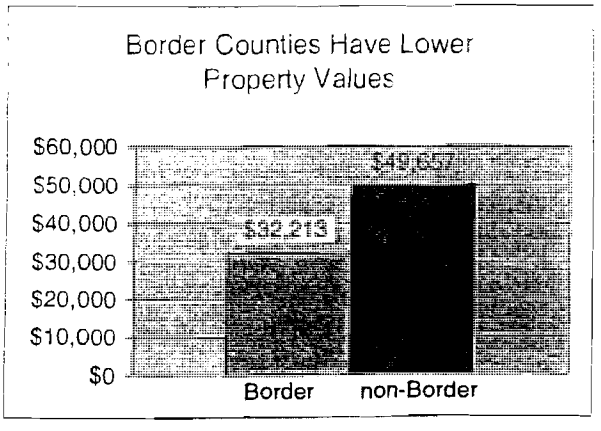
A tax system that takes a larger share of the income of higher-income taxpayers is known as "progressive"; one that takes a larger share of the income of lower-income taxpayers is known as "regressive." The Texas tax system is very regressive. In fact, Citizens for Tax Justice, a national tax research organization, rates the Texas system as the third most regressive in the nation.

A tax system can be judged by two major tests: is it fair and, does it generate enough revenue? The Texas tax system fails both tests. Because it is so regressive, it is unfair. And because earnings of lower-income families have stagnated in recent decades, while high-income earnings have jumped, a regressive system that relies on taxing lower-income families is unable to keep up with statewide economic growth.

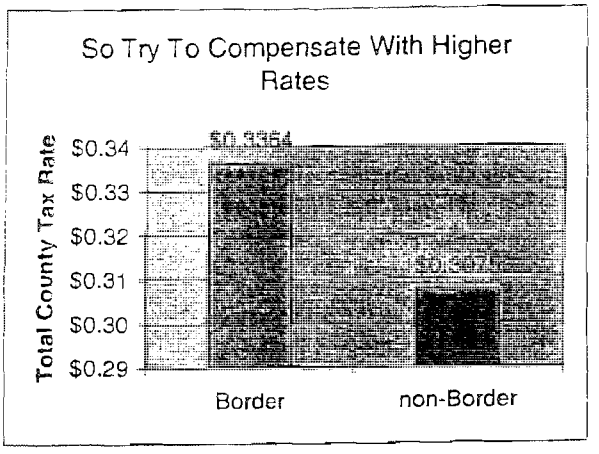
Because the state has not made the investments necessary to promote meaningful economic growth in the Border region, Border residents have had to rely on their own local resources to support government services. However, the Border does not have the tax base necessary to produce the amount of revenue needed to meet the area's needs.

The largest source of revenue for local governments in Texas is the property tax.[27] School districts rely solely on property taxes for local revenue, but receive extensive state aid that largely equalizes the ability of districts to generate revenue.[28] Cities and counties, on the other hand, receive very little assistance from the state to supplement local revenues. In 1999, state aid accounted for only 14 percent of local government revenue.[29] The aid was primarily to assist in the expenses of county jails and community mental health.

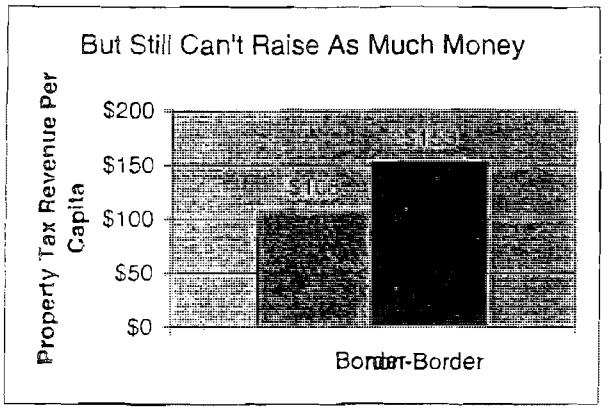
Cities and counties must therefore attempt to supply necessary services by taxing their local property tax base. The per capita property value in the Border region in tax year 1998 was $32,213; the per capita value in the rest of Texas was $49,657 – more than 50 percent greater.[30] Using this higher per capita tax base, the average local government in the non-Border region can generate one and one-half as much revenue per capita for each penny of local tax rate as a local government in the Border region.



Local governments in the Border can attempt to make up for their lower tax base by taxing at higher rates – and they do. For instance, the county tax rate for the 43 Border counties in 1998 was .3364 cents per $100 of taxable value; the county tax rate in the rest of the state was .3075 cents.[31]

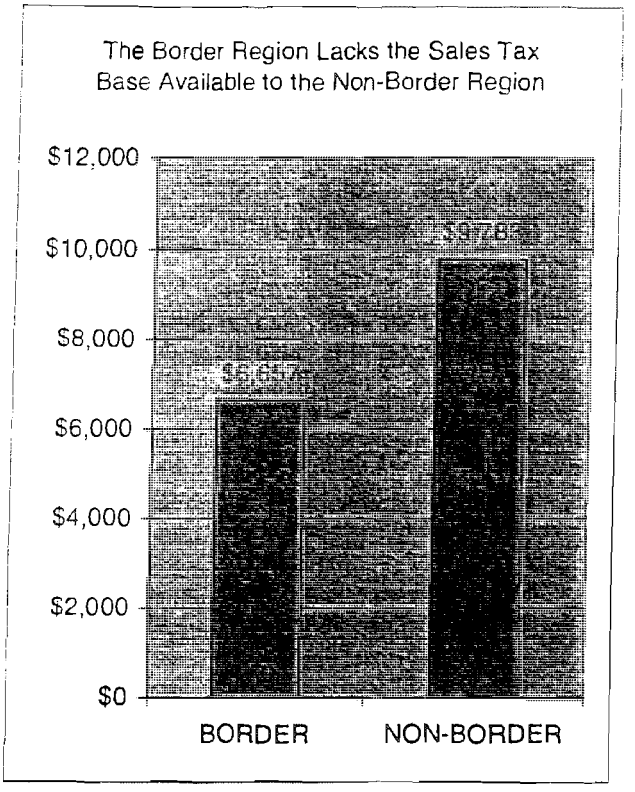


But because of the unequal tax bases to which these rates are applied, Border counties could generate an average of only $108 per capita, while non-Border counties could generate $153 per capita on average, even at a lower tax rate.



Local governments may also levy sales taxes. Cities, counties, transit authorities, and certain special districts may levy local sales taxes of up to 2 percent, in addition to the state sales tax of 6 ¼ percent.

As with the property tax, local governments in the Border region are handicapped by a low tax base. Taxable sales per capita in the Border region equalled $6,657 in 1998; taxable sales per capita in the non-Border region were $9,783 – nearly 50 percent greater, although local sales tax rates in the two regions are similar.



The *Edgewood* rulings of the Texas Supreme Court held that the state could "not allow concentrations of resources in property-rich districts that are taxing low when property-poor districts that are taxing high cannot generate sufficient revenues to meet even minimum standards.[32] This standard should be applied to the revenue-raising ability of all local governments, not only school districts, which are similarly responsible for the provision of vital public services. The state could guarantee that local governments could generate a minimum amount of total revenue per capita for each penny of tax rate. If the local tax base were unable to produce the minimum yield, the state would make up the difference.

[1] Comptroller of Public Accounts, State of Texas 1999 Annual Cash Report, Table 2, "Percentage of Net Revenue by Source," page 25.
[2] Comptroller of Public Accounts, State of Texas 1999 Annual Cash Report, Table 2, "Percentage of Net Revenue by Source," page 25.
[3] U.S. Census Bureau, State Government Tax Collections, Fiscal Year 1997-98, http://www.census.gov/govs/www/statetax98.html

[4] U.S. Census Bureau, State Government Tax Collections, Fiscal Year 1997-98, http://www.census.gov/govs/www/statetax98.html The other states are Florida and Washington.

[5] U.S. Census Bureau, State Government Tax Collections, Fiscal Year 1997-98, http://www.census.gov/govs/www/statetax98.html

[6] Comptroller of Public Accounts, Sources of Revenue Growth: A History of State Taxes and Fees in Texas, 1972-1999, page 90.

[7] Comptroller of Public Accounts, Sources of Revenue Growth: A History of State Taxes and Fees in Texas, 1972-1999, page 90.

[8] Comptroller of Public Accounts, State of Texas 1999 Annual Cash Report, Table 2, "Percentage of Net Revenue by Source," page 25.

[9] U.S. Census Bureau, State Government Tax Collections, Fiscal Year 1997-98, http://www.census.gov/govs/www/statetax98.html

[10] Comptroller of Public Accounts, Annual Property Tax Report - Tax Year 1998, Figure B "State and Local Sales and Property Taxes as a Percentage of Total Major Taxes," page 3.

[11] Comptroller of Public Accounts, Annual Property Tax Report - Tax Year 1998, Figure B "State and Local Sales and Property Taxes as a Percentage of Total Major Taxes," page 3.

[12] Comptroller of Public Accounts, State of Texas 1999 Annual Cash Report, Table 14, "Flow of Funds to Local Governments," page 40.

[13] Comptroller of Public Accounts, Presentation to House Committee on Ways and Means, February 17, 1999, "State Sales Tax Rates, January 1999."

[14] Comptroller of Public Accounts, Presentation to House Committee on Ways and Means, February 17, 1999, "State Sales Tax Rates, January 1999."

[15] Comptroller of Public Accounts, Presentation to House Committee on Ways and Means, February 17, 1999, "Combined State and Local Sales Tax Rates, January 1999."

[16] Comptroller of Public Accounts, Presentation to House Committee on Ways and Means, February 17, 1999, "State Sales Tax Rates, January 1999."

[17] See, e.g. Ronald C. Fisher, *State and Local Public Finance 2nd ed.*, Irwin, 1996, pp. 404-9.

[18] The report is required by Government Code, sec. 403.0141.

[19] Comptroller of Public Accounts, *Tax Exemption and Tax Incidence*, January 1999.

[20] Comptroller of Public Accounts, *Tax Exemption and Tax Incidence*, January 1999, Table 1, "Initial Distribution and Final Incidence of Total Limited Sales and Use Tax Revenue," "Initial Distribution of Tax - By Industry, Fiscal 2000," page 44.

[21] Comptroller of Public Accounts, *Tax Exemption and Tax Incidence*, January 1999, Table 1, "Initial Distribution and Final Incidence of Total Limited Sales and Use Tax Revenue," "Final Incidence of Tax - By Family Income Decile, Fiscal 2000," page 44.

[22] Comptroller of Public Accounts, *Tax Exemption and Tax Incidence*, January 1999, Table 1, "Initial Distribution and Final Incidence of Total Limited Sales and Use Tax Revenue," "Final Incidence of Tax - By Family Income Decile, Fiscal 2000," page 44. Income information furnished by Office of the Comptroller.

[23] Comptroller of Public Accounts, *Tax Exemptions and Tax Incidence*, January 1999, Table 2, "Cost of Sales Tax Exemptions, Fiscal 1999 to 2004," pp. 4-5; Legislative Budget Board, fiscal note, SB 441

[24] SB 441 (76th Legislature), now Tax Code, sec. 151.351.

[25] Legislative Budget Board, fiscal note for SB 441 (76th Legislature).

[26] Comptroller of Public Accounts, *Tax Exemptions & Tax Incidence*, January 1999, Table 3, "Cost of Selected Service Exclusions for the Sales Tax, Fiscal 1999 to 2004," page 13.

[27] Comptroller of Public Accounts, Annual Property Tax Report - Tax Year 1998, Figure B "State and Local Sales and Property Taxes as a Percentage of Total Major Taxes," page 3. See also, *The Fiscal Capacity of Texas Cities,* Lyndon B. Johnson School of Public Affairs, Policy Research Project Report Number 131, 1999.

[28] Daniel T. Casey, *The Basics of Texas Public School Finance, sixth edition,* Texas Association of School Boards, 1996

[29] U.S. Bureau of the Census, *State and Local Government Finances, 1996*, and Legislative Budget Board, *Trends in Texas Government Finance*.

[30] Comptroller of Public Accounts, Annual Property Tax Report - Tax Year 1998, Appendix C: County Local Self Report Data - 1998. Value given is for appraised value.

[31] Comptroller of Public Accounts, Annual Property Tax Report - Tax Year 1998, Appendix C: County Local Self Report Data - 1998. Rate is the total of individual tax rates for farm-to-market roads and flood control, the general fund, and the special road and bridge fund.

[32] *Edgewood v. Meno* (Edgewood IV), 893 S.W.2d 450, 467 (Tex. 1995), citing Edgewood I.

BOARD REPRESENTATION

Issues/Analysis:

An acute lack of representation on key state boards and commissions hampers efforts to secure more equitable funding for the Border. Although the Legislature ultimately controls the appropriations process, the allocation of appropriated funds within individual agencies is often determined by formulas developed by members of particular boards or commissions. Unfortunately, several recent state spending decisions appear to indicate that the state's most affluent communities often benefit from over-representation at the expense of poorer communities. The debacle involving the Texas Department of Economic Development's "Smart Jobs" program in 1998, where 44 percent of program funds went to the Dallas/Ft. Worth region (with 3.2 percent unemployment) is only one example. As a result, parts of the state with the greatest need, such as the Border, often end up subsidizing their better-off counterparts in other parts of the state.

In all but six states, governors appoint cabinet members who direct the actions of state agencies. The result is state government responsive to current state needs. Since 1876, Texas has adopted a board and commission form of government. The result is that in most agencies a governor is unable to fully affect his or her policies for at least four years. Further, under a system where campaign contributions result in board appointments, areas most in need are likely to be least represented.

STATE FUNDING FORMULAS

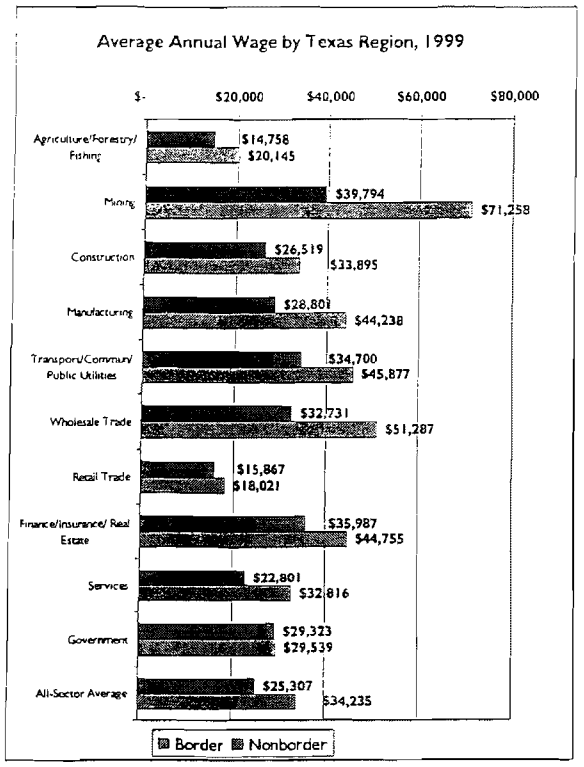
Issues/Analysis:

State funding formulas which inhibit development and penalize poor communities along the Border have to be rectified. The Border region will not prosper nor can it sustain the financial burden imposed by NAFTA if it continues to suffer from a lack of state funding and investment. "Hold harmless" formulas, regional survey-based wage formulas, formulas based on outdated population projections and university funding based on existing institutional capacity have all served to deny equitable funding to the Border.

WORKFORCE

Issues/Analysis:

Economic development programs and spending should be targeted to address the wage differentials that exist for similar work performed in different regions of the state. For example, a current inequity prevails in the procurement of state contracts. Specifically, a laborer working in an affluent region of the state is compensated at a higher rate than a laborer performing the same work in a less affluent area. In El Paso, average wages and salaries are nearly 25% lower than the national average. Low-wages are one of the factors of the income gap present between the Border region and the rest of the state. Other factors include low employment to population ratios, and low non-wage income. The gap indicates that in general, the Border's economy is serving the lower-value added segments of its markets. Low wages and high unemployment mean a diminished ability to invest or start businesses in order to generate non-wage income.



Source: Texas Workforce Commission, Covered Employment and Wages Data

Average Hourly Wages, 1998

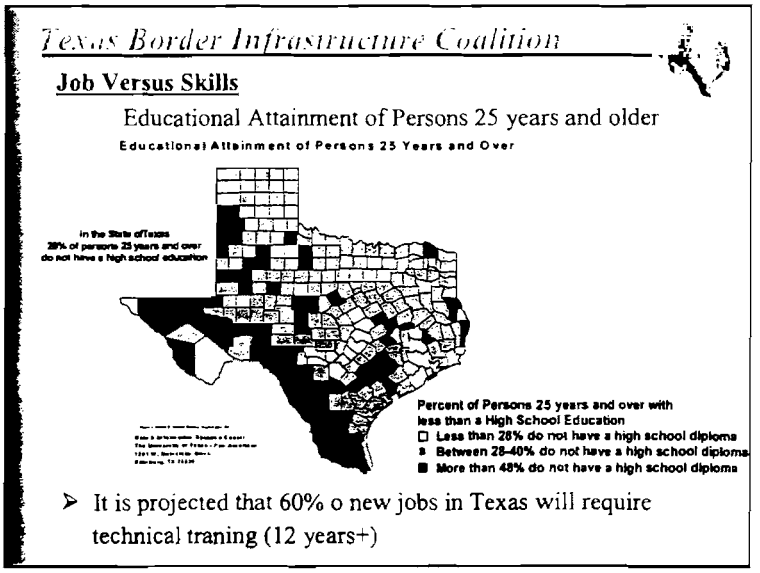
	El Paso	Laredo	Dallas	Houston
Civil Engineers, Including Traffic	$ 23.40	NA	$ 25.10	$ 29.83
Computer Programmers	19.75	22.89	25.85	27.47
Construction Managers	18.78	23.40	24.66	26.69
Electricians	14.09	12.11	15.06	15.42
Carpenters	9.35	10.33	12.99	12.58
Truck Drivers, Heavy or Tractor-Trailer	11.89	10.06	14.89	12.41
Grader, Bulldozer, and Scraper Operators	9.66	10.49	11.70	12.30
Excavating and Loading Machine Operators	9.52	8.23	10.77	10.87
Industrial Truck and Tractor Operators	8.84	8.07	11.21	9.81
Helpers, Carpenters and Related Workers	6.87	7.44	9.26	8.91
Helpers, Mechanics and Repairers	7.57	7.24	8.70	8.65

SOURCE: U.S. Bureau of Labor Statistics, Occupational Employment Statistics for MSAs, 1998

The Border has the state's youngest and fastest growing workforce. Clearly, targeted investment in proven programs designed to increase the skill level of the Border's workforce is a valuable investment. This focused worker-oriented approach will create opportunities locally, rather than wasting scarce resources on futile attempts to bring employers to an area with an ill-prepared labor pool. In addition to a greater appropriation of state funds for workforce

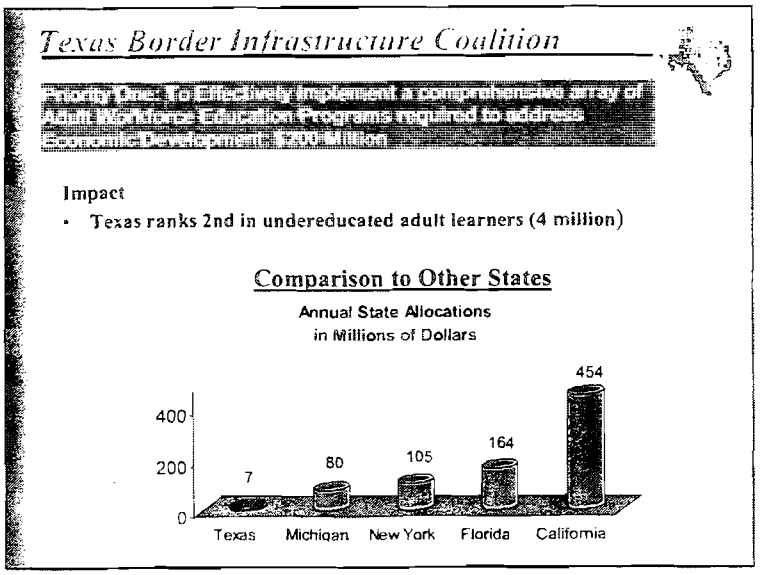
development initiatives in the region, more must be done to ensure that statewide economic development incentives are better targeted to the areas that most need them, and that the Border receives its fair share of these funds.

Although some progress has been made in the area of workforce development, more is needed to improve the preparedness of the Border's workforce, particularly in light of recent NAFTA-related lay-offs and the skill and education level of the Border's population. The City of El Paso serves as an excellent illustration of the challenges facing the entire Border region. El Paso's population today is 66 percent Hispanic. In this community, 14,000 workers have been displaced since the NAFTA treaty was ratified in 1994. Of these, 97 percent are Hispanic and 33 percent are single mothers. Thirty-three percent of the displaced workers in El Paso have limited English or no English communication skills. In the Border region as a whole, the majority of Hispanic heads-of-households lack a high school diploma. In El Paso, 65 percent of the adult population has low-literacy skills, significantly higher than the state average of 51 percent and the national average of 45 percent. Hispanics in the Border region are even less prepared than their Anglo counterparts to succeed in today's workforce, which requires skilled labor.



Despite these statistics, there are few standards for the development of an effective adult English as a Second Language (ESL) or bilingual curricula. Furthermore, the bilingual training programs that currently exist do not include the appropriate training in international quality certification and standards. In Ciudad Juarez, approximately 180,000 Spanish-speaking laborers currently work in ISO 9000 or QS 9000 factories manufacturing complex automotive and electronic products. These factories, which adhere to specific international quality standards, are critical to the Border's manufacturing base. Yet, displaced workers who should able to find employment after a nine-week intensive bilingual training course currently spend 18 months in English classes in order to acquire the skills others believe they need to succeed in today's workforce. The current approach depletes scarce resources and impedes skills acquisition.

Adult education in Texas is not only inadequate and unable to meet the unique needs of Border residents, it is also seriously underfunded. Currently, Texas ranks second in the number of undereducated adults (estimated at 4 million) and only receives approximately $124 per adult learner based on the current $7 million state annual appropriation. State funding needs to be increased for Texas to train workers to fulfill the demands of the current and future job market.



Without a bilingual curriculum and adequate funding for adult education, Texas will not achieve the outcomes so desperately needed to keep pace with the workforce needs and economic changes that have accompanied NAFTA. In the absence of bilingual training curricula, more and more Border residents will be left behind, cut loose without the tools they need to participate fully in the economy of the 21st century.

In addition to improving training programs which will enhance workforce development in the region, Texas must evaluate the value of economic development programs designed to create new jobs. Economic development incentives must be measured for their effectiveness in strengthening educational systems, improving per capita income, building the skills of low-wage workers, and increasing wages and access to health insurance and child care.

TRANSPORTATION

Issues/Analyses:

Without question, if Texas is to continue to prosper economically and to maximize NAFTA's potential, both the state and federal governments must invest in key trade-related infrastructure projects. Decades of neglect must be offset by targeted investment in key facilities. While new highway construction has ended in most states, Texas's highway system continues to expand at a cost of more that $2 billion a year in road building and reconstruction, plus another $700 million a year for maintenance. The "Cost of Construction" index developed by TxDOT indicates that since 1987 the costs associated with constructing roads have jumped 42 percent. In the last 2 years alone, the cost has increased by 20 percent. The increase of commercial vehicle traffic generated by NAFTA requires that pavement thickness be increased, and this has resulted in a 67% rise in the cost of pavement construction since 1990. According to TxDOT this equates to a 33% increase in funds needed to build a "typical" mile of highway. When combined with the 42 percent "unit price escalation," the total cost to build a mile of highway has gone up by 75 % in the last 10 years.

The traffic generated by NAFTA-related trade has already significantly contributed to these needs and will impose even greater demands on our state's transportation infrastructure in the future. According to TxDOT officials, one fully-loaded 80,000 pound truck causes damage equivalent to 9,600 cars. Further, studies by the Texas Transportation Institute estimate the damage caused by overweight trucks to be $62.8 million per year. Eighty percent of all U.S. trade with Mexico passes through ports-of-entry on the Texas-Mexico Border. With the advent of NAFTA, truck traffic in Border communities and on major trade corridors has increased dramatically. While the sizable increase in commercial truck traffic alone is sufficient to cause increased road wear, the effect of overweight trucks traveling on our state roads results in millions of dollars in accelerated road and bridge deterioration annually. A TxDOT task force has made recommendations to make formulas for preservation/rehabilitation funding categories more responsive to the needs and roadway conditions in corridors with heavy truck volumes.

In addition to the damage caused by trucks, increased commercial traffic generated by NAFTA-related trade with Mexico has also led to increased congestion along key trade corridors such as I-10 and I-35 and particularly at crossings along the Border. For example, the Texas Comptroller projects that from 1996 to 2011, traffic volume on I-35 could increase by 50 percent to 70 percent; on I-10/I-25 by 75 percent to 100 percent; and on U.S. 59 by 35 percent to 90 percent. According to the *Laredo Times*, 4.4 million trucks crossed the Texas Border into Mexico in 1999 - a 214 percent increase from 1990. Aside from its negative effect on travel times and drivers' tempers, congestion delays the shipment of raw materials and finished goods, curtailing the growth of the Texas and Mexican economies. Some economists assert that failure to invest in public works amounts to a "third deficit," after budget and trade imbalances. Delaying investment in infrastructure hinders production and shipping, hampering economic growth. For the El Paso/Juarez metroplex, the cost of vehicle maintenance and delays for the 15 million vehicles stalled at the international bridges every year exceeds $100 million.

Moreover, much of the existing infrastructure at the Border, such as international bridges or links to key interstate highways, are woefully inadequate to handle the large volume of truck traffic. Furthermore, arcane crossing procedures and customs inspections can cause three-to-four hour delays, or worse, during peak crossing hours. Southbound commercial truck traffic crossing into Nuevo Laredo, Mexico, has created such significant congestion on I-35 that the City of Laredo considered placing portable toilets along the interstate. Similarly, long lines of Northbound trucks stalled for hours at El Paso/Juarez crossings, spew enormous amounts of diesel exhaust, exacerbating the region's air quality problems. Congestion will only increase as Mexico continues to recover from the 1994 peso devaluation, further privatizes its transportation system, and becomes a larger player in world trade.

Inadequate infrastructure along the Texas-Mexico Border is compounded by a lack of funding at all levels. A 1991 study by the federal General Accounting Office (GAO) projected a need for $2 billion to finance trade-related highway improvements on the Texas Border. Similarly, the Border Trade Alliance, a Texas-based industry group, has documented $3 billion in outstanding projects currently needed to service NAFTA trade along the Texas Border. Sadly, Texas has failed to aggressively address a Border infrastructure deficit that will directly affect the success of NAFTA (see Austin v. Pharr chart). The Texas Comptroller of Public Accounts, Carol Keeton Rylander, has determined that $83 in transportation money per resident has been allocated in the Border region for highway projects, while the statewide average is $109 per resident.

Border communities cannot solely be responsible for international trade infrastructure simply by virtue of their location. Moreover, given their inadequate tax bases, Border communities do not have the necessary resources. El Paso, for example, is the nation's 17th largest city, but only has the 156th largest tax base. Because NAFTA-related trade benefits both the state and national economies, both the state and federal governments must assume greater responsibility for infrastructure funding.

Mexico joined the General Agreement on Tariffs and Trade (GATT) in 1986, and the United States, Mexico and Canada signed NAFTA in 1994. The increase in commercial vehicle traffic and trade that were predicted as a result of these treaties has materialized. In 1997, more than $82 billion in two-way trade with Mexico (more than $1.5 billion per week) passed through Texas-Mexico Border ports alone. Unfortunately, the NAFTA transportation system, vital to expediting commerce, has become an economic chockpoint. The volume of traffic crossing at Texas Border ports is staggering. In 1997, more than 2.8 million trucks crossed the Texas Mexico Border. This volume of traffic has produced lines of trucks more than five miles long at certain Border ports, with some idling up to 11 hours to cross the Border.

Texas is in a position to take the lead in drastically improving commercial vehicle crossings at the Border. Immediate action is necessary to head off congestion that is choking trade, adding needlessly to product cost and adversely impacting quality of life issues at our ports-of-entry. S.B. 913 was passed during the last legislative session in an effort to facilitate the flow of commerce and speed the passage of commercial vehicles through Border ports. Specifically, the law was designed to: (1) facilitate the flow of commerce, (2) improve federal efforts aimed at interdiction, (3) protect our public health, (4) conserve our environment by decreasing the idling

time of commercial vehicles and (5) protect our severely overburdened highways along the Border by preventing overweight trucks from traveling on Texas roads.

To achieve these objectives, it will be necessary to reduce the duplication of state and federal functions at our ports of entry. To be successful in this endeavor, we need to coordinate in one location the myriad of state and federal agencies with inspection and regulatory responsibilities at our ports of entry. In addition, the key to implementing S.B. 913 lies with bringing cost-effective Intelligent Transportation System (ITS) technology into the process and mandating cooperation among agencies. ITS technology will not only improve inspection and enforcement, but will also speed the flow of commerce.

An era of new trade requires creative thinking and the implementation of S.B. 913 will require the cooperation, colocation, and coordination of several federal and state agencies with functions at our ports-of-entry. By reducing crossing times, using technology to pre-clear commercial traffic and increasing cooperation among state and federal agencies, S.B. 913 aims to bring to Texas ports of entry a unified port approach. This is a concept that is already in existence in ports around the world. Unfortunately, none of the agencies currently operating at our ports-of-entry can effectively lead this effort because of a narrow view focused on inspection and interdiction, not commerce. The need, the will, the funding and the technology exist now to make the "one-stop" concept a reality.

With its key location at the crossroads of trade with Mexico, Texas is well positioned to reap the benefits of NAFTA, as the volume of goods moving between Mexico and the United States increases. NAFTA-related trade, however, has also increased the need to both create new transportation and distribution facilities as well as maintain and upgrade existing infrastructure along the Border. Texas currently relies on trucks for 83% of its surface transportation needs. Based on this fact, it is necessary for the state to diversify its modes of transportation and increase its usage of rail. The development of more sophisticated and efficient transportation networks will enhance the Border's ability to be a significant participant in the post-NAFTA world and strengthen businesses throughout the state which increasingly rely on trade with Mexico.

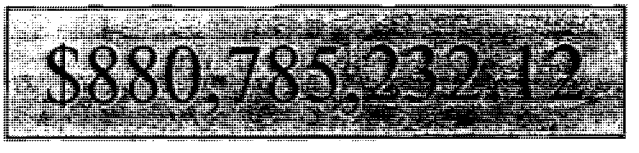
TxDOT Funding
Pharr vs. Austin

1990 - 1999

Fiscal Year	Total Expenditures Construction & Maintenance Austin TxDOT District	Percentage of Expenditures	Total Expenditures Construction & Maintenance Pharr TxDOT District	Percentage of Expenditures
1999	162,866,983.64	4.39%	122,391,745.43	3.30%
1998	146,798,614.75	4.47%	138,370000.14	4.21%
1997	180,046,105.38	6.04%	97,482,368.82	3.27%
1996	186,014,056.29	5.52%	110,092,516.58	3.27%
1995	195,146,072.49	7.15%	86,382,575.34	3.17%
1994	184,635,507.95	6.89%	74,673,676.17	2.79%
1993	201,391,347.66	7.15%	104,926,765.79	3.73%
1992	170,394,475.81	7.63%	48,699,668.57	2.18%
1991	196,724,889.05	8.31%	68,358,071.79	2.89%
1990	171,614,118.77	6.93%	63,469,551.03	2.56%

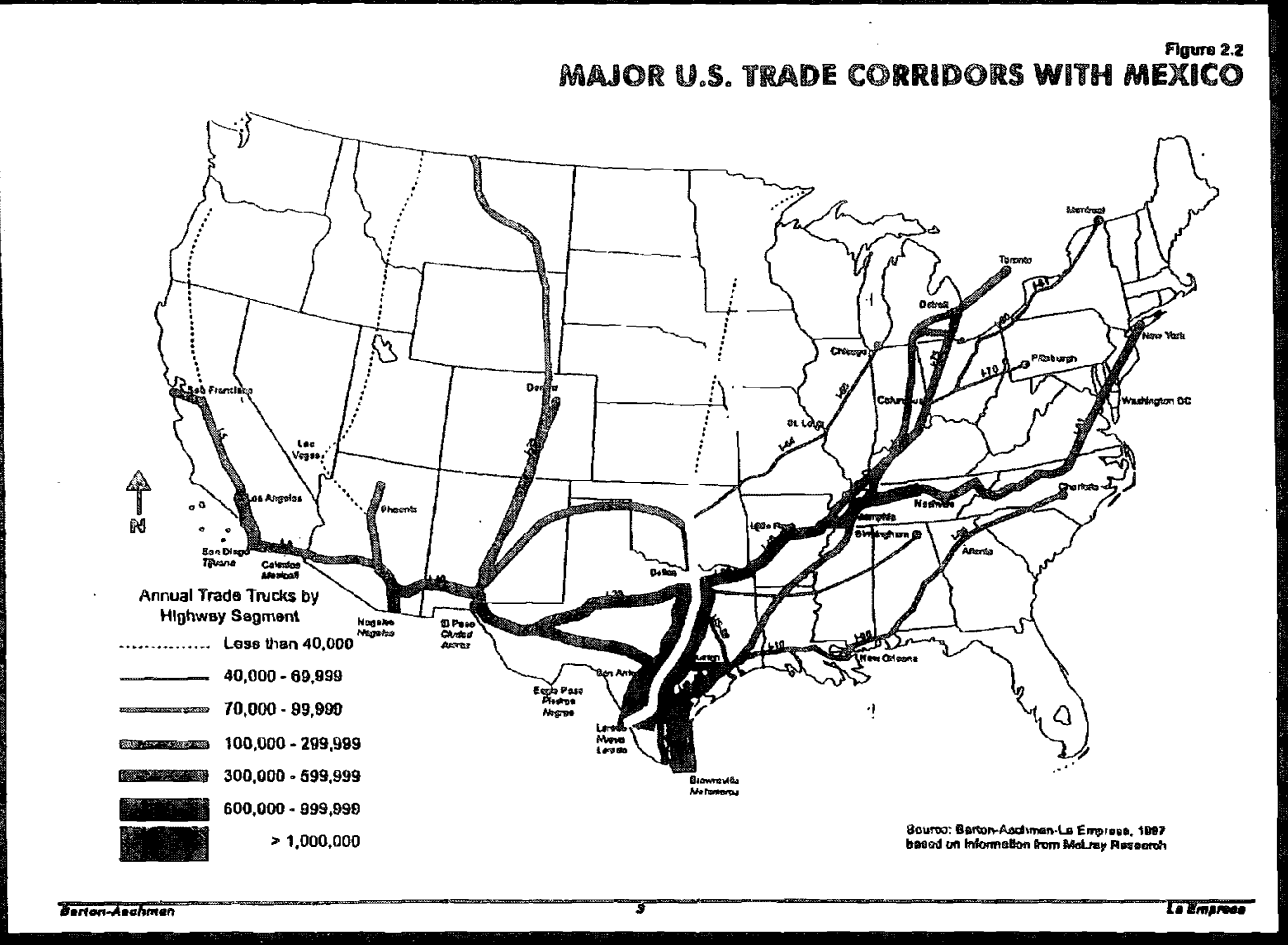
Austin District Total:
$1,795,632,171.79

Pharr District Total:
$914,846,939.66



Source: Texas Department of Transportation (TxDOT) "Disco Report: 1999".

Population Demographics Show Up in Trade Patterns



Source: BINATIONAL BORDER TRANSPORTATION PLANNING AND PROGRAMMING STUDY, TASK 2 REPORT, March 13, 1998

REGULATION AND COMPLIANCE ISSUES

Issues/Analysis:

According to the Comptroller of Public Accounts' *Fiscal Notes,* since the ratification of NAFTA, Texas has had the highest volume of truck traffic in the nation. In the past three years, truck mileage has grown by 19 percent, compared with a 12 percent increase in passenger car mileage. In fact, 80 percent of all U.S.-Mexico cross-border truck traffic crosses the Texas Border.

Around- the-clock customs operations would alleviate much of the traffic gridlock which currently occurs between 3 p.m. and 9 p.m. At present, the customs shifts per bridge vary from port to port. This can have a major impact on commerce, since the number of shifts determines the number of lanes open per bridge and thus the flow of traffic across the border. The U.S. Customs Bureau contributes to both traffic congestion and air pollution by not opening all available lanes to traffic. Thus, Border residents and public officials are forced to surrender local control of key issues to federal agencies located thousands of miles from the Border who often make far-reaching decisions without regard to local needs.

PLANNING

Issues/Analysis:

Although federal law already requires TxDOT to develop transportation plans and programs for all parts of the state and to coordinate their efforts with Metropolitan Planning Organizations (MPOs) in urbanized areas, the explosive growth of NAFTA-related trade makes this kind of planning even more important. In developing the transportation plans, the state must consider a number of factors, including methods to reduce congestion and enhance the efficient movement of commercial vehicles across the Border. In many Border communities, MPOs currently perform a majority of the functions of international port authorities. To effectively continue in this role, Border MPOs need additional staff with relevant expertise and greater planning capacity. This will entail more funding. TxDOT district offices in the Border region also need greater planning capacity, which could be attained by hiring private-sector consultants to assist TxDOT staff with engineering, environmental studies, and other aspects of transportation planning. According to TxDOT, since 1996, the amount of new contracted construction has increased from $1.5 billion to $2.9 billion, an increase of 93 percent, while staffing in the design areas increased by only 15 percent. Border TxDOT district offices and MPOs should also have the capacity to perform, or contract for, local transportation and air-quality modeling, rather than having to rely on outside sources such as the Texas Transportation Institute (TTI). Furthermore, MPO planning funds can currently only be used in the metropolitan area boundary, which does not include foreign countries. Border MPO's are further hampered by federal law which does not allow foreign representatives to serve as members on policy committees.

Finally, efforts to reduce congestion and facilitate international trade must include the designation of Dedicated Commuter Lanes (DCLs) at major crossings to eliminate delays and related vehicle congestion. In many Border communities, residents work on opposite sides and often spend long periods of time waiting in line at Border crossings. In El Paso, the Immigration and Naturalization Service (INS) and the Customs Bureau worked jointly to establish a DCL.

TECHNOLOGY/TRANSPORTATION

Issues/Analysis:

Mexico is now the United States' second-largest trading partner and Texas' largest. We must have the resources and technology to ensure that goods and services can move rapidly across the Border. The effectiveness of improvements in Border infrastructure may depend on the availability of technology capable of enhancing inspections and routing traffic away from congestion. An example of this new technology is the North American Trade Automation Prototype (NATAP). Under NATAP, transportation brokers enter driver, truck, and cargo data into a program transmitted over the Internet to customs officials, thus eliminating paperwork and saving time. When a truck passes through the inspection booth at the Border, a transmitter placed on the cab automatically relays the data to the Customs inspector. If a truck is flagged by the system, it is inspected. In addition to the features detailed above, U.S. Treasury officials have stated that the NATAP system can collect tolls and road taxes automatically without requiring drivers to stop their vehicles.

Other technology options include Intelligent Transportation System (ITS) pilot projects that speed government agency reviews of truckload information and the Automated Export System (ES), a single data collection and processing center for electronic export shipment documentation that already should be in place at our ports-of-entry.

BINATIONAL/UNIFIED PORT MANAGEMENT

Issues/Analysis:

States such as New York and New Jersey have established port authorities to build and operate infrastructure, eliminate red tape, and expedite commerce. On the Texas Border, this would require a cooperative arrangement between the United States and Mexico, as well as participation by affected state and local governments in both countries. With a binational port authority, both countries would be able to allocate resources and retain revenue in the Border region to fund infrastructure. At present, all revenue collected on the Mexican side of the Border goes to Mexico City, and much of the revenue collected on the U.S. side goes to the Customs Bureau and other federal agencies. To maximize the amount of revenue available to build infrastructure vital for NAFTA-related commerce, we must redirect some or all of these funds back to the Border region.

Border port authorities would expedite cross-bridge traffic and reduce congestion by consolidating the different activities performed by the various federal and state agencies under a single entity. On the U. S. side alone, nine different federal agencies, each acting independently, have jurisdiction over operation of the international bridges. At the state level, at least five Texas state agencies, all scattered and without a central facility to perform their duties, play a role at the Border. While all commercial vehicles entering the state from Mexico must pass through a U.S. Customs Port of Entry (POE) few of those vehicles are inspected for compliance with state regulations. Yet, while all state agencies could conceivably perform their enforcement duties at Customs POEs, due to limited space, only the Texas Department of Public Safety (DPS) has been permitted to use them.

Port authorities on the Texas Border would offer numerous benefits. For example, by offering a means of coordinating and financing transportation infrastructure improvements, they could reduce the time needed to get raw materials and finished products to their destinations, making border manufacturers and other businesses more efficient and competitive.

HEALTH INFRASTRUCTURE

Issues/Analysis:

Texans in the Border region (defined as the 43 counties closest to the Texas-Mexico Border) suffer from a seriously inadequate health infrastructure. In this area of great population growth and high unemployment, environmental pollution and lack of fiscal resources combine to perpetuate this situation. While other parts of the state and nation benefit from the prosperity realized from increased trade with Mexico, the Border region's communities are the first to feel the adverse public health effects of that increased trade. Even before the enactment of the North American Free Trade Agreement, the Border region lacked an adequate public health infrastructure, and the latter half of the 1990s has not seen enough progress to deal with increasing health needs.

In May 2000, 81 percent of the Border region's counties were wholly designated as "Medically Underserved Areas" (MUAs), with an additional 14 percent recognized as partial MUAs. In non-Border Texas, 67 percent of whole counties were MUAs, and 20 percent of counties were partial MUAs. Another designation that is used in federal and state programs is the concept of "Health Professional Shortage Areas" (HPSAs). In July 2000, almost all (95 percent) of Border counties were recognized as mental health HPSAs, compared to 74 percent of non-Border counties. For primary medical care, about three-fourths of Border counties were wholly designated as HPSAs, compared to half of non-Border counties. Lower availability of various kinds of health professionals in the Border region can be seen in the following chart:

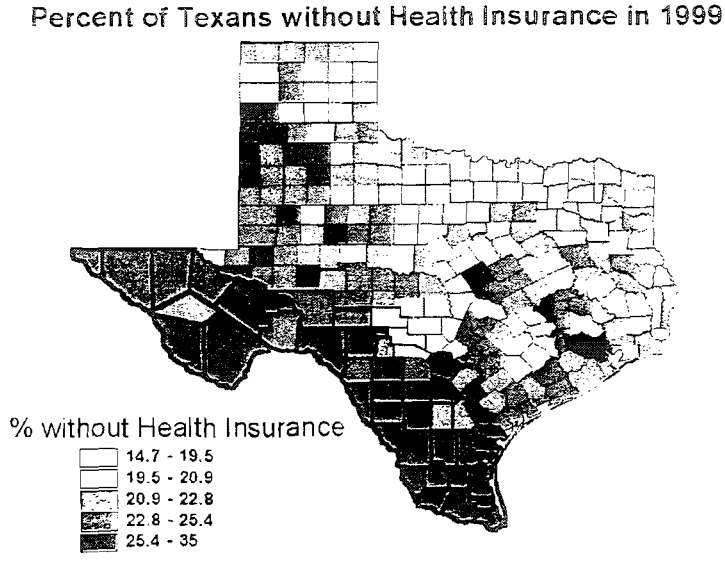
Texas Border Medical Infrastructure

	Texas-Mexico Border Counties	Rest of Texas
Population (1999)	4.1 million	15.8 million
In Poverty (1999)	1.1 million (27.8%)	2.2 million (13.7%)
Direct Patient Care Physicians (1999) (per 100,000 Population)	124.7	147.8
Primary Care Physicians (1999) (per 100,000 Population)	57.0	65.9
Registered Nurses (1999) (per 100,000 Population)	536.2	610.0
Dentists (1999) (per 100,000 Population)	31.4	42.9
Optometrists (1999) (per 100,000 Population)	8.0	11.1

Source: The University of Texas System, Texas-Mexico Border Health Coordination Office, Texas-Mexico Border Counties 1998: Demographics and Health Statistics, October 1998.

Not surprisingly, shortages of health professionals are accompanied by shortages in health care facilities. The Texas-Mexico Border Health Office of the University of Texas System reports that in 1994, the Border region had 34 acute care hospitals, compared to 434 located in the rest of the state, and 60 nursing homes, compared to 1,069 for the rest of the state.

Given the lack of medical infrastructure, access to health care remains a challenge for many residents of the Border region. This situation is compounded by the lack of health insurance. A 1998 University of California at Los Angeles survey reported that El Paso County has the largest number of non-elderly individuals not covered by health insurance in the country. In addition to the high number of working poor adults in the Border region who cannot afford health insurance, Texas now has an estimated 1.4 million uninsured children. The Border region is home to more than a quarter of this young uninsured population. In El Paso alone, there are an estimated 72,797 children without health insurance.



Source: Texas Health and Human Services Commission, May 1999

Although the state is working to alleviate this issue through the Children's Health Insurance Program (CHIP) and Medicaid managed care, the current reimbursement rates for these programs are proving problematic for Border residents. Under the current Medicaid Managed Care and CHIP Programs, reimbursement rates are determined by reviewing the utilization rates of each area or region of the state. Unfortunately, any geographic area with limited access to health care facilities and providers will produce low utilization rates. Access is limited in the Border region because there is a lack of adequate medical infrastructure. Further, many of our citizens get medical care in Mexico, so these costs are never captured. The following chart demonstrates to some extent these disparities.

Reimbursement Rates for Medicaid Managed Care and CHIP Across Texas

FY 2000 Rates

		RISK GROUPS		
Area	**Avg. State Rate**	**Pregnant Women**	**Total Newborns**	**CHIP Phase II**
Houston	192.70	648.91	588.1	86.6
Austin	150.39	546.69	455.14	68.06
Dallas	153.00	646.38	322.45	75.33
Ft. Worth	186.16	621.93	477.64	75.33
San Antonio	136.12	592.89	415.11	64.02
Lubbock	143.39	560.76	417.65	66.84
El Paso	115.96	594.26	360.31	63.96

Source: Texas Department of Health, FY 2000 Managed Care Renewal Rating, July 30, 1999, and Texas Health and Human Services Commission, Phase II, CHIP HMO Premium Rates, 4/28/00.

As Medicaid managed care is rolled out across Texas, low rates will extend to many other areas of the state and compound disparities already extant in San Antonio, Laredo and the Valley. For no other reason than historical precedent, physicians in one part of the state will be unjustifiably expected to cover a greater burden of the expense of caring for patients than their counterparts in other areas.

This policy does not make sense, nor will it motivate providers to continue serving Border cities or to open new practices in the least medically served counties in the United States. This rate disparity undermines health infrastructure in precisely those areas of the state where communities depend heavily on a health care safety net.

Equal pay for equal work is a value we enforce everywhere but the Texas Border. In a host of issues, from reimbursement rates to child care rates and wage rates on Border projects, our state is an active partner in perpetuating Border poverty. By persisting in past practices of paying low rates and wages, Texas itself reduces Border per capita income, already the lowest in the nation. The result is an inevitable migration of talent and capital to areas of better pay and more opportunity.

In addition to the current reimbursement rate issue, poor socio-economic conditions and the emerging implications of trade further burden the health conditions of Border residents. Tuberculosis rates in El Paso are already above the state average and threaten to increase dramatically given the incidence of drug-resistant tuberculosis in Juarez. The rise in infectious diseases such as TB not only poses problems for Border populations in the short term, but also poses a long term threat to any area that is a destination for NAFTA traffic. Even though dengue fever is not endemic to the United States, outbreaks have occurred along the Texas/Mexico Border in recent years.

Given that existing water and sewage systems have failed to keep pace with Border population growth, residents of colonias and other Border communities also face the threat of viral infections from water pollution and contamination. Due to substandard sanitary conditions, many Border residents are at risk of contracting the gastrointestinal virus Hepatitis A. In 1995, El Paso had the highest number of Hepatitis A cases among the 14 counties along the Border. Environmental pollution is taking its toll on Border health as well. The Texas Department of

Health (TDH) reports that there is a high incidence of anencephaly in counties bordering the United States and Mexico. While a link between the increased presence of toxins and the incidence of anencephaly has not yet been proven, studies have demonstrated a correlation between high/low volumes of maquiladora activity and high/low incidence of anencephalic babies. Furthermore, according to a survey conducted by the Texas Health and Human Services Commission of Medicaid Diagnosis Related Groups (DRG), billing records for the Border region show above average expenditures for a variety of respiratory illnesses for both adults and children. According to TDH and other studies, smoke produced by various sources, such as items burned for heating fuel by low-income residents of both countries, vehicle exhaust, open fires and industrial smoke stacks, significantly detracts from air quality and particularly affects residents' respiratory health.

Lastly, the high incidence of diabetes and complications related to the disease among both Hispanic adults and children living along the Texas-Mexico Border is indicative of the lack of preventive care, screening, intervention and disease management available in the region. The fact that more diabetes-related amputations occur in the Border region than anywhere else in the state is an indictment of the current public health care system in Texas.

CHILD CARE

Issues/Analysis:

Reliable day care is a critical element for working families with children in the 0-12 age group, but its high cost puts care out of the reach of many families. One national study estimates that child care takes about 18 percent of the income of poor families, and even more income (25 percent) from families earning less than $14,400.

Although targeted workforce dollars will substantially aid in the development of a highly skilled workforce in the Border region, access to affordable child care must also be addressed. Given the current low wage structure in the Texas Border region, this is a significant issue for families who have lost Temporary Assistance for Needy Families (TANF) and are working, and for families who did not receive TANF but are still well below the official poverty line. Many heads of households in this situation work at minimum wage jobs that do not make it possible for them to afford quality child care services. This creates a huge disincentive for former TANF parents to remain "off welfare," or forces them and other working-poor families to choose between paying for child care or for other essentials such as health care. In Fiscal Year 1998-99, the Texas Workforce Commission spent $219.2 million on child care. In Fiscal Year 2000-01, however, they are slated to spend only $132 million, a decrease of $87 million..

As welfare caseloads have dropped sharply, Texas and other states have found themselves with significant TANF surpluses, much of which has been redirected to child care. The 76th Texas Legislature approved transferring $108 million from TANF to CCDF for the 2000-2001 biennium, more than three times the previous biennium's transfer of $31 million. But even this dramatic increase did not take full advantage of the TANF surplus. Texas will leave an estimated $109.7 million in TANF unspent by August 2001, money which could and should be spent on child care.

The unmet need for child care is large and growing. In 1998, when 1 million children were eligible for CCDF-subsidized child care, only 78,960 kids (7 percent) actually received services. The additional child care funding approved in 1999 was also not enough to eliminate low-income child care waiting lists that exist across the state. TWC estimates that the statewide waiting list for low-income child care will grow to 31,125 in fiscal 2000. In El Paso, the waiting list of working-poor families needing subsidized child care consistently numbers about 5,000. There is a surplus of vendors willing to provide the care, but not enough money allocated by the state to pay for it.

HOUSING

Issues/Analysis:

The housing crisis on the Texas border is fundamentally an economic problem. Poor families are faced with the challenges of low wages, a steady increase in the number of people competing for jobs, and (on the U.S. side) high unemployment rates. The number of poor people living along the Texas border exceeds that of ten other states and the District of Columbia combined. Almost one-half of the children living in Texas border counties live below the poverty level. The Census Bureau estimates that in the six largest Texas border counties, which are home to almost one and three quarter million people, more than 662,000 people live in poverty.

Low-income Border families are completely priced out of the conventional housing market. Their ability to obtain affordable housing is dependent upon securing some form of government subsidized housing; in the absence of such subsidies, these families find themselves unable to afford housing in Border cities, and buy lots in rural colonias and build homes for themselves.

The problem is not that housing costs on the border are unusually high. The cost of housing in the region is generally in line with housing costs in other parts of the state. The problem is that the incomes of the low-income population are too low to pay the rent/mortgage. A particularly troubling figure is the percentage of the people living in Texas's border towns who cannot afford to pay the Housing and Urban Development (HUD) Fair Market Rent in their city. In 1998, statewide, 34% of the households needing a one bedroom apartment couldn't afford it; in border cities the percentages ranged from 38% to 48%. More troubling, the gap between rents and what border residents can afford is increasing. According to a study by Dr. Jorge Chapa of the University of Texas at Austin, from 1980 to 1990 the percentage growth in households paying unaffordable housing costs rose 42% in Cameron County, 23% in El Paso County, 67% in Hidalgo County and 77% in Webb County. The study estimates that more than half a million Texas Border households are paying unaffordable housing costs today. This number will increase to more than 715,000 households in the next decade.

As the supply of cheap lots in substandard colonias dries up as a result of the enforcement of S.B. 1001 which outlawed new substandard colonias, there has been a noticeable increase in population densities within existing colonias. Since poor Border families can no longer afford to buy their own lot, multiple families are building homes on the same piece of land.

For many years, Texas stood by and let the federal government assume the sole responsibility for providing housing subsidies to the poor. Over the past decade federal housing responsibility has been "devolved" to the states through housing block grants.

Unfortunately, Texas has failed to use its new responsibility to prioritize funding for Border housing. One example is the state's $100 million single-family mortgage revenue bond program, used to provide low-interest mortgage loans to low-income homebuyers. Making sure these loans reach Border residents requires the state housing department to target the bonds to the Border region and back up the low-income borrowers with state loan guarantees. However, the state's housing agency, the Texas Department of Housing and Community Affairs (TDHCA), has not targeted loans to the Border.

From 1993 to 1999, less than 25% of the loans under the program went to the Border region. Instead, the state's principal use of these loans has been to finance suburban new home purchases, especially in Houston and Dallas, where families with annual incomes of up to almost $70,000 receive loans under the program.

In 1995, the Texas Legislature directed TDHCA to use mortgage revenue bonds to refinance high interest rate contracts for deed, but —apparently unwilling to serve this low-income home mortgage market— TDHCA converted the program into a home repair program. Less than twelve loans were made under the program

The state has also done a poor job of directing its second housing tool, the federal HOME block grant, to the Border. A recent study found that of the HOME funds that had been set aside for assisting Texas families with down payment assistance, only 27% went to the Border region. Once again, most of these down payment assistance grants went to non-border cities to households with incomes double those of typical low-income Border families.

The largest housing program administered by the state is the Low Income Housing Tax Credit Program. Of 77,305 housing units subsidized in Texas through this program from 1989 to 1998, only 3,348 housing units (4% of the total) were located in the Border counties. In contrast, Dallas received 13,631 subsidized housing units. Dallas has fewer than half as many people living in poverty as the Border region yet received four times the number of subsidized housing units. The latest allocation round shows some improvement, but even if the state fairly allocated its housing resources, the scope of Border housing needs far exceeds available government resources. Dr. Chapa's study estimates that in the next decade there will be 715,000 households that are unable to afford the cost of housing on the Texas side of the Border. A typical apartment created through the Low Income Housing Tax Credit Program costs about $70,000. The cost of providing 715,000 families housing through this program would be in excess of $50 billion--more than two and one half times the entire HUD budget.

The last major government housing mortgage initiatives came out of the New Deal. In the 1930's and 1940's, the federal government began insuring long-term mortgages, making homeownership possible for millions of moderate-income Americans, especially veterans returning from World War II. A significant part of the answer to the Border housing crisis must be found through developing mortgage credit-based solutions.

Unfortunately, efforts by low-income Border residents to access mortgage credit through existing sources has proven difficult. Mortgage loans are standardized products created by local lenders and sold secondary finance institutions that establish standards for loan qualification based on standardized credit scoring, down payment requirements, income ratios, and housing quality standards that cannot be met by most low-income families.

Many Border residents differ from other would-be homeowners in three important aspects. First, the housing market is characterized by buyers with extremely low incomes. Many of those with worst case housing needs are farmworkers or service industry workers, making household incomes close to minimum wage. Typically their earnings will support monthly payments of $200 or less. Yet monthly payments for new housing within Border cities commonly exceed two to three times that amount.

Second, the lack of low-interest, flexible term credit forces Border residents to turn to expensive "sub-prime" credit sources such as the contracts for deed offered by colonia developers. Many buyers become entangled in payment schedules that they cannot afford, which ultimately makes them unattractive to lenders with more favorable rates.

Lastly, many people with a housing need in fact already own a home in a colonia or a city. While the home or its location may be substandard, to its owner it is a work in progress, representing considerable financial sacrifice and physical effort. These residents want financing so that they can accelerate their efforts to complete their homes. Yet the substandard nature of the existing construction or the location generally will not meet lending standards nor create substantial home equity.

Several Non-Governmental Organizations (NGOs) on the border have created mortgage lending programs especially tailored to meet the housing needs of low-income families and colonia residents. One innovative example builds on the willingness of colonia residents to construct their own homes, by providing materials, instruction, and a team approach to construction. The combination has proven to be an effective means of making decent, affordable housing available to hundreds of Border residents.

In 1999, the Texas Legislature set aside $5.6 million for another concept initiated by the Border Coalition. This pilot program, known as the Texas Bootstrap Housing Loan program, will provide loans directly to low-income families to build their own homes. Two-thirds of these funds are to be targeted to the Texas-Mexico Border region.

Borrowers under this program must supply at least 60% of the labor to build their own homes in exchange for relaxed credit terms and lower interest rates. The program seeks to build on and expand on the successes of non-governmental organizations that operate "self-help" housing programs in the colonias and border counties such as Proyecto Azteca (San Juan, TX) and Lower Valley Housing Corporation (Fabens, TX).

Under the Bootstrap program, the state will make a $25,000 loan available to the family. When a larger loan is needed, it will be up to local government, churches, nonprofit organizations and private lenders to come up with the remainder of the loan funds needed to finance the home. Homes built under the program will be exceptionally affordable -- principal and interest payments on a $25,000 Bootstrap home loan will run $70 per month.

A major part of the solution to the Border housing crisis lies in developing new mortgage credit vehicles like the Bootstrap Loan Program. Creative collaborations of low-income residents and policy makers like the Border Low Income Housing Coalition have pointed the way to such approaches.

Implementation of new programs will require both a redesign of existing housing programs administered by the state coupled with substantial new revenue commitments from both the state and federal government. It will also require the state to fairly allocate housing resources to the Border. Colonia self-help centers and the Texas Bootstrap Housing Loan Program are small steps in the right direction.

PUBLIC EDUCATION

Issues/Analysis:

Equity and "The Gap"

The cornerstone of school finance litigation and definition in Texas is Article 7, Section I of the state Constitution:

> "A general diffusion of knowledge being essential to the preservation of the liberties and rights of the people, it shall be the duty of the Legislature of the State to establish and make suitable provision for the support and maintenance of an efficient system of free public schools."

The successive legal challenges to the system in Texas focused on the definition of "efficiency." An "efficient system of free public schools" has been interpreted in the courts as one that is equitable. Equity in this context is "horizontal" equity, which is defined as "equal treatment of equals," or roughly equal per pupil expenditures across school districts.

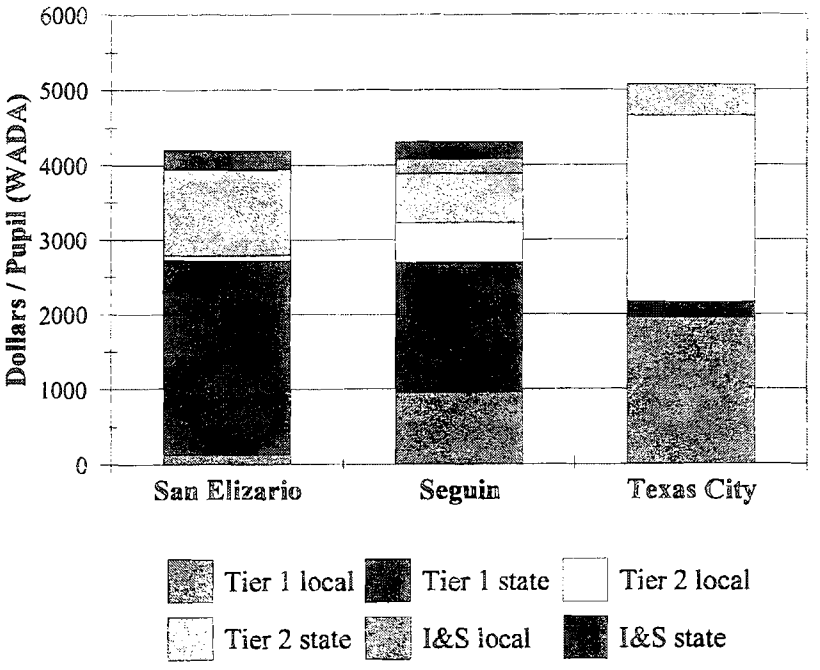
The school finance system that was created in 1993 in response to the many legal challenges regarding the equity of the structure was ruled by the Texas Supreme Court in 1995 to be in compliance with the requirements of the state's constitution. The Legislature modified the structure in the 1997 and 1999 legislative sessions, but retained the essential elements of the system.

One of the defining characteristics of the existing structure, and a primary factor in the remaining inequity in the school finance system, is the difference, or "gap," between the "tier 2 guaranteed yield level" and the "equalized wealth level." The first of these, the tier 2 guaranteed yield, is a level that guarantees a certain minimum revenue yield per penny of local tax effort. The second, the equalized wealth level, sets an upper limit on the revenue yield per penny of local tax effort that may be raised by wealthy districts. The difference between these levels translates into sizeable differences in revenues for wealthy and non-wealthy districts.

The difference in revenues is not only a theoretical issue. The school finance formulas permit wealthy districts, which comprise approximately 10 percent of the districts in the state, to raise an average of about $900 more per student per year than districts with per pupil wealth below the tier 2 threshold. In a classroom of 30 students, this amounts to $27,000 (30 x $900) per year, which is enough to pay the salary of a teaching assistant or buy computers and other resources. According to data provided by the Legislative Budget Board, the wealthiest district in the state, Glen Rose ISD, provided $8,600 per student in 1999-2000, while San Elizario ISD in El Paso provided only about $4,000 in the same year. In the context of a classroom, this difference amounts to a disparity of more than $120,000.

State & Local Funding

in School Districts of Varying Wealth



The difference in revenues is illustrated in the chart above. The three districts selected represent a poor district (San Elizario ISD in El Paso, with a per WADA wealth of $16,000), a medium-wealth district (Seguin ISD, with a per WADA wealth of $129,000), and a wealthy district (Texas City ISD, with a per WADA wealth of $1.3 million). Please note that tax rates are similar in the three districts: San Elizario ISD has an M&O / I&S rate of $1.35 / $0.09, Seguin ISD is $1.34 / $0.10, and Texas City ISD has a rate of $1.35 / $0.10, indicating that the difference in revenues is primarily attributable to differences in property wealth (1999 - 2000 data provided by the Legislative Budget Board). In other words, despite the court approvals of the current structure, revenues are not independent of property wealth and wealthy districts have a revenue advantage over less wealthy districts.

The issue of the "gap" is exacerbated in Border communities by the insufficient funding of critical programs, particularly the "bilingual education" and transportation programs. A review of 1999 Texas Education Agency data reveals that the school districts in the 43 Border counties budget an average of $126 per weighted student for bilingual education programs, but receive only $57 per student. The population along the Texas/Mexico Border is 75 percent Hispanic and the demand for bilingual education in this region greatly exceeds the demand in the rest of the state. In other words, the underfunding of bilingual education is amplified on the

Border as a result of the greater demand for the services.

Similarly, the transportation budget in Border districts averages $136 per weighted student, while the allotment to these districts averages $62 per weighted student. This shortfall mirrors the statewide shortfall in transportation: the budgeted average is $149 per weighted student and the average allotment is $72 per weighted student. The shortfall is exacerbated on the Border, however, because in many of the remote districts, transportation is a disproportionately high share of the budget. Shortfalls in funding must be compensated with funding from other programs.

Achieving Greater Equity

As a whole, school districts along the border between Texas and Mexico are the poorest in the state. Greater equity may be achieved through three primary mechanisms:

(1) Close the "gap" described above;
(2) Fully fund the bilingual education and transportation programs;
(3) Equalize more facility construction debt.

Each of these solutions is described in more detail as follows:

The "Gap": Greater equity in school finance funding may be achieved without serving to disadvantage any school districts. The legislature should codify a funding framework that specifies that any increase in school funding must be proportionally split between increases to the basic allotment, tier 2 funding yield, and equalized wealth levels. This would formalize a relationship among these three variables that already loosely exists and is periodically measured by the Legislative Budget Board through the use of three court-approved equity measures. If the disparity between these variables grows, these equity measures run afoul of the court-approved limits and risk a Constitutional challenge.

An appropriate ratio would be 10-20-10; in other words, a 10 percent increase in either the basic allotment or the equalized wealth level necessitates a 10 percent increase in the other and a 20 percent increase in the tier 2 guaranteed yield level. This would have the effect of gradually closing the gap between the tier 2 level and the equalized wealth level.

Bilingual Education and Transportation Programs: Fully funding the bilingual education program would cost the state an additional $200 million per year, while fully funding the transportation program would cost the state an additional $400 million per year.[1]

Increasing the state's share of funding for these programs could be accomplished by requiring state savings resulting from local property tax increases to be reinvested into these programs. Currently, such "surplus" funding is required to be allocated to offsetting local homestead exemptions and allowing for certain other investments. The Legislature should adjust the Education Code to redirect this funding to the bilingual and transportation programs. In years

during which property values do not increase, these programs would not receive additional funds.

Addressing Wealth Equalization and Tax Relief: Both wealthy and non-wealthy school districts argue convincingly that they need more revenues in order to ensure continued improvements in the quality of education, as demonstrated in improving TAAS scores. One of the features of the school finance system is that unlike other taxing entities, increases in property values do not translate into higher revenues. Revenues are essentially held constant through a mechanism that decreases state assistance in cases of increased local valuation (except for "gap" districts with wealth per student between the tier 2 guaranteed yield level and the equalized wealth level). In other words, districts that do not have tax rate discretion (because their rates are near the limit) are not able to access more funding except through direct legislative action. Teacher salary increases and inflation, for example, are not "automatically" funded.

As noted above, increases in state funding should be accomplished through an equitable framework that benefits all districts. In addition, the legislature should employ the "compression" formula of last session to increase the basic school finance elements while providing an opportunity for property tax relief to all districts. Compression is derived from the following basic formula: *tax base x tax rate x guaranteed yield = revenue.*

An increase in the guaranteed yield can be offset by a decrease in the tax rate, thus limiting the increase in the total revenues (and state appropriations). Similarly, the basic allotment and equalized wealth levels may be increased as the tax rate is decreased according to a set revenue target, thus limiting state appropriations. For example, the state could increase the tier 2 yield to $27, increase the basic allotment to $2655, and increase the equalized wealth to $309,000, accompanied by a sufficient decrease in property tax rates to achieve appropriation targets that are set by the House Appropriations and Senate Finance committees.

Debt Equalization: Debt being financed exclusively by local districts is inequitable because the ability to finance the debt varies according to local wealth. The state partners with local districts in financing the costs of facility construction through two separate programs. The "Instructional Facilities Program," approved in 1997, provides a "guaranteed yield" to certain districts with qualifying instructional facility needs. The "Existing Debt Allotment" of 1999 also provides a state "guarantee" of a specific yield to help districts retire the costs of existing debt. Both programs represent a significant improvement in school construction financing.

The next step is to increase the state funding for these debt assistance programs and to reduce restrictions on the use of this funding. Specifically, the state should combine the two programs to offer a single guaranteed yield for all debt without regard to when it is issued. This would honor local control over spending decisions while eliminating the administrative burden of reviewing each new construction project. It would also provide a predictable guarantee of state funds that would not be subject to biennial increases in appropriations. Finally, it would eliminate the "cap" on state assistance for certain debt (the 12 cent limit), thus removing the largest remaining inequity in the funding system.

Facility Weights: A related equity issue is the proposal to attach "weights" to facility funding programs. The current regular program weighting system would not be appropriate for facilities, but new weights that compensate for variations in regional construction costs and special student instructional requirements (e.g., speech therapy) may be appropriate. The Legislature should commission a definitive, unbiased study of the issue that includes a recommendation to implement or to not implement such a funding mechanism.

State Funded Health Care for Public School Employees

The inadequacies of the state's support of teacher health care benefits are well documented. In addition to austere wages, many teachers in Texas must endure the additional financial hardship of financing significant portions of their health insurance costs. The amount of coverage varies by school district: some finance full plans, a few provide none. The Teacher Retirement System estimates that 54 percent of all districts provide coverage that is comparable to the state's health insurance, and up to seven percent provide no coverage at all.[2]

Addressing the health insurance issue must be achieved through the state's financing formulas, as were the teacher salary increases in the 76th Legislature. Once the total amount of state assistance is determined, the legislature should increase the three basic elements of the school finance formulas referenced throughout this report: the basic allotment, the tier two guaranteed yield level, and the equalized wealth level. Only through an increase in these three elements, in a ratio of 10-20-10, respectively, will the insurance assistance be achieved equitably. By contrast, a per-capita distribution to all school districts would not comply with the spirit of the state's equity standards.

Biennium Lag

Section 42.253(e) of the Education Code stipulates that the state share of a district's funding entitlement is determined by the effective M&O tax rate of that district in the second year of the preceding biennium. In other words, any increases in local tax rates in an even year are ignored by the state until the following biennium ("biennium lag"). In practical terms, this means districts are setting tax rates for the 2000-01 school year (FY 2001) during the summer and fall of 2000, and at the same time defining their state funding match for fiscal years 2002 and 2003.

The purpose of this provision when it was approved in the early 1990s was to eliminate unpredictable increases in state funding obligations. Local tax rate increases at that time led to higher state obligations than budgeted, thus requiring "proration," or reductions in state payments to all districts. Proration was so disruptive that legislators imposed certainty in state funding.

The benefits of the "biennium lag" no longer outweigh the disadvantages. The most significant of the consequences is the inefficiency created in district tax rate setting policies. Knowing that the rate is "set" for the next three years, school boards almost always increase their

rates in odd years as much as possible (subject to rollback) in order to cover potential "worst case scenarios." An emergency increase in teacher salaries, for example, must be anticipated several years in advance. Tax rate increases "just in case" are never lowered when the anticipated contingency fails to materialize. This costs both districts and the state more than a current-tax-year model would cost. Ending the biennium lag is a tax savings measure because rates won't increase without a present and existing need.

The potential disruption of proration is no longer a significant concern. After an initial year adjustment under the new policy, school district tax rates would stabilize. With 15 years of experience with tax rate response, the state can now estimate it much more accurately. Any shortfalls in budgeting could be handled through the same "settle up" process at the end of each year that adjusts for student count and property value fluctuations

Finally, eliminating the biennium lag is good public policy because it would benefit the state's property-poor districts. The "lag" restricts districts with per student wealth below the Tier 2 guaranteed yield from maximizing state funds for up to two years if they must increase local tax rates, while property-wealthy districts that receive no state funds suffer no restriction in accessing revenues.

Set Asides

"Set Aside" programs are a defined group of education programs that share a funding stream. Instead of directly appropriating funds for these programs, the legislature has chosen to pay for these programs by deducting their costs primarily from the compensatory education entitlement of each school district below a certain wealth threshold. A small amount is also deducted from the gifted & talented entitlement of these districts. Programs funded in this manner include the "optional extended year program," the administration of the Texas Assessment of Academic Skills (TAAS) tests, "communities in schools," specific teen pregnancy and counseling programs, and several others.

All school districts benefit from set aside programs to varying degrees. For example, all districts must administer the TAAS test, regardless of wealth. Not all districts pay for set asides, however. Those with per student property wealth above the equalized wealth level do not suffer a reduction in their compensatory education allotments. Correcting this obvious inequity is easily achievable: the compensatory (and gifted & talented) allotments of such districts could be reduced (using a lower proration rate due to the expansion of the property tax base), thus reducing the overall entitlement of the chapter 41 districts. A reduced entitlement produces a higher recapture payment for these districts. The net cost effect is a savings to the state.

Teacher Quality

The increase in student scores on the TAAS in Border school districts over the past 10 years attests to commendable improvements in the quality of education provided in this region. These improvements have occurred despite limited budgets, as described in this report. One consequence of these budget limitations, however, is a restriction in the ability of districts to attract the most qualified teachers. An analysis of teacher credential data from the State Board for Educator Certification reveals that Border urban school districts (including El Paso and San Antonio) employ a higher percentage of non-certified teachers in certain subjects than other urban districts in the state. This trend is particularly acute in the field of English as a Second Language. As is well documented, inadequate language skill development can lead to lifelong educational disadvantages.

1. Transportation cost is printed in the Texas Association of School Business Officials (TASBO) monthly publication, "TASBO Report," August, 2000, p. 7.

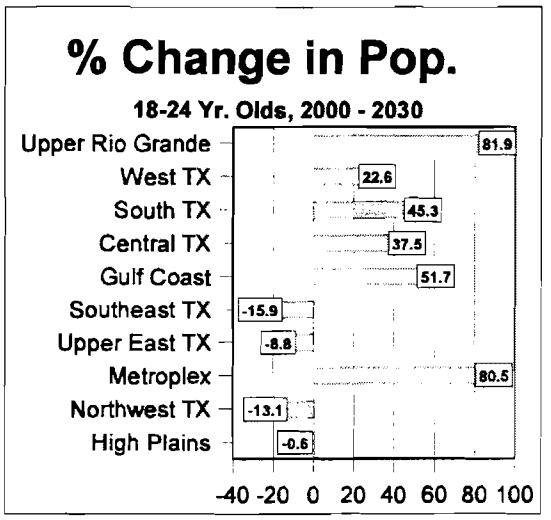
2. Conversation with Vicki Young, Teachers Retirement System, Aug. 17, 2000.

HIGHER EDUCATION

Issues/Analysis:

Every recent analysis of higher education trends in Texas points to the same conclusion: Texas must better educate the growing minority populations if we hope to maintain the economic prosperity and civic vitality of our society. A recent report by the Rand group, for example, concludes that a primary goal in Texas higher education is "reducing disparities among Texans in higher education participation and success, particularly by increasing the participation and success of Hispanics and African Americans."[1] Similarly, the Hispanic Research Program at Texas A&M University reports that "efforts must be made to develop the educational and human capital base of Hispanics and to develop programs and strategies that will allow them to stay in school and enter and graduate from institutions of higher education."[2]

A significant portion of the minority population in Texas lives along the Texas - Mexico Border. This region is also projected to experience the highest population growth in the state over the next 30 years (see figure 1). Establishing a long-term plan to provide for the "general academic" education needs of the state necessarily focuses on the Border region.

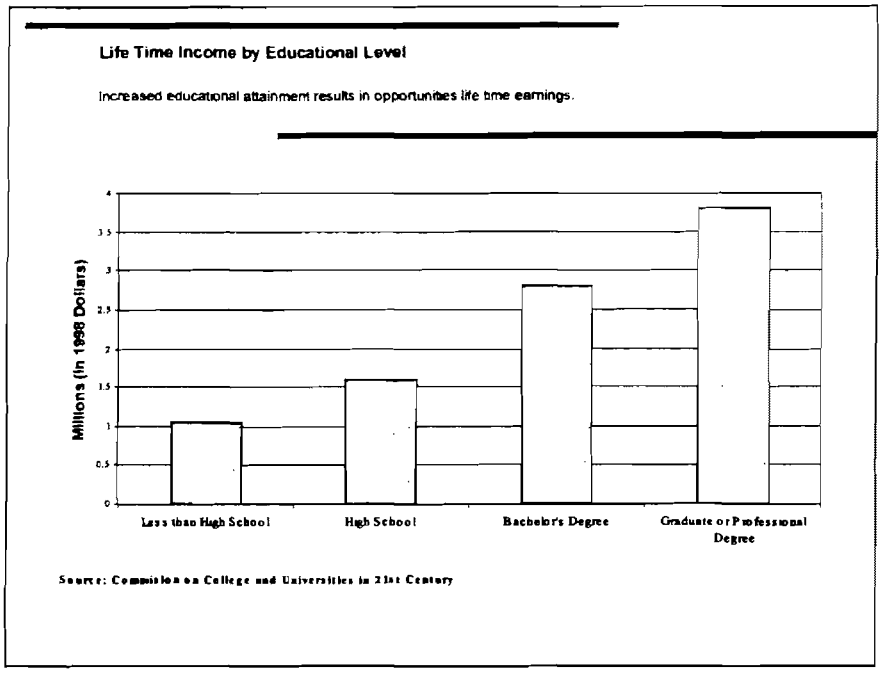


Source: Steve Murdock, as presented by Chairman Hunt to the UT Board of Regents, 4/4/2000.

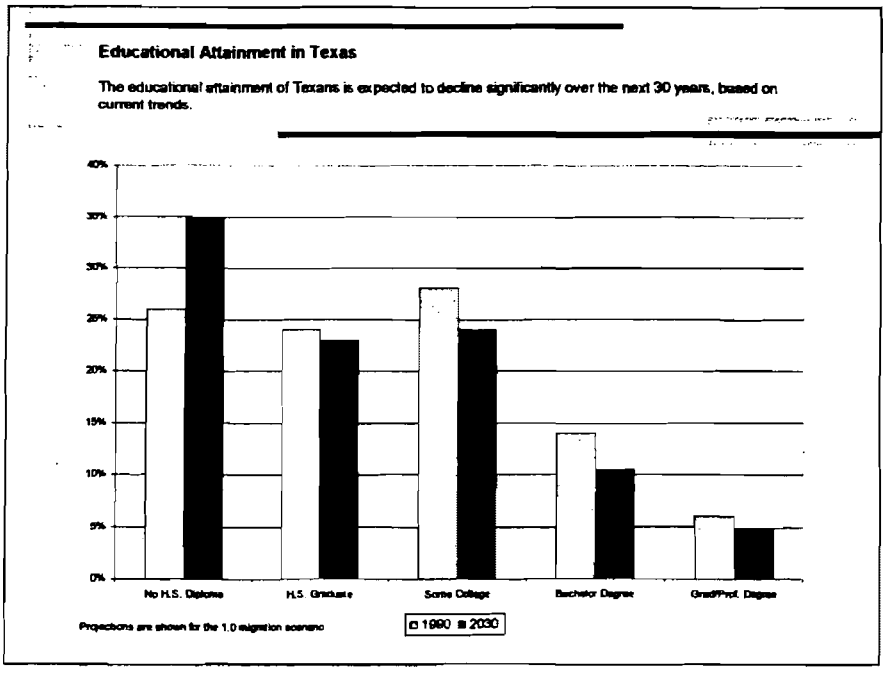
Texas is currently graduating fewer students with bachelors degrees than the national average and this disparity is increasing. Similarly, the number of 19-year-olds enrolled in higher education is lower than most other states.

These trends are particularly acute for minority populations. Hispanics now comprise 31 percent of the state's high school graduates, but only 6 percent of the enrollment at the University of Texas at Dallas, 9 percent at Texas A&M University, and 14 percent at UT-Austin.[3] Across the state, Black and Hispanic participation and graduation rates are about half those of Anglos. The overall six-year graduation rate for all racial/ethnic groups in Texas universities is 48 percent (1992 cohort of full-time students).[4] A recent study by the Higher Education Coordinating Board's "Planning Committee" indicates that achieving "parity" in the participation and success of all minority groups in proportion to their populations would require graduating an additional 500,000 students from universities and community colleges by the year 2015. This would constitute an increase of 63 percent over current enrollment of 790,000 students (excluding health and other institutions). A similar report by UT Regent Woody Hunt concludes that "parity" by 2030 would require an additional 690,000 students to be enrolled in Texas community colleges and universities, the majority of whom would be minorities.[5]

There is a direct correlation between a population's level of education and its lifelong income, which in turn determines the prosperity of the region. An individual with a bachelor's degree is estimated to earn $1 million more over a lifetime than a person with only a high school diploma.



The implications for the Texas economy are significant: although accurate projections are elusive, a University of Texas report indicates that average household income will decline by $3,000 in constant dollars by 2030 if the current higher education trends remain.[6]



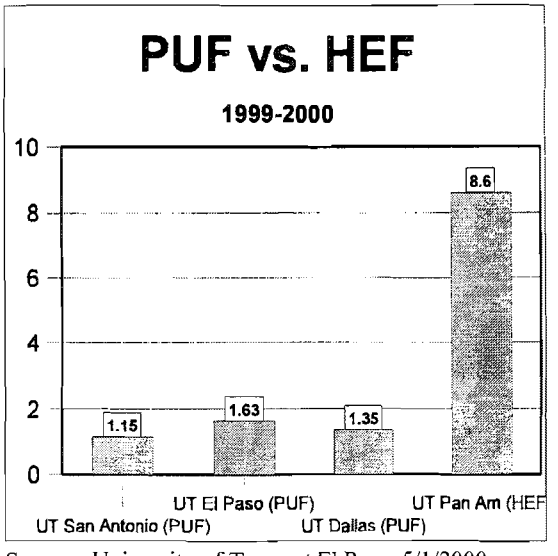
Addressing the higher education needs of the state necessarily focuses on communities along the U.S. border with Mexico. The 43 Border counties are home to 4 million Texans, constituting one fifth of the state's population. Migration patterns ensure that improved education of this population will bestow social and economic benefits not only to Border communities, but to the entire state.

Achieving the vision of a more educated population along the Border will require significant improvements in the higher education opportunities in the region. An example of the imbalance in resources is revealed in the doctoral programs offered: Among nine border universities, there are a total of 18 PhD programs offered.[7] This compares with 58 PhD programs at a single campus in Lubbock, a region with a stagnant population.

Funding is also imbalanced. At the University of Texas at El Paso (UTEP), there are two noteworthy examples of this imbalance:

(1) ***PUF vs. HEF:*** Several of the institutions in the University of Texas system receive capital support through the Permanent University Fund (PUF). These funds are used for new construction and renovation of facilities, as well as acquisition of technology and library materials. Many other universities receive capital support through the legislative appropriated Higher Education Fund (HEF).

Over the past 15 years, the disparities between these two sources of funding has been tremendous. For example, the University of Texas at El Paso (UTEP) estimates that the cumulative foresaken revenue attributable to its PUF association exceeds $100 million. The disparity in a single year is illustrated in figure 2. The disadvantage has been partially offset by "special item" funding during each legislative session, but such funding is unpredictable, thus precluding long-term capital planning.



Source: University of Texas at El Paso, 5/1/2000.

(2) ***Infrastructure:*** The limits of tuition revenue bond funding are based on criteria that includes "space deficit" determinations as of the following year (e.g., funding for the 2002-03 biennium is based on 2002 space estimates). This short-term approach does not allow for the 10 or 15 years of planning required in regions with rapidly growing populations. Responding to the facility expansion needs to educate the border population requires significantly more planning and funding than this formula allows.

The approach to excellence is multifaceted: it requires a comprehensive and long-term statewide vision; it requires greater investments in higher education programs that direct students towards careers that are responsive to workforce needs; it requires expansion of infrastructure and faculty resources to accommodate enrollment increases; it requires continued efforts to improve student performance and career placement; it requires maximizing access through affordable financial programs; and it requires sufficient leadership flexibility to respond to continuing technological and other societal advances.

A key part of the state's policy must be to invest in the human capital of the state. The current Texas model of two premier institutions with many satellites should be adjusted to include more institutions of excellence. There are several compelling reasons for such an adjustment:

- The population of Texas in 2000 exceeds 20 million and continues to grow at a rate that exceeds the national average. It can no longer efficiently educate its citizens in only two premier schools.

- Other states with multiple premier universities have reaped the many benefits of such a model. In addition to educating their residents, these states attract businesses, top professors, and research funding. Examples include California, New York, Michigan, and Massachusetts.

- UT Austin serves the largest single university enrollment in the country and is unable to accommodate many more students;

- Texas residents are best served when a range of institutional quality is available within reasonable proximity. Since population growth is occurring on the Border and in the state's major urban centers, these should be the locations of premier institutions;

- Finally, Texas can afford to be proactive. Estimates of the cost to the state of educating more of its citizenry vary according to the target. Achieving parity in minority education levels by 2030 is projected to cost the state $600 million per year over current expenditures.[8] This investment would be offset, however, by increased tax revenues from a better educated and an expanding population. The strength of the state's economy today calls for leadership to ensure the longevity of that strength for future generations.

1. Rand Corp.: Achieving the Texas Higher Education Vision, Benjamin, Carroll, Dewar, Lempet, Stockly, Hove, Yoda, DRU-2305-CAE, June 2000, p. 3.

2. The Hispanic Research Program at Texas A&M University, Department of Rural Sociology (http://ruralsoc.tamu.edu/hrp.html), last modified, 2/25/2000.

3. Al Kauffman, Mexican Legal Defense and Education Fund, as quoted in the El Paso Times, "More Minorities Enter Texas Universities," May 24, 2000.

4. Higher Education Coordinating Board Planning Committee Final Report of the Task Force on Participation and Success, June, 2000, p. 3.

5. University of Texas Regent Woody Hunt July 11, 2000 presentation to the UT Board of Regents.

6. University of Texas System "Service to Texas in the New Century" document, presented at the UT Board of Regents meeting, April 4, 2000, p. 5.

7. These universities are UT El Paso (9 PhD programs), UT Pan Am (2), UT San Antonio (3), UT Borwnsville (0), TX A&M Corpus Christi (1), TX A&M Kingsville (3), TX A&M International (0), Sul Ross (0), and Sul Ross Rio Grande (0). Source: Higher Education Coordinating Board, June, 2000.

8. UT Regent Woody Hunt (July 11, 2000 presentation to the UT Board of Regents).

ENVIRONMENT

Pollution - Illegal Dumping

Issues/Analysis:

Providing a grants program that awards border-region cities and counties funds for working together to solve illegal dumping and encourage recycling will boost community aesthetics, help to eliminate public health hazards, and help to address a long-standing problem. A 1999 poll of 400 Cameron and Willacy county registered voters revealed that they are more concerned about trash dumping than about any other environmental problem, including water quality and quantity. Many Border counties are underserved by trash collection, lack code enforcement personnel, and have difficulty finding proactive ways to solve waste disposal problems. As a result, the outward appearance of communities is not favorable, wildlife is threatened, and those looking to relocate to the Border to do business may reconsider living where illegal trash dumps are the norm, rather than the exception.

The Texas Natural Resource Conservation Commission (TNRCC) awards grant funds (through the Councils of Government) to communities to hire code enforcement personnel and implement recycling programs, but: (1) these funds are extremely limited; (2) funds are split among several different categories with a percentage allocated to each category, rather than awarded on the basis of merit; (3) competition for the limited pool does not encourage communities to collaborate on projects; (4) a percentage of the funds is allocated off the top to administration fees. In the past, communities receiving these funds have tended to use them to supplement code enforcement personnel, which also supplies much-needed jobs to the region. This reactive type of strategy, however, does not provide a long-term solution to the problem. Such long-term solutions as regional waste collection sites, additional pick-up routes, public awareness campaigns, and innovative recycling programs (including curbside pick-up) have been funded in the past, but much more is needed to address this problem, and municipalities and county government could work more closely on solutions if provided the opportunity.

ENVIRONMENT

Pollution - Paso del Norte Region

Issues/Analysis:

Approximately two million people live in the rapidly growing urban center of the Paso del Norte region that encompasses El Paso, Texas and Ciudad Juarez, Chihuahua. This region has serious air quality problems. El Paso is out of compliance with the U.S. EPA health-based air quality standards for ozone (smog), particulate matter, and carbon monoxide. Ozone and particulate matter air pollution can cause a variety of harmful health effects including significantly reduced lung function, aggravation of respiratory and cardiovascular disease, increased incidence and intensity of asthma, and premature death. Carbon monoxide exposure can cause impairment of visual perception, manual dexterity, learning ability, and performance of complex tasks.

Even if the entire city budget were allocated to pave streets, Juarez would not complete paving of its current inventory for over ten years. There are seven brick-making *colonias* or "brickyards" in Ciudad Juarez that collectively include between 250 to 400 traditional kilns. The brick-makers use scrap wood, sawdust, old tires, and other inefficient high polluting substances to fuel the brick kilns. When established twenty to thirty years ago, the brickyards were located on the outskirts of the city. These high-polluting activities contribute to serious localized pollution problems and overall regional air pollution concerns.

ENVIRONMENT

Subject: Border Infrastructure

Issues/Analysis:

The border region currently lacks the infrastructure it needs to address its water needs both in terms of quality and quantity. In addition, the costs associated with these efforts delay border projects. The economy and population of the area continue to grow rapidly, placing new pressures on water systems that were unable to meet these needs even before the economic boom began. As a result, the quality and availability of safe drinking water and the disposition of wastewater have become inextricably linked to the continued economic viability of the region, not to mention the health of its eleven million residents as well as the delicate ecosystems that sustain its natural resources.

Water infrastructure pressures are only part of a broader challenge that besets the border region. In May of 2000, the U.S. General Accounting Office published the results of a study that examined progress in addressing all of the border's environmental infrastructure needs. One of its major conclusions was the significant absence of an overall strategic plan to address these needs. This same concern has been voiced during public comment sessions sponsored by the President's Interagency Task Force on the Economic Development of the Southwest Border.

A Watershed analysis and implementation plan is needed to address both surface and groundwater issues. It should lead to sustainability for both natural ecosystems and economic activity, thereby also helping to safeguard human health.

ENVIRONMENT

Pollution - Water Basin

Issues/Analysis:

The Paso del Norte forms a single water basin. Politically, the basin is divided between the U.S. states of New Mexico and Texas and the Mexican State of Chihuahua. The basin is home to some of the fastest growing desert communities in the world. About 2.5 million people now live in this border region. All Paso del Norte water users, primarily irrigators and cities, rely on its aquifers and one principal river, the Rio Grande (or Rio Bravo). Future water supply in the region is threatened by population growth, depletion and deterioration of the aquifer, degraded water quality, and competing claims to the water among farmers, cities, states, and nations.

The majority of the Paso del Norte population resides on land overlying the Mesilla and Tularosa-Hueco aquifers (bolsons). The Mesilla Bolson provides the city of Las Cruces with its potable water supply. Ciudad Juarez depends entirely on ground water from the Hueco Bolson for drinking water, while El Paso depends on this water for more than half of its municipal water supplies. The City of El Paso also takes water from the Mesilla Bolson and uses surface water from the Rio Grande. Pumping from the Hueco Bolson has increased six-fold since the 1960s; Ciudad Juarez alone has increased its take by 12.5 percent between 1990 and 1994. These rates far exceed the recharge. At current withdrawal rates in Mexico and Texas, the Hueco Bolson is expected to run out of potable water by 2030. As water levels in the Hueco Bolson continue to drop, the quality of its water has become a major concern, since the water in the lower parts of the aquifer has high concentrations of salts and minerals.

The Rio Grande is recognized as a major water resource both for its role in supplying agriculture and cities and for its importance in sustaining aquatic habitat in the semi-arid and arid regions from Colorado to the Gulf. However, the dams, diversions, and depletions of its waters have taken their toll, making the river one of North America's most endangered. Both U.S. and Mexican natural resources and environmental agencies are reporting declines in diversity of border fish and wildlife species.

Two recent events highlight the nature of conflicts over ownership of the Rio Grande/ Rio Bravo waters and the river's environmental importance. In June 1997 the U.S. Department of the Interior filed suit in federal district court against Elephant Butte Irrigation District and other New Mexico interests (including the state) over the issue of ownership of water stored in and delivered from Elephant Butte reservoir on the Rio Grande. The current suit, now set for trial this year after mediation efforts collapsed, may very well have important implications for the collaborative efforts of El Paso and Ciudad Juarez to solve their long-term water supply problems. At the very least, the suit will create an environment of uncertainty for the planning process. The suit and the critical

habitat designation are illustrative of pressures faced by the institutions responsible for managing and protecting the Rio Grande's waters and its highly stressed riverine habitat.

In July 1999, the U.S. Fish and Wildlife Service designated critical habitat for the Rio Grande silvery minnow (habitat necessary for recovery of the endangered fish). The minnow presently occurs only in the Rio Grande from Cochiti Dam downstream to the headwaters of Elephant Butte Reservoir, New Mexico, approximately five percent of its known historical range. Against this background, the cities of El Paso and Ciudad Juarez, both of which have claims on the river's waters and underlying aquifers, are trying to plan cooperatively for their future water needs. The challenge they face is one of sustaining their communities and, at the same time, protecting the riparian corridor that supports more than half of the region's aquatic and terrestrial species

In 1999, the Paso del Norte Water Task Force was established to fill the need for comparable information from *both* sides of the border, as well as *joint* planning. The Task Force is a binational (and tri-state) participatory group that seeks to establish sustained cross-jurisdictional dialogue, outreach, and joint development of policy recommendations regarding the region's critical long-term water issues and sustainable development with equal representation from Texas, New Mexico, and Chihuahua.

At present, only sub-regional water planning activities are conducted by the cities of El Paso, Ciudad Juarez, and Las Cruces. The Regional Council of Governments in West Texas is coordinating an eight-county planning effort in response to a Texas legislative mandate (S.B. 1). The resulting plan will be submitted to the Texas Water Development Board in 2000. Texas and New Mexico are conducting a joint study of future water demand but no region-wide planning is being done.

ENVIRONMENT

Pollution - Vehicle Traffic

Issues/Analysis:

Improving the flow of vehicle traffic at the international bridges will help eliminate the daily congestion, which is a principal cause of air pollution in Border cities. El Paso, designated by the Environmental Protection Agency (EPA) as one of three air quality "non-attainment"areas in Texas, is a good example. Located at an altitude of 3,500 feet, El Paso shares a single air shed with Ciudad Juarez, Mexico. This means that more than 2 million people live in the same mountain valley and breathe the same air. The mountains surrounding the two cities, combined with temperature inversions, cause airborne pollution to stagnate. While much of El Paso's air quality problems are caused by unpaved streets and unregulated emission sources in Ciudad Juarez, those problems are exacerbated by commercial trucks idling for hours at a time at the bridges on both sides of the Border. In fact, about 80 percent of the carbon monoxide released into the region's air come from vehicle emissions.

Ironically, despite the fact that much of El Paso's air quality problems stem from sources outside the city's control, the EPA has threatened to withhold the city's Congestion Mitigation Air Quality (CMAQ) funding. Meanwhile, the U.S. Customs Bureau contributes to both traffic congestion and air pollution by not opening all 15 lanes at the Bridge of the Americas. Thus, El Paso residents and public officials are forced to surrender local control of key issues to federal agencies located thousands of miles from the Border which do not work together and often make far-reaching decisions without regard to local needs.

ENVIRONMENT

Pollution - Big Bend

Issues/Analysis:

Historically known for its panoramic vistas stretching 100 miles, the Big Bend National Park (BBNP) and the surrounding region of West Texas have in recent years suffered from degraded visibility due to air pollution. A 1999 analysis by the National Park Service concluded that Big Bend is one of only two parks in the entire national park system showing a statistically significant degradation of visibility from 1988 to1997.[1]

This degradation is the result of microscopic, airborne particles that are blown into the region by prevailing winds, then scatter and absorb sunlight to create the appearance of haze. The fine particles are for the most part generated by human activities. The air pollution also affects the optical equipment used by the McDonald Observatory in the nearby Davis Mountains.[2]

The U.S. Clean Air Act contains a special program to protect visibility in premier national parks such as Big Bend. Individual states are charged with developing and managing the visibility protection programs for the national parks within their borders. To date, Texas has not taken a proactive position with respect to BBNP, committing only to review the impact of new pollution sources and to carry out scientific studies. In the absence of coordinated public pressure and new legislation, it will quite likely be many years before new initiatives to improve visibility at BBNP will be developed.

The phenomenon of visibility impairment at BBNP is part of a much larger, regional air pollution problem that affects *both* human health and visibility. This is because the same microscopic particles that degrade visibility are associated with respiratory illnesses, hospital admissions, and even premature mortality when inhaled by humans.

Improving visibility in the BBNP region presents two major challenges. First, the pollutants that cause haze can be transported over hundreds of miles. Second, because the region is situated along the international border between the U.S. and Mexico, pollution sources in both countries contribute to the measured pollution levels at different times of the year, depending on prevailing winds. The latter point was confirmed by a U.S.-Mexico binational study, which implicates pollution sources including the Monterrey urban corridor in Mexico and coal-burning power plants along the lignite belt in Texas.[3]

Due to the influence of emission sources in both Mexico and the U.S., restoring the historic vistas at Big Bend will be impossible without reducing emissions from sources on both sides of the border. Unfortunately, during the past 18 months Mexico

has walked away from the negotiating table on talks about this issue. Mexico's chief complaint is that sources on the U.S. side of the border are being ignored and that the U.S. is pointing fingers at Mexican sources.[4] A strategy is needed to reduce emissions reductions from sources on the U.S. side of the border as a goodwill gesture to bring Mexico back to the table. At the same time, mechanisms are needed that offer U.S. sources the option of making equivalent emissions reductions in Mexico if the alternative reductions are cheaper, more beneficial, or both.

[1] National Park Service, *GPRA Annual Report on Air Quality NPS Goal 193*, M. Flores (Denver, CO), January 22, 1999.
[2] "A Diplomatic Haze Pervades Parks Air Pollution Dispute", *NY Times* (June 7, 1996).
[3] Big Bend Binational Air Quality work Group, *Report on the Findings and Recommendations of the Big Bend Regional Visibility Preliminary Study to the Border* XXI US, Mexico National Coordinator (San Diego, CA.), March 18, 1998.
[4] "Tracing Big Bend's Haze", *Austin American Statesman* (October 7, 1999).

ENVIRONMENT

Pollution - Air Basin Paso del Norte

Issues/Analysis:

The Paso del Norte air basin currently exceeds U.S. and Mexican ambient air quality standards for carbon monoxide (CO), ozone (O3) and particulates with a diameter less than 10 micrometers (PM 10). Mobile source emissions are a principle contributor to these O3 and CO air quality problems, representing 65% of basin-wide VOC (HC) emissions, 50% of basin-wide NOx emissions and 90% of basin-wide CO emissions. The vehicle fleet in this region is comprised of older vehicles: 63% and 34% of cars are pre - 1987 in Ciudad Juárez and El Paso, respectively.

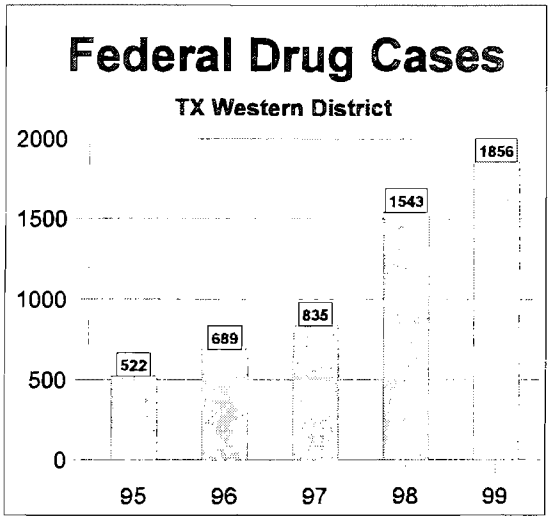
A large portion of the average 150 vehicles imported every day into Ciudad Juárez from the U.S., are not in compliance with the current transportation and safety standards in the neighboring states along the border with Mexico.

The Ciudad Juarez Municipal Regulation of Ecology stipulates in the mobile sources chapter, section two, articles 32 and 33, that every vehicle that circulates in Ciudad Juárez must have passed the vehicle emissions verification and should have an ecological sticker corresponding to the current fiscal year. Similarly, on April 15, 1997, the regulatory ordinances for vehicles in circulation were put into effect and are included in Article 20 of the Transit Law for the State of Chihuahua. However, these laws are regularly circumvented by the importation of autos into Mexico that registered in Texas violate emissions standards.

BORDER LAW ENFORCEMENT

Issues/Analysis:

Over the last five years, Border communities have borne the brunt of the U.S. "war on drugs." In El Paso, federal judges now carry caseloads ***ten times*** the national average. In 1999, Judge David Briones of El Paso had 864 cases; the national average for a U.S. federal judge was 93 cases. This excessive caseload strains courts, prosecutors, public defenders, jails, and justice. Many civil cases are routinely delayed in favor of criminal cases and now average 2 years before going to trial.



Source: U.S. Attorney's Office, as published in the El Paso Times, 6/30/00

Federal prosecutors are currently shifting a significant portion of the burden of the "war on drugs" to state and local authorities. Because federal authorities in El Paso no longer prosecute marijuana cases under 125 lbs, an estimated 500 cases have shifted to El Paso District Attorney Jaime Esparza's office. According to Esparza, the cost to local taxpayers is $8 million dollars. Border communities, who have the lowest tax bases per capita in the U.S, can no longer be asked to carry the cost of federal justice.

The federal government recently agreed to provide temporary relief in the form of an emergency appropriation of $3 million to each of the U.S. states that borders Mexico. This short-term relief is welcomed, but permanent, long-term relief must be secured.

Border citizens are also shortchanged on the issue of Texas Youth Commission (TYC) placements. TYC reserves 3.2 percent of its total beds for El Paso county youths, but because El Paso is over 250 miles from the nearest TYC facilities and prefers to place its youth closer to family, the county actually accounts for only 1.5 percent of the placements. This is an operational efficiency that allows the entire state to reap the economic benefit of fewer TYC placements.

ACCESS TO CAPITAL

Issues/Analysis:

A thriving small business sector is not only a primary source of employment, but also generates wealth, expands the tax base, encourages economic mobility, incubates industrial innovation and creates natural links to other sectors of the economy. In 1998, 96.7 percent of Texas' 394,749 businesses were small businesses, defined as less than 500 employees. Furthermore, between 1992 and 1996 virtually all of the net new jobs in the state came from growth in the small business sector. During this same period, 50.2 % of net new jobs were created by businesses that employ between one and four employees. Without a doubt, small business plays a critical role in developing a sustainable economic base.

One of the main barriers to expansion of small business is lack of access to capital. Recent reports indicate that Texas is losing its once top ranking as a money-center state ("Banking assets drop in Texas" *San Antonio Express* - 5/14/99). In 1999, Texas was dead last in loan-to-deposit ratios among the nation's most populous states. This ranking may be due in part to the loss of decision-making control resulting from recent mega-mergers and an overall consolidation of the banking industry.

Small business lending, especially to Hispanic-owned businesses of under 50 employees, will define the future of the Border region. This is a direction Texas must take in order to fully reach the potential of NAFTA. As is widely known, El Paso alone has lost more than 15,000 jobs as a result of NAFTA dislocations. Clearly, any strategy to build good, high paying jobs in this region and elsewhere along the Border will depend on rapid expansion of the small business sector. Unfortunately, the 43 Texas Border counties have been drastically impacted by the changes in the banking industry at the state and national level (see chart below). Too often, Hispanic small business entrepreneurs, especially Spanish-speakers, find themselves at the bottom of the lending "food-chain." At a time when Texas banks are needed to aggressively reach out and invest in these entrepreneurs, banks are moving capital out of Border markets to "nerve-centers" in New York, Minnesota and North Carolina. It has been posited that large multinationals see the Border as a unique opportunity to harvest tax monies, retail sales and Mexican flight capital deposited in Border banks.

1997 Small Business Lending in Texas

Houston	$2,397,071,000	38,045
Dallas	$2,105,085,000	35,096
San Antonio	$652,627,000	11,006
Austin	$545,325,000	8,728
South Texas	$376,003,000	7,957
Midland/Odessa	$232,870,000	3,120
El Paso	$182,792,000	3,107