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Dear Client:

There's more than meets the eye in recent reports about Laredo businessman and UTSystem Board of Regents member Tony Sánchez and his gubernatorial ambitions.

Sánchez, a wealthy oil and gas producer, banker, and investor, has been widely reported as testing the waters for a 2002 gubernatorial bid. Although he is a good friend of Governor Bush (not to mention one of the Governor's major contributors and high profile political appointees), Sánchez makes no secret of his loyalty to the Democratic Party. But **why is Sánchez emerging as a potential candidate for the Democratic nomination for Governor now** — more than two years away from the election and right before the sitting incumbent officially kicks off his presidential bid? Why not wait until the dust settles from the November election and Governor Bush's immediate political future is known?

One possible answer is former Comptroller **John Sharp's** and other leading Democrats' efforts to energize the party by finding a viable statewide Hispanic candidate to lead the ticket in 2002. After suffering an unprecedented and humiliating GOP sweep in 1998, led by Governor Bush, Texas Democrats began scouring the political landscape for a new type of candidate — one that could galvanize hundreds of thousands potential Democratic voters in Texas' vast Hispanic community. The former Comptroller, who could easily have been elected Lieutenant Governor in 1998 with a slightly higher Democratic turnout (even in the teeth of a Bush landslide), believes that a **top Hispanic candidate can reverse the Republican tide** and carry the entire Democratic slate to victory in the next statewide election.

Floating Sánchez's name right now — when Governor Bush is courting the Hispanic vote and has no time for Texas politics anyway — puts the GOP in a double bind. **They can't say anything bad about him**, for fear of alienating Hispanic voters and criticizing a Bush appointee.

And if Bush wins the presidency and Lieutenant Governor **Rick Perry** becomes Governor, Perry will have to face down a **prominent businessman with millions of dollars** to spend on a statewide campaign that will target an entirely new generation of Hispanic voters.

Democrats want a candidate who can fight the GOP with its own weapons. If so, it could be much harder for the GOP — deprived of the Bush juggernaut — to repeat its 1998 performance.

Judging from the rhetoric in the presidential campaign, you'd think Governor Bush and Vice President Gore were running for president of Texas, not leader of the free world. From the Governor's perspective, Texas is a beacon state, and the nation would do well to follow its lead. The Vice President warns that the Lone Star State is little better than a Third World country, and that a Bush presidency would reduce the country to the same perilous state.

While we realize that facts are beside the point, we thought we'd take a comparative, albeit limited, snapshot of Texas during the Richards and Bush administrations. You will recall that **Governor Ann Richards** was the keynote speaker of the 1992 Democratic convention, at which she humorously needled President Bush for silver foot-in-mouth disease. But now the shoe may be on the other silver foot. Draw your own conclusions:

In 1993, **Texas teachers** earned an average of \$29,935, ranking Texas 34th among the states — 85.5% of the national average. In 1998, Texas school districts paid \$34,133 against a national average of \$39,477 — 33rd among the states. However, that doesn't count the \$3000 per head pay raise teachers received in 1999, which probably boosts Texas' ranking into the upper 20's.

In 1992, Texas ranked 40th among the states in per **capital expenditures for public education**. In 1997, Texas ranked 35th. Likewise, in the same year Texas ranked 40th in public welfare expenditures and 35th in 1997. In 1997, Texas spent about \$190 more per capital on education than it did in 1993, and \$291 per head more on welfare.

In 1993, Texas had just over 69,000 **prison inmates**, a figure that had already grown from 49,000 in 1990. In 1998, Texas prisons housed more than 140,000 inmates. During the same period, however, the **crime rate** has declined substantially, from 5,676 property crimes and 762 violent crimes per 100,000 people to 4,546 and 565 respectively.

These are all Legislative Budget Board figures, so there is **no partisan political spin**. Under Bush, Texas is spending more on teachers and welfare, and putting more criminals behind bars than it did under his Democratic predecessor — even after our massive population growth.

Four of the Top Five highest annual salaries at UTAustin belong to athletics personnel. This isn't unique, but the numbers are interesting. The student newspaper, *The Daily Texan*, reports these are the Top Five: Football coach **Mack Brown** (\$961,200), Mens' Basketball coach **Rick Barnes** (\$676,000), Nobel Prize winning Physics professor **Steven Weinberg** (\$342,574), Baseball Coach **Augie Garrido** (\$255,306) and Men's Athletics Director **DeLoss Dodds** (\$255,000). Rounding out the Top Ten: President **Larry Faulkner** (\$233,000), Women's Basketball coach **Jody Conradt** (\$231,750), ExecVP/Provost **Sheldon Ekland-Olson** (\$222,000), Business Dean **Bob May** (\$219,000) and Engineering Dean **Ben Streetman** (\$219,000).

When they convene next January, Texas lawmakers — a generally conservative, free enterprise-oriented crowd — will be asked to impose price controls on pharmaceutical products. And an Austin lawmaker is leading the charge.

State Rep. **Glen Maxey** (D-Austin) is studying legislation that would establish a cap on the prices state government pays for drugs. A member of the Public Health Committee, Maxey has been a critic of the pharmaceutical industry's pricing practices, which he claims are responsible for a growing shortfall in the state's Medicaid and state employee health insurance budgets.

Under Maxey's plan, a state commission would determine a reasonable price for a particular drug. If a pharmaceutical manufacturer wanted to sell that drug to the state, it would **have to accept that price**. This is similar to legislation enacted in Maine, which in effect declared prescription drugs a "necessity of life" so the state could exercise price control regulation.

As you might expect, **pharmaceutical makers aren't too excited about Maxey's plan**. They argue that drug prices in the US are market driven and reflect the immense value of new "miracle" drugs both to the health care system and to individuals. They point out that better drug therapies keep people out of the hospital and save health care costs in the long run. They also claim it can cost up to a half billion dollars to research and develop a new drug, and investors won't risk investing in an untried drug if price controls limit their potential returns.

Maxey responds that his plan does not control the price, only the amount the state is willing to pay for prescription meds. If enacted, it would put drug companies in the uncomfortable position of **refusing to sell to one of their biggest customers** if they can't get a good enough price. And this refusal could in fact happen. In some programs in the Texas Department of Health, for example, specialized drugs are needed in relatively small quantities. If a price ceiling were imposed on those drugs, a drug maker could very well decide to go elsewhere, rather than sell at a deeper discount than it does in other states.

Of course, the bigger issue is whether **price caps on drugs could lead to the same for other "necessities": automobiles, computers, food, clothing, housing**. We'll see if the Legislature is ready to go down that road.

Austin School District taxes are going through the roof. And it's not just property owners who are going to be hit hard. The Exec Director of the Downtown Austin Alliance, **Charles Betts**, points out that if AISD's budget for next year is adopted, property taxes will rise 33-34% over two years. And that will also hit anyone who **rents an apartment, office and retail space** — since owners of such buildings automatically "pass through" those taxes to the renters. In his case, Betts says office rent will go from \$48,000 a year to \$60,000 a year – or about a buck a square foot increase. These hikes come, Betts points out, even though school district enrollment is "stagnant." There are 12 underutilized schools according to the State Comptroller, yet four new schools were opened last year with four more planned. "AISD is a sinkhole for money," he claims.

The biological engineering of agricultural products is already a major controversy worldwide. And it has major implications for the billion-dollar forestry industry in Texas. While we tend to think of genetically improved fruits, vegetables, and beef as being at the heart of the environmental debate, few have focused on the potentially enormous market for biotech trees.

Under the twin pressures of population and economic growth, particularly in developing countries, demand for paper and pulp products is expected to increase by 50% over the next 20 years. That demand is projected to overtake and exceed wood supplies by 2010, precipitating a potential **worldwide wood and paper shortage**. At the same time, environmental groups and conservationists are ratcheting up political pressure to preserve the world's remaining forests for wildlife habitat and recreational purposes.

Both sides of the biotech tree debate claim they are **saving the environment**. Timber growers assert genetically enhanced trees are the only option for boosting lumber production and paper and wood product manufacturing, while preserving what's left of the world's virgin forests and reducing greenhouse gas emissions.

Environmentalists, however, fear huge stands of genetically altered, fast-growth trees will require too much water, fertilizer and pesticides, thus creating a bigger **environmental menace** than natural plantations currently do. They also charge biotech trees will produce new and alien allergic reactions, as well as threaten birds, insects and other wildlife that depend on tree pollen, nectar, and seeds.

Of course, it should be noted environmental groups likewise object to existing tree plantations. The real question for them is whether any large-scale tree farming should be permitted at all, not whether genetically enhanced trees are environmentally better or worse. Obviously, **with 12 million acres of timberland under management for wood production, Texas has a big stake in the issue**. We can also look for Austin's environmental community to leap into the breach.

Dr. Louis Overholster bought 500 shares of an IPO that's selling for 600 times sales and losing \$40 million a year. "I would've bought 1,000 shares," he rationalized, "except that would be risky!"

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