THE Neal Spelce AUSTIN LETTER

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Dear Client:

A longtime financial albatross around the City of Austin's neck could be removed over the next few years. **But**, **the process will be long and labored — if it even succeeds**.

The City has struggled for decades with a myriad of problems associated with **city-owned Brackenridge Hospital**. Many cities all over this great nation don't have those worries. That's because those cities, especially in metro areas, do not operate their own hospital. **A separate entity**, **with its own governing board and taxing authority**, **runs hospitals that traditionally treat the indigent**, the needy – those who can't pay the high costs of hospitalization. We're talking about a much-talked-about Hospital District. A separate hospital district has been discussed for decades, but that's as far as it's gone.

One of the big problems is **taxpayers inside the Austin city limits carry the financial burden for Brackenridge Hospital**. However, needy patients in Travis County and contiguous counties – such as Williamson, Bastrop, Hays and Caldwell, etc. – are rushed to Brackenridge for treatment when they have serious ailments, or are suffering from traumatic injuries and need a well-equipped and expertly-staffed hospital emergency room. If the patient can't pay, guess who picks up the tab? The taxpayer inside Austin's city limits.

A hospital district can overlap county lines and can levy taxes in a number of counties. This way, **the cost for indigent care can be shared by those counties**. But, the distance between "talk" and establishment of a hospital district is a long, rough road. Counties getting a free ride now are not going to be eager to levy a new tax on their residents — even though their residents contribute to an overcrowding situation at Brackenridge Hospital.

The first step was taken this week. Travis County Judge **Sam Biscoe** joined with Austin Mayor **Gus Garcia** to create a joint City/County committee to develop a plan for a hospital district for Austin/Travis County. It'll be chaired by respected attorney **Clarke Heidrick**. The plan, which could be expanded to include other contiguous counties, will need authority from the Texas Legislature. Then it must go before the voters, possibly as early as November 2003.

Austin is one of the few cities in the nation to own/operate its own hospital, airport and utility. Removing the hospital from City Council oversight would be a major change in governance.

Even though the old Holly Power Plant (begun in 1960) has been ravaged by fire several times in recent years, and its location in a residential neighborhood has been a major problem — concerns have been raised about closing it down during a time of population growth and ever higher energy consumption. Maybe, finally, there's a partial solution.

First a bit of history: the Holly Power Plant neighbors have been upset because the Council earlier voted to shut down the plant by 12/31/98, but unbridled growth (and increasing energy demand) in Austin and Texas in the late nineties kept it from happening.

During the peak demand summer usage months in the late nineties, Austin was bumping up against its maximum power usage. And, Austin Energy's generating reserves were being reduced, as were reserves in the state from which Austin Energy might purchase supplemental power. In fact, **if the Holly units #1 and #2 had been closed at that time, Austin would have been in danger of blackouts** during peak demand summer months. So Holly kept generating electricity.

This week, the Austin City Council moved to shut down two of Holly's four units by 12/31/04, and detailed a **plan to replace part of the power that would be lost by the decommissioning of Holly**. For an estimated cost of more than $312 million, the City is converting various substations and switchyards — and **constructing an entirely new, smaller electricity generating plant called Sand Hill**. This would allow delivery of 480 megawatts of new power before the first two Holly units quit generating electricity for Austin Energy customers.

The decommissioning of the first two units will result in a loss of 194 megawatts at Holly. And, the current city plan calls for the ***final* two Holly units to be decommissioned five years after the first two are shut down, 12/31/09**. When that happens, Austin will have lost a total of 590 megawatts now being generated at Holly. So you can see this plan doesn't mean all the problems are solved.

To recap, when Holly completely shuts down in 2009, **Austin will have lost 590 megawatts** of electrical generating capacity. Sand Hill, when construction is complete, **will only generate 480 megawatts**. The shortfall is obvious.

Austin Energy must now try to determine whether it is more economical to **build another generating plant** between now and 2009, **buy electrical power from the open market**, or a combination of the two options. This is further exacerbated by the fact that, if history repeats itself, Austin will have another growth spurt and continue growing at one of the fastest paces in the nation during this time frame. So the energy demand could be greater.

Of course there's always the bottom line. If a new plant must be built or power bought at prevailing market rates, **what will commercial and residential users of electricity be paying in 2009**? Austin Energy hopes that its future plans will not result in major increases in cost for its users. But, obviously, we'll have to wait and see.

With the heavy rains and flooding in Central Texas and the Hill Country (in fact, all around Austin) over the past three weeks, homeowners, business owners and renters are asking questions about flood insurance. And, high water damage is much more prevalent than you may think.

You've seen the aerial TV shots of raging water and the pics of homes with water up to the eaves. **But, you don't have to be located in or near streams and lakes to be affected by water damage.** Remember homeowner insurance policies do not cover *rising* waters. The key word is *rising*. This includes all types of water that can enter a building – flooded street gutters, water from heavy rainfall that gushes down Austin's many hillsides into a building, debris-filled drainage areas that divert runoff into a building, etc. It doesn't have to be a "flood" in the Hollywood sense that damages or ruins your building. If it's *rising* water, it's not covered.

However, **flood insurance backed by the federal government is available to any homeowner, renter or business owner** in a community that participates in the National Flood Insurance Program (NFIP). This means you can purchase flood insurance from any licensed agent or company – the same one, for example, who handles your homeowner or automobile insurance.

On a single-family home, you may purchase flood insurance coverage up to a maximum of $250,000 on the structure and up to $100,000 on the contents. If you're a business owner, the maximum is $500,000 on the building and another $500,000 on contents. If you are a renter, you can purchase up to $100,000 coverage for personal belongings. Unless your building is flooded by a stream or lake, it is **not likely to be totaled by *rising* water**, so these limits are not onerous.

Even if your area is not in a floodplain, flood insurance is advisable. **Rising water can – and does – occur almost anywhere**, as many here have found out in the past three weeks. In fact, nearly 30% of NFIP claims come from properties considered to be at low or moderate risk.

In years past, Texas was noted for its great roadways. Its' farm/ranch-to-market road system was the envy of other states, and the Interstate system was built quicker and better than in many other states. But times have changed a bit.

The Texas Department of Transportation says it can only afford to meet about a third of the state's transportation needs, according to the Office of the State Comptroller — and TxDOT aids cities and counties with their road projects. So it's not surprising that you are seeing **more and more potholes on the roads**. But, you may not know how much it costs you, the individual motorist. The American Society of Civil Engineers reports **Texans spend $251 *per motorist* each year just in extra repairs and operating costs on your vehicle** – due directly to roads in need of repair. Only Californians rack up a bigger bill.

"Sin" generates a lot of revenue for the State of Texas. For the state, the wages of sin are taxes collected on alcohol, tobacco and gambling. It comes to a lot of money -- more than $990 million in 2001 in alcohol excise and sales taxes, and $28 million in licensing fees.

So, talking about alcohol, does the state get more money from liquor, wine or beer sales? Beer, by a big margin (hey this is Texas, after all!). **Approximately $100 million was generated by taxes on beer in 2001**; $48 million was collected in tax revenue from liquor sales; and a paltry $6.6 million from wine. Oh yeah, malt liquor sales brought in $4.7 million. And, these are just the taxes assessed at the wholesale level.

Interestingly, the mixed beverage tax is a value-based tax (not volume-based). The tax is assessed as a percentage of a drink's sales price. So, the higher the price of a drink, the more taxes the state collects on the drink. (Your tax tab is higher when you order Don Julio Anejo with Cointreau in your margarita, rather than just the mango-lime swirl out of the margarita machine.)

Another little-known fact on how the state taxes alcohol: **When an airplane is in Texas airspace or a train is within Texas borders, the state charges a 5-cent tax on every drink served to passengers**. This tax resulted in more than $609,000 in state revenue in 2001.

Obviously, Texas taxes alcohol in a variety of ways. **But, the tax rate for cigarettes is straightforward – 41 cents a pack** – and the rate for cigar and tobacco products varies depending on weight. For gambling, here's how the take on the Texas Lottery is divvied up: In 2001, the state kept about 6% of the $2.3 billion generated by lottery sales for administration and 30% for the Foundation School Fund Account; 5% went to retailers; and 57% was prize money. So no matter how the Comptroller of Public Accounts (who provided these numbers) adds it up, "sin" taxes are a significant part of the state's revenue structure.

Dr. Louis Overholster swears he saw a former Arthur Andersen auditor standing at 5th Street and Lamar Blvd., holding a sign that read: "Will make two plus two equal five for food!"

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Sincerely

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