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Dear Client:

**Out of the relentlessly bad news created by Hurricane Katrina, Texas may have reason to anticipate some good coming out of the misery of so many.**

Texas history points to this. For many people, history begins when they were born. It seems events which occur in their lifetime are the “best, worst, biggest,” etc. of whatever genre is under discussion. But for those alive today, their lifetime does not include **the hurricane that wiped out Galveston in 1900** – killing tens of thousands, with walls of water flooding the city and wiping out buildings that the winds didn’t thoroughly destroy. **The Galveston toll exceeds that of Katrina as of today.**

Galveston has rebuilt quite nicely, thank you. (Just as San Francisco after The Earthquake and Chicago after The Fire.) But it is interesting to note *how* Galveston was rebuilt. There are historians who will tell you **Galveston is very different now** than what it might have been if the 1900 hurricane had not hit.

One example tells it all. Galveston, closer to the Gulf and well-positioned for commerce, had a much **bigger and more active port in 1900 than did Houston** that was further inland. But Houston, while helping and commiserating with its neighbor Galveston, benefited greatly through the development of its port (while Galveston struggled to rebuild) to the point **Houston’s port is now among the nation’s most active**. And Galveston’s commercial development has taken a different bent – more toward tourism, than shipping and receiving goods in its port.

In today’s fast-paced economic environment, many businesses can’t afford to wait while New Orleans rebuilds. They will set up shop outside the devastated area. And in so doing, **they will generate jobs in areas where those companies re-locate**. You can easily predict it will be “déjà vu all over again,” as Houston’s port will pick up much of the business lost by the Port of New Orleans, even though the Mississippi River generated much of New Orleans port business.

Other businesses in today’s high tech world can operate successfully from many varied locations. **To survive, a lot of New Orleans companies may move to cities such as Houston, Austin, Dallas, etc. where a desirable workforce is already in place**. New jobs will be created in those Texas cities. New Orleans *will* be rebuilt. But, like Galveston, it may be a much different city years from now. Not necessarily worse, or better, just different.

**Two, maybe three, significant events that could determine the ultimate political makeup of the Texas Legislature will take place within the next few days or weeks.**

The ball was tossed to the Supreme Court of Texas when legislators earlier this year could not come up with a solution to school finance despite a 150-day regular session and two 30-day special sessions. Court watchers think the Texas Supremes will **rule on the constitutionality of the controversial so-called Robin Hood plan for financing Texas schools before the end of this month.** This is one of the events that could start the legislative dominoes tumbling.

The second event is a result of the first. If, as expected, the Texas Supreme Court kicks the ball back to the Texas Legislature with a mandate to solve the problem, then Governor **Rick Perry** will likely call **another 30-day special session this fall.** Whether the court ruling will be enough to garner agreement out of the Texas House and Senate remains to be seen. With elections looming closer, there is no doubt it will be a political hot potato if the issue fails to be resolved again.

The third event could occur within just a few days. Sitting on the governor's desk is **a bill to raise the pay of State District Judges.** He can sign it or veto it, or it becomes law without his signature 9/16/05. This is important because an increase in legislators' retirement income is tied to the judges' raise.

How will more money for long-term legislators impact the makeup of the legislature? Well, during a time when school finance is Topic-A and teachers are up in arms because they received only a \$1,000 annual pay raise, can't you just see the political ads that scream "**What? You only gave a thousand dollar a year raise to teachers, yet you voted yourselves ten times that amount to add to your annual retirement? Vote against Larry Legislator and Sally Senator!**"

These events are part of the reason a prominent Texas lobbyist who for years has tracked legislative developments takes issue with our assertion 8/26/05 there will not be much of a turnover in the legislative elections next year. In a 150-member House, "**I think you could see 35 or 45 new members,**" he told us. In addition to the defeat of certain incumbents, he also believes there are many legislators who will give up the hassle and not seek re-election.

Locally, this legislative observer believes incumbent State Representatives **Todd Baxter, Mark Strama** and **Patrick Rose** along with Republican **Bill Welch**, who announced this week he is running for retiring **Terry Keel's** seat, will have tight, contested races.

The political makeup of the Texas Legislature is "**a multi-dimensional chess board with all the pieces in play,**" he said, pointing out that a non-partisan parents' group is organizing to try to influence as many as 20 different races. The qualifier: if the school finance issue is resolved satisfactorily, then there will not be as many turnovers.

## How important is the lifetime retirement pay for legislators – for them and for the people who elect them to office?

Legislative retirement pay has been under the radar in the past – primarily because legislators planned it that way. Because legislators have tried, and failed, in the past to raise their own modest salaries, they came up with this **scheme to get more money** for their service by disguising, in effect, what they receive upon retirement. They passed “this little ole bill” **that ties their retirement compensation to the pay set by the state for State District Judges.**

So practically every session, they have this high-sounding debate about how judges don’t make nearly enough money and legislators regularly vote judges pay raises, with very little mention of the fact legislators have just **given themselves a big boost in retirement income.**

This year it was different when the issue of judges pay was introduced. Howls and screams went up about this practice, but legislators passed the measure anyway. And now the governor must make a political decision (or non-decision) about the recently-passed bill sitting on his desk that would, effectively, **add about \$10,000 a year to legislators vested retirement accounts.** (Remember, teachers were voted only about \$1,000 a year pay increase.).

Legislators must serve eight years before their retirement account starts vesting, when they can claim 20% of a District Judge’s pay for life. **The percentage goes up the longer a legislator serves.** The retirement pay logically would figure in a decision of when a legislator retires. If, say, one more election cycle would trigger the first vesting of retirement pay, the legislator may decide to give it one more go-around.

If Governor **Rick Perry** signs the pay raise bill, or lets it become law without his signature 9/16/05, **look for the issue to become more meaningful to the voters.** If the bill is vetoed, the issue starts fading but state judges, who could probably use a raise, will not get one.

The solution: **Some legislator should take the initiative to remove the legislative retirement piggy-back from judges pay.** Set the retirement issue up as a separate measure so it can be discussed in the light of day. Of course, the poor soul who took this lead would incur the enmity of fellow legislators whose cover was blown. Don’t hold your breath.

**Speaking of the governor, it looks as if he is the only statewide official who will have a serious, well-financed opponent in the GOP primary.** It’s still early, but no major GOP candidates are sniffing around to challenge other statewide office holders. As for the Democrats, a former Democratic Congressman has already announced for governor and some other candidates may emerge if they view school finance as a debacle that gives them a shot at statewide office.

**When Austin Energy announced this week your electric bills will be going up in January, the news release was distinguished by what it did *not* mention.**

You knew it was coming. Citing increased fuel costs to generate electricity, Austin Energy announced the **overall increase in a residential bill will be between 2.6% and 4.2%**. The increase will be in the *fuel* charge portion of your bill (the *energy* charge will not go up). The fuel charge is a dollar-for-dollar recovery of the cost of the fuel to generate electricity.

Austin Energy notes **natural gas prices have increased by almost 70%** since January 2004 and are holding at record high levels. Escalating crude oil prices are also part of the problem. Also there has been a **slowdown of coal deliveries** to the Fayette Power Project in LaGrange that began about a year ago, and Austin Energy expects this slowdown will continue for the foreseeable future. How does a slowdown in coal delivery impact your electric rate? Inadequate coal supplies require using more natural gas-fired generation which, on a fuel cost basis, is about **five times more expensive than coal**.

What was missing in this announcement? There was no mention of nuclear power that is also used to generate electricity for Austin Energy customers. Austin owns 16% of the South Texas Project, a nuclear powered generating facility near the Gulf Coast. **The cost of nuclear power has not gone up**. In fact, it is among the cheapest sources of energy available.

For years, those who opposed the idea of using nuclear power fought to get Austin out of the South Texas Project. Austin even put its interest on the market during the height of this nation's anti-nuke sentiment and there were no takers. **Those who argued for keeping Austin's interest in the nuke are having the last laugh as the nuke is now the only reliable, low-cost purveyor of power** to keep your electricity bill from rising even faster.

**Dr. Louis Overholster** doesn't like to speak very fast. As he put it: "The trouble with talking too fast is you may say something you haven't thought of yet!"

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