

The K Street Effect Hits Texas



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The 'K Street' Effect Hits Texas

Table of Contents:

- I. Introduction
- II. Elite Lobby Income Soared
- III. Elite Lobby Contributions Quadrupled
- IV. Who the Elite Lobby Bankrolled

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I. Introduction

Indicted Congressman Tom DeLay owes his extraordinary rise and fall as House Majority Leader to his relentless pursuit of special-interest money. Long before DeLay, beltway lobbyists relied on campaign contributions to ease their access to money-hungry politicians. But DeLay and conservative activist Grover Norquist rewrote the ground rules of Washington's influence game when they created their aggressive "K Street Project" in the late 1990s. DeLay's K Street Project ran Washington as a pay-to-play town. If top lobbyists wanted access to the Republican majority, DeLay expected them and their clients to dig deep for Republican causes, particularly one that became known as DeLay, Inc. The K Street project also threatened reprisals against lobby shops and trade associations that failed to replace the Democrats in their top ranks with leaders sporting GOP credentials.¹

Once established as a ruthlessly effective way for incumbents to raise money, the K Street Project model was ready for export to statehouses nationwide. Several factors made Texas especially ripe for the K Street pay-to-play model. Austin is home to the nation's largest lobby that works unencumbered by campaign contribution limits.² California, which limits individual contributions to candidates for state office, prohibits registered lobbyists from contributing to candidates for an office that that lobbyist seeks to influence.³ In contrast, Texas imposes no limit on what lobbyists or other individuals can give to non-judicial candidates. In the 2004 election cycle alone, for example, the No. 1 lobbyist in Texas contributed more than \$400,000 of his own money to influence Texas' state elections.

The 2000 presidential election of Texas Governor George W. Bush also primed the pump for an Austin K Street Project. Many Austin lobbyists served as elite "Pioneer" fundraisers for Bush's first presidential campaign, with some Texas lobbyists and political consultants following Bush to Washington to become federal lobbyists. Bush's election literally put Austin lobbyists to work on K Street, where they became intimately familiar with the eponymous Republican fundraising scheme.

Finally, K Street Project architect Tom DeLay personally introduced his fundraising scheme to Texas in 2001 when he created Texans for a Republican Majority PAC (TRMPAC). DeLay created TRMPAC to help Republicans take control of the Texas House in 2002, a feat that allowed him to redraw Texas' congressional districts in 2003. TRMPAC hired DeLay fundraiser Warren RoBold to raise money for this state PAC from Washington's corporate lobby. RoBold raised more than \$600,000, raking in most of it from lobby-rich Washington fundraisers featuring special guest Tom DeLay.

RoBold's TRMPAC work—conducted out of the offices of DeLay's federal Americans for a Republican Majority PAC—bore K Street Project hallmarks. There is some evidence, for example, that TRMPAC used lobbyists to help it raise corporate funds. An earlier Texans For Public Justice report identified 11 federal lobby firms that had multiple clients that contributed to TRMPAC.⁴ Clients of these firms supplied more than half of TRMPAC's total corporate funding, strongly suggesting that some of these lobbyists were soliciting their clients to fund DeLay's Texas PAC. These firms included Alexander Strategy Group, the Federalist Group and Preston Gates Ellis & Rouvellas, firms that boasted some of K Street's closest ties to DeLay. Another TPJ report identified four elite Texas firms that represented multiple TRMPAC-donor clients in 2002.⁵ These firms—HillCo Partners, Locke Liddell & Sapp, Toomey & Associates and the Austin office of Akin Gump—had other intriguing TRMPAC ties. If TRMPAC had not used the K Street model to aggressively leverage corporate money it would have been a much smaller PAC—one that may have escaped criminal indictment.

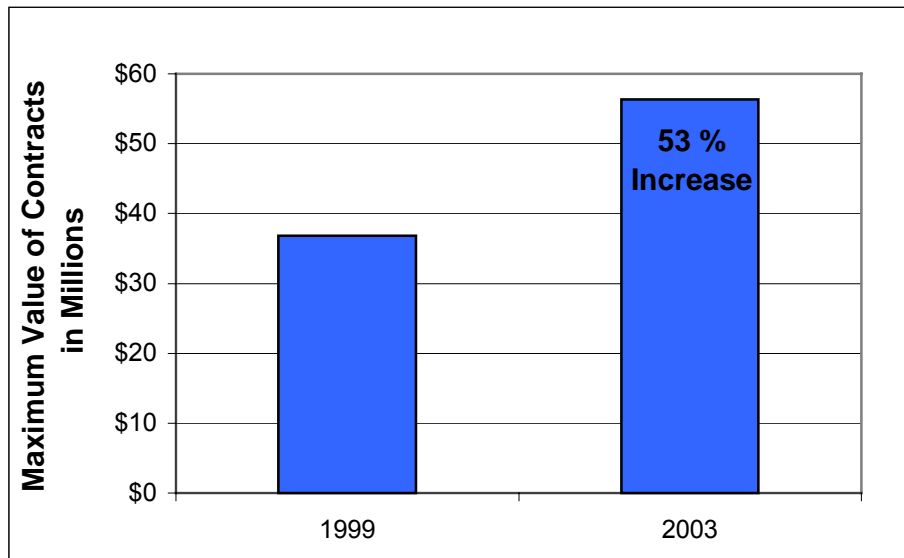
If Austin did embrace the K Street Project model in the first years of this century, top lobbyists and lobby firms seeking access to Texas' GOP leadership would have come under enormous pressure to dramatically increase their political contributions. Conversely, once the K Street model came to town, elite lobbyists who did not succumb to this pressure would have fallen out of the top tier of Texas' lobby elite. Texas Ethics Commission data show that this is precisely what happened.

II. Elite Lobby Incomes Soared

This report compares Texas' top 25 lobbyists in 1999 with the state's top 25 lobbyists in 2003 (basing these rankings on reported lobby incomes). It analyzes the amount of lobby revenues that these elite lobbyists took in and the amount of campaign contributions that they and their associated firms and PACs pumped into corresponding state election cycles. It finds that state campaign contributions associated with Texas' top 25 lobbyists shot up a stunning 417 percent during the six-year period from 1999 to 2004.

The total amount that special interests spent on Texas lobbyists increased 42 percent from 1999 to 2003, rising from up to \$194 million in 1999 to up to \$276 million in 2003 (precise amounts are unknown because Texas lobbyists report contract values in ranges, such as "\$150,000 to \$199,999"). During this same period the combined lobby incomes of Texas' top 25 lobbyists rose even faster, increasing 53 percent from up to \$37 million in 1999 to a maximum of \$56.3 million in 2003. This works out to an average 2003 income of more than \$2 million per elite lobbyist. Rusty Kelley, Texas' No. 1 lobbyist in 2003, reported an income of up to \$5.2 million that year. This was almost five times what he reported two legislative sessions earlier in 1999, when he ranked No. 28.

Billings By Texas' Top 25 Lobbyists Went Up 53 Percent from 1999 to 2003



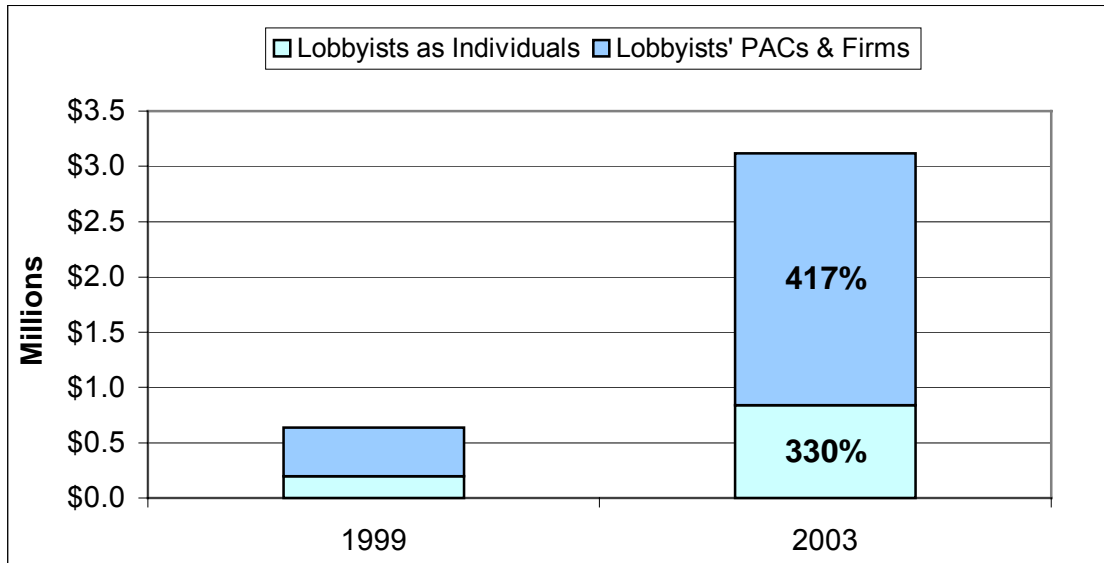
Year	Number of Contracts Reported By Texas' Top 25 Lobbyists	Maximum Value of Contracts Reported By Texas' Top 25 Lobbyists
1999	660	\$36.8 million
2003	760	\$56.3 million
Growth:	15%	53%

III. Elite Lobby Contributions Quadrupled

While the lobby incomes of Texas' top 25 lobbyists increased 53 percent from 1999 to 2003, their campaign contributions increased many times this amount. Texas' top 25 lobbyists in 1999 contributed a total of \$195,095 of their own money to Texas state PACs and candidates in the corresponding 2000 election cycle (covering 1999 and 2000). By 2003, the top 25 lobbyists were digging much deeper into their pockets, spending a total of \$838,342 on the corresponding 2004 election cycle—a 330 percent increase. Where a top lobbyist in 1999 contributed an average of \$7,804 to state political campaigns, by 2003 a top lobbyist gave \$33,434 of his or her own money to state politicians.

Political activity by the lobby firms and PACs affiliated with these elite lobbyists increased even more. PACs and firms affiliated with 2003's top 25 lobbyists contributed almost \$2.3 million to state PACs and candidates in the corresponding election cycle—a 417 percent increase over what PACs and firms associated with 1999's top lobbyists spent on the 2000 election cycle. The price of political influence was skyrocketing in Austin.

Elite Lobbyists' Political Contributions Soared In Texas Between 1999 and 2004



Year	Total State Donations By Top 25 Lobbyists As Individuals In Corresponding Election Cycle	Total State Donations By PACs & Firms of Top 25 Lobbyists In Corresponding Election Cycle	Total State Donations By Top 25 Lobbyists, Their PACs & Firms In Corresponding Election Cycle
1999	\$195,095	\$440,719	\$635,814
2003	\$838,342	\$2,277,717	\$3,116,059
Growth:	330%	417%	390%

State Contributions By the PACs and Firms of Texas' Top 25 Lobbyists In 1999 & 2003

1999

Firm or PAC Related To Top 1999 Lobbyist(s)	TX Donations In 2000 Cycle
Hughes & Luce	\$181,000
Baker Botts	\$141,042
HillCo Partners	\$79,141
Christopher S. Shields, PC	\$16,250
Law Offices of RH Erben	\$9,000
Bill Messer, PC	\$7,786
Berlanga Business Consultants	\$6,500
Adams & Zottarelli	\$0
Capitol Dome Advocacy	\$0
Public Strategies	\$0
TOTAL:	\$440,719

2003

Firm or PAC Related To Top 2003 Lobbyist(s)	TX Donations In 2004 Cycle
HillCo Partners	\$654,857
Locke Liddell & Sapp	\$467,637
Baker Botts	\$398,031
Hughes & Luce	\$282,169
Loeffler Jonas & Tuggey	\$216,871
Graydon Group	\$113,380
Law Office of JE Brown	*\$49,273
Stan Schlueter Consulting	\$31,056
Sibley Group	*\$30,366
Law Offices of RH Erben	\$24,977
Public Strategies	\$6,000
Bill Messer, P.C.	\$2,100
McWilliams & Assoc.	\$1,000
Bashur Consulting	\$0
TOTAL:	\$2,277,717

*Includes donations from this ex-senator's leftover campaign fund.

Donations By 1999's Top Lobbyists

1999			Individual	Individual,
Lobby			Lobbyist's	Firm & PAC
Income			Contributions	Contributions
Rank	Lobbyist	Firm	(2000 Cycle)	(2000 Cycle)
1	Neal 'Buddy' Jones, Jr.	HillCo Partners	*\$36,300	\$115,441
2	Pamela M. Giblin	Baker Botts	\$0	\$141,042
3	Dan Pearson	HillCo Partners	*\$250	\$79,391
4	Justin J. Howard	HillCo Partners	*\$2,200	\$81,341
5	Mack Wallace	Hughes & Luce	\$0	\$181,000
6	Myra Leo	Hughes & Luce	\$100	\$181,100
7	Robert C. Ekstrand	Hughes & Luce	\$0	\$181,000
8	John M. Erskine, Jr.	Hughes & Luce	\$655	\$181,655
9	Kent A. Caperton	Public Strategies	\$5,000	\$5,000
10	Homero R. Lucero	Capitol Dome Advocacy	\$0	\$0
11	Randall H. Erben	Law Ofcs of RH Erben	\$35,856	\$44,856
12	Nicholas K. Kralj	Solo practice	\$61,123	\$61,123
13	Hugo Berlanga	Berlanga Business Consult.	\$2,200	\$8,700
14	Edna R. Butts	Hughes & Luce	\$100	\$181,100
15	Candis B. Erskine	Hughes & Luce	\$0	\$181,000
16	Deana D. Hendrix	Hughes & Luce	\$0	\$181,000
17	Donald G. Adams	Adams & Zottarelli	\$2,350	\$2,350
18	Angelo P. Zottarelli	Adams & Zottarelli	\$500	\$500
19	John 'Cliff' Johnson, Jr.	Solo practice	\$0	\$0
20	Alexander J. Gonzales	Hughes & Luce	\$200	\$181,200
21	O. Larry McGinnis	Hughes & Luce	\$100	\$181,100
22	Bill Messer	Bill Messer, PC	\$20,961	\$28,747
23	Reginald G. Bashur	Solo practice	\$0	\$0
24	Larry Feldcamp	Baker Botts	\$0	\$141,042
25	Christopher Shields	Christopher S. Shields, PC	\$27,200	\$43,450
TOTALS:			\$195,095	\$635,814†
AVERAGES:			\$7,804	\$25,433

†Total does not double-count money from PACs or firms with multiple lobbyists in the top 25.

*Excludes double-counting of internal transfers (e.g. the \$9,135 that HillCo lobbyist 'Buddy' Jones gave to HillCo PAC.

Only eight lobbyists from 1999's top 25 list still made the cut in 2003. The accompanying tables listing the elite lobbyists in 1999 and 2003 suggest that campaign money played a role in this reshuffling. Note that three of 1999's elite lobbyists were not associated with a single individual, firm or PAC contribution (Homero Lucero, Cliff Johnson and Reggie Bashur). Four other elite 1999 lobbyists were associated with contribution totals of less than \$10,000 (Kent Caperton, Hugo Berlanga, Don Adams and Angelo Zottarelli). No such pikers made the top 25 list in 2003, when the smallest contribution amount associated with an elite lobbyist was \$15,659 from the pocket and firm of Speaker Tom Craddick's lobby pal Bill Messer.

Public Strategies lobbyist Rusty Kelley--who rocketed to the head of the 2003 lobby with up to \$5.2 million in income--contributed a stunning \$433,008 of his own money to state politicians in the corresponding 2004 election cycle. "If you're asking me if I'd give [political] money if I didn't do what I do," Kelley candidly told the *San Antonio Express-News* earlier this year, "the answer is obviously no."

HillCo's Buddy Jones, who ranked No. 1 in 1999, still ranked among the state's top 10 lobbyists in 2003. During this period his firm's HillCo PAC expanded 586 percent. HillCo PAC ranked 102 among Texas PACs in 2002, when it spent \$102,818 to influence state politics. By the 2004 election cycle, HillCo PAC ranked No. 15, spending \$705,343.⁶

Donations By 2003's Top Lobbyists

2003 Lobby Income Rank	1999 Rank	Lobbyist	Firm	Individual Lobbyist's Contributions (2004 Cycle)	Individual, Firm & PAC Contributions (2004 Cycle)
1	28	Russell Kelley	Public Strategies	\$433,008	\$439,008
2	107	Stan Schlueter	S. Schlueter	\$14,235	\$45,291
3	NA	David Sibley	Sibley Group	\$87,548	\$117,914
4	11	Randall H. Erben	Law Ofcs of RH Erben	\$50,868	\$75,845
5	37	Brian G. Yarbrough	Law Ofcs of RH Erben	\$0	\$24,977
6	52	W. James Jonas III	Loeffler Jonas &	\$35,731	\$252,602
7	102	Andrea McWilliams	McWilliams & Assoc.	◇\$32,908	\$33,908
8	405	Dean McWilliams	McWilliams & Assoc.	◇\$32,908	\$33,908
9	1	Neal 'Buddy' Jones	HillCo Partners	\$31,458	\$686,315
10	69	Robert D. Miller	Locke Liddell & Sapp	\$15,575	\$483,212
11	8	John M. Erskine Jr.	Hughes & Luce	\$0	*\$282,169
12	22	Bill Messer	Bill Messer P.C.	\$13,559	\$15,659
13	NA	Denice Marchman	Hughes & Luce	\$0	*\$282,169
14	26	Marc T. Shivers	Hughes & Luce	\$75	*\$282,244
15	6	Myra Leo	Hughes & Luce	\$170	*\$282,339
16	21	Larry D. McGinnis	Hughes & Luce	\$0	*\$282,169
17	119	Mignon McGarry	Solo practice	\$54,985	\$54,985
18	77	Machree G. Gibson	Graydon Group	\$0	\$113,380
19	104	Jay P Brown.	Graydon Group	\$550	\$113,930
20	1194	Jay W. Propes	Graydon Group	\$850	\$114,230
21	106	Shannon Lea Swan	Graydon Group	\$0	\$113,380
22	23	Reginald G. Bashur	Bashur Consulting	\$23,750	\$23,750
23	2	Pamela M. Giblin	Baker Botts	*\$250	\$398,281
24	85	Galt Graydon	Graydon Group	\$6,015	\$119,395
25	NA	J.E. 'Buster' Brown	Law Ofc. Of JE Brown	*\$3,899	*\$53,172
TOTAL:				\$838,342	\$3,116,059†
AVERAGES:				\$33,534	\$124,642

◇Equals half of the contributions by this lobby couple, which sometimes gives jointly.

†Total does not double-count money from PACs or firms with multiple lobbyists in the top 25.

*Eliminates double-counting of internal transfers (e.g. \$267,628 that Buster Brown's campaign fund gave to his Texas Our Texas PAC and the \$289,809 that the Hughes & Luce firm gave to the Hughes & Luce PAC).

To be sure, factors other than a K Street-style squeeze on the lobby were at play in Austin during this period. Notably, after Republicans consolidated their political hold by taking control of the state House in 2002, some Democratic lobbyists fell out of Texas' lobby elite. Yet this partisan consolidation alone fails to explain why not one top Democratic lobbyist was replaced by a Republican or independent lobbyist *who made little or no political contributions*. These data strongly support that the K Street effect had hit Austin's Congress Avenue, where the word on the street was that Texas' top lobbyists must pay to play.

IV. Who the Elite Lobby Bankrolled

Together with their affiliated lobby firms and PACs, 2003's top 25 lobbyists made \$3.1 million in state contributions during the corresponding 2004 election cycle. As the accompanying table shows, 60 percent of this lobby money went to 43 state politicians and two political committees (Texans for Lawsuit Reform and Speaker Craddick's Stars Over Texas PAC).

Reflecting the fact that lobbyists tend to curry favor with incumbent powers, the top 45 recipients of this lobby largesse include just six Democrats. Lieutenant Governor David Dewhurst, who occupies what some have called Texas' most powerful office, led the list, receiving more than \$300,000 of these elite lobby funds. Governor Rick Perry came next, followed by Speaker Craddick, Attorney General Greg Abbott and Comptroller Carole Keeton Strayhorn.

Reports have surfaced in recent years of top politicians or their surrogates aggressively squeezing the lobby. Dallas insurance executive Robert Reinartz sent industry colleagues a 1999 memo soliciting \$25,000 in contributions for then-Lieutenant Governor Rick Perry; Reinartz described this amount as the "price" required to block Perry from assigning an interim Senate panel to study insurance deregulation. A Perry spokesman told the *Dallas Morning News*, which obtained the memo, that his office knew nothing about the solicitation by this Perry supporter.

After the Republicans won a House majority in November 2002, thereby consolidating control over Texas' executive and legislative branches, reports arose of a crackdown on Democrat-led trade groups. In the most prominent example, the Texas Medical Association's longtime Democratic lobbyist Kim Ross told the *Austin American-Statesman* that gubernatorial pressure forced him out of his job in early 2003 after his physicians' trade group endorsed Perry's Democratic challenger. Ross said that Mike Toomey, the lobbyist whom Perry had recently appointed as his chief of staff, told physicians, "You're dead if you don't get rid of Kim Ross." Earlier this year Toomey's successor Deirdre Delisi solicited top business lobbyists for \$1.2 million to pay for a statewide ad campaign to promote the governor's school-funding plan.

For the first time, the state of Texas hired outside lobbyists in 2003 to press the state's interests in Washington, the *Houston Chronicle* reported in 2005. Governor Perry promoted the plan, which yielded a \$180,000 annual contract for the Federalist Group and former DeLay chief of staff Drew Maloney. Critics said the contract was a kickback to Maloney for helping TRMPAC raise corporate funds.

Bill Miller, who served with two other lobbyists on Craddick's 2002 Speaker transition team, later devised a plan to help the Speaker put a DeLay-style squeeze on the lobby. HillCo's Miller urged Craddick in 2004 to make lobbyists "part of the Speaker's Team" if they supported him with research, organizing and fundraising. Miller told the *Dallas Morning News*, which broke the story, that he never discussed the plan with Craddick. Calling Miller's account "a lie," Craddick's office said the speaker rejected the proposal after Miller presented it to him in person.

Then-Comptroller Carole Keeton Rylander fired Chief of Staff John Colyandro in 2000 following complaints about a controversial program that he oversaw. The comptroller promoted her "e-Texas" program as a way to save tax dollars by moving state services online. Critics complained when the comptroller solicited hundreds of thousands of dollars in start-up costs from information technology companies that were likely bidders for future e-Texas contracts. The comptroller also overreached by promising these donors: Opportunities to shape the program behind closed doors; and Advertising space on the state's e-Texas web page. After apparently being axed for e-texas

excesses, Colyandro went on to become the now-indicted former director of DeLay's Texans for a Republican Majority PAC (TRMPAC).

Prominent evidence of the squeeze that TRMPAC put on the corporate lobby surfaced in a memo documenting a September 2002 fundraising trip to Houston by two TRMPAC fundraisers. First reported in the *Houston Chronicle* and *Texas Observer*, the memo suggests that these TRMPAC fundraisers combined their solicitation of funds with a discussion of what the executives whom they solicited sought in exchange for their financial support. Notations next to the name of a Compass Bank executive, for example, said, "22 K direct" and "clean up home equity lending." Soon thereafter the Compass PAC contributed a total of \$22,000 to 22 Republican House candidates backed by TRMPAC. The following year the Texas Legislature presented voters with a Compass-backed constitutional amendment that allows Texas banks to establish home-equity lines of credit for the first time. Another target for TRMPAC's Houston fundraising trip was Bruce Gibson, the then-executive overseeing Reliant Energy's huge lobby force. Lieutenant Governor Elect David Dewhurst tapped Gibson soon thereafter as his chief of staff.

As Toomey, Miller and Gibson illustrate, the lobby was no longer just influencing Texas government. By 2003 the lobby had a major role in running it.

Top Recipients of Money From 2003's Top 25 Lobbyists, Their Firms & PACs

Candidate (Party) or PAC	Office Held/Sought Or Interest	Amount in 2004 Election Cycle
David Dewhurst (R)	Lt. Governor	\$317,467
Rick Perry (R)	Governor	\$231,270
Tom Craddick (R)	Speaker	\$148,159
Greg Abbott (R)	Attorney General	\$114,000
Carole Keeton Strayhorn (R)	Comptroller	\$112,296
Ron Wilson (D)	House	\$47,550
Kevin Eltife (R)	Senate	\$42,267
Scott Brister (R)	Supreme Court	\$41,000
Susan Combs (R)	Agriculture Commissioner	\$38,958
Stars Over Texas (R)	Backs Speaker Craddick	\$37,725
Allan Ritter (D)	House	\$35,300
Kenneth Brimer (R)	Senate	\$28,478
Paul Green (R)	Supreme Court	\$28,250
Mario Gallegos (D)	Senate	\$28,051
Victor Carrillo (R)	Railroad Commission	\$26,000
Chris Harris (R)	Senate	\$25,973
Todd Baxter (R)	House	\$25,708
Royce West (D)	Senate	\$24,500
Patrick Rose (D)	House	\$23,550
Todd Staples (R)	Senate	\$23,550
Stephen Ogden (R)	Senate	\$23,500
Talmadge Heflin (R)	House	\$22,840
Florence Shapiro (R)	Senate	\$21,333
James Pitts (R)	House	\$21,125
Joe Nixon (R)	House	\$20,750
Jack Stick (R)	House	\$20,588
Kent Grusendorf (R)	House	\$18,800
Troy Fraser (R)	Senate	\$18,694
Geoffrey Connor (R)	Secretary of State	\$18,500
Robert Deuell (R)	Senate	\$18,250
John Carona (R)	Senate	\$18,000
Leticia Van De Putte (D)	Senate	\$17,949
Jerry Patterson (R)	Land Commissioner	\$17,808
Sylvester Turner (D)	House	\$17,750
Kyle Janek (R)	Senate	\$17,000
Kenneth Armbrister (D)	Senate	\$16,500
Kip Averitt (R)	Senate	\$16,500
Harriet O'Neill (R)	Supreme Court	\$16,250
Bob Pemberton (R)	3 rd Court of Appeals	\$16,209
Jane Nelson (R)	Senate	\$16,000
Texans For Lawsuit Reform	Restrictions on Lawsuits	\$16,000
Kelton Seliger (R)	Senate	\$15,551
Michael Williams (R)	Railroad Commission	\$15,500
Amos Mazzant (R)	5 th Court of Appeals	\$15,000
David Medina (R)	Supreme Court	\$15,000

¹ In a famous example, the House Ethics Committee admonished DeLay in 1998 for punishing the Electronic Industries Alliance for hiring a Democratic executive director by delaying a vote on an intellectual-property bill that this trade group wanted.

² While different reporting requirements confound exact comparisons, California and Texas compete for the title of the state in which special interests spend the most money on lobbyists. See *Austin's Oldest Profession*, 2004 edition, TPJ, August 4, 2004LINK.

³ California Proposition 208 of 1996 prohibited registered lobbyists from contributing to any state candidate. California's high court later narrowed this restriction to apply just to candidates for offices before which a given lobbyist practices.

⁴ See TPJ's *Lobby Watch*, "'K Street Project' Delivered For DeLay's Indicted PAC," October 11, 2004 LINK

⁵ See TPJ's *Lobby Watch*, "17 Texans Lobbied in 2002 For Multiple TRMPAC Donors," October 12, 2004 LINK

⁶ This amount the \$654,857 in political contributions that HillCo PAC made in 2004 since contributions did not account for all of this PAC's expenditures.