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Dear Client:

**Comparing the *Austin Chronicle's* endorsements in the City Council elections with the actual winners suggests a change in the wind** — mild and subtle perhaps, but a change nonetheless.

As you probably know, perhaps the biggest surprise on 5/6/00 was downtown developer **Will Wynn's** win without a run-off. Wynn's opponent, **Clare Barry**, enjoyed the committed support of most of the city's major environmental groups and political activists, but the defections of two or three prominent SOS figures split the united front.

By the same token, Wynn, who has long been involved in downtown preservation, the arts, and Nature Conservancy efforts, is not your traditional "pro-business" candidate, but he might well represent the "new face" of the Austin downtown business community.

This new type of business candidate is committed both to neighborhood and environmental concerns and to growth strategies that preserve Austin's unique characteristics while encouraging businesses to locate downtown and near-downtown. While one election does not a trend make, the **era of the one-issue City Council candidate may be over.**

Something else you might think about is the impact on the single-member district election concept for the Council. Austin police officer **Danny Thomas's** relatively easy upset win over incumbent **Willie Lewis** went against the grain of the two previous contests in that seat.

Whereas **Eric Mitchell** and Lewis himself had won the seat without East Austin support (suggesting the need for single-member districts), Thomas won both in and outside of East Austin — a truly consensus candidate. His win makes a case against single-member districts, arguing that a strong candidate can draw support from all over the city while still being the choice of the neighborhoods he "represents."

Perhaps the real test of these City Council elections may be the run-off between **Rafael Quintanilla** and **Raul Alvarez**. Quintanilla has the support of a long list of civic and business groups; Alvarez is the choice of most of the environmental and activist groups. There are two things to watch in this race: how the East Austin boxes vote, and what happens in southwest Austin. Either way, the outcome will undoubtedly spark debate on this question: **do we need single-member districts to contain the new voting strength of the suburbs?**

**State and local governments nationwide will lose \$10.8 billion in sales tax revenue by 2003. That's some serious change** – especially as local and state governments ponder whether to tax Internet sales. The e-taxation world is abuzz about these big numbers from a paper entitled “*E-Commerce in the Context of Declining State Sales Tax Bases*,” by University of Tennessee economists **William Fox** and **Donald Bruce**.

The report points out that state and local sales tax bases are declining overall, and not just as a result of e-commerce. In addition to the declining base sales trend nationwide, by 2003, the report estimates that base erosion from mail order sales, cross border shopping, and a consumption shift from taxable goods to nontaxable services will cost states and local governments another \$13.1 billion. The researchers estimate that **if all Internet transactions were taxable** (and you could collect it), it would generate about \$20.1 billion in 2003 -- **almost offsetting the total loss** to base erosion and e-commerce sales.

The losses vary widely among the states. As you might expect, the biggest “losers” are the states with both the biggest markets and the most technology-related business activity: California (\$1.49 billion), Texas (\$932 million), New York (\$849 million), Florida (\$753 million), and Illinois (\$453 million). Of course, these states are also big “gainers” in terms of jobs, investment, and economic growth attributable to e-business.

As a percentage of total state and local tax collections, the picture shifts a bit. The major losers here are Louisiana (4.36%), Tennessee (3.77%), and Oklahoma (3.66%). Texas is estimated to lose 3.16% of total tax collections, one of the nation’s highest levels.

Fox’s and Bruce’s report is influential because it’s the one of the only econometric studies out there that attempts to **quantify revenue losses to burgeoning e-commerce sales**. “As a result, local governments point to their conclusions as evidence that even if the sky isn’t falling yet, it’s getting awfully dark outside. However, some Texas tax experts question the accuracy of the report’s numbers, suggesting that a \$1 billion loss substantially overstates the actual impact.

One way or the other, the other UT’s report will fuel the already raging fire over the future of Internet taxation.

**Waco consulting economist Ray Perryman reports that Austin topped the rest of the state in venture capital deals in 1999.**

According to Perryman, venture capitalists financed about \$795 million in 116 Austin deals, 85% of which involved Internet-related businesses. Dallas was next with \$439.6 million, followed by Houston with \$232.1 million. Austin attracted a **whopping three times more** venture capital in 1999 than in 1998, and Texas ranked in the top 10 states nationally with more than \$1 billion in investment in 1999.

**The Longhorn Pipeline wars took a strange twist last week, when the SOS Alliance reported that someone had commandeered the pipeline opponents' web site.**

SOS says someone first altered the PIPE Coalition site by inserting photos of dollar bills linking visitors to information and news articles on Navajo Refinery, a major financial backer of the anti-pipeline effort. It also says the site was altered again to make the information appear it was coming from Austinites for a Little Less Corruption, a pro-campaign finance reform group.

The original PIPE Coalition site gave information about the proposed Longhorn pipeline route, neighborhood maps, information for contacting public officials, and the like. SOS is urging its members to ask District Attorney **Ronnie Earle** to investigate the matter. (Maybe it's the same person who unleashed the Love Bug computer virus!)

**If you blinked, you probably missed the City Council vote to give itself a 50% pay raise (from \$30K to \$45K).** The Council approved outgoing Councilmembers **Gus Garcia's** and **Bill Spelman's** motion with virtually no public input. Guess the Council is trying to do something about closing Austin's "wage gap." Also, look for this to become an issue if Mayor **Kirk Watson** decides to make a play for statewide office in 2002.

**If you're interested (one way or the other) in light rail in Austin, you need to keep a close eye on what's happening to similar efforts in San Antonio and Houston.** Just last week we wrote extensively about the failure of light rail to win over San Antonio voters. Well, hard on the heels of that debacle, prospects for a Main Street light rail project in Houston took a severe blow when House Majority Whip **Tom DeLay** killed the project's proposed federal funding.

Only one day later, Houston business leaders, who are backing light rail, received invitations to a fundraiser for DeLay's Republican Majority Issues Committee. The tab: \$25,000 per head. The bet is they will complain, but give. Isn't democracy great?

**Re Davy Crockett, what's all the fuss about?** The legitimacy of a manuscript credited to an officer in **Santa Ana's** army, Lt. Colonel **Enrique José de la Peña**, was the subject of a recent scholarly conference at UTAustin. The popular media built up a controversy over the death of Crockett, who Hollywood depicted as fighting to the end at the Alamo (à la **Fess Parker** and **John Wayne**). Colonel de la Peña's manuscript says Crockett was captured and executed after the battle.

So what? Generations of Texas school children were taught that Crockett and several others were executed, just as de la Peña's diary says. This Hollywood myth isn't a Texas hang-up.

**The Greater Austin Chamber of Commerce's light-rail study is under way, and judging from other cities' recent experience, the outcome could make or break Capitol Metro's ambitions to build a rail system.**

Southwestern Bell Vice President for External Affairs **Dewey Biscotto** will co-chair the chamber's investigation with Dell Computer's **Ben Bentzin**. This bodes well for the study, since Biscotto and Bentzin not only bring two of the city's biggest employers to the table, but they are both familiar to the community through their many civic and charitable activities. Their personal credibility behind the study could be crucial to the success or failure of the November referendum.

The task force has retained the Center for Transportation Research at UT Austin as the transportation consultant, and **Dr. Chandra Bhat** will manage the project. Not to be left out, **Ginger Daniels**, P.E., of the Texas Transportation Institute at Texas A&M will act as special advisor, just to keep the Longhorns straight. The Chamber staffer is **Thais Austin**.

Biscotto and Bentzin have been given until August to do the study, write a report, and submit it to the Chamber board for a vote on a recommendation. Given the importance of a united business front on the issue -- and the growing influence of suburban voters in citywide elections -- the next three months will be **crucial to the future of the project**.

Obviously, if the study comes back negative and Chamber rejects the proposal, Cap Metro would have a very steep hill to climb with the voters. Moreover, an ambivalent report that garners only weak Chamber support could be just as fatal. It would seem imperative for Cap Metro to pull out all the stops to make sure the Chamber produces a picture-perfect, glowing endorsement of light rail.

Noting UT Austin's spring commencement is 5/20/00, **Dr. Louis Overholster** revealed he knows why college graduates wear those heavy black gowns in the 90 degree heat: "It's their last bit of preparation for the real world. It gets them used to sweating!"

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