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Dear Client:

The electronic commerce tax debate took an interesting turn at a recent meeting of the Comptroller's E-TAG Advisory Group meeting. As we told you earlier in the *Austin Letter*, the telecommunications industry is trying to persuade the Comptroller's group to recommend sales tax exemptions for telecommunications equipment and services. The estimated cost to the state of these exemptions runs into the \$500 million per year range.

Texas cities, including Austin, have an enormous stake in the issue. Major metropolitan areas such as Dallas, Houston, and Austin are undoubtedly benefiting from the economic growth associated with the booming telecommunications industry.

Southwestern Bell, for example, is putting in DSL equipment as fast as they can buy it (and, with the sales tax exemption, they could buy it 8.25% cheaper and pass savings on to customers). This activity creates jobs and the interconnectivity these cities need to compete for technology businesses.

On the other hand, cities rely heavily on the local sales tax to fund basic services. If all telecommunications services and equipment were exempted from local sales taxes, cities could have close to **\$100 million whacked from their revenue base**. This loss would disproportionately affect the big cities, since local sales tax revenue is collected by the Comptroller and redistributed to the cities based on their level of taxable sales of goods and services.

In short, cities want the ability to **replace the loss** from another revenue source. The only source with that kind of capacity is the property tax. So, at the last E-TAG meeting in early May, the Texas Municipal League (TML), a statewide association of cities, announced that it would ask the Legislature for authority to **raise property taxes** without a rollback election to make up for any sales tax losses from these proposed exemptions.

In effect, this idea would shift much of the cost of the sales tax exemptions to businesses and homeowners in the form of higher property tax rates. The TML move is a classic divide-and-conquer strategy: **pit one segment of the business community against another** (and throw in the homeowners to boot), and you have a legislative donnybrook on your hands. We'll now have to wait and see how the E-TAG group responds to TML's missile launch.

Hoping to block the LCRA's proposal to build a new water line from western Travis County to northern Hays County, the SOS Alliance peppered the LCRA board with letters and e-mails prior to its 5/24/00 meeting. The result? The board voted unanimously to go forward with the project.

Immediately following the vote, LCRA General Manager **Joe Beal** and U.S. Fish and Wildlife Supervisor **David Frederick** signed and sealed the deal. LCRA will build a \$25 million water line and distribution system to transport treated surface water from the West Travis County Regional Water Treatment Plant in Bee Cave to near Dripping Springs. The new line is scheduled for completion by next summer.

SOS objects to the line because it will be located in the Barton Springs watershed and will serve residential development in the US290 area west of Austin. SOS fears the expanded availability of water and wastewater service in the area will encourage even greater development in the environmentally sensitive watershed. LCRA, which is doing a comprehensive Environmental Impact Study on the project, replies that Hays County has already **grown 32% in the past seven years**, and that growth will continue whether or not LCRA builds the line. And those residents need water.

Under the agreement with Fish and Wildlife, LCRA will serve only "existing" development — that means homes and businesses that are either already there or under construction, plus already-platted lots and approved residential development with infrastructure. Clearly, the line will accommodate some growth, although the agreement **appears to mitigate SOS's concerns to some extent.**

What is particularly striking is the rhetoric SOS used to try to derail the project. In an e-mail alert to its members, SOS states: "While trying to create the impression that the line was needed by existing rural residents in northern Hays County, it became clear that the real purpose of the line was to serve new and expansive suburban sprawl in the US290, Hamilton Pool Road and RM1826/Camp Ben McCullough road corridors."

This is the classic SOS warning about the dangers of unchecked growth. LCRA evidently responded to SOS concerns by limiting service from the new line, showing that SOS still packs a formidable punch. As with the city's agreement with **Gary Bradley**, however, SOS once **again failed to stop a project it doesn't like.**

If you are a state license holder or remit taxes or fees to the state, you may soon be able to conduct your business online. Thanks to a state law co-authored by Senator **Gonzalo Barrientos** (D-Austin) and passed by the legislature last year, a task force is currently working to establish an Internet "portal" through which government entities can send and receive forms, licenses, permits, and required payments from regulated persons. The task force is hoping to have a pilot project online by 7/1/00. For more detail, please check out the following story.

The Texas eGovernment Framework, in cooperation with KPMG Consulting and Austin consulting firm Kathy Ikard & Associates, will develop a portal for businesses to deal with the state online and recruit participation from state agencies and local governments. Six state agencies are part of the initial demonstrations project, and additional state agencies, municipalities, and counties are expected to join up once the pilot is fully phased-in this fall.

By the way, the portal will have a privacy statement specifying how information is collected and used by the relevant state agency. Much of what is collected by state government is subject to open records laws anyway (though not all of it), but the portal's privacy policy is clear that outside vendors cannot use the information without the approval of the state agency that collects the information. If you are interested in more information about the Texas eGovernment Framework, check out the website at <http://www.dir.state.tx.us/egov/>.

Federal banking regulators' decision to delay implementation of final privacy regulations could spur state action during the next session of the Texas Legislature to enact more stringent protections of consumer financial information.

Under Title V of the federal Gramm-Leach-Bliley Act (GLB) financial institutions are required to give consumers the ability to "opt out" of sharing of their personal nonpublic financial information with nonaffiliated third parties (such as marketers). While information can be shared among affiliates without restriction, GLB requires institutions to promulgate privacy policies and notify consumers both initially and annually of those policies.

Consumer groups are already calling for stricter privacy protections, and USRep. **John LaFalce** (D-New York), backed by the Clinton Administration, has introduced a bill in Congress extending the opt-out requirement to affiliate sharing. The LaFalce legislation also requires affirmative consumer consent for sharing of medical information, severely restricts the use of medical information in credit decisions, and gives state attorneys general greater authority to enforce federal privacy provisions.

At the same time, as we have reported, consumer groups are lobbying state legislatures all over the country not to wait for Congress or the federal regulations. Consumers' Union advocated a state "opt in" requirement for any sharing of nonpublic personal financial and medical information at a recent joint meeting of the Texas Senate Economic Development and Health Services Committees. The "wait and see" approach advocated by financial services and insurance industry representatives, didn't fly very far. Committee members on both sides of the partisan divide indicated consumer pressure to **"do something about privacy" was just too strong to resist.**

Right now, it looks like legislators are moving toward a "state privacy act," pulling together the some 700 separate privacy protections in state law and putting them in one place. Beyond that, however, it is unclear what a Texas privacy statute might do.

President Clinton will be in Austin 6/19/00, dragging the money sack for the Democratic Senatorial Campaign Committee (not to be confused with the Democratic *Congressional* Campaign Committee).

There will actually be two events — a kind of “progressive” fundraiser. The evening begins at the home of **Roy and Mary Spence**. The GSD&M co-founder and longtime Democratic booster is co-hosting the cocktail reception with former Lieutenant Governor **Ben Barnes**, Senate Minority Leader **Tom Daschle** (D-South Dakota), and DSCC Chair Sen. **Robert Torricelli** (D-New Jersey).

The party then moves on to dinner at the home of Dell Computer heavyweight **Tom Meredith** (managing director of Dell Ventures), who will likely draw a big crowd of high-tech execs and venture capitalists willing to open their wallets for the Democratic cause.

To have cocktails with the President costs you \$1,000 per head. Dinner conversation is a little more pricey at \$5,000 per. The DSCC is a “national party committee,” meaning that it can raise “soft” corporate and labor union money, as well as “hard” individual and PAC dollars. DSCC funds will be used to support Democratic candidates for the U.S. Senate (including the *other* Clinton), both through direct contributions to the candidates and independent expenditures on their behalf.

The President and the DSCC are clearly hoping to tap into the technology industry, a growing source of business support for Democratic candidates. And what better place to do it than here? Not only does Austin combine a tradition of Democratic politics and a progressive technology industry, it is right in Governor **George W. Bush’s** backyard.

Dr. Louis Overholster has watched a lot of political figures come and go. And, of course, he has his own theories: “I’m not really sure what makes someone become a politician. It may be that, as a child, they weren’t told to hush-up enough!”

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