

# CREATING ENVIRONMENTAL BUSINESS IN AUSTIN

## INTRODUCTION

### Kick 'Em While They're Down



Austin did not have a very good year in 2001.

It began with a trickle of layoffs. Before long it became a torrent as the computer industry, on which Austin has become increasingly reliant, lost about 16,000 jobs.(1) Repeated stories of layoffs in the Austin media shook the city's confidence. The *Austin American Statesman's* weekly business report on the computer industry, "Tech Monday," began to shrink in size as the recession progressed, and the news was so dour that the section might have been renamed "Wreck Monday." Another 2,300 computer industry jobs were lost in the first 6 months of 2002.(2)

In March, Intel, one of the world's main designers and manufacturers of microchips, abandoned its heralded construction project for a downtown Austin building to house its new chip designing facility. Ironically, Intel's stock lost half its value the day groundbreaking took place.(3) This \$124 million, 10-story building remains uncompleted. The company attempted to let the building hibernate until the winter of business cycles melted away, but continued bad fortune pushed Intel to announce its intent to sell the partially-completed structure in April of 2002.(4) This has caused anger, regret, and fear in the populace. It is as if the building's frame is a casket, scarring the urban landscape, and reminding the grieving public of the times we are in.

Two months later, Vignette, a software developer that had landed a \$24 million subsidy to construct a downtown building for its new headquarters, also abandoned its effort. It also abandoned 220 employees in 2001, and its stock lost over 65% of its value in the same year.(5)

CSC, another downtown software firm, lost 50 employees and 18% of its stock's worth. The company had originally intended to construct 3 downtown office buildings on land that the City of Austin practically gave away, but abandoned one and subleased most of another because it had no employees to fill the space.(6)

High-Tech venture capital in Austin fell 65% below its record year in 2000 of \$2.4 billion, and 15% below 1999's level of \$1 billion. While the 2001 level of \$860 million was respectable by Austin standards, High-Tech investments could not maintain the inflated expectations of investors, or the inflated number of jobs in unprofitable companies.(7) In the first 6 months of 2002, venture capital was down 83% from the same time period in 2001.(8)

Home sales miraculously stayed almost even because of low interest rates, but new home starts dropped like lead, from 12,500 in mid-2001 to 9,900 by the end of the year (rolling average), and were expected to drop to 7,000 in 2002, a 44% decrease.(9) Apartment vacancy rates

increased to 12% at the end of 2001, the highest vacancy since 1989.(10) Commercial vacancy rates rose to 19%, a level unseen since 1991, and continued to rise to 23% by mid-2002.(11),(12)

This is all the more disturbing when you think that housing costs and apartment rents, already the highest in Texas, were still due while lacking the high-rolling salaries to pay them – Silicon Hills prices at Silicon Gulch salaries. As such it is no surprise that local bankruptcy rates were up 28% between 2000 and 2001.(13)

Part of this was due to the nationwide recession. But part of it was also due to Austin's increasing economic dependence on national and multinational companies, with many of these companies focused on one industry – computers. While high tech hardware and software have become the engine of wealth for Austin, the undiversified concentration of employment has left the region's economy more vulnerable than it needs to be.

### In This Section...

<a href="#">A Fairy Tale .....</a>	<a href="#">3</a>
<a href="#">The Jungle .....</a>	<a href="#">4</a>
<a href="#">Austin's Industrial Foundation .....</a>	<a href="#">5</a>
<a href="#">Incentives .....</a>	<a href="#">6</a>
<a href="#">Military Contracts .....</a>	<a href="#">10</a>
<a href="#">A Clean Industry? .....</a>	<a href="#">12</a>
<a href="#">Meet Your Chamber of Commerce .....</a>	<a href="#">14</a>
<a href="#">Footnotes .....</a>	<a href="#">18</a>

For many years this author has felt that Austin could be a center for environmental products, services, and technology. Yet this is not something that the region's business community or most of its leaders took seriously. At various levels, the concept was thought to be irrelevant, naive, and to some even ludicrous.

But environmental business is none of these. It is, rather, essential for society to survive in the long-term. The region's educational institutions, technical orientation, collection of entrepreneurs, and capital offer a strong foundation from which to launch this new strategy. And the activism and institutional expertise that have created internationally acknowledged environmental programs provide a unique resource for early guidance and direction.

So I decided to make environmental business the theme article of the *Environmental Directory's* fifth issue. With the economy as sordid as it has become, I wrote this article to "kick 'em while they're down," with the hope that people will be more open to the ideas and suggestions in the wake of the business downturn.

Though certain fields of green business have been successfully established, the odds of environmental commerce making the progress necessary to save the planet are stacked against it. It is the intent of this article to discuss these formidable obstacles, and then offer a review of strategies that a local area like Austin could undertake to establish a green business sector in spite of them.

This article begins with an analysis and history of High-Tech in Austin to explain how we got here. Most won't know or remember, because it started almost 60 years ago. This article chronicles many of the major historic developments beginning in 1944 that turned a small, sleepy college town into a major world player in computer electronics. In particular it discusses 3 tools that Austin used to create its electronics industry: tax incentives, military contracts, and red-carpet recruitment of companies from other places.

The *Directory* actually quantifies tax incentives and military contracts, which is something no other Austin publication has ever attempted at such an in-depth level.

The article will then discuss a few specific technologies that Austin could consider as environmental business opportunities in areas such as renewable energy production, locally-grown agriculture, and environmental materials and feedstocks. These are meant to be informative but not definitive. There are literally a thousand other possible products or services.

The article concludes with strategies that the region could pursue to foster environmental businesses, including ways to create investment capital for the technologies discussed, environmental purchasing by major employers, and "green taxes" to bypass obsolete market signals.

With no pretensions, this cannot be considered a total plan. But with all confidence, it should be seen as a direction to move towards. We cannot continue as a society without preserving the foundation of natural resources that enables it to survive.

Paul Robbins, 1/21/03

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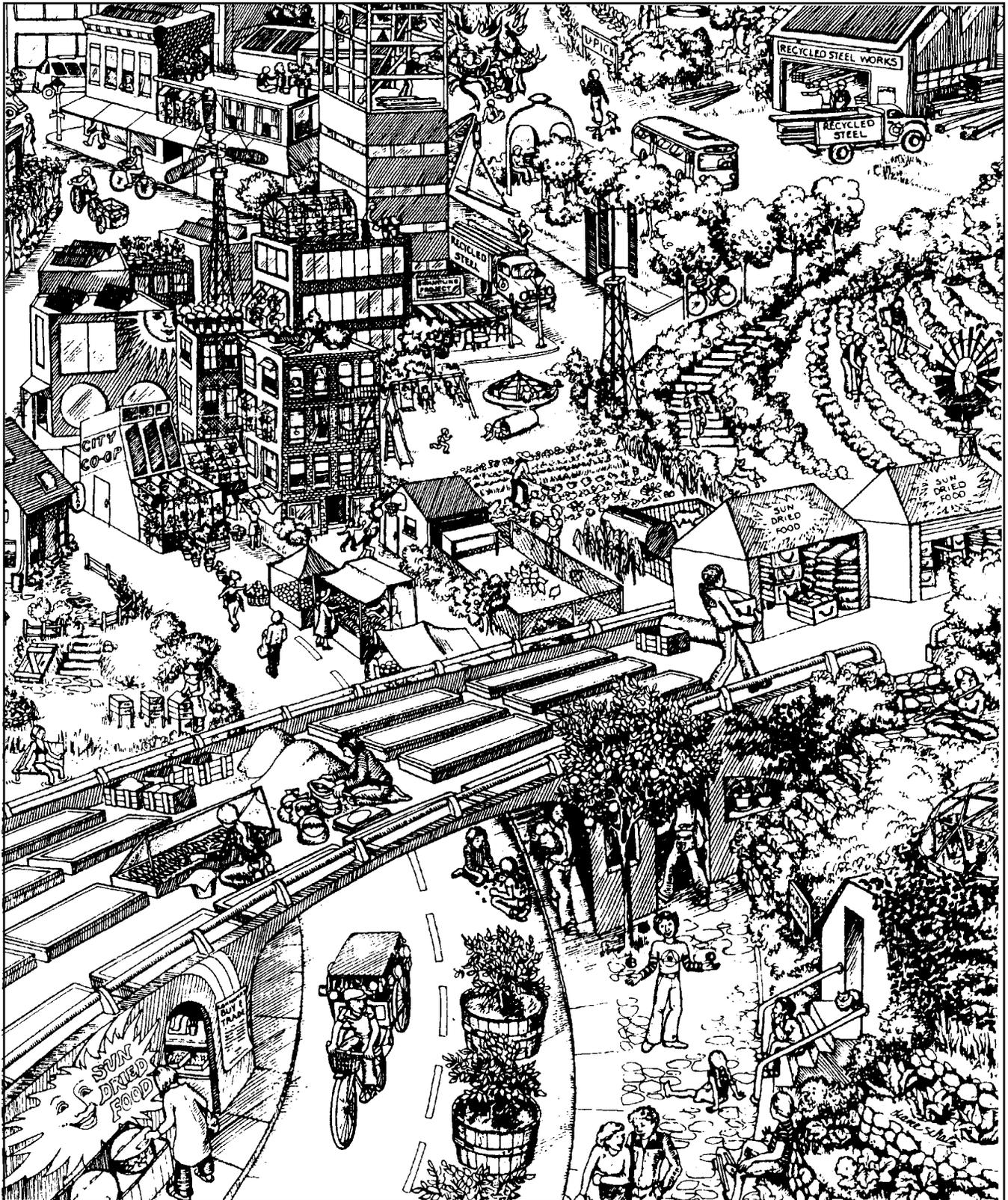
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# A FAIRY TALE

Once Upon a Time, there was a faraway land where everyone lived happily ever after. There was no hunger or pollution. Racial discrimination was unheard of, and classism a quaint concept historians had a hard time explaining to their puzzled students. You see, the principal value of this enchanted land was to allow everyone to be what they wanted to be.



Artist Diane Schatz, from STEPPING STONES: Appropriate Technology and Beyond. Lane deMoll & Gigi Coe, editors. Schocken Books, 1978. Reprinted with permission.

Higher education was free. If someone had a gift of heart or labor that they wanted to give to other people, tools were provided without condition. Again, the concept of "capital" was an archaic concept history students had a hard time grasping. It seemed strange to put conditions like timely repayments on people who were trying to serve others.

The people were so ideologically pure they wouldn't even let the author of this fairy tale call it the Magic Kingdom! (It was, after all, a participatory democracy with grassroots populist tendencies tending toward anarchy, with heavily-opinionated people trying to influence every single phrase this author tried to write as if they could write fairy tales by consensus! Err...don't get me started!)

## How Can I Tell You?

- The vast tracts of concrete-covered areas formerly employed by expensive, polluting, accident-prone personal transport vehicles had largely been turned into spaces for food growing in organic greenhouses, pedestrian malls for food and craft markets, and foundations for affordable cluster-homes. Some areas had even been unpaved to create more park space.

- The few old highways and thoroughfares maintained for transport were employed mostly for mass-transit and heavy delivery vehicles powered by solar energy and hydrogen. Deliveries of half a ton or less were accomplished by cargo bicycles. There was not any great need to travel for most people because most of their needs were within walking or biking distance.

- Food was never treated with dangerous pesticides, fertilizers, growth enhancers, and other dangerous chemicals that harmed people's health and the environment surrounding them. Many people grew food near their home, on their "eatable" roof, in their backyard greenhouse, or a stretch of depaved freeway near their neighborhood.

- Food packaging was made from biodegradable plastics. Disposable beverage bottles were merely flattened in the ground or put in domestic compost piles, turning back to earth in a few weeks. Soaps and chemicals used for personal care and building cleaning were also made of plant-derivatives of grain, sugar, and citrus fruit. Most paper was made from crops grown on nearby farms instead of forests from other regions. Even plastics and lubricating oils used in technologies like automotive delivery vehicles were made from processed plants.

- Almost no mining was needed for raw materials, since recycling was both a virtue and an art.

- The need for power in buildings, the need not eliminated by solar building designs and efficient appliances, was produced by wind chargers and solar cells. Water in most buildings was provided by rooftop-rainwater collection systems.

- But then worldly goods like appliances, large vehicles, big houses, and orchid arrangements were not coveted or sought after. Since there were no commercials to scorch the cultural airwaves, people were not continually confused with the message that they were trading happiness for possessions.

- One of the favorite pastimes or preoccupations of these people was cleansing the earth of hazardous waste that had been left behind by less-enlightened generations. When not engaged in work or leisure (often the same thing), a hobby for many people was using remediation technology to neutralize land and water contaminated with chemical and radioactive waste. This used to be a task for older people not worried with diseases like cancer that might harm them several decades hence. But the most harmful waste had been eliminated many centuries ago, and age was no longer a barrier to participation.

- Few airplanes existed anymore. Time was not the driver of the culture. Trains were more energy-efficient. And dirigibles were used in remote areas, eliminating the need for massive concrete aircraft landing facilities (most of which had long since been unpaved and reclaimed as farms and forests).

## The Jungle

One would have to combine religion, idealism, several mind-altering drugs, and visions of the Sirens to believe that our economic system has made the world a safer place. To create environmental enterprises in the brutal world of Darwinian capitalism, a lot more than hope for a better world needs to exist.

Wake up and smell the napalm, reader! As they say in Texas, "this is bidness."

We have a system that encourages consumption on a resource-depleted planet with limited and polluting energy, vanishing and polluted water supplies, and as many as 137 species extinctions a day from environmental damage and loss of habitat.(1) Karl Marx once said capitalists would sell the rope to hang themselves — it appears now that these destructive ambitions are not limited to suicide.

The advertising that drives conspicuous consumption feeds on itself. The more money that is made, the more there is available to sell a product. Over \$43 billion was spent in 1999 on advertising by large corporations in the U.S. Have you ever heard of an advertising campaign to NOT buy a product? Consider that \$14 billion was spent just to sell cars!(2) But activists who want to encourage pedestrians or bicycles are lucky to scrape nickels together

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for a grassroots newsletter. And while energy-efficient modes of transport like trains and buses could advertise their services too, they have such a tiny fraction of the market that their message cannot rise above the din.

The market signal clouds the real cost of pollution. If birds die from pollution, their families don't sue. If greenhouse gases cause climate change, there is no spirit of the environment that will lobby Congress for compensation.

National, state, and local governments (including Austin's) further cloud the market signal by subsidizing polluting conventional technologies because that's where the jobs are. Tax abatements and subsidies, military pork expenditures, and industrial recruitment money usually avoid funding environmental products.

This avoidance is partially based on pragmatism (luring industry that can create jobs *today*) and partially founded on cultural prejudice by people with narrow worldviews, from influential politicians and business leaders to hate radio.

Independent and sovereign countries become more and more inextricably linked to the global economy, with capital constantly jumping from one country to another searching for cheaper labor, and to avoid environmental and worker protection laws. Like the slash-and-burn agriculture on antebellum plantations, global companies can discard entire cities, regions, and in some cases countries after they have extracted most of their natural or human resources, and then move on to find greener pastures.

With every man for himself and God against the world, regions of the U.S. face off against each other while foreign countries and whole continents challenge local self-reliance with product dumping to wipe out entire industries in rival nations.

And these global firms are not only heartless but bureaucratically stupid. They do not change because they do not have to. They can delay innovations of even conventional polluting products if they reach beyond the companies' limited imaginations. If someone invented a better car engine that got 200 miles per gallon, it would have to be made by an ever-shrinking group of auto companies, and it may challenge their profit strategies. It's not a conspiracy – just bidness.

## AUSTIN'S INDUSTRIAL FOUNDATION

### *Running With the Bulls Swimming With the Sharks*

*"We will be ruthless..."*

—Tom Meredith, former Vice-President of Dell Computer, on May 4, 2001, prior to layoffs of 3,500 employees(1)

It's a jungle out there! In response to falling demand and

earnings, Dell Computer, the Austin region's largest private employer, laid off 1,700 workers in January of 2001, 10% of its workforce in the area. At the time the company, which had experienced meteoric growth over the last 5 years, stated confidently that no further layoffs would be necessary. But the company, which went public in 1988, had never reckoned with a cycle of layoffs in its relatively brief history. So the inexperienced comments were retracted a few months later when the company laid off 3,500 more workers to respond to an ever-worsening business climate.(2)

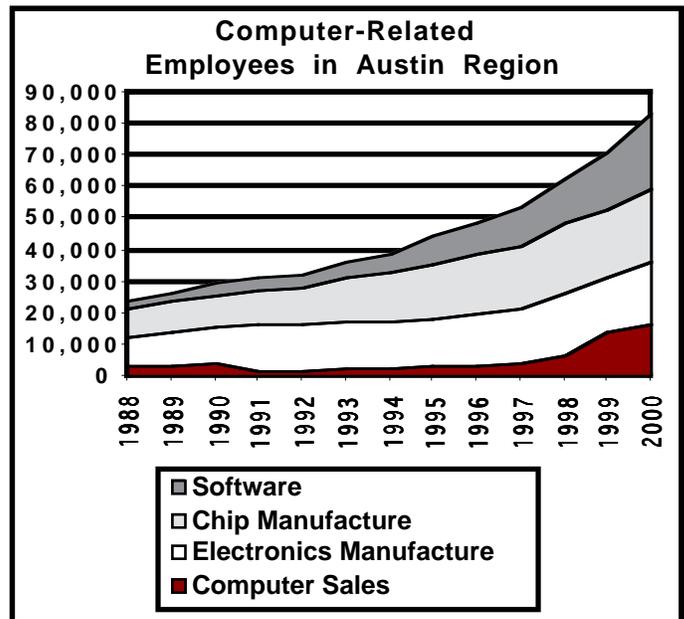
While Dell had Austin's largest total reductions, layoffs were becoming commonplace, with over 18,000 in 2001. About 16,000 of them were from computer-related firms — roughly 20% of the workforce in that sector.(3) These announced layoffs did not account for losses of service sector jobs from decreased regional spending.

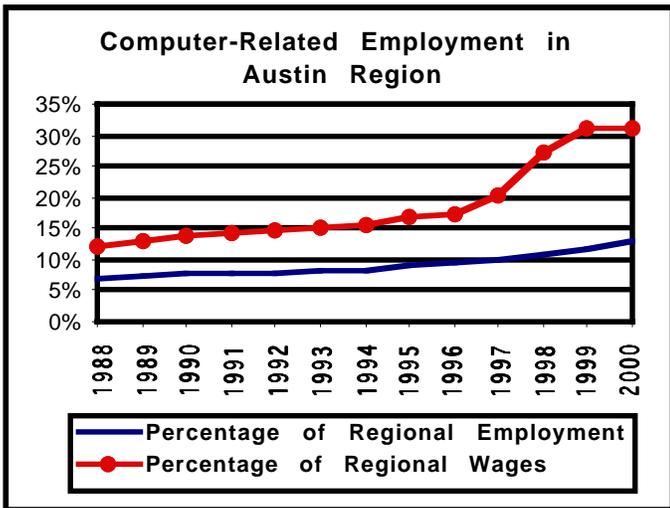
With all respect to the people who lost their jobs, there is something ironic, if not perversely funny, about layoffs from firms with names like Hire.com and Works, Inc. Dot bombs. Dot cons. Dot comas. Dot gones. These characterizations of failed computer-related companies are part of the black humor of the recession that has rocked the computer industry.

The Austin region (Travis, Williamson, and Hays counties) has about 650,000 employees. In contrast, 18,000 layoffs does not seem like a depression. But in context, it is more dramatic.(4)

There were almost no private-sector electronics jobs in the Austin area when Austin's first major tech company, Tracor, was chartered in 1955. In 2000, there were 83,000, 13% of all employment. But these jobs pay much more than the average Austin worker receives.(5)

While many in the computer industry do not make executive salaries, the *average* computer-related job in Austin

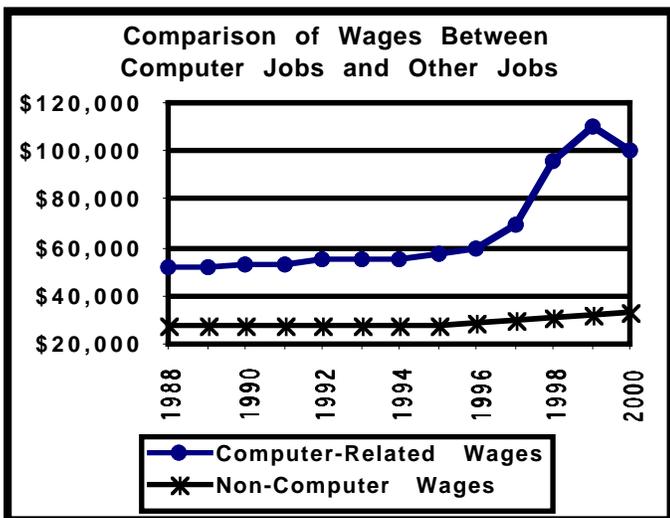




was \$100,000 per year in the year 2000. The average wage for workers not in the computer industry was \$33,000.(6) And despite the flush economic times that existed in the last part of the 1990s, computer-related jobs have far out-paced other jobs as an engine of growth in the region. Adjusted for inflation, non-computer workers have seen their wages raised by 17% between 1988 and 2000, while computer workers' wages doubled.(7)

Put another way, by 2000, high-tech workers in the region had 13% of the jobs but 31% of the income. This elite workforce had more than an \$8-billion share of the total of \$27 billion in wages during calendar year 2000.(8) So a 2% cut in total employment from high-tech layoffs meant, on average, a 5% cut in regional income. These layoffs do not count reduced stock options, wage reductions, and other indirect reductions in compensation.

Worse, in the boomtown economy in Austin directly connected to computer industry growth, housing costs are the highest of any major city in the state. So are apartment rents. Many of these laid-off employees are now living a high-tech lifestyle without the salary. If the layoffs continue, this will lower property values for everyone, because fewer people will be able to buy the outrageously-priced houses. It is conceivable that many houses sold in the last 8 years will have their resale value reduced *below*



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what the owners originally paid for them.

Business cycles in our current economic system are inevitable. What was probably avoidable was our region's overreliance on one major private-sector industry. Up until the last few decades, Austin has been a "government town," with state government, the University of Texas, and a former Air Force Base being the mainstay of jobs. But a conscious effort was made by the city's business community to create or import computer-related jobs to the region.

This singleminded strategy has created results far surpassing what most of the founders of this strategy ever conceived. It has provided more income than any other sector of the economy. But it has also left the region overdependent on and vulnerable to the computer industry's temperamental business cycles. One critic, Kent Butler of the University of Texas, has called Austin "an industrial monoculture."

## INCENTIVES A Jealous Mind

*"Activists come and go. Money stays."*

—Dean Rindy, political media consultant

Research, development, and manufacture of environmental technologies do not account for much employment in the Austin area. At the same time, computer-related employment is the largest private-sector job creator in the region. Like rival suitors clashing in courtship, jealousy conjures up the question "What do they have that I don't?!"

And it isn't really hard to summarize: favorable tax treatment and funding, military contracts that provide weaponry instead of social needs or consumer desires, and aggressive, red-carpet recruitment. Local, state, and federal money has been spent by the vaultful on tax incentives and research contracts. Military contracts have anchored or supplemented the cash-flow of Austin High-Tech companies since their inception. And our regional Chamber of Commerce has hoisted the privateer flag of industrial recruitment as it lured companies here from other parts of

the country, or other countries. Collectively, this amounts to billions of dollars and huge but unquantifiable amounts of attention and time.

And what do environmentalists have to rival High-Tech's advantages? *The Austin Environmental Directory?* The Sierra Club? The City's library collection of books on solar energy?! Not to say that the grassroots environmental groups in Austin are not worthy of praise. Heavily outmoneyed and outclassed by highly paid lobbyists and business executives, they have won victories on environmental protection that seem miraculous considering the odds. Much of this work was done with volunteers. And they have created and protected environmental programs that serve as examples for other parts of the country, and other countries.

But environmentalists in Austin have not historically been involved with employment and economic development, except when they were forced to respond to the environmental effects of the growth this development caused (such as urban sprawl and air pollution), or where this growth was located (such as sensitive watersheds). And in those rare instances where they were interested, their tiny efforts were not able to match the enormity and intensity of the region's businesses and governments hell-bent on going another direction.

### Local Government Incentives

One of the reasons Austin has successfully courted the computer and software industries is subsidies given by governments (ultimately funded by you, the reader, through your taxes). Over most of the history of High-Tech development in Austin (1966 - 2001), various tax advantages and subsidies dispensed at the local level have been considerable. According to public records, these subsidies collectively amount to about \$193 million (in 2001 dollars) — \$589 for every household in Travis County in 2001.(1)

It is important to understand that tax incentives have not been given exclusively to the High-Tech sector. But it has received the lion's share of these incentives since the recipients are the larger employers with the highest property valuations and business expenditures.

Whether Austin has benefited from these subsidies has been a contentious debate for decades. Opponents of tax incentives feel they subsidize the city's growth in a direction that has not benefited the majority of citizens. They say the effects of uncontrolled growth, including traffic congestion, urban sprawl, and rising housing costs, have hurt the majority of Travis County residents while handing increased profits to a select few. Supporters call them a wise investment, stating that for every dollar spent, many more dollars were gained from new salaries and taxes that circulated in the local economy.

But whether you are for or against these incentives, you paid for them. The explanation below will tell you how much. (NOTE: all figures are in 2001 dollars.)

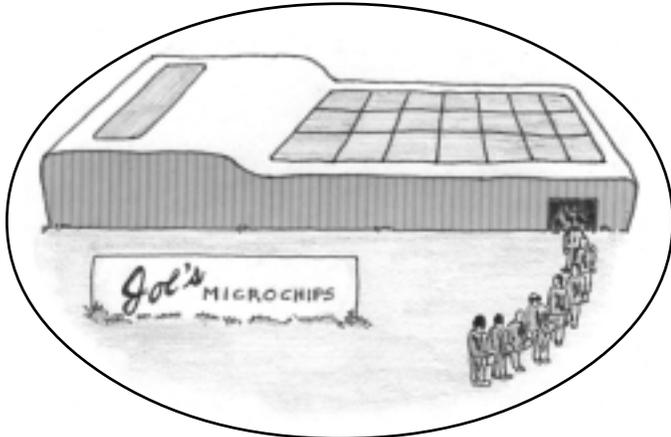
<b>INDUSTRIAL INCENTIVES IN TRAVIS COUNTY</b>	
TOTAL (2001 Dollars)	\$1,425,541,233
<u>LOCAL</u>	<u>\$193,087,015</u>
VIRTUAL TAX ABATEMENTS - TOTAL	\$738,741
Texas Instruments	\$33,678
Tracor (Land)	\$35,571
Tracor (Buildings)	\$261,807
Motorola	\$64,788
IBM	\$342,897
REAL TAX ABATEMENTS - TOTAL	\$51,369,572
Applied Materials	\$12,351,304
Motorola	\$25,428,915
Photronics	\$246,464
Samsung	\$13,342,891
FREEPORT	\$91,459,404
INFRASTRUCTURE SUBSIDY - TOTAL	\$18,291,568
Intel	\$2,882,974
CSC	\$5,512,741
Dell	\$6,500,749
IBM/Tivoli	\$2,399,620
Motorola	\$995,485
SEMATECH NON-PROFIT	\$13,098,960
ECONOMIC DEVELOPMENT SERVICES	\$1,429,455
AUSTIN TECHNOLOGY INCUBATOR	\$387,502
ELECTRIC RATES	\$6,804,815
AUSTIN COMMUNITY COLLEGE	\$9,506,998
<u>STATE - TOTAL</u>	<u>\$113,406,572</u>
MCC	\$26,671,891
Sematech	\$74,750,544
Austin Technology Incubator	\$1,907,469
Freeport School Exemptions	\$9,681,538
<u>FEDERAL - TOTAL</u>	<u>\$1,119,442,776</u>
Sematech	\$1,119,442,776

Rounded to Nearest Dollar

1. "Virtual" Tax Abatements - Long before local governments gave tax write-downs to large companies as a direct encouragement to locate in the Austin area, these companies were given subtle encouragement by being ignored. In the early years of Austin's High-Tech growth, several large electronic-related businesses built outside the City limits were not annexed or taxed by the City of Austin. While a compelling argument could be made that these companies were given direct and indirect City services, no taxes were assessed between 1963 and 1975 on the four largest electronics-related employers, IBM, Motorola, Texas Instruments, and Tracor.

These virtual tax abatements amounted to \$739,000, a paltry amount compared to incentives in recent years. Still, they amounted to \$8 per household for those living in Austin in 1975.(2)

2. Real Tax Abatements - Beginning in the early 1990s, the City of Austin and the government of Travis County began giving tax abatements to encourage economic development, mostly business relocations from other states or expansions of companies that had plants in Austin. Almost all (97%) of these incentives were given to High-Tech firms, amounting to \$51.4 million, translating to \$157 per household in 2001.(3)



Brian Vanicek, reprinted with permission of the *Daily Texan*

3. Freeport Tax Exemption - In the state of Texas, businesses have historically been charged for their inventory of products on their property taxes. In 1989, during a state-wide recession, the citizens of Texas approved a constitutional amendment allowing cities, counties, school districts, and community college districts to waive this tax as an incentive to economic development. This "Freeport" waiver was voluntary, but once enacted, it could never be retracted. The City of Austin and Travis County both opted to invoke the waiver the next year. The school districts of Pflugerville and Manor have also opted to do this in the last few years. Many other cities, counties, and school districts around the state have done the same. But after 12 years, 56% of Texas cities, 57% of Texas counties, and 74% of Texas school districts still have not done so. These include the City of Houston, Harris County, and the Austin Independent School District.(4)

The Austin/Travis County waivers have amounted to \$114 million since 1990 (2001 dollars). While again, this has not been exclusively directed at computer-related businesses, approximately 87% of this amount, or \$94.5 million, has been waived for this sector of the economy.(5)

Of course, the money lost from this tax was made up by increasing the property tax on the remaining assessed values, and it did raise the property taxes of computer-related firms slightly. But even after this increase was taken into account, these firms netted subsidies of \$91.5 million.(6)

4. Infrastructure Incentives - In the late 1990s, the strategy for accommodating new major employers shifted from direct tax subsidies to free or reduced-cost infrastructure if the company located in Austin, and away from the city's environmentally-sensitive watersheds. These subsidies included waived capital recovery fees (that pay for new water and wastewater service), utility relocation and upgrades, sidewalks, and wetponds that provide stormwater runoff protection.

The most egregious example of this kind of incentive is the regional headquarters building complex of the Computer Science Corporation (CSC). With less than a week's notice, the City Council decided to "lease" 3 blocks of City-owned land for 99 years on publicly-owned prime river-front real estate in the downtown area. But the City's lavish gifts of infrastructure, including underground connecting tunnels, street lighting, landscaping, and an elaborate plaza, almost cancelled out any money the City would make on the lease. The contract was written so poorly that when CSC later decided it did not want one of the blocks of land, the City paid \$1.4 million to get it back!(7)

So far, these infrastructure abatements for High-Tech companies have amounted to \$18.3 million.(8)

5. Sematech Tax Abatements - The decision of Sematech to locate in Austin may be the single most-important event in Austin's emergence as a High-Tech leader. Due to its status, the large number of spinoff jobs and companies it created, and massive federal subsidies flowing to the region, it was a watershed event.

This public/private consortium, chartered in 1988 to research new semiconductor manufacturing processes, received most of its subsidies from the state and federal government. But Sematech has also "leased" most of its equipment from two successive government authorities sponsored by Travis County. While the County makes no money on this leasing arrangement, it allows Sematech to escape paying property taxes on expensive equipment since governments are tax-exempt. Since 1988, Sematech has avoided \$13.1 million in taxes through these two mechanisms.(9)

Note that the terms of subsidies for both the State and Travis County are for 20 years. So this favorable tax treatment will continue through 2008.(10)

6. Economic Development Budget - The City of Austin also delegates staff and resources to promote economic development. In 2001, it even created a new department to deal with new businesses, with about 20% of its funding (\$1.4 million) going to computer-related development in fiscal years 2001 and 2002.(11)

7. Austin Technology Incubator - In 1989, a technology incubator began that was specifically designed to create new business from High-Tech fields such as software and computers. It offered free office space, administration, and advisors to help entrepreneurs advance their products and

services. It was ultimately proclaimed one of the most successful incubators in the U.S., winning an award from the National Business Incubator Association in 1994. But it was also subsidized with City and County money totalling about \$388,000.(12) The University of Texas also contributed to it in the form of paid interns and office space.

8. Chamber of Commerce Lease - Between 1958 and 1989, the Austin Chamber of Commerce building was located on about 2.5 acres of City-owned land leased at a nominal figure of \$1 a year.(13) It is extremely difficult to place a value on this land, since it was so uniquely situated next to the old convention center and Auditorium Shores. Land in its vicinity currently sells for over half a million dollars an acre, though it was worth far less in the middle of the last century.(14) Still, the symbolism it carried to proponents and opponents of Chamber of Commerce policy was enormous. This organization decisively influenced the conversion of the region into a High-Tech business powerhouse.

9. Subsidized Electric Rates - Between 1989 and 1998, the City's electric utility gave discounts to major companies that created employment by relocating or expanding to the service area. In these 10 years, the subsidy amounted to \$6.8 million.(15)

10. Higher Education Support - Another subsidy is publicly-funded technical training for the computer hardware and software industries. Since 1974, the year after its founding, Austin Community College (ACC) has been providing classes to train electronics workers. Beginning in 1984, the institution began offering classes for computer operation and software. Historically, only 30% of ACC's funding has been covered by tuition. The rest is generally from state subsidies, and beginning in 1987, local property taxes. Austin taxpayers have aided training for the computer industry with \$9.5 million.(16)

Electronics education is a direct benefit to the computer industry. Many of the companies with Austin locations that hire these trainees are on advisory boards that actually plan curriculum. The computer studies advisory committee in 2001 included representatives from IBM, Data Junction Corp., Southwestern Bell, Neon Systems, Computer Sciences Corporation, Surgient Networks, Dell Computer, and Cyberplex. The 2001 advisory committee for electronics semiconductor training included representatives from Advanced Micro Devices, Applied Materials, Cypress Semiconductor, Motorola, Sematech, Samsung, and Tokyo Electron.(17)

I have mixed feelings about listing this as a subsidy. One of the missions of a community college is vocational training. And if environmental businesses were more commonplace, it is probable that classes would be provided for these fields. Moreover, Austin computer companies have been strongly criticized in the past for hiring outside of the region. One could make the argument that they are responding to criticism by trying to do more hiring locally.

But this shows the advantages the computer industry has over green business. And while national trends that create employment cannot usually be controlled by a small local institution like ACC, it does have some limited flexibility in deciding directions.

For instance, ACC has so[?]ht grant fundinz-for biotechnology training, which is not generally considered an environmental field. In contrast, Iowa State University has obtained grant funding to begin a degree plan in biomass engineering, a discipline that turns agricultural crops into products such as plant-based fuels and biodegradable plastics. The State of Connecticut has endowed a degree plan for fuel cell engineering.

## State Government Incentives

The State of Texas also funded subsidies to encourage economic development in Austin. These totaled about \$113 million. If all of this money were considered a subsidy that could have supported environmental industry development in Travis County instead of the computer industry, it would have amounted to \$333 per household.

1. Offices for Microelectronics Computer Corporation (MCC) and Sematech - In an effort to attract High-Tech consortiums MCC and Sematech to Austin, various incentives were promised from both government and the private sector. The University of Texas added to this goodwill by offering free office and laboratory space. The new building provided for MCC in Northwest Austin cost the state \$18.6 million between 1986 and 2000, when MCC finally dissolved. In addition, MCC received \$8.1 million from the state or UT for equipment.

UT purchased an existing office building for Sematech, and then added a state-of-the-art cleanroom for semiconductor research. Between 1988 and 2001, this facility cost the state approximately \$75 million.(18)

2. Austin Technology Incubator - The Incubator, discussed previously, also received over \$1.9 million in free rent from the University of Texas between 1995 and 2001. It occupies most of one floor of the building that formerly housed MCC.(19)

3. Freeport School District Subsidy - The Freeport law giving tax breaks for inventory on property taxes allows school districts the option of granting tax exemptions for businesses. This money is reimbursed through state education funds. By 2001, the districts of Pflugerville and Manor had allowed exemptions of some \$9.7 million.(20)

## Federal Government Incentives

1. Sematech - Between 1988 and 1996, Sematech was a public/private partnership between the federal government and 13 U.S. based corporations. Its lucrative public funding was premised on national security – that if the U.S. became too dependent on semiconductors from other coun-

**COUNTY LOANS IN 2001 DOLLARS**

1980	Dataproducts Corp.	\$15,044,903
1981	W. L. Gore & Associates	\$7,793,179
1981	IBM Pollution Control	\$9,351,815
1981	Rolm Corp. Revenue Bonds	\$16,170,847
1982	IBM Pollution Control	\$9,910,259
1982	Austron	\$2,752,850
1982	Tandem Computers Inc.	\$1,835,233
1984	Motorola	\$34,090,472
1985	W. L. Gore & Associates	\$5,102,323
1990	IBM	\$3,245,252
1983	BPI Systems	\$9,779,618
1998	CCIR of Texas Corp	\$6,519,018
ELECTRONICS-RELATED LOANS		\$121,595,771
ALL COUNTY LOANS		\$222,756,532

Rounded to Nearest Dollar

**TRAVIS COUNTY MILITARY CONTRACTS**

1966 - 1978 (1)

Recipient	Amount (2001 Dollars)	Percent of Total
Tracor	\$545,759,729	40%
UT	\$341,594,671	25%
Texas Instruments	\$278,040,550	21%
Unitech	\$26,468,315	2%
ARA	\$17,702,898	1%
IBM	\$13,766,286	1%
Austron	\$12,729,943	1%
La Costa	\$11,405,301	1%
Texas Nuclear	\$10,022,258	1%
Other	\$96,562,946	7%
<b>TOTAL</b>	<b>\$1,354,052,897</b>	

tries, its High-Tech weaponry would be compromised. So the consortium's work of keeping the domestic semiconductor industry competitive was partially funded by direct Defense Department appropriations.

The federal government ultimately contributed more than \$1.1 billion to the Austin-based consortium.(21) This amounted to a subsidy of over \$3,400 per local household! While almost all of it was paid by people living outside the Austin area, imagine the effect on environmental businesses in Travis County if this money were instead spent for research supporting them.

2. Tax Exempt Bonds - Between 1980 and 2001, Travis County passed about \$133 million in low-interest, tax-exempt bonds to finance economic development (approximately \$223 million in 2001 dollars). Approximately \$122 million, or 55% of the real dollar amount, went to computer-related companies.(22) It is not possible for the *Directory* to calculate how much in federal income tax was avoided by these bonds because the terms of the loans and schedule of repayments by these companies were not available. But the amount of money involved is still worth bragging rights.

*All local, state, and federal subsidies listed in this report totaled over \$1.4 billion, or about \$4,350 per household in 2001.(23)*

**Military Contracts**

High-tech firms and institutions with operations in the Austin area have taken in billions of dollars from military spending since military contractor locations began being recorded in 1966. Say what you want about the pros and cons of military contracts, but they are not technically a product — they are a value. People don't go out and buy an F-16 fighter plane to put in their backyard for protection (most people anyway). Instead, the cost is justified as a value this country places on national security. No such imperative drives environmental protection funding at anything close to the same amount.

Between 1966 and 2000, the federal government spent over \$13.6 trillion on defense and about \$823 billion on the environment (in 2001 dollars), a ratio of 17 to 1!(1)

The importance of federal military and research expenditures in the creation of modern consumer electronics cannot be overstated. The microchip was first used by the military in upgrading its aerospace weaponry and in space research and travel. Chips were purchased instead of transistors despite their initial increased cost and inferior quality. Between 1961 (when first sold commercially) and 1964, 100% of all chips were purchased by the federal government; between 1965 and 1969, the majority of chips were still purchased by the federal government. It was not until the early to mid-1970s that the consumer electronics industry stood on its own. This sustained development through federal purchase created the learning curve for decreased cost and improved quality.(2)



**AUSTIN MILITARY CONTRACTS 1997-2001**  
(in Thousands; 2001 Dollars)

Recipient	Amount	Percent
Dell Computer	\$880,178	45.2%
BAE Systems (formerly Tracor)	\$324,280	16.7%
University of Texas	\$301,396	15.5%
Advanced Prog. Concepts	\$35,016	1.8%
Systems and Processes Eng.	\$33,876	1.7%
Lockheed Martin	\$32,980	1.7%
IT Group	\$32,291	1.7%
Infoedge Technology	\$20,188	1.0%
Texas Research Int.	\$20,102	1.0%
CYCORP	\$13,136	0.7%
Austin Info Systems	\$15,579	0.8%
CACI International	\$6,752	0.3%
MCC	\$5,689	0.3%
Other	\$225,216	11.6%
<b>TOTAL</b>	<b>\$1,946,679</b>	

Courtesy Eagle Eye, Inc. in Fairfax, VA

Austin businesses shared in the largesse. Records show that between 1966 and 1978, \$1.4 billion (2001 dollars) was spent by the Department of Defense in Travis County for research and weaponry. Almost all of this money was spent on companies and institutions that were electronics-oriented.(3)

The influence of this funding has only intensified over time. It has totaled almost \$2 billion between 1997-2001, with computer-related firms or institutions receiving almost 90% of this.(4)



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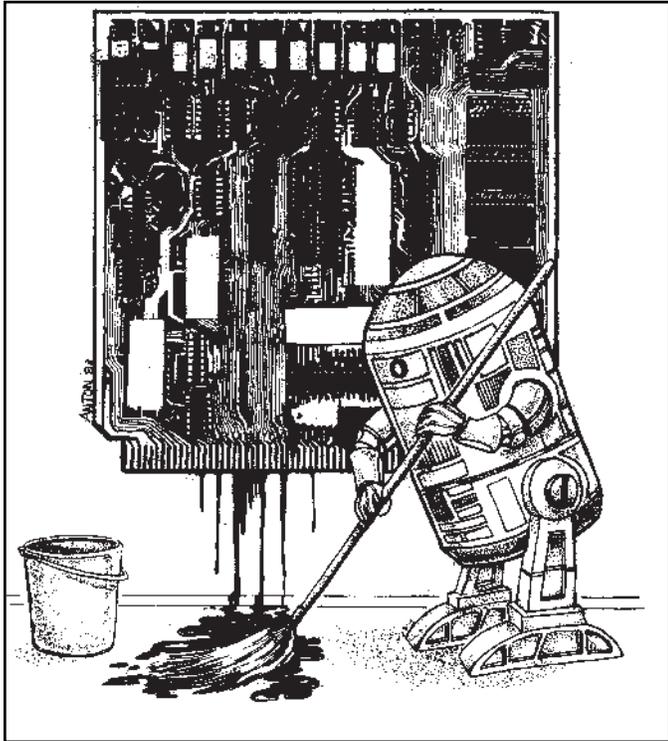


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## A Clean Industry? Welcome to Silicon Gulch



Mark Antonuccio, reprinted with permission of the *Daily Texan*

Since the beginning of Austin's industrial recruitment history, the business community has sought to recruit "non-pollutive" businesses and "clean industry." This contrasted with "smokestack industry" and often, the organized labor that came along with it. (The business community's animus toward unions was often extreme.) To this day, some in Austin's business community still state that electronics is a clean industry. The reality is that the electronics industry is heavily resource dependent, and uses some of the most dangerous chemicals known.

Electricity and Pollution - In 2001, the computer-related industries used 12% of the electricity produced by Austin's electric utility. This industrial electricity created 6,044 tons of air pollutants, 1.3 million tons of carbon dioxide greenhouse gas, and 3,200 pounds of fiendishly-toxic high level nuclear waste. Most of this came from chip makers. In past years, the largest industrial electric users were Motorola, Advanced Micro Devices, Samsung, IBM, and Sematech.(1)

A recent addition to these large electric users is Exodus Communications, the gigantic Internet "server hotel" which houses the information for thousands of Websites and broadcasts this information to the world. Server hotels can use 3-25 times the energy of a normal office building because of the server equipment and the air conditioning used to keep it cool.(2) And Austin's electric utility has made an aggressive effort to attract this kind of customer.

Excessive Water Use - In 2001, the computer industry used 8% of the City's water, and produced 11% of the City's wastewater. Again, this was predominantly microchip production.(3)

Dangerous Chemicals - The electronics industry uses some of the most poisonous chemicals known to mankind. Austin's computer industry is the main source of industrial chemicals released in Travis County. Since 1988, when these chemicals were first tracked nationally by the Toxic Release Inventory (TRI), Travis County industries have had an impressive record of emissions reductions.

But this trend is beginning to reverse itself, as emissions shot up in 2000, the most recent year this was tracked. In that year, Travis County released about 824,000 pounds of toxic chemicals (acids, solvents, dispersing agents) into the environment, about twice what it released 2 years before. Some 85% of this was from computer-related companies.(4)

Even more TRI waste is "recycled" by burning it in "energy recovery" plants, euphemisms that obscure the fact that burning these toxic chemicals creates toxic combustion fumes. About 402,000 pounds of Travis County chemicals were incinerated in 2000, though down from 569,000 pounds in 1998; almost all incinerated chemicals were from the electronics industry.(5)

In addition to *toxic* waste, chemicals can also be *hazardous* because they are flammable, explosive, or corrosive irritants to eyes, skin, and lungs. The amount of hazardous waste in Austin amounted to about 595,000 tons in 1999, up from 481,000 tons in 1997.(6)

Toxicity to Workers - Workers are at much greater risk of exposure to chemicals in the electronics industry because they are in concentrated form during the production process. Since 1978, it has been known that electronics workers carried a rate of occupational illness 3 times the norm. Symptoms such as nausea, dizziness, headaches, and respiratory inflammation are common.(7)

IBM, one of the oldest manufacturers of semiconductors, is currently being sued by 250 chip workers or their surviving families for chemically-induced cancer or birth defects in their children.(8) The most pronounced study to date of cancer related to chip making was released in late 2001. It showed increased rates of brain, breast, lung, and stomach cancer among 4,000 employees in National Semiconductor's manufacturing plant in Greenock, Scotland.(9)

The Semiconductor Industry Association, a trade group of manufacturers, has repeatedly stated its interest in worker health, but has so far refused to cooperate with proposed studies on cancer rates by both the Environmental Protection Agency and the California Dept. of Health.(10)

Toxic Garbage (11)- Where do old computers, printers, cell phones, and other electronic equipment go when they die? Computer Heaven? It is much more likely they go to a place that resembles some level in Dante's *Inferno*.

Old computers and electronic equipment waste contain a number of toxic components. CRT computer screen glass

is laced with lead; so are the solder boards in electronics circuitry. Other dangerous heavy metals include mercury, cadmium, and chromium. The casing is usually made from vinyl or ABS plastic, which are toxic in their manufacturing and disposal. This casing is also treated with poisonous bromine fire retardants.

About 86% of electronic waste (or e-waste) currently goes into landfills, where poisons associated with the waste can contaminate groundwater. Some e-waste is also burned in garbage incinerators, releasing toxic fumes such as dioxin into the air or concentrating poisons in the ash.

But a growing amount of computer e-waste (currently about 11%) is "recycled." Most recycling of U.S. e-waste (50-80%) is done overseas, where it is salvaged for resalable components. But the primitive methods used by poor, uneducated workers have created a toxic nightmare. A recent report, *Exporting Harm*, documenting hazards in such places, has focused on Guiyu, China. It has found outrageous situations.

- Wire from electronics waste is burned in open pits to reclaim the copper. The flammable vinyl plastic releases cancer-causing dioxins and furans. This toxic ash blackens roofs and soil; children play near ash heaps, and the ash runs off or leaches into nearby drinking and fishing waters.

- Toner dust from used printing cartridges is collected.

## TRAVIS AUDUBON SOCIETY

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- **Conservation and education**—through our Conservation, Education, and Bird Records committees
- **Telephone hot line**—a 24-hour information system at 926-8751, about TAS events and birds sighted in our area
- **Web page**—[www.travisaudubon.org](http://www.travisaudubon.org)
- **Christmas bird count**—open to the public

*For more information, see our listing under Environmental Groups. For a sample newsletter, call John Kelly at 331-8693.*

Workers have no protective ventilation; their clothes become saturated with the dust as the work day goes on.

- Used computer monitors are salvaged for resalable copper, with no regard for the toxic lead glass which is routinely dumped on land or in waterways.

- Computer chips, the valuable brains of the appliances, are removed by dipping circuit boards in hot lead solder until the chips are pliable enough to be removed. After the chips are removed for resale or gold reclamation, other components are hand-clipped from the board, and the discarded fiberglass panel is often burned in open fires, releasing heavy metal, dioxins, and other air pollutants.

- Gold recycling of chips takes place by saturating them in acid baths. Workers receive no protection aside from rubber gloves and boots, and the acid is dumped into surface waters when the process is complete.

- Plastic recycling is attempted, but the material is often too contaminated with other materials or different colors of plastic to reuse. The discards, often contaminated with fire retardants, are dumped in open piles or burned in open fires. Workers who remelt the plastic that can be reclaimed do so without respirators or other protection.

Similar horror stories are also told in India and Pakistan.

There are also problems with e-waste recycled domestically. In California, for instance, a planned facility using prison labor to dismantle old computer screens and TVs will be exempt from federal workplace safety regulations. And even the best state-of-the-art facilities cannot contain all the air and water emissions from recycling processes.

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## THE MAGIC RED CARPET

### *Meet Your Chamber of Commerce*

The Greater Austin Chamber of Commerce, the preeminent business organization that rolls out the red carpet of industrial recruitment, has been calling most of the shots for the last 125 years.(1) It began in 1877 as the Board of Trade, changing its name to the Chamber of Commerce in 1914. It is currently affiliated with and certified by the National Chamber of Commerce.(2)

The Chamber succeeded in having the University of Texas locate in Austin in 1881 after beating out Tyler and Waco in a 9-year effort. When UT was in danger of leaving Austin in 1921, it worked to collect options on surrounding real estate so the University could expand. It was involved in financing Austin's first hotel, in the City Plan of 1928 that segregated Austin east and west, and in forming the municipal Council-Manager form of government we are still blessed with today. It was a founder of the movement to create the Highland Lakes through a series of dams meant for flood control, electricity generation, and a steady water supply that makes the region attractive to industry and able to support so many people. It pressed for the City's acquisition of Barton Springs, which was considered a site for tourism.(3)

Since 1956, the Chamber has been responsible for most of the industrial recruitment that has taken place. Not only is the Chamber the first and most constant point of contact for most businesses that wish to locate in Austin, but the Chamber and its members make sure that the water, power, streets and highways, and other infrastructure are there to provision them.

In 2001 the Chamber was funded with about \$4 million a year. It had about 2,300 member businesses, 40 employees, and 35 committees of volunteers. It has its own internal print shop that produces as many as 100 separate pieces of work a year. Its Internet site offers daily news updates, and its members can receive its *Skyliner* electronic newsletter as well.

The Chamber works as a non-profit trade organization, and almost all its dues are tax deductible (with the exception of 6% spent on lobbying). It is only accountable to a self-perpetuating board of directors. Every year, a committee of the board, along with the Chamber's (paid) Executive Director, select a slate of rotating board members and yearly officers, which is then ratified by the full board. There is no membership ratification of this selection process. And so the leadership of what is arguably the most powerful organization in the region has no direct accountability to the public or even its own members.

In fairness, it should be said that access to these leaders and positions is not impossible. Three ranking members I interviewed have stated that if volunteers are interested and work hard, they can rise to become a board member. And the Chamber has tried harder in the last decade to

meet with some of its detractors to work together when possible.

But such customs do not compensate for democracy. And if you look at Austin's history, the public has had little say in how Austin developed economically. At best, the public has only been able to decide on how to provide infrastructure for this economic growth and how to mitigate its environmental and social consequences. And to some degree, the Chamber's openness to different points of view is limited. It is doubtful that people would be appointed to its board who had a "no-growth" mindset, no matter how hard they worked.

## Industry Recruitment

Since 1956, the Chamber has been the main point of contact for industries interested in doing business in Austin, and the main outreach arm for the business community's industrial recruitment efforts. It is nigh impossible to say just how much money has been invested in this effort. To begin with, the Chamber's budgets are considered proprietary, and what scant information that exists publicly in the yearly reports is not always well defined. Secondly, the Chamber's efforts are heavily subsidized by volunteers and indirect contributions that are not always easy to quantify. If, for example, the volunteer was a well-paid executive and donated time and travel expenses for a recruitment trip, would you consider this a monetary donation? (Such trips happened frequently.)

What is known is that for most of the 1960s and early 1970s, the Chamber spent between \$231,000 and \$328,000 per year on economic development (2001 dollars). By 1978, there were 2 dedicated staff in the Chamber's economic development program in addition to its many volunteers and administrative support. Recruitment tactics ran the gamut, from advertising in business publications and direct mail campaigns, to tours of the city for prospective businesses, to meeting likely prospects in their own cities.

Since 1991, the Chamber has conducted a fundraising effort called Advantage Austin (recently renamed New Century Initiatives), which is a special, above-dues fund for economic development, education, and member services. Budgets have ranged from about \$900,000 to \$1,400,000 per year (2001 dollars).

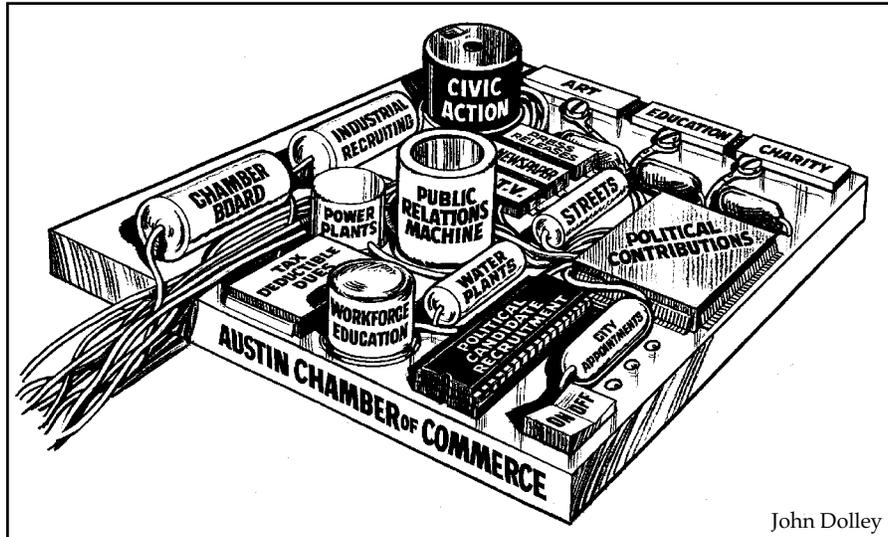
In 2001, about 1/3 of the total Chamber budget of about \$4 million was spent on economic development. In that same year, the Chamber had 5 paid staff working full time on economic development as well as funds for travel, outreach, and promotion of these activities. Its economic development effort is so sophisticated that it has a business relocation Website, a recruitment CD and video, and a trade show exhibit.

Based on this documented but limited information, the author estimates that since the early 1960s, the Chamber has spent at least \$20 million on industrial recruitment, and

probably several times this when volunteer contributions are considered. There is nothing remotely comparable to this funding for environmental business development.(4)

## Education

As far back as this author researched, the Chamber has had some hand in promoting and assisting education, both primary and secondary. Since its bid for UT in the 19th century, it has tried to act as a good corporate citizen, even if at times this was also out of self interest. The Chamber established the Partners In Education Program in 1983 to funnel contributions of volunteerism and materials to Austin area grade schools. In 2001, it channeled \$14.8 million in direct and indirect assistance.



Several of its education projects directly assisted in Austin's economic development. It supported the founding of Austin Community College some 12 years before it was created. Today ACC trains electronics workers with subsidized tuition.

One of the Chamber's primary goals is currently workforce training. The Chamber established the Capital Area Training Foundation, whose goal is to train future employees for the needs of Austin industries. The Foundation's most important program is its Industry Clusters groups, where major industries work with area high schools and Austin Community College to plan training curriculum, provide internships and scholarships, and enlist interested prospects in careers. Cluster industries include semiconductors, software, high-tech manufacturing, health care, and automobile repair.

Chamber programs include high school career fairs, and manufacturing site tours and intern placement for these students. It also provides advanced training for high school teachers in math and science. It sponsors a construction trades introduction course. The Chamber also sponsors a computer training course for people with no skills in this area, and assists these clients with job searches.

## Public Relations

One of the Chamber's jobs is to keep Austin in the news – in a positive light. Good public relations goes a long way toward luring industrial expansions and tourists. In 2001, the Chamber had at least 4 people working on PR and

media outreach.

Coverage over the years has been astounding. Two *National Geographic* articles have been written about Austin, one in 1959 when Austin was just beginning industrialization, and one in 1988 during a severe recession. Between 1989-2000 the Chamber has cited 73 positive articles in prominent newspapers, business publications, and magazines.

These major league publications included the *New York Times*, the *Wall Street Journal*, the *San Jose Mercury*, the *Washington Post*, the *L. A. Times*, *Forbes Magazine*, *Parade Magazine*, *U. S. News and World Report*, and *Business Week*.

The Chamber also promotes its local political positions and public events through numerous press releases, press conferences, ribbon cuttings, etc.

## Political Action/Infrastructure

The drive to industrialize Austin needed a vast infrastructure of roads, energy, water, and wastewater. Substantial sums of public money were required for this onerous investment, as well the political will to locate this infrastructure in sometimes unpopular places.

This was accomplished through broad-sweeping political action that cannot be overstated. Using the Chamber's access to decision makers and media, its dues-funded lobbying efforts, and its members' contributions to election campaigns, the organization won much of what it wanted.

No issue related to Austin's infrastructure or economy escaped its notice. It advocated most major highway proposals for the Austin region, including the Mopac Freeway and the Outer Loop across environmentally-sensitive watersheds, as well as an ill-fated plan for a cross-town expressway near Town Lake in 1985. It also supported light rail in the 2000 election. While its role in bringing air and train service to Austin is not nearly as colorful or politically charged as its road work, its dedication to detail has been just as precise.

The Chamber has played a key role in pressing for the tax incentives that Austin began giving to industry in the late 1980s. Major issues it has supported since 1990 include the building of Highway 130, light rail, and utility deregulation. It supported bonds for the convention center, schools, a baseball stadium, utility expansion, roads, and

other infrastructure, including the new Bergstrom International Airport. So ardent was the Chamber's drive for growth that in 1999 it took successful legal action to strike down a campaign finance law that limited the amount of money contributors could give to bond election campaigns.

Environmental issues in the 90s that the Chamber was involved with included opposition to Charter amendments guaranteeing money for environmental programs, as well as opposition to a referendum to limit development over the Edwards Aquifer. However, it did support the Balcones Habitat Preserve and bonds to buy land over the watersheds. It has been active in an air quality campaign to keep Austin in compliance with federal laws. In 2000, it supported a massive expenditure of City of Austin money to purchase future water rights from the Colorado River, guaranteeing a sufficient water supply for a doubling of Austin's population.

Since at least the 1960s, the Chamber offered political training to its members and urged participation by its membership in local elections. It urged political participation through its two publications, voter-turnout campaigns, and an organized effort to recruit Chamber volunteers to City boards and commissions.

In 1979, the Chamber began Leadership Austin. While this program has turned into an independent (non-Chamber) effort to train talented people for civic involvement, at the time of its inception it was in part a political training organization for Chamber interests. Many of the program's graduates went on to serve on appointed boards of local government and non-profits; some have been elected to public office.

Friends in High Places - One of the reasons the Chamber of Commerce has been so successful is that it plays hardball politics. Not only are some of its members major donors to political campaigns, but there are alumni of the Chamber's membership and leadership who at one time held (or hold) local or statewide positions.

Since the Chamber's effort to recruit industry began in the late 1950s, these distinguished people include: Roy Butler, City Council Member and Mayor; Lee Cooke (former City Council Member who became Mayor after having been paid President/CEO of the Chamber); Les Gage, City Council Member; Gus Garcia, City Council Member and current Mayor; Taylor Glass, City Council Member and Mayor; Travis LaRue, Mayor and Mayor Pro Tem; Bob Larson, City Council Member; Lowell Lebermann, City Council Member; Eric Mitchell, City Council Member; Lester Palmer, Mayor; Carol Rylander, Austin Mayor (before Chamber membership), and (after membership) State Railroad Commissioner and State Comptroller; and Kirk Watson, former Mayor and candidate (in 2002) for state Attorney General.

Other politically influential Chamber members include Pike Powers, former aide to Governor Mark White; Dan Davidson, the former City Manager of Austin; Gerald Hill,

former State Representative, Kirk Watson, former chair of the Democratic Party of Travis County (before Mayor and candidate), Alan Sager, a highly-placed activist in the Republican Party of Travis County; and Karl Rove, political strategist in charge of the George Bush 2000 "victory." In 1997, the Chamber Chair, Pete Winstead, was appointed by then-Governor Bush to the Texas Turnpike Authority.

Not all of these candidates were in lock step with Chamber positions; for instance, Mayor Gus Garcia has not always agreed with some of its positions. But on the whole, the influence was and is substantial.

Friends in Loud Places - All local TV stations, Austin's major newspaper, the *American Statesman*, and several of its radio stations have been prominent contributors to the Chamber, not only as members but in leadership roles. Roger Kintzel, former publisher of the *American Statesman*, served as its Chair in 1990; Dan Savage, the paper's General Manager, served as an Executive Vice President in 1992. Joe Jerkins, former General Manager of KVUE, served as its Chair in 1986, and as head of the convention center task force in 1983. Jane Wallace, former General Manager of KXAN served on its board in the early 1990s. Danny Baker, General Manager of KTBC, was on the board in 2001.

Neal Spelce, until recently anchor of KEYE, served as the Chamber's Chair in 1980; in that era he was an advertising executive whose work included political campaigns, one of which was attempting to convince Austin to support the South Texas Nuclear Plant in a 1981 election. He was and is still active in recruiting industry. He was a member of the "War Room" where city and state leaders mapped the successful recruiting strategy for MCC, and he still plays recruiting roles in a volunteer capacity.(5)

Contributions of money have been made not only to the Chamber's general operations by these media outlets, but to economic development efforts, which is a volatile political issue.

It would be ridiculous to say that the news outlets whose companies are Chamber members never wrote a critical story about Chamber policy or actions. And it is understandable why a large company would want to be a good corporate citizen and support certain things the Chamber sponsors like good schools and parks. But the appearance of conflict is apparent, and it is a brave reporter who will consistently challenge an organization whose supervisor is on its board.

## The Corporate Citizen

The Chamber of Commerce is so linked with growth and building in public perception that many people think this is its sole purpose, leading to the sarcastic nickname "the Chamber of Concrete" that some critics have given it. But the Chamber has acknowledged that Austin's quality of life is something that makes it a good place to do business. The Chamber has other projects that are totally

or relatively unrelated to economic development.

As noted earlier, the “Partners in Education” program funnels hundreds of volunteers and donations of money and supplies to improve area schools. Long-running programs operated by the Business Committee for the Arts include Arts At Work and Kids Arts Day. The Chamber contributes to park building, and was a large sponsor of the Balcones Canyonlands Preserve project, helping to pass bonds to purchase some of this land. It has an interest in enacting community strategies to reduce crime and increase affordable housing.

Following the Save Our Springs Initiative in 1992, in which the Chamber took an unpopular stand against protecting land over the Edwards Aquifer, the Chamber began outreach to environmental groups in an attempt to find compromises when possible. The Chamber played a lead role in establishing the Clean Air Force to make sure the region stays in compliance with federal air quality standards.

Every year the Chamber holds a dinner to give the Greater Austin Quality Council’s awards for the best institutions in Austin, which includes applauding not only businesses, but schools, non-profits, and government agencies for their service to Austin.

While some of these activities are fairly selfless, others have at least indirect value to promoting economic development. For instance, the Chamber’s clean air work allows the City to continue its population growth. If Austin falls out of compliance with air quality laws, the region can be subject to loss of federal highway funds. Another example is Aqua Fest, a large event that was held every year on the shores of Town Lake from 1962 through 1997. This multiday celebration included a river raft parade, music, food, and entertainment for several days and nights in August. Many people assumed this was conducted for recreation and civic pride. But it was originally conceived as a way to promote Austin’s water resources nationally to encourage industry to locate here. It dispelled the “Giant” Hollywood image of Texas desert cattle ranches.(6)

## The Wrong Side of History

For all the success the Chamber has had in economic development, its positions on how fast the development was occurring, where it was occurring, and how it was being served have often angered the majority of the public. Two of the most blatant examples of this were the City’s involvement in the South Texas Nuclear Project and development over the Edwards Aquifer.

During the early 1970s, the City of Austin wanted new electric capacity to provide for growth, and was advised by its municipal utility to participate as a partner with 3 other utilities in the South Texas Nuclear Project. This advice was protested by many people in the environmental and labor communities, but the city’s business community

stood four-square for the idea. As the plant was built, it accumulated huge cost overruns (ultimately rising 460% above estimated cost), was delayed 8 years in completion, and was poorly managed for the first several years of operation.

The political fabric of Austin was rent by this issue, as the Chamber continued to back the plant amidst the back-drop of mounting costs and environmental threats. Austin held 6 elections on participation or withdrawal of participation between 1972 and 1981. And though the City ultimately decided to withdraw, it did so too late. By the 1980s the costs were so high that the other partners in the project would not buy its share. The Chamber lost a lot of its credibility in this era. Despite several lawsuits filed by the City, it remains a captive partner in this project, which is the City’s most expensive source of power.

During this same time period, Austin’s growth began expanding to the west into sensitive watersheds of Barton Creek and the Highland Lakes. Environmentalists and average citizens alike were concerned with growth-related water pollution from urban runoff and factories. During the decades of the 1970s and 80s, numerous regulations were proposed to limit the density of development, with the Chamber usually opposed to limitations on growth.

The showdown came during the 1992 election for stricter development limits over the Edwards Aquifer, the “Save Our Springs” initiative. This was placed on the ballot through a grassroots signature campaign conducted in defiance of a then-hostile City Council. The Chamber stayed true to its anti-regulatory bias, but it was greatly out of step with the majority of Austinites who felt the Aquifer was threatened. It was only after this resounding defeat that the Chamber began to look for a compromise with environmentalists.

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## Incentives

1 Total 2001 dollar figure for Travis County tax incentives divided by estimated number of households for 2001; households extrapolated from population estimate given by Ryan Robinson, City of Austin Demographer, in telephone conversation September 26, 2002, and data from 2000 U. S. Census.

2 Travis County Tax records from 1963 - 1975. Number of Households for 1976 from Special Census of 1975.

3 Tax Abatement values from Mark Price, Director of Personal Property, Travis County Appraisal District, in letter dated February 9, 2001. 2001 figures from phone interview with Mark Price on March 6, 2002. Values were multiplied by applicable tax rates and adjusted for inflation.

4 Information from telephone conversation with Dennis Hart, Research Analyst, Texas Comptroller's of Public Accounts on September 24, 2002.

5 Freeport Tax exemptions from Travis County Appraisal District, August 9, 2001. Data for 2001 predicted on year 2000 property values; all other years are actual property values. Provided courtesy of City of Austin Mayor Pro-Tem Jackie Goodman.

6 Adjustments made by comparing Freeport incentive

with total City of Austin and Travis County Tax collections from 1990-2001. City of Austin figures from computer run on August 31, 2001 by Travis County Office of Tax Collector; Travis County figures from Valerie Spinelli, Planning and Budget Analyst, Travis County Planning and Budget Office, October 8, 2002.

7 Scheibal, Stephen "Austin council agrees to reclaim CSC block," *Austin American-Statesman*, January 18, 2002, p. A1.

8 Based on information provided by Nathan Schneider, CSC Project Officer, City of Austin Economic Growth and Redevelopment Services Office on April 23, 2001.

9 Estimates of taxes avoided through the Travis County Development Authority calculated from March 4, 2002 data obtained courtesy of Travis County Commissioner Karen Sonleitner. The information originated at Sematech. The \$13.1 million in avoided taxes is based on "net book value." Sematech has also given numbers for "estimated appraised value" that are much lower, and would avoid taxes of only \$6.2 million. The *Directory* chose the higher figure because this is the truer measure of worth, but the readers may choose for themselves.

10 State terms in "Memorandum of Lease," dated May 5, 1989. County terms related by Harvey Davis, Manager of Travis County Corporations, who oversees the lease for Travis County Development Authority.

11 Telephone Conversation with Sue Edwards, Director, City of Austin Economic Growth and Redevelopment Services Office on August 14, 2001: 20% of the department's budget goes to fund electronics-related economic development.

12 City of Austin contribution calculated from memos by Barbara Nickle, Controller, City of Austin Financial Services Dept. on October 8 and 19, 2001, and City of Austin Ordinance No. 881103-H, passed November 3, 1988. County contribution from Brooks, A. Phillips, "County approves \$70,000 for Technology Incubator," *Austin American-Statesman*, Austin, TX, September 6, 1990, p. B3.

13 Exhibit A of lease agreement between Chamber and City of Austin dated March 26, 1958. This agreement was technically for 0.99 of an acre, where the building actually stood. But the surrounding area of about 1.5 acres was used as parking and grounds by the occupants of the building.

14 Appraised values for comparable tracts from Travis County Appraisal District for tax year 2001. Tracts include Hooters (\$661,000/acre), Run-Tex (\$871,000/acre), Lakeshore Towers (\$654,000/acre), and Hyatt Regency Hotel (\$1.1 million/acre).

15 Public information response from Austin Energy, October 8, 2001.

16 Austin Community College budgets from 1987 - 2002.

17 Computer Studies Advisory Committee from public information response by Ed Osborne on October 2, 2001.

Chip manufacturing members from Mahoney, Jerry, "Chip-making job, anyone?" *Austin American-Statesman*, Austin, TX, April 6, 2001, p. D1.

18 MCC: Cost of construction of this building is estimated at \$21.6 million from Sullivan, Kathleen, "Fund drive for MCC lacks cash," *Austin American-Statesman*, Austin, TX, December 11, 1986, p. K1. There were at least \$20 million in private sector incentives pledged for various MCC incentives, documented in memo to Governor Mark White from Jon Newton of the Board of Regents of the University of Texas System, April 26, 1983. But not all pledges were honored. At most, \$10.8 million was available to defray building costs, as documented in Gibson, David, and Everett Rogers, *R & D Collaboration on Trial*. Boston, MA: Harvard Business School Press, 1994, pp. 148-155.

Considering the above, about \$10.8 million in state funding was used to construct MCC's headquarters. Since the University of Texas paid for this cost in a relatively short period of time, an estimate of the annual carrying cost of a building mortgage was derived by using a proxy value for interest costs, equal to 9.75% interest for 25 years. This figure was provided by Chris Allen, Senior Managing Consultant for Public Financial Management in Austin, TX, in a telephone conversation on May 31, 2001. This rate was typical for General Obligation AA bonds in 1984 for a 20 to 30 year life.

Since MCC did not always occupy 100% of the building, the cost (or subsidy) was adjusted annually to account for this. Numbers to calculate the percentage occupied are provided in letter dated May 3, 2001 from Patricia Muniz-Chapa, Public Information Coordinator with the University of Texas System.

In addition, \$5 million (\$8.1 million in 2001 dollars) was used by the state to buy MCC equipment. There was also \$18.5 million from the state for research, faculty endowments, and other indirect subsidies. But these are excluded from this analysis because their benefits are hard to confine to MCC alone.

Sematech: Cost of construction of this building is estimated at \$50 million from January 27, 1988 memo to William Cunningham, President of the University of Texas at Austin.

The same methodology was applied using a proxy

value equal to 7.5% interest for 25 years. This rate was typical for General Obligation AA bonds in 1988 for a 20 to 30 year life. The source above also related this rate.

There was also \$6.5 million contributed by the state for research and computer time, but this money was excluded from this analysis because they were in-kind contributions and harder to document.

19 Building square footage estimates for use from telephone conversation with Joel Wiggins, Director, Austin Technology Incubator, on March 5, 2001.

20 Data for Pflugerville Independent School District for fiscal years 2000 and 2001. Provided by Gerrell Moore, Chief Financial Officer for District. Information dated Sept. 20, 2001.

Data for Manor School District for fiscal years 1999, 2000, and 2001 provided by Willi Dion, Business Manager for District. Information dated June 9, 1999, Sept. 25, 2000 and August 23, 2001.

21 Funding for years 1988 - 1994 from Gibson, David, and Everett Rogers, op. cit. (footnote 18), pp. 502-3. Funding for 1995-96 from *Austin American-Statesman*, "Texas Digest," Austin, TX, July 2, 1994, p. E1, and Harlan, Christi, "Budget grants full amount of Sematech aid," *Austin American-Statesman*, Austin, TX, April 26, 1996.

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records contained in the Military Prime Contract Files and the Defense Contract Action Data System.

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### **The Magic Red Carpet**

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