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DIGITAL DIVIDE 6/2000 [1]

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Digital Divide

6/00 -



Office of Tax Policy
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

| TO: | | FROM: | |
|-------|----------------------------|-------|-------------------|
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ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON

September 14, 2000

Digital Divide
File

MEMORANDUM FOR GENE SPERLING
TOM KALIL

FROM: JONATHAN TALISMAN
ACTING ASSISTANT SECRETARY (TAX POLICY)

SUBJECT: Possible "Digital Divide" Tax Incentives

The following summarizes our views on the "digital divide" tax proposals that you asked us to review in your prior memo. I apologize for the delay in responding to your request.

- (1) Corporate donations of computers – expansion of Administration proposal.—We support a temporary extension and expansion of current-law section 170(e)(6), as proposed in the President's FY 2001 budget, through June 30, 2004 (when the R&E credit is scheduled to expire). Even so, we oppose the New Millennium Classroom Act (H.R. 2308 and S. 542) as introduced. However, there are some features of the congressional proposals that we could support building into the President's proposals. As part of a temporary extension of section 170(e)(6), we could support the following proposals:
- (a) providing that the enhanced deduction under section 170(e)(6) could be claimed for computers that are up to three years old (starting from the date of manufacture or acquisition by the taxpayer, but not allowing the "clock to be restarted" by re-acquisition of a computer by the donor), provided that – as proposed by NEA – the donated computers meet the minimum standards prescribed by Treasury, which would reflect the mid-point performance standard of industry sales for three-year-old computers);
 - (b) allowing the enhanced deduction under section 170(e)(6) to be claimed by a corporate donor which re-acquires a computer which it previously sold to a customer (i.e., in the case of a re-acquisition, the original use of the donated computer need not be by the donor or the donee), provided that the computer is not more than three years old on the date of donation;
 - (c) expanding eligible donors under sections 170(e)(3), (e)(4), and (e)(6) to include all taxpayers (not merely C corps as under current law), but limit the enhanced deduction to 10% of business income (consistent with the current-law rule for C corps);
 - (d) expanding the class of eligible donees under section 170(e)(6) to include not only public libraries and community technology centers located in low-income communities (as under the President's FY 2001 budget) but also any charity, no matter where located, that is organized and operated primarily for purposes of

providing computers without charge to lower-income families (as proposed by Mr. Jefferson in H.R. 4061); and

- (e) clarifying that, in cases where a business taxpayer's adjusted basis in property of any kind (not merely computers) exceeds the property's fair market value, the taxpayer may abandon the property for purposes of section 165 (and thereby claim an abandonment loss equal to the property's adjusted basis) by giving the property to charity. In some cases, current law is not clear whether a business taxpayer is entitled to claim a higher deduction by throwing away used property than by donating it to charity.

We do not support the proposals to increase the amount of the enhanced deduction allowed under section 170(e)(6) or to allow taxpayers to claim a credit in lieu of an enhanced deduction. It would set a bad precedent to allow taxpayers to claim a charitable contribution deduction for unrecognized, built-in ordinary income beyond that allowed by the current-law rules. Moreover, although we have examined a proposal to repeal the "twice basis" limitation of section 170(e)(6), we understand that this limitation rarely comes into play with donations of computers (most of which have a high basis relative to the property's fair market value).

- (2) Workplace literacy and computer training tax credit—expansion of Administration proposal.—We continue to oppose the congressional "IT Training Credit" proposal from last year (which would provide a credit for virtually all employer-provided technology training expenses that would be incurred in any event). However, we support expansion of the Administration's proposed 20% workplace literacy and technology training credit, so that the credit would be available not only for training expenses incurred for employees who lack a high school degree — as originally proposed — but also for training of employees who are (or had been during the last five years) eligible employees for purposes of the work opportunity tax credit or the welfare-to-work credit. We do not, however, think it is appropriate to provide a special credit for technology training provided to all low-wage employees, because defining "low-wage employees" in a way that the IRS could enforce would be very difficult, especially in the case of part-time workers.

You suggest clarifying the Administration's proposal so that it includes not only basic computer skills but "the kind of skills identified in the Conrad [IT Training] bill." We believe that all computer skills training for eligible employees generally would be covered by the Administration's proposal, provided that computer skills instruction is of "broad applicability." We could, however, modify the Administration's proposal so that, as long as the computer training is provided to an eligible employee and the training is of broad applicability (as opposed to being for a particular vendor's product), there would be no need to inquire as to whether the computer training was for "basic, entry-level computer skills" or for more advanced computer skills.

- (3) Credit for sponsorship of qualified zone academies and technology centers.—The current Administration proposal provides for an allocated credit, which would be allocated for each designated empowerment zone and enterprise community by the local governmental agency

with responsibility for implementing the strategic plan that the area was required to agree to as part of the empowerment zone (or enterprise community) designation process. If we wanted this proposed credit also to be available for sponsorship of public schools or technology centers outside of designated empowerment zones or enterprise communities, we could also authorize the State's department of education (or any other agency designated by each State's governor) to make allocations of credits for up to \$X of sponsorship payments to any K-12 public school or nonprofit community technology center located anywhere in the State (or perhaps anywhere in the State outside of an empowerment zone or enterprise community, which would continue to receive a separate credit allocation).

If a separate State-wide allocation were to be provided for, we would have to decide whether the State-wide allocation should vary based on each State's total population (or their respective populations below the poverty line, as with the current-law QZAB allocation regime, see sec. 1397E(e)(2)), and whether any adjustment should be made based on the number of designated empowerment zones or enterprise communities in each State.

With respect to this particular expansion of the Administration's proposal, we recently spoke to staff of Mr. Rangel, who was the original sponsor of this proposal. Mr. Rangel's staff suggested that a statewide allocation be limited so that it could be used only for corporate sponsorship of public schools that are eligible for QZABs (i.e., at least 35 percent of students are eligible for subsidized lunches). Mr. Rangel's office is concerned that, if there is a limited amount of corporate sponsorship money available, an expansion of the proposal to all public schools could decrease the likelihood that needier schools will receive corporate sponsorship payments. In addition, we may need to consider whether the proposal should be expanded to the so-called "Renewal Communities," which are to be designated under the New Markets agreement reached by the President and Speaker Hastert.

Employer-provided computers and internet access.—We are concerned about the precedent of providing tax-free treatment for employer provided computers, as proposed by the Digital Divide Access to Technology Act of 2000 (H.R. 4274), which was introduced by Jerry Weller and John Lewis on April 13, 2000. There would be more than incidental personal benefits for many employees, as well as their family members, under such an employer-provided program, yet (as discussed further below) there are no efficiency gains that could justify a tax preference for consumption of goods such as computers through an employer-based system.

Although there is some uncertainty regarding the tax treatment under current-law rules of employer-provided computers and internet access in certain situations, a preliminary estimate by Joint Committee is that H.R. 4274 would cost approximately \$1.5 billion over the five-year budget window, which exceeds the cost of the Administration's entire "digital divide" package in its FY 2001 budget.

H.R. 4274 would provide tax-free treatment for employer-provided computers (with certain dollar caps) and internet access (without any dollar cap) for use by an employee and anyone else who resides in the employee's home. Proponents of the bill argue that it would simplify tax administration, by eliminating the necessity under current law to determine on an

employee-by-employee basis whether an employer-provided computer and/or internet access is a non-taxable fringe benefit because it is sufficiently related to each employee's current job position. (This current-law test is most easily met by professionals, who also tend to have higher incomes.) Moreover, proponents argue that the proposal could be viewed as an expansion of section 127 to promote computer literacy. Currently, section 127 allows employers to provide tax-free educational assistance (including payments for tuition, equipment, and supplies) to their employees, but section 127 does not apply to "tools and supplies which may be retained by the employee after completion of a course of instruction."

However, in the case of employer-provided computers, there may not be any formal course of instruction for the employee, even though the item being provided by the employer has obvious personal/recreational uses. For example, Ford Motor Company plans on allowing all 350,000 of its employees to lease a home computer from Ford (and be provided internet access at home) for \$5 per month, without regard to the whether the employee already is computer literate or whether he/she uses the computer solely for personal reasons or as part of a structured educational program. Industry representatives claim that there would be efficiency gains because rank-and-file workers will be using computerized equipment more and more over time, so using a computer at home would improve their skills at work. But there is no evidence that employees will acquire significant job skills from having a computer and internet access at home. Indeed, there is no guarantee that employees (as opposed to others in the household) will even use their home computers. Ford says that their unions have rejected any requirement that employees use their home computers for any work-related purposes, such as reading email messages. Thus, there is no evidence for an efficiency gain from mere access to home computers or the internet that could justify a tax preference, in contrast to other employer-provided fringe benefits such as health insurance or retirement benefits.

Putting aside for the moment the general issue of whether we support H.R. 4274, your memo suggests modifications to the introduced bill. Specifically, you suggest that H.R. 4274 be modified to explicitly include employer-provided broadband Internet access and that the tax-free treatment under the bill be increased from \$35 to \$60 per month to cover both broadband Internet access plus computer rental. We do not think that these suggested modifications to H.R. 4274 are necessary. First, the introduced bill already covers employer-provided Internet access, regardless of whether such access is "broadband" or not, so long as the Internet access is "made available to substantially all employees of the employer on substantially the same basis" (other than part-time or seasonal employees or those who work outside the U.S.). Second, the \$35 per-month cap contained in the introduced bill does not apply to Internet access of any kind, but rather applies only to the rental value of the computer itself when ownership is not transferred to the employee. (Under the introduced bill, when ownership of the computer is transferred to the employee, the exclusion per employee is limited to an aggregate amount of \$1,260 every three years.) The introduced bill contains no dollar cap on the value of employer-provided Internet access, so there is no need to take into account that broadband internet access is more expensive.

You also suggest that H.R. 4274 be modified to cover arrangements under which an employer leases a computer (which is then loaned to an employee) rather than transferring

ownership of the computer to the employee. Again, such a modification is not necessary, because the introduced bill already provides for such arrangements.

- (5) Computer purchases by EITC recipients.—We oppose Rep. Jefferson's proposal (which is part of H.R. 4061) to allow individuals who are eligible to claim the EITC for a taxable year to also claim a \$500 refundable tax credit for 50-percent of the costs they incur to purchase computer equipment or software capable of providing Internet access. Although narrowly targeted in terms of the taxpayers eligible to claim the new credit, the proposal would raise serious policy and administrative concerns. First, the proposed tax credit would be of little help to the lowest income households, because the refundable credit would not be received until after a tax return is filed after the year in which the computer must be purchased. Second, it would be difficult for the IRS to verify whether a taxpayer's claim of the credit is valid, without imposing significant reporting burdens on businesses that sell computers and software. Further, even if an information reporting system were established, it would be difficult for the IRS to ensure that qualifying individuals did not use the credit to purchase computers that they would then sell to non-qualifying persons. Finally, under the introduced bill, taxpayers could repeatedly claim a credit year after year (e.g., by claiming to purchase a computer one year, a new printer the next, and then software or an equipment upgrade after that). In view of these problems, Treasury believes that a better approach is to expand the EITC as proposed in the President's FY 2001 budget, which would provide low-income working families with additional resources (through advance payments made by the employer) that could be used not only for computers, but also other educational expenses, or other essentials, such as housing and child care.
- (6) Broadband access.—We generally oppose the broadband investment tax credit proposals (both S. 2321 and the draft Moynihan proposal). These proposals would provide a tax credit for investment in broadband equipment, both to serve certain under-served geographic areas and to provide an incentive for investment in more advanced broadband technology regardless of the geographic areas to be served. As discussed in a more detailed memo previously sent to you, we do not think that it is appropriate to provide a preference for one type of Internet technology over other technologies. Moreover, the proposals would raise difficult administrative problems in trying to determine what portion of investment actually provides Internet access to persons residing in poor urban or rural areas, as opposed to the equipment, although located in a targeted geographic area, providing access to persons to located outside the targeted area. Moreover, the proposal would not help with the more fundamental problem that many persons located in poor urban and rural areas cannot afford Internet access.
- (7) Teacher training.—We oppose legislation (H.R. 1075) that would increase the current-law Lifetime Learning credit rate to 50 percent, but only for elementary and secondary school teachers who incur out-of-pocket expenses to enroll in courses in which they receive "instruction on basic or advanced computer functions or computer software (including educational software offered by a single institution) approved for such individual by such local educational agency," provided that such the expenses are incurred "for the purposes of integrating materials covered by such course into the courses taught in the elementary or secondary classroom." This proposal would further complicate the already complex Hope

and Lifetime Learning credits, and would raise definitional issues and compliance problems in attempting to verify whether the technology training from a particular course was intended to be integrated into the teacher's curriculum. Under current law, expenses incurred for technology training at a post-secondary institution are eligible for the Lifetime Learning credit, which the Administration proposes to increase to 28% for all students and courses.

We also oppose H.R. 1076, which would allow elementary and secondary school teachers to claim a 100% credit (up to \$2,000 lifetime cap) for costs incurred to purchase a computer, related peripheral equipment, or software (other than software primarily used for entertainment). This proposal raises numerous compliance problems.

cc: kalil
Dig. Divide

Congress of the United States
House of Representatives
Washington, DC 20515-0701

AM/TAD
Caucus 2
write/call back
with results
Yes
10/28/00

October 24, 2000

The Honorable Gene Sperling
Assistant to the President for Economic Policy
The White House
1600 Pennsylvania Ave., NW
Washington, D.C. 20500

Dear Mr. Sperling:



As a follow-up to our meeting of October 11, 2000, where we discussed the Digital Divide and possibilities for joint Executive-Congressional cooperation as the budget endgame unfolds, I am enclosing letters sent to the Congressional leadership on behalf of our Digital Divide working group.

As I am sure you will recall, at the meeting we discussed the need to fund Community Technology Centers Program and the Technology Opportunities Program in the Commerce, Justice, State Appropriations bill. Subsequently, the members of our Digital Divide working group wrote a letter to the Congressional Leadership asking them to fund these programs at the level requested by the Administration.

In the coming weeks, the Members of the working group will be focusing on the formation of an official caucus and on the development of a legislative action plan for the 107th Congress. We hope to identify areas where this group can work closely with the Administration to ensure and enhance President Clinton's legacy in this area.

I look forward to working together in the coming months to further this agenda.

Sincerely yours,



JOHN B. LARSON
Member of Congress

Congress of the United States

Washington, DC 20515

October 18, 2000

The Honorable C.W. Bill Young, Chairman
Appropriations Committee
2407 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Young:


We are writing to seek your support for the inclusion of \$100 million for the Community Technology Centers and \$45 million for the Technology Opportunities Program in the Commerce, Justice, State, and Judiciary Appropriations Conference Report for Fiscal Year 2001. As you know, the goal of these initiatives is to help close the "digital divide" by providing computers and Information Age tools to children and adults that are not able to afford them at home.


The Community Technology Centers will help empower hundreds of thousands of low-income children and adults in a variety of ways. Children will be able to improve their performance in school by having access to high-quality educational software after school and prepare for the high-tech workplace of the 21st century by getting certified with an information technology skill. Adults will be able to use computers and the Internet to take a self-paced adult literacy course, get access to America's Job Bank to see what jobs are available, learn to type up a resume and cover letter using word processing software, learn to start up their own "micro-enterprise" or Web-based business, or acquire new training. A study sponsored by the National Science Foundation confirms that Community Technology Centers are helping to bridge the digital divide. Of the users surveyed, 62 percent had incomes of less than \$15,000, 65 percent took computer classes to improve their job skills, and 41 percent got homework help or tutoring at the center.

The Department of Commerce's highly-successful Technology Opportunities Program (TOP) encourages innovative applications of information technology that help empower low-income communities through public health information systems that raise childhood immunization rates in inner-cities, tele-mentoring for at-risk youth, and electronic networks that strengthen local communities by fostering communication and collaboration.

Again, we ask you to fully fund these critical programs which will enhance access to computers and the Internet and the ability to effectively use the technology which is becoming increasingly important for full participation in America's economic, political and social life. We thank you for your consideration of this request.

Sincerely,



John B. Larson, M.C.

Juanita Millender-McDonald, M.C.

Ed Markey

Edward J. Markey, M.C.

Silvestre Reyes

Silvestre Reyes, M.C.

Major Owens

Major Owens, M.C.

Max A. Sandlin

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Calvin Dooley

Calvin Dooley, M.C.

Eddie Bernice Johnson

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Ron Kind

Ron J. Kind, M.C.

Harold E. Ford Jr.

Harold E. Ford Jr., M.C.

Rubén E. Hinojosa

Rubén E. Hinojosa, M.C.

Congress of the United States

Washington, DC 20515

October 19, 2000

The Honorable Richard A. Gephardt, Minority Leader
U.S. House of Representatives
H-204 Capitol
Washington, D.C. 20515

Dear Leader Gephardt:

We are writing to seek your support for the inclusion of \$100 million for the Community Technology Centers and \$45 million for the Technology Opportunities Program in the Commerce, Justice, State, and Judiciary Appropriations Conference Report for Fiscal Year 2001. As you know, the goal of these initiatives is to help close the "digital divide" by providing computers and Information Age tools to children and adults that are not able to afford them at home.

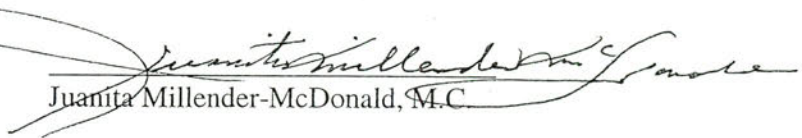
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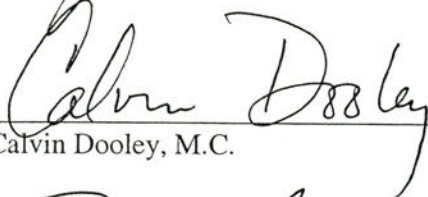
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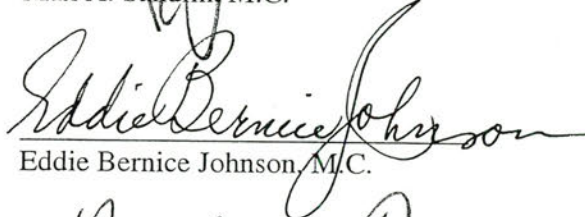
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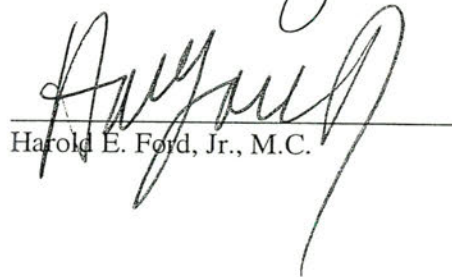
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Ron J. Kind, M.C.



Harold E. Ford, Jr., M.C.



Rubén E. Hinojosa, M.C.

Congress of the United States

Washington, DC 20515

October 19, 2000

The Honorable David R. Obey, Ranking Member
Appropriations Committee
2314Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Obey:

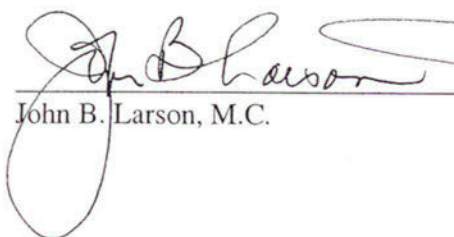
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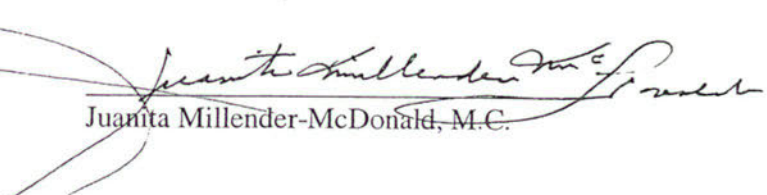
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Congress of the United States

Washington, DC 20515

October 18, 2000

The Honorable Harold Rogers, Chairman
Commerce, Justice, State, and Judiciary Appropriations Subcommittee
2470 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Rogers:


We are writing to seek your support for the inclusion of \$100 million for the Community Technology Centers and \$45 million for the Technology Opportunities Program in the Commerce, Justice, State, and Judiciary Appropriations Conference Report for Fiscal Year 2001. As you know, the goal of these initiatives is to help close the "digital divide" by providing computers and Information Age tools to children and adults that are not able to afford them at home.

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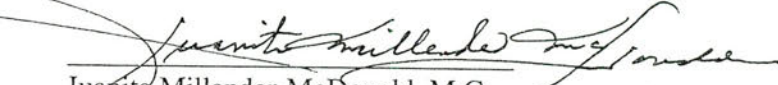
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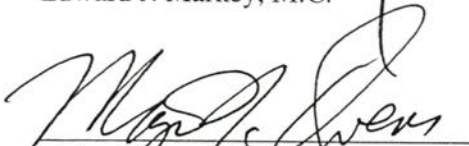
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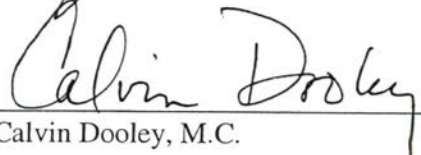
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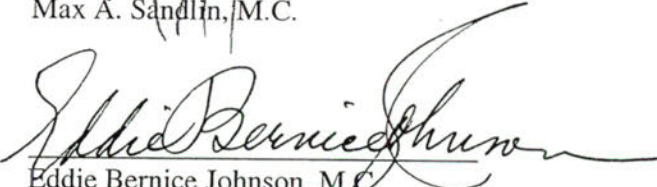

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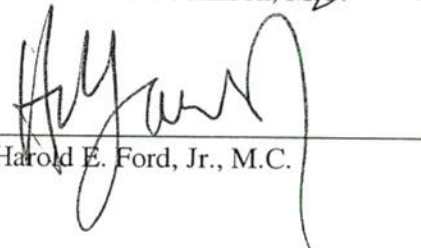

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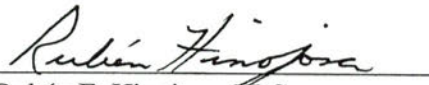

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Harold E. Ford, Jr., M.C.


Rubén E. Hinojosa, M.C.

Congress of the United States

Washington, DC 20515

October 19, 2000

The Honorable Jose Serrano, Ranking Member
Commerce, Justice, State, and Judiciary Appropriations Subcommittee
2342 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Serrano:

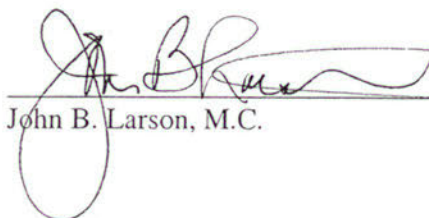
We are writing to seek your support for the inclusion of \$100 million for the Community Technology Centers and \$45 million for the Technology Opportunities Program in the Commerce, Justice, State, and Judiciary Appropriations Conference Report for Fiscal Year 2001. As you know, the goal of these initiatives is to help close the "digital divide" by providing computers and Information Age tools to children and adults that are not able to afford them at home.

The Community Technology Centers will help empower hundreds of thousands of low-income children and adults in a variety of ways. Children will be able to improve their performance in school by having access to high-quality educational software after school and prepare for the high-tech workplace of the 21st century by getting certified with an information technology skill. Adults will be able to use computers and the Internet to take a self-paced adult literacy course, get access to America's Job Bank to see what jobs are available, learn to type up a resume and cover letter using word processing software, learn to start up their own "micro-enterprise" or Web-based business, or acquire new training. A study sponsored by the National Science Foundation confirms that Community Technology Centers are helping to bridge the digital divide. Of the users surveyed, 62 percent had incomes of less than \$15,000, 65 percent took computer classes to improve their job skills, and 41 percent got homework help or tutoring at the center.

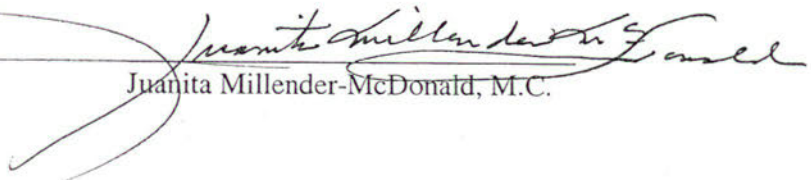
The Department of Commerce's highly-successful Technology Opportunities Program (TOP) encourages innovative applications of information technology that help empower low-income communities through public health information systems that raise childhood immunization rates in inner-cities, tele-mentoring for at-risk youth, and electronic networks that strengthen local communities by fostering communication and collaboration.

Again, we ask you to fully fund these critical programs which will enhance access to computers and the Internet and the ability to effectively use the technology which is becoming increasingly important for full participation in America's economic, political and social life. We thank you for your consideration of this request.

Sincerely,



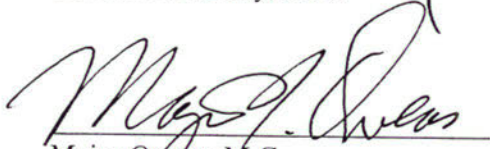
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Juanita Millender-McDonald, M.C.

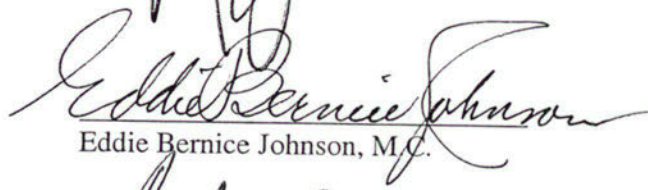

Edward J. Markey, M.C.


Silvestre Reyes, M.C.

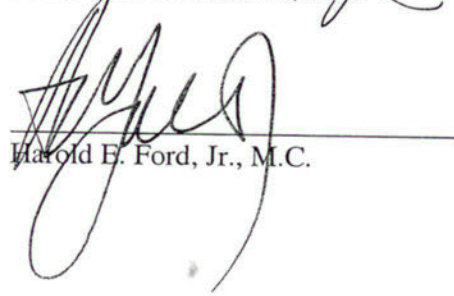

Major Owens, M.C.


Max A. Sandlin, M.C.


Calvin Dooley, M.C.


Eddie Bernice Johnson, M.C.


Ron J. Kind, M.C.


Harold E. Ford, Jr., M.C.


Rubén E. Hinojosa, M.C.

Congress of the United States

Washington, DC 20515

October 19, 2000

The Honorable J. Dennis Hastert, Speaker
U.S. House of Representatives
H-232 U.S. Capitol
Washington, D.C. 20515

Dear Mr. Speaker:

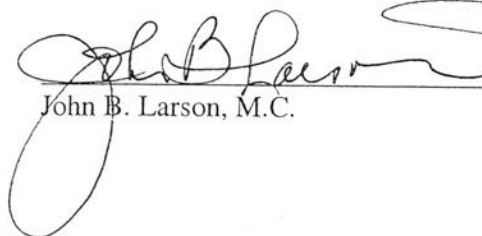
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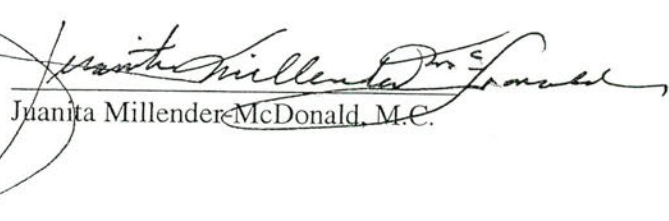
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Sincerely,



John B. Larson, M.C.



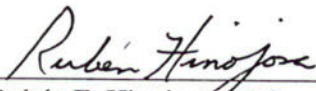
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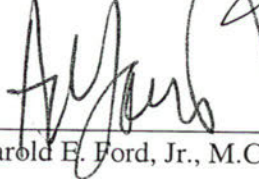

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DIGITAL DIVIDE

August 2, 2000

MEMORANDUM FOR GENE SPERLING

FROM: TOM KALIL

RE: NEXT STEPS ON DIGITAL DIVIDE APPROPS

Summary: This is my list of things that need to get done in August and September, and who is likely to be willing to help us. My bottom line assessment is that:

- It should be relatively easy to get most or all of our \$100 million for community technology centers (at \$53 million in prelim. conference agreement) and our \$150 million for teacher training (at \$125 in conference agreement).
- We will have to work hard on the Commerce initiatives (\$45 million for Technology Opportunities Program, \$50 million for home access) because we do not have a lot of support on CJS.
- We could get something on the tax side (depending on what happens on taxes overall, obviously). Treasury prepared a memo 3 weeks ago, but they refuse to send it over because Talisman has not signed off on it.

To Do List

1. **Complete policy process on digital divide tax incentives**

- Sperling to call Talisman on Treasury memo.
- Kalil/Furman meeting with Treasury staff.
- Follow-up meeting to make final decisions.

2. **Build support for Commerce digital divide programs**

- Sperling to call Mikulski (Kalil already drafted letter on July 14th)
- Dear Colleague letter from New Dems, Hispanic Caucus, Black Caucus) - Cassandra to help coordinate?
- Mineta to call Hollings (needs to make a personal pitch).
- Someone to call Gephardt and Daschle - Kalil to contact at staff level.

DIGITAL DIVIDE

| | <u>2000 Enacted</u> | <u>Request</u> | <u>House</u> | <u>Senate</u> | <u>Possible Conference</u> |
|---|---------------------|----------------|--------------|---------------|----------------------------|
| Technology Opportunities Program | \$15 | \$45 | \$15.5 | \$15.5 | |
| Home Access | \$0 | \$50 | \$0 | \$0 | |
| Broadband | \$0 | \$23 | \$0 | \$0 | |
| Preparing Tomorrow's Teachers to Use Technology | \$75 | \$150 | \$85 | \$125 | \$125 |
| Community Technology Centers | \$32.5 | \$100 | \$32.5 | \$65 | \$53 |
| Technology Literacy Challenge Fund | \$425 | \$450 | \$517 | \$425 | \$475 |
| Next Generation Technology | \$0 | \$170 | \$243* | \$143 | \$241** |
| NIDRR -- Disabilities technology | \$86 | \$100 | \$86 | \$95 | \$100 |
| Assistive Tech | \$34 | \$41 | \$34 | \$41 | ? |

*Inc. funds for innovation challenge grants, Star Schools, and ear-marked projects.

**Don't know status of earmarks - need to have \$30 million un-ear-marked.

- Kerrey has always been supportive on Technology Opportunities Program -- ??? to contact.

3. Floor strategy for CJS

- Boxer has expressed an interest in doing an amendment to boost "digital divide" in CJS.
- **Question is whether we want to work with her on identifying "pay fors."**

4. Labor/HHS

- Not clear to me what we need to do other than stick to our guns.
- We do have some problems with earmarks crowding out the money for being able to have a new competition on LAAP and Technology Innovation Challenge Grants.

5. Outside support

- Silicon Valley execs have sent letter supporting home access.
- OMB Watch has put together a coalition of non-profits supporting the Community Technology Centers.
- LCCR is making our entire digital divide package one of their legislative priorities, willing to work with us in August and September.

6. Events

- Mineta and Riley may be willing to do events either outside of Washington or rally on Capitol steps with civil rights leaders, members of Congress.
- September 21st digital divide event on disabilities.

1155 21ST STREET, N.W., SUITE 300
WASHINGTON, D.C. 20036
October 17, 2000

cc: Kalil
Dig Divide alleg

✓ GS
10/28/00

Mr. Gene Sperling
Assistant to the President
& Director of the National Economic Council
The White House
Washington, DC 20500

RE: THE DIGITAL DIVIDE AND THE NEW MILLENNIUM CLASSROOMS ACT

Dear Mr. Sperling:

In the remaining days of the Congressional session, the Administration can lead the fight against the "digital divide" by working with Congress to pass the New Millennium Classrooms Act (S. 542/H.R. 2308). This legislation would positively affect children across the country by redirecting high quality technology such as Pentium I & II computers to our neediest schools and libraries, particularly those located in economically disadvantaged areas such as empowerment zones and enterprise communities. Additionally, by putting newer Pentium I & II computers in classrooms, we can create a critical secondary use for the older computers. The hardware from these computers can be used in school labs to train future IT workers how to repair, install, and maintain computer networks.

Just this week, the Department of Commerce issued *Falling Through the Net: Toward Digital Inclusion*, an update on American's access to technology. The Report confirms that although great strides have been made in increasing the access of American's to technology and the Internet, the digital divide remains in full force, particularly with regard to the computer ownership and Internet access of minorities and those with lower incomes. The report further points out that public access points such as schools and libraries continue to serve those without access at home. The New Millennium Classrooms Act directly addresses this by facilitating the donation of computers to schools and libraries, particularly those in lower income areas. The bill helps ensure that economically disadvantaged children have access to computers and can begin their academic lives without being disenfranchised from technology.

Specifically the New Millennium Classrooms Act would provide companies with an enhanced tax incentive for the donation of computer technology and peripheral equipment to schools located within designated empowerment zones, enterprise communities, and Indian reservations. It would further expand upon current law by allowing original equipment manufacturers donating reacquired computer equipment to qualify for the tax incentive. It would also increase the allowable age of a qualified computer donation from two years to three. The New Millennium Classrooms Act amends an existing provision of law that expires this year. The changes are needed to increase the donor base of companies able to donate high-quality computers.

The bipartisan bill has passed the Senate by a vote of 96 to 2. It also has 118 cosponsors in the House, including a majority of the Ways & Means Committee. As you continue to negotiate with Congress this year, we urge you to support this non-controversial legislation as part of the Community Renewal/New Markets bill or any other appropriate tax vehicle. Without your leadership in this important area, the digital divide will continue to grow as it has in recent years, leaving those most in need, furthest behind.

Sincerely,

American Library Association
Computers for Schools Association
Computing Technology Industry Association
Consumer Electronics Association
Goodwill Industries International, Inc.
Information Technology Association of America

National Association of Manufacturers
National Christina Foundation
National Education Association
Technology Workforce Coalition
US Chamber of Commerce

10-16-00

cc: Kalil
Draft response

Copied
Spertling
Berger
Brady Anderson

SPECIAL ANALYSIS

Closing the International Digital Divide

The rapid pace of technological advance threatens to create an international digital divide that leaves some developing countries ever further behind the more advanced economies. Some argue that acquiring advanced technology should be a relatively low priority for countries still struggling to meet basic needs such as clean water, adequate health care, and lower poverty rates. Recent studies show, however, that information technology can not only address some of these basic needs but may also generate better economic development returns to a country than more traditional infrastructure investments.

The importance of IT. A wide range of examples attests to the potential of information technology (IT) to raise local incomes and improve the quality of education, health care, and public services. For instance, a rural Peruvian village quintupled its monthly income when an Internet connection enabled it to establish a direct exporting relationship with a firm in New York rather than using local middlemen. Transkei University in South Africa has been able to provide better medical care to trauma victims through online consultations with doctors from Howard University. A \$1 million investment in computerizing Mauritania's customs operations reduced processing time from 48 hours to 30 minutes and the time to clear goods from a week or more to a day or two. A project computerizing the tax system in the Philippines, which increased revenue and reduced administrative costs, had an estimated rate of return of over 200 percent.

The macroeconomic effects of IT on development are harder to assess, but one study found that each 10 percent increase in telephone lines per worker was associated with a 1.4 percent increase in per capita income. Several other studies have found that transportation and communication investment are more reliable predictors of growth than education expenditures and housing investment. While it is hard to make a definitive judgment about which way the causation runs in such associations, evidence on the success of individual IT projects suggests that these aggregate results reflect more than just rising demand for IT as a country's income rises.

It takes more than a market. The fact that IT investment can be a significant contributor to economic development does not mean that such investment will occur naturally through market forces in less developed countries. Besides the problems associated with an underdeveloped basic telecommunications infrastructure, many countries do not yet have in place a pro-competitive, deregulatory policy regime where the rule of law, adequate privacy protection, and secure transactions could allow e-commerce to flourish. Moreover, information and communications technology is likely to be prohibitively expensive for most users in developing countries, discouraging providers from entering the market. Creative financing like the micro-credit that allows a one-woman-cell-phone-operating company in Bangladesh to be profitable can help

CC: Spertling
Berger
Brady Anderson
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TAD
regional
good
opportunities
for us
to
update
on
DOT Fund
68
10/20/00

October 5, 2000

MEMORANDUM FOR GENE SPERLING

FROM: TOM KALIL

RE: DIGITAL DIVIDE TAX INCENTIVES

Summary: We clearly need to determine what our priorities are on the various digital divide tax incentives. I would advocate the following approach:

1. Support the New Millennium Classroom Act, but see if there are any changes that Treasury needs for tax policy reasons. From a "digital divide" point of view, the Santorum/Lieberman version already includes schools, libraries, senior centers, and training centers that provide "employment, vocational and job-training services to individuals with barriers to employment."
2. Agree to the "broadband" bill that is currently in the Senate "new markets" bill.
3. Support the Weller/Lewis legislation that makes computers and home Internet access a nontaxable fringe, but see if we can get the Republicans to ask for this.
4. I am not enthusiastic about our current proposals, but Talisman has provided some options for improving them in his September 14th memo (attached).

I. New Millennium Classrooms Act

- The Roth bill just extends current law until 2003 but adds libraries to the list of eligible recipient. Current law provides an enhanced deduction which is equal to the lesser of (1) the basis of the donated property plus one-half of the amount of ordinary income that would have been realized if the property had been sold, or (2) twice the basis of the donated property.
- The Santorum/Lieberman bill makes the following changes:
 - 50 percent credit of the retail value of the donated equipment if the recipient is located in an empowerment zone, enterprise community, renewal community, Indian reservation, or low-income community
 - Computer can be up to 3 years old, as opposed to 2 years old;
 - Donation does not need to go to a school, but can go to a senior center, a public library, or an organization which provides employment, vocational and job-training services to individuals to barriers with employment; and

- Treasury Secretary may develop minimum technical standards for the computers (this is the fix that NEA wanted).
- The bill is now supported by NEA, National Association of Secondary School Principals, a number of high-tech trade associations, and POWER UP. Some education groups continue to oppose it. An earlier version of this passed 96-2 in the Senate.
- Cost: There is no revenue estimate for the Santorum/Lieberman version. An earlier version of the bill cost \$260 million over 5 years.

Recommended position: I think we should support this, although we should determine how strongly Treasury feels about some of the issues they raised on tax policy grounds. In the Talisman memo to you, he states "we do not support the proposals to ... allow taxpayers to claim a credit in lieu of an enhanced deduction." I do not think there is anything we need to add to the Santorum/Lieberman version from a "digital divide" point of view.

II. Broadband Internet Access Act

- Designed to stimulate broadband investment, especially in low-income and rural areas. Provides a 5-year, two-tiered credit:
 - 10 percent credit for "current generation" broadband services to subscribers in rural and underserved areas;
 - 20 percent credit for "next generation" broadband services in rural, underserved, and any residential areas.
- "Current generation" is defined as being able to deliver 1.5 megabits/second to subscriber (current DSL, cable modem). "Next generation" is 22 megabits/second - would require technology that is not currently widely deployed. Underserved is any census tract in an EZ, EC, renewal community, or poverty rate > 30 percent.
- Cost is \$1.4 billion over 10
- 52 Senators, supporters ranging from Helms to Wellstone, 78 House members. Strong rural support. Outside supporters include American Farm Bureau, Corning, Council of Chief State School Officers, Information Technology Industry Council, LULAC, U.S. Distance Learning Association, World Institute on Disabilities, etc.

Discussion of Treasury concerns (in Talisman memo to Sperling and Kalil)

1. Favors one kind of Internet technology over another:

Comment: Yes, but bill is technologically neutral - could be cable, fiber, wireless, etc. It does favor faster over slower.

2. Administratively difficult to figure out what portion of the equipment is helping rural/underserved areas.

Comment: This is a valid criticism, but companies will only get the credit proportional to the percentage of the targeted population that is served by the equipment.

3. Doesn't solve the fact that the service may not be affordable to low-income subscribers.

Comment: Yes, but does solve the access problem, which is especially important in rural areas.

Recommended position: I think we should support, particularly given the President's strong interest in doing something about the rural broadband problem.

III. Computer and Internet access

- John Lewis and Jerry Weller have introduced H.R. 4274, the "Digital Divide Access to Technology Act of 2000." It would allow employers to provide home computers and Internet access to their employees without these benefits being treated as taxable income to the employee.
- The DATA Act treats employer-provided Internet access and the first \$1,260 of the value of a computer and peripheral equipment (e.g., software and printers) as tax-free fringe benefits to the employee.
- However, for the proposal to apply, employers must provide computers to substantially all employees working in the United States and employees can receive only one computer every 36 months.
- The 5-year cost is \$1.5 billion, the 10-year cost is \$4 billion.
- There are 142 House co-sponsors, from Dick Armey to Major Owens. There are more Republican co-sponsors than Democrats.
- The major industry backers are companies like American Airlines and Delta, which have already instituted these programs.

Treasury concerns

- Could be a slippery slope. If this passes, will employers argue that cell-phones should be a non-taxable fringe benefit?
- There would be "incidental personal benefits for many employees, as well as their family members." There are no "efficiency gains that could justify a tax preference for consumption of goods ... through an employment based system."

Recommended position: I disagree with Treasury. If we want to make PCs and Internet access as universal as the telephone, I think that making it a non-taxable fringe benefit makes sense.

IV. Our original proposals

Computer donations:

- Our proposal would be covered by the Santorum/Lieberman proposal, since we just wanted to expand current law to cover libraries and CTCs.

Credit for sponsorship of qualified zone academies and technology centers:

- Our current proposal would allocate credits for \$16 million in corporate sponsorship to each of the 31 existing Empowerment Zones and 10 proposed new Empowerment Zones and \$4 million in corporate sponsorship for each of the more than 80 Enterprise Communities. In total, our proposal would help support up to nearly \$1 billion in annual sponsorships to help improve schools and community technology centers.
- You had expressed concern that this was too limited. Talisman suggests following as possibilities:
 - Giving states a certain allocation of credits;
 - Restricting their use to schools with at least 35 percent school-lunch population;
 - Expanding to "Renewal Communities."

Workplace literacy and computer training tax credit

- Our original proposal would provide targeted tax relief to encourage companies to provide basic computer training, workplace literacy, or other basic education for employees that lack the basic skills to succeed in the modern workplace. Companies would be allowed to take a 20 percent tax credit for up to \$5,250 in annual expenses per employee. Eligible employees generally would not have received a high school degree or its equivalent.
- You had expressed concern that this was too limited. Treasury suggested two expansions:
 - Expand eligibility to employees who are eligible for work opportunity tax credit or welfare-to-work credit (or had been during the last 5 years). WOTC includes welfare recipients, 18-24 year-old EZ/EC residents, voc-rehab referrals, etc.
 - Clarify that training does not need to be for "basic, entry-level computer skills" but can be for any computer skills instruction with broad applicability.
- These two expansions would be helpful, but this is still a fairly limited bill. In FY99, there were a total of 440,000 welfare-to-work and work opportunity tax credit certifications.



DEPARTMENT OF THE TREASURY

WASHINGTON

September 14, 2000

ASSISTANT SECRETARY

MEMORANDUM FOR GENE SPERLING

TOM KALIL

FROM:

JONATHAN TALISMAN
ACTING ASSISTANT SECRETARY (TAX POLICY)

SUBJECT:

Possible "Digital Divide" Tax Incentives

The following summarizes our views on the "digital divide" tax proposals that you asked us to review in your prior memo. I apologize for the delay in responding to your request.

- (1) Corporate donations of computers – expansion of Administration proposal.—We support a temporary extension and expansion of current-law section 170(e)(6), as proposed in the President's FY 2001 budget, through June 30, 2004 (when the R&E credit is scheduled to expire). Even so, we oppose the New Millennium Classroom Act (H.R. 2308 and S. 542) as introduced. However, there are some features of the congressional proposals that we could support building into the President's proposals. As part of a temporary extension of section 170(e)(6), we could support the following proposals:
- (a) providing that the enhanced deduction under section 170(e)(6) could be claimed for computers that are up to three years old (starting from the date of manufacture or acquisition by the taxpayer, but not allowing the "clock to be restarted" by re-acquisition of a computer by the donor), provided that – as proposed by NEA – the donated computers meet the minimum standards prescribed by Treasury, which would reflect the mid-point performance standard of industry sales for three-year-old computers);
 - (b) allowing the enhanced deduction under section 170(e)(6) to be claimed by a corporate donor which re-acquires a computer which it previously sold to a customer (i.e., in the case of a re-acquisition, the original use of the donated computer need not be by the donor or the donee), provided that the computer is not more than three years old on the date of donation;
 - (c) expanding eligible donors under sections 170(e)(3), (e)(4), and (e)(6) to include all taxpayers (not merely C corps as under current law), but limit the enhanced deduction to 10% of business income (consistent with the current-law rule for C corps);
 - (d) expanding the class of eligible donees under section 170(e)(6) to include not only public libraries and community technology centers located in low-income communities (as under the President's FY 2001 budget) but also any charity, no matter where located, that is organized and operated primarily for purposes of

providing computers without charge to lower-income families (as proposed by Mr. Jefferson in H.R. 4061); and

- (e) clarifying that, in cases where a business taxpayer's adjusted basis in property of any kind (not merely computers) exceeds the property's fair market value, the taxpayer may abandon the property for purposes of section 165 (and thereby claim an abandonment loss equal to the property's adjusted basis) by giving the property to charity. In some cases, current law is not clear whether a business taxpayer is entitled to claim a higher deduction by throwing away used property than by donating it to charity.

We do not support the proposals to increase the amount of the enhanced deduction allowed under section 170(e)(6) or to allow taxpayers to claim a credit in lieu of an enhanced deduction. It would set a bad precedent to allow taxpayers to claim a charitable contribution deduction for unrecognized, built-in ordinary income beyond that allowed by the current-law rules. Moreover, although we have examined a proposal to repeal the "twice basis" limitation of section 170(e)(6), we understand that this limitation rarely comes into play with donations of computers (most of which have a high basis relative to the property's fair market value.

- (2) Workplace literacy and computer training tax credit—expansion of Administration proposal.—We continue to oppose the congressional "IT Training Credit" proposal from last year (which would provide a credit for virtually all employer-provided technology training expenses that would be incurred in any event). However, we support expansion of the Administration's proposed 20% workplace literacy and technology training credit, so that the credit would be available not only for training expenses incurred for employees who lack a high school degree — as originally proposed — but also for training of employees who are (or had been during the last five years) eligible employees for purposes of the work opportunity tax credit or the welfare-to-work credit. We do not, however, think it is appropriate to provide a special credit for technology training provided to all low-wage employees, because defining "low-wage employees" in a way that the IRS could enforce would be very difficult, especially in the case of part-time workers.

You suggest clarifying the Administration's proposal so that it includes not only basic computer skills but "the kind of skills identified in the Conrad [IT Training] bill." We believe that all computer skills training for eligible employees generally would be covered by the Administration's proposal, provided that computer skills instruction is of "broad applicability." We could, however, modify the Administration's proposal so that, as long as the computer training is provided to an eligible employee and the training is of broad applicability (as opposed to being for a particular vendor's product), there would be no need to inquire as to whether the computer training was for "basic, entry-level computer skills" or for more advanced computer skills.

- (3) Credit for sponsorship of qualified zone academies and technology centers.—The current Administration proposal provides for an allocated credit, which would be allocated for each designated empowerment zone and enterprise community by the local governmental agency

with responsibility for implementing the strategic plan that the area was required to agree to as part of the empowerment zone (or enterprise community) designation process. If we wanted this proposed credit also to be available for sponsorship of public schools or technology centers outside of designated empowerment zones or enterprise communities, we could also authorize the State's department of education (or any other agency designated by each State's governor) to make allocations of credits for up to \$X of sponsorship payments to any K-12 public school or nonprofit community technology center located anywhere in the State (or perhaps anywhere in the State outside of an empowerment zone or enterprise community, which would continue to receive a separate credit allocation).

If a separate State-wide allocation were to be provided for, we would have to decide whether the State-wide allocation should vary based on each State's total population (or their respective populations below the poverty line, as with the current-law QZAB allocation regime, see sec. 1397E(e)(2)), and whether any adjustment should be made based on the number of designated empowerment zones or enterprise communities in each State.

With respect to this particular expansion of the Administration's proposal, we recently spoke to staff of Mr. Rangel, who was the original sponsor of this proposal. Mr. Rangel's staff suggested that a statewide allocation be limited so that it could be used only for corporate sponsorship of public schools that are eligible for QZABs (i.e., at least 35 percent of students are eligible for subsidized lunches). Mr. Rangel's office is concerned that, if there is a limited amount of corporate sponsorship money available, an expansion of the proposal to all public schools could decrease the likelihood that needier schools will receive corporate sponsorship payments. In addition, we may need to consider whether the proposal should be expanded to the so-called "Renewal Communities," which are to be designated under the New Markets agreement reached by the President and Speaker Hastert.

Employer-provided computers and internet access.—We are concerned about the precedent of providing tax-free treatment for employer provided computers, as proposed by the Digital Divide Access to Technology Act of 2000 (H.R. 4274), which was introduced by Jerry Weller and John Lewis on April 13, 2000. There would be more than incidental personal benefits for many employees, as well as their family members, under such an employer-provided program, yet (as discussed further below) there are no efficiency gains that could justify a tax preference for consumption of goods such as computers through an employer-based system.

Although there is some uncertainty regarding the tax treatment under current-law rules of employer-provided computers and internet access in certain situations, a preliminary estimate by Joint Committee is that H.R. 4274 would cost approximately \$1.5 billion over the five-year budget window, which exceeds the cost of the Administration's entire "digital divide" package in its FY 2001 budget.

H.R. 4274 would provide tax-free treatment for employer-provided computers (with certain dollar caps) and internet access (without any dollar cap) for use by an employee and anyone else who resides in the employee's home. Proponents of the bill argue that it would simplify tax administration, by eliminating the necessity under current law to determine on an

employee-by-employee basis whether an employer-provided computer and/or internet access is a non-taxable fringe benefit because it is sufficiently related to each employee's current job position. (This current-law test is most easily met by professionals, who also tend to have higher incomes.) Moreover, proponents argue that the proposal could be viewed as an expansion of section 127 to promote computer literacy. Currently, section 127 allows employers to provide tax-free educational assistance (including payments for tuition, equipment, and supplies) to their employees, but section 127 does not apply to "tools and supplies which may be retained by the employee after completion of a course of instruction."

However, in the case of employer-provided computers, there may not be any formal course of instruction for the employee, even though the item being provided by the employer has obvious personal/recreational uses. For example, Ford Motor Company plans on allowing all 350,000 of its employees to lease a home computer from Ford (and be provided internet access at home) for \$5 per month, without regard to whether the employee already is computer literate or whether he/she uses the computer solely for personal reasons or as part of a structured educational program. Industry representatives claim that there would be efficiency gains because rank-and-file workers will be using computerized equipment more and more over time, so using a computer at home would improve their skills at work. But there is no evidence that employees will acquire significant job skills from having a computer and internet access at home. Indeed, there is no guarantee that employees (as opposed to others in the household) will even use their home computers. Ford says that their unions have rejected any requirement that employees use their home computers for any work-related purposes, such as reading email messages. Thus, there is no evidence for an efficiency gain from mere access to home computers or the internet that could justify a tax preference, in contrast to other employer-provided fringe benefits such as health insurance or retirement benefits.

Putting aside for the moment the general issue of whether we support H.R. 4274, your memo suggests modifications to the introduced bill. Specifically, you suggest that H.R. 4274 be modified to explicitly include employer-provided broadband Internet access and that the tax-free treatment under the bill be increased from \$35 to \$60 per month to cover both broadband Internet access plus computer rental. We do not think that these suggested modifications to H.R. 4274 are necessary. First, the introduced bill already covers employer-provided Internet access, regardless of whether such access is "broadband" or not, so long as the Internet access is "made available to substantially all employees of the employer on substantially the same basis" (other than part-time or seasonal employees or those who work outside the U.S.). Second, the \$35 per-month cap contained in the introduced bill does not apply to Internet access of any kind, but rather applies only to the rental value of the computer itself when ownership is not transferred to the employee. (Under the introduced bill, when ownership of the computer is transferred to the employee, the exclusion per employee is limited to an aggregate amount of \$1,260 every three years.) The introduced bill contains no dollar cap on the value of employer-provided Internet access, so there is no need to take into account that broadband internet access is more expensive.

You also suggest that H.R. 4274 be modified to cover arrangements under which an employer leases a computer (which is then loaned to an employee) rather than transferring

ownership of the computer to the employee. Again, such a modification is not necessary, because the introduced bill already provides for such arrangements.

- (5) Computer purchases by EITC recipients.—We oppose Rep. Jefferson's proposal (which is part of H.R. 4061) to allow individuals who are eligible to claim the EITC for a taxable year to also claim a \$500 refundable tax credit for 50-percent of the costs they incur to purchase computer equipment or software capable of providing Internet access. Although narrowly targeted in terms of the taxpayers eligible to claim the new credit, the proposal would raise serious policy and administrative concerns. First, the proposed tax credit would be of little help to the lowest income households, because the refundable credit would not be received until after a tax return is filed after the year in which the computer must be purchased. Second, it would be difficult for the IRS to verify whether a taxpayer's claim of the credit is valid, without imposing significant reporting burdens on businesses that sell computers and software. Further, even if an information reporting system were established, it would be difficult for the IRS to ensure that qualifying individuals did not use the credit to purchase computers that they would then sell to non-qualifying persons. Finally, under the introduced bill, taxpayers could repeatedly claim a credit year after year (e.g., by claiming to purchase a computer one year, a new printer the next, and then software or an equipment upgrade after that). In view of these problems, Treasury believes that a better approach is to expand the EITC as proposed in the President's FY 2001 budget, which would provide low-income working families with additional resources (through advance payments made by the employer) that could be used not only for computers, but also other educational expenses, or other essentials, such as housing and child care.
- (6) Broadband access.—We generally oppose the broadband investment tax credit proposals (both S. 2321 and the draft Moynihan proposal). These proposals would provide a tax credit for investment in broadband equipment, both to serve certain under-served geographic areas and to provide an incentive for investment in more advanced broadband technology regardless of the geographic areas to be served. As discussed in a more detailed memo previously sent to you, we do not think that it is appropriate to provide a preference for one type of Internet technology over other technologies. Moreover, the proposals would raise difficult administrative problems in trying to determine what portion of investment actually provides Internet access to persons residing in poor urban or rural areas, as opposed to the equipment, although located in a targeted geographic area, providing access to persons to located outside the targeted area. Moreover, the proposal would not help with the more fundamental problem that many persons located in poor urban and rural areas cannot afford Internet access.
- (7) Teacher training.—We oppose legislation (H.R. 1075) that would increase the current-law Lifetime Learning credit rate to 50 percent, but only for elementary and secondary school teachers who incur out-of-pocket expenses to enroll in courses in which they receive "instruction on basic or advanced computer functions or computer software (including educational software offered by a single institution) approved for such individual by such local educational agency," provided that such the expenses are incurred "for the purposes of integrating materials covered by such course into the courses taught in the elementary or secondary classroom." This proposal would further complicate the already complex Hope

and Lifetime Learning credits, and would raise definitional issues and compliance problems in attempting to verify whether the technology training from a particular course was intended to be integrated into the teacher's curriculum. Under current law, expenses incurred for technology training at a post-secondary institution are eligible for the Lifetime Learning credit, which the Administration proposes to increase to 28% for all students and courses.

We also oppose H.R. 1076, which would allow elementary and secondary school teachers to claim a 100% credit (up to \$2,000 lifetime cap) for costs incurred to purchase a computer, related peripheral equipment, or software (other than software primarily used for entertainment). This proposal raises numerous compliance problems.

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High-Tech and Civil Rights Leaders Urge Greater Funding to Bridge the Digital Divide

(Washington, DC) October 3, 2000 -- In a letter sent to Senate and House Congressional leadership, over three dozen high-tech and civil rights leaders today urged Congress to provide additional funding to bridge the digital divide.

The sign-on letter, spearheaded by the Leadership Conference on Civil Rights (LCCR), the nation's oldest and largest civil rights coalition, and ClickStart, a coalition of Silicon Valley companies seeking to overcome the Digital Divide, calls upon Congress to fully fund the Home Internet Access (HIA) program and the Technology Opportunity Partnership (TOP) program. President Clinton's budget called for \$50 million for the new Home Internet Access program and \$45.1 million for the Technology Opportunity Program.

Wade Henderson, Executive Director, LCCR, noted, "Just yesterday, the Gartner Group Inc. reported that as many as 50 million U.S. adults are in danger of becoming functionally 'illiterate' in coming years because they lack knowledge of or access to the Internet. If our nation is to continue as the world's leader in innovation, economic growth and job creation, we are going to need all our best minds working together. Full funding for these important programs will help to greatly accelerate the understanding, acceptance and use of information technology among under-served communities."

The Home Internet Access program is a new \$50 million program that will significantly increase the number of low-income families that have access to the Internet in their homes by providing targeted investments to bring at-risk populations online. Despite broad and outspoken support from the high-tech and civil rights communities, there has yet to be support for this program in Congress and as it currently stands, the program will not be funded in the upcoming fiscal year.

The Technology Opportunity Program, formerly the Telecommunications and Information Infrastructure Assistance Program, provides matching funds to state, local and tribal governments and non-profit entities to extend the benefit of information technologies to all Americans, especially those in under-served communities.

Wade Rendlett, Co-Founder of Red Gorilla, stated, "Given the importance of information-related skills to our economy, the Leadership Conference and companies like Red Gorilla believe that access to and utilization of emerging technologies is a critically important policy matter." Rendlett added, "While time is winding down on the 106th Congress, we believe that this unprecedented collaboration between the civil rights and high-tech community demonstrates how members of Congress, working in a bipartisan fashion, can advance common objectives in the remaining days of this congressional session."

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Wade J. Henderson

(*Deceased)

The Leadership Conference on Civil Rights is the nation's oldest, largest and most diverse coalition of organizations committed to the protection of civil and human rights in the United States. It is comprised of more than 180 national organizations representing people of color, women, children, labor unions, persons with disabilities, older Americans, major religious groups, gays and lesbians and civil liberties and human rights groups. For more information, visit www.civilrights.org.

ClickStart.org is the Silicon Valley's leading advocate for Home Internet Access for low-income families. Founded by executives from Red Gorilla, Ask Jeeves, Novell, 1stUp.com, Excite@Home, and many others, ClickStart provides modest subsidies to non-profit organizations so that the families they serve can benefit from the resources on the Web. ClickStart has subsidized Home Access for families in Oakland and East Palo Alto, California, and hopes to spread the model to communities nationwide. For more information, contact Wade Randlett at 415/575-0418 or wrandlett@redgorilla.com.

LEADERSHIP CONFERENCE ON CIVIL RIGHTS



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October 3, 2000

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The Honorable Ted Stevens
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United States Senate

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Minority Leader
United States Senate

The Honorable Robert Byrd
Ranking Member
Appropriations Committee
United States Senate

The Honorable Richard Gephardt
Minority Leader
United States House of Representatives

The Honorable David Obey
Ranking Member
Appropriations Committee
United States House of Representatives

Dear Senate and House Leaders:

The undersigned civil rights and high-tech leaders have come together under the umbrella of the Leadership Conference on Civil Rights (LCCR), the nation's oldest, largest and most diverse coalition of organizations committed to the protection of civil and human rights in the United States, to request your assistance on an issue of great importance: **accelerating the understanding, acceptance and use of information technology among under-served communities.**

Specifically, we are urging you to support full funding for the Home Internet Access (HIA) program, a \$50 million program increasing the number of low-income families that have access to the Internet in their homes, and \$45 million of the Technology Opportunity Program (TOP), that are contained in the Department of Commerce's Appropriations Bill (H.R. 4690).

The Home Internet Access program is modeled after the highly successful Technology Opportunity Program. Since first implemented in 1994, TOP has provided matching grants to more than 400 public and nonprofit organizations to demonstrate how the Internet and other emerging telecommunications and information technologies can be used to provide better lifelong learning, health, economic development, public safety, and other social services to under-served communities.

"EQUALITY IN A FREE, PLURAL, DEMOCRATIC SOCIETY"

Senate and House Leaders
October 3, 2000
Page Two

Like TOP, the guiding principles of the Home Internet Access program are: 1) locally-driven solutions; and 2) public-private partnerships. The Home Internet Access program will be administered by the National Telecommunications and Information Administration (NTIA) who will make grants to intermediate organizations -- non-profits; state, local, and tribal governments, colleges and universities -- to develop local programs for providing home-based access to families most at risk of being excluded from today's information-based economy.

The program will not provide direct subsidies to individuals because NTIA's experience has shown that the most creative, innovative, and effective solutions come not from the federal government, but from local communities. Therefore, NTIA will challenge communities -- both rural and urban -- to devise solutions that best reflect their circumstances and meet the needs of their low-income residents.

Strong partnerships and broad community support are key ingredients in sustaining information technology projects. The Home Internet Access program will encourage partnerships among local organizations, academia, and private industry. In order to demonstrate the local and private sector commitments, NTIA will require applicants to provide matching funds.

Given the importance that information-related skills in our economy, the undersigned civil rights and high-tech leaders believe that access to and utilization of emerging technologies is a critically important policy matter. While time is winding down on the 106th Congress, we believe that this unprecedented collaboration our two communities demonstrates how members of Congress, working in a similar bipartisan fashion, can advance common objectives in the remaining days of this congressional session.

We therefore urge you to support full funding for the Home Internet Access program and Technology Opportunity Program and in doing so, help to accelerate the understanding, acceptance and use of information technology among under-served communities.

Respectfully,

Wade Henderson
Executive Director
Leadership Conference on Civil Rights

Wade Randlett
VP, Business Development
Red Gorilla

Julie Kitka
President
Alaska Federation of Natives

Garrett Gruener
Partner
Alta Partners

Senate and House Leaders
October 3, 2000
Page Four

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Lawyers' Committee for Civil Rights
Under Law

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Founder
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President and CEO
National Association for the Advancement
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Brenda Girton-Mitchell
Associate General Secretary
National Council of Churches

Patricia Ireland
President
National Organization for Women

Milton J. Little, Jr.
Executive Vice President
National Urban League

Muki Hansteen-Izora
President
Izora Consulting (and Plugged-
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Dr. Dorothy I. Height
Chairperson
Leadership Conference on
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Antonia Hernandez
President and General Counsel
Mexican American Legal
Defense & Educational Fund

Susan Masten
President
National Congress of
American Indians

Shanna L. Smith
Executive Director
National Fair Housing Alliance

Judith L. Lichtman
President
National Partnership for
Women and Families

Marcia Greenberger
Co-President
National Women's Law Center

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Page Five

Reed Hastings
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NetFlix.com Inc.

Daphne Kwok
Executive Director
Organization of Chinese Americans

Ron Posner
Chairman
PS Capital

John Witchel
CEO
Red Gorilla

Danny Rimer
Partner
The Barksdale Group

Stratton Sclavos
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VeriSign Inc.

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Geoff Ralston
Vice President of Engineering
Yahoo!

Digital Divide

 Sarah Rosen Wartell
10/03/2000 04:57:27 PM

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To: See the distribution list at the bottom of this message

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Subject: Digital Divide

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----- Forwarded by Sarah Rosen Wartell/OPD/EOP on 10/03/2000 04:57 PM -----

 **Thomas A. Kalil**
10/03/2000 04:54:40 PM



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Subject: Digital Divide

A joint letter from high-tech companies and civil rights leaders was released today -- calling for funding for our digital divide initiatives in CJS - the \$50 million for Home Internet Access and \$45 million for the Technology Opportunities Program.

House Democrats Craft Digital Divide Package

Calling the digital divide a new civil rights issue, House Democrats have pulled together multiple bills designed to bridge the gap between technology haves and have nots into one package that they intend to introduce as a single piece of legislation in the next Congress.

"This is a new civil rights issue," said Juanita Millender-McDonald, D-CA. "America needs to meet the demands of a digitally enhanced, global economy with adequate infrastructure in our schools, technologically fluent teachers, a cooperative private sector and decisive government. Our legislation will address these various issues."

The bill dubbed the Strategic Education, Economic and Defense System, (SEEDS) includes teacher training, professional development, education, infrastructure and tax incentive initiatives all aimed at boosting Internet access to individuals in low-income urban and rural areas.

The digital divide legislative package brings together members of the House Congressional Black Caucus, Hispanic Caucus, the Blue Dogs and the New Democrats, all of who have introduced various bills aimed at

closing the digital divide. The individual bills received little attention from congressional leaders. Rep. John Larson, D-CT, worked to pull the various groups together and said they will reach out to the academic community and the private sector to help build momentum for next year.

Rep. Ed Markey, D-MA, used the SEEDS initiative to highlight Democrats' commitment to closing the digital divide, an issue, he said, House Republicans have not comprehensively addressed. While Republicans have introduced legislation aimed at closing the digital divide and Republican presidential candidate George W. Bush has proposed a number of targeted technology programs, none are as comprehensive as the SEEDS plan, Markey added.

"This is a major issue upon which we all agree upon and where we differ from the GOP," Markey said.

Meanwhile, the Leadership Conference on Civil Rights, along with more than a dozen high-tech executives, sent a letter to congressional leaders and appropriators urging them to fund a Clinton administration request for \$50 million to extend Internet access into the homes of low-income children and \$45 million for the Technology Opportunity Program. Congressional appropriators zeroed out the home Internet access proposal, which would have been administered by the Commerce Department.

"Given the importance that information-related skills in our economy, the undersigned civil rights and high-tech leaders believe that access to and utilization of emerging technologies is critically important policy matter," the Oct. 3 letter said.

The letter was signed by high-tech leaders including Wade Randlett, Red Gorilla vice president of business development; Steve Westly, eBay senior vice president of sales and business development; George Bell, ExciteAtHome chairman; Reed Hastings, CEO of NetFlix; and David Ellington, CEO of NetNoir.

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Message Sent To:

Digital Divide Access to Technology Act (H.R. 4274)

Dig. Divide

Sawle File

Congressional proposal

On April 13, 2000, Representatives Jerry Weller, John Lewis, and others introduced H.R. 4274, the "Digital Divide Access to Technology Act of 2000" -- also referred to as the "DATA" Act -- which would allow employers to provide home computers and Internet access to their employees without these benefits being treated as taxable income to the employee.

Specifically, the DATA Act treats employer-provided Internet access, as well as the first \$1,260 of the value of a computer and peripheral equipment (e.g., software and printers), as tax-free fringe benefits to the employee. However, for the proposal to apply, employers must provide computers to substantially all employees working in the United States. If ownership of the computer is transferred to the employee, then the exclusion provided for by the bill is limited to a value of \$1,260 for a three-year period. If an employer loans a computer to an employee (rather than transferring ownership of the computer), then the bill would provide an exclusion from the employee's gross income for up to \$35 per month for the value of the leased computer. If employees are required to pay a co-payment to participate in the home computer program, then this co-payment is subtracted from the value of the computer to determine whether the employer-provided benefit is below \$1,260 three-year cap or \$35 per-month cap. The value of employer-provided Internet access is not subject to the dollar caps.

Summary Analysis of Proposal

H.R. 4274 was introduced in Congress after the Administration presented its FY 2001 budget proposals. The Administration shares the goal of the bill's sponsors of reducing the "digital divide," as shown by the Administration's own digital divide and education proposals. In this regard, the Administration's proposals include: (1) extension and expansion of the current-law enhanced deduction for corporate contributions of computers; (2) a special tax credit for certain corporate sponsorship payments made to schools and nonprofit community technology centers; (3) a 20-percent wage credit for employer-provided literacy and basic computer training programs; and (4) an expansion of the current-law Lifetime Learning credit, which can be used for out-of-pocket technology training expenses incurred at any time throughout an individual's lifetime.

With respect to tax-policy issues raised by the proposal, H.R. 4274 could promote computer literacy and, thereby, help to reduce the digital divide. Moreover, the proposal could result in simplification of tax administration, by avoiding the current-law, employee-by-employee determination of whether computer access is related to an employee's current job position. However, we are concerned about setting a precedent with computers and Internet access of allowing tax-free treatment for employer-provided goods and services that have significant elements of personal consumption for employees.

Earlier this year, the Joint Committee on Taxation estimated that H.R. 4274 would cost \$1.5 billion over the five-year budget window.

Background and Issues

It has been reported that all 350,000 employees at Ford Motor Company will soon be eligible to lease a home computer from Ford for \$5 per month during a three-year period. The computers will cost Ford \$24.95 per month over 36 months. Thus, Ford will provide a benefit equal to \$19.95 per month for each employee (or almost \$720 over the three-year period). Lawyers representing Ford believe that they have a good argument for claiming that, under current-law rules, the value of employer-provided computers and Internet access should be excluded from the employee's gross income in most (if not all) situations. They claim that H.R. 4274 would merely clarify the proper interpretation of current-law rules under section 132(d), as computers (and Internet access) become more integral to virtually all job positions.

The sponsors of H.R. 4274 want to encourage more companies to provide home computers to their employees. The sponsors view the proposed tax treatment as representing a "partnership" between private companies and the Federal government that will help close the digital divide by providing home computers to thousands of workers and their families.

The proposal could be supported on grounds that it would simplify tax administration, because – under current law rules – employer-provided home computers are tax-free to the employee in some situations if the computer use by the employee is sufficiently job related. However, this necessitates an employee-by-employee determination whether the job-related standard is satisfied. As a practical matter, this raises judgment calls, and it is difficult to know whether a home computer is being used for business or personal reasons. The current-law rules can be viewed as discriminating against lower-level workers (such as janitors) who arguably have less of a business reason for having a home computer. In effect, the current-law test for tax-free treatment of employer-provided computers is most easily met by professionals, who also tend to have higher incomes. H.R. 4274 would end this disparity. Also, the argument is made by proponents of H.R. 4274 that, to the extent that some portion of the use of a home computer is job-related and the remaining portion represents personal use by the employee or his family, the value of the personal use could be viewed as a de minimis fringe benefit that should not be subject to Federal tax.

In addition, the proposal could be viewed as an expansion of current-law section 127 in order to promote computer literacy. Section 127 currently allows employers to provide tax-free educational benefits to employees (up to \$5,250 per employee per year), without regard to whether the education is related to the employee's current job position. Section 127 applies to payments made by the employer on behalf of the employee for tuition, as well as educational equipment and supplies, but not to "tools and supplies which may be retained by the employee after completion of a course of instruction." Arguably, employer-provided computers could be viewed as educational equipment that enables an employee to continually engage in self-directed instruction which refines his/her computer skills.

As stated previously, the argument against the proposal is that it generally is not appropriate to provide tax-free treatment for employer-provided goods or services that have a significant element of personal consumption. The Ford program is a good example where use of the home computers by many employees (and their families) may have little connection to the

employee's job function. Also, in the case of employer-provided computers, there may not be any formal course of instruction for the employee, even though the item being provided by the employer has obvious personal/recreational uses. For example, Ford plans on allowing all 350,000 of its employees to lease a home computer from Ford (and be provided internet access at home), without regard to the whether the employee already is computer literate or whether he/she uses the computer solely for personal reasons or as part of a structured educational program. Industry representatives claim that there would be efficiency gains because rank-and-file workers will be using computerized equipment more and more over time, so using a computer at home would improve their skills at work. But there is no evidence that employees will acquire significant job skills from having a computer and Internet access at home. Indeed, there is no guarantee that employees (as opposed to others in the household) will even use their home computers. Ford says that their unions have rejected any requirement that employees use their home computers for any work-related purposes, such as reading email messages. Thus, there is little evidence for an efficiency gain from mere access to home computers or the Internet that could justify a tax preference, in contrast to other employer-provided fringe benefits such as health insurance or retirement benefits.



Dig Arrido

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| phone | | phone | 202/622-0050 |
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Digital Divide Access to Technology Act (H.R. 4274)

Congressional proposal

On April 13, 2000, Representatives Jerry Weller, John Lewis, and others introduced H.R. 4274, the "Digital Divide Access to Technology Act of 2000" -- also referred to as the "DATA" Act -- which would allow employers to provide home computers and Internet access to their employees without these benefits being treated as taxable income to the employee.

Specifically, the DATA Act treats employer-provided Internet access, as well as the first \$1,260 of the value of a computer and peripheral equipment (e.g., software and printers), as tax-free fringe benefits to the employee. However, for the proposal to apply, employers must provide computers to substantially all employees working in the United States. If ownership of the computer is transferred to the employee, then the exclusion provided for by the bill is limited to a value of \$1,260 for a three-year period. If an employer loans a computer to an employee (rather than transferring ownership of the computer), then the bill would provide an exclusion from the employee's gross income for up to \$35 per month for the value of the leased computer. If employees are required to pay a co-payment to participate in the home computer program, then this co-payment is subtracted from the value of the computer to determine whether the employer-provided benefit is below \$1,260 three-year cap or \$35 per-month cap. The value of employer-provided Internet access is not subject to the dollar caps.

Summary Analysis of Proposal

H.R. 4274 was introduced in Congress after the Administration presented its FY 2001 budget proposals. The Administration shares the goal of the bill's sponsors of reducing the "digital divide," as shown by the Administration's own digital divide and education proposals. In this regard, the Administration's proposals include: (1) extension and expansion of the current-law enhanced deduction for corporate contributions of computers; (2) a special tax credit for certain corporate sponsorship payments made to schools and nonprofit community technology centers; (3) a 20-percent wage credit for employer-provided literacy and basic computer training programs; and (4) an expansion of the current-law Lifetime Learning credit, which can be used for out-of-pocket technology training expenses incurred at any time throughout an individual's lifetime.

With respect to tax-policy issues raised by the proposal, H.R. 4274 could promote computer literacy and, thereby, help to reduce the digital divide. Moreover, the proposal could result in simplification of tax administration, by avoiding the current-law, employee-by-employee determination of whether computer access is related to an employee's current job position. However, we are concerned about setting a precedent with computers and Internet access of allowing tax-free treatment for employer-provided goods and services that have significant elements of personal consumption for employees.

Earlier this year, the Joint Committee on Taxation estimated that H.R. 4274 would cost \$1.5 billion over the five-year budget window.

Background and Issues

It has been reported that all 350,000 employees at Ford Motor Company will soon be eligible to lease a home computer from Ford for \$5 per month during a three-year period. The computers will cost Ford \$24.95 per month over 36 months. Thus, Ford will provide a benefit equal to \$19.95 per month for each employee (or almost \$720 over the three-year period). Lawyers representing Ford believe that they have a good argument for claiming that, under current-law rules, the value of employer-provided computers and Internet access should be excluded from the employee's gross income in most (if not all) situations. They claim that H.R. 4274 would merely clarify the proper interpretation of current-law rules under section 132(d), as computers (and Internet access) become more integral to virtually all job positions.

The sponsors of H.R. 4274 want to encourage more companies to provide home computers to their employees. The sponsors view the proposed tax treatment as representing a "partnership" between private companies and the Federal government that will help close the digital divide by providing home computers to thousands of workers and their families.

The proposal could be supported on grounds that it would simplify tax administration, because – under current law rules – employer-provided home computers are tax-free to the employee in some situations if the computer use by the employee is sufficiently job related. However, this necessitates an employee-by-employee determination whether the job-related standard is satisfied. As a practical matter, this raises judgment calls, and it is difficult to know whether a home computer is being used for business or personal reasons. The current-law rules can be viewed as discriminating against lower-level workers (such as janitors) who arguably have less of a business reason for having a home computer. In effect, the current-law test for tax-free treatment of employer-provided computers is most easily met by professionals, who also tend to have higher incomes. H.R. 4274 would end this disparity. Also, the argument is made by proponents of H.R. 4274 that, to the extent that some portion of the use of a home computer is job-related and the remaining portion represents personal use by the employee or his family, the value of the personal use could be viewed as a de minimis fringe benefit that should not be subject to Federal tax.

In addition, the proposal could be viewed as an expansion of current-law section 127 in order to promote computer literacy. Section 127 currently allows employers to provide tax-free educational benefits to employees (up to \$5,250 per employee per year), without regard to whether the education is related to the employee's current job position. Section 127 applies to payments made by the employer on behalf of the employee for tuition, as well as educational equipment and supplies, but not to "tools and supplies which may be retained by the employee after completion of a course of instruction." Arguably, employer-provided computers could be viewed as educational equipment that enables an employee to continually engage in self-directed instruction which refines his/her computer skills.

As stated previously, the argument against the proposal is that it generally is not appropriate to provide tax-free treatment for employer-provided goods or services that have a significant element of personal consumption. The Ford program is a good example where use of the home computers by many employees (and their families) may have little connection to the

employee's job function. Also, in the case of employer-provided computers, there may not be any formal course of instruction for the employee, even though the item being provided by the employer has obvious personal/recreational uses. For example, Ford plans on allowing all 350,000 of its employees to lease a home computer from Ford (and be provided internet access at home), without regard to the whether the employee already is computer literate or whether he/she uses the computer solely for personal reasons or as part of a structured educational program. Industry representatives claim that there would be efficiency gains because rank-and-file workers will be using computerized equipment more and more over time, so using a computer at home would improve their skills at work. But there is no evidence that employees will acquire significant job skills from having a computer and Internet access at home. Indeed, there is no guarantee that employees (as opposed to others in the household) will even use their home computers. Ford says that their unions have rejected any requirement that employees use their home computers for any work-related purposes, such as reading email messages. Thus, there is little evidence for an efficiency gain from mere access to home computers or the Internet that could justify a tax preference, in contrast to other employer-provided fringe benefits such as health insurance or retirement benefits.

Big Divide
OTHER PIECE FROM BEIER
✓
Saw for me
CS

We would like to thank you for your leadership on helping to bridge the digital divide by sponsoring with Rep. John Lewis H.R. 4274, the DATA Act. We strongly support the initiative and commend you for your leadership in advancing the measure before Congress.

CS
NSP

Computer literacy has transformed the way Americans live and work, bringing about unprecedented economic growth in the process. But while the high-tech boom seems to offer limitless opportunity, even among corporate workforces many are still being left behind. The term "digital divide" is used quite casually in today's public policy discussions, but your bill will actually do something to help the problem. With the enactment of your legislation, corporate America will be better positioned to facilitate providing computers to workers who otherwise would not necessarily have a limitless opportunity for learning new skills.

We believe that by working together, government and industry can effectively complement each other's efforts to elevate the aggregate skill of our workforce. Timely enactment of the DATA Act will simplify the administration of employer provided computer programs that, in turn, will encourage the proliferation of these programs and ensure our American workforce maintains its competitive advantage in the global marketplace.

Sincerely,

American Airlines
Compaq
Enron Corp.
Hewlett-Packard Company
People PC
Electronic Industries Alliance
Internet Exchange Coalition

Applied Materials
Delta Air Lines
Ford Motor Company
Intel Corporation
Consumer Electronics Association
American Electronics Association
Financial Executives Institute

Bill Summary & Status

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Bill Summary & Status for the 106th CongressItem 1 of 1

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H.R.4274Sponsor: Rep Weller, Jerry (introduced 4/13/2000)

Latest Major Action: 4/13/2000 Referred to House committee

Title: To amend the Internal Revenue Code of 1986 to provide that computers provided to employees for personal use are a nontaxable fringe benefit.

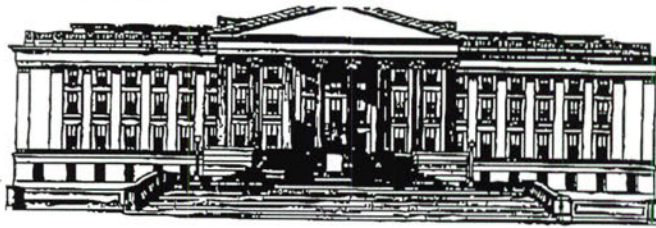
COSPONSORS(146), ALPHABETICAL [followed by Cosponsors withdrawn]: (Sort: by date)

| | |
|--|--|
| <u>Rep Arney, Richard K.</u> - 5/22/2000 | <u>Rep Baca, Joe</u> - 5/11/2000 |
| <u>Rep Bachus, Spencer</u> - 5/18/2000 | <u>Rep Baker, Richard H.</u> - 5/22/2000 |
| <u>Rep Ballenger, Cass</u> - 6/8/2000 | <u>Rep Barcia, James A.</u> - 10/4/2000 |
| <u>Rep Barr, Bob</u> - 6/8/2000 | <u>Rep Bass, Charles F.</u> - 5/18/2000 |
| <u>Rep Becerra, Xavier</u> - 10/4/2000 | <u>Rep Biggert, Judy</u> - 5/18/2000 |
| <u>Rep Bilbray, Brian P.</u> - 5/9/2000 | <u>Rep Bilirakis, Michael</u> - 5/18/2000 |
| <u>Rep Blagojevich, Rod R.</u> - 7/25/2000 | <u>Rep Boehlert, Sherwood L.</u> - 5/10/2000 |
| <u>Rep Bonilla, Henry</u> - 5/23/2000 | <u>Rep Bono, Mary</u> - 5/18/2000 |
| <u>Rep Boucher, Rick</u> - 5/11/2000 | <u>Rep Brown, Corrine</u> - 9/19/2000 |
| <u>Rep Burton, Dan</u> - 5/23/2000 | <u>Rep Calvert, Ken</u> - 5/11/2000 |
| <u>Rep Camp, Dave</u> - 9/7/2000 | <u>Rep Campbell, Tom</u> - 4/13/2000 |
| <u>Rep Cannon, Chris</u> - 5/9/2000 | <u>Rep Chabot, Steve</u> - 5/10/2000 |
| <u>Rep Coburn, Tom A.</u> - 5/11/2000 | <u>Rep Collins, Mac</u> - 5/11/2000 |
| <u>Rep Cook, Merrill</u> - 5/11/2000 | <u>Rep Cooksey, John</u> - 5/18/2000 |
| <u>Rep Costello, Jerry F.</u> - 9/6/2000 | <u>Rep Cox, Christopher</u> - 5/9/2000 |
| <u>Rep Coyne, William J.</u> - 10/2/2000 | <u>Rep Cunningham, Randy (Duke)</u> - 5/4/2000 |
| <u>Rep Davis, Thomas M.</u> - 5/18/2000 | <u>Rep DeMint, Jim</u> - 6/8/2000 |
| <u>Rep Diaz-Balart, Lincoln</u> - 5/10/2000 | <u>Rep Doolittle, John T.</u> - 5/18/2000 |
| <u>Rep Dunn, Jennifer</u> - 5/16/2000 | <u>Rep Ehlers, Vernon J.</u> - 5/11/2000 |
| <u>Rep Emerson, Jo Ann</u> - 5/22/2000 | <u>Rep English, Phil</u> - 5/9/2000 |
| <u>Rep Eshoo, Anna G.</u> - 9/28/2000 | <u>Rep Filner, Bob</u> - 9/12/2000 |
| <u>Rep Fletcher, Ernest L.</u> - 5/16/2000 | <u>Rep Foley, Mark</u> - 5/10/2000 |
| <u>Rep Fossella, Vito</u> - 9/26/2000 | <u>Rep Fowler, Tillie</u> - 5/23/2000 |
| <u>Rep Franks, Bob</u> - 5/18/2000 | <u>Rep Frost, Martin</u> - 7/27/2000 |
| <u>Rep Gekas, George W.</u> - 5/18/2000 | <u>Rep Gibbons, Jim</u> - 5/18/2000 |
| <u>Rep Gilchrest, Wayne T.</u> - 5/23/2000 | <u>Rep Gilman, Benjamin A.</u> - 5/11/2000 |
| <u>Rep Goode, Virgil H., Jr.</u> - 5/23/2000 | <u>Rep Goodlatte, Bob</u> - 5/16/2000 |
| <u>Rep Goss, Porter J.</u> - 5/18/2000 | <u>Rep Graham, Lindsey O.</u> - 5/11/2000 |
| <u>Rep Granger, Kay</u> - 5/11/2000 | <u>Rep Green, Mark</u> - 5/11/2000 |
| <u>Rep Greenwood, James C.</u> - 5/23/2000 | <u>Rep Gutknecht, Gil</u> - 5/9/2000 |
| <u>Rep Hall, Tony P.</u> - 10/11/2000 | <u>Rep Hastings, Doc</u> - 5/18/2000 |
| <u>Rep Hayes, Robin</u> - 5/18/2000 | <u>Rep Herger, Wally</u> - 5/9/2000 |
| <u>Rep Hilleary, Van</u> - 5/18/2000 | <u>Rep Hoyer, Steny H.</u> - 9/12/2000 |
| <u>Rep Hunter, Duncan</u> - 5/18/2000 | <u>Rep Isakson, Johnny</u> - 5/18/2000 |

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Rep Jefferson, William J. - 6/6/2000
Rep Jones, Stephanie Tubbs - 10/11/2000
Rep Kelly, Sue W. - 7/12/2000
Rep LaHood, Ray - 5/11/2000
Rep LaTourette, Steve C. - 5/11/2000
Rep Levin, Sander M. - 9/18/2000
Rep Lewis, John - 4/13/2000
Rep Lipinski, William O. - 10/11/2000
Rep Matsui, Robert T. - 9/6/2000
Rep McCrery, Jim - 5/10/2000
Rep McHugh, John M. - 9/18/2000
Rep McIntosh, David M. - 5/18/2000
Rep Meeks, Gregory W. - 9/18/2000
Rep Morella, Constance A. - 5/18/2000
Rep Ney, Robert W. - 5/16/2000
Rep Owens, Major R. - 6/6/2000
Rep Pastor, Ed - 10/4/2000
Rep Pickering, Charles (Chip) - 5/11/2000
Rep Price, David E. - 5/18/2000
Rep Quinn, Jack - 5/23/2000
Rep Rangel, Charles B. - 9/7/2000
Rep Riley, Bob - 5/18/2000
Rep Rohrabacher, Dana - 5/18/2000
Rep Salmon, Matt - 5/23/2000
Rep Saxton, Jim - 5/18/2000
Rep Scssions, Pete - 4/13/2000
Rep Shimkus, John - 5/22/2000
Rep Slaughter, Louise McIntosh - 10/4/2000
Rep Smith, Christopher H. - 5/11/2000
Rep Talent, James M. - 5/18/2000
Rep Tauscher, Ellen O. - 10/4/2000
Rep Terry, Lec - 5/10/2000
Rep Tiahrt, Todd - 6/8/2000
Rep Upton, Fred - 5/16/2000
Rep Walden, Greg - 5/18/2000
Rep Watkins, Wes - 4/13/2000
Rep Weldon, Curt - 5/11/2000
Rep Whitfield, Ed - 5/16/2000
Rep Wilson, Heather - 4/13/2000
Rep Johnson, Nancy L. - 5/9/2000
Rep Jones, Walter B., Jr. - 5/18/2000
Rep Kuykendall, Steven T. - 5/23/2000
Rep Largent, Steve - 5/11/2000
Rep Leach, James A. - 5/18/2000
Rep Lewis, Jerry - 5/11/2000
Rep Linder, John - 5/18/2000
Rep Manzullo, Donald A. - 5/11/2000
Rep McCollum, Bill - 5/4/2000
Rep McDermott, Jim - 9/18/2000
Rep McInnis, Scott - 5/16/2000
Rep McNulty, Michael R. - 7/18/2000
Rep Miller, Gary - 5/18/2000
Rep Neal, Richard E. - 4/13/2000
Rep Norwood, Charlie - 5/18/2000
Rep Oxley, Michael G. - 5/11/2000
Rep Peterson, John E. - 5/10/2000
Rep Pitts, Joseph R. - 5/18/2000
Rep Pryce, Deborah - 6/6/2000
Rep Ramstad, Jim - 5/11/2000
Rep Reynolds, Thomas M. - 5/18/2000
Rep Rogan, James E. - 5/10/2000
Rep Rush, Bobby L. - 9/26/2000
Rep Sandlin, Max - 10/11/2000
Rep Schaffer, Bob - 5/11/2000
Rep Shays, Christopher - 5/11/2000
Rep Simpson, Michael K. - 5/10/2000
Rep Smith, Adam - 9/18/2000
Rep Sweeney, John E. - 5/11/2000
Rep Tancredo, Thomas G. - 5/18/2000
Rep Tauzin, W. J. (Billy) - 5/11/2000
Rep Thurman, Karen L. - 5/11/2000
Rep Udall, Mark - 9/28/2000
Rep Vitter, David - 5/18/2000
Rep Wamp, Zach - 5/18/2000
Rep Watts, J. C., Jr. - 5/22/2000
Rep Weldon, Dave - 5/18/2000
Rep Wicker, Roger F. - 5/18/2000
Rep Wolf, Frank R. - 5/18/2000



*cc: Kalil
Bg. Divide*

**Office of Tax Policy
Department of the Treasury**
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

| | | | |
|--------------|----------------------|--------------|-------------------|
| TO: | <i>Gene Sperling</i> | FROM: | |
| name | | name | Jonathan Talisman |
| firm | | room | 1334 |
| phone | | phone | 202/622-0050 |
| fax | | fax | 202/622-0605 |

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LEADERSHIP CONFERENCE ON CIVIL RIGHTS

Dig. Divide



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FOR IMMEDIATE RELEASE

Contact: Brian Komar, Leadership Conference
202.466.3311 or komar@civilrights.org
Wade Rendlett, Red Gorilla
415.575.0418 or wrendlett@redgorilla.com

High-Tech and Civil Rights Leaders Urge Greater Funding to Bridge the Digital Divide

(Washington, DC) October 3, 2000 -- In a letter sent to Senate and House Congressional leadership, over three dozen high-tech and civil rights leaders today urged Congress to provide additional funding to bridge the digital divide.

The sign-on letter, spearheaded by the Leadership Conference on Civil Rights (LCCR), the nation's oldest and largest civil rights coalition, and ClickStart, a coalition of Silicon Valley companies seeking to overcome the Digital Divide, calls upon Congress to fully fund the Home Internet Access (HIA) program and the Technology Opportunity Partnership (TOP) program. President Clinton's budget called for \$50 million for the new Home Internet Access program and \$45.1 million for the Technology Opportunity Program.

Wade Henderson, Executive Director, LCCR, noted, "Just yesterday, the Gartner Group Inc. reported that as many as 50 million U.S. adults are in danger of becoming functionally 'illiterate' in coming years because they lack knowledge of or access to the Internet. If our nation is to continue as the world's leader in innovation, economic growth and job creation, we are going to need all our best minds working together. Full funding for these important programs will help to greatly accelerate the understanding, acceptance and use of information technology among under-served communities."

The Home Internet Access program is a new \$50 million program that will significantly increase the number of low-income families that have access to the Internet in their homes by providing targeted investments to bring at-risk populations online. Despite broad and outspoken support from the high-tech and civil rights communities, there has yet to be support for this program in Congress and as it currently stands, the program will not be funded in the upcoming fiscal year.

The Technology Opportunity Program, formerly the Telecommunications and Information Infrastructure Assistance Program, provides matching funds to state, local and tribal governments and non-profit entities to extend the benefit of information technologies to all Americans, especially those in under-served communities.

Wade Rendlett, Co-Founder of Red Gorilla, stated, "Given the importance of information-related skills to our economy, the Leadership Conference and companies like Red Gorilla believe that access to and utilization of emerging technologies is a critically important policy matter." Rendlett added, "While time is winding down on the 106th Congress, we believe that this unprecedented collaboration between the civil rights and high-tech community demonstrates how members of Congress, working in a bipartisan fashion, can advance common objectives in the remaining days of this congressional session."

"EQUALITY IN A FREE, PLURAL, DEMOCRATIC SOCIETY"

ROBERT H. HUMPHREYS CIVIL RIGHTS AWARD DINNER • 50TH ANNIVERSARY CELEBRATION • MAY 1, 2001

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Amelia Anderson
Arlene B. Finkelstein
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Past Vice Chairman
Past Secretary
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Past Past Chairman
Past Past Vice Chairman
Past Past Secretary
Past Past Treasurer

STAFF

Wade Henderson

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Minority Leader
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The Honorable David Obey
Ranking Member
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Dear Senate and House Leaders:

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Specifically, we are urging you to support full funding for the Home Internet Access (HIA) program, a \$50 million program increasing the number of low-income families that have access to the Internet in their homes, and \$45 million of the Technology Opportunity Program (TOP), that are contained in the Department of Commerce's Appropriations Bill (H.R. 4690).

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LEADERSHIP CONFERENCE ON CIVIL RIGHTS 50th ANNIVERSARY CELEBRATION

STAFF
Wade J. Henderson

Senate and House Leaders
October 3, 2000
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Like TOP, the guiding principles of the Home Internet Access program are: 1) locally-driven solutions; and 2) public-private partnerships. The Home Internet Access program will be administered by the National Telecommunications and Information Administration (NTIA) who will make grants to intermediate organizations -- non-profits; state, local, and tribal governments, colleges and universities -- to develop local programs for providing home-based access to families most at risk of being excluded from today's information-based economy.

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Leadership Conference on Civil Rights

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Wired News

[Print this](#) • [Email it](#)**Dems Target the Digital Divide**by **Nicholas Morehead**

1:20 p.m. Oct. 3, 2000 PDT


WASHINGTON -- The Digital Divide is getting worse and bridging it looks as though it will require efforts of monumental proportions, Democratic lawmakers said on Tuesday.


On the day the Senate overwhelmingly passed H1-B Visa legislation, several House Democrats joined forces with The Leadership Conference on Civil Rights (LCCR) to discuss the state of the Digital Divide and American society and highlight differences between Democratic and Republican solutions to the problem.

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"This is the one issue upon which all of us here agree, and fundamentally disagree with the Republican party," said [Rep. Edward Markey \(D-Mass\)](#).

Markey, along with others, cited a Department of Commerce [study](#) that says the Digital Divide between the nation's richest and poorest increased 29 percent from 1997 to 1998 and went on to emphasize that Republicans have the solution wrong.

"H1-B Visas are important, but in the long term, this is a failed policy," Markey said, "It means that we're not putting the investment in our own

<http://www.wired.com/news/politics/0,1283,39237,00.html>

10/5/00

Coble: Napster Gets No Help

people."

County Bans Driving and Talking

In an open letter sent to congressional leaders, the LCCR called for the full funding of two Clinton Administration proposals -- the Home Internet Access program and the Technology Opportunity Program -- both of which are included in an Appropriations Bill currently being debated.

Debating the Internet's DomainAOL Wants to 'Opt Out'Dem's Target the Digital Divide

The Home Internet Access program allocates \$50 million for targeted investments to bring low-income and at-risk populations online.

Net Patent Bill IntroducedChina Reacts to Chilly Net Wind

The Technology Opportunity Program would provide \$45 million in matching funds to state, local and tribal governments and non-profit entities to help extend the benefits of information technologies to those in under-served communities.

Senate Passes Visa Bill, 96-1ICANN Votes, But Maybe You Can't

Omnibus legislation aimed at bridging the Digital Divide is ready to be offered in a spending bill, but House Democrats expressed the desire to introduce the proposed legislation in the next Congress.

U.S. Picks New Crypto StandardChina's Iron-Fisted Internet Regs

Measures included in the legislation are increased work-study and high-tech training grants for teachers, the creation of an E-Corps program within AmeriCorps as well as various tax incentives for teachers and corporations.

ICANN Elections Under WayIndia Wrestles With Net PornCongressman Backs MP3.com

"There's a lot of frustration in our colleagues' inability to bring so many critical pieces of technology legislation to the floor," Rep. John Larson (D-Conn) said.

E-Sign Is Law, But Is It Safe?Visa Win for Foreign Workers?

"A piecemeal, hodgepodge approach to this problem, no matter how well-intended, is not the right approach," Larson said, emphasizing a strategic approach over a tactical one. "We're going to need nothing short of a technological Marshall Plan for this initiative to succeed."

FCC Could Adopt CarnivoreFCC Explores High-Speed RegsNapster Copies 'Sony'

by the Center Group, a Connecticut-based business and technology research and consulting firm, says that 35 percent of those in the lower socioeconomic status enjoy Internet access compared to 85 percent of those in the higher classes.

Twenty-three percent of those in the lower status visit government and healthcare websites as compared with 34 percent of those in the higher status. Forty-three percent of the lower status agreed that computers were essential for a child to succeed in school, whereas almost 69 percent of higher status answered affirmatively.

"Even Bill Gates, who doesn't have to worry about money, recognizes the gravity of this problem," said Rep. Eddie Bernice Johnson (D-Texas). "He put \$1 billion into minority scholarships. That's \$20 million a year for Millennium Scholars."

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Leadership Conference on Civil Rights

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Suite 1010
Washington, DC 20006

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Phone: 202/466-3311
Fax: 202/466-3435
TTY: 202/785-3859

FAX MEMORANDUM

DATE: October 5, 2000
TO: Gene Sperling
COMPANY: The White House- NEC
FROM: Wade Henderson, Executive Director
FAX #: 202-456-²9878

TAU
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to Mark
but why did
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at all?
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RE: FYI - Digital Divide - I thought you might be interested in seeing the enclosed.

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Dig Divide

Laura Breeden & Associates
Strategic Internet Consulting

215 Waverley Street, #4 • Menlo Park, CA 94025 • p 415.853.3040 • f 415.853.3047

September 7, 2000

Mr. Gene Sperling
The National Economic Council
The White House
Washington, DC 20500

Dear Gene:

I'm writing to thank you for your faithful support of and advocacy for "digital divide" issues at the NEC. Establishing computer centers in poor neighborhoods, making sure that communications service is affordable, and giving disadvantaged Americans a boost into the New Economy are not always high-profile issues. I know that you have worked to ensure that they would receive the attention they deserve. Many thanks, and best wishes for the remainder of your term in the Clinton Administration.

With warm regards,



Laura Breeden



Leadership Conference on Civil Rights

1629 K Street, NW
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ext.
Digital Divide

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Contact: **Brian Komar, Leadership Conference**
202.466.3311 or komar@civilrights.org
Wade Rendlett, Red Gorilla
415.575.0418 or wrendlett@redgorilla.com

High-Tech and Civil Rights Leaders Urge Greater Funding to Bridge the Digital Divide

(Washington, DC) October 3, 2000 -- In a letter sent to Senate and House Congressional leadership, over three dozen high-tech and civil rights leaders today urged Congress to provide additional funding to bridge the digital divide.

The sign-on letter, spearheaded by the Leadership Conference on Civil Rights (LCCR), the nation's oldest and largest civil rights coalition, and ClickStart, a coalition of Silicon Valley companies seeking to overcome the Digital Divide, calls upon Congress to fully fund the Home Internet Access (HIA) program and the Technology Opportunity Partnership (TOP) program. President Clinton's budget called for \$50 million for the new Home Internet Access program and \$45.1 million for the Technology Opportunity Program.

Wade Henderson, Executive Director, LCCR, noted, "Just yesterday, the Gartner Group Inc. reported that as many as 50 million U.S. adults are in danger of becoming functionally 'illiterate' in coming years because they lack knowledge of or access to the Internet. If our nation is to continue as the world's leader in innovation, economic growth and job creation, we are going to need all our best minds working together. Full funding for these important programs will help to greatly accelerate the understanding, acceptance and use of information technology among under-served communities."

The Home Internet Access program is a new \$50 million program that will significantly increase the number of low-income families that have access to the Internet in their homes by providing targeted investments to bring at-risk populations online. Despite broad and outspoken support from the high-tech and civil rights communities, there has yet to be support for this program in Congress and as it currently stands, the program will not be funded in the upcoming fiscal year.

The Technology Opportunity Program, formerly the Telecommunications and Information-Infrastructure Assistance Program, provides matching funds to state, local and tribal governments and non-profit entities to extend the benefit of information technologies to all Americans, especially those in under-served communities.

Wade Rendlett, Co-Founder of Red Gorilla, stated, "Given the importance of information-related skills to our economy, the Leadership Conference and companies like Red Gorilla believe that access to and utilization of emerging technologies is a critically important policy matter." Rendlett added, "While time is winding down on the 106th Congress, we believe that this unprecedented collaboration between the civil rights and high-tech community demonstrates how members of Congress, working in a bipartisan fashion, can advance common objectives in the remaining days of this congressional session."

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Reviews Are In: Teachers Settle

New Zealand Telecom Reined In

Legislating Property of the Mind

Congress Gets Intellectual

Congress Isn't Napster's Cavalry

See also:

- Dems Donate Leftover Wires
Death of a Digital Divide Bridge
Read more Technology news
Everybody's got Issues in Politics

"This is the one issue upon which all of us here agree, and fundamentally disagree with the Republican party," said Rep. Edward Markey (D-Mass).

Markey, along with others, cited a Department of Commerce study that says the Digital Divide between the nation's richest and poorest increased 29 percent from 1997 to 1998 and went on to emphasize that Republicans have the solution wrong.

"H1-B Visas are important, but in the long term, this is a failed policy," Markey said, "It means that we're not putting the investment in our own

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| <u>Coble: Napster Gets No Help</u> | people." |
| <u>County Bans Driving and Talking</u> | In an open letter sent to congressional leaders, the LCCR called for the full funding of two Clinton Administration proposals -- the Home Internet Access program and the Technology Opportunity Program -- both of which are included in an <u>Appropriations Bill</u> currently being debated. |
| <u>Debating the Internet's Domain</u> | |
| <u>AOI Wants to 'Opt Out'</u> | |
| <u>Dems Target the Digital Divide</u> | The Home Internet Access program allocates \$50 million for targeted investments to bring low-income and at-risk populations online. |
| <u>Net Patent Bill Introduced</u> | |
| <u>China Reacts to Chilly Net Wind</u> | The Technology Opportunity Program would provide \$45 million in matching funds to state, local and tribal governments and non-profit entities to help extend the benefits of information technologies to those in under-served communities. |
| <u>Senate Passes Visa Bill, 96-1</u> | |
| <u>ICANN Votes, But Maybe You Can't</u> | Omnibus legislation aimed at bridging the Digital Divide is ready to be offered in a spending bill, but House Democrats expressed the desire to introduce the proposed legislation in the next Congress. |
| <u>U.S. Picks New Crypto Standard</u> | |
| <u>China's Iron-Fisted Internet Regs</u> | Measures included in the legislation are increased work-study and high-tech training grants for teachers, the creation of an E-Corps program within AmeriCorps as well as various tax incentives for teachers and corporations. |
| <u>ICANN Elections Under Way</u> | |
| <u>India Wrestles With Net Porn</u> | |
| <u>Congressman Backs MP3.com</u> | "There's a lot of frustration in our colleagues' inability to bring so many critical pieces of technology legislation to the floor," <u>Rep. John Larson</u> (D-Conn) said. |
| <u>E-Sign Is Law, But Is It Safe?</u> | |
| <u>Visa Win for Foreign Workers?</u> | "A piecemeal, hodgepodge approach to this problem, no matter how well-intended, is not the right approach," Larson said, emphasizing a strategic approach over a tactical one. "We're going to need nothing short of a technological Marshall Plan for this initiative to succeed." |
| <u>FCC Could Adopt Carnivore</u> | |
| <u>FCC Explores High-Speed Regs</u> | |
| <u>Napster Copies 'Sony'</u> | |

by the Gartner Group, a Connecticut-based business and technology research and consulting firm, says that 35 percent of those in the lower socioeconomic status enjoy Internet access compared to 85 percent of those in the higher classes.

Twenty-three percent of those in the lower status visit government and healthcare websites as compared with 34 percent of those in the higher status. Forty-three percent of the lower status agreed that computers were essential for a child to succeed in school, whereas almost 69 percent of higher status answered affirmatively.

"Even Bill Gates, who doesn't have to worry about money, recognizes the gravity of this problem," said Rep. Eddie Bernice Johnson (D-Texas). "He put \$1 billion into minority scholarships. That's \$20 million a year for Millennium Scholars."

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Jul. 11, 2000

Latinos Prefer Mainstream Portals

Jun. 2, 2000

October 10, 2000

MEMORANDUM FOR GENE SPERLING

FROM: TOM KALIL

RE: MEETING ON DIGITAL DIVIDE

Summary:

A group of House Democrats have put together a "digital divide" initiative with 23 different components. This coalition includes members of the Congressional Black Caucus, Congressional Hispanic Caucus, New Dems, and Blue Dogs. The initiative is called Strategic Education, Economic and Defense System (SEEDS). Obviously, at this point in the process, there is no way that the Administration will be able to ask for new digital divide initiatives that are not in the President's budget.

Attendees:

Suggested message:

I think that you should channel the conversation in two directions:

- What can we get done this year in the appropriations and tax process this year:
 - Increase in the Technology Opportunity Program -- from \$15 million to at least \$50 million. **Could use some more support from Serrano and Hollings.**
 - Increase in Community Technology Centers - from \$32.5 million to \$100 million. Conference is currently at \$52.5 million.
 - Increase in Preparing Tomorrow's Teachers to use Technology. Our request is \$150 million, up from \$75 million. Conference is currently at \$125 million (not a bad number).
 - Expanded funding for Learning Anytime Anywhere Partnerships, which expands distance learning opportunities for underserved populations - from \$15 million to \$30 million. The Congress is giving us this number, but have proposed \$20 million in earmarks, which will make it impossible for us to hold a new competition.
 - Expanded tax incentives for corporate donations of computers (2 to 3 years, include libraries and technology centers as eligible recipients).
 - Other tax proposals? (allocable credit for donations to poor schools, home PC and Internet access as nontaxable fringe).

- What could we do after the election (obviously, depending on outcome) to help set the agenda for the next Congress?

Comments

- I'm not going to analyze all 24 provisions, but I would like to give you a sense for what provisions are close to Administration policy and/or good ideas.

Provisions I like

- Authorizes our \$150 million for training all new teachers.
- Creates a one-stop shop for effective uses of educational technology at Department of Education.
- Creates an "E-Corps" program within Americorps. [We did some of this within existing funds.]
- IT training at Department of Education and Department of Labor for minorities, women, Native Americans, dislocated workers, older Americans. [We had \$10 million at NSF for Native Americans -- which the Hill has approved.]
- Expanded tax credits for computer donations. [Their provision is pretty close to the Santorum/Lieberman provision.]
- Grants for high-school and college students to develop educational Web sites. [Similar to President's proposal at MIT Commencement address.]
- Expand educational technology R&D.

Provisions of concern

- Expanding e-rate to Head Start and job training programs. E-rate is already \$2.25 billion, re-opening e-rate could re-ignite controversy over e-rate.

STRATEGIC EDUCATION, ECONOMIC AND DEFENSE SYSTEM

A COMPREHENSIVE DIGITAL DIVIDE INITIATIVE

TEACHER TRAINING AND PROFESSIONAL DEVELOPMENT:

- ESEA
Hew
Amend*
1. Amends ESEA to support technology role in professional development and includes technology training as of purpose of Title II, and technology as a core curriculum for national teacher training project.
 2. Amends Higher Education Act to include technology training, including that of teachers, as a community service activity eligible for Work-Study grants.
 3. Would allow release time and other incentives for teachers and personnel to participate in education technology professional development activities as allowable uses of ESEA Title III (Technology for Education) funds.
 4. Amends the Technology Leadership Challenge Fund (TLCF) to emphasize the use of technology to increase student achievement, particularly in high-poverty, low-performing schools, and to increase teachers ability to integrate technology into the curriculum.
 5. Authorizes formula grants for to states for Teacher Technology Preparation Academies.
 6. ~~Authorizes new teacher training grants to institutions of higher education to help them integrate technology training into teacher preparation programs.~~

DIGITAL EMPOWERMENT:

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1. Establishes a one-stop shop of the effective uses of education technology.
 2. Establishes an E-Corps program within AmeriCorps for technology proficient individuals to provide service in a community by developing and assisting in carrying out technology programs in school and community centers, and to provide national service education awards to E-Corps participants.
 3. Authorizes a technology demonstration project for grades 3-12 that implements an Internet-based one-to-one pilot targeting the educational needs of children in low-income districts.
- AmeriCorps*

4. Establishes National Youth Technology Corps as part of the VISTA using volunteers who are highly tech-proficient to provide service in a community by developing and assisting in carrying out technology programs in school and community centers, and to provide national service education awards to E-Corps participants.
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WHIO
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7. Authorizes grants through the NSF, in cooperation with ED and the National Institute of Science and Technology, to establish regional technology utilization centers (ETU) to improve the utilization of education technology in K-21 schools, which would include training and advising teachers on the use of technology and integration of technology into the school curriculum.
8. Establishes a Next Generation Technology Innovation matching grant to:
(1) develop and implement models of innovative and effective applications of technology to teaching and learning aligned with challenging state content standards; (2) use technology to make programs accessible to students with special needs; (3) provide opportunities for girls to use technology related careers; (4) promote school-family partnerships; and (5) collaborate with other federal technology research and development programs. 32 mil

DIGITAL INFRASTRUCTURE:

1. Expands the E-Rate program to include Head Start and organizations receiving federal job training funding as eligible recipients and would allow eligible organizations offering structured after-school activities to apply for E-Rate discounts. The bill would also allow recipients to use offset funds, which they may receive in lieu of E-Rate discounts, for technology maintenance and repair.
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Status of Administration Digital Divide Appropriations

| | Administration Request | House | Senate | Comments |
|--|------------------------|-----------|-----------|---|
| Tax Incentives | \$2,000 | No action | No action | Strong Hill support for New Millennium Classroom Act - 50 percent credit if in poor area |
| Preparing Tomorrow's Teachers to Use Technology (Education) | \$150 | \$75 | \$125 | Conf at \$125 |
| Community Technology Centers (Education) | \$100 | \$32.5 | \$65 | Conf at \$52.5 million |
| Connecting America's Families (Commerce/NTIA) | \$50 | \$0 | \$0 | |
| Technology Opportunities Program (Commerce/NTIA) | \$45 | \$15.5 | \$15.5 | Ask for \$55 million for TOP with \$20 mn for Home Access? |
| Broadband (Commerce/EDA) | \$23 | \$0 | \$0 | Should not be top priority, We could use EDA funds for this, Don't need specific ear-mark |
| Broadband loan program for rural programs (USDA/RUS) | \$2 | \$1.4 | \$2 | |
| IT Training for Native Americans (National Science Foundation) | \$10 | \$10 | \$10 | \$10 million in final bill |

STRATEGIC EDUCATION, ECONOMIC AND DEFENSE SYSTEM

A COMPREHENSIVE DIGITAL DIVIDE INITIATIVE

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**THE CLINTON-GORE ADMINISTRATION:
FROM DIGITAL DIVIDE TO DIGITAL OPPORTUNITY
February 2, 2000**

Today, President Clinton will unveil a comprehensive proposal to help bridge the Digital Divide and to help create digital opportunity for all Americans. This issue has also been a top priority for Vice President Gore, who has worked to bridge the Digital Divide by ensuring that all of our children have access to educational technology. Access to computers and the Internet and the ability to effectively use this technology are becoming increasingly important for full participation in America's economic, political and social life. Unfortunately, unequal access to technology and high-tech skills by income, educational level, race, and geography could deepen and reinforce the divisions that exist within American society. President Clinton believes that we must make access to computers and the Internet as universal as the telephone is today -- in our schools, libraries, communities, and homes.

To make the most of these new opportunities, the President believes we must:

- Broaden **access** to technologies such as computers, the Internet, and high-speed networks;
- Provide people the **skilled teachers** and the **training** they need to master the information economy;
- Promote **online content** and **applications** that will help empower all Americans to use new technologies to their fullest potential.

President Clinton will announce specific proposals in his FY2001 budget to help accomplish these goals and help create digital opportunity for more Americans -- including \$2 billion in tax incentives to encourage private sector activities such as computer donations, and \$380 million in new and expanded initiatives to serve as a catalyst for public-private partnerships.

PRESIDENT CLINTON'S 2001 BUDGET INITIATIVES

1. **\$2 billion over 10 years in tax incentives to encourage private sector donation of computers, sponsorship of community technology centers, and technology training for workers.**
2. **\$150 million to help train all new teachers entering the workforce to use technology effectively.**
3. **\$100 million to create 1,000 Community Technology Centers in low-income urban and rural neighborhoods.**
4. **\$50 million for a public/private partnership to expand home access to computers and the Internet for low-income families.**
5. **\$45 million to promote innovative applications of information and communications technology for under-served communities.**
6. **\$25 million to accelerate private sector deployment of broadband networks in under-served urban and rural communities.**
7. **\$10 million to prepare Native Americans for careers in Information Technology and other technical fields.**

To Help Mobilize Public/Private Partnerships To Close the Digital Divide, President Clinton Will Lead A New Markets Trip This April: Closing the Digital Divide requires creative partnerships between industry, non-profit organizations and government. That's why President Clinton will lead a New Markets trip this April designed to mobilize a significant private and public effort to close the digital divide. This trip, which will include leading high-tech CEOs, will highlight communities that are using information technology to enhance our children's education, expand access to life-long learning, and create economic growth and high-tech, high-wage jobs.

THE CLINTON-GORE AGENDA FOR CREATING DIGITAL OPPORTUNITY

Private sector competition and rapid technological progress are powerful forces for bridging the digital divide and for making Information Age tools available for more and more Americans. The information technology industry is able to double the amount of computing power available at a given price every 12-18 months, and is now selling low-cost computers and "information appliances" – such as specialized Internet access devices. Some companies are even offering free, advertiser-supported Internet access. By working with the private sector and community-based organizations, the Administration can accelerate the trend of expanded access.

But access to technology is only the first step. We also need to give more people the skills they need to use technology, promote content and applications of technology that will help empower under-served communities, and ensure that our teachers can use technology effectively in the classroom. Below is a brief description of the initiatives that President Clinton and Vice President Gore are proposing to help accomplish these goals:

- \$2 billion over 10 years in tax incentives to encourage private sector donation of computers, sponsorship of community technology centers, and technology training for workers:** President Clinton's budget includes \$2 billion in tax incentives to encourage companies to donate computers to schools, libraries and community technology centers, to sponsor schools, libraries, and community technology centers in designated Empowerment Zones, and to provide basic computer training, workplace literacy, or other basic education for their employees.
 - Encouraging companies to donate computers.** The President proposes to extend and expand an enhanced tax deduction to provide companies with an incentive to donate computers to schools, libraries and computer technology centers. This enhanced deduction allows companies to deduct more than the cost of their donation. Under current law, this enhanced deduction applies to donations of computers to schools only and expires after the year 2000. The President's proposal would extend this provision through June 30, 2004 and would expand it to donations to public libraries or community technology centers in Empowerment Zones, Enterprise Communities, and high-poverty areas.
 - Promoting corporate sponsorship of schools, libraries and community technology centers.** The President proposes tax relief to encourage companies to sponsor schools and community technology centers in Empowerment Zones and Enterprise Communities and targeted low-income areas. The President's proposal would allocate credits for \$16 million in corporate sponsorship to each of the 31 existing Empowerment Zones and 10 proposed new Empowerment Zones and \$4 million in corporate sponsorship for each of the more than 80 Enterprise Communities. In total, the President's proposal would help support up to nearly \$1 billion in annual sponsorships to help improve schools and community technology centers.
 - Supporting technology training for workers.** The President's proposal would provide targeted tax relief to encourage companies to provide basic computer training, workplace literacy, or other basic education for employees that lack the basic skills to succeed in the modern workplace. Companies would be allowed to take a 20 percent tax credit for up to \$5,250 in annual expenses per employee. Eligible employees generally would not have received a high school degree or its equivalent.
- \$150 million to help train all new teachers entering the workforce use technology effectively in the classroom:** Under the leadership of President Clinton and Vice President Gore, the United States has made enormous progress in connecting schools to the Internet, and increasing the number of modern computers in the classroom. However, access to computers and the Internet will not help students achieve high academic standards unless teachers are as comfortable with a computer as they are with a chalkboard. President Clinton's budget calls for \$150 million in Department of Education grants -- double the last year's investment of \$75 million -- to ensure that all new teachers entering the workforce are technologically literate and can integrate technology into the curriculum. The need for this investment is clear. According to the National Center for Education Statistics, only 20 percent of teachers report that they are "very well prepared" to integrate technology into classroom. And over the next 10 years, K-12 schools will need to hire 2 million new teachers to fill the vacancies left by retiring teachers and to accommodate increasing student populations.

3. **\$100 million to create up to 1,000 Community Technology Centers in low-income urban and rural communities:** The President's budget more than triples the Department of Education's support for Community Technology Centers - from \$32.5 million in FY2000 to \$100 million in FY2001. This initiative, championed by Congresswoman Maxine Waters was initially funded at \$10 million in fiscal year 1999. The goal of the initiative is to help close the "digital divide" by providing computers and Information Age tools to children and adults that are not able to afford them at home. These community technology centers will help empower hundreds of thousands of low-income children and adults in a variety of ways. Children will be able to improve their performance in school by having access to high-quality educational software after school and prepare for the high-tech workplace of the 21st century by getting certified with an information technology skill. Adults will be able to use computers and the Internet to take a self-paced adult literacy course; get access to America's Job Bank to see what jobs are available; learn to type up a resume and cover letter using word processing software; learn to start up their own "micro-enterprise" or Web-based business, or acquire new training. A study sponsored by the National Science Foundation confirms that Community Technology Centers are helping to bridge the digital divide. Of the users surveyed: 62 percent had incomes of less than \$15,000; 65 percent took computer classes to improve their job skills; and 41 percent got homework help or tutoring at the center.
4. **\$50 million for a public/private partnership to expand home access to computers and the Internet for low-income families:** The President's budget includes a new \$50 million Department of Commerce pilot program to expand access to computers and the Internet for low-income families, and to give these families the skills they need to use these new Information Age tools effectively. This new program will provide competitive grants to public-private partnerships at the local level. Potential partners might include: local school districts seeking to expand parental involvement in education; high-tech companies willing to provide discounts on computers and access; libraries offering training on "information literacy"; employers seeking to upgrade the skills of their workforce using distance learning, and government agencies at all levels seeking to save taxpayer dollars through the electronic delivery of government services. The Administration will continue to work with the private sector and non-profit organizations on the most effective way to design this program.
5. **\$45 million to promote innovative applications of information technology for under-served communities:** President Clinton's budget will increase the investment in the Department of Commerce's highly-successful Technology Opportunities Program (TOP) to \$45 million -- triple the current level of \$15 million. This program encourages innovative applications of information technology that help empower low-income communities -- public health information systems that raise childhood immunization rates in inner-cities, tele-mentoring for at-risk youth, and electronic networks that strengthen local communities by fostering communication and collaboration.
6. **\$25 million to accelerate private sector deployment of high-speed networks in under-served urban and rural communities:** High-speed Internet access is becoming as important to the economic vitality of a community as roads and bridges are today. The President will propose a new \$25 million program at the Department of Commerce and the Department of Agriculture to accelerate private sector deployment of broadband networks in under-served urban and rural communities -- using grants and loan guarantees. The potential payoff from these kinds of investments is enormous. One company, for example, has helped people move from "welfare-to-work" by connecting their community with the high-speed networks needed to support telecommuting. This solves some of the biggest barriers associated with welfare-to-work -- lack of childcare and transportation.
7. **\$10 million to prepare Native Americans for careers in information technology and other technical fields:** The National Science Foundation will support efforts by tribal colleges to increase the number of Native Americans who are prepared to pursue careers in information technology and other technical fields. The ability to use technology is becoming increasingly important in the workplace, and jobs in the rapidly growing information technology sector pay almost 80 percent more than the average private sector wage.

THE IMPORTANCE OF BRIDGING THE DIGITAL DIVIDE

Access to computers and the Internet and the ability to effectively use this technology are becoming increasingly important for full participation in America's economic, political and social life. People are using the Internet to find lower prices for goods and services, work from home or start their own business, acquire new skills using distance learning, and make better informed decisions about their healthcare needs. The ability to use technology is becoming increasingly important in the workplace, and jobs in the rapidly growing information technology sector pay almost 80 percent more than the average private sector wage.

Technology, used creatively, can also make a big difference in the way teachers teach and students learn. In some classrooms, teachers are using the Internet to keep up with the latest developments in their field, exchange lesson plans with their colleagues, and communicate more frequently with parents. Students are able to log on to the Library of Congress to download primary documents for a history paper, explore the universe with an Internet-connected telescope used by professional astronomers, and engage in more active "learning by doing." Students are also creating powerful Internet-based learning resources that can be used by other students – such as award-winning Web sites on endangered species, the biology of sleep, human perception of sound, and an exploration of the American judicial system.

Access to computers and the Internet has exploded during the Clinton-Gore Administration. Unfortunately, there is strong evidence of a "digital divide" -- a gap between those individuals and communities that have access to these Information Age tools and those who don't. In some instances, this divide is actually widening. A July 1999 report from the Department of Commerce, based on December 1998 Census Department data, revealed that:

- **Better educated Americans more likely to be connected.** Between 1997 and 1998, the technology divide between those at the highest and lowest education levels increased 25%. In 1998, those with a college degree are more than *eight times* likely to have a computer at home and nearly *sixteen times* as likely to have home Internet access as those with an elementary school education.
- **The gap between high- and low-income Americans is increasing.** In the last year, the divide between those at the highest and lowest income levels grew 29%. Households with incomes of \$75,000 or higher are more than *twenty times* more likely to have access to the Internet than those at the lowest income levels, and more than *nine times* as likely to have a computer at home.
- **Whites more likely to be connected than African-Americans or Hispanics.** The digital divide is also persistent and growing along racial and ethnic lines. Whites are more likely to have access to the Internet from home than African-Americans or Hispanics have from *any* location. African-American and Hispanic households are roughly *two-fifths* as likely to have home Internet access as white households. The gaps between white and Hispanic households, and between white and African-American households, are now more than six percentage points larger than they were in 1994. However, for incomes of \$75,000 and higher, the divide between whites and African-Americans has narrowed considerably in the last year.
- **Rural areas less likely to be connected than urban users.** Regardless of income level, those living in rural areas are lagging behind in computer ownership and Internet access. At some income levels, those in urban areas are 50% more likely to have Internet access than those earning the same income in rural areas. Low income households in rural areas are the least connected, with connectivity rates in the singles digits for both computers and Internet access.

In addition, data from the National Center for Education Statistics reveals a "digital divide" in our nation's schools. As of the fall of 1998, 39 percent of classrooms of poor schools were connected to the Internet, as compared to 62 percent for wealthier schools.

A STRONG RECORD OF WORKING TO CLOSE THE DIGITAL DIVIDE

President Clinton and Vice President Gore have worked hard to close the digital divide, and to help create opportunity for more Americans in the Information Age.

President Clinton and Vice President Gore have set a national goal of **ensuring that every child is technologically literate**. In addition to preparing children for the high-tech workplace of the 21st century, technology can help change the way teachers teach and students learn. Teachers can communicate more frequently with parents, keep up with the latest developments in their field, and exchange lesson plans with their colleagues. Students can conduct research using primary source material, learn the principles of genetics by breeding virtual fruit flies, and learn astronomy by using a professional telescope located 3,000 miles from their classroom.

• As a result of the Clinton-Gore educational technology initiative:

- The number of **classrooms** connected to the Internet has increased from 3% in 1994 to 51% in 1998.
- The number of schools connected to the Internet has increased from 35% in 1994 to 89% in 1998.
- The "e-rate", part of the Telecommunications Act of 1996, is providing \$2.25 billion in 20% - 90% discounts to connect schools and libraries to the Internet, with the deepest discounts going to the poorest schools that need it most. The e-rate alone has provided Internet access for children in more than 1 million classrooms.
- Our total investment in educational technology at the federal level (including the e-rate) has increased from \$23 million in 1993 to over \$3 billion today.
- Grants supported by the Department of Education are training 400,000 new teachers to use technology effectively in the classroom.

In addition, President Clinton and Vice-President Gore have worked to:

- **Expand access to technology for people with disabilities:** President Clinton and Vice President Gore have been strong supporters of efforts to make technology more accessible for people with disabilities. Recent actions by the Federal Communications Commission will help ensure that telecommunications equipment, such as cellular phones, is designed to be accessible for people with disabilities.
- **Expand access to technology in under-served communities:** In addition to the Community Technology Center program, HUD Sec. Andrew Cuomo has created approximately 500 Neighborhood Network learning centers that bring state of the art technology to publicly-assisted housing across America. HUD's Neighborhood Networks are innovative private/public partnerships that establish computer-based multi-service centers to help people in publicly-assisted housing learn critical computer skills and prepare for 21st century jobs.
- **Ensure that the Administration makes closing the Digital Divide a top priority.** In December, 1999, President Clinton directed members of the Cabinet to take specific actions to address the digital divide: President Clinton is directing members of his Cabinet (Secretaries of Commerce, Education, Health and Human Services, Housing and Urban Development, and Labor) to take specific steps to close the Digital Divide, including:
 - Continuing to measure the nature and extent of the digital divide by examining the importance of income, education, race, gender, geography and age to Americans' access to Information Age tools;
 - Expanding the network of Community Technology Centers to provide access to technology for those American who can't afford it;
 - Promoting applications of the Internet that will empower low-income families, such as the ability to start their own business; and
 - Upgrading the IT skills of workers in low-income communities.

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HOUSE MEMBERS ANNOUNCE PLANS FOR COMBATING NATION'S "DIGITAL DIVIDE"

WASHINGTON, D.C.-- Members of the Congressional Black Caucus, Congressional Hispanic Caucus, the New Democratic Coalition, the Blue Dog Coalition as well as members of the Progressive Caucus held a press conference on Capitol Hill today to announce that they have jointly drafted a legislative proposal aimed at closing the nation's "digital divide."

The group of House members also announced their intent to push for the Clinton Administration's education technology agenda as budget negotiations progress in this session of Congress. The members in attendance were: Rep. John B. Larson (CT-01), Rep. Major Owens (D-NY), Rep. Edward Markey (D-MA), Rep. Eddie Bernice Johnson (D-TX), Rep. Max A. Sandlin, (D-TX), Rep. Silvestre Reyes, (D-TX), Rep. Juanita Millender-McDonald (D-CA), and Rep. Sheila Jackson-Lee, (D-TX). Martin Luther King III was also in attendance at the press conference.

Congressman Owens also presented a letter from the Leadership Conference on Civil Rights signed by more than 40 technology industry and civil rights leaders urging the members of the House and Senate to take action on certain digital divide legislation. Specifically, those who signed the letter urged the members of the House and Senate to take action designed to accelerate "the understanding, acceptance and use of information technology among underserved communities," through funding certain programs contained in the Department of Commerce's Appropriations Bill (H.R. 4690).

Among those who signed the letter were Geoff Ralston of Yahoo!, Milton J. Little, Jr. of The National Urban League, Kweisi Mfume of the NAACP, Patricia Ireland of the National Organization of Women, George Bell, CEO of Excite@Home, Steve Westly of eBay, Peter Schwartz, CEO of the Global Business Network, Laura Murphy of the Washington Bureau of the ACLU, Mike Seidenberg of Desktop.com and many others.

"Bridging the massive technology chasm that exists in America is something that demands attention in this session of Congress, as well as in future sessions," said Larson. "It would be shortsighted for the United States to allow the distance between those with access to technology and those without it to grow any farther apart. Currently, Americans are divided along racial, geographic, gender and especially socioeconomic lines and the gap is only growing. To pave the way for low-income and disadvantaged people to have greater access to technology in schools as well as at home, is to expand the boundaries of opportunity for millions."

A report to Congress on the subject of the digital divide this week by the CEO of the Gartner Group, Michael Fleisher, stated: "Not surprisingly, the higher one's socioeconomic status, the more likely an individual is to have internet access and thus access to some of the most important information and tools necessary for social mobility," and that "The lower people are socioeconomically, the less likely they are to have internet access and thus the harder it is to improve their lot in life." The report suggests that a strategic, rather than a tactical solution is needed to focus on bringing access to people at "home, in school and at work." The report states: "While programs that provide Internet access in the classroom are good stopgap measures, access in the home should be the long-term goal." It also stresses the importance of encouraging business strategies that help close the divide.

"Now is the time for us to ensure that the digital divide does not grow so large that it becomes unmanageable in the future. Investment and partnership with the private sector as well as state and local government will help lead to a better educated technology workforce in the future, and better technologically trained recruits for our military," said Larson.

7-18-00

Your PC Is Watching

Programs That Send Personal Data Becoming Routine

By ANJANA EUNJUNG CHA
Washington Post Staff Writer

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Keith Little, a computer technician who makes house calls on the apple farms of central Washington state, says more and more of his clients are asking him to take steps to protect their online privacy. So he scans their computers for any mischievous programs and installs security software.

What surprises people is how often Little finds programs designed to

funnel bits of their personal information from their computers and into giant corporate databases. He says more than half of the 20 or so computers he inspects each week are running stealthy programs he calls "spyware."

The electronic eavesdroppers usually come attached to the software people install on their personal computers. Whenever a user connects to the Internet, these programs take advantage of the opening to pass on information that has been stored on the PC's hard drive. The data—it could be details of Web surfing habits or identifying personal information—are then typically sent to the manufacturer of the software or a marketer to be used in developing new products or advertising campaigns.

At a time when concerns about online privacy have spread from Internet bulletin boards to Capitol Hill, this tracking software has become a

flash point for the debates about how to balance consumer rights with the business models of the digital age.

Little has found the programs in children's software such as Mattel Interactive's Reader Rabbit and Arthur's Reading Games, Intuit Inc.'s financial planner Quicken, and dozens of other packages. The electronic hitchhiker also is part of a program associated with the Netscape browser that millions of people use to travel the Internet.

One Web site has identified more than 400 of these data-gathering and tracking programs. Most are free "shareware" that people download off the Web, but an increasing number are mainstream programs, even those people pay for.

"When people find out, they are livid," said Little, 42. "They say, 'Get it out of there.' Then they become very afraid to use their computers, afraid of what personal stuff it's sending out. The problem is that they were not informed."

The companies that use the programs say they were created not for nefarious reasons but to help tailor information consumers want. The programs work by collecting data from a hard drive or from the elec-

tronic "cookies" many users pick up when they visit Web sites. A marketing company might then use the information about what Web sites you frequent to decide whether you would be interested in an ad for a sporting-goods retailer or one for opera tickets. A software manufacturer often wants to know who has purchased its products so it can alert users to problems or update them about new goodies.

Most companies say they do not seek out information that would identify a person by name. Further, they say the information is not disseminated publicly, but only used for internal corporate purposes.

Privacy advocates, though, equate the programs to taps on phone lines. Rep. Edward J. Markey (D-Mass.) recently introduced a bill that would require companies to give "conspicuous notice" of any information they are collecting and to allow users to decline to participate. A New Jersey photographer last week filed a lawsuit against Netscape Communications, an America Online Inc. subsidiary, accusing the company of using its SmartDownload program to "eavesdrop."

Concern has grown in the past few months as more Americans, unsettled by high-profile accounts of spreading computer viruses and other hacker attacks, have installed security software—or "firewalls"—in their personal computers. The security programs typically alert users with warning messages whenever an unauthorized program is attempting to send information out into the Internet. Many users quickly discover how vulnerable they are.

Last winter, a Seattle company called RealNetworks Inc. came under fire after customers discovered its music player was collecting information about users' listening habits in order to personalize its services. The company has since stopped the practice and apologized. Later, meanwhile, less knowledgeable users using the tracking programs to target ads. And a few weeks ago, after parent complaints, Mattel Inc. officials apologized for adding a data-gathering program to more than 100 titles of its Learning Co. unit's educational programs for children.

Simson Garfinkel remembers that he was 40,000 feet in the air on a plane from London to Boston in May when he noticed that his laptop kept trying to connect to the Internet. The culprit: an educational program he had installed for his 3-year-old daughter. It was trying to send out the product's code number and other such informa-

tion to the company so it could better respond to consumer needs, according to Mattel spokeswoman Susan Salminen.

"I wouldn't call it spyware exactly. It was more like marketing ware. But even that conveys a lot of personal information to the folks at Mattel and it was upsetting," said Garfinkel, a computer network architect from Cambridge, Mass.

Mattel's Salminen said the program's intentions are benevolent but the company already had decided to eliminate it late last year from all new software because of "public concern around the privacy issue."

Earlier this month, a Netscape user named Christopher Specht filed a class-action suit in U.S. District Court in Manhattan seeking damages of a minimum of \$10,000 per person for violating consumers' privacy by tracking which files they downloaded from the Internet.

A spokeswoman for Dulles-based AOL said the company is aware of SmartDownload's ability to gather customer data but it had "never used it to access or retain information about users or files."

"The lawsuit is without merit," said Ann Brackbill, a senior vice president. As every corner of the Internet becomes increasingly commercialized, many online companies are experimenting with new models for making money in the uncharted new economy.

One way is to give away products or sell them for below cost and

make money through advertising. The tracking programs allow these companies to tout their ability to target specific audiences to potential advertisers. At the same time, many software companies are trying to develop a continuing relationship with their customers, becoming in effect service-oriented companies. The tracking programs allow them to keep in touch.

For the most part, companies that track consumers say the information they collect is minimal and it's gathered anonymously so that the data cannot be linked to real names. But security professionals like Travis Haymore of Lanham's Digital Systems International Corp. point out that some of the data streams leaving personal computers are so heavily cloaked, or encrypted, that it's practically impossible for anyone to verify or refute such claims. And the programs are more invasive than the electronic cookies that businesses use to track people on the Web because they potentially can scan documents and images on people's hard drives as well as track online habits.

"Your tax records, what medical sites you've been looking at, your

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online banking—if someone has spyware on your machine, they would have access to that data and it would be next to impossible to tell if it was leaving," said Haymore, a former federal government computer security investigator.

irate computer users also have filled online bulletin boards with complaints about tracking programs that are impossible to remove (even when the original host program is deleted), that crash their computers or clog up their telephone or cable lines, slowing down their Internet connections.

Two technology marketing companies, Silicon Valley's Radtco.com and Sterling's Conducent Technologies Inc., which have developed "ad bots," software for the most popular ads targeting customers, have been at the heart of the online privacy debate. These ventures partner with software companies and share a cut of the advertising revenue.

Conducent's director of marketing, Robert Regular, says participation in its ad-driven programs is "voluntary" and offers consumers many advantages, including discounted or free software. People who purchase CD-ROMs made by eGames, for instance, can get six free programs if they choose to look at ads and give up some personal information. "We will show ads and will make use of the user's Internet connection and if they agree to that, great. If not, they don't have to use the software," he said.

Regular says the company always has required its partners to disclose in their privacy policies that the programs were "ad-supported" but only this month started making them flash separate screens during the installation process alerting users of the tracking.

Like other people in the industry, Regular disputes the "spyware" characterization.

"We don't spy on anyone. We don't know any personally identifiable information. We know they are an anonymous user. We don't look at anything that they do," he said. "Because we run in the background, people think we're doing something deceptive and don't understand that it's in order to refresh ads."

As stories of tracking software and other privacy concerns have circulated throughout the online

world in recent months, companies and independent programmers have scrambled to develop protection tools with names such as ZoneAlarm and OptOut. More than 1.1 million people already have downloaded OptOut, freeware that was developed by Stove Gibson, a security consultant in California and a privacy advocate. And personal firewall software has been rushing off store shelves since last fall, with 40,000 to 50,000 copies being sold each month, according to research firm PC Data Inc.

But even unsophisticated programmers can easily get around the best available electronic firewalls, security experts say.

Symantec's Steve Cullen, the senior vice president for consumer business, said people using Norton Internet Security 2000, the most popular firewall program, for instance, can specify that their names, creditcard numbers and other sensitive information be blocked from leaving the computer. But if that information is electronically masked by one of many easy techniques, it can still get through.

"If it's really spyware, certainly encoding or encrypting is something that these guys could do and that makes it much trickier to catch it," he said.

Still, Cullen says that scenario is rare. He said about 80 percent of the time companies don't bother hiding the data and leave it as plain text, a format that is simple to filter.

Christopher Kelley, an analyst with Forrester Research, believes that the "sneakiness" with which some corporations are acting has exacerbated privacy concerns and damaged the industry's credibility—something that they may come to regret as an increasing number of angry citizens create technological tools that could topple the companies' entire business plans. Added Montreal computer consultant Gilles Lalonde: "Right now it's now a free-for-all. Anything goes. This is the kind of environment that permits these kinds of intrusive behaviors, allows them to flourish. If we don't start to define some ethical rules, before long people will lose their trust in all online companies and this great technological revolution just stops."

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