

MEMORANDUM

TO: Mayor Prussing
Members of the City Council

FROM: City Comptroller

RE: Municipal Gas Use Tax

DATE: June 10, 2010

The City has the ability to impose the City's current utility tax on entities that are purchasing their natural gas from sources other than Ameren. This ordinance will close a loophole that has allowed certain entities to avoid paying their share of this tax and place all entities in Urbana on equal footing in regards to paying this tax.

Currently, the City of Urbana imposes a 5% tax on anyone located within the city limits of Urbana on the purchase of natural gas. This tax is collected by Ameren and stated separately as an addition on the customer's bill. The amount collected from this tax on natural gas is \$630,000/year.

In approximately 2000, Illinois law began to allow users to purchase their natural gas from other sources than their local utility company. From a practical perspective, this option is only available to the largest users of natural gas, as they are able to negotiate a better price. Part of that "better price" is avoiding paying the city's 5% utility tax. When they previously purchased their natural gas from the utility company, these entities did pay our tax.

In January of 2010, the Illinois Commerce issued a ruling allowing Ameren to collect this tax, if imposed on a per-therm basis. It has to be on a per-therm basis because Ameren does not know what the entity is paying this outside company but does know the quantity of the gas because the gas has to be transported thru Ameren's lines to reach the entities location. This ICC ruling made it much easier to impose this tax because prior to this time, each municipality would have to collect from each individual company purchasing the gas.

Ameren cannot provide the names of individual companies purchasing outside gas but have provided the following information for Urbana: 13 accounts classified as educational purchasing a total of 431,000 therms annually; 4 accounts classified as health care purchasing 2,220,000 therms; 6 accounts classified as industrial purchasing 2,430,000 therms and 4 accounts classified as other purchasing 239,000 therms. This is a total of 5,320,000 therms, which is 30% of the total therms used in Urbana.

The amount included in the ordinance is 3.5 cents/therm. I estimate this will generate \$186,200 annually in revenues. This 3.5 cents will be the equivalent of these entities paying our 5% on the average price of natural gas charged by Ameren. Other governments imposing a gas use tax are the State of Illinois, 17 cities in the Chicagoland area and Bloomington and Normal downstate. Champaign included this in their list of measures to balance their budget last year but have waited to implement pending this ICC ruling in January. They plan on implementing shortly.