

M E M O R A N D U M

TO: Chief Administrative Officer

FROM: City Comptroller

RE: Simplified Telecommunications Tax

DATE: August 19, 2002

Brief Description of Item. The attached ordinances will enact the simplified telecommunications tax to replace the current telecommunications tax and telephone company franchise fee.

Recommendation. Approval of the attached ordinances.

Background Information. The City of Urbana currently has a 5% telecommunications tax. This tax is collected by approximately 125 telephone companies providing telephone service in the city limits of Urbana. This tax generated \$1,164,000 last fiscal year. The City also imposes a franchise fee on Ameritech and other companies (based on flat charge per telephone line). The amount collected by under the franchise fee is \$147,000/year. Both of these taxes are remitted directly to the City by the telephone companies. However there are problems with the franchise fee and some telephone companies have refused to pay believing that they were not required to under the law.

In 2001, the State of Illinois passed new legislation which allowed cities the option of converting their telephone company franchise fee to a new Infrastructure Maintenance Fee ("I.M.F."). The I.M.F. would be collected by all telephone companies providing service, not just Ameritech. At that time, many cities did enact the new I.M.F. to replace their franchise fee. Champaign and Urbana did not, but instead continued to collect the franchise fee.

In 2001, a Court overturned the old I.M.F. legislation as unconstitutional. As a result, the State has enacted a new "Simplified Municipal Telecommunications Tax", which can be enacted at a rate up to 6% (5% to replace the telecommunications portion and 1% to replace the franchise portion).

I am now recommending that the City impose the new simplified telecommunications tax at the rate of 6% to replace the current 5% telecommunications tax and the franchise fee. After having a chance to study the new tax and the details concerning how the Illinois Department of Revenue will be administering collection, I

believe that the new tax is a better structure. I believe this structure is better because:

- It is fairer in that it will be paid by all telephone companies doing business in Urbana.
- It is also based on a % of the receipts, thus it will increase automatically in the future with inflation.
- When the franchise agreements expire in the future, the City will then be required to switch to the new format in order to continue to collect revenues.
- The State Department of Revenue should be able to collect and audit these telephone companies in a more uniform and efficient manner than individual cities.
- It will be easier for the telephone companies to administer in that they will only have to deal with the State Dept. of Revenue rather than all of the individual municipalities.
- I estimate it will generate approximately \$85,000 in additional annual revenues.
- Champaign and most other Illinois cities are currently in the process of adopting the new simplified municipal telecommunications tax

ORDINANCE NO. 2002-08-099

**AN ORDINANCE
AMENDING THE SIMPLIFIED MUNICIPAL TELECOMMUNICATIONS TAX RATE**

WHEREAS, the Simplified Municipal Telecommunications Tax Act creates a simplified municipal telecommunications tax and repeals the municipal tax on transmitting messages under 65ILCS 5/8-11-2, the municipal telecommunications tax under 65ILCS 5/8-11-17, the optional infrastructure maintenance fee under 35ILCS 635/15, and the municipal infrastructure maintenance fee under 35 ILCS 635/20, effective January 1, 2003; and,

WHEREAS, the Illinois Department of Revenue was required under Sections 5-25 and 5-30 of the Simplified Municipal Telecommunications Tax Act to publish a list and calculate a rate for the imposition of a simplified municipal telecommunications tax for each municipality that had in place one or more of the following: a municipal tax on transmitting messages under 65 ILCS 5/8-11-2, a municipal telecommunications tax under 65ILCS 5/8-11-17, or a municipal infrastructure maintenance fee under 35ILCS 635/20 as of July 1, 2002; and,

WHEREAS, the list published by the Illinois Department of Revenue listed this municipality and calculated a rate for the simplified municipal telecommunications tax of 5% to be collected on gross charges by telecommunications retailers beginning January 1, 2003,

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF URBANA,

Section 1. The rate of the simplified municipal telecommunications tax imposed under the provision of Sections 5-25 and 5-30 of the Simplified Municipal Telecommunications Tax Act, P.A. 92-0526 is hereby changed to 6%.

Section 2. This Ordinance shall be in full force and effect from and after its passage and approval and publication in pamphlet form as required by law, provided, however, that Section 1 of this Ordinance shall take effect for all gross charges billed by telecommunications retailers on and after the first day of January 2003. The City Clerk is hereby directed to file a certified copy of this Ordinance with the Illinois Department of Revenue on or before September 30, 2002.

This ordinance is hereby passed by the affirmative vote, the "ayes" and "nays" being called, of a majority of the members of the Council of the City of Urbana, Illinois, at a regular meeting of said Council.

PASSED by the City Council this ____ day of _____, 2002.

AYES:

NAYS:

ABSTAIN:

Phyllis D. Clark, City Clerk

APPROVED by the Mayor this ____ day of _____, 2002.

Tod Satterthwaite, Mayor