

## How Can You Add to Your Budget This Quarter?

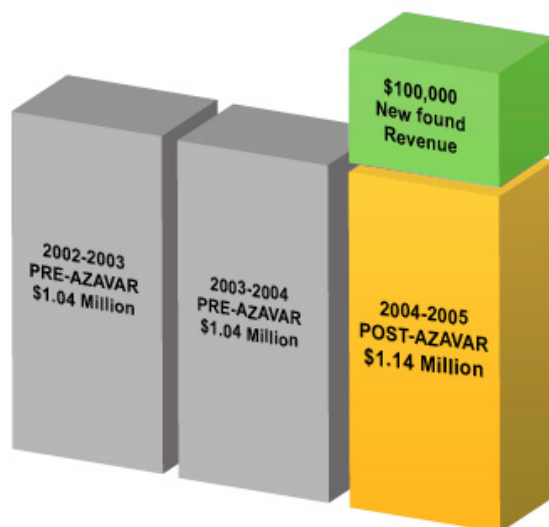
As the economy continues its shaky descent, how can you maintain a healthy budget for your municipality? The following answer might not be as complicated as you thought: Holding a utility taxpayer accountable has an enormous impact on both a municipality's day-to-day operations and its bottom line.

In this issue of our quarterly newsletter, we'll focus on how accountability contributed to amazing tax recoveries for Woodridge, Illinois. We'll also look at the electronic audit evolution, the importance of municipal collaboration, and how the Cable & Video Competition Law of 2007 (220 ILCS 5) might impact your community.

## ComEd Utility Tax Audit Yields Tremendous Results

Woodridge has always emphasized its fiduciary responsibility to collect all taxes equally across the board. In 2004, the Village of Woodridge began having a few service and communication issues with some of its major utility providers. These problems concerned Woodridge because they were dedicated to fair and responsible tax administration.

In an effort to monitor their relationship with all utility companies and make sure they were treating all utility tax providers equally, Woodridge partnered with Azavar Audit Solutions, Inc.



Azavar Audit professionals conducted a **municipal revenue audit** of Woodridge's utility taxes, especially those remitted by Exelon / Commonwealth Edison (ComEd). The first priority for the Azavar Audit team was identifying recent annexations and high growth areas.

Azavar Audit utilized proprietary software technology to audit all premises within Exelon's tax database while working closely with both Woodridge and Exelon officials in order to expedite the audit process.

Within six months, the Azavar Audit team identified all premise errors within Exelon's tax database. During the course of this massive audit and data collection effort, Azavar analyzed over 21 million pieces of data and found a variety of underpaid taxes. Most importantly, Azavar Audit's corrections ensured that all utility

taxes will be remitted correctly in the future to Woodridge, **adding over \$100,000** to each year's tax rolls.

## The Electronic Audit Evolution

Ever wonder if something is missed during an audit that will cost you thousands, if not hundreds of thousands of dollars, somewhere down the road?

Electronic audit software puts such fears to rest. Instead of looking at a few select elements that are statistically shown to be red flags for further investigation, electronic audits look at every piece of information. From a small telecommunications company to the electricity used by street lamps and cell phones, every minute detail is collected and analyzed. This ensures that mistakes are found and corrected in a timely fashion, minimizing the cost of lost revenue, fees, and other expenses incurred by mistakes.

Azavar Audit is a leader in electronic audits, and has found a niche of much needed electronic auditing services, municipal utility taxes. We combine data warehousing, analysis, and electronic audit software to get a one-to-one match of utility information with municipal information.

Simply put, Azavar Audit matches up municipal data with utility provider data to find discrepancies and misappropriated funds. Utilities are able to correct their records and municipalities receive extra revenue.

## The Importance of Municipal Collaboration

In many areas of local government administration, sharing knowledge and experience with others can yield better performance for the group than a municipality can achieve by acting alone. Azavar Audit knows that municipalities with various management practices should work together to achieve and sustain optimal levels of utility tax collection and payment compliance.

Collaboration is an important facet of Azavar Audit because it provides program members with the following benefits:

- **Greater Leverage** - Necessary when confronting utility companies when it is time to collect past due tax revenues.
- **Intergovernmental Communication** - A chance to discuss common issues that municipalities can work together to solve.
- **New Strategies** – Utility tax collection and revenue tracking **developed and shared with other program members.**
- **Data Enhancement** - Greater amount of data collection directly affecting the level at which utility companies are held accountable.
- **Benchmarking** – Ability to review and evaluate other program members' utility tax collection ordinances.

# Illinois Statute 220 ILLCS 5 - Cable & Video Competition Law of 2007

## **Cable and Video Competition Law and Cable and Video Consumer Protection Law of 2007**

As you may be aware, the Illinois Legislature passed a state franchising law that severely limits a municipalities' ability to issue local franchises to cable television providers. Franchising authority has now been given to the Illinois Commerce Commission (ICC) as well and any company wishing to provide cable or video service may apply for franchisee status. The law was originally introduced to Illinois legislature by AT&T and is intended to increase cable and video competition. Specifically, it allows large telecommunications companies, such as AT&T, access to the video market without the requirement of obtaining individual municipal franchises. This bill was highly opposed by incumbent cable providers such as Comcast who want to protect their market share. Telecom providers, such as AT&T and Verizon, are highly in favor of the bill as it would decrease regulations that have prevented them from entering the market in the past. AT&T argues that the bill will create more competition which will ultimately provide consumers with more choice, lower prices, better technology, and more diverse programming, but the law also has negative aspects for municipalities that should be known.

Incumbent cable providers and many municipal officials contest that provisions of the law will allow large telecoms to provide video service to only the most favorable neighborhoods, leaving rural and low density areas with little or no benefit at all. Under existing local franchise agreements, a cable or video provider would be required to comply with certain "build-out" requirements and serve all areas of a community regardless of how profitable it may be. The build out provisions of the new law are far less comprehensive and will essentially allow providers to choose which areas to serve. These areas, known as footprints, may be an entire municipality, a specific service exchange, or even a block of addresses. Theoretically, a provider would be able to choose to serve only the most profitable "footprints" in the state and is under no obligation to serve areas of the state that are not as favorable. The effect will be that only high-density and affluent neighborhoods will benefit from the increased competition and the lower rates may not be realized across the board. This dynamic is known as "red-lining," which has been controlled by local municipalities for decades, but will not be properly addressed under statewide franchising.

Red-lining is not the only problem that many municipal officials have with this law. Increased competition will also place a larger burden on public rights-of-way. In order to upgrade service and provide video over their broadband networks, companies such as AT&T must construct large boxes in public rights-of-way. These boxes are known as 52B utility boxes and are described as the size of a refrigerator, or even larger. A standard 52B box would probably serve 300 to 400 homes, meaning that companies would need to construct several of these boxes per community. Also, cable and video infrastructure is not a "common carrier," meaning that each company wanting to provide video services in a community would have to install their own infrastructure through the public rights-of-way. For example, if there were three (3) video providers in a community, there would be three (3) sets of wires through the public right-of-way.

Local governments will also lose some of their ability to ensure high customer service levels. Under a local franchise, a municipality may suspend or revoke a cable or video franchise if the service provided is below their quality standards. Under a State franchise, the franchisor is the Illinois Commerce Commission (ICC), but even the ICC will not always be able to hold the providers accountable. In fact, the Act will be enforced by the Illinois Attorney General. As a result, when a customer has service issues, their local government will not be able to place as much pressure on the provider, but will instead need to address the Attorney General at the State level.

In its original form, the bill was far more detrimental to municipal oversight than it is in its current form. There have been several amendments that have provided better local oversight and consumer protection. The State legislators with the help of municipal attorneys and the Illinois Municipal League (IML) have taken strides toward ensuring better build out of infrastructure, greater access to governmental programming, and better oversight of rights-of-way, but the fact remains that much of the power that had once belonged to municipalities now belongs to the State.

**Helpful Link to IML Materials in Regards to HB 1500:**

<http://www.iml.org/dbs/imllegal/dyncat.cfm?catid=2273>

This webpage was created by the IML and contains links to documents that you may find helpful in preparation for AT&T and other providers obtaining a State franchise. It is important to review this information and model ordinances carefully, as they will provide additional protection for regulating the rights-of-way, auditing the franchisees, and collecting service (franchise) and PEG fees.