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AN ANALYSIS OF FRANCHISE FEES IN GEORGIA

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AN ANALYSIS OF FRANCHISE FEES IN GEORGIA

I. Introduction

Firms providing electricity, natural gas, and the various telecommunications services are subject to a variety of state and local taxes and fees that differ substantially across states. The list of such potential taxes and fees includes:

- Property taxes
- Gross receipts taxes
- Corporate income taxes
- Consumption taxes
- Sales taxes
- Use taxes
- Commodity taxes
- Payments in lieu of taxes (PLT)
- Regulatory or public service consumer fees
- Business license fees
- Franchise taxes
- Franchise fees

This report focuses on franchise fees and those alternative fees and taxes most closely linked to franchise fees both in structure and in the public debate that is occurring in other states. The purposes of this report are to describe the current structure of these fees and taxes, to present issues raised by changes in these industries, and to discuss options for addressing these issues. A full evaluation of utility tax policy in Georgia, or any state, requires an assessment of the structure and effects of all such taxes and fees.

Franchise fees are typically implemented as part of a service agreement executed between local governments and a utility company, or other enterprises such as cable companies which utilize public rights-of-way. They are intended to reimburse local governments for the use of public rights-of-way and for other public services associated with the functioning of these enterprises and the maintenance of these rights-of-way. Traditionally, such fees were also viewed as compensation for the awarding by local governments of exclusive rights to specific public utilitiy companies to provide such services within specific service areas. Within Georgia, cities have legally had two sources of franchise power: local statutory powers (charter powers) and general statutory powers (such as the 1962 Home Rule Act).[1]

Franchise fees are to be distinguished from franchise taxes. Franchise taxes are generally based on either the net worth of the corporation or on the taxable net income earned by the corporation, and are specifically imposed by some states on public utilities. Such taxes are not considered in this report.

However, franchise fees are commonly labeled "franchise taxes," in part because the base upon they are frequently assessed is some measure of "gross receipts," or "gross revenues." Therefore, while such fees may be authorized under distinct and separate legal authority from such taxes such as sales taxes, consumption taxes, and gross receipts taxes, they may be functionally nearly identical to such taxes, and also nearly identical to business license fees and user taxes/fees that also use gross receipts or revenues as the tax base. For example, electric utilities in Alabama pay the following distinct taxes based upon gross receipts: a 3 percent gross receipts tax to cities, a state utility service use tax (ranging from 2 to 4 percent of gross receipts; 4 percent for phone companies, with no rebate back to local governments), and a business license tax of 2.2 percent of gross receipts.[2] Franchise fees in Alabama, *per se*, apply to cable (at the federally allowed 3 to 5 percent tax rate on gross receipts collected by municipalities), and to some telecommunications services at 3-5 percent

[1] For a further analysis of these issues, see the report on franchise fees by the Georgia Municipal Association, Inc. 1997.

[2] See "Introduction to Electric Industry Taxation," National Conference of State Legislatures. Information also from conversations with Alabama Municipal Authority personnel.

rates on gross receipts (see p. 57 of *Municipal Telecommunications Franchise Issues*, March 19, 1998, Texas Municipal League).

The terminological distinctions created by these closely related, gross receipts based fees and taxes are often difficult to maintain. Thus, the annual reports of local government finances for Georgia municipalities compiled by the Department of Community Affairs (DCA) identifies "franchise payments taxes" under Section C - "Excise and Special Use Taxes." The very helpful and complete documentation of franchise fees paid prepared for this report by BellSouth, Georgia Power, Atlanta Gas Light, the Cable TV Association of Georgia, and the Georgia Electric Membership Corporation (GEMC) displays similar terminological variation. GEMC identifies its "1997 Franchise Taxes Paid;" Georgia Power cites its "1997 Franchise Paid;" Atlanta Gas Light documents its "Franchise Payments;" and BellSouth identifies its "License Payments" in one document and separates "Municipal License" and “Municipal Franchise" at another source. Such variability is potentially more than a terminological curiosity. For example, as discussed below, one of the issues for public policy discussion is the extent to which one should focus primarily on the revenues to be generated, the jurisdiction (state or local) at which the tax / fee should be collected and redistributed, and the "competitive neutrality" of some form of gross receipts tax or fee on these industries, without "excessive" regard for whether such a tax or fee is called a franchise fee, a gross consumption tax, an excise tax, a user fee, or a business license fee.

II. A Description of The Current Situation in Georgia

Table 1 provides a basic overview of the municipal (and only in the case of cable, the county) franchise fee and the state and local sales tax structure in Georgia for the various relevant industries. (County government in Georgia receive franchise fees only from cable companies.)

Table 1 - Overview of Sales Tax and Franchise Fee Structure in Georgia

Service	Sales Tax	Sales Tax Base	Franchise Fee	Franchise Fee Base	Identified on Customer Bills
Telephone (Wired): BellSouth; Independent Phone Companies	4% - 7% State + Local	Basic local + most optional services per customer	3% to municipalities	Gross receipts for "recurring local service" only; i.e. not applied to pay phone, optional service access, etc.	Sales: Yes Franchise No
Cellular Phone	4% - 7% State + Local	Monthly service only; not air time	None	Not applicable	Sales: Yes
Other telecommunications; Paging, PCS, net access; conferencing etc.	None	Not applicable	None	Not applicable	Not applicable
Cable TV	4% - 7% State + Local	Converter rental fee; not basic service	3-5% to counties and municipalities	Full basic service + converter rental revenue	Sales: Yes Franchise: Yes
Satellite TV*	None	Not applicable	None	Not applicable	Not applicable
Electricity: GA Power; EMC's	4% - 7% State + Local	Monthly usage per customer	4% to municipalities	Total electricity sales receipts	Sales: Yes Franchise No
Natural Gas: Atlanta Gas light; United Cities; ATMOS Energy	4% - 7% State + Local	Monthly usage per customer	3% to municipalities	Total gas sales receipts excluding interruptible, i.e. industrial customers**	Sales: Yes Franchise No

The total dollar amounts of franchise fees paid by the various industries to municipal, and in the case of cable, also county governments, are provided in Table 2. The data are based on information provided by Georgia Power, BellSouth, Atlanta Gas Light, the Cable TV Association of Georgia, the GEMC, and the Georgia Municipal Association (GMA). We note in the table where the amounts differ by source. Further analysis of the importance of such franchise fees to particular local governments is provided utilizing the government finance survey data from DCA.

Table 2. Total Franchise Fees Paid to Municipalities And Counties: 1996 - 1997

Source of Payment	Time Period	Amount Paid	Percent of Total Franchise Fees Paid
Georgia Power	Net paid in 1998 for 1997	$ 85,845,941	45.62%
GEMC	1997	$ 5,943,291	3.16%
BellSouth	1997	$ 22,009,272	11.70%
Other Telecos	1997	$ 9,015,000 est. by BellSouth; est. by GMA = $5 million	4.79%
Atlanta Gas Light	Calendar 1996	$ 13,097,223	6.96%
United Cities Gas	1997	$1,000,000 est. by GMA	.53%
Cable Companies (paid to municipalities)	1997	$ 35,520,000 based upon data provided by the Cable TV Association of Georgia; GMA provided a much lower estimate of $11,000,000	18.87%
Total Municipality	**1996-1997**	**$172,430,727**	**91.63% of total fees**
Cable Companies paid to Counties	1997	$ 15,748,000 based on Cable TV Association of Georgia; DCA 1996 survey estimated $9,390,300	8.37% of total fees; 100% of county fees

Total **All Franchise Fees**		**$188,178,727**	**91.63% paid to cities**

The relative importance of such franchise fee revenues to specific local government jurisdictions varies very widely. When calculated as a percentage of what the DCA identifies as "tax revenue," franchise fees represent an average of only 0.021 percent of total tax revenues for the counties in Georgia. Of the 154 counties actually reporting in the 1996 DCA survey (missing are Atkinson, Berrien, Muscogee, Wilkinson, and Clarke), 50 counties (i.e. 32.5 percent of the 154) report zero franchise fee revenues. Polk County reports the highest relative importance for franchise fees at 0.255 percent ($304,891), followed by Catoosa County at 0.112 percent ($87,060). Major metro counties such as Fulton, DeKalb, and Gwinnett reported zero franchise fees. Cobb County reported $2,602,807 (0.084 percent of total tax revenues). Since counties are limited to assessing franchise fees upon cable companies only, it is not surprising that no county reports franchise fees as high as even 1.0 percent of total tax revenues.

Using a combination of the DCA data and the reported payments of franchise fees by the companies themselves, it is clear that franchise fees are much more important sources of revenue to municipalities.[3] For the 525 municipal governmental units in the DCA data, franchise fees represented an average of 6.66 percent of total tax revenues. Note that GMA has recently estimated that franchise fees represent 5.6 percent of city general revenues, and identifies such fees as the fifth largest source of revenue "excluding enterprise funds" (data submitted August 7, 1998). Using either figure, franchise fees are less important that the 11 percent of total tax revenue identified for them in the previously cited 1977 GMA report on franchise fees.

[3]An "audit" of DCA’s municipality data found numerous examples of incorrect reporting of zero in franchise fees, so further verification of these reports is required.

The variability in the importance of franchise fees to cities and other municipalities is impressive, ranging in the DCA data from zero (true in 11 cases, even after double-checking utility payment records, which by contrast identified $2,960,761 paid to over 20 cities which had originally reported zero in the DCA survey), to 100 percent in the unique, possibly misreported case of the city of Between (reporting $1,734 in franchise fees and total tax revenues). Six municipalities reported that franchise fees were over 80 percent of their total tax revenues, and 26 reported that such fees represented at least 25 percent of total tax revenue in their jurisdictions. While such cases typically represent special circumstances with relatively small populations "housing" a public utility production facility, the more common experience is for franchise fees to constitute less than 4.0 percent of total tax revenues (which is the case for 66.3 percent of the 525 cities in the DCA data). Furthermore, 47 percent of these 525 cities reported franchise fees of less than 2.0 percent of total tax revenue. The overall average amount of franchise fees per municipality was $235,717 in 1996, although of the 17.7 percent of the cities who reported such fees as representing over 10 percent of their revenues, the per city average was only $51,642.

Our best estimate of the total franchise fees paid to municipalities for 1996-97 is $172,430, 727 (Table 2). However, there are some inconsistencies between the data from DCA and firm-level data. Relying on DCA data yields a somewhat smaller value.

III. Why Study Franchise Fees at this Time? The Key Issues

For the following reasons, a re-evaluation of the role and structure of franchise fees is timely:

- Section 253 of the 1996 Telecommunications Reform Act (TRA96) specifies that barriers to entry to local telecommunications competition be removed and requires states and local governments to manage rights of way and require compensation for those rights on a "competitively neutral and nondiscriminatory basis."

- Ongoing technological developments in addition to the movement toward de-regulation fostered by TRA96 continues to redefine the boundaries of telecommunications and dramatizes the inconsistent treatment of franchise fees identified in Table 1 of wireless (paging, cellular and personal communication services, PCS) vs. wired, and cable vs. satellite technologies, and requires a consistent treatment of potential new entrants into local markets, as well as an assessment of how to treat cable companies that provide phone service, phone companies that provide television services, and other variations in an era in which "monopoly franchises" cease to be meaningful.

- Financial and tax audits in Georgia cities such as Rome, Albany and Warner Robins are generating increased pressure among local governments to re-evaluate the justification for limiting the base for the assessment of franchise fees in phone service (even without any consideration of de-regulation in this industry) to gross receipts for "recurring local service," as opposed to expanding that base to include long distance access fees to local telecos, pay phone revenues, and revenues from the wide variety of optional local services such as call waiting, caller-ID, etc.

- Such potential local governmental variations in the structuring of franchise fee agreements threaten to create even larger administrative burdens on companies paying such fees, which are already high as a result of having to negotiate and contract with up to 525 municipalities and 159 counties. Except in the case of cable, any rights-of-way issues in unincorporated areas of counties are dealt with via the purchase of easements or the compensation for specific property as opposed to the payment of a fee linked to gross receipts.

- County governments are increasingly concerned that, despite judicial rulings that have limited their authority to collect franchise fees, their limited income from such fees may well constitute an unconstitutional giveaway to private interests. For example, Wayne Hill of the Gwinnett County Commission estimates that the total cost to his county of all right-of-way maintenance is as high as $16 million per year (a total of $80 million since 1993), despite the fact that Gwinnett estimates its cable franchise fee revenues at only $2.25 million per year (in testimony provided on behalf of the Association of County Commissioners of Georgia (ACCG) to the Georgia Legislative Study Committee). He further estimates that the county, if legally able to receive its "justified" franchise fees, could generate as much as $30-35 million per year (which would constitute about 4.7 percent of its $693 million annual budget). The ACCG also argues that many residents of counties are essentially "double-taxed"- firstly in county taxes to pay for right-of-way maintenance, and secondly through their utility bills since the franchise fee burdens incorporate such expenses into the utilities' rate base (even though the municipal base for the calculation of franchise fees is limited to the municipal customer base). Thus, county unhappiness with the current franchise fee structure is growing.

- The natural gas deregulation in Georgia (following passage of SB 215 in 1997) raises similar issues of how to apply sales or use taxation and design franchise fees for potential new competitors and/or their customers, including non-Georgia firms for whom legal nexus issues could be severe, as such de-regulation applies at least to the generation and sales level, if not to the transmission and distribution levels (or "transportation" level) of natural gas provision.[4]

- Similar de-regulatory developments in the electricity industry, while not as immediately pending, will raise similar issues of how to apply state and local taxes and fees to non-Georgia firms generating electricity to local industrial, commercial and residential customers so as to avoid serious revenue losses to those governments and to ensure non-discriminatory treatment of all competitors in a newly competitive environment.

- All of these issues raise the specter of potential revenue loss from all gross receipts based taxes and fees as a result of (1) a reduction of price for these services and a possible resulting reduction in total revenues (if demand is not price sensitive), and (2) a further potential loss of a portion of these taxable revenues to the extent that customers switch to non-Georgia companies for whom tax nexus cannot be established.[5]

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[4]The legal issues surrounding nexus are complex, but based on the *Quill* precedent are thought to usually require some form of "physical presence" in order for out-of state firms to have sufficient nexus with the state of Georgia to be required to collect or pay Georgia taxes. On the other hand, the Supreme Court's unwillingness to consider the differing *Geoffrey* decision in South Carolina (where intangible property was found to provide sufficient nexus for state and local taxation) has confused the issue, and allowed some to interpret *Quill* as only applying to sales and use taxes, possibly excluding franchise fees interpreted as a non-tax fee for the use of municipal rights of way. These issues remain to be resolved.

[5] A useful example of the potential for franchise fee revenue loss is provided on p. 24 of the 1997 GMA report. The City of Gainesville received $1,392,089 in such fees from Georgia Power in fiscal 1997. Assuming (1) 22.5 percent of such fees stemmed from generation, which would be subject to new competition, and 77.5 percent stemmed from distribution, which would remain under local utility provision, (2) a 20 percent drop in the overall revenues due to price reductions after deregulation, and (3) a 30 percent "diversion" of business to non-Georgia generating companies lacking local nexus, the potential loss of franchise fee revenues is $353,591, or 25.4 percent. That is, the $313,220 of such fees stemming from generation is reduced first by 20 percent and then again by 30 percent to yield $175,403. Meanwhile the $1,078,869 of such fees stemming from distribution falls only by the 20 percent drop in overall revenues, not subject to further loss to non-Georgia companies, for a resulting $863,095. This totals $1,038,498, or a loss of $353,591.

IV. Alternative Possible Solutions and Other State Approaches

Two primary types of policy options seem to provide at least partial solutions to the problems identified in the previous section:

Option #1: Strengthen and Supplement Franchise Fees

One option is to retain and modify the franchise fee system so as to (1) condition the entrance into Georgia of new suppliers of electricity, natural gas and telecommunications services on their agreement to pay franchise fees to municipalities, and (2) as a possible extension of this approach, extend the base for franchise fees in telecommunications to include services beyond "recurring local service."

Some examples of the first part (1) of this approach include:

- Pennsylvania. In Pennsylvania, out-of-state as well as in-state generators and marketers of electricity must obtain a license from the Pennsylvania Public Utility Commission prior to being allowed to sell electricity within the state; before a license is granted the marketer must certify that it will pay the franchise fee, as well as collect and remit all sales and use taxes imposed by the state.

- North Carolina. In North Carolina, attempts are being made to change the definition of a "utility" to include out-of-state marketers and generators in the natural gas industry by including as a utility "a business entity that sells piped natural gas," which would include non-North Carolina companies using the local distribution company's pipelines. Such companies would then pay the 3 percent franchise fee.

- Florida. In Florida, steps are being taken to develop franchise fee ordinances that would require electricity providers, whether regulated or unregulated generators or marketers, to first "obtain a franchise" with the particular city, which in turn requires that the electricity provider agree to pay a franchise fee.

- South Carolina. South Carolina, has adopted a variation on these approaches that "strengthens" the franchise system by supplementing it in telecommunications with a business license tax of 3 percent (equivalent to the BellSouth franchise fee rate) of gross revenues, payable by all long distance phone service providers and resellers who are not paying franchise fees.

Option #2: Eliminate Franchise Fees and Substitute Alternative Tax(es) Such as a "Communications Excise Tax," an "Energy Consumption Tax," a "Gross Receipts Tax," a "Business License Fee," or a "Use Tax"

By eliminating the franchise fee system entirely, an alternative tax at the state level (current Georgia law limits the ability of municipalities to impose these alternative taxes) with provisions to rebate revenues to local jurisdictions so as to hold each jurisdiction harmless could (1) reduce administrative costs upon those paying franchise fees by eliminating the requirement to negotiate franchise agreements with a large number of separate local jurisdictions, and increase the predictability of the taxes to be collected or paid by firms; (2) avoid the erosion of the tax base by applying the tax uniformly to all suppliers of services, including a possibly greatly expanded definition of taxable services that would actually expand the tax base (see Table 1 for examples of what is not included in the current franchise fee "tax base"); and (3) by applying the tax uniformly to all potential competitors, achieve the goal of a "level playing field," or technological and competitive neutrality that is a goal of the TRA96 and a key principle of efficient taxation.

Examples of this approach include:

- New Jersey. While New Jersey's approach is not entirely comparable since it eliminated its former 13 percent Gross Receipts and Franchise Tax, it has been an innovator in establishing a 6 percent "Energy Consumption Tax," with current utilities paying a transitional assessment for five years to ensure stability of revenue and followed by all providers, in state as well as out-of -state paying the same tax burden. The state has "guaranteed" cities that they will receive a total of $745 million in FY 1998, growing to a stable $750 million per year by 2002.

- California. California has substituted a consumption tax (SB 278) on all natural gas and electricity suppliers equal to the previous franchise fee rate. This plan differs from the New Jersey approach inasmuch as the tax is levied at the local level (allowable under California law).

- Iowa. While the particular tax being eliminated is not a franchise fee, Iowa (effective January 1, 1999, via SB2416) replaced property taxes on its 200 utility companies with a gross receipts tax that applies to in-state as well as out-of-state suppliers. In fact, the new tax is a bit more complicated than this simple description. There will actually be three taxes - a generation tax on kilowatt hours of energy generated by power plants in the state; a transmission tax to be applied to the miles of transmission lines in Iowa, and a delivery tax to be based on the number of kilowatt hours delivered to customers. Only the generation tax will not apply to out-of-state companies. According to *Property Tax Alert* (July 1998), local energy experts in Iowa indicate that any non-Iowa company using an in-state utility's transmission line may be asked to reimburse the local utility for the tax paid on those transactions. Also, the facility delivering the energy to the final customer will owe the delivery tax, and any in-state payers of that tax can require out-of-state marketers to reimburse it for paying the tax on energy it delivers on behalf of the non-Iowa firm.

- Florida. Two years ago Florida commissioned a "Telecommunications Task Force" to review the tax burden on that industry, including the gross receipts tax. The task force recommended a unified tax arrangement similar to a "telecommunications excise tax" as some percentage of gross revenues, including possible expansions of the tax base.[6] There was some debate regarding the definition of the tax base related to the concept of "taxing capacity," but eventually the Florida legislature failed to enact the proposal due largely to apparent concerns about the change being perceived by the public as a "new tax," as opposed to a relatively revenue neutral change in the tax structure.

- Kentucky. Kentucky passed legislation (effective July 15, 1998 via HB 266) that amends its utility gross receipts license tax to apply to any Kentucky purchaser of natural gas, electricity, cable, and "other items" when the provider/seller of such services is not subject to that utility gross receipts license tax (i.e. providers who were not utilities regulated by the Kentucky Public Service Commission). This change seems to make the local tax more similar to Kentucky's use tax on such items.[7] Note that while this does not necessarily require that franchise fees be eliminated, it is an approach other than using franchise fees to maintain the tax base and revenues in the face of the structural changes affecting these industries. Note that Kentucky has also created the Electricity Restructuring Task Force (HJR 95), whose goal is to study electricity restructuring in the state, and has also created a related Task Force on Utility Tax Policy (HJR 89), with a due date for the report to the General Assembly by December 1, 1999.[8]

- Georgia. Finally, as noted by Richard Hawkins, in an article on natural gas deregulation in Georgia,[9] in principle the possible erosion of the sales and the franchise fee tax bases following deregulation could be remedied by the enforcement of use taxes on natural gas purchasers, if all state and local sales and related taxes/fees have not been collected. In reality, he notes that the enforcement of such use taxes would be limited to businesses that

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[6]Information provided by personnel with the Florida League of Cities, Inc.

[7]*State Tax Notes*, July 20, 1998.

[8] *State Tax Notes*, June 8, 1998.

[9] *State Tax Notes*, May 18, 1998.

are registered collectors of the Georgia sales tax, so that this solution would not recapture all potential lost revenues.

V. Criteria for Evaluation and Final Overview

In Georgia the urgency of dealing with the tax issues raised by de-regulation of electricity may not be as great as in some other states, since there is no pending structural change in that industry affecting the state. And at this time, the agreement between Atlanta Gas Light Company and the Georgia Municipal Association, referred to above, which seems to assure at least short term revenue neutrality by modifying the franchise fee base to a "capacity" standard (a variation of fixed throughput charges and a per-therm charge by usage), appears to have dealt at present with the challenges to be raised by having as many as 28 marketer/providers of natural gas selling to end users with the use of the pipeline system of the regulated Atlanta Gas transportation utility.

Telecommunications provides a serious challenge both in terms of ongoing issues related to the current franchise fee base of local recurring service as opposed to a broader base, the highly inconsistent franchise fee treatment of wireless and alternative technologies, and the likelihood of additional local competition in some form in the not too distant future (if not facility based, at least in the form of reselling).

In assessing the relative merits of the general types of alternative proposals discussed above, the following criteria are important:

- Assuring local jurisdictions that revenues will not decline, either relative to current levels, or projected future levels under the current system, or relative even to a potentially modified franchise fee system that expands the franchise fee base (or in the case of counties, modifies or fundamentally redefines the base in a way that allows them to legally qualify for expanded revenues related to what they consider services rendered to the utility and related industries, e.g., as arguably might be the case with a state-wide gross-receipts type "Option 2 utility tax," with revenues rebated to local governments).

- Reducing the administrative and compliance costs upon those paying franchise fees, which despite the use of a relatively simple percent of gross revenues base (which may or may not comport closely to a more "cost based" approach linked to the actual problems imposed upon local governments by construction, road repairs, traffic delays, and other issues regarding easements and maintenance of rights-of-way) are still onerous given the number of such local jurisdictions in Georgia, and the potential threat of such jurisdictions "breaking away" from the previous common rate charges and base definitions to attempt to institute modifications that may vary across jurisdictions; these latter possibilities would also greatly increase the uncertainty regarding the costs of doing business in Georgia.

- The avoidance of "unintended consequences" in the form of either excessive administrative costs in shifting to a state tax based system along with rebating revenues back to local jurisdictions, or a fundamental shift in the taxing and fee setting authority of local jurisdictions, who are wary of any policy change (regardless of its effects on revenues) that may challenge its traditional authority to assess franchise fees and be compensated for the use of its rights-of-way. Any such changes may, in fact, ultimately be deemed tolerable (or even desirable) if the other effects of a policy change are deemed to be sufficiently beneficial. However, care must be taken to assess these relative implications.

- Consistency of any change with the fundamental principles of efficiency in taxation, i.e., limiting the distorting effects of taxes and fees on consumer decisions regarding suppliers and/or technologies so as to achieve a high level of tax "neutrality," as well as the achievement of the related "fairness" goal of a substantial amount of "horizontal equity," i.e. treating equals as similarly as possible. Both goals are consistent with the TRA96 goal of limiting barriers to entry, and the goal of assuring a "level playing field" for all potential competitors.

- The perception of the consuming public as well as the business community regarding the changes being contemplated, most particularly the ease with which any change could be adequately explained as a structural improvement in how taxes and fees are imposed, as opposed to being merely a new or higher tax.

Fortunately, the major parties with an interest in these issues appear to be willing to communicate and compromise. Those paying franchise fees have not expressed any interest in lowering the overall revenues being provided to local governments, although the details of how such revenues can be maintained or redistributed from the state if any of the Option 2 proposals were to be adopted would have to be resolved. Similarly, local governments appear willing to listen to proposals to broaden the franchise base, or even substitute an alternative tax, and possibly lower the rates in exchange, and to take steps to lower the administrative burdens upon those paying the fees. They remain, however, wary of the implications of changes in the relative position of the state and local governments regarding the legal authority to assess fees and taxes, as well as with the status of counties in any modified arrangement. With a further analysis of these issues, the full implications of any possible modification to the current system can be better assessed.

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