



## Cities profit from excess fees

Bill Peacock

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Before 2007, Texas ranked third in the nation in telecommunication taxes. One national study estimated that Texans paid about 29 percent in taxes and fees on their local phone service - a rate twice the national average.

Since then, the Legislature has eliminated the \$210 million a year Telecommunications Infrastructure Fund fee, while the Texas Public Utility Commission recently cut the Universal Service Fund fee by \$144 million a year.

These two cuts, when fully phased in over four years, will cut the tax rate by about 2.25 percent, saving the average consumer \$1.12 per month.

But our telecom taxes will remain well above the national average, let alone the state average for other goods and services.

Consumers who buy electronics or yard equipment pay a combined state/local sales tax rate of 8.25 percent. For cars, it's 6.25 percent.

Only mixed beverages (14 percent) and cigarettes (35.6 percent) are in the range of telecom taxes. So using a telephone still qualifies for "sin-tax" treatment.

With Texas telecom taxes still too high, where is the next place to cut?

City franchise fees.

Local telephone tax rates total about 11.32 percent on the average bill.

The three largest local taxes are the franchise fee, the 9-1-1 tax, and the local sales tax. Of these, the franchise fee is by far the largest. In fact, local franchise fees can even top the state sales tax as the largest single tax on consumers' tax bills, going as high as 6.35 percent.

Franchise fees are payment for the use of the public right of way, though most of the revenue generated from franchise fees is not used to manage or maintain the right of way.

Instead, the majority of revenue generated by franchise fees goes straight into a city's general revenue fund. And this is true not just for fees paid by telephone and cable companies, but for fees paid by all companies that use the right of way.

The numbers are impressive. Dallas will collect about \$31 million from telephone franchise fees. But they also collect fees from cable, electric and gas companies, so the city's total franchise fee revenue should reach about \$125 million this year.

Houston will do even better, collecting \$48 million in telephone fees, \$99 million in electric fees and \$37 million in gas and other fees, for a whopping total of \$184 million.

All of these costs are being passed on to consumers.

Cutting the telephone and cable franchise fees in half would reduce most consumers' bills by another 3 percent or so, lowering Texas telecom taxes by more than \$500 million a year.

Similar cuts to electric, gas and other fees would yield even greater savings for consumers. This would still leave more than enough revenue for management and maintenance of the public right of way.

Cities want us to believe that franchise fees are not taxes, but rental payments for the use of public property by private companies that must be a "value based fee (to) maximize revenue" on behalf of the public. But a quick look at a telephone or cable bill belies this argument. Consumers, i.e., the public, not businesses, pay the franchise fees - businesses are just tax collectors for the government. In essence, the public is paying franchise fees in order to use the public right of way.

It is the cities - not the citizens - that are profiting from today's excessive franchise fees, which also harm consumers by keeping new entrants out of the market, undermining efficiency and reducing competition.

A significant reduction in telecom franchise fees could lead to more video, voice and data services being delivered to the home - at a lower price, with lower taxes to boot.

A reduction in electricity franchise fees might even lead to competition in the transmission or distribution of electricity.

We don't know exactly what innovations and efficiencies would come from a reduction in franchise fees, but we do know that consumers would

benefit to the tune of hundreds of millions of dollars a year. That should be the only information we need to keep consumer tax cuts moving forward.

*Bill Peacock is the director for the Center for Economic Freedom with the Texas Public Policy Foundation, a non-profit, free-market research institute based in Austin. Contact him at [bpeacock@texaspolicy.com](mailto:bpeacock@texaspolicy.com).*



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