



CITY OF SANTA BARBARA

FINANCE COMMITTEE AGENDA REPORT

AGENDA DATE: April 1, 2008
TO: Finance Committee
FROM: Administration Division, Finance Department
SUBJECT: Fiscal Aspects Of Proposed Telecommunications Utility User Tax Ballot Measure

RECOMMENDATION:

That the Finance Committee discuss the potential fiscal impacts of adopting a voter-approved modern telecommunications utility users tax ordinance and recommend to Council the tax rate to be included in the ordinance.

DISCUSSION:

On February 21, 2008, the City Council held a work session on the potential risks to the City's 6% telecommunications utility users tax (UUT). At the UUT work session staff:

- Provided background information – what is the utility users tax?
- Explained the potential exposure - why is the city at risk of losing virtually all of its \$3.8 million in telecommunications Utility Users Tax?
- Described services at risk – what services might be affected by the loss of this revenue?
- Presented options – what can we do?
- Discussed next steps and timelines for policy decisions and seek general direction on how to proceed.
- Proposed, that following the Council work session staff would work with the Ordinance and Finance Committees to craft recommendations.

The Council expressed an interest in placing a ballot measure before the voters in November, 2008 to update the City's telecommunications UUT ordinance. Doing so would protect against potential legal risks to this critical revenue source as well as updating the ordinance's 1970's language to reflect rapidly changing telecommunications technology. The City's telecommunications UUT tax, in place since the 1970's, provides almost \$4 million of critical revenue with 50% supporting the City's streets programs and the other 50% supporting essential General Fund services such as police, fire, parks and recreation and library.

As a result of the work session, the Council agreed to ask the Ordinance Committee to review a modern draft telecommunications UUT "model ordinance." Staff plans to present the draft model ordinance for Ordinance Committee review on April 8th.

Part of the process to update the telecommunications UUT is for the Finance Committee to review potential financial impacts and options, give staff direction and make recommendations to the Council.

The Council asked the Finance Committee to review the financial impacts of both the potential loss of this critical revenue source as well as of modernizing the ordinance language to ensure the tax is applied equally to all technologies, continues to keep pace with rapidly changing technology and recognizes the market's shift to fixed-fee calling plans and other marketing trends that simplify billing and reduce costs.

At the Council's February 21st work session, Don Maynor the City's consulting attorney on utility users tax issues, stated that, although there is still no empirical evidence to be able to conclude with reliable certainty, the adoption of a modern telecommunications UUT ordinance could result in a revenue increase of up to 10%. This is because the modern ordinance covers certain technologies and transactions that are not covered by the City's current 1970's ordinance. For example, a modern ordinance will cover VoIP (Voice over Internet Protocol) telephone services such as Vonage, which is not covered by our current ordinance. Also, the City's current telecommunications UUT ordinance taxes intrastate calls but not interstate or international calls. The modern ordinance covers all calls. It is this "broadening of the base" that would produce a revenue increase. The value of a one percent increase is approximately \$38,800. Under our present Ordinance, half of the revenue accrues to the Streets Fund and half to the General Fund. There is, however, no way to be sure that the revenue increase of adopting a modern ordinance will approach the 10% level. A more conservative position may be to assume a revenue increase of no more than 5%.

The City's current UUT tax rate is 6%. Staff requests that the Finance Committee discuss possible rate options and recommend to Council whether a modern telecommunications UUT ordinance placed on the November, 2008 ballot be at the current 6% rate or a different rate.

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