



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: September 23, 2008

TO: Mayor and Councilmembers

FROM: Administration Division, Finance Department

SUBJECT: Measure G Fiscal Impact Report

RECOMMENDATION:

That Council receive a report from the Finance Director on the potential fiscal impacts of Measure G, the Telecommunication & Video Users Tax Reduction & Modernization Ordinance.

DISCUSSION:

On July 1st, the City Council voted unanimously to place Measure G on the November 4, 2008 ballot. If approved by a majority vote, Measure G will replace the City's existing utility users tax (UUT) ordinance on telephone and cable television services with a modern telecommunications and video UUT ordinance. If approved, Measure G will lower the tax rate on telephone and cable television services to 5.75% from the current 6% and will update the ordinance to include new technologies used to provide telephone and television services.

When Council voted to place Measure G on the ballot, they adopted a resolution that directed staff to return within 90 days with an impartial fiscal impact report on Measure G. The report is intended to describe the City's UUT, Measure G and the potential fiscal impacts on the City if Measure G is approved by the voters and if it is not. This report is prepared and presented under the authority of State Election Code § 9212 and Government Code § 54964.

ATTACHMENT: Measure G Fiscal Impact Report

SUBMITTED BY: Robert D. Peirson, Finance Director

APPROVED BY: City Administrator's Office

City of Santa Barbara

Measure G Fiscal Impact Report

Executive Summary

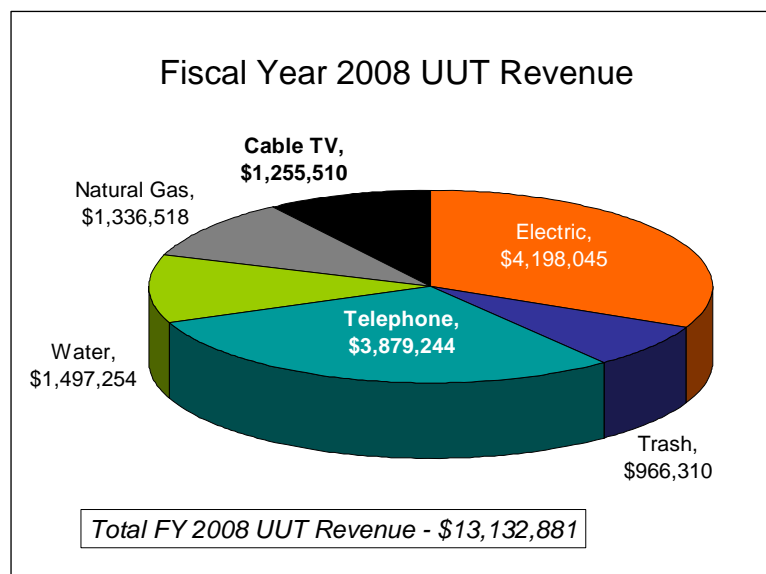
On July 1st, 2008, the City Council voted unanimously to place Measure G on the November 4, 2008 ballot. If approved by the City's voters, Measure G, also known as the *Telecommunication and Video Users Tax Reduction and Modernization Ordinance*, will amend the City's utility users tax (UUT) ordinance governing the 6% UUT on telephone and cable television services. Measure G will replace the City's current telephone and cable television UUT ordinance with a new, modern ordinance which will reflect the changes in technology since the current ordinance was adopted in the 1970's. In addition, it will reduce the tax rate on the telephone and cable television UUT to 5.75% from the current 6%. Measure G would lower the UUT rate on these two utility services and many, if not most, individual taxpayers could see a reduction in their monthly UUT on these services. However, passage of Measure G may not result in a lowering of total City UUT revenue because the rate reduction is combined with modernization of the ordinance language which will apply the tax to the newer technologies used to deliver telephone and television service. On balance, these two components are intended to generate approximately the same amount of revenue as is generated from the tax as currently levied. The balance of this report will describe the City's UUT in general, the telephone and television UUT that is the subject of Measure G and the potential fiscal impacts to the City of both the passage and failure of Measure G on November 4th. This report is prepared and presented under the authority of Government Code § 54964, which provides that a local agency may provide public information about a ballot measure so long as the information provided constitutes an accurate, fair, and impartial presentation of relevant facts to aid the voters in reaching an informed judgment on the ballot measure.

Utility Users Tax Background

Measure G concerns only the telephone and cable television portions of the City's existing UUT and an overview of the City's total UUT revenue provides a context for understanding Measure G.

The City's utility users tax (UUT) is a 6% tax collected on six different utility services: water, refuse, electric, natural gas, telephone and cable television that was adopted by the City at a time when State law did not require cities to distinguish between "general" and "special" taxes. In accordance with the City's UUT ordinance, half of the revenue goes to the City's General Fund and the other half goes to the City's Streets Fund.

The City's UUT has been in place since the 1970's. First levied in 1970 as a 3% tax, the tax was increased to 6% in 1977 with the additional revenue being directed to the construction, repair and maintenance of the City's streets. The UUT is



a major local revenue source for both the City’s General and Streets funds. The fact that the UUT is a locally controlled revenue is critical because it means, unlike property and sales tax revenue, the State can not take the City’s UUT revenue to help solve their ongoing budget shortfall.

The chart on the previous page shows the total \$13.1 million of fiscal year 2008 UUT revenue by each of the six utility services. In fiscal year 2008, this meant that these funds received approximately \$6.6 million in total UUT revenue.

Based on the City’s adopted fiscal year 2008 budget, total UUT revenue represents 6.5% of total General Fund revenue and 48% of total streets funding, including Measure D, the half-cent Countywide transportation sales tax. The following table summarizes the City’s total streets funding in the fiscal year 2008 adopted budget.

City of Santa Barbara Streets Funding Adopted Fiscal Year 2008 Budget				
	Streets Fund	Measure D	Total	Percent
UUT	\$ 6,846,800	\$ -	\$ 6,846,800	48%
Sales Tax	-	4,875,000	4,875,000	34%
Gas Tax	1,725,000	-	1,725,000	12%
Fees & Reimbursements	440,000	-	440,000	3%
Interest	-	195,000	195,000	1%
Transfer In	128,132	-	128,132	1%
Total Ongoing Revenue	\$ 9,139,932	\$ 5,070,000	\$ 14,209,932	100%

In summary, the City’s total UUT revenue provides substantial support for both the General Fund and the City’s streets programs.

The two utility services that are the subject of Measure G generated approximately \$5.1 million in fiscal year 2008 with approximately \$3.9 million coming from telephone services and \$1.2 million from cable television. With the split between the General Fund and the City’s streets programs, telephone and cable television UUT revenue provided just over \$2.5 million to each in fiscal year 2008.

Programs Funded by the UUT

The table to the right shows the estimated allocation of the Measure G revenue in fiscal year 2008. The General Fund portion has been allocated based on budget. For example, because police and fire represent half of the General Fund budget, half of the General Fund telephone and cable television UUT (25% of the total) is allocated to public safety. Another 14% of the General Fund portion (7% of the total) is allocated to Parks and Recreation and 4% of the total to the Library.

Measure G UUT Revenue Fiscal Year 2008 Revenue Allocation		
	Amount	Percent
Streets	\$ 2,550,000	50%
General Fund		
Administration	382,273	7%
Community Development	271,445	5%
Library	107,019	2%
Parks & Recreation	361,906	7%
Public Safety	1,261,372	25%
Public Works	165,984	3%
Total General Fund	\$ 2,550,000	50%
Total Telephone and Cable UUT	\$ 5,100,000	100%

The \$5.1 million of total telephone and cable television UUT provides substantial revenue to both the General Fund and the streets programs. Based on the adopted fiscal year 2008 budget, telephone

and cable television UUT represents almost 2.5% of total budgeted General Fund revenue and a much larger piece of the City's streets funding. Based on the adopted fiscal year 2008 Streets budget (shown in the table on the previous page), the \$2.5 million of Measure G revenue represents 17.9% of total City streets funding, including Measure D. With the continuation of Measure D also dependent on voter approval this November (as Measure A), the importance of the City's Measure G UUT revenue to the maintenance of the City's streets may be further magnified.

Impacts of the Passage or Failure of Measure G

First, as mentioned before, Measure G concerns only the UUT on telephone and cable television services. The outcome of Measure G in November will not affect the City's UUT on electric, natural gas, water or refuse services.

If Measure G passes, the most important potential fiscal impact is that the City will continue to receive all of the UUT revenue that it currently receives. Passage of Measure G will ensure that the City's telephone UUT, almost \$4 million per year, is protected from legal challenges other California cities are currently facing. Due to a change in federal tax law and the voter approval requirements of Proposition 218, a number of California cities are currently facing legal challenges to validity of their telephone UUT. While Santa Barbara has not been sued over our telephone UUT and it is impossible to predict the outcome of the litigation against other cities, there is a real possibility that an adverse outcome in the litigation will eventually affect Santa Barbara's telephone UUT. Primarily for this reason the City Council decided to place Measure G on the November ballot. Voter approval of Measure G will remove the potential exposure to an adverse legal outcome.

Beyond the potential litigation concerns, the fiscal impact on the City if the City's voters pass Measure G is fairly simple. If Measure G passes, the tax rate on telephone and cable television services will be lowered to 5.75% from the current 6% and the ordinance will be modernized to apply the tax to the new technologies used to deliver telephone and cable television services. It is estimated that lowering the UUT rate and applying the UUT to newer telecommunication and video technologies will maintain the current level of revenue and achieve revenue neutrality.

If Measure G does not pass, the City will be left with the current UUT on telephone and cable television. The rate will not be reduced and the modern language applying the tax to the new telephone and television technologies will not be adopted. The status quo will be maintained, at least for the present. The fiscal impact if Measure G does not pass is the potential loss of most or all of the City's \$4 million of UUT revenue on telephone services depending on the outcome of the telephone companies' litigation against several California cities and their telephone UUT.

The loss of \$4 million would have a significant impact to both the City's General Fund and the streets programs, representing a loss of at least \$2 million to each. A \$2 million loss would represent almost 2% of total General Fund revenue and 14% of ongoing streets revenue, including Measure D revenue (see the Streets Funding table on page 2).

The loss of \$2 million of existing General Fund revenue would require direct and corresponding reductions to the budget. The current fiscal environment is already adversely impacting significant General Fund revenues such as sales tax and the State budget situation is still unresolved. In order to adopt a balanced budget for the current fiscal year the City already made over \$4 million of adjustments, including expenditure reductions and revenue enhancements. With additional adjustments already anticipated for next fiscal year, the loss of an additional \$2 million would further strain the City's ability to maintain services. While it is difficult to predict how services would be affected, a loss of UUT funding would almost certainly require reductions across General

Fund programs. These programs and services would include parks, recreation, libraries and, depending on the extent of the adjustments required as a result of the economic situation, even areas in public safety. A loss of the City's telephone UUT would be a loss of revenue upon which the City has relied for almost 40 years.

In the Streets Fund, the loss of the telephone UUT would represent a reduction of almost 14% of the total revenue, assuming the continuation of the \$5.1 million of Measure D revenue. If the Measure D renewal, on the November 4th ballot as Measure A, is not approved by County voters, the City's streets funding will be reduced by 35% upon the expiration of Measure D. A combined loss of Measure D and the City's telephone UUT would represent a projected loss of \$7.1 million, or 50%, of the City's current streets revenue. While setting priorities for the use of the remaining funds would require careful analysis, there is no doubt that the City would be unable to maintain its streets at current levels if the existing telephone UUT is lost. The loss of Measure D revenue would only add to the problem.

Another fiscal impact that will arise if Measure G does not pass is sometimes referred to as "technology bypass." Because the City's telephone and cable television UUT ordinance is almost forty years old, some of the modern technologies used to deliver these same services now fall outside the existing UUT ordinance. Examples include Voice-Over Internet Protocol (VoIP) telephone service such as Vonage. As technology continues to evolve, more and more telephone and television services are likely to fall outside the City's UUT ordinance. This "technology bypass" will continue to erode the City's telephone and television UUT revenue.

In summary, passage of Measure G would essentially maintain existing City revenue in both the General and Streets funds. On the other hand, the failure of Measure G would leave the status quo in place pending the outcome of the telephone UUT litigation facing other cities. The ultimate impact of the failure of Measure G would depend on the outcome of that litigation. An adverse outcome could result in the annual loss of \$4 million in the City's General and Streets funds.