

Griffin, Terri

Subject: FW: UUT Ballot Measure Questions
Attachments: UUT Rev Estimates (4.5 rate).xlsx; Utility Users Tax - Council Questions.docx

From: Alton, Alan
Sent: Thursday, July 24, 2014 9:49 AM
To: @010000 - City Council
Cc: Millison, Kathy; Fowler, Caroline
Subject: UUT Ballot Measure Questions

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Mayor Bartley and Members of the City Council,

There were questions from the City Council when the UUT Ballot Measure item came up during the July 15 meeting. Attached please find a Word document that addresses those questions, as well as some other issues relative to the item.

I am also attaching an updated revenue estimate spreadsheet showing three charts: one showing the effect of losing Telephone UUT revenue; a second showing the potential effect of an across the board reduction in the UUT rate to 4.5% along with a modern UUT ordinance that includes wireless services; and a third chart that shows the potential effect of a modern ordinance, 4.5% UUT rate and elimination of the maximum tax cap. The revenue estimates compare to FY 2012/13 actual revenue, and come with the following caveats:

- We cannot accurately predict wireless use (and therefore UUT revenue). I used MuniServices data that comes from three similar cities, but the amount is really illustrative.
- The PGE estimate for UUT revenue without a maximum tax came from their gross receipts, less their exemptions for CARE and government entities. In theory, the estimated revenue should be close.
- We have no idea of knowing what the effect of no maximum tax cap will have on Other Gas and Electric revenue. We guessed at it being the same percentage increase as the PGE change, but we have no way of knowing.
- I would suggest that the one chart on which you could truly rely is the one showing the loss of telephone UUT revenue if this ordinance is not approved by the voters.

Alan

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Utility Users Tax – Questions from the City Council

1. Would the Utility Users Tax (UUT) apply to SKYPE?

Most of the popular SKYPE services are free, and therefore generate no UUT; however, any service SKYPE offers for a fee would be taxed just like any other telecom service. In other MuniServices client cities with modern ordinances, SKYPE is remitting UUT.

2. Enforcement

If the new ordinance is approved, MuniServices will provide us with a list of all telecommunications companies operating in Santa Rosa. From that list we will notify the companies of our new ordinance and UUT remittance requirements. From that point on, we work with MuniServices to ensure compliance.

3. Revenue Neutrality

The City's strategy for passing the new UUT ordinance is based on successful campaigns from several California cities. We propose expand the UUT base by modernizing our UUT ordinance to include modern telecom technologies including wireless. In addition, we would lower the UUT rate across the board.

At the Long Term Financial Policy (LTFP) committee, we discussed setting the UUT rate that would, at the least, generate a neutral level of revenue (total new UUT revenue equal to existing UUT revenue). The LTFP committee discussed a 4% rate and then settled on a 4.25% rate, which was forwarded to the Council by a 2-1 vote. The total estimated amount of revenue generated at that rate would be potentially more than FY 2012/13 revenue solely because of the anticipated additional revenue coming from telecom.

Because of the uncertainty of the telecom revenue estimates, our outside counsel, Don Maynor, advised us to be conservative setting our UUT rates. If we set the UUT rate too low, based on over-estimated telecom revenue, Proposition 218 would require the City to go back to the voters to raise the UUT rate to a level that generates sufficient revenue.

4. Lowering the Voter Approved UUT rate

Proposition 218 would restrict us from raising the UUT higher than the voter approved amount. So, if we set the rate too low, thus generating less than anticipated revenue, we would have to go back to the voters to increase the rate.

The City could, however, lower the UUT rate without going to the voters. This means that if the amount of revenue generated by the telecom UUT was far greater than expected, the City Council could vote to lower the rate. It could then, at a future date, raise the rate to an amount no greater than was approved by the voters. This is stated in Section 3-32.260 of the proposed UUT ordinance.

5. Prepaid Wireless

Prepaid wireless (AB 1717) is one of the unknown factors that could have a big impact on telecom revenue. If signed by the Governor, it would allow cities with modern ordinances (such as the one we are proposing) to collect UUT on pre-paid wireless, which is a current trend in wireless service. The legislation sets tiers for UUT rates on prepaid wireless at 1.5%, 2.5%, 3.5%, 4.5%, etc., up to 9%.

Due to the way the tiers are structured, if the UUT rate is between 3.5% and 4.5%, the UUT applied to prepaid wireless must be at the lower amount. As such, our consultant advised the Council to set our UUT at 4.5%. The City Council directed staff to do this by a 6-1 vote.

6. Additional notes

- The new ordinance keeps most of the other UUT provisions in place, including and most notably, the PG&E CARE exemption. So, while we do expand the tax to cover wireless services, we do so at a tax rate that is 10% lower, AND we exempt low-income residents who qualify for CARE from the tax entirely.
- Our consultant advised us that we should reconsider trying to achieve too many things with this ballot measure. The primary need will be to have a modern UUT ordinance passed by the voters. Eliminating the maximum tax at the same time could generate opposition to the ordinance and put passing it at risk.
- While our tendency with ordinances tied to General Fund revenue is to look at it from revenue generation perspective, we need to view this new ordinance as a tool by which to retain existing General Fund revenue. Approximately \$1.6 million worth of ongoing General Fund revenue. With the IRS ruling in place relative to Federal Excise Tax, and subsequent court cases wrapping up, we will stand to lose virtually half of our telecom revenue shortly. This would leave us with only local exchange revenue, and the major telephone companies have already signaled they are moving away from that (switching to VOIP and other services covered in our proposed modern ordinance). Therefore we can reasonably assume that we will lose all of telecom UUT revenue if we do not pass this ordinance.

City of Santa Rosa

Utility Users Tax Revenue Estimates

Existing UUT Revenue : 5% rate on all UUT categories; includes effect of no change to ordinance.					
Category	FY 2012/13 Actual (5% UUT) ¹	UUT Revenue (w/out Telephone)	Change	%	
PG&E	5,955,880	5,955,880	-		
Telephone	1,611,779	-	(1,611,779)		
Wireless Services	-	-	-		
Cable TV	1,604,376	1,604,376	-		
Other Gas & Electric	430,847	430,847	-		
Total UUT	\$ 9,602,881	\$ 7,991,102	(1,611,779)	-17%	

Across the Board UUT Rate Reduction					
Proposed UUT Rate : Reduce UUT rate by 10% to a 4.5% rate; expand base through modern ordinance that includes wireless service					
Category	FY 2012/13 Actual Revenue	Est. UUT Revenue under new ordinance	Change	%	
PG&E	5,955,880	5,360,292	(595,588)	-10%	
Telephone	1,611,779	1,830,294	218,515	14%	
Wireless	-	2,861,301	2,861,301	100%	
Cable TV	1,604,376	1,443,938	(160,438)	-10%	
Other Gas & Electric	430,847	387,762	(43,085)	-10%	
Total UUT	9,602,881	11,883,587	2,280,706	24%	

Across the Board UUT Rate Reduction; Eliminate Maximum Tax Cap					
Proposed UUT Rate : Reduce UUT rate by 10% to a 4.5% rate; Eliminate Maximum UUT cap; expand base through modern ordinance that includes wireless service					
Category	FY 2012/13 Actual Revenue	Est. UUT Revenue under new ordinance	Change	%	
PG&E	5,955,880	6,311,075	355,195	6%	
Telephone	1,611,779	1,830,294	218,515	14%	
Wireless	-	2,861,301	2,861,301	100%	
Cable TV	1,604,376	1,443,938	(160,438)	-10%	
Other Gas & Electric	430,847	456,698	25,851	6%	
Total UUT	9,602,881	12,903,306	3,300,425	34%	