



## REPORT TO COUNCIL City of Sacramento

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PUBLIC HEARING  
May 30, 2006

Honorable Mayor and  
Members of the City Council

**Subject:** FY2006/07 Budget Special Presentation: Utility Users Tax Update

**Location/Council District:** Citywide (All)

**Recommendation:**

For information only. Receive and file.

**Contact:** Russell Fehr, 808-5832

**Presenters:** Russell Fehr, Finance Director

**Department:** Finance

**Division:** Administration

**Organization No:** 1111

**Description/Analysis:**

**Issue:** Recently, there have been a number of issues that could potentially impact the City's ability to levy and collect the Utility Users Tax (UUT). The current UUT rate is 7.5% and is applied to charges on telephone, electricity, gas, cable television, interstate and international telephone charges, toll-free telephone services, and cellular/wireless telephone charges. The tax is imposed on the utility service user but collected for and remitted to the City by the utility service provider.

In accordance with the City Code, the City's UUT includes language related to the federal excise tax (FET). Several state and federal courts have recently ruled that the FET does not apply to long distance service. These rulings could result in the exclusion of these as well as cellular telephone services from the FET and the loss of a significant portion of UUT revenue. Additionally, there is a pending United States Treasury Department ruling related to the application of the FET to both wired and wireless long distance services. This ruling could prohibit the collection of the levy and require the issuance of refunds.



In regard to market share, consumers have more choices in telecommunications services today. Not all of these services are subject to the UUT. Advances in information technology and fierce competition in the telecommunications industry have blurred the boundaries for telecommunication services. Telephone services are competing directly with cable television companies to offer telephone, internet, and video services. As customers migrate from traditional service providers to cable, satellite, broadband, wireless and companies and others, the market share held by traditional service providers could be diluted. This could result in the loss of City UUT revenue and franchise fee revenue.

Additionally, there is pending State and Federal legislation which could impact UUT and the City's ability to levy and collect this vital revenue resource. Pending federal legislation includes a proposed ban on state taxation on internet access which would prohibit cities from imposing UUT on DSL or cable broadband and the establishment of national cable franchising. At the state level, legislation includes the creation of state issued franchises for cable and video services.

At this point, the fiscal impact of these challenges is unknown. However, Finance Department staff has been working closely with the City Attorney's Office to monitor these issues and to identify specific impacts. Further, staff will report back with any recommended actions to the Mayor and the City Council to address these challenges.

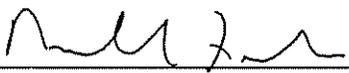
**Policy Considerations:** None at this time.

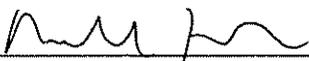
**Environmental Considerations:** None.

**Rationale for Recommendation:** Staff will return to the Mayor and the City Council with any recommended actions to address potential threats to the UUT.

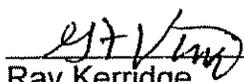
**Financial Considerations:** In FY 2005, the City received \$53.8 million in UUT revenue. This represents nearly a quarter of the total taxes collected and approximately 15% of General Fund revenue. As the City's third largest revenue stream, UUT is a vital revenue source which funds many essential municipal services.

**Emerging Small Business Development (ESBD):** None.

Respectfully Submitted by:   
Russell Fehr, Finance Director

Approved by:   
Russell Fehr, Finance Director

Recommendation Approved:

  
for Ray Kerridge  
City Manager

