



Utility Modernization Act (UMA)



What is the UMA?

1. Modernizes our existing Utility Users Tax (UUT)
 - No increase to current tax rates but clarifies things that are taxed
2. Confirms Alameda Municipal Power's (AMP) historical support of essential city services
 - No increase to electric bills (adjusted for inflation)

The UMA modernizes our existing laws and practices and allows us to maintain core city services.

Utility Users Tax (UUT)



What is the UUT?

- The Utility Users Tax (UUT) is an existing 7.5% tax on the consumption of:
 - Electricity
 - Gas
 - Cable TV
 - Telecommunications Services





History of the UUT

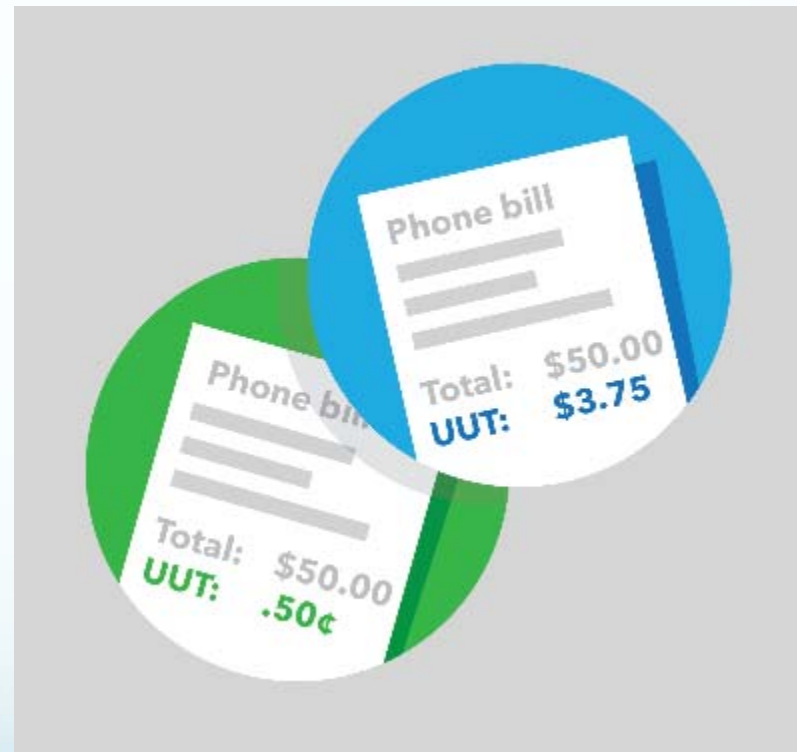
- In 1970, the City Council enacted a Utility Users Tax (UUT) to help fund general city services
- In 1995, the City Council increased the UUT to 7.5%
- Prop 218 stipulated that any tax must be ratified by the voters
- As a result, in November 1998, the City placed the UUT on the ballot and it was passed by the voters





What Will the Modernization Do?

- Currently, two different users with the same plan under different carriers pay different amounts for UUT.
- Will ensure the tax is applied equally to all users and better define what services are covered.





What Will the Modernization Do?

- Increase could be \$0 - \$5 per user per month depending on if your carrier is currently applying the tax correctly.
- This measure will return the UUT revenue in the General Fund back to the FY 2007/08 level.
 - Expect to raise approximately \$1.5 million
- 10 agencies in Alameda County have a Utility Users Tax. Of these, 8 have updated and modernized their UUT through a vote.



Why is the UUT Important?

- The UUT is the City's 4th largest revenue source that was put in place to ensure the City of Alameda had steady revenue to support essential public services, including:
 - Medical emergency response
 - Police Patrol and Investigations
 - Fire Protection
 - Street and Road Repair
 - Libraries
 - Maintenance of Parks and Recreation Facilities



Alameda Municipal Power (AMP)

Alameda Municipal Power (AMP) – Historical Support of City

Annual Transfer - \$2.8 million

- Transfer since 1914
- Written into the Charter in 1937

Street Lights - \$900,000

- Maintenance, Replacement, and Electricity

Other Support - \$1.4 million

- Payment In Lieu Of Taxes (PILOT)
- Return On Investment (ROI)



Alameda Municipal Power (AMP)

October 2015 - *Ginsburg vs. City of Alameda*

- Lawsuit alleges AMP's support of the General Fund is in violation of Proposition 26 (approved Nov 2010)

"Charge for a government service cannot be more than the reasonable cost to provide that service – otherwise it's a tax"

- Common practice among municipal utilities

Why is the Transfer Important?

AMP's annual transfer provides the City of Alameda with key financial support to fund essential services, which maintain Alameda's quality of life, including:

- Emergency medical response
- Fire response to emergencies
- Police response to violent and property crimes
- Streets and pothole repair
- Maintaining neighborhood parks



What Exactly is “Modernization”?

Alameda Municipal Power (AMP)

Current language in Charter written in 1937 and is grossly outdated.

PROPOSED NEW LANGUAGE:

- *Effective July 1, 2017 Alameda Municipal Power will make an annual transfer to the City, in the amount of \$3,700,000, plus an adjustment for inflation and minus any exemptions*

Alameda Municipal Power (AMP)

- *The Public Utilities Board (PUB) is authorized to fix rates in an amount sufficient to cover the cost of the annual transfer as part of its authority to fix rates; and*
- *Alameda Municipal Power will collect the amount of the annual transfer from its ratepayers, by including an amount “proportionate to the amount paid as a percentage of the total revenue collected, within each rate, fee, or other charge.”*

***THIS LANGUAGE CONFIRMS EXISTING PRACTICE AND
WILL NOT IMPACT EXISTING RATES***

Utility Users Tax (UUT)

- Includes a modern definition of telecommunication and video services including
 - VoIP (voice over internet protocol);
 - Telephone service;
 - IP-TV (broadband cable-like services);
 - Paging; and
 - Private communication services.
- Follows definitions similar to Streamlined Sales and Use Tax definitions that are widely followed in other states and are easily administered by the telecommunication industry;
- Incorporates definitions of “ancillary telecommunication and video services” that are commonly recognized by the industry;

Utility Users Tax (UUT)

- Includes a modern definition of “video services”
- Provides detailed definitions and descriptions of unbundled services that historically have been included in taxable gas and electric services;
- Gives the City tools to address taxation issues that will assure broad and even-handed application of the tax through:
 - administrative rulings and sourcing, and
 - bundling and nexus guidelines.

Utility Users Tax (UUT)

- Assures that the Utility Users Tax revenue will be properly collected through the use of third party auditors; and
- Maintains the 2% exemption
 - Low income households
 - Senior Citizens - raised from 62+ to 65+ similar to other taxing entities.

Utility Users Tax (UUT)

Complies with current Federal Law which states:

- No tax on “internet access” such as email and digital downloads as well as games, music, and software etc.
- No tax on direct broadcast satellite TV

A TYPICAL CUSTOMER LIKELY WILL NOT SEE AN INCREASE IN TAXES THOUGH SOME TELECOMMUNICATION USERS MAY DEPENDING ON IF THEIR SERVICE PROVIDER IS PROPERLY APPLYING THE EXISTING TAX.

How Will the UMA Affect the Balanced Revenue Index (BRI)?

How Will the UMA Affect the Balanced Revenue Index (BRI)?

- The BRI is used to calculate salary increases for some employees, including public safety
- The BRI is based on the growth of the City's top five General Fund Revenue Sources:
 - Property Tax
 - Bradley Burns Sales Tax
 - Utility Users Tax
 - Property Transfer Tax
 - Transient Occupancy Tax (TOT)
- The collection of any new UUT revenue will affect compensation changes effective January 1, 2018

How Will the UMA Affect the Balanced Revenue Index (BRI)?

- It is expected that additional UUT revenue will not escalate BRI any more than currently anticipated based on the current revenue projection.
- Should other revenues (property tax, sales tax, transient occupancy tax and/or transfer tax) used in the calculation of BRI exceed current projections cumulatively by more than \$2.1 million, it will cause an increase in the BRI.
- AMPs transfer is not part of the BRI.

How Will the UMA Affect the BRI?

(As projected without the UMA)

(In thousands)

Revenue Type	Wage increase effective 1/1/18 (w/o voter approval)		
	FY 16-17	Change	% Change
Property Tax (GF only)	\$ 33,134	\$ (550)	-1.66%
Sales Tax (Bradley Burns), incl. MVLF In-Lieu	9,500	269	2.83%
Utility User Tax	7,910	(120)	-1.28%
Property Transfer Tax	8,206	(794)	-9.68%
Transient Occupancy Tax	1,900	-	0.00%
Total	<u>\$ 60,650</u>	<u>\$ (1,195)</u>	-1.92%
50% of total increase (safety employees)			-0.96%
50% of total increase (misc. employees w/o Transfer Tax)			-0.38%
		Misc	Safety
Minimum per MOUs		3.00%	2.00%
Maximum per MOUs		4.00%	5.00%

How Will the UMA Affect the BRI?

(As projected with the UMA)

(In thousands)

Revenue Type	Wage increase effective 1/1/18 (w/ voter approval)		
	FY 16-17 *	Change	% Change
Property Tax (GF only)	\$ 33,134	\$ (550)	-1.63%
Sales Tax (Bradley Burns), incl. MVLF In-Lieu	9,500	269	2.91%
Utility User Tax	9,410	1,380	17.19%
Property Transfer Tax	8,206	(794)	-8.82%
Transient Occupancy Tax	1,900	-	0.00%
Total	<u>\$ 62,150</u>	<u>\$ 305</u>	<u>0.49%</u>
50% of total increase (safety employees)			0.25%
50% of total increase (misc. employees w/o Transfer Tax)			1.04%
		<u>Misc</u>	<u>Safety</u>
Minimum per MOUs		3.00%	2.00%
Maximum per MOUs		4.00%	5.00%

* Utility Users' Tax revenue includes revenue as approved by City Council per FY 2016-17 Mid-Cycle Budget Update plus \$1.5 million of estimated revenue expected to be collected after voter approval of UMA Measure in November 2016.

Why is Modernization so Important?

- Combined – the UUT and AMPs Transfer will represent 15% of the City's General Fund.
- Loss of this revenue would significantly affect the City's ability to provide essential city services.



Recommendation

- Call and notice a General Municipal Election to be held on Tuesday, November 8, 2016;
- Order the submission to the electors of the Utility Modernization Act;
- Consider authoring a direct and possible rebuttal argument; and
- Direct the City Attorney to prepare the impartial analysis.

Question and Answer

