TUT Presentation

City of Los Angeles
City Administrative Officer

What is the TUT

- The Telephone Users' Tax is a general City tax that is assessed at 10% of:
  - Traditional land lines billed to LA City addresses
  - Cell phones billed to LA City addresses
- The revenues received from the tax are not restricted and can be used to fund a variety of City services including Police and Fire

Brief History

- Implemented in 1967 and the rate was set at 4% on local and intrastate service
  - Only one large company in the market at the time (Pacific Telephone – 80% of the local market)
  - Referenced Federal Law for ease of collection as requested by Pacific Telephone including exemptions

Brief History (continued)

- Rate increased in 1970 to 5%
- After Proposition 13, the rate was increased to 10% (1983)
- In 1987, the tax was expanded to include interstate and long distance service
- In 1993, the tax was expanded for cellular service (based on origination and termination)
- In 2003, City implemented the Mobile Telecommunications Sourcing Act which provided a uniform method to collect the tax on the entire calling portion of wireless service

Changing Technology

- Communication technology has changed dramatically with cell phones, satellite communications and other media
- Telephone billing has changed with the advent of fixed fee calling plans
- Newer technology will continue to be developed

Federal Excise Tax

- FET was charged based on time and distance
- Congress did not amend the FET to include modern pricing practices (time only, bundling)
- Courts have held that the FET is limited to time and distance
- IRS discontinued enforcing the long distance portion of the tax
- City chose to amend its ordinance to clarify that it was not adopting the new IRS practice, but would continue to collect as intended based on time or distance

Legal Challenges

- AT&T/Verizon Ruling
  - Challenge regarding the City's ability to tax wireless service
  - Challenged the City on the basis of tax change - Proposition 218
  - The appellate court ruled that the City can continue to collect based on origination and termination of the call
- Other Litigation Issues
  - Application of the tax to certain telecommunication services due to outdated definitions or references to outdated Federal law.
  - Application of the tax on bundled services
  - Many plans are based on time regardless of distance
  - Definition of "toll telephone Service" – courts have ruled that taxable charges be based on both time and distance (FET)

Proposition 218

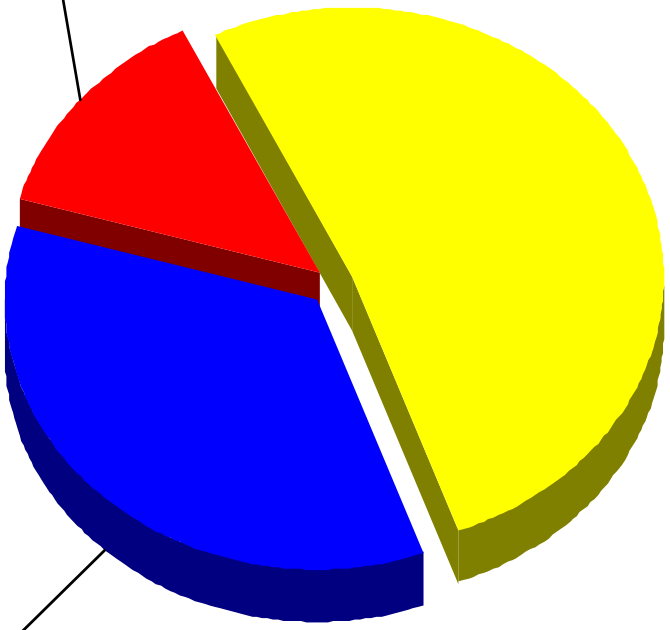
- Enacted in 1996 to close “loopholes” in Proposition 13
- Classifies revenue as general, special or property-related fees
- Requires voter approval of all general and special taxes
- Requires notification of fee increases
- Grandfather in existing taxes

Revenue

- Total revenue for 2007-08 is approximately $6.82 billion
- However, total Unrestricted General Fund revenue is only $3.62 billion
- Approximately 70% of unrestricted revenue pays for Police and Fire services
- TUT is approximately $270 million or over 7% of unrestricted revenue

2007-08 Revenue - $6.82 Billion

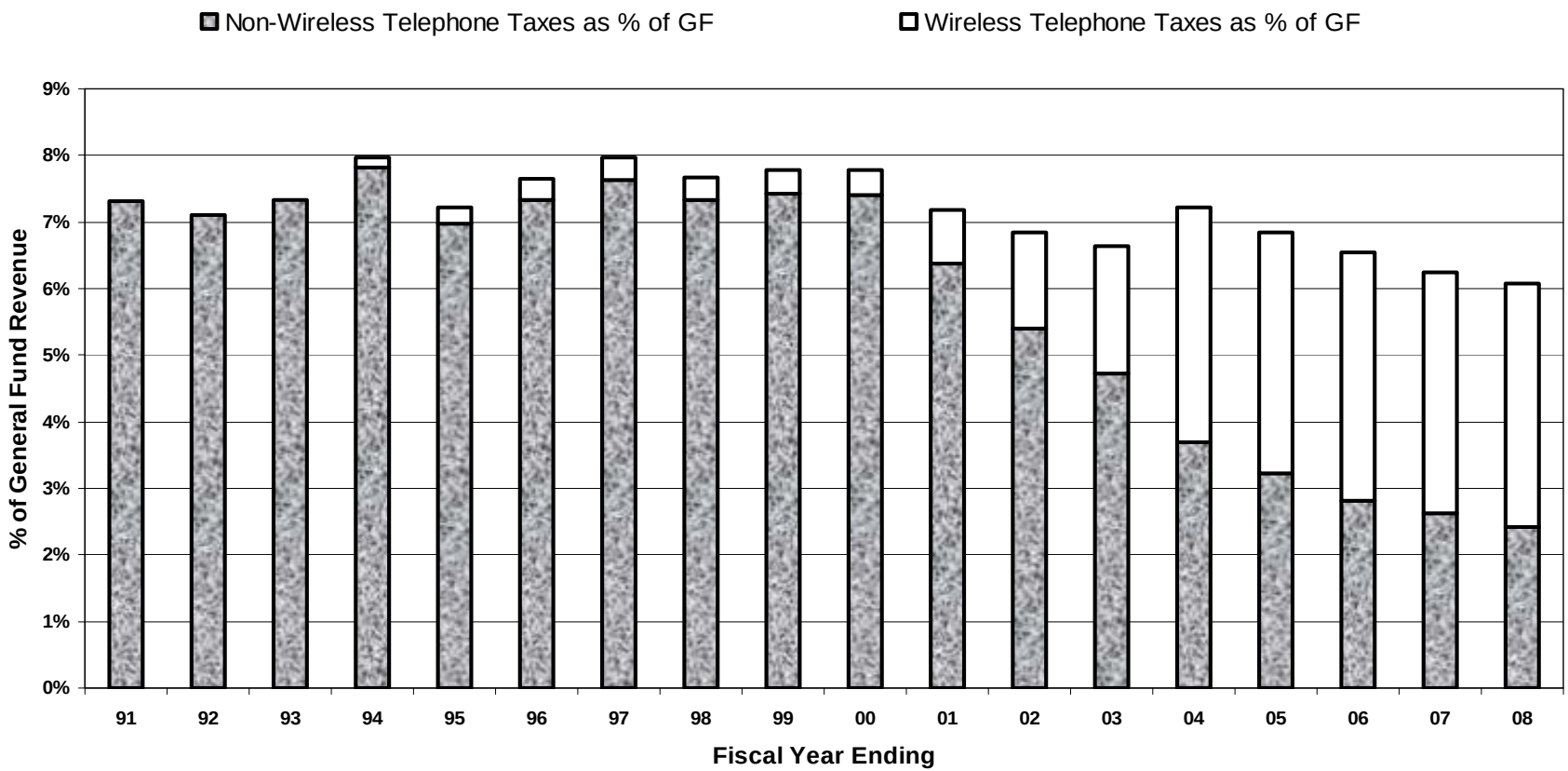
General Fund Restricted Revenue
$0.82 Billion
12%
Licenses, Permits, Fees, Fines, Grants, etc.



General Fund Unrestricted Revenue
$3.62 Billion
53%
Property Tax, Utility Users Tax, Business Tax, Sales Tax, Power Transfer, Documentary Transfer Tax, Transient Occupancy Tax, Parking Fines, Parking Users' Tax, Reserve Fund, Others

Special Fund
$2.38 Billion
35%
SCM, Bond Redemption, Prop A, Bldg. and Safety Fund, Gas Tax, SEC, Prop C, SLMAF, Local Public Safety Fund, etc.

Telephone Users' Tax Revenue



The telephone users' tax consistently provided more than 7% of General Fund revenue through FY 2000-01. The Federal Mobile Sourcing Act became effective in August 2002 and FY 2003-04 was the first full fiscal year affected. Coincident with increasing revenue from wireless telephone users, non-wireless telephone taxes began declining as a percent of General Fund Revenue in FY 2000-01. Values for FY 2007-08 are budget estimates.

City of Los Angeles

Emergency Declaration

- The City requires certainty in the collection of general revenues
- The City needs to eliminate the legal uncertainty to ensure continued provision of public services
- The City has already received an appellate court decision against it
- The next City general election will not be until March 2009
- If the City waits, it may not be able to fund essential public services

Modern Communications Tax

- Eliminate outdated terminology
- Provide new definitions so users will be treated the same
- Reduce the rate from 10% to 9%
- Expands the base by including VoIP, broadband telephony, paging and private communication lines (T-1)
- Basically the tax is on communications services regardless of the means of transmission or conveyance
- Does not tax internet access, consistent with the Federal Tax moratorium

Modern Communications Tax

- The new ordinance would keep all of the prior exemptions (income eligible senior citizens and disabled persons, nonprofit educational organizations and hospitals, state and local governments, news services)

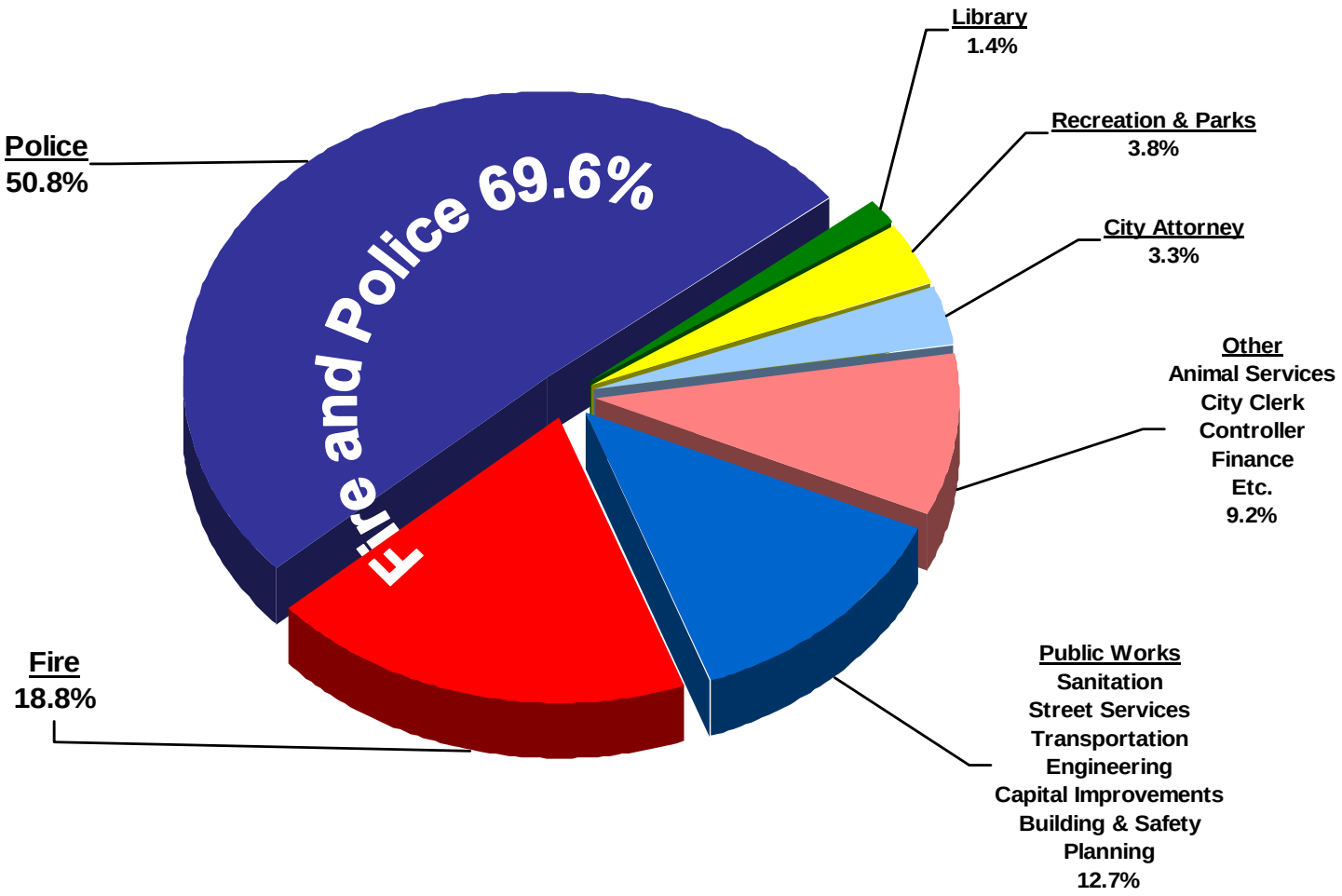
- Email and digital downloads such as books, music, ringtones, games and other digital products will not be taxed.

New Ordinance

- If the voters approve the new ordinance (50+1), then it will replace the old ordinance

- If the voters do not approve the new ordinance, then the old ordinance remains in place until legal challenges have been resolved

Unrestricted Revenue - $3.62 Billion



Order of Magnitude

- A $270 million reduction would approximately equate to the following:
  - Laying off 2,700 Police Officers; or
  - Eliminating half of the Fire Department's budget; or
  - Laying off 4,200 General Fund civilian employees (approximately 1/6 of workforce)

Order of Magnitude (cont.)

- Eliminating General Fund appropriations to the following City departments:
  - Aging
  - Animal Services
  - City Clerk
  - Commission for Children, Youth and Their Families
  - Commission on the Status of Women
  - Cultural Affairs
  - Disability
  - Emergency Preparedness
  - Employee Relations Board
  - Environmental Affairs
  - Ethics Commission
  - Office of Finance
  - Human Relations Commission
  - Information Technology Agency
  - Personnel
  - Planning

City Services

- **However, pursuing these types of reductions would not be practical nor efficient in the delivery of City services.**
- Many expenditures cannot be reduced or eliminated such as pension and retirement contributions, debt service payments, workers' compensation.
- The Charter imposes other financial obligations that fund departments and other special funds such as the Library Department, Recreation and Parks, and campaign matching funds.
- These restrictions leave a much smaller expenditure base that must absorb any potential revenue loss.

Impact on City Services

- The City will have to implement service reductions or revenue increases to balance:
  - Curtail Police hiring
  - Close Fire stations
  - Reduce park maintenance
  - Eliminating recreation programs for youth
  - Reduce library hours
  - Reduce street resurfacing
  - Eliminating cultural and art programs
  - Reducing street cleaning, graffiti abatement and other quality of life programs and funding
  - Increase revenues
  - Other service reductions

Sustaining Services

- Maintaining our existing service levels
- Revenue loss will impact everyone in the City to some degree
- Education is key to success
- Ask questions