

# SANTA BARBARA NEWS-PRESS

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## **City mulls expanding utility users tax - Internet telephone, satellite TV are added elements**

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A taxpayers association executive is concerned that including new telephone technologies in an expanded utility users tax (UUT) in Santa Barbara could have an impact on the bottom lines of companies and business owners operating in the digital economy.

Joe Armendariz, executive director of the Santa Barbara County Taxpayers Association, which represents 1,200 members, believes that one method of modern communication -- Voice over Internet Protocol (VoIP) -- should be exempt from a proposed expansion of the city's UUT.

"Here's the thing: Is there no better way to find the necessary revenue (to fund services) other than expanding a telecommunications tax?" asked Mr. Armendariz, referring to the business conducted over Internet-based telephones. "This is about local government taxing innovation."

But the city is indeed considering taxing VoIP, other telephony innovations and satellite TV as part of a "new and modern" ordinance that will go before voters in November.

Currently, the city collects \$4 million in revenue from landline, cell phone and long-distance telephone providers. It also collects approximately \$9 million from cable TV operators like Cox Communications. Half of the revenue from these taxes goes to street and road maintenance; the other half goes to the general fund.

The referendum will address not only an expanded definition of telecommunications providers, but also will lower the tax rate as more players are brought into the mix, said Bob Peirson, city finance officer. "We want to ensure that there's a level playing field," he said. "Capturing revenue that's currently outside the scope of the ordinance" is the reason behind lowering the tax from its current 6 percent to 5.75 percent.

With other players in the pot, he doesn't envision the \$4 million figure will rise. In terms of the current revenue situation, the biggest slice comes from Verizon's landlines, and AT&T is the largest cellphone provider in terms of tax collected, Mr. Peirson added.

Nearly half of the municipalities in California have revised their utility users tax of late, and many have included VoIPs in their revised telecommunications policies. In Santa Barbara, the UUT has been on the books since the 1970s and was written before these telecommunication

methods were invented. The new measure also will address the taxing of out-of-state calls and satellite TV.

Mr. Peirson said it's important to note that DSL lines and cable modems are not subject to the federal excise tax or UUT because these broadband services, until recently, were not used for voice and were properly deemed private communication services.

The migration of telecommunication services to the Internet is not just a Vonage phenomenon. AT&T, SBC, Verizon and Time-Warner have all announced their intent to introduce Internet telephone service in California this year.

Mr. Armendariz also stated that the taxpayer group believes the local measure should require more than a simple majority; therefore, his organization will push for two-thirds approval by voters before the city could enact the expanded tax, and will work with city staff to make this case in the next round of discussions.

Mr. Peirson said both the finance and ordinance committees will make final recommendations in June to the City Council. At that point, the city will need to draft ballot language for the measure.

Mr. Armendariz contends there is no practical way for a VoIP company like Vonage to identify the geographic location of the calls placed by its customers.

"Collecting this new UUT on VoIPs will prove challenging at best (for the city) as subscribers could simply use out-of-town mailing addresses to avoid the new tax," he said.

Calls to New Jersey-based Vonage for comment were unsuccessful. According to its Web site, Vonage provides services to more than 2.2 million subscriber lines.

The newly written ordinance would also address the issue of satellite TV. As currently proposed, the ordinance would permit the "future taxation" of the subscribers in Santa Barbara, according to Mr. Peirson.

However, under current federal law, the city is precluded "from doing this."

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