

Minutes  
Finance Committee Meeting  
2:00 pm, 12/11/12  
First Floor-North Conference Room, City Hall

Present: Vice Mayor Esther Manheimer, Chair; Councilman Chris Pelly,  
Councilman Marc Hunt

Staff: Lauren Bradley, Gary Jackson, Steve Shoaf,  
Tony McDowell, Eric Hardy, Pat Liguori, Cheryl Heywood

### **Approval of Minutes**

Councilman Hunt made a motion to approve the 10/23/12 minutes and this motion was seconded by Councilman Pelly and unanimously approved by the committee.

### **Business License Audit**

Mr. Eric Hardy, Controller told the committee that he wanted to discuss the authorization to levy privilege license tax and how Asheville puts this into practice. Mr. Hardy went on to explain our current strategy and how staff is proposing to collect these taxes in the future. State statute and city ordinance authorize us to collect taxes on all trades, occupations, professions, businesses, and franchises carried on within the city limits. It is an annual tax that is due July 1<sup>st</sup> of every year. There are some businesses that the state has exempted from this tax. Currently, there is no process to detect non-reported businesses or under-reporting of gross receipts. There is a limited collection effort on annual renewals, which results in an inequity for businesses which are in compliance. The collection strategy that staff is proposing is to outsource to an audit firm that would use discovery procedures for non-reported, under reported and delinquent paying businesses and would charge the City a percentage rate fee that would be based on the revenue they are able to collect.

Councilman Pelly asked how many new collections we have on an annual basis and how the list is updated. Mr. Hardy said that there are currently seven thousand on the list but the number of new business is undetermined. The database is updated when there is a change that comes through the City's Development Services Department.

Councilman Hunt asked how much in tax volume we have been missing. Mr. Hardy said that based on a city our size, the potential in uncollected fees is approximately one hundred thousand dollars.

Ms. Bradley said the policy consideration is if we want to start at the point of auditing the businesses that are currently paying, or level the playing field by finding those businesses that are not but should be paying this tax. This would be the first step in conveying a message to those businesses that this is a matter of equity and fairness to get those who are not paying into compliance.

Vice Mayor Manheimer asked if those businesses that are in non-compliance would be sued. Mr. Hardy said that if we choose to pursue that course of action the auditing firm will assist us in doing that.

Vice Mayor said she felt that the contingency fee was high and recommended that staff try to negotiate the thirty five percent collection fee down to twenty five or less.

Councilman Pelly said if there is only about \$100,000 potential collections and we are currently collecting \$1.4 million, which appears that we are getting over ninety percent compliance, which is relatively high. Mr. Hardy said

Ms. Bradley said that unless the committee had any objection, staff will move forward and report back to the committee on progress.

### **Water Manufacturing Rate**

Mr. Steve Shoaf, Water Services Director said that over the past couple of years, we have had conversations about water manufacturing rate as a special class. You can't treat customers in the same class differently, so if you have a commercial class, everyone in that class has to be treated the same. By establishing a manufacturer's class, we can give that class some preferential treatment on their rates or their CIP fee and still in compliance with state laws. Mr. Shoaf told the committee that the scenarios he will be describing are based on the most recent rate model prepared by Raftelis Consulting firm. The manufacturer's provide jobs, use large amounts of water, and if we can give them some sort of break, that would enhance their ability to be competitive locally and regionally. Mr. Shoaf said that the qualifications that a manufacturing class would be required to meet were based on a more generic set of criteria/qualifications rather than how much water they use. Mr. Shoaf reviewed the qualifications for what a manufacturing rate might include. The first is participation in the waste reduction water audit program, done through the Land of Sky, at no cost to the institution. Another qualification is that they be listed as a manufacturer based on the appropriate standard industrial code (SIC) or tax classification, which would identify them as a manufacturer. The next qualifier is that they would be required fill out an application form that provides information that would allow staff to track those businesses to simplify tracking and updates to data base.

The first scenario presents the rates schedule as it was developed by Raftelis. The rate progression that is shown in the rate model extends the equity of the Tier 2 industrial rate out twenty years. The highest level of water users in the Tier 2 will be at a thirty percent

discount from what our residential customers are currently paying. Right now, they are at a fifty three percent discount and we are trying to bring those rates closer together. By spreading the adjustment over time, there is less of an impact on these manufacturers. The second scenario is to hold the capital fee steady for the next ten years. The capital fee is based on meter size, so the capital fee varies from manufacturer to manufacturer. Each year there is a small progression on that capital fee, by a few percentage points. In this approach, we would freeze their capital fee to what it is this year, for the next ten years. The third scenario includes holding the capital fee fixed, and adjusting the next years rate for the tier 2. It is currently \$1.69 and projected to go up each year. After ten years, they would be paying a little less in their rates.

The revised model is the one we got without the transmission main (TM) is the one we received from Raftaelis. The TM is the project that is currently being evaluated. The evaluation will be used to determine how many more years of service we have in those water pipes. Deleting the transmission main from the model has an impact on our capital fees as well as our rates. The graphs comparing residential rates from the three models show that the one that is climbing the steepest is the model that includes the TM project. That one project has quite a substantial impact on our rates. Mr. Shoaf said that because we currently don't have enough information on the TM, we won't have an answer about how the replacements of the TM will affect the CIP at this point.

Mr. Shoaf said that staff is trying to help manufacturers and give them a little bit of an advantage while retaining some equity within our rate structure.

Councilman Pelly asked if the goal is to gradually move towards equity between residential rates and commercial rates but at a slower pace per this Tier 1 rate. Mr. Shoaf said that is correct, over the next ten years we currently have the commercial Tier 1 rate and the residential rate in line. The commercial Tier 1 rate is a fifteen percent discount from the residential rate. The commercial Tier 2 rate when we started, was about sixty three percent discounted under the residential rate and we have moved it to about 54 percent. We intend to, over the next 20 years reduce that difference to about thirty percent. This would mean that in the end, they would still enjoy a thirty percent discount under the residential rate.

Councilman Pelly asked if manufacturers would come up to that rate too. Mr. Shoaf said there are only six customers that qualify for that Tier 2 rate and all six are manufacturers. What staff wanted to do was include not just those manufacturers that qualified for the Tier 2 rate, which is volume based, but also any manufacturer who meets the qualifications mentioned in the talking points.

Councilman Hunt asked how the structures compare to what other municipalities in the state do. Are we moving toward being in sync with other municipalities? Mr. Shoaf said that across the state, and the nation, these water rate structures are all over the map. There are some systems that are on a flat rate, some charge by volume of ccf used. Our structure is typical of those areas that want to encourage manufacturing and businesses. This is intended as a development tool to allow these manufacturers to enjoy a break on their rates.

The committee asked staff to move forward and come back during the budget process with a proposed manufacture rate class.

### **2013 Audit Request for Proposal Process**

Mr. Hardy's presentation to the committee is inaudible because he did not speak into the microphone. Please see the attached power point presentation and other materials for information concerning the Request for Proposal to hire external auditing services for fiscal year 2013.

The committee asked staff to evaluate the received request for proposals over the next two weeks and bring recommendation back to committee on January 8<sup>th</sup>.

### **Other Business: Budget Business Calendar**

Mr. McDowell reviewed the business calendar highlights for the budget process. Mr. McDowell said the first key date is the kickoff of the budget process in January. Departments will begin entering their budgets in January on our internal financial system. During the January finance committee meeting staff will provide an update on our CIP process and other budget items. At the February meeting, staff will come to the committee with proposed fees and charges, and another budget update. A new addition to the calendar is the city council financial planning retreat scheduled for March 2013. Council will give staff some final direction on the budget and go to full council the end of

March for adoption of fees and charges and proposed budget on April 23<sup>rd</sup>. Public hearing for the budget is scheduled for May 7, 2012 and on May 23 the budget will be presented to full council for final approval of the 2013-14 budget. The March/April work sessions that had been on the calendar in previous years are not on the calendar with the idea that the financial planning retreat will take the place of those budget updates historically done in the March-April timeframe. Ms. Bradley said that instead of having multiple meetings that discussed capital and operating the idea of the retreat was that we would be able to connect the conversations between capital and operating rather than having silo conversations.

Councilman Hunt said that last year, we began reviewing the five year plan and wanted to confirm that we would do that again this year. Ms. Bradley said staff is in the process of developing a capital planning tool to be presented during the March timeframe that will give a broader perspective of what the capital needs are and what our funding capabilities are and what the impact certain projects would be to revenue requirements. This will allow the conversation to take place earlier in the process, in order to get council feedback.

Vice Mayor Manheimer adjourned the meeting at 3:00p.