

**Financial Sustainability Task Force  
Meeting Summary for August 7, 2013**

Attending:

<b>Panel Members:</b>			
Pierson Clair		Ryan Mudie	✓
Scott Ramsey	✓	Christopher Tracy	✓
Tyler Shillito	✓	Toby Murray	✓
Eve Bowen	✓	Andrew Buelow	✓
Clayton Harris (Jenny Harris)	✓	Roberta Marsh	✓
Reggie Frederick	✓	Lyle Quasim	✓
Ken Kingsbury	✓	Allan Trinkwald	✓
Lois Bernstein	✓	Troy Goodman	
Jim Leonard		Gary Gilchrist	
<b>Alternate Members:</b>			
William King		Kit Evans	✓
Budd Wagner		Nick Leider	
Ruth Smith	✓	Bill Dickens	
Matt Frank		Emily Hall (audience)	✓
Terry Krause		Bruce Kendall	✓
Brian Haynes		Mary Byrne	
<b>Staff and Others<sup>1</sup>:</b>			
Karen Reed (facilitator)	✓	Danielle Larson	✓
Andy Cherullo	✓	Sharon Schroder	✓
Tadd Wille	✓		
Ebony Peebles	✓		
Susan Ramirez	✓		

**Welcome and Introductions.** The meeting was called to order at 4:04 p.m.

Karen Reed, the facilitator, reviewed the agenda. Lyle notified the group that he, Tyler, Karen and City staff have met in advance to discuss the agenda and other items.

**Review and Approval of Today's Agenda, Housekeeping Items**

Lyle explained that the group should focus questions to staff on items that will help the group make its final recommendations.

**Meeting Summary.** The meeting summary from Meeting 3 was reviewed. Roberta mentioned that Nick Leider was in attendance at Meeting 3. As so amended, the minutes were approved.

Karen provided a brief refresher presentation on the mission of the group.

---

<sup>1</sup> Only those individuals sitting at the head table or giving presentations to the Task Force are included on this list. A number of other staff attended the meeting.

**Review of List of Task Force Member Questions; Response to Questions asked at Meeting 3.**  
Andy reviewed the materials in the packet responding the Task Force member questions on 2003-2014 general fund budget expenditure detail.

Lyle said he spoke to Senator Patty Murray this morning and asked whether there was any relief coming to the City related to federal healthcare costs? She responded that there is a possibility but that nothing would be forthcoming immediately.

Q: Are the FTEs shown in the 2003-2014 data budgeted full time positions, or actuals?

A: The answer was that these were the budgeted FTE's

Q: Did anything jumped out at staff related to increased costs over the period?

A: Employees make more in 2013 than they did in 2003, the cost of the pension plan has increased, the cost of health benefits went up and the City's debt burden increased during the 2003-2013 time period. These are the same costs drivers that staff had identified in the expenditure presentation made several meetings ago.

Andy continued his review of the packet materials provided in response to Task Force member questions, addressing comparable electricity rates, tax exemptions for multi-family and historic properties, legislative intent of the gross earning tax limit and where other cities derive most of their general fund revenues.

Q: Can staff provide additional information on the "other" category of revenues from other cities, since this seems to be a major component for most of the examples provided?

A: Yes.

Andy noted that at this point, all Task Force Member's questions have been answered or placed on the Parking Lot list.

Some members asked that information that was being presented at the meeting could be sent via email as opposed to being printed in hard copy and handed out. Tadd responded it could but it may be only 15 minutes prior to the meeting.

### **2<sup>nd</sup> Quarter Budget Update for 2013 – Revenues/Expenditures to date**

Tadd provided an abbreviated overview of the 2<sup>nd</sup> quarter financial report that was presented to the City Council. He reported that revenues are exceeding projections by \$3.6M and expenditures are lower than projections by \$4.3M, for a positive year-to-date variance of \$7.9M. He noted that the City is cautiously optimistic that this trend continues, and will continue to diligently monitor it on a monthly basis.

### **Presentation and Discussion: Revenue – Business & Occupation Tax Overview**

Andy provided an overview of expenditure and revenue presentations from the last several meetings.

Danielle Larson, Tax & Licensing Division Manager, began her presentation on Business and Occupation taxes (B&O) with an overview of information provided at the last meeting.

Q: How difficult is it to enforce out of town businesses to pay B&O?

A: The City compares data with the State and other municipalities to limit the number of businesses that avoid the tax, but that ultimately businesses are on the honor system to pay the tax.

Q: How does the \$250K gross income limit for Tacoma lines up with \$20K limit?

A: The \$20K is the base limit in state law at which businesses become subject to the B&O tax. Tacoma is more generous and does not begin taxing business until they have over \$250K in gross earnings. The limit applies to all businesses subject to the tax regardless of whether they are located inside or outside Tacoma. Tacoma has the highest limit in the state at \$250K to encourage business development.

Sharon Schroder, Tax & Licensing Audit Supervisor, provided detail on B&O tax definitions – resale, manufacturing, retailing, retail services. She also provided a multi-city B&O tax comparison.

Danielle continued the presentation with an explanation of the various deductions, exemptions and credits for the B&O tax that are in Tacoma's tax code.

Q: Is there any way to know if the \$250K threshold is helping businesses starting up?  
Bruce Kendall responded that it's difficult to sort through the data on this issue. He noted that Washington is one of very few states to impose a B & O tax at the state or city level and this discourages businesses from locating here. Lyle asked whether or not having an income tax helps, since many other states have an income tax? Bruce responded it probably does. Reggie made a comment that based on his service on the Restaurant Association Board, he believes that some national restaurant chains won't locate in Washington State because of the B&O tax structure. Andy asked a question related to restaurants – Does the lack of competition from national chains help mom & pop restaurants start up locally? Reggie responded it is unclear.

Q: How do we ensure we are collecting the money from service providers outside Tacoma?

A: The City has compliance officers and auditors who work to ensure businesses are in compliance with the code. They use a variety of sources to identify potentially non-compliant businesses. Once a business has been identified to owe tax, they would be notified and then contacted to request payment.

Q: How many field auditors does the City have?

A: The City currently has three; including one added in the 203-2014 budget.

Q: What is the punishment for not paying B&O? D

A: There are penalties and fines in the code and it can go all the way up to charges for fraud. There is no reporting mechanism for the City to know whether or not a business is doing work in the City but not paying the appropriate B&O tax.

Q: How does the state collect B&O taxes?

A: Typically at the same time a business pays its state sales tax.

Tadd mentioned that there are companies that help cities maximize their revenue collections by finding businesses that are not properly paying their taxes. These companies typically work on a contingency basis, meaning that they only get paid from the new revenue they generate. Tadd

also cautioned that there is a balance of encouraging business development and ensuring taxes are properly paid. The City does not want to be perceived as too lax nor too aggressive in collecting taxes from businesses.

Q: Do we have an analysis that provides us with how much we believe we are losing from lack of collection?

A: No. When new businesses are registered, the City searches as many avenues as possible with the State to try to catch any additional B&O collections (DOR, Secretary of State).

Q: Are the majority of business paying B&O tax were within the City or outside city limits?

A: Danielle will research and provide an answer at the next meeting.

Danielle finished the presentation with an overview of the other taxes including gambling & admission taxes.

### **Proposal for Phasing Work Plan/ Framework for Task Force Recommendations**

Karen presented a proposed framework for how the Task Force could approach using its time in the final 5 meetings. She proposed four phases of work and a four part framework for responding to the mission. Karen asked whether the group whether the proposal seems workable to them? No one objected.

### **Review/Discussion/Possible Action: Parking Lot List**

Lyle commented that if he had known the size of the problem he may not have committed to the team. The problem is much worse than he expected and it will be a chilling five meetings.

Allan commented that we should consider selling assets and use the proceeds to reduce the outstanding debt. He also asked that staff provide an explanation of the debt that has been accumulated including how much did we borrow and what was it for? A request was made for a short list of relatively liquid City assets that could be potentially be sold to generate revenue and possibly reduce ongoing carrying costs. Staff will put together a list of potentially liquid assets and the purposes for which currently outstanding debt was issued. Andy noted that sale of assets typically generates one-time revenue and won't reduce the budget gap on an ongoing basis.

A statement was made that we should identify the City's values and not just cut the budget.

**Next Meeting: Wednesday, August 21, 4:00-6:00 pm at the Municipal Building, 747 Market Street, 2nd Floor, Room 248 (later changed to 7<sup>th</sup> Floor room 708)**

Karen recapped the questions posed today and confirmed with Task Force members that all their data requests and Parking Lot items were included in her flip chart lists. No additions were offered. The meeting was adjourned at 6:07.