



CITY COUNCIL

Finance Committee

Meeting Report Monday, June 20, 2016

Committee Members Attending: M. Goodman-Hinnershitz, B. Twyman, J. Slifko

Others Attending: J. Waltman, L. Kelleher, B. Rivera, C. Younger, D. Cituk, D. Pottiger, J. Encarnacion, G. Steckman.

Ms. Goodman-Hinnershitz called the meeting to order at approximately 5:05pm.

I. Legislative Review – Berks EIT Collection Fee

Ms. Goodman-Hinnershitz stated that this issue has been on the agenda for some time now and the administration was to follow up and give council an update on what course of action will be taking place to move this forward.

Mr. Steckman stated that he and Ms. Encarnacion have been involved in discussions and he stated that what Berks EIT is requesting is not proper under Act 32. He stated that Berks EIT should have the capability to do garnishments and not hire a third party to perform this work then require the City to take a 25 percent cut. He stated that he has requested a meeting with Berks EIT and copied the Mayor to discuss the inappropriateness of their request. He stated that he will also request information on the City's Business Privilege Tax (BPT) and a list of EIN numbers and the companies to ensure the proper accounting is obtained. He is also requesting a copy of the contract between Berks EIT and all the municipalities participating in the TCC. He stated that the Berks County Tax Collection Committee (TCC) is comprised of members representing the municipalities who levy EIT taxes and they should be holding Berks EIT accountable for the collection of EIT taxes due.

Mr. Slifko inquired if Berks EIT makes a certain percentage of their collections. Mr. Steckman responded affirmatively stating that it likely is a substantial figure.

Mr. Steckman stated that he put in a "Right to Know" request to Berks EIT for all the information on their collections procedures. He stated that there are individuals and businesses that deliberately have not filed tax returns. It is Berks EIT's job to ensure that everyone pays the portion Berks EIT is under contract to collect.

Mr. Waltman stated that he was of the understanding that Berks EIT was doing a good job in their collections as evidenced by the City's higher EIT revenues once they were contracted to do the collections by the TCC.

Mr. Steckman stated that prior to Act 32 the proper municipality would not get the EIT because paychecks were issued at corporate headquarters which may be outside of the municipality. He stated that once the collections were made county-wide, this was looked at more closely which in turn resulted in higher EIT revenues for many municipalities.

Ms. Goodman-Hinnershitz questioned if the ordinance should continue to be part of the agenda for more discussion or if it should be tabled or even removed at this point.

Mr. Steckman made the suggestion to table it at the very least as he is of the belief that this will not be resolved in the immediate future. Ms. Goodman-Hinnershitz asked that the ordinance be removed from the agenda as the ordinance will require additional amendment.

Ms. Kelleher stated that the leadership at Berks EIT has changed and that may also play a role in how the current dealings are being handled.

Mr. Slifko questioned if the other taxes (BPT, LST) be put on hold until this issue with Berks EIT has been resolved. Mr. Steckman stated that he believes it is imperative to move forward with those regardless of the Berks EIT ordinance to apply a 25% fee for EIT delinquencies.

Mr. Steckman stated that the problem is that Berks EIT is not interested in the collection of those other taxes. Berks EIT is looking to renegotiate the terms as they are not making enough money. He stated that when the agreement was put into place, Berks EIT was willing to take a loss and now they are not. In fact, there was a specific clause in the contract stating that Berks EIT will give the City six months' notice to terminate and they're willingness to breach that part of the contract.

Mr. Waltman stated that he understood that Berks EIT was collecting the Business Privilege Tax. Mr. Steckman clarified that Berks EIT is collecting the license fee, not the BPT. He expressed the belief that this practice is backwards as the City should be collecting the license fee and Berks EIT should be collecting the BPT.

Mr. Twyman stated that as he is assigned to the BPT issue and he is waiting to hear from the

administration on when to meet to discuss this moving forward so that he can in turn report back to Council.

Mr. Steckman stated that he and the rest of the administration are having weekly financial meetings to keep abreast of all revenues. He stated that he doesn't believe our organization is capable of doing our own BPT auditing. He strongly suggests a third party be utilized to do the BPT auditing.

Mr. Pottiger stated that there are a couple of issues that create problems. He stated that there are a select few businesses that understate their BPT revenue when they file a return and others who do not file at all. The City has one person internally who is tasked with going out and looking for those who are guilty of both. Unfortunately, this task is more consuming than one person can manage.

Mr. Steckman agreed stating that the City needs an individual to go out and ask to see licenses of City businesses. He suggested that the City print out different colored licenses each year so as to identify quickly that a license is current.

Mr. Waltman concurred adding that firmer policies should be put in place so that if a business owner does not display a license or it is not current, there should be a penalty imposed and if the business does not have one at all, that business should be shut down.

Mr. Steckman stated that the City should comprise a data base that, together with Mr. Tangredi, will help track the businesses with a current license versus those who have let it lapse. The City can send out reminders to help business owners know when it is time to renew their business license.

Mr. Waltman stated that it is his belief that a large number of revenue is not collected due to not knowing what businesses are operating with current business licenses.

Mr. Steckman stated that one of the projects he's working on with parts of the administration is the creation of GIS map overlays to make the process even more efficient.

Mr. Twyman questioned if there's currently information available from Berks EIT that will provide the City with a baseline. He also questioned if the City's IT division is capable of composing GIS maps and what is needed to push this idea forward as this would provide Council with a clearer picture of what it working and what is not working.

Mr. Slifko stated that with a city of 85,000 people, there needs to be more personnel to handle this undertaking adequately; not just one individual tracking this from City Hall.

Mr. Steckman stated that he will meet with staff to discuss all of what has been said and proposed. He will provide council and the mayor with an update.

Mr. Waltman stated that the City has had very promising initiatives; however, the execution has always been where the City lacks consistently. That was clear to him when Berks EIT took over EIT collections.

Mr. Steckman expressed the importance of having a consistent policy instituted where businesses will understand the ramifications of not holding up their end by keeping their business licenses up to date. He said the only way to ensure this happens is if the City finds a way to track the licensing effectively so collections will be equally effective.

Mr. Cituk stated that if Berks EIT is imposing a 25 percent surcharge, that surcharge should be the delinquent individual's responsibility and not the City's.

Mr. Steckman stated that he still would like to address the 25 percent surcharge with Berks EIT and continue to request that they do the garnishing that their organization is responsible for collecting.

Mr. Twyman questioned when would be an agreeable time to meet with Mr. Steckman and discuss the collections process as he has been assigned that task by Council.

Mr. Waltman stated that in looking forward to the 2017 budget which should include having policies implemented so that, at the very least, our projections for 2017-18 look promising.

Mr. Steckman responded to Mr. Twyman's request of meeting with him. He stated that he will reach out to him in a few weeks to discuss the BPT, Per Capita and EIT. He's unsure of the Per Capita tax and if it is something that the City should continue to collect as it is very costly to do so.

Mr. Slifko stated that the Per Capita tax was something that was going to be reviewed starting last year to determine whether or not it is feasible to continue collections.

Ms. Reed questioned abandoning the Per Capita tax before attempts are made to properly collect it.

Ms. Kelleher pointed out the Berks EIT was responsible for the collection of the Per Capita tax and did not follow through.

- **Proposed Ordinance** – amending the City Code, Chapter 5 Administrative Code, Section 5-806 Fiscal Provisions to provide clarity by providing a new Section 807 for the Annual

Budget and Capital Program, incorporating the Purchasing Policies currently identified as Section RE3117-OO5a-Ex A to Section 809, adding reserved sections for future use and renumbering Section 800 in its entirety.

Ms. Goodman-Hinnershitz questioned if Mr. Steckman has any information regarding this proposed ordinance. Mr. Steckman replied that at this time he does not as he has not had a chance to carefully review this.

Ms. Kelleher stated that she and Mr. Coleman have been working together to rewrite Section 806 of the Administrative Code. She stated that Section 806 of the Administrative Code needs substantial work. This section contains language on the budget, allocations, the reserve, capital budget, etc. The section has become very confusing for those who try to use it.

Ms. Kelleher and Mr. Coleman have suggested expanding the numbering in Section 800 and moving the Capital and General Fund Budget pieces into its own section. She stated that they also suggest moving the Purchasing Policies into its own section. In 1996 when the Code was first adopted, purchasing policies didn't exist so the policies were originally referenced as an attachment to the Administrative Code. She stated that she and Mr. Coleman have worked to ensure that the dollar amounts align with the specific purchasing policies so as to create consistency without conflicts. She stated that she should have a draft to distribute by the end of the week.

Mr. Steckman questioned if Ms. Reinhart had a chance to review this proposed ordinance and the changes, including the MERC component. Ms. Kelleher replied affirmatively stating that Mr. Coleman has included all the recent changes that have been implemented.

II. Baker Tilly Forensic Audit Report

• Administration's recommendation

Ms. Encarnacion stated that as she understands, there are specific areas that the City is looking to have Baker Tilly's services utilized for forensic auditing. Those areas include the Water Authority and the Parking Authority.

Mr. Twyman stated that he understood the WWTP to be also included in the scope of the Baker Tilly's services. He questioned what the Administration's stance is regarding the WWTP.

Mr. Steckman replied that the Sewer Fund is a City Enterprise fund that can be reviewed by the City external auditors rather than Baker Tilly. He stated that WWTP personnel has begun addressing some of the issues identified through the initial Baker Tilly forensic audit report and the City's own external audit so he does not feel it necessary to include WWTP in services rendered by Baker Tilly.

Mr. Waltman stated that the WWTP may need to be reviewed more closely as there were several transactions regarding the consent decree project and the allocations of funds. He stated that the City may want to perform a more comprehensive audit first and then determine if it should also be included in Baker Tilly's scope of services.

Mr. Steckman stated that the City has started to closely review the Black and Veatch transactions. He stated that RKK is also being reviewed regarding change orders. He stated that the term "change order" can refer to several different scenarios such as unforeseen circumstances or architectural or engineering matters that come up. He stated that he's had conversations with Ms. Snyder, Mr. Miravich, Mr. Johnson, RKK and Mr. Lachat and he made it clear that for the City to request any changes moving forward, there will need to be a very good reason. Mr. Steckman stated that he feels this is more about the execution of contracts rather than a WWTP issue. He will continue to ask many questions and based on responses, move in whatever direction is required.

Mr. Slifko stated that he is of the belief that where the City spends the most money is where a deeper analysis is warranted and crucial in determining if any mistakes have been made or indiscretions have occurred.

Mr. Waltman stated that the City has spent so much on legal fees and other costs related to WWTP that it has become very concerning. He questioned if at this point any dollars are recoverable, what will be the added costs to recuperate those funds and will it be feasible to do so.

Mr. Steckman stated that he wanted to reiterate that the \$300M figure is for numerous projects and not just Black and Veatch.

Mr. Waltman stated that the only changes that should be made are those that literally pay for themselves. The City cannot continue to spend without seeing that there is something to gain in return.

Mr. Twyman stated that the City owes its residents an explanation in regard to all the expenditures that have taken place with WWTP and whether or not those expenditures have been warranted.

Mr. Waltman stated that regarding the consent decree on the Inter-Municipal Agreements (IMAs), if the City loses credibility, things will only get worse. He stated that he fears that this will turn into a legal battle.

Mr. Steckman stated that the plant that is being built covers 50 percent City customers and 50 percent customers outside of the City. He agrees with Mr. Waltman in that the IMAs are critical.

There have been internal discussions regarding the possibility of imposing permit fees to lower the costs for City residents. He noted that the originally Black and Veatch designed a plant that was too large for the City's needs.

Ms. Goodman-Hinnershitz suggested that the IMA issue be discussed in an executive session sometime in the near future.

Mr. Slifko questioned if an approximate cost has been determined regarding the audits for the Parking Authority and the Water Authority.

Ms. Encarnacion stated that the cost of a forensic audit would depend on the scope of services requested.

III. Update on Healthcare costs

Ms. Goodman-Hinnershitz apologized for not being able to attend the meeting due to a scheduling conflict.

Mr. Steckman stated that he has asked Ms. Encarnacion to work with Mr. Younger to get letters out to all retirees who are now re-employed with an organization that offers health care packages and to sign an affidavit so that an audit can be performed to comparison the two healthcare plans. He stated that there will be a meeting with EHD to explore healthcare costs. He stated that he is aware that staff is not satisfied with EHD and he will be looking at the contract to determine how to move forward. He will continue to keep Council updated as he obtains information.

Ms. Goodman-Hinnershitz reiterated the importance of receiving financial reports electronically which has been done and she wants to make certain that continues to be the case even if Council does not have time to address those reports during committees.

Ms. Goodman-Hinnershitz adjourned the meeting at 6pm.

*Respectfully submitted by
Bea Rivera, Legislative Aide and
Linda A. Kelleher CMC, City Clerk*

Action Items

1. Finalization of TCC Ordinance re EIT delinquent collection fee.
2. Administration recommendations for approach to Baker Tilly Report.
3. Administration's next steps regarding resolution of repeat findings #s 2 and 3 as per PFM.
4. Healthcare Audit for retirees who are reemployed

July

- BPT & Per Capita collection
- Retention of the Commuter Tax
- Health insurance cost and exploration of alternatives
- Remove re-employed retirees who have access to similar healthcare coverage
- Pension reform
- Pension fund management
- Timeline to resolve Account reconciliations and State Grant Management