

City of Crestview Hills Finance Committee Minutes

Monday, March 21st, 2016

Attending:

Joe Rosel, Chairman
Frank Sommerkamp
Tim Adair
Charlie Rowe

Paul Meier
Tim Williams

Chairman Roesel called the meeting to order at 4:01 pm.

Review of Business Tax Compliance Audits

Brian Todd and Justin Vanderglass from Clark Schaeffer Hackett attended the meeting and provided a presentation regarding the results of the 2015 selected audits of businesses within Crestview Hills. Mr. Williams stated that this was the second review of business tax returns since the City began the program in 2013.

Mr. Todd reviewed a table accompanying the company's report summarizing the findings within the tax reviews. The reviews encompassed three years of Net Profits tax returns as well as three years of occupational (payroll) license fees. A total of five businesses were reviewed.

Mr. Todd pointed out that four of the five returns on Net Profits contained some exceptions to the firm's ability to tie in the tax paid to the federal income tax return documentation. Three of the five payroll tax returns contained exceptions. Mr. Todd went through the firm's process for reviewing the returns and noted that the initial information provided by the Kenton County Occupational License Fee office contained a good bit of missing information necessary to conduct even a rudimentary review and check of the taxes paid. The City of Crestview Hills then worked with Clark Schaeffer Hackett and the Kenton County office to obtain more information from each company. This proved to be a long process, and in several cases required letters from the City Attorney to the companies to finally get the supporting documentation.

After accumulating most of the required supporting documentation, Clark Schaeffer still found several returns that did not tie into the IRS returns. However, after looking at the potential additional revenue that might be gained from continued pursuit of the tax reconciliations, it was determined by City Staff that further work would not be financially worthwhile.

The Committee discussed at length weaknesses in the current collection system by the Kenton County Occupational License Fee Office. Mr. Williams emphasized the problems with collection

of a New Profits License Fee since it requires far more cross checking of IRS returns and verification that all supporting documents have been submitted with the returns. The City's experience with the current system is the lack of verification of the returns numbers and assurance that supporting IRS schedules have been submitted as required in our tax ordinance.

Mr. Williams noted that based on the direction of the Council at the January Goal Setting Session, he has prepared a study of Net Profits vs. Gross Receipts and sent this to the Chairman's of the Finance and Economic Development Committee (as well as the Mayor) for further discussion. If both Committees would like to see the City move forward with a possible change, then he would do an analysis of all businesses located in Crestview Hills to determine a revenue neutral gross receipts rate. Mr. Williams discussed how a switch would likely increase compliance and might provide longer term revenue growth for the City. He also stated that with any change, there would be winners and losers in terms of those businesses paying more and those paying less. However, overall retailers would likely pay more, while many of the small businesses might pay less each year.

Lakeside Park-Crestview Hills Police Authority

Chairman Roesel reviewed the current formula used by both cities to determine the annual funding for the Police Authority. He noted that the formula contains a number of steps to determine funding, including types of businesses and dwellings with different factors that must be updated each year.

Mr. Roesel believes that a better and more simple approach would be agreeing on a 70-30 split going forward that would be reviewed every five years. His split is reflective on the average over the past five years. He also proposed that the Police Authority be required to pay an annual lease rate and share of utilities more in line with market rates. The current lease rate of \$2,500 per year is only a fraction of a market rate and utility costs that renters would pay in Crestview Hills. Although Crestview Hills pays 70% of the total charge, it would still result in Lakeside Park paying more of their fair share of the expenses of the agency.

The Finance Committee agreed with the proposed new formula and requests that the Mayor meet with the Lakeside Park Mayor to discuss the new funding proposal. The Committee would like to see the new formula contained in the City's Interlocal agreement with Lakeside Park before the start of the new Fiscal Year.

Meeting was adjourned at 5:10 pm.