

City Staff Responses to Questions from CWAC

Chuck Freitas – Questions

1. May we (CWAC) receive some copies of the worksheets prepared by the “central service” departments, e. g, IT (GIS specific), GS (facilities maintenance), RE (central safety) ? I assume that a record is available for each "central services" department depicting how much and when the department "head" charges their time to Tucson Water (TW) as an administrative cost to be allocated.

Information will be provided at the meeting.

2. Mayor & Council (M&C) passed (2/19/2014) the CWAC recommended Financial Plan without the "in-lieu property tax" (\$1,600,000). Who (department "head" or councilperson) decided to reinstate the in-lieu tax (ILT) into the general budget. This action negated the action taken by the M&C in February. Was this action approved by any M&C motion, other than the vote by M&C to approve the general budget?

The in-lieu of property tax was approved by Mayor and Council through the budget process. During the FY 2015 budget process, the in-lieu was part of the study session presentations on February 4, March 25, April 15, and April 23, 2014. A meeting was held with Councilmember Kozachik and staff to discuss both the administration charge and the in lieu of property tax last year.

Attached is a timeline of Mayor and Council opportunities in regards to the in-lieu of property tax.

3. Will the Finance department or any other City of Tucson (COT) entity request a "borrowing" of TW funds for other than TW purposes?

There have been no discussions regarding any city department or entity borrowing from Tucson Water.

4. Why is the Environmental Services Enterprise fund (ES) exempt from the ILT? The ES uses similar easement/access to COT property as does TW. The ES could be sold to a private organization (Waste Management) and, therefore, the idea that COT would receive ILT monies from ES (as has been stated about TW) "to recover the lost property tax revenue that the City would have collected if the Utility were a private business." should, also, apply to ES. Right?

The in-lieu of property tax fee is not for the use of city right of way. The fee is property taxes lost from property owned by Tucson Water. Environmental Services only has landfill property. The remediation liabilities surrounding the property exceed the book value of the land.

5. The Finance department supplied M&C and CWAC a ranking of Administration Services (AS) charged by municipal jurisdictions, last year. It showed the COT with a \$11,123,390 figure as an AS charge. The total AS charge given, and subsequently verified, to the CWAC finance

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subcommittee was \$57,283,674. Does this discrepancy create a problem with the ranking list provided M&C and CWAC?

The \$57,283,674 is the **total** amount allocated to **all** departments. The \$11,123,390 is the total amount allocated to Tucson Water and Environmental Services which is a portion of the \$57,283,674.

6. The AS costs to TW (and other grantees) have gone up more than the Consumer Price Index, COT FTE levels, and other indices. Last year, Joyce Garland stated: "While salaries and wages have decreased from FY 2008 overall within the General Fund, the cost of benefits (i.e. group medical, employer paid pension, workers' compensation) have significantly increased basically at the same amount of the salaries and wages decrease." Therefore, they "balance out". Why, then, have the AS charges continued to go up to TW and other grantees?

The dollar amount is just one factor of the allocation process. The dollars are distributed to departments based on cost drivers. A listing of the drivers was provided to CWAC at the last meeting. If General Fund departments have reduced their FTEs; number of contracts and POs issued; number of VOIP devices; and other cost drivers then Tucson Water may have an increase of the total percentage.

This point is illustrated in the response to Mr. dos Santos' question #4.

7. Is there a system in place to prevent duplication of charges incurred by "Grantee Departments", through their own budgets and by the COT AS? For example, the IT costs incurred by TW within its' budget is high. The AS cost for IT to TW is, also, quite high.

Yes. The costs directly charged to Tucson Water are deducted from the costs allocated.

8. Public records list the ILT as a tax, not a fee. The original Finance department presentation to M&C in 2009, clearly show property tax calculations to illustrate the potential tax to be charged to TW. Why do some COT officials (attorney Rankin) state that the ILT is a fee? He has said that fee is to pay the City for services provided to TW. Tucson Water pays in excess of seven million dollars for those services as the Finance department has outlined to CWAC, M&C and others. The ILT funds go into the COT general fund as a "deficit mitigation" per former City manager Mike Letcher. The ILT is a tax and not a fee. If you do not agree, please provide the points for your position.

Taxes are paid for government services that are supposed to really help everyone. A tax is for the purpose of raising revenue that is not connected to the activity being taxed. Fees, on the other hand, are a charge connected to the actual direct government cost of the activity.

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Placido dos Santos – Questions

1. How has the total amount paid by TW changed annually during the past 10 to 15 years? A graphic display would be useful.

See the chart.

2. What other city Departments pay these City "overhead charges"?

In FY 2015, the administration fee is paid by Tucson Water, Environmental Services and Park Tucson.

3. Are there any departments that are exempt from such fees?

All departments are allocated central services costs; however, not all departments pay an administration charge to the General Fund. Most departments are within the General Fund. There is no cash transfer for departments within the General Fund. Only departments outside of the General Fund (Environmental Services, Tucson Water, and Park Tucson) pay the administration fee. The federally funded housing funds do not allow for the City to charge an indirect administration charge.

4. How has this amount changed (as a percentage of total "overhead charges") compared to total amounts collected from all City Departments?

In FY 2015, Tucson Water will pay 12.8% of the total central services department costs (\$7,362,540/\$57,283,674). Environmental Services will pay approximately 6.6% of the total. In FY 2007, Tucson Water paid 5.94% of the total central services department costs (\$5,423,550/\$91,289,060). Environmental Services paid 2.08% of the total.

5. What were the other formulaic options that were considered by TW when CWAC recommended use of the current formula (or process) for payment of the administrative service charges?

The options considered were: (i) the method in use at that time, or (ii) the cost allocation method presently being used.

6. Are these alternative processes still viable options for consideration by TW for determination of future administrative service charges?

City staff is not recommending a return to the earlier process.

7. If yes, is a billable hours option open for consideration?

City staff is not recommending a change to billing hours.

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Mark Lewis – General comments/request

The key documentation will be the worksheets, or whatever they are called where the departments that provide the shared services track their monthly/annual allocation against the various departments that receive their services. It's important that these reports NOT simply be where the department is estimating the future period, it's the reports they used which showed how 100% of their departments time is being allocated. Without this "full allocation worksheet", we will never be able to convince anyone that TW is only being charged based on "a percentage of the whole". It's only a dozen or so service departments, so it should be an easy set of forms to gather. I did not get the sense that anyone was doubting that COT staff is efficient with their time, or that they are properly paid, so this is a simply matter of validating the allocation to TW, compared to the allocation to all other service recipient departments. These reports are the key. For last full fiscal year, or for whatever time frame was used to estimate fiscal 2016.

This same information was also requested by Mr. Freitas (his #1) and will be provided at the meeting.