

FINANCE COMMITTEE NOTES -- FINAL
Tuesday, December 13, 2022

GENERAL BUSINESS

Meeting commenced at 11:30 a.m. in Council Chamber.

ATTENDEES

Committee Members: Council Member Jeff S. Helgeson, Chair; Council Member Beau Wright; Mayor MaryJane Dolan, Ex-Officio.

Others: Greg Patrick, Deputy City Manager; Donna Witt, Chief Financial Officer; Starlette Early, Budget Analyst.

1. Approval of the Draft Finance Committee Meeting Notes from October 25, 2022.

The Finance Committee Meeting Notes from October 25, 2022 were approved as submitted.

2. Report on the General Fund Reserve for Contingencies.

There were no new items to report, leaving a current balance of \$1,200,000 including \$50,000 for the City Manager's Discretionary Funding.

3. Consider a request to adopt a resolution to amend the FY 2023 City/Federal/State Aid Fund budget and appropriate \$76,000 with resources of \$76,000 from the 2022 State Homeland Security Program (SHSP) grant from U.S. Department of Homeland Security (DHS) to fund equipment for the Fire Department Technical Rescue Team.

Fire Chief Greg Wormser presented the item, noting no local match funds are required. The item was approved to move forward for full Council consideration at the December 13, 2022 meeting.

4. Review highlights of attached quarterly financial report for the Regional Airport for the quarter ending June 30, 2022.

Airport Director Andrew LaGala presented the item, noting for the 2022 fiscal year ending June 30, 2022, operating revenues were up 24% over 2021, returning to within 94% of 2019 pre-pandemic levels. Airline landing fees were down due to system-wide service level reductions as a result of pilot shortages, particularly among regional airlines. A strong recovery in air travel demand resulted in parking lot and rental car revenue gains of 67%, offsetting the decline in landing fees. Expenses were less than the Amended Budget by 3%, and with significant revenue from federal COVID-19 CARES and CRRSA grants, the airport finished the year with a surplus of \$1,074,140, which was just over \$500,000 more than the FY 2021 surplus. Without the federal grants and related expense, the airport surplus would have been a more normal \$209,703.

5. Consider Information on Business License Tax.

Chief Financial Officer Donna Witt presented the item, noting the Business License tax rates for cities similar to Lynchburg, surrounding localities, and specifically Henrico County as requested by Chair Helgeson are as presented by the Commissioner of Revenue on the handout provided to the Finance Committee (attached).

Chair Helgeson reviewed the recent vote by City Council to eliminate the Business License tax for businesses reporting up to \$150,000 in gross receipts. He asked the Commissioner of Revenue, Mitch Nuckles, if there were additional elements that might be impactful to businesses above the \$150,000 limit. He also requested Commissioner Nuckles provide an overview of the Business License tax. Commissioner Nuckles explained the Business License tax is currently approximately \$9.5 million in revenue, and is assessed on gross receipts with varying rates based on five categories: contractors, retail, business services, professional services, and wholesalers (assessed on gross purchases). The tax relief granted for businesses with up to \$150,000 in gross receipts is approximately \$135,000.

In response to Chair Helgeson's question about how the rates were established, Commissioner Nuckles explained the General Assembly conducted a rate study back in the 1970's and set maximum rates that could be charged by the locality. Most localities having a Business License tax had rates that exceeded the maximums, and were allowed seven (7) years to roll rates back to the maximums established by the General Assembly. The City of Lynchburg has had the same rates since the 1980's. He further explained the rates of most cities are similar due to this roll-back process, and most counties adopted the Business License tax for a specific purpose and set their rates accordingly. Historically, counties had Merchant Capital tax instead of Business License tax.

There was further discussion regarding how changes in the rate could impact the revenue, with Commissioner Nuckles estimating a \$0.01 change across the categories would result in more than \$150,000 in revenues. Chair Helgeson asked if there was a way to base the assessment on net income, instead of gross receipts. Commissioner Nuckles indicated, currently by Virginia code, localities are restricted to using gross receipts. He explained there is usually a bill introduced annually at the General Assembly to change this restriction, but does not garner enough votes.

Chair Helgeson asked if the locality was able to exempt the first \$150,000 of gross receipts for all businesses, and Commissioner Nuckles affirmed the locality could exempt the first \$150,000 of gross receipts, or whatever amount City Council wanted to set. Using Henrico County as an example, Commissioner Nuckles noted they exempt the first \$400,000 of gross receipts. This would equate to a loss of approximately \$3.4 million in revenue for the City of Lynchburg.

Chair Helgeson summarized he would like to explore the impact of other taxes, as they are usually established as an incentive/dis-incentive to certain behaviors. He is hopeful to model a Business License tax that would incentivize more businesses to operate within the City rather than choosing to operate in surrounding counties due to the tax rates.

6. Review collections received from five of the City's revenue sources.

Donna Witt reported revenues are still strong, but are slowing down and showing slightly less increase than previous months.

7. Roll Call.

There were no roll call items.

Meeting adjourned at 11:47 a.m.

BUSINESS LICENSE RATES FOR SURROUNDING LOCALITIES

<u>LOCALITY</u>	<u>CONTRACTOR</u>	<u>RETAIL</u>	<u>BUSINESS SERVICE</u>	<u>PROFESSIONAL SERVICE</u>
AMHERST	0.13	N/A	0.31	0.50
APPOMATTOX	N/A	N/A	N/A	N/A
BEDFORD	N/A	N/A	N/A	N/A
CAMPBELL	0.16	0.20	0.35	0.50
CHESTERFIELD	0.14	0.19	0.20	0.20
HENRICO	0.15	0.20	0.20	0.20
CHARLOTTESVILLE	0.16	0.20	0.30	0.50
DANVILLE	0.16	0.20	0.36	0.58
HARRISONBURG	0.16	0.20	0.20	0.58
LYNCHBURG	0.16	0.20	0.36	0.58
ROANOKE	0.16	0.20	0.36	0.58
STAUNTON	0.16	0.20	0.36	0.40