

Goal Area Recommendations

A Diverse Community

City Council's stated goal of supporting Asheville as a diverse community places responsibility on City staff to ensure that the City's business and hiring practices are not only in compliance with Federal EEOC law, but also that the City functions as an example of positive practices that encourage diversity and equity.

In order to achieve this end, staff recommends the following investments, one-time and ongoing:

1) Disparity Study

A disparity study will allow the City to evaluate current business and hiring practices in order to identify areas that should be changed or improved. The City can then take steps to become a model of good management practices with regard to diversity and equity.

Budget: \$350,000 one-time cost

The disparity study is a one-time cost, though the City would likely contract an update to the study in 5-10 years.

2) Equity Program Manager (title to be determined, referred to here as "program manager")

An equity program manager position would allow the City to dedicate resources to specifically addressing issues surrounding race, gender and areas of discrimination. For a successful program, staff would develop a program outline, hire the program manager position in September, 2016, and allow the program manager to implement and further develop a program of minority outreach and development.

Budget: \$110,000 salary and benefits
 \$ 40,000 other program needs, tools
 \$150,000 ongoing operational investment

This proposal requires the dedication of new revenue and adds one full-time equivalent position.

Transportation and Accessibility

The Transit Fund is an enterprise fund of the City that is not self-supporting. For FY 2015-16, the General Fund budgeted \$1,790,117 and the Parking Fund \$616,875 to subsidize transit operations. With the contract renewal process underway, staff estimates that the new contract, combined with rising personnel costs, will add approximately \$569,000 to the annual cost of operations, with no service enhancements other than management improvements specified under the contract terms. Below are ongoing and one-time enhancements and investments to be considered.

- 1) Enhancements identified in the Transportation Master Plan and other ongoing operational costs are as follows:
 - a. Addition of one bus on S3 to the airport. This change will also allow providing service to Long Shoals Rd and possibly to MAHEC. In order to provide one hour frequency on the corridor, from the current 1 ½, the travel time will increase to two hours. This change will serve an area of great expansion and development, such as Hendersonville Rd, and Long Shoals Rd.
Budget: \$384,000
 - b. Extended hours (8 hours between morning and night, depending on ridership). This increase in service will benefit the workers that need earlier or later rides.
Budget: \$250,000
 - c. City Transportation Planner Position
Budget: \$73,000
 - d. Extension of S4 to Biltmore Village. Currently S4 goes to Ab-Tech; this will require increasing the bus service to one hour (it is currently 30 minute trip). Due to the way the routes are currently paired, the increased frequency on S4 will allow extending W3 to the Enka-Candler area, which is another priority in the Transit Master Plan. This change will benefit the College, the neighborhood and health facilities, creating connections between to vibrant areas, such as Biltmore Village and Downtown.
Budget: \$215,000

- 2) Non-recurring investments in the system:
 - a. Replace hybrid bus batteries -- \$50,000
 - b. Additional bus shelters -- \$30,000/shelter

A Clean and Healthy Environment

Addressing issues of sanitation and waste are key to sustainable models for urban areas. The City of Asheville is committed to exploring options to reduce the amount of waste sent to the Buncombe County Landfill, including the development of a pay-as-you-throw model for waste collection and the evaluation of composting options. For FY 2016-17, Council adopted a solid waste collection rate of \$14.00/month, the average rate of 242 surveyed systems in North Carolina.

1) Sanitation Equipment Operator

Part of maintaining a clean and healthy environment is ensuring the consistent and timely pickup of waste. The current staffing of the Sanitation Division in Public Works does not allow for multiple employees to be off of work without an impact on the collection schedule. In order to mitigate this problem and provide consistent pick up not only of solid waste, but also of brush, staff recommends hiring one additional equipment operator at an annual cost of \$45,000 for salary and benefits.

A Thriving Local Economy

To address the Council's goal of a thriving local community, staff recommends two initiatives, one new and one continuing.

1) Strategic Community Partnerships

Staff recommends the continuation of strategic community partnerships. Below is a list of current partnerships and funding committed for FY 2015-16.

Organization	2016 Funding	Department
AB Tech Foundation	20,000	Seizure Funds - Police (not ongoing)
AHOPE	28,400	Community & Economic Development
Asheville Area Arts Council (Creative Sector Summit)	10,000	Community & Economic Development
Asheville Buncombe Community Relations Council*	35,000	Police
Asheville City Schools Foundation (CAYLA) Scholarships	40,000	Community & Economic Development
Asheville Greenworks	15,350	Community & Economic Development
Changing Together	6,600	Police
Children First	20,000	Community & Economic Development
Design Center	4,000	Community & Economic Development
EDC	100,000	Community & Economic Development
Green Opportunities	17,150	Community & Economic Development
July 4th ADA Partnership**	28,000	Community & Economic Development
LEAF	15,000	Community & Economic Development
MED Week, Inc. (Minority Business Week)	550	Community & Economic Development
Nuisance Court	10,000	Nondepartmental
One Youth at a Time	5,000	Community & Economic Development
Partners Unlimited	5,000	Community & Economic Development
Pisgah Legal Services	9,000	Community & Economic Development
Project Lighten Up	3,500	Community & Economic Development
Read to Succeed	4,000	Community & Economic Development
Sports Commission	45,000	Community & Economic Development
The Support Center (Women's Business Conference)	250	Community & Economic Development
Western NC Diversity Engagement Coalition	10,000	HR
WNC-Comm Blue Ridge Food Venture	25,000	Community & Economic Development
YMI Utilities	24,000	Nondepartmental
YWCA	12,000	Community & Economic Development
	492,800	

*FY 2015-16 amount for ABCRC is funding for community relations and training for the APD. These funds are not specifically committed to ABCRC.

**There is an additional commitment of \$12,000 in in-kind support from the City. The Asheville Downtown Association (ADA) is also required to return 15% of the net revenue to the City and reimburse any overages for in-kind support at standard rates.

LEAF has asked the City for \$40,000 for FY 2016-17; staff recommends funding this request and \$45,000 for In Real Life (IRL).

2) Asheville Community Fund

In cooperation with local financial institutions, the City may work to develop a community fund loan program for small businesses. The State of North Carolina limits the manner in which taxpayer funds may be invested. While cities may contribute capital to a community loan program, directly loaning taxpayer funds as an investment is not allowed under North Carolina General Statutes (NCGS).¹ Nevertheless, there are ways by which the City can aid local small businesses. The Charlotte Community Fund serves 9 counties surrounding the City of Charlotte. This loan program was developed by a dozen initial sponsors of the program, with a total initial investment of almost \$2,000,000 in seed capital. The City of Charlotte invested one-quarter of the initial capital, \$500,000. The City of Charlotte does not directly manage the fund or the loans, and the \$500,000 was a one-time contribution.

Developing a similar loan program in the Asheville area will require an evaluation of State statute and a review of the Charlotte Community Fund and any other similar programs in North Carolina with the help of the City Attorney's Office. Staff will work with staff from other cities to develop the program; Council's role will be to reach out to local businesses and financial institutions for necessary community support and investment. For a comparable program to that of Charlotte, staff recommends that \$250,000 be budgeted as seed capital for a \$1 million loan fund. The Charlotte Community Fund development, structure and other information is attached.

¹ North Carolina General Statutes (NCGS) Chapter 159-30.

Quality Affordable Housing

The Council goal of Quality Affordable Housing emphasizes the investment of city funds in projects and opportunities that promote affordable housing. The following are investment opportunities in this area.

1) Lee Walker Heights

The Lee Walker Heights (LWH) redevelopment project, an undertaking of the Housing Authority of the City of Asheville (HACA) in partnership with Mountain Housing Opportunities (MHO) is envisioned as a transformative project for the LWH housing project.

To date, HACA has requested \$4.25 million for infrastructure improvements to the site. This equates to \$20,000 per unit for the units anticipated to be built in phases 1 and 2 of the project on the existing LWH footprint. In order for the project to be transformational, connecting the LWH community to the community at large through addition ingress and egress and the addition of multi-use (commercial and residential) development features, further investment for the purchase and development of the Matthews Ford property will be critical.

Investing \$4.25 million in the LWH project provides a significant amount toward the needs of the project. At this time, HACA asserts that further funding from the City will be requested when the project moves into the Matthews Ford development phase. That request is likely to be equivalent to the \$20,000 per unit, with 100 units, for an estimated ask of \$2 million.

Should the Council decide to invest in the LWH project, the funding would be pulled from various sources.

It should be noted that any commitment of \$4.25 million significantly affects other program and project investments, especially in affordable housing. If Council decides to commit funding from the affordable housing CIP, capacity in the CIP debt model precludes investment in other projects until the mid-2020s.

A Smart City

Asheville strives to adopt new technology and take advantage of opportunities for efficiency and improved service delivery. To further this goal, staff has developed recommendations for Council consideration.

1) Process and Program Improvements, One-Time Expenditures

Process and Program assessments by outside auditors or actuaries aid City staff to improve existing processes and programs. The following studies are recommended for FY 2016-17.

- a. Actuarial Analysis of providing healthcare post-retirement (Other Post-Employment Benefits, OPEB) -- \$25,000
- b. Healthcare and Health Fund Actuarial Analysis and Planning -- \$150,000
- c. Payroll and Benefits Audit -- \$100,000
- d. Real Estate and Facility Diagnostics -- \$375,000 (funds included in base budget)
- e. Organizational Development & Performance Management -- \$100,000

2) Ongoing Strategic Investment Funds

Staff recommends developing strategic investment funds that would be funded as part of the annual budget from one-time funds for investments that drive innovation, improvements and strategic decision making. The funds would be commitments of General Fund fund balance, and unspent proceeds would be rolled forward.

- a. Service & Innovation Fund: \$100,000 -- to supplement Quality of Service Awards program for important innovations and that improve efficiency, effectiveness and customer service for the City.
 - b. Deferred Maintenance Fund: \$200,000 – to allow for deferred maintenance needs that arise in the course of a fiscal year.
- ### 3) Other Smart City Investments for consideration, ongoing operations
- a. The addition of a Project Manager to the Information Technology (IT) Department: \$66,000. This position would enable the IT department to better address technology needs and improve customer service within the City. As City staff has grown to meet community needs and expectations, the IT department has kept up with minimal increases to budget and staff. However, as we continue to grow and technology needs become ever greater, current IT staff is operating above capacity.

Public Safety

1) Fire Station #14

Construction of Fire Station #14 is in the capital improvement program for FY 2016-17. Should Council choose to move forward, the ongoing operational costs will be \$750,000 per year.

2) APD Downtown Unit, beginning FY 2017-18

APD recommends consideration of a unit dedicated to the downtown area. Should Council choose to move forward with developing this model, the one-time cost would be approximately \$440,000 and ongoing operations would cost \$786,000 per year.

Each of these options would require Council to either increase the tax rate or adopt a non-revenue neutral rate at revaluation. Buncombe County approved moving ahead with the revaluation in 2017. The ongoing cost of both is equivalent to 1.5¢ on the tax rate.

Unrestricted Fund Balance, General Fund

Background

The General Fund unrestricted fund balance is a key indicator of the financial management and long-term financial sustainability of a city. The State of North Carolina requires a minimum fund balance of 8% (or one month of operating expenditures). This State mandated minimum should not be considered a guideline for determining the financial health of a city, this minimum was created to allow the State to step in should a city fall below one month of operating reserves.

The City of Asheville has a Council-adopted unrestricted fund balance minimum of 15%. This is the equivalent of two months of operating expenditures. Adoption of this policy meets guidelines published by the Government Finance Officers Association of the United States and Canada (GFOA).¹ The GFOA does not make a specific recommendation on the amount of unrestricted fund balance that should be maintained, but rather recommends that governments evaluate the volatility of revenue streams, cash flow projections and other factors that could require the government to use reserves.

The amount of unrestricted fund balance is a key criterion in ratings and debt issuance. Rating agencies use a number of metrics to evaluate cities in a rating review; unrestricted fund balance as a percentage of budgeted expenditures, fund balance trend and planned use of fund balance are three areas of emphasis. The City of Asheville has a Aa1 rating from Moody's and a AAA rating from Standard & Poor's (S&P) rating services. The S&P rating was increased from AA+ to AAA in 2015. In S&P's discussion of their decision to raise the rating for the City, they noted the economic recovery of the region, specifically strong growth in multiple sectors of the economy including manufacturing and tourism. The City of Asheville General Fund ten-year unrestricted fund balance trend shows increases through 2007, considerable draw-downs during the recession, immediately followed by increases with each successive year. This trend demonstrates long-term sound financial management that enabled the City to use fund balance during the downturn and a continuation of those management practices as the economy recovered. As a rule of thumb, a AAA rated city should have an unrestricted fund balance equal to 30% of the General Fund budgeted expenditures. However, Asheville's strong financial management and the overall unrestricted fund balance trend combined with the positive economic outlook for the region, enabled the City to achieve a AAA rating with an unrestricted fund balance lower than 30%.²

Ongoing and Upcoming Issues

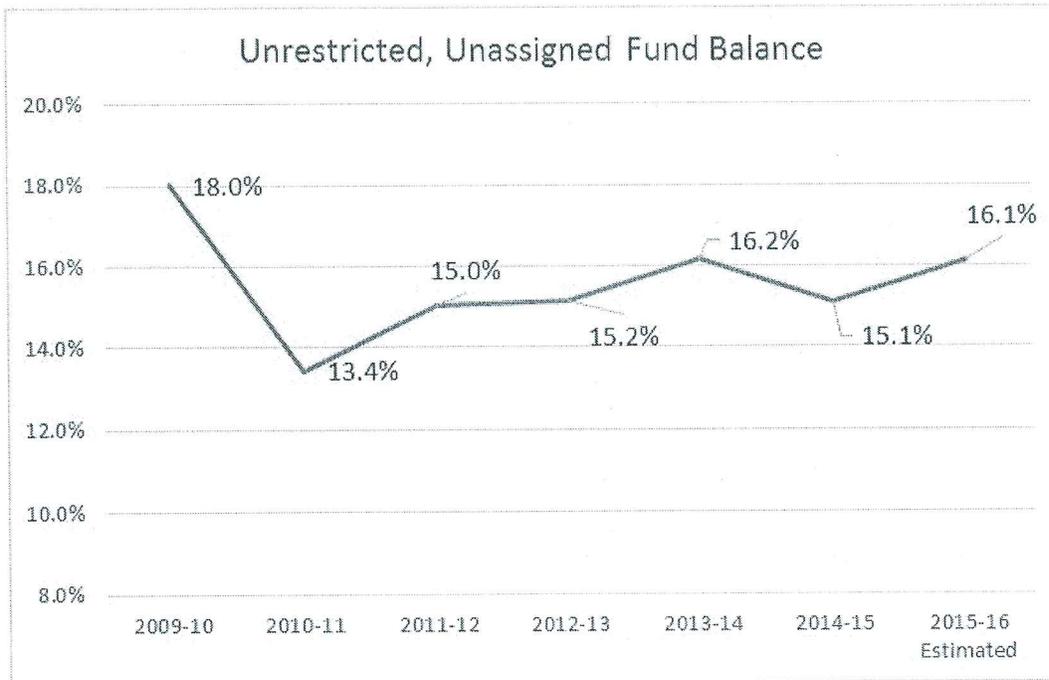
The City ended fiscal year (FY) 2014-15 with \$16.8 million in unrestricted fund balance, 16.1% of FY 2015-16 budgeted expenditures. Through the course of the year, fund balance allocations for unanticipated one-time expenses total \$561,000. The Finance and Management Services Department estimates that the City will end FY 2015-16 with \$1 million in additional fund balance, bringing the total to \$17.8 million, 16.2% of the preliminary budgeted expenditures for FY 2016-17. A required accounting change for financial reporting will add an additional \$3.9 million in unrestricted fund balance. This change, related to the accrual of sales tax and State franchise taxes, will make Asheville's revenue

¹ *Appropriate Level of Unrestricted Fund Balance in the General Fund*. Best Practice, GFOA Accounting, Auditing and Financial Reporting Committee, Government Budgeting and Fiscal Policy Committee, September, 2015.

² Standard & Poor's Report is attached.

comparisons to other cities in North Carolina more meaningful.³ This is a one-time addition to fund balance that is occurring because of an additional month of sales tax (\$1.3 million) and an additional quarter of franchise taxes (\$2.6 million).

The unrestricted fund balance trend from 2010- 2016 is below.



Adding the full \$3.9 million in accounting revenue to unrestricted fund balance would put the percentage of unrestricted fund balance to budgeted expenditures at 19.7%.

Fiscal Impact and Decision Points

The significant increase in FY 2015-16 ending unrestricted fund balance does not represent recurring revenue, thus making it unavailable for commitment to ongoing expenditure increases; however, some portion of the additional funds could be committed to funding one-time expenditures that meet Council goals.

Staff recommends dedicating a portion of the contributed additional fund balance to unrestricted fund balance reserves. This will show ongoing growth and allow the City to continue to take advantage of lower costs of debt. Additionally, given vulnerabilities in some revenue, reserves can provide some insurance against Legislative and other unexpected changes. Significant vulnerabilities faced by the City include Powell Bill funding and the Water Utility lawsuit.

Powell Bill Funding. The Powell Bill allocates a \$2.5 million reimbursement from the State to the City receives annually for streets-related spending. For several years there has been discussion in the North

³ The State of North Carolina recommends accruing 90 days of sales tax collectible into the fiscal year ending. The Governmental Accounting Standards Board recommends 60 days accruals, based on actual receipts after the end of the fiscal year, with the assumption that accruals beyond the 60-day range are not certain. However, the State of North Carolina not only controls the collection but also the distribution of State, County and City sales taxes. Their assertion that the 90-day revenue is assured is therefore an exception to the GASB recommended practice.

Carolina General Assembly (NCGA) of eliminating Powell Bill funds. While the new vehicle license fee increase adds \$1.4 million in revenue for streets spending, the loss of Powell Bill funding would present a considerable budgeting challenge, representing more than 2% of the General Fund total budget, and the majority of the funds used to build and maintain City streets.

Water Utility Lawsuit. The Water Utility Fund currently reimburses the General Fund for administrative services, including management, human resources, finance and information technology services, among others. This internal allocation is determined by an outside consultant, who annually reviews the services provided to the Water Utility Fund by General Fund service areas. As of FY 2015-16, the Water Utility Fund allocated approximately \$1.8 million as an interfund transfer to pay for the prior year's services. Should the State prevail in the lawsuit, this allocation would no longer be paid. Staff has worked on determining the effect on each General Fund department with an allocation. Costs directly and exclusively associated with services provided to the Water Utility Fund would be eliminated. Shared direct and indirect costs are being evaluated for potential savings and changes that the loss of the Water Utility would require, nevertheless, the General Fund is vulnerable to this change.

Establishing and maintaining an unrestricted reserve that is available for allocation should circumstances warrant places the City in a strong financial position for the future.

Staff recommends that Council continue to grow reserves by assigning \$1.75 million to unrestricted fund balance, which will increase the ratio of unrestricted fund balance to proposed FY 2016-17 budgeted expenditures to 16.9%. For allocation of the use of the remaining reserves, staff recommends the following:

- 1) Allocate \$850,000 to one-time investments in Council Strategic Goal Areas (see Goal Area Recommendations, 4/12/2016).
- 2) Reserve \$1 million for the Lee Walker Heights project.
- 3) Reserve 1.3 million in an infrastructure/capital reserve to mitigate against potential revenue loss and act as a capital contingency.

Employee Compensation & Benefits

Employee Compensation

The proposed budget will recommend a 3.5% increase for all employees implemented in the following manner:

- Each pay plan will be adjusted up 1% and each employee's pay will move up 1% with this.
- Employees on the public safety plan will move up one step (2.5%)
- Civilian employees (i.e., everyone except sworn police and fire employees) will receive a 2.5% increase to current pay

These actions, which will result in a 3.5% increase per employee, are being recommended, in part, to ease the burden of health care premium increases as the City transitions to a plan it can afford in the coming years.

The proposed budget also includes additional funding to maximize the market competitiveness of the City pay ranges. This is an important aspect of maintaining the vision of the City's compensation philosophy. The adjustments made last year to pay plans were one step in an ongoing process. Adjustments will be made each year based on market demand. In fiscal year 2017-2018, work will continue towards the development of a comprehensive Performance Management System, which will eventually include merit pay.

Employee Benefits: NEW - An additional option is being added to what was shared March 18

As we shared March 18, the City has experienced and absorbed significant increases in employee health care over the past several years. The proposed changes to the plan design are driven by two goals: (a) maximizing the integrity and equity of the benefits; and (b) maximizing the fiscal sustainability of the benefits for both the employee and City. Moving forward, additional adjustments will need to be made to achieve these goals. It is our intention to develop and communicate a multi-year strategy in the coming year.

The original proposal shared in the March 18 One Asheville post recommended creating an "Employee + Child" tier and moving "Employee + Children" to the "Employee Family" tier. After further researching the trends and strategies being used by local governments (including Buncombe County) and considering employee feedback, the "Employee + Children" tier is being put back into the proposed plan options, resulting in five tiers instead of four. The attached table outlines the new premiums being recommended for all plan choices under this newly proposed structure. Resources, known as "Health Advocates" will be available to work with employees on an individual basis during open enrollment (which starts in May). Health Advocates are trained to educate and support individuals in determining health plans that best fit individual needs.

With Wellness				
	Proposed City Bi-weekly Contribution	Current Employee Bi- weekly Premium	Proposed Employee -Biweekly Premium	Bi-Weekly increase in Employee Premiums
Base Plan				
EE Only	\$221.76	\$0.00	\$0.58	\$0.58
EE/Child	\$326.07	\$54.55	\$56.49	\$1.94
EE/Children	\$346.69		\$84.25	\$29.70
EE/Spouse	\$380.15	\$70.20	\$73.10	\$2.90
EE/ Family	\$548.15	\$126.55	\$130.87	\$4.32
Base Plus Plan				
EE Only	\$221.76	\$14.00	\$18.64	\$4.64
EE/Child	\$326.07	\$74.31	\$86.48	\$12.17
EE/Children	\$346.69		\$125.99	\$51.68
EE/Spouse	\$380.15	\$101.08	\$119.48	\$18.40
EE/ Family	\$548.15	\$185.54	\$214.50	\$28.96
Without Wellness				
	Proposed City Bi-weekly Contribution	Current Employee Bi- weekly Premium	Proposed Employee -Biweekly Premium	Bi-Weekly increase in Employee Premiums.
Base Plan				
EE Only	\$221.76	\$23.08	\$23.66	\$0.58
EE/Child	\$326.07	\$77.63	\$79.57	\$1.94
EE/Children	\$346.69		\$107.99	\$30.36
EE/Spouse	\$380.15	\$116.35	\$119.26	\$2.91
EE/ Family	\$548.15	\$172.71	\$177.03	\$4.32
Base Plus Plan				
EE Only	\$221.76	\$37.08	\$41.72	\$4.64
EE/Child	\$326.07	\$97.38	\$109.55	\$12.17
EE/Children	\$346.69		\$149.07	\$51.69
EE/Spouse	\$380.15	\$147.23	\$165.63	\$18.40
EE/ Family	\$548.15	\$231.69	\$260.65	\$28.96