

Minutes
Finance Committee Meeting
3:30pm, March 25, 2014
First Floor-North Conference Room, City Hall

Present: Vice Mayor Marc Hunt (Chair), Councilman Gordon Smith,
Councilwoman Gwen Wisler

Staff: Gary Jackson, Barbara Whitehorn, Mike Morgan, Cathy Ball, McCray
Coates, Eric Hardy, Tony McDowell, Frank McGowan, Steve Shoaf,
Greg Shuler, Jacob Klodt, Harry Brown, Cheryl Heywood

Guests: Mark Barrett, Asheville Citizen Times; Timothy Sandler, Veterans
Helping Veterans of Western North Carolina, Joel Storo, McGill and
Associates

Approval of 1/28/2014 Minutes

Councilman Smith made a motion to approve the 1/28/2014 minutes and this motion was seconded by Councilman Wisler and unanimously approved by the committee.

Internal Performance Consulting Program

Ms. Barbara Whitehorn, Finance Director gave the committee an update on the Business Performance Consulting Program. The focus of the program is on internal audit and process improvement through self-evaluation, self-assessment and strategic improvement with the intention of helping us be better stewards of the city's finances. The internal audit function will be utilized to improve processes and help departments make strategic improvements. The two current employees involved in the program consist of the Strategic Planning and Performance Manager and the Internal Auditor positions. They are current employees, whose roles have been redefined and therefore, no additional resources have been committed. We want to make sure there is some independence in their roles and that they are not un-duly influenced. There is transparency in the structure of the program with the intention of encouraging departments to ask us to evaluate their programs and processes. Critical factors to success are an understanding of the organization, strategic planning, development of service priority and strategies, and an ability to dynamically plan within the context of each of the audit reviews. The program has a charter that contains compliance reviews, asset reviews, Safeguarding fixed assets, and use of City resources review. On the Operations side, we want to make sure we are managing programs appropriately, and that the results are consistent with goals. The program was developed in February of this year, and the project schedule is already populated for the next eighteen months.

Vice Mayor asked what projects are on the schedule. Mr. Frank McGowan gave the committee a quick summary of the projects and how they got identified. He explained that Ms. Rhonda Devan, the Internal Auditor, developed a risk matrix and there are certain items on that list that are identified as needing further investigation. The current project that is being worked on is a

review of the city's procurement card program. There are approximately 320 cards in use across the city, with twenty thousand transactions annually and 4.26 million dollars in purchases. Given the scope of the program, it was one of the items that popped up on the risk matrix as needing to be further evaluated. It is a useful purchasing tool, but we are evaluating the efficiency and effectiveness of processes to see if they can be streamlined. The other current project is the evaluation of the Aston Park Tennis Center from a business plan perspective. Additionally, we are evaluating the US Cellular Center volunteer program and assessing the program for transparency. We are making recommendations back to staff and reporting back to the US Cellular Center Commission. We are also evaluating cash handling points of receipt with more of an audit focus; payroll timesheet entry for third party service providers; non-profit oversight responsibilities; capital asset and project management; and grant compliance.

Councilwoman Wisler asked if we have an internal audit department. Ms. Whitehorn said we have an Audit Manager who will be moved to the Business Performance Consulting Office with Mr. McGowan so there is no conflict with being a part of another division of finance. Ms. Whitehorn said that is part of the reason Ms. Devan was moved from supervising some of the accountants -- so that at year end she could assist with the single audit of the grants, the financial statements and maintain a level of independence from the actual financial day to day entries and be able to assert to the auditors that there is no conflict of interest. Vice Mayor Hunt asked Ms. Whitehorn if this model was in the works before her arrival at the city. Ms. Whitehorn said that this was in the works prior to her arrival and that she can't claim ownership of the idea, but supports it one hundred percent.

Review Financial Management Policy Revisions

Ms. Whitehorn said she e-mailed the draft of the policy to the committee along with a memo recommending items that should be included in the policy and the reasons for the recommendation. Ms. Whitehorn said that it does not have to go to council at this time, and suggested that the committee review the policy and staff could come back at the next meeting for feedback from the committee.

Review FY 2014-15 Fees and Charges Recommendation

Mr. Tony McDowell said that each year, at the start of the budget process, departments are asked to review their fees and charges and bring forward any recommendations they may have. Council considers those changes during the budget deliberations and any fee changes are communicated to our customers by the start of the new fiscal year, July 1. Last year there were substantial fee changes which included changes to the parking garage, parking meter rates, as well as increases to the solid waste recycling fee. This year, there is a much smaller packet of fees and he would like to give the committee a high level overview of the fees. The detail on all the fees being proposed is included in the committee packets and there is a separate presentation on the Stormwater fund fees.

Water Fund

Based on the analysis our consultant's did a few years ago, we are moving forward with the annual increases in water rates. This year, there is a small increase to residential, small commercial and manufacturer rates of 1.6%., The increase for large commercial users is 3.4% and there is a 15% increase to capital improvement fee for all customers. These changes will produce about four hundred and fifty eight thousand dollars in additional revenue for the water system. This is a continuation of the annual increases that we have been doing for the last few years. Vice Mayor Hunt asked about the multi-year schedule that was laid out a year ago for water fees and how that fits into the proposed plan. Mr. Steve Shoaf said that the numbers we are using are from the plan that was reviewed by council and approved in the Spring of 2013. The percentages may have been rounded on the materials that the committee were given, but do correspond with the plan that was approved by council. Councilman Smith said it would be helpful to have the five year plan in-hand when considering the rate changes. Mr. McDowell said there are some minor increases in the general fund that will produce about seventy three thousand dollars in additional revenue. There are a few small changes in the parking fund; US Cellular Center for some charges and increases in monthly and annual pass fees in the Transit fund. These recommendations are in line with the Transit master plan recommendations.

Public Works

Councilman Smith asked if the street grade adjustments and meter box were new fees. Mr. Greg Shuler said that the meter boxes are a reflection of the city's actual cost. We currently do not have a way to recoup costs for the storm grates. The nine dollars and fifty cents reflects the actual cost, whether it is done in-house or contracted out. Vice Mayor asked under what circumstances would we have to bill someone and collect. Mr. Shuler said that would be on a re-surfacing project or a street cut. Councilwoman Wisler asked who would be charged if it was an annual re-surfacing. Mr. Shuler said we would charge whoever the owner would be such as MSD or our Water Department, or whoever the owner of the meter or grate is, such as Stormwater Utility. Councilwoman Wisler asked if the loss of the five thousand dollars under Parks and Recreation was all external loss. Mr. McDowell said yes, it is revenue to the City.

Police

Vice Mayor Hunt asked if the new pet quarantine fee is a situation where we pick up a dog or a cat and have to keep it and we didn't charge for that in the past. Mr. McDowell said that this fee is the recovery amount that the County charges the City.

Parking Fund

Vice Mayor Hunt asked what the meter reservation fee is. Mr. Harry Brown said that the fee is for unusual circumstances such as when a construction worker, plumber, or electrician is doing work and they need their vehicle close by the site. They reserve a meter space near their work site so they can have access to tools in their vehicle. That meter reservation rate has been kept fifty percent higher than the normal parking rate because they are monopolizing that space.

US Cellular Center

Councilwoman Wisler asked if the US Cellular increases were for cost increases and what affect these increases would be on those using the Cellular Center. Mr. Chris Corl said that facility fee because that is a user cost, as opposed to a promoter cost. The ticket buying public would have to pay that fifty cent increase for each ticket. With the new sales tax law, we are now charged seven cents on the dollar. The two dollar facility fee is for sporting events, circus, and concerts. For trade show and conferences there is a one dollar facility fee, which we do not want to raise, so we opted to raise the concert fee by fifty cents so that extra amount offsets the tax that we are incurring on the one dollar facility fee.

Councilman Smith said he wanted to make the committee aware that the Housing Committee is looking at affordable housing strategies. One of the discussions is around water and sewer fees for affordable housing construction. These discussions will be not be concluded until after the budget is approved for this year.

Vice Mayor Hunt asked what actions are needed by the committee today. Mr. McDowell said we will come back to council in April with the complete budget packet for full council approval.

Parks and Recreation

Councilwoman Wisler said she has a problem with the Parks non-city resident fees. Mr. Jackson asked if the committee would like to pull those fees and recommend the remainder go forward at this time. Mr. Jackson said council's preference in the past has been to move the recommendations forward ahead of the budget process to give adequate time for review and discussion.

Councilwoman Wisler made a motion to approve pulling the non-resident fees and community league lights and move the remainder forward to full council for consideration. This motion was seconded by Councilman Smith and unanimously approved by the committee.

Mr. Gary Jackson said that the non-resident athletic fees and community league light fees will come back to the committee for a more comprehensive discussion on cost recovery at the April finance committee meeting.

Vice Mayor Hunt asked if the discussion and direction on Aston Park Tennis will be concluded by the time we get into the budget finalization. Ms. Whitehorn said we should have a recommendation on Aston Park Tennis Center and business models for the committee to consider at the May finance committee meeting.

Stormwater Fund

Ms. Cathy Ball told the committee that in 2005 the city adopted a Stormwater utility fee because we had received an unfunded mandate from the federal government requiring that cities of our

size meet federal water quality mandates. In response, we adopted a fee of two dollars and thirty four cents per equivalent residential unit and that fee has not changed since that time. Given what we have seen with our weather patterns over the past few years, we wanted to be pro-active about addressing climate change, environmental sustainability and the slope stabilization issues we are experiencing. Ms Cathy Ball said that at this time, she would like to provide options and get feedback from the committee.

Current Program

Mr. McCray Coates said that this year, Asheville experienced about seventy five inches of record-breaking rain. During that timeframe, in speaking with customers, the message was that they wanted to see an increased level of service from the Stormwater group. During a public meeting, held on November, the community expressed concerns about preventative maintenance measures that need to be taken for Stormwater.

FY2014 Budget

Administration costs of \$709,131 includes equipment purchases, professional services and street cut utility funds. Most of the drainage construction costs remain the same with the exception of the drainage construction and we look to revert that to the preventative maintenance crew. The engineering costs of \$588,917 are for the non-funded federally mandated program. The capital outlay of \$641,000 is based on what we are currently doing. Our current requirement for the federal mandate program, there is one maintenance crew and they handle the minor maintenance activities such as replacing Stormwater lids and replacing small sections of the drain structure. Street sweeping crews go out on a quarterly basis; and on an annual basis backing truck crews clean out drainage pipes, and construction crews handle the larger problems.

Operations Completed FY 2012-13

Last year we were able to replace or install about two thousand linear feet of infrastructure, swept about thirty five hundred miles of city streets, and removed about twelve hundred tons of materials from the sweeping and backing truck operations. During rainy days, Stormwater and Public Works crews are sent out to remove the leaves and debris that settle on the grates as a flood preventative measure. Last year, we reached out to none hundred and eighty two school age kids and send out approximately one hundred and fifteen thousand fliers to Asheville residents in the water bills to educate the public about Stormwater.

Stormwater Rates for Other NC Programs

The utility rate is currently two dollars and thirty four cents per month as compared to Greenville, the highest rate, at five dollars and seventy cents, Durham at four dollars and fifty cents and Fayetteville at three dollars. Asheville rates are the second lowest in comparison to other cities its size. In addition, unlike the other cities, the topography of Asheville is mountainous, and we have steep grading, which makes it more challenging.

Proposed FY 2015 Program Objectives

In conjunction with McGill and Associates, we developed some preventative maintenance objectives. Our objective is to improve preventative maintenance, to be pro-active about looking at drainage structures to avoid sinkholes. We would like to do a complete system inventory and analysis with the plan to replace and upgrade aging infrastructure since we have a lot of aging infrastructure and terra cotta pipes that need upgrading.

Future Program Approach Options

The three options that we would like council to consider look similar on the operations side, but the difference is the amount of capital involved. Option one is to make minimal improvements to include additional capital construction projects. The proposed fee change would go from \$2.34 to \$3.20 per month. The revenue increase would be \$1,045,000. The construction crew would be converted over to a preventative maintenance crew and we would add additional staff to that crew. In addition, we want to add additional staff to Stormwater to help manage construction activities to work with engineering firms in developing the plans and details so we can go out for bid on those projects.

Option Two is considered the strategic program and the operational staff changes would be the same as with option one. There would be additional investments in the capital improvements program and we would be more aggressive in our approach with a capital outlay versus six hundred and forty thousand dollars for option one. The fee change would go from \$2.34 to \$3.50 with a revenue increase of 1.4 million dollars.

Option Three is a visionary program that addresses major community needs and more aggressive with addressing community needs for things such as Stormwater mitigation, and flood mitigation. The fee would increase from \$2.34 to \$4.00 with a revenue increase of almost 2 million dollars in the Stormwater utility fee.

Additional things to consider are Asheville's aging infrastructure. The options that McGill had provided had potential for an annual increase in fees.

We would like to get the initial reaction of the finance committee and move forward with outreach and education to various community groups and bring to council for consideration as part of the fees and charges.

Councilman Smith said if Asheville were removed from the list the rates for the other NC programs would be an average of \$4.18 and we are miles below the average. Our most ambitious plan, or option for consideration, is still below the state average. I am interested in getting to a much higher level of service toward the visionary end and would like to see what a phase in fee increase would look like.

Vice Mayor Hunt said that during those times when Public Works staff goes out and clears drains does Stormwater fund provide cost recovery back to the general fund and if not what is

the net effect of that. Mr. McDowell said that the maintenance crews in the Stormwater fund are budgeted with a small percentage of their time going to the general fund – 3% - since the Stormwater group sometimes helps out the general fund when a winter storm occurs. Also, just like with the water fund, the Stormwater fund pays the general fund for central services like Finance and Human Resources..

Councilwoman Wisler asked if clarification could be given about the negative five hundred and sixty eight thousand dollar estimate for 2014 and if that number is the general fund contributing to the Stormwater fund. Mr. Joel Storo of McGill and Associates said that the negative numbers in those first two years are coming out of reserves to pay for the needed improvements. Stormwater is not subsidized by the general fund, but coming out of reserves within the Stormwater fund. The state has guidelines related to how much money you need to keep in reserves in that fund. Currently, we are falling behind and in order to build up the reserve, we need additional revenue to continue to build up the fund over time.

Vice Mayor asked if the capital expenditure is pay as you go and if there is no new debt issuance. Mr Storo said there is debt associated with the plan. The payments continue to increase over the ten year period, and there is actually three debt packages over a ten year period. Vice Mayor said if the debt package is the same in all three scenarios in the visionary program, was thought given to accelerating the improvements earlier and issuing new debt for the visionary program. Mr. Storo said we wanted to keep the rates, over time, reasonable. The visionary program raises the rates seventy percent, with five percent increases every year, after that. Councilwoman Wisler asked over the past five years how much have we been eating away at our fund balance savings. Mr. McDowell said that the fund balance has been building up. In the current year, we have appropriated some of that fund balance for some capital needs. Ms. Ball said that a disaster could easily cost us a million dollars, and if FEMA hadn't helped us with the slides that have occurred, we would have been in trouble. We are trying to raise the percentage of fund balance higher. The rule of thumb is that you should keep twenty five percent of annual revenue in fund balance. Mr.

Storo said that all that Stormwater has been able to do is react to incidents, rather than being proactive. With a more comprehensive infrastructure assessment, we will know what the project priorities are going to be. Councilwoman Wisler asked for clarification of the term ERU's. Mr. McCray said ERU stands for an equivalent residential unit, which is two thousand four hundred and forty two square feet. Vice Mayor Hunt said that we have been building up our deferred maintenance and it is haunting us now, and we have no choice but to raise the fee. Some of the slides we have had may have been a result of not being able to do preventative maintenance. Vice Mayor asked Mr. Jackson if the next steps should be to re-visit this at the finance committee or held council presentations or work session. Mr. Jackson said given the satisfaction of the committee with the information received, I do not think this needs to come back to committee, but you may want to tying it into one of the work sessions.

Vice Mayor Hunt said in setting the Stormwater rate for next year that it be in the context of a single sheet of paper provided to council, that looks at the whole plan and looked at in the same way as the water rate structure. Mr. Storo said that we have a ten year master plan and a financial analysis for all the fees that can be provided to council.

Councilwoman Wisler asked what the schedule was for the budget process. Mr. Jackson said a copy was given to council few months ago, but it would be re-sent. Mr. Jackson said this meeting was a prototype of what we had hoped to see in public safety meeting yesterday and the focus put into this was very competent work. Although some materials came in late he appreciated staff making sure the materials got sent and everything was made available and included in the committee packets. This is the best committee work he has seen in a long time and he would like to commend staff for their work. Vice Mayor said getting all the documents ahead of time, is productive for council to review before-hand. Councilman Smith said that the thoroughness of work produced good questions from the committee.

Fees, with the exception of some Parks fees will move forward to full council for consideration. The Committee recommended a work session to look at the Stormwater plan and related fees.

Vice Mayor Hunts adjourned the meeting at 4:50p.m.