

Minutes
Finance Committee Meeting
3:30pm, May 27, 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, Paul Fetherston, Cathy Ball,
Roderick Simmons, Eric Hardy, Tony McDowell, Frank McGowan,
Cheryl Heywood

Approval of 3/27/2014 Minutes

Councilman Smith made a motion to approve the 3/27/2014 minutes and this motion was seconded by Councilman Wisler and unanimously approved by the committee.

Financial Management Policy

At the previous finance committee meeting, Ms. Whitehorn said she gave the committee a draft of the financial policies. The committee wanted time to review the policy and asked that it be placed on the agenda for the next finance committee meeting. After making the requested revisions to the policy, the Committee recommended that the policy move forward to the full council for approval at the 6/10 council meeting. A motion to move the policy forward to the full council meeting to be held on 6/11 was made by Councilwoman Wisler and this motion was seconded by Councilman Smith. This motion was unanimously approved by the committee. Vice Mayor Hunt asked if the city would prepare a five year operating budget, and if we were doing that in this current budget cycle. Ms. Whitehorn said no, we are not but will pick that up for next year. Vice Mayor asked if staff could supply the committee with a chart showing the actual versus the policy sometime within the next few months. Councilwoman Wisler asked if percentages could be added to that report.

Aston Park Tennis Center Business Model

Vice Mayor said that the committee read over the narrative that was sent and asked Mr. McGowan if there was any new information that needed to be shared. Mr. McGowan said he could highlight the power point quickly. Mr. McGowan said the initial goal was to explore opportunities to reduce the operating subsidy for the tennis center. The RFP (request for proposal) went out in December and there was only one respondent. Subsequent to that, he was asked to put together business plan options for the tennis center. The annual operating subsidy has ranged from \$120,000 to \$155,000 per year. After the review of the RFP by management and staff, and discovery that the company said there were potential losses, we are exploring business options. Vice Mayor Hunt asked why the basis for rejecting the contract was that that they are not guaranteeing that we break even or lose money. Councilman Wisler said she thought the contractor said they are projecting that we break even by the third year. Mr. McGowan said that is correct, and they are also raising prices, which they put in their summary and that we are not

rejecting the contract. Part of the consideration was that we have had some legal proceedings with that contractor in the past that may be a consideration before contracting with them again. Additionally, they are planning on raising prices, and that is within our control. If we were to raise prices, we could reduce the operating subsidy. The contractor is putting forward a somewhat aggressive estimate, and I am putting forward a somewhat conservative estimate.

SWOT (Strengths, Weaknesses, Opportunities, Threats) Analysis

One of the strengths we have is a unique position in the market. There is limited competition in the tennis realm. The County does not offer tennis, although there are tennis courts at the different schools, but they are not operated by the county Parks department. One of the weaknesses is that it is a seasonal business, and we have outdoor courts. We are affected by the weather. There are only ten parking spaces available. There is other parking that is used but it is not under our control. Additionally, there are weaknesses in terms of tracking customers. We could have better business intelligence if we did a better job tracking our customers from start to finish. One of the opportunities is pricing, as well as programming.

Tennis Market Segments

I have labeled the tennis segments as premium, value and the economy.. We are in the value segment because we offer higher quality courts, at a bargain price that has not been adjusted for quite some time. The city has been investing in our hard courts in other locations such as Weaver Park, Kenilworth Park, and Montford complex. The quality of our hard courts is improving quite a bit, but some are unplayable in their current condition. Once maintenance is done there will be a significant improvement and will expand the range of free courts that we offer.

Competition

Our positioning compares with the country clubs around town. They offer a high quality product at a premium price and they are exclusive in that you sometimes have to be invited to join. There are only three other competitors,: the Omni, Grove Park Inn, Asheville Racquet Club and Cheshire in Black Mountain that offer clay courts, and they are offering that at a premium price. The City offers twelve clay courts at a bargain price. Councilwoman Wisler asked to define premium price. Mr. McGowan said it is difficult to say because it involves membership fees in the country clubs but estimates about six hundred and fifty dollars per year. Vice Mayor asked what we charged. Mr. McGowan said we charge one hundred and sixty dollars for an individual. Vice Mayor said he called the Racquet Club and found out that it is about twelve hundred dollars per year. Mr. McGowan said we do not have locker rooms, but do have showers. When it comes to the quality of play for tennis, the clay courts have had a substantial investment of three quarters of a million dollars over the past eight years, making the quality of play very high.

Current Customers

We have 350 pass holders of which there are a large number of both resident and non-resident seniors, defined as age 50 and above, which gives another significant discount off of the already bargain price. The Racquet Club senior discount starts at age 80. The concentration of

pass holders is located in North Asheville and South Asheville, but one third of our pass holders are coming from outside of our city limits.

Options

In terms of positioning, the options are 1) Status quo 2) Raise the prices without long term capital plan, 3) Raise prices incrementally with a capital plan and expand programming and 4) Free to public, investing only in maintenance and capital.

Maintenance Only Option

The maintenance only option would be at an operating loss, not taking in any revenue and assumes that we will not continue to operate the city open. The total operating subsidy or operating loss/subsidy per year is \$126,000. We would provide maintenance with temp-seasonal staff, because they are clay courts, and need to be maintained; otherwise you would spend much more on the back end repairing the courts. There would be no full time staff, no pro shop, we would not offer lessons, stringing racquets, and we would not take in any revenue. Councilwoman Wisler asked if we had we considered converting to synthetic courts. Mr. McGowan said he did not explore that option. We may have missed an opportunity to raise rates to market when the clay courts opened up..

Incremental Fee Increase Option

One of the key features is that we raise the rates incrementally over a period of four years, and implement other programming components such as a recommendation for ground lease that is built into the expense side of the operating budget. Securing the ground lease is important because if you were to lose the good will of the neighbor who allows folks to park on his property, we will not be able to bring in customers. Five percent of the operating revenue would go to capital reserve. We are undervaluing the asset and we are the best bargain in town. Hypothetically, if you are a senior and play five times a week, you could play for about eighty seven cents per hour. The average is about three dollars. We are out of line with the market. If we raise our rates, we would still remain in the value space and still not threaten the for profit community.

Increased Programming

Increased programming such as camps, lessons, and clubs would generate revenue. There are some folks who will not like the change and we will lose their business. There may also be an opportunity to bring back sponsorship to the city open. There are others such as pro shop and racquet stringing. I am projecting thirty percent loss of pass holders in the first year. Even with that loss, the increased revenue with fewer pass holders, and opportunity to lower the operating subsidy is significantly lower if you follow an incremental fee increase. Daily fees have to increase at a slightly higher rate than pass holder fees, because there has to be a motivation to become a pass holder.

The five year projected budget doesn't completely eliminate the operating subsidy in this model, but the caveats here are the 2.5% growth rate and projecting a 3% loss of pass holders in the first year with some built in inflation factors on the expense side.

Next Steps:

Councilman Smith said one of the weaknesses shown in SWOT analysis was that we can't track who is using the facility and wondered how many low income people are using the service. When you can't help with the other community programs, but you are subsidizing for clay courts, it is hard to swallow. I suggest we raise the senior age, get the fees up possibly as high as half of market, which is \$600.00 and keep the city open only if we have substantial sponsorship. Mr. McGowan said that on the question of considering lower income folks – the assignment was to make this a viable business operation, not necessarily to look at the social impact. It appears that in our analysis of the previous pricing strategy, it was based on accessibility and keeping the cost low.

Vice Mayor said that the senior rate needs to be sixty five and that the pricing needs to be higher than topping out at \$500.00 and there should greater differentiation between resident and non-resident rate because currently, city taxpayers subsidize the non-residents. Why do we employ two people for five months when the courts are closed? Mr. McGowan said that there is some ramping up in the beginning of the year in terms of maintenance. During the season, from April through November, it is a seven day a week operation and you have got staffing considerations from 9a-9p, so a lot of compensatory time gets built up over the summer by those two staff members. They use that time in vacation hours, after the season is over. If you underestimate the level of staffing you need, and re-engineer, you would find yourself in a bind where you needed that staff later on. Mr. Simmons said that with full time positions, the policy states that you can't put them on the payroll and then take them off, as if they were a seasonal employee. Vice Mayor Hunt asked why in 2013 our actual shows that we spent \$97,000 in compensation and the 2015 projected budget is \$123,000 for combined full time regular and temp seasonal. Mr. McGowan said he would need to look at that and get back to the committee on that question.

Ms. Cathy Ball asked if there was any negotiation with the firm that submitted the Request for Proposal (RFP) to see if there was another option and if there was a meeting with them to see if there could be any negotiations. Mr. McGowan said that he had numerous phone conversations with Hulsing and that the RFP was comprehensive. Vice Mayor said he appreciated the step approach, but it is not defensible in relation to the other things we have to turn down.

Vice Mayor Hunt said that the committee would like for staff to come back with some refined analysis at a future meeting.

Timing of Forming MSD's (Municipal Service Districts)

Ms. Whitehorn said that it is important to get this adopted sooner, rather than later. We do not have to adopt them by the end of the fiscal year, because we are not going to be using them as taxing entities. If we were going to impose a specific tax, then they have to be adopted by the end of the fiscal year and then they are good for the next year. If we get these adopted in July, we couldn't tax until July of 2016. What we can do if they are adopted, is go to our bond council and they can take it to lenders and say that these Municipal Service District's (MDS's) have been adopted, and we are going to issue special obligation bonds at the end of two year construction debt period. By having those in place, it puts us in a position to be able to get lower lending rates. On consent agenda two weeks ago, we set the table for action. Ms. Ball said we started investigating the statutes and requirements to do it. We had to notify all the property owners in the area and obtain a list of the people who own personal property within those boundaries and doing that required we ask the state for that information. That delayed us and that is when we talked to bond council and they said we did not have to have it adopted by June 30. However, they are recommending that we do it as soon as possible so we have that as a tool.

Councilwoman Wisler said looking at the special obligation bonds, what fees would not be eligible for tax. Are we pledging those taxes that are collected within that MSD? Ms. Ball said no this would be any fees or taxes that the city does not levy, so it would not include property taxes. It includes things like sales tax or franchise fees because the city does not set the rate for those. It includes any fees for the whole city that the city does not set the rate and that would exclude property taxes. Ms. Whitehorn said the committee action for this item would be to approve moving forward as soon as possible as soon as the information is available.

Councilwoman Wisler made a motion to move this item forward as soon as possible, after all information was gathered. This motion was seconded by Councilman Smith and unanimously approved by the committee.

Councilman Smith said at some point he would like to know how the boundaries were drawn for the districts. The City Manager said he would see to that.

Further discussion on FY 2014-15 Parks and Recreation non-resident athletic fees and community league light fees

Mr. Roderick Simmons said at the last finance committee meeting, there were questions from the committee, and so this portion of the fees was pulled from council's budget packet until further discussion. The little leagues met with the City Manager, and Vice Mayor Manheimer (at the time of the meeting) and myself and discussed taking the recommendations from the leagues and presenting them to the finance committee. The recommendation from the leagues was to go back to the level of the previous year and that is what I brought to the finance committee. Two years ago, we were asked to look at what we were collecting versus what we were using in utilities and

maintenance manpower and the subsidy we are providing. The leagues felt that raising the fees three hundred percent was too much. The \$75,000 in utilities is our biggest cost. We do receive money for non-resident fees but we do not receive any money from the leagues for participation fees, sponsorship, or any other fundraisers. Ms. Whitehorn said that if we do not change the fees, the total impact is only \$5,000 which is fairly unsubstantial Vice Mayor Hunt said that families as well as people from every economic interest use the fields and the subsidy is a lot more justifiable than Aston Park Tennis. Vice Mayor asked if the committee was comfortable with the subsidy. Councilwoman Wisler said that these groups should not get the impression that fees are never raised. It has been ten years since there has been a change in fees. Councilman Smith said he recommend that for the purposes of this budget year, we go with this fee structure and have this item come back to us in a couple of months to discuss again. Ms. Whitehorn said that Parks and Finance are intending to undertake an overall benchmarking for all of the parks fees to see how we compare to other cities in the region so that in next years budget cycle we can bring some recommendations to the committee.

Pending Items for further discussion at next meeting:

Debt Capacity for CIP

Ms. Whitehorn said the committee was given the financial model that DEC Associates put together and total tax supported debt per capita by NC cities. Asheville does not have a lot of bonded debt. The bond ratings are not necessarily correlated to the amount of tax supported debt. In addition to the amount of debt that you have, rating agencies also look at the amount of money you are investing in infrastructure because they see that as deferred cost. The city is far below our legal debt limit. Councilman Smith asked where this would put us as far as per capita by the time we get to 2019. It is still not going to put us very high, maybe double where we are now. Possibly seven or eight hundred dollars per capita.

Street Acceptance Policy and Accepted Practice

This item was not discussed due to time constraints and will be moved to a future meeting.

Other Items

Affordable Housing Presentation

Councilman Smith said he wanted to bring up the fact that the affordable housing committee is taking their Powerpoint presentation to other boards and commissions who have some influence in regard to transportation or zoning or other areas that pertain to affordable housing. There are facts that are being circulated among the other boards and commissions and eventually the community that the finance committee may want to see.

Budget Presentation

Mr. Jackson wanted to give a quick rundown of what he has heard from council members on the budget presentation before going to the full council meeting. We will do the budget presentation

tonight. It is not a public hearing tonight, although there may be folks who have seen the budget and will attend. The main thing is that we are moving from a manager and staff developed budget to council's budget. This the night when traditionally, council would have questions and request more information. We will not do that tonight but rather take all of those questions and come back with answers via packets of information sent to council. Please give staff a heads up about questions either at the meeting tonight or within the next day or two. Vice Mayor said sequence wise, we will vote twice on the budget, so the budget that is presented at the council session in two weeks needs to be right.

Mr. Jackson said there are two specific outstanding assignments that we have to report to you on. One is feedback we get from multimodal transportation commission on sidewalk connections. We will be going to them tomorrow afternoon, and laying out the fifty million, five year capital plan and suggesting to them if you are looking for a way to move the five to a ten year sidewalk schedule, which includes some neighborhood projects such as Lake Shore and New Haw Creek, and suggesting how you could make some adjustment. Staff will come prepared in two weeks to lay out whatever feedback we have gotten -- particularly the recommendation as they affect the budget ordinance. The other piece of information that we have is the city attorney has been working on a staffing re-organization plan and this may be included in the final budget.

Vice Mayor Hunt said that the current draft changes from \$650,000 to \$800,000 and said it is budget to budget. Mr. Jackson confirmed. The number for next years budget is an estimation. The plan for the attorney's office would possibly be to reduce contracted services and add staff to build in house expertise..

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