THE CITY OF ASHEVILLE

MEMORANDUM

TO: Mayor and City Council

FROM: Taylor Floyd, Finance & Management Services

DATE: April 11, 2023

SUBJECT: City Council Budget Work Session Summary

SUMMARY STATEMENT:

At the last Budget work session meeting City Council requested additional information on the following items:

- General Fund updates
  - Fund balance estimate
  - Compensation
  - New investments
- Water Services Fee recommendation

This memo is intended to provide an overview and/or summary of the presentation that will be provided at the April 11, 2023 City Council Fiscal Year (FY) 2023-24 Budget Work Session.

Fund Balance & Revenue Summary

Based on current information, the City's General Fund fund balance at the end of the current fiscal year is estimated to be 23% of total General Fund expenditures, above the internal policy of 15%. Actual fund balance is a snapshot based on the General Fund's position as of the end of the fiscal year, and can fluctuate based on a variety of factors.

Staff is recommending the utilization of up to $6.2 Million in fund balance for the FY24 budget, including the $2 Million previously planned to fund McCormick Field.

Additional new revenue in the General Fund is outlined in the table below.

Revenue Source	Est. Available
Revenue growth (property & sales tax)	$ 4.7M
Sanitation fee	$ 0.4M
ARPA	$ 2.0M
Fund Balance	$ 4.2M
Total	**$ 11.3M**

Compensation and Benefits
Costs for baseline employee compensation and benefits in FY24 will include the mandated increase in employer state retirement contribution, an increase in employer healthcare contribution, health plan design changes, and a full year of mid-year adjustments and incentives.

Updated information on recommendations include the following:
Additional pay for working evening, night and weekend shifts ($0.75 per hour).

- Original Proposal: increase to $1.50.
- Council Request: increase to $3.00.
- Updated recommendation: increase to $2.00.
- Est. annual cost: **$250k** (General Fund).

Based on research, $2.00 is competitive with benchmarked peers. This will avoid disincentivizing shift work during regular hours and minimizes impact on compression adjustments that were recently implemented.

Additional pay for being available to work outside of normal hours ($20.00 per day).

- Original Proposal: increase to $30.00.
- Council Request: increase to $40.00.
- Updated recommendation: increase to $30.00.
- Est. Annual Cost: **$150k** (General Fund).

The primary goal of compensation recommendations is to reward employees on the job. Employees called in are paid at overtime rate, which will increase with base pay recommendations.

Other compensation changes likely to be recommended as a part of the City Manager's Proposed Budget include a 5% salary increase that would exceed Just Economics' "Pledged" living wage rate; differential salary increases for sworn APD personnel (6%); certification incentive pay for sworn officers; 401(k) retirement account match; and other incentives (wellness, certifications, signing bonuses, career ladders).

The estimated cost for compensation changes under consideration totals $7.2 Million.

Investments in Council Priorities
Examples of new requests for one-time and on-going needs made by departments that invest resources into Council Priorities include a limited number of positions focused primarily on core service delivery. Other operational requests under consideration from departments are primarily one-time in nature, which align well with the use of one-time revenues (i.e., fund balance and American Rescue Plan Act funding).

Item	Amount
Solid Waste Driver	$ 85,000
Facility Maintenance Janitor	$ 65,000
Nature Center Animal Care Naturalist	$ 78,000
Purchasing Coordinator	$ 75,002
City Attorney Admin Assistant	$ 65,000
Constituent Services Coordinator	$ 78,000
HR Info System Expansion	$ 50,000
Fleet Management Software	$ 70,000
APD Uniforms (one-time)	$ 122,000
Solid Waste Master Plan (one-time)	$ 350,000
Solid Waste Vehicle (one-time)	$ 175,000
City/County Transit Plan (one-time)	$ 300,000
Transit Management Consultant (one-time)	$ 100,000
APD camera upgrade (one-time)	$ 80,000

In the past, new additional resources were focused on addressing Council's homelessness and affordable housing priorities. A significant amount of funding allocated to address these challenges is now a part of the base budget.

Ongoing funding included for the Housing Trust Fund, Land Use Incentive Grant (LUIG), development fee rebates, the upcoming Affordable Housing Plan, staffing and contracting for homelessness initiatives and the pilot of the Community Responder Program reflects the City's commitment to these priorities.

City staff will also be supporting the Homeless Initiative Advisory Committee (HIAC) as they make recommendations based on the National Alliance to End Homelessness report. Alternative funding sources are also available to address these priorities (e.g., opioid settlement funds and remaining ARPA funding), and needs will be considered in future budget development processes.

A summary of additional operating costs and new items under consideration for the FY 2023-34 Budget is provided below.

Expense Adjustments	Est. Cost
Base budget growth	$ 2.5M
Compensation	$ 7.2M
New staffing	$ 0.4M
New Other Operating	$ 0.1M
New One Time	$ 1.1M
Total	**$ 11.3M**

Staff will incorporate any feedback from the City Council Work Session into final recommendations for the City Manager's Proposed Budget, which will be presented to City Council at the May 9 business meeting.

Water Resources

At the March 28 City Council meeting, staff were asked to provide additional information about recommended adjustments to the base fees and volumetric charges that all water customers pay. This included 1) additional comparative information to peer water systems, 2) what the impact of freezing residential rates would be, and 3) how to reduce the impact of fee increases on residential customers. Additional benchmarking information is provided at the end of this memo.

Water Resources staff are currently working with a consultant to update the Water Fund's rate model, including:

- Define cost of service by functional area (e.g., production, distribution).
- Assess rate structure and make recommendations for an equitable and functional rate model.
- Incorporate changes into updated financial planning model.

This work is expected to be completed in the fall of 2023. At that time, the City Council can take action to make rate adjustments based on the information provided by the consultant.

In the interim, staff is recommending that City Council adopt the fees as originally proposed.

The recommended fee changes would fund the following items:

- Proposed salary changes for Water Resources employees outlined in the Compensation and Benefits section above.
- Additional maintenance crew.
- Staffing to enhance night coverage at water treatment plants.
- Staffing to improve critical communication and customer engagement.
- Customer service staff to support meter project transition.

- Continue to recover lost revenue from loss of capital fee in FY 2019-20. Due to a NC Supreme Court decision and subsequent legal action, this fee was discontinued at that time. Annual pay-go (cash) funding for water capital projects had grown to over $11 Million prior to the discontinuation of that fee. Since FY 2020-21, the annual pay-go capital allocation from the Water Fund has been $4 to $6.7 Million.

Additional revenue from the proposed fee changes will help to ensure needed investments in the water system continue, and will help to maintain the Water Fund's ability to issue debt at an affordable rate.

Fee Type	Asheville	Boone**	Raleigh**	Charlotte***	Hendersonville (in)	Hendersonville (out)
Base Charge				$5.30		
5/8"	$6.18	None	$6.45	$1.30	None	None
3/4" Residential	$8.64	$18.25	$8.76	None	$8.32	$11.23
3/4" Commercial	$8.64	$24.40	$8.76	$1.30	$8.32	$11.23
1"	$13.57	$29.70	$13.37	$3.24	$9.71	$13.11
1.5"	$25.88	$35.00	$24.92	$6.48	$13.15	$17.75
2"	$40.65	$35.00	$38.77	$10.37	$17.56	$23.70
3"	$80.05	$45.60	$75.72	$21.39	$27.87	$37.63
4"	$124.38	$56.20	$117.29	$35.21	$42.60	$57.51
6"	$247.50	$77.40	$232.74	$71.29	$79.40	$107.19
8"	$395.25	$98.60	$371.29	$142.59	$123.56	$166.81
10"	$1,035.50	None	$532.94	$272.21	None	None
12"	None	None	None	$343.50	None	None

Volumetric - Residential (per CCF/per month)	Asheville	Boone**	Raleigh**	Charlotte	Hendersonville (in)	Hendersonville (out)
0-2.7 CCF	$4.77	Included in Base*	$2.67	$1.78	$4.48	$6.05
2.8-4.9 CCF	$4.77	$7.30	$2.67	$1.78	$4.48	$6.05
5-6.7 CCF	$4.77	$7.30	$4.45	$2.30	$4.48	$6.05
6.8-8.0 CCF	$4.77	$7.60	$4.45	$2.30	$4.48	$6.05
8.1-8.9 CCF	$4.77	$7.60	$4.45	$2.30	$4.93	$6.65
9.0-10.9 CCF	$4.77	$7.60	$4.45	$5.32	$4.93	$6.65
11-13.4 CCF	$4.77	$7.60	$5.93	$5.32	$4.93	$6.65
13.5-16.9 CCF	$4.77	$7.85	$5.93	$5.32	$4.93	$6.65
17.0-18.6 CCF	$4.77	$7.85	$5.93	$10.08	$4.93	$6.65
18.7-20.1 CCF	$4.77	$7.85	$5.93	$10.08	$5.60	$7.56
20.2-26.7 CCF	$4.77	$8.10	$5.93	$10.08	$5.60	$7.56
More than 26.7 CCF	$4.77	$8.40	$5.93	$10.08	$5.60	$7.56

Volumetric - Commerical (per CCF/per month)	Asheville	Boone**	Raleigh**	Charlotte	Hendersonville (in)	Hendersonville (out)
0-2.7 CCF	$4.04	Included in Base*	$3.45	$3.08	$4.48	$6.05
2.8-4 CCF	$4.04	$7.30	$3.45	$3.08	$4.48	$6.05
5-6.7 CCF	$4.04	$7.30	$3.45	$3.08	$4.48	$6.05
5-10 CCF	$4.04	$7.60	$3.45	$3.08	$4.48	$6.05
11-13.4 CCF	$4.04	$7.60	$3.45	$3.08	$4.48	$6.05
13.5-20.1 CCF	$4.04	$7.85	$3.45	$3.08	$4.48	$6.05
20.2-26.7 CCF	$4.04	$8.10	$3.45	$3.08	$4.48	$6.05
26.8-53.4 CCF	$4.04	$8.40	$3.45	$3.08	$4.48	$6.05
53.5-267.4 CCF	$4.04	$8.40	$3.45	$3.08	$4.28	$5.78
267.5-1,000 CCF	$4.04	$8.40	$3.45	$3.08	$3.80	$5.13
More than 1,000 CCF	$2.51	$8.40	$3.45	$3.08	$3.80	$5.13

Notes:

*Boone includes the first 2.7 CCF of consumption in the base charges, however for the residential 3/4" meter there is a discount rate of $16.70 for customers who usage is below 1.3 CCFs.

**In Boone and Raleigh systems, all customers outside city limits are charged double all rates

***Charlotte charges two fixed/base fees. Along with the typical base fee per meter size, a flat fixed fee of $5.30 per account is also charged.