City Council Retreat: Budget Update

March 18, 2022

Tony McDowell, Finance & Management Services Director
Taylor Floyd, Budget Manager

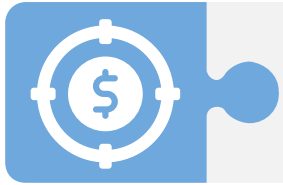


Presentation Overview

- Economic context
- Revenue & expense forecast
- Examples of requested service investments
- Project details for Advanced Metering and Facilities Study

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Key Takeaways



Overall positive economic outlook is reflected in projected General Fund revenue growth.



Inflationary pressures in economy are impacting the cost to deliver existing services.



Ability to fund new and expanded services will be limited.

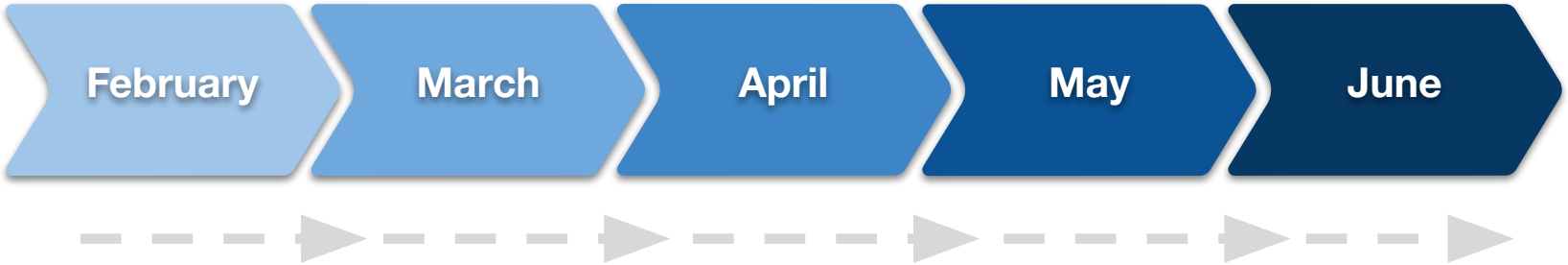


A data-driven review of facilities will provide a roadmap for long-term investments.

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FY23 Council Budget Timeline

Approved by City Council at February 8, 2022 meeting.



2/22
Council Work Session

3/17 & 18
Council Retreat

4/12
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Summary of Feb. 22 Work Session

- Budget process is continuation of work completed in previous years, and will continue past budget adoption in June.
- Overall financial position in the current fiscal year is strong, with a positive outlook for next year.
- Working to develop a better understanding of our capital needs, prioritization and funding strategy.

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Economic Context

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US Economic Data

- Unemployment Rate
  - Jan. 2020 (pre-pandemic): 4.0%
  - Jan. 2022: 3.5%
- Wage Growth
  - 2019: 3.3%
  - 2020: 4.8%
  - As of Jan. 2022: 5.7%
- Gross Domestic Product (GDP) growth in 2021: 5.7%
- Change in Consumer Price Index (CPI) February 2022 (from one year prior): +7.9%

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NC Economic Data

- NC unemployment rate
  - December 2021: 3.9%
  - December 2019: 3.5%
  - April 2020 (pandemic peak):12.9%
- Real NC GDP expected to grow at 3.1% over 2021 levels.
- NC expected to gain 124,400 jobs in 2022, an increase of 2.7%. (Hospitality & Leisure +9.2%)

Local Economic Data

- Buncombe unemployment rate
  - December 2021: 2.6%
  - December 2019: 2.5%
  - April & May 2020 (pandemic peak): 17.5%
- Total county employment up 3.0% compared to one year ago (Hospitality & Leisure +13.6%)
- Median home price $385k up 13.2%
  - Median 2-bedroom apartment rent $1,771, up 25.2%

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Economic Forecast

- Growth forecasted to continue but uncertainty exists due to global concerns.
- Inflation rates should moderate in the year ahead.
  - Supply-side pressures should start to be alleviated
  - Deglobalization trends imply that inflation is likely to settle at higher levels than recent decades
- Federal fiscal outlays in 2022 will be much less than 2020 and 2021 and will be a drag on growth.
- Worker shortages should abate as more employees re-enter the workforce but labor will remain tight and show solid wage growth.
  - Wage gains blunted by housing costs increases and inflation.

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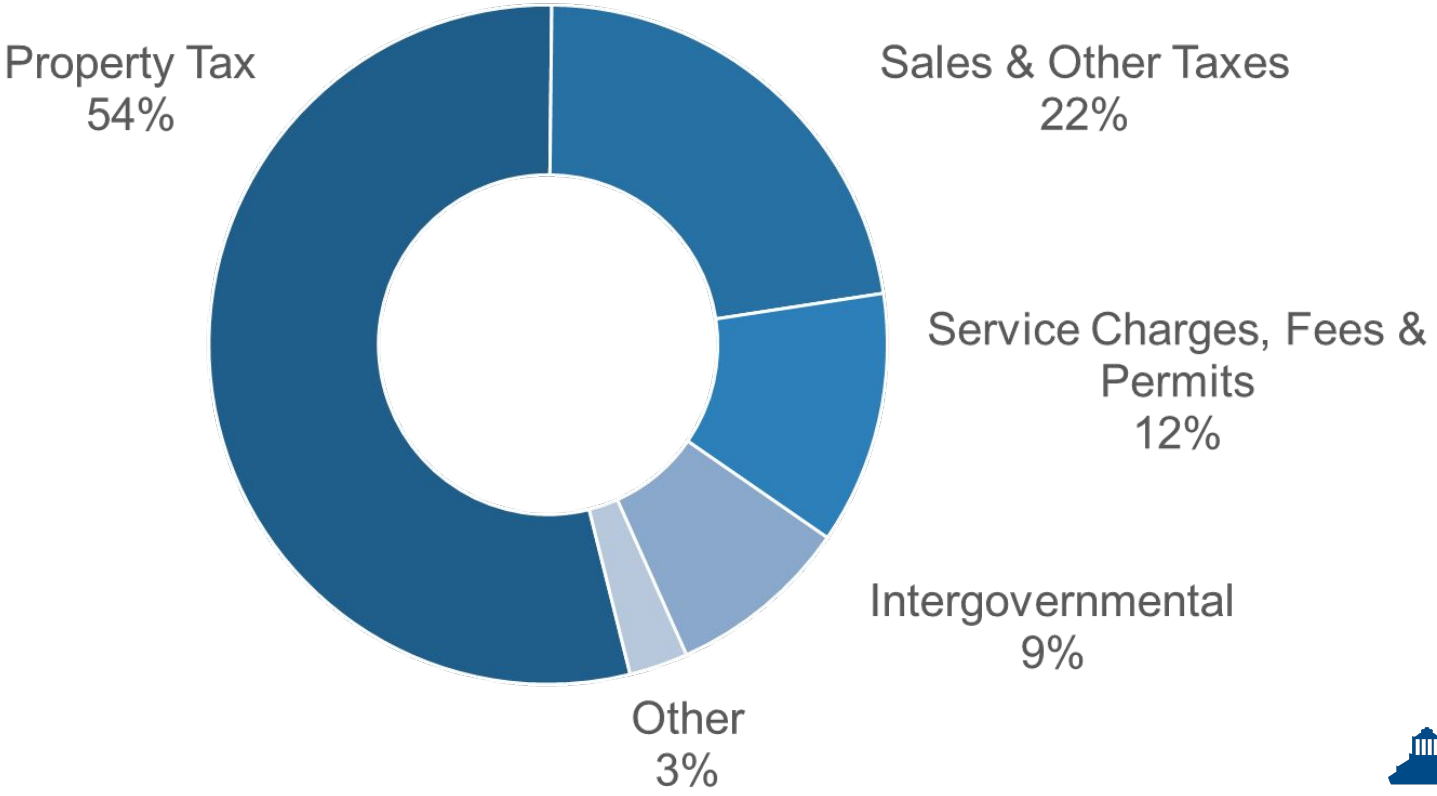
Discussion & Questions

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General Fund Revenue Forecast (Baseline Budget Revenues)

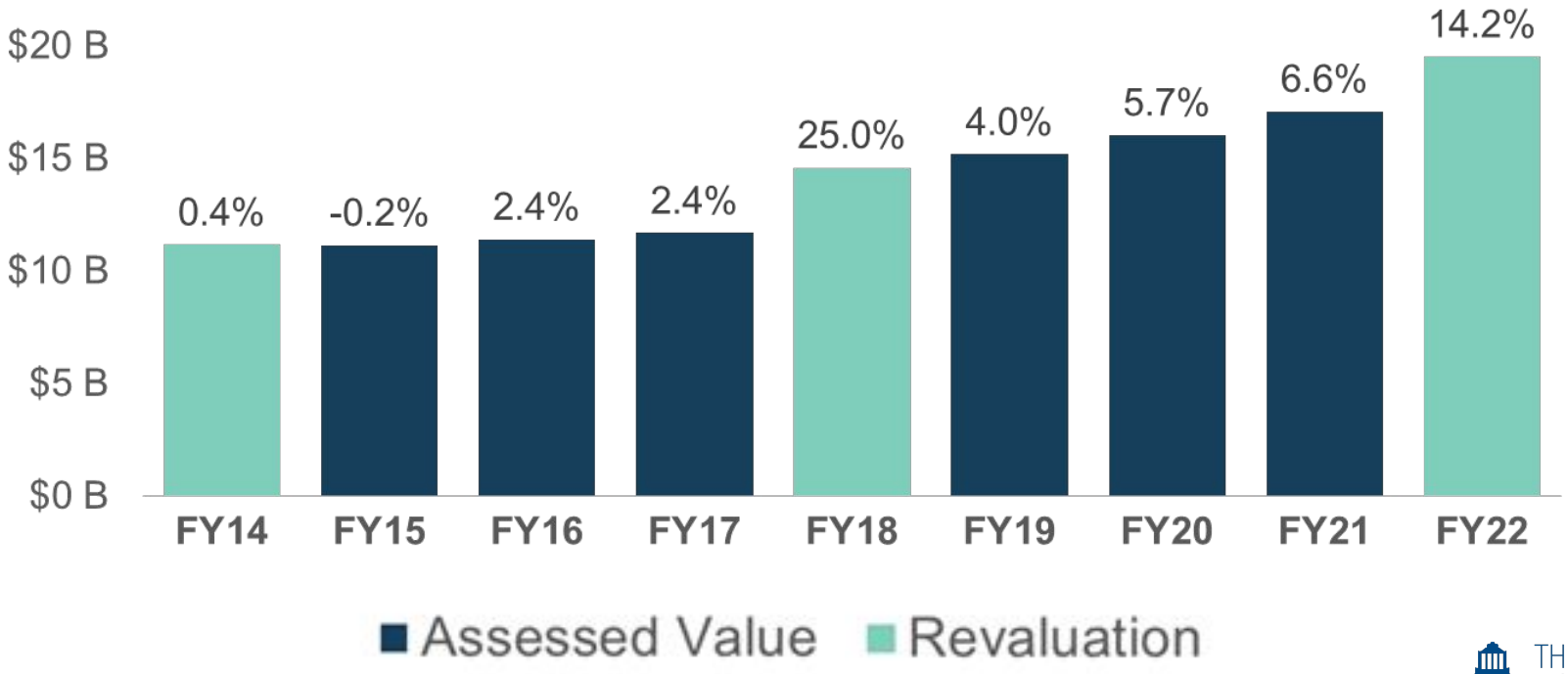
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General Fund Revenues (FY22)



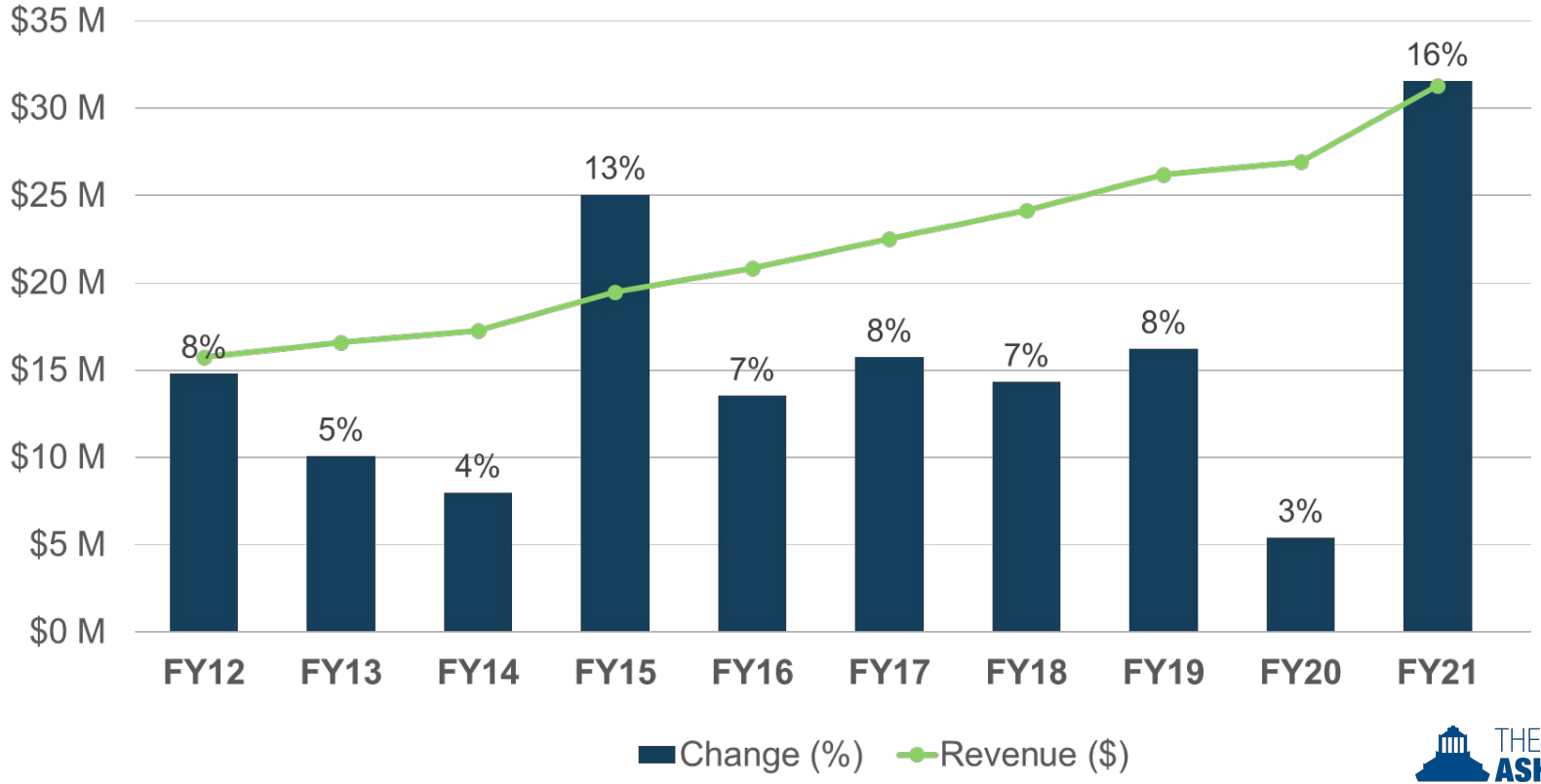
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Property Tax Base



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Sales Tax Revenue



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General Fund Revenue Summary

Current Expectations:

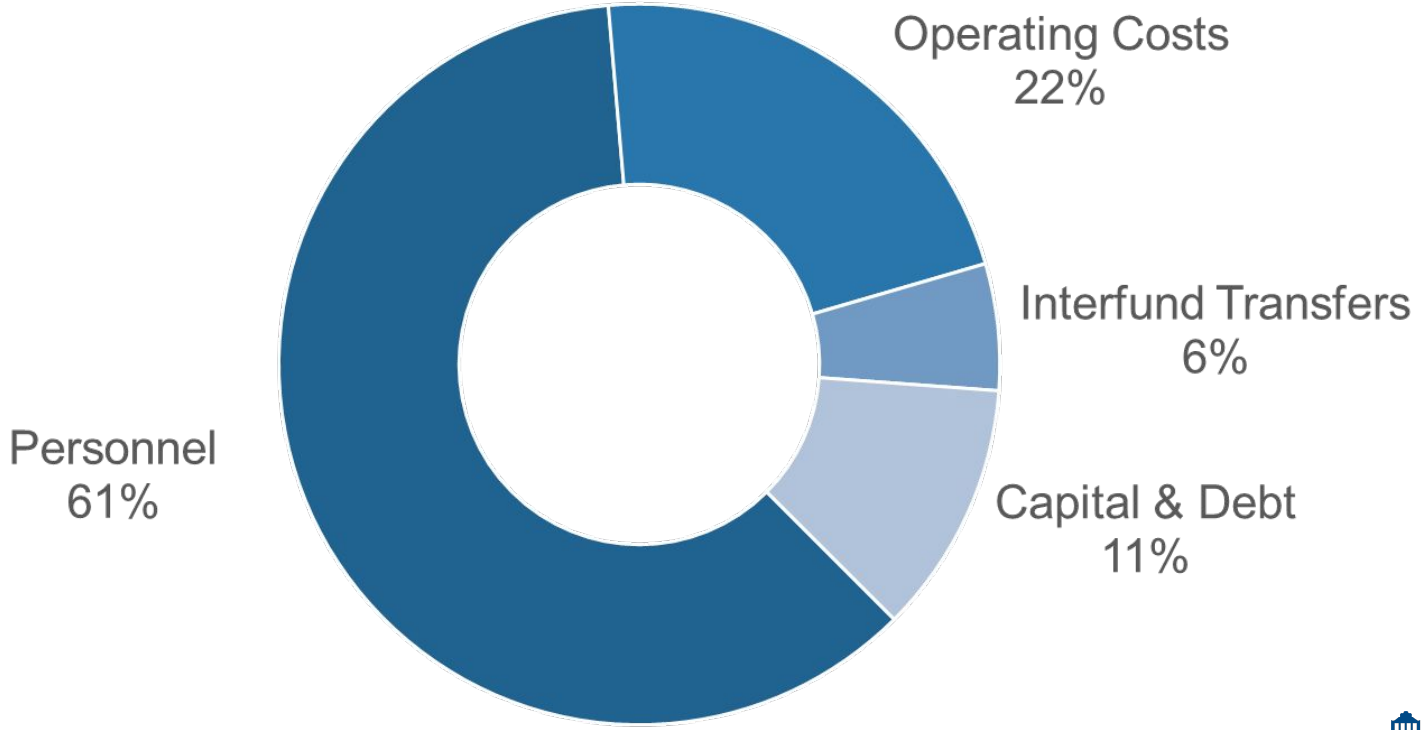
- Normal growth in property tax revenue.
  - No change in rate
- Continued growth in sales tax revenue.
- No other substantial changes in baseline revenues.
- ***Total revenue growth of $5.5-6.5 million.***

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Existing Service Delivery (Baseline Budget Expenditures)

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General Fund Expenses (FY22)



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Personnel Cost Drivers

Baseline

- Current year compensation adjustments
- Fewer APD vacancies
- Staffing for new fire station
- Increasing health care costs
- Mandated increase for retirement system

Total: $5.8M-$6.2M

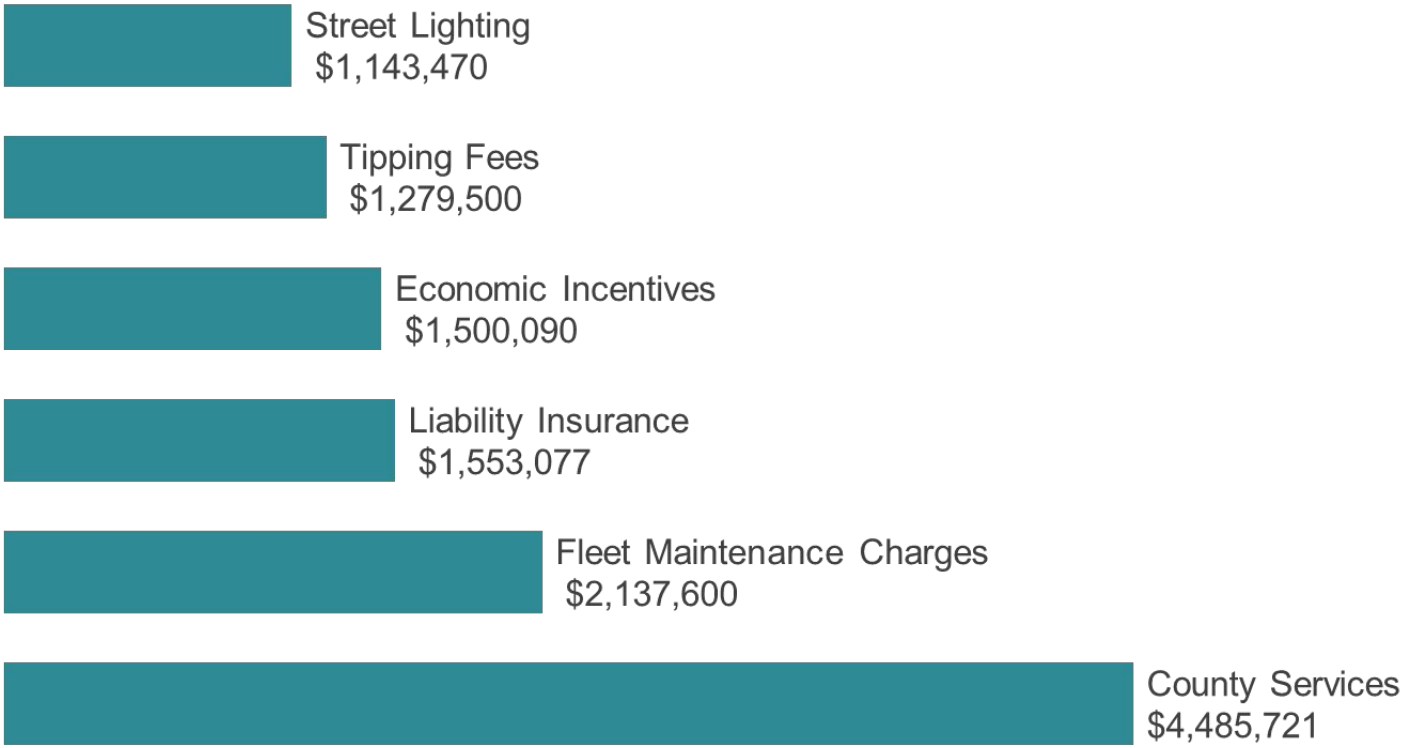
Under consideration

- Living wage
- Inflation/retention
- Continued implementation of compensation study
- Potential APD recruitment and incentives

Total: TBD

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Operating Cost Drivers



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Additional Cost Drivers Under Review

Operating

- General inflation
- Fuel prices
- Broadway Public Safety Station operations
- Contractual increases
- Land Use Incentive Grants

Total: TBD

Capital/Debt & Interfund Transfers

- Capital program support
- Transit service support

Total: TBD

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General Fund Expense Summary

- As in past budget cycles, working to balance

maintaining our existing level of service	with	increasing costs to provide services

- ***$5.5-6.5M in revenue growth will likely be needed to fund existing service levels.***

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Discussion & Questions

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Examples of Requested Service Investments

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Identified Service Investments

Equitable & Diverse Community	• Disparity Study
Well-Planned & Livable Community	• AVL Shares Spaces • 68 Haywood temporary programming • Additional planning staff • Additional zoning enforcement staff

Service Investment Requests

Clean & Healthy Environment	• Waste reduction planning & staff • Staffing to address cleanliness • Urban forestry planning & staff
Quality Affordable Housing	• Homelessness outreach • Code Purple funding

Service Investment Requests

Transportation & Accessibility	• Transit service enhancements • Additional transit operations costs (bus driver pay) • Additional traffic signs & pavement markings materials
Thriving Local Economy	• Continue compensation study implementation

Service Investment Requests

Connected & Engaged Community	• Additional Geographic Information System (GIS) support • Web-based budget document
Financially Resilient City	• Facility, technology and infrastructure maintenance. • Human Resources Information System

Sanitation Service

- New investment in this core city service has been minimal for a number of years.
- It is challenging to maintain existing service levels without additional resources.
- A fee increase will be recommended to Finance & Human Resources Committee.

Stormwater & System Maintenance

- Managing stormwater is a complex service.
- Asheville's system has significant maintenance and capacity needs.
- Additional funding is needed to address existing needs, meet service expectations, and achieve stated goals.
- A fee increase will be recommended to Finance & Human Resources Committee.

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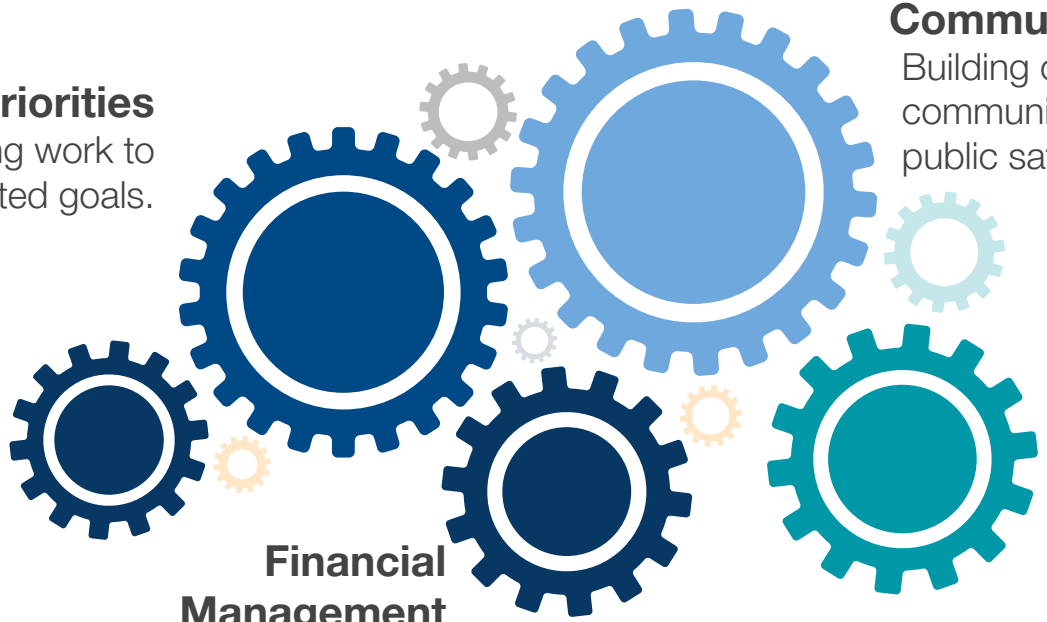
Water Service & System Maintenance

- Need to continue to recover revenue lost from capital fee in order to maintain credit rating and debt service coverage.
- Anticipate additional debt from advanced metering infrastructure (AMI) project in FY23.
- A fee increase will be recommended to Finance & Human Resources Committee.

Prioritizing Service Investments

Council Priorities
Continuing work to achieve stated goals.

Community Engagement
Building on previous work in community, including reimagining public safety engagement.



Internal Process
Focusing on neighborhood level information and data-informed decision making.

Financial Management
Balancing strategic investments with financial impact on community.

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Discussion & Questions

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City Council Retreat: Advanced Metering Infrastructure Project

March 18, 2022

David Melton,
Water Resources Director



Advanced Metering Infrastructure Project

Current automated meter reading (AMR) system:

- Collects data via staff driving by with data receiver in proximity to the water meter.
- Has reached the end of useful life.

Proposed replacement with AMI system:

- Will utilize a City owned fixed network that automatically transmits data directly to the database.

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AMI Project Details

Replacement of approximately 63,000 water meters and installation of associated infrastructure.

Outcomes:

- Robust interactive customer portal
- Allows for transition to monthly billing
- Reduces staff time required to read meters

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AMI Project Timeline



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AMI Project Funding & Budget

- $20 million for the project is programmed into current rate model and planned for future capital debt service.
- Project will be funded by a short term low interest loan then converted to long term revenue bonds after project completion.

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Water Service & System Maintenance

- Need to continue to recover revenue lost from capital fee in order to maintain credit rating and debt service coverage.
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Discussion & Questions

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City Council Retreat: Comprehensive Facilities Study

March 18, 2022

Jade Dundas,
Capital Projects Director

Walter Ear,
Building Construction Program Mgr.



Presentation Overview

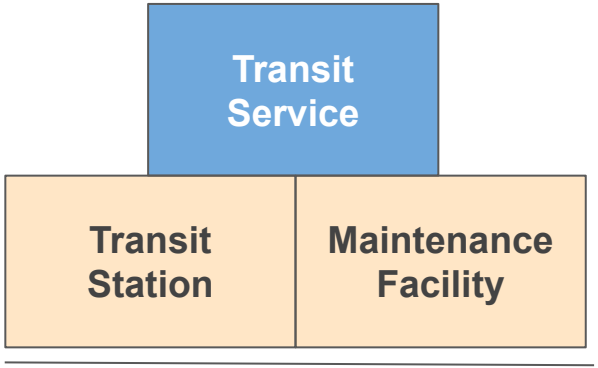
Preparing to conduct a Comprehensive Facilities Study

- Background on why study is needed.
- What we expect to get out of the study.
- Creating a long term vision for investments in facilities.

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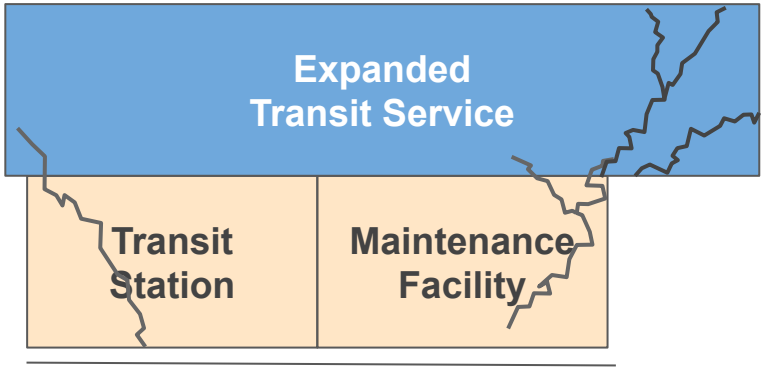
Why Do a Facilities Study?

Facilities are a platform for services.



Ideal State

Proportional growth in a planned sequence.



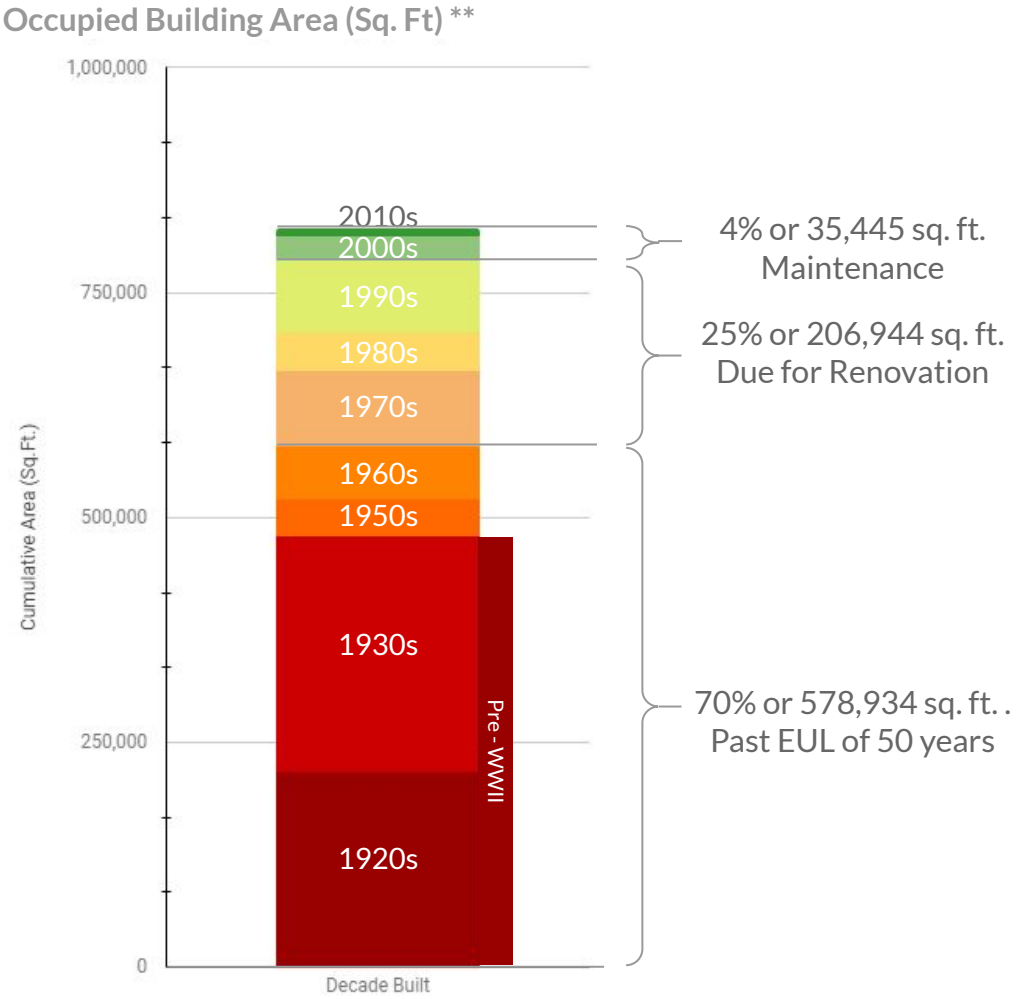
Possible Condition

Expanded service may require additional facilities.

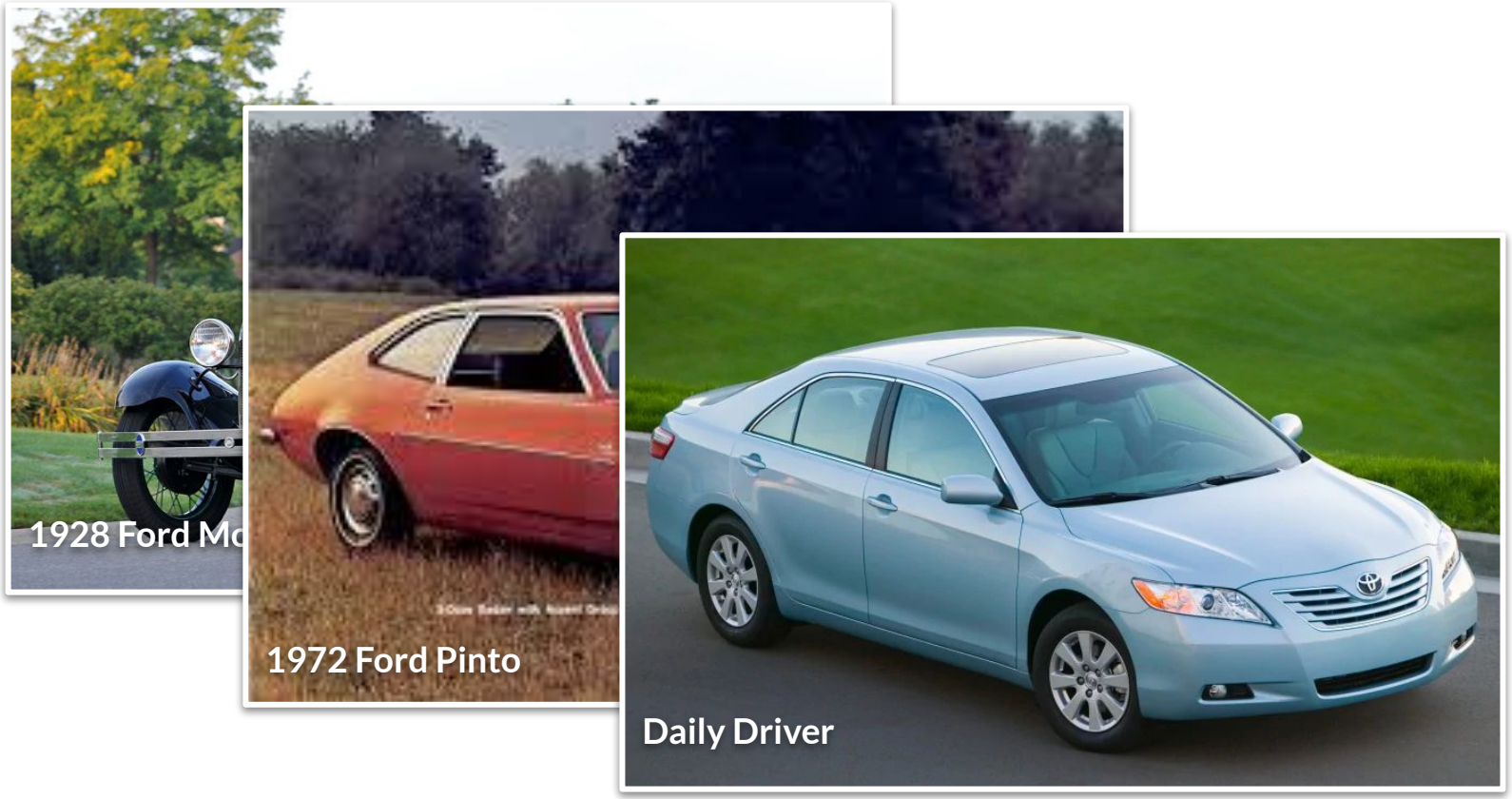
Current State of City Facilities

- Expected Useful Life*= 10-50 years
- Buildings > 50-years old are considered past their EUL
- Extend the EUL with major renovations and additions around 15 and 30 years
- >70% of City Facilities are past their EUL

*As defined by International Facility Management Association
**Occupied facilities only, excludes Pack Place Education Center (1930) and all Water Resources buildings.



Car Analogy



Modifications & Updates



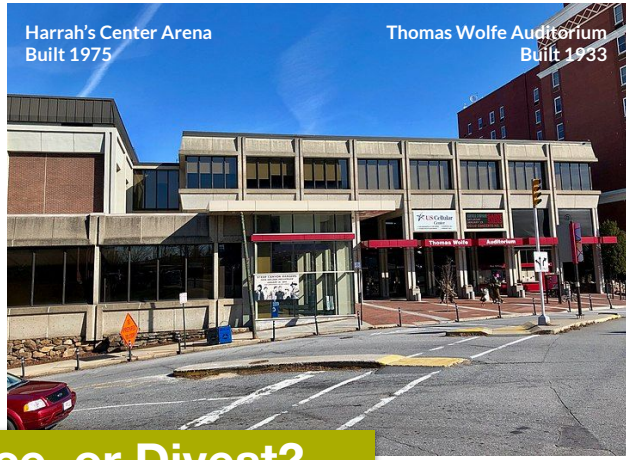




Facility Examples







Invest (Renovate, Modernize, Add), Replace, or Divest?





Existential Questions about the Future

Case Study: West Asheville Center (970 Haywood Rd)

1954: Built as Fire Station/Library



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Case Study: West Asheville Center (970 Haywood Rd)

1954: Built as Fire Station/Library

2001: County built new library,
old location returned to City

2022: Multi-functional facility
Fire Station #6
Police Substation
Community Center



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Case Study: West Asheville Center

Functionally Inadequate for Services

- Too small for modern operations.
- Most calls for service of any substation in 2020.
- Lacks a formal community interface.

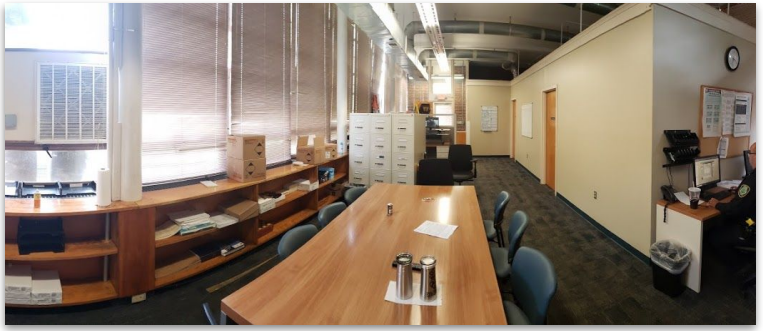
Current Maintenance Needs

- Community center HVAC and asbestos abatement ($150,000).
- Roof replacement ($80,000).

Modern Goals for the Structure

- Current building code requires “Category IV” structural standard for fire/police facilities.
- Building is a designated emergency shelter.
- Minimal insulation, single pane windows.
- Moisture from trucks leak into community center from time to time.





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What's in a Comprehensive Facility Study?

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Comprehensive Facility Study Outputs



Grades for how facilities are performing.

Current and future needs including growth and remote work (where applicable for select positions).

Prioritize facilities and projects. Scenarios to set up decision points.

- No change to funding.
- Funding to maintain current facilities condition.
- Funding to meet the goals of the organization.

Examples of Other Studies

Buncombe County

- Adopted by County Commissioners in 2021
- 15 Year Plan for maintenance, replacement, and relocation.
- Assessed 2 million square feet of facilities.
- Avoided building 22,000 sq.ft. by implementing strategies like remote work.

Alexandria, VA

- Facility Study started in FY15 and phased over 4 years.
- 10-year CIP including full lifecycle costs.
- Assessed 2.5 million square feet of facilities.

Alexandria, VA Study & CIP Model

What we learned from their study: objective metrics are key.

- Facility Condition Index (FCI) similar to Pavement Condition Index (PCI).
- Letter grades are an easy and universal way to communicate the state of a facility.
- The FCI is the ratio of the Capital Replacement Costs to the Current Asset Replacement Value (CRV).

$$FCI = \frac{\text{Capital Replacement (Deferred + 5 years)}}{\text{Current Replacement Value}}$$



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Alexandria, VA Study & CIP Model

What we learned from their study: objective metrics are key.

Implementation

- Phased multi-year assessments started in FY15 with office-type spaces.
- Assessments in FY16 to FY18 capture Fire Department and other services
- Restart the cycle with new FCA/FCI every 5 years.

Simplified Communication for Capital Planning:

Target Improvement	Funding Needed	Funding Approved (FY17)
Grade A *immediately*	$136M	$2.6M
Grade A *in 10 years*	$272M	$56M
Grade C *in 10 years*	**$157M**	**$56M**

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Facilities Planning Summary

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Planting Seeds for Future Needs

- Basic facility management (maintaining or replacing what we have) will likely exceed our current resources.
- Expanding services and reaching goals will require additional or new facilities.
- The City continues to grow, services and facilities may need to grow with it.

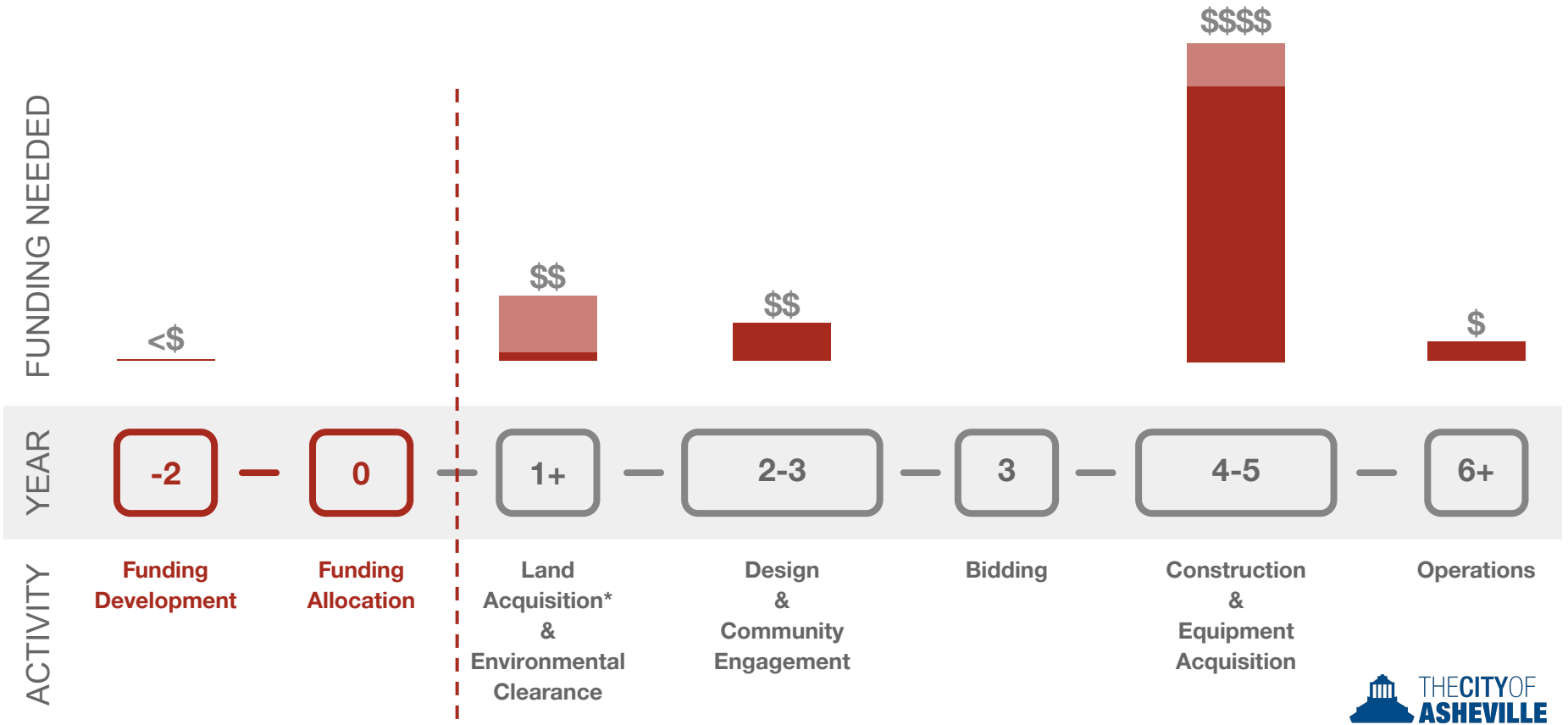
Budget Work Session - “To Do List”

Future Capital Project Outlook - Major Facility Needs

Thomas Wolfe Auditorium	$ 120M	Renewal and improvement of performance space
Operations Campus	$ 105M	Needed for expanding service and to free up South Charlotte St space
Transit Maintenance Center	$ 57M	Needed to allow for expansion of service
McCormick Field	$ 30M	Uncertain scope and funding plan
West Asheville Public Safety Facility	$ 13M	Current building has exceeded useful life
Fire Station 8	$ 8M	Current building is too small for operations
Municipal Golf Course	$ 2M	Stormwater & other maintenance needs

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Example Timeline for Multi-Year Approach



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Facility Study Schedule

Happening Now	Consultant selection
Spring	Contract to City Council Project kick-off (expect 9 month duration)
Summer	Facility & space needs assessment
Fall	Initial results and Council engagement
Winter	Capital budgeting and reporting

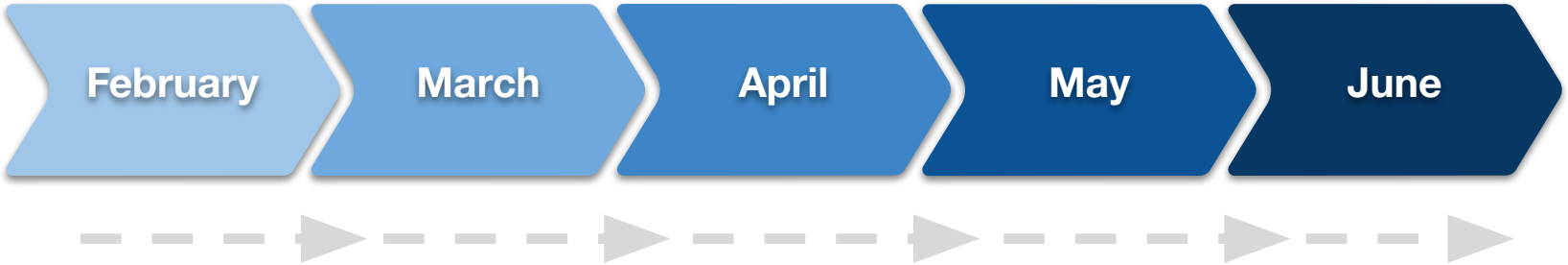
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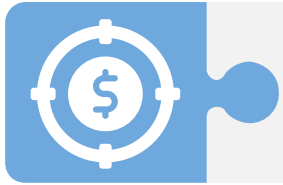
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