City Council Budget Work Session: Fiscal Year 2021-22

March 23, 2021

THE CITY OF ASHEVILLE



Presentation Overview

- Budget Process Review
- Fees and Enterprise Funds Overview
  - Water Rate Realignment
- American Rescue Plan (ARP)

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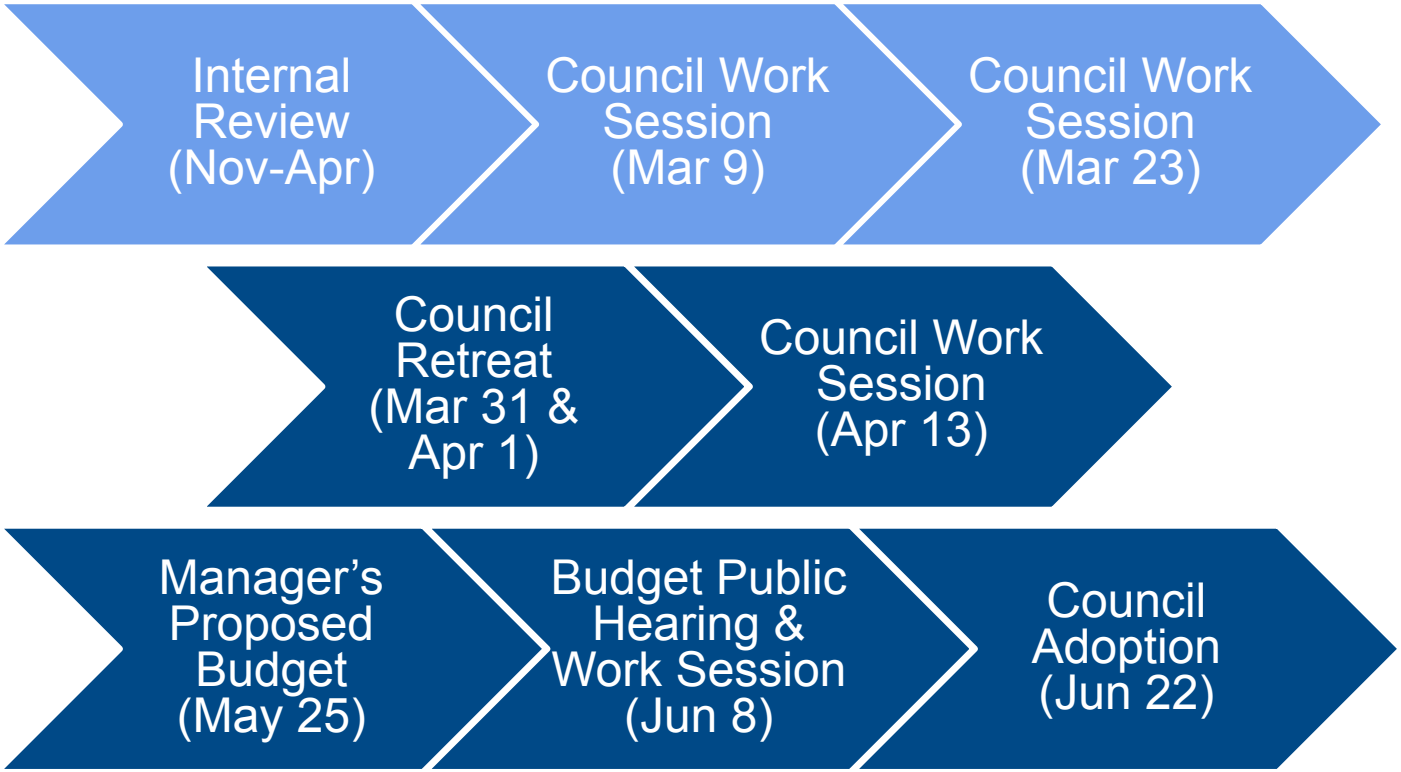
Key Takeaways

- Pandemic has adversely impacted enterprise funds operations and revenues.
- Assessing fees for customer impact (cost and service).
- Water fee realignment needed to fund system maintenance.
- American Rescue Plan can help to address, but planning will be critical.

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Budget Process Review

Key Budget Dates for Council



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March 9 Work Session Review

- Current Year (FY21) Status: Improving outlook, but uncertainty continues.
- Next Year (FY22) Budget Process: Reviewing current services with equity lens both internally and externally.
- Revaluation and employee compensation were highlighted as key opportunities and challenges for the upcoming budget year.

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External Equity-Focused Budget Sessions

- Round One Sessions:
  - March 18 - 6:00-7:30 p.m.
  - March 24 - 6:00-7:30 p.m.
  - March 25 - 10:00-11:30 a.m.
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Fees: Charging for Public Services

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Charging for Services

Why charge for service?

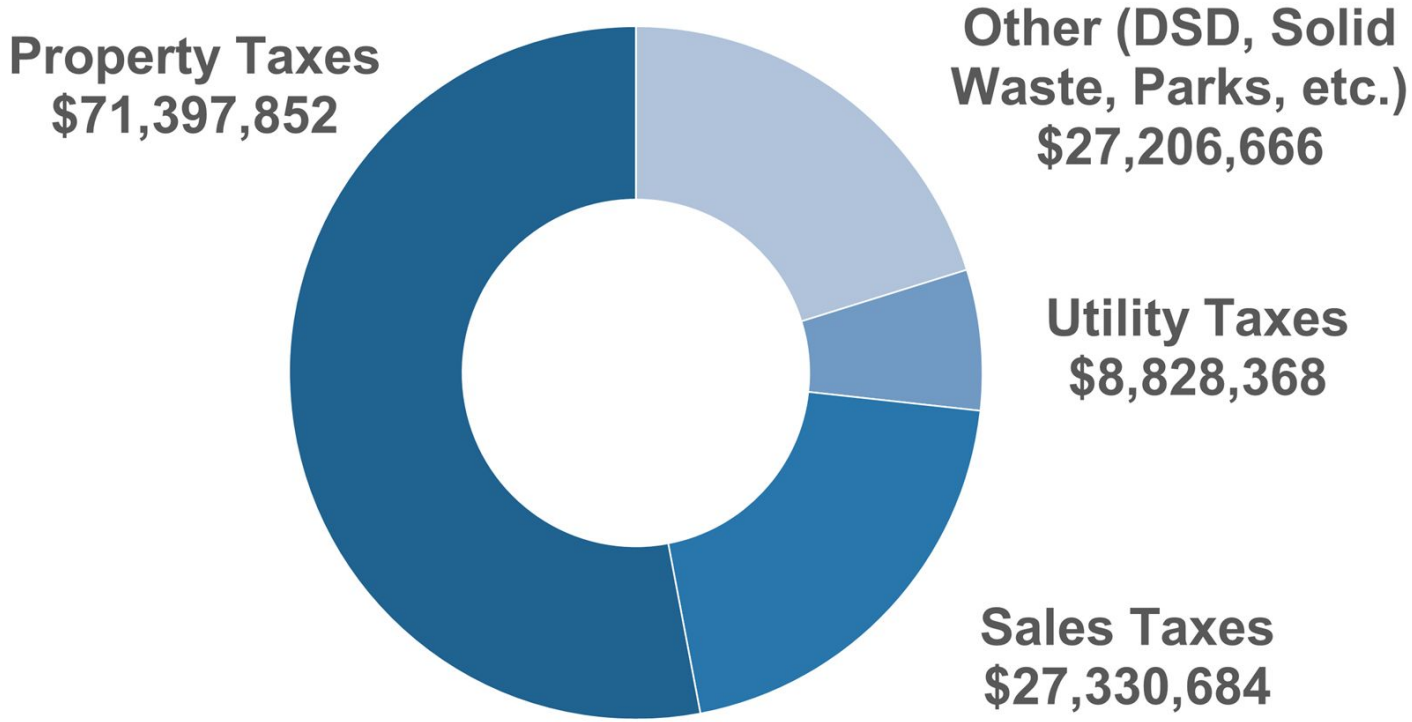
- Customer vs community benefit
- Ensure access
- Statutory requirements

Factors in setting fees and charges:

- Cost to provide service
- Who benefits from service
- Fee studies

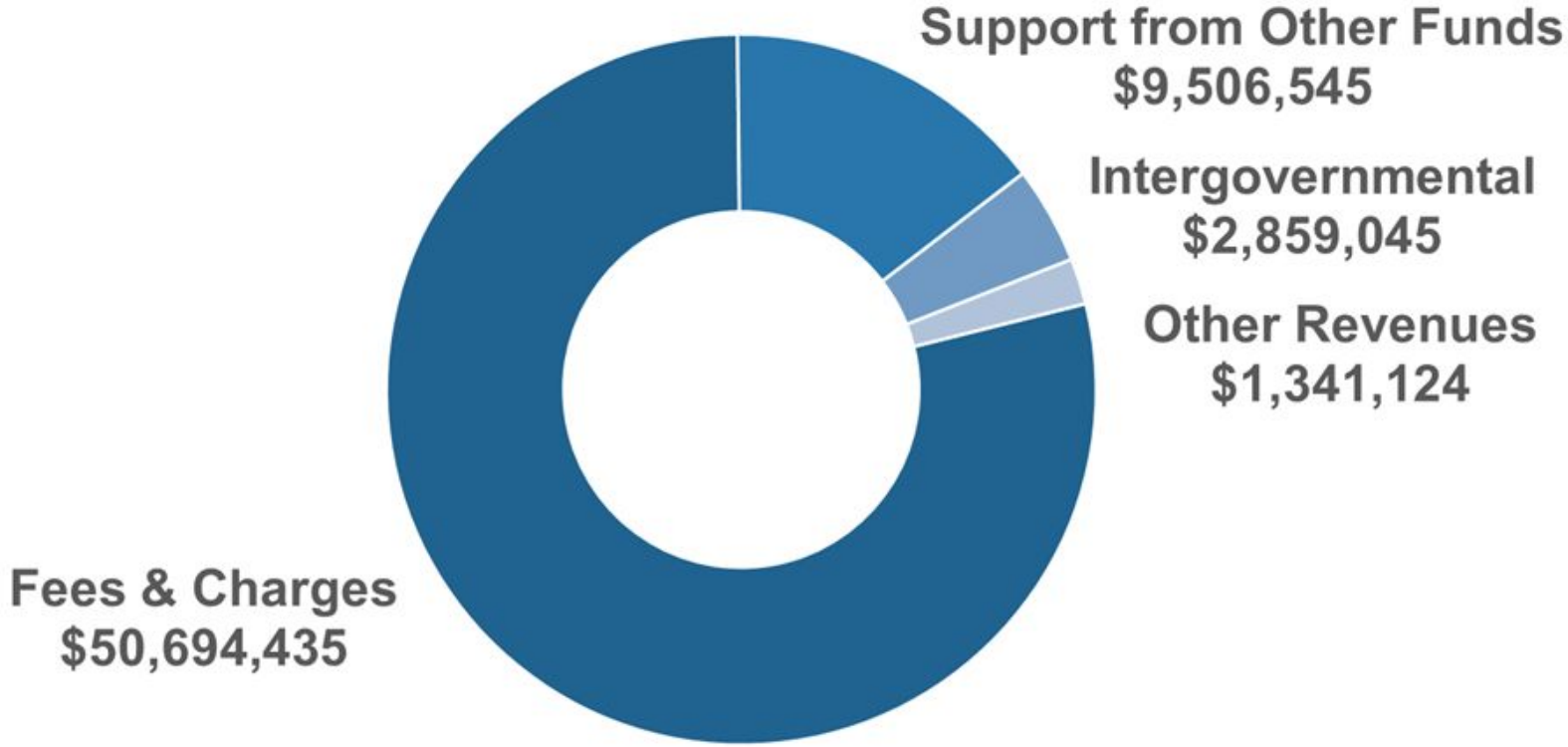
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General Fund Revenues



FY20-21 General Fund Budget: $134,763,570

Enterprise Fund Revenues



FY20-21 Enterprise Fund Budgets: $64,401,149

General Fund & Fees

Significant General Fund fee revenues:

- Solid Waste ($5.0M)
- DSD, Planning, AFD Development fees ($3.8M)
- Parks & Recreation ($1.5M)

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Enterprise Funds & Fees

Fees fully support service

Water Resources	$33.2M	Parking	$ 6.6M
Stormwater	$ 6.6M	Street Cut	$ 1.9M

Fees help fund but substantial amount needed from other sources to support the service

Transit	$12.3M	(Supported by federal grants, General Fund, Parking Fund)
HCCA	$ 3.8M	(Supported by General Fund)

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Harrah's Cherokee Center - Asheville

- No regular events since March 13, 2020.
- Through the first 8 months of this fiscal year operating revenues are down approximately $2.0M.
- General Fund subsidy was kept flat and HCCA fund balance was used to offset operating revenue reduction.
- Anticipate return of events starting in September 2021.

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Parking Fund

- Parking fees not charged
  - On-street from March 15 - June 1, 2020
  - Off-street from March 15 - August 1, 2020
- Through the first 8 months of this fiscal year revenues are down approximately $2.2M.
- The budget was lowered in current FY to offset revenue loss, with reductions to both operating costs and capital outlay.
- Garage gating equipment replacement will require adjustment to fees.

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Transit Fund

- Operating fare free since March 15, 2020 with limited service and contracting for additional buses on certain routes since June 1, 2020.
  - Approximately $700k in lost farebox revenue since pandemic began.
  - Expect to spend $2.0M on additional buses by June 30.
- $3.68M in CARES Act funding fully utilized.
- SMAP funding of $1.1M withheld in current fiscal year by the State. Uncertain whether it will be received next year.
- RATPDev contract increase in FY22.

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Stormwater Fund

- Did not increase fees as usual in current fiscal year.
- Current financial capacity inadequate to address maintenance needs.
- Opportunity to begin funding capital needs with debt.
- Plan to address needs will likely require future fee increases.

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COVID Financial Impact Summary

- Harrah's Center operating revenue down $2.0M through the first 8 months of this fiscal year.
- Parking revenue down approximately $2.2M through the first 8 months of this fiscal year.
- Transit farebox revenue loss of estimated at $700k since pandemic began.
- Additional expenses of $2.0M in Transit for supplemental service by June 30.
- Reviewing grant opportunities (including American Rescue Plan) to make up lost revenues.

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Questions

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Water Resources Fund

Water Resources Fund

- Largest enterprise fund.
- Substantial capital and operating costs.
- Consultant developed rate model.

Water Resources Capital Fee

In 2018, the NC Supreme Court issued an opinion in *Quality Built Homes Inc. v. Town of Carthage*.

- Court determined that cities were not permitted to charge water and sewer “impact fees.”

Thereafter, law firms began filing lawsuits against cities in NC that had charged these fees in recent years.

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Water Resources Capital Fee

Asheville was named in two class action lawsuits based upon its capital fees for water service.

- These lawsuits were settled without any admission of liability by the City, and the settlement included an agreement to discontinue the capital fee.
- Lost capital fee revenue totaled $7.5M in FY21.
- Working with financial and rate consultants to develop a plan to begin recovering capital revenue.

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City of Asheville

-Financial Planning and Water Rate Setting-

-Retaining Fair Rates and Sound Finances-

Presented by DEC Associates

March 23, 2021

City Financial Planning and Policy Setting

Asheville has sound and long-practiced financial planning:

Important Elements for Consideration

Spanning Operating/Capital

Defining needed elements:

- Multi-year Operating Budget projections
- Establishing fund balance retention policies
- Separating resources – operating and capital
- Comprehensive Capital Improvement Plan
- Debt policies governing multiple decision points
- Keeping flexibility to meet ever changing service demands
- Managing to both good and not so good times
- Focus on future growth and need for operating and capital adjustments
- Well managed and growth equipped public enterprises – emphasis today on Asheville Water

City History

Often a leader and creating benchmarks:

- Operating planning and policies
  - Early into multi year operating planning
  - Fund balance policies sound/not excessive
- Capital planning and policies – focus on affordability
  - Multi year CIP – debt and paygo funding
  - Determine capital investment operating cost
- Use of appropriate and cost-efficient forms of debt
- Focus on being first in methods to efficiently manage – dedicated capital investment funds
- Sound Water System management and increasing importance of the System – Where do we go from now to meet new user fee mandate

Water User Fees
Fairness and Revenue Adequacy

Water user fee – structure – fairness – comparability

- Emphasis on fixed and variable components and split between customer types (residential, commercial, etc.).
- Do rates fairly distribute charges between fixed and variable?
- Affordability for users especially at lower residential consumption levels.
- Distribution of user fees between customer types reasonable/comparable to other water systems.
- How do rates compare overall to other similar water systems?

Water User Fees
Fairness and Revenue Adequacy

Adequacy of revenue produced from user fees

- Are total fees collected adequate to meet operating and capital needs?
- Is sufficient fund equity and cash position adequate to meet requirements and policy?
- Do rates produce sufficient cash for investments in capital to meet growth and regulatory concerns?
- Comprehensive debt model is means to “manage” constant change in CIP – timing of projects/cost.
- Are revenues sufficient to meet revenue bond covenants and retain high credit ratings? New FY22 rate structure effectiveness is critical.

Credit Ratings and How They Align With User System Revenues

Credit ratings for Asheville Water revenue bonds are high and rely on system revenues:

Each rating agency places strong emphasis on rate setting

Revenue bond rating determination methods

Four areas for the rating metrics (Moody's):

- System characteristics – 30%
- Financial strength – 40%
- Management – 20%
- Legal provisions in bond documents – 10%

City influences

Consistent policy and management directions:

- System Characteristics
  - Wealth levels/size depend on local economy
- Financial strength and Management
  - Sound and consistent rate setting
  - Debt service coverage meeting policies
  - Strong days cash on hand
- Why work for highest ratings – especially now?
  - Lower interest cost and greatest flexibility
  - Ability to creatively structure debt/repayment
  - Greatest access to financial markets

Summary

- Asheville Water System rate realignment recommendations due to external decisions are sound.
- Rate realignment retains fairness and comparability to peer utilities.
- Estimated future revenues would permit system expansion and adequacy of revenues.
- DEC believes that the rate changes will create sound ability to manage to system needs for the five-year forecast period and provide sound informational points to rating analyst as they evaluate the system and the new user fees.


Thank You

Residential User Impact & Rate Recovery

	FY20	FY21	FY22	FY23	FY24	FY25
Bi-Monthly Impact on Average User						
Charge	$ 65.38	$ 56.86	$ 63.42	$ 68.34	$ 71.85	$ 75.27
Change		$ (8.52)	$ 6.56	$ 4.92	$ 3.51	$ 3.42
Revenue (in millions)						
	$ 41.1	$ 32.3	$ 35.8	$ 38.4	$ 40.2	$ 41.9

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Water Resources Rate Realignment

- Meets legal requirements.
- Eases into revenue recovery over time to lessen the burden on customers.
- Provides sufficient resources to meet operating and capital needs and meet rating agency debt coverage ratios.

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American Rescue Plan Overview

- Awaiting guidance from US Department of the Treasury.
- $26M direct allocation to City of Asheville.
- Provided in two payments:
  - First half: 60 days from when signed into law
  - Second half: One year later
- December 31, 2024 is current deadline to spend.

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Upcoming City Council Dates

- Work Session (April 13):
  - Capital Improvement Program (CIP)
  - Review operating budget
- April 27
  - Council vote fees
  - Additional work sesion?
- May 25 - Presentation of Manager's Recommended Budget

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