# BUDGET WORK SESSION MINUTES

The City Council of the City of Raleigh met in a work session at 1:00 p.m. on Monday, March 21, 2016 in the City Council Chamber, Room 201 of the Raleigh Municipal Building, Avery C. Upchurch Government Complex, 222 W. Hargett Street, Raleigh, North Carolina, with the following present.

Mayor Nancy McFarlane, Presiding
Councilor Mary-Ann Baldwin
Councilor Corey D. Branch
Councilor David Cox
Councilor Kay C. Crowder
Councilor Bonner Gaylord (Arrived late)
Councilor Russ Stephenson
Councilor Dickie Thompson

These are summary minutes unless otherwise indicated.

Mayor McFarlane called the meeting to order.

City Manager Ruffin Hall indicated this is the second in a series of budget preview meetings. He gave a brief overview of the items to be presented at today's meeting and indicated Staff will request that Council approve the user fee recommendations, which will be presented later in the meeting.

Interim Budget Manager Ben Canada gave a brief description of the items to be presented at today's meeting noting copies of Staff's PowerPoint presentations were included in the agenda packets. Mr. Canada also introduced the staff members making the presentations.

The following items were discussed with actions taken as shown.

**STORMWATER MANAGEMENT PROGRAM – INFORMATION RECEIVED; DRAINAGE ASSISTANCE POLICY REVISIONS – REFERRED TO THE GROWH AND NATURAL RESOURCES COMMITTEE**

Stormwater Manager Blair Hinkle presented the following information:

Good afternoon.

Thank you for the opportunity to be here today to talk about the Stormwater Program.

The goals for this presentation are to:

1. Briefly discuss the Stormwater Program's five major service areas;
2. Provide a few budget highlights;

3. Discuss our service pressure points and what we see as opportunities for improvement to our level of service;
4. And finally, to talk about where we are in terms of our rate, and some opportunities that we see there;

So, to begin, a general overview of the Stormwater Management Program:

Stormwater Program provides external service in five areas:

1. CIP or Infrastructure Projects – Large stormwater projects affecting public infrastructure;
2. Drainage Assistance Program – City participates with private property owners to partially fund infrastructure improvements on private property;
3. Water Quality – NPDES Permit management, water sampling, GIS/Inventory program, public education;
4. Stormwater Development Review & Inspections – Review and inspection services ensuring compliance with City & State regulations;
    1. Also administers our flood plain program and manages flood hazard mitigation grants;
5. Maintenance.

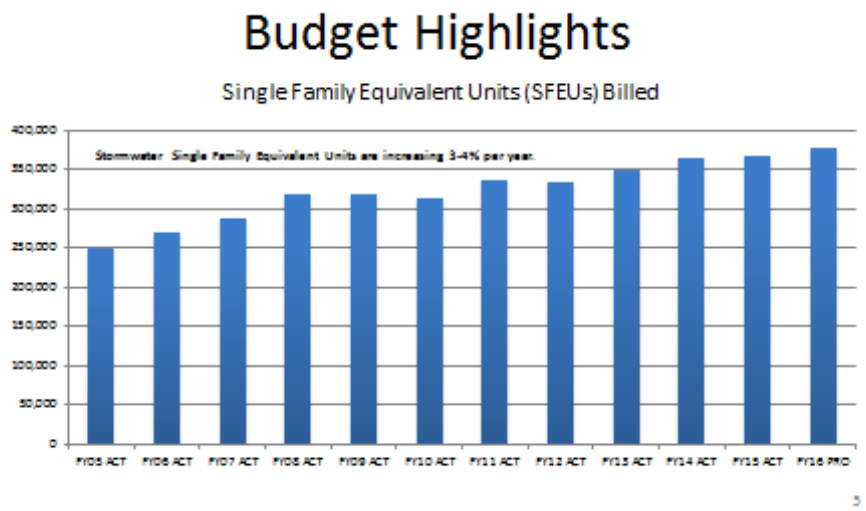
City's in-house stormwater maintenance capability is provided by the Transportation Field Services Division of the Public Works Department and is funded by the Stormwater Utility at a level of about $3 million annually.

Services they provide include:

1. Culvert, pipe, and catch basin repair and replacement, generally within the right of way;
2. And street sweeping.

Much of our responsiveness to smaller projects and repairs within the right of way hinges on the availability of these crews.

I wanted to start our conversation about the budget with a chart showing impervious area growth over the life of the Stormwater utility.




You'll notice the term SFEU on this slide and hear me use it several times throughout this presentation – this is our billing unit, and one SFEU is equal to 2,260 sf of impervious area. And that number, 2,260 sf of impervious area, is the average impervious area coverage on an average single-family residential lot in the City.

So, putting all of that together, this chart is showing a 3-4% annual increase in impervious area within the City of the last 12 years.

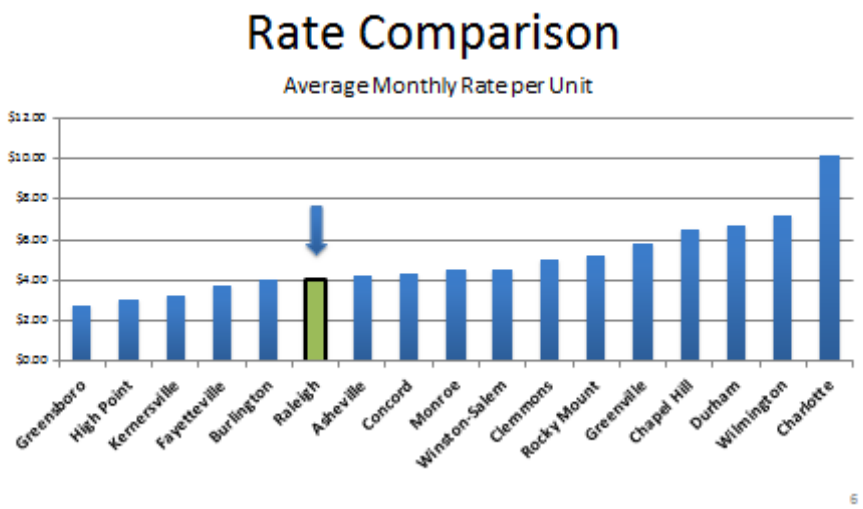
Doing the math, this equates to a total increase of 125,000 SFEUs or 282.5 mil sf, or, as a percentage, about a 50% increase.

While that equates to growth in revenues, it also means that the stormwater system is being placed under more and more pressure since increased IA results in increased runoff volumes and decreased water quality.

We charge $4.00 per SFEU per month to fund the stormwater program, and we have about 127,000 customers.

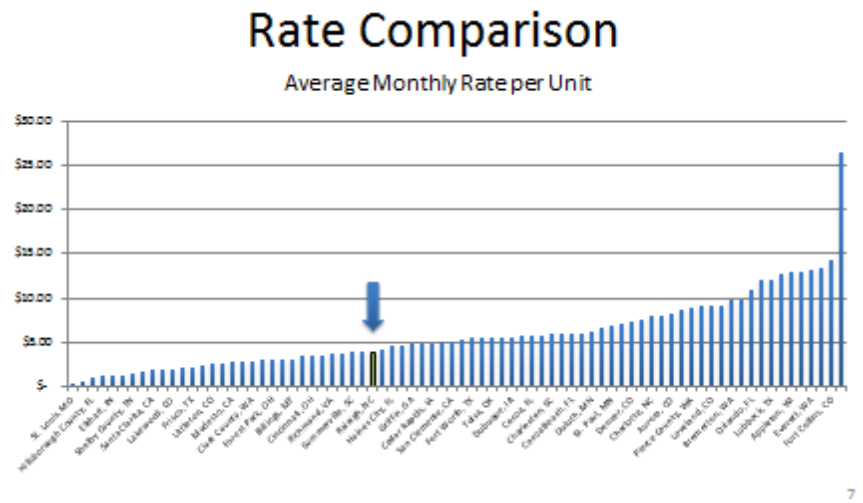
- The majority of our customers (~84,000) is within our average residential tier and pay $4.00 per month ($48/yr.).
- Our 18,000 commercial, industrial, and institutional customers pay based on actual impervious area, calculated at $4.00/SFEU (or 2,260 sf of IA).

At this rate, compared to other municipalities throughout the state, were below both the average rate of $5.00 and the median rate of $4.50 per unit.




You can see that stormwater rates across the state range fairly widely, from Greensboro's $2.70 per unit to Charlotte's $10.18 per unit. The State stormwater rates – chart is a cross section of cities across the state, includes other 5 Phase 1 communities (Greensboro, Fayetteville, Winston, Durham, and Charlotte).

Expanding our view to the national level, we can see that Raleigh's rate is also below the average and median among the 78 respondents to a well-known national 2014 survey completed by Black & Veatch.




For this data set, the average rate was $5.87 per unit, and the median rate was $5.00. It's important to note that some of the municipalities with much higher rates (Seattle is the highest) have combined sewer systems, so some of this revenue is utilized to manage the unique challenges associated with those types of systems. The National stormwater rates

– chart is all cities that submitted information for the 2014 Black & Veatch national survey (78).

How do we put the money collected to use?

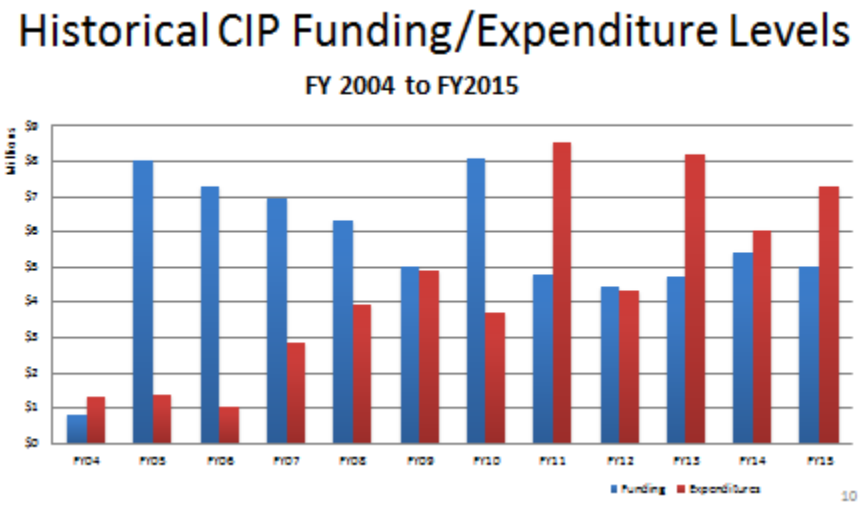
In 2016 it was about a 1/3 split between operating costs, inter-fund transfers, and capital investments.

1. Just over 33% ($6 million) of our budget went to inter-fund transfers; including:
    1. $3 million to TFS for stormwater maintenance activities;
    2. $2.9 million to indirect cost allocation to pay for things like use of the Customer Care and Billing system, billing office, Finance, and other internal services that we utilize.
2. 32% ($5.7 million) was transferred to our Capital Fund.
3. 35% ($6 million) went toward personnel and operating costs.

Looking more specifically at the Capital Fund, over the life of the utility (FY2004 through FY2015), the City has invested a total of $53.5 million into stormwater projects over the last twelve years. This total includes:

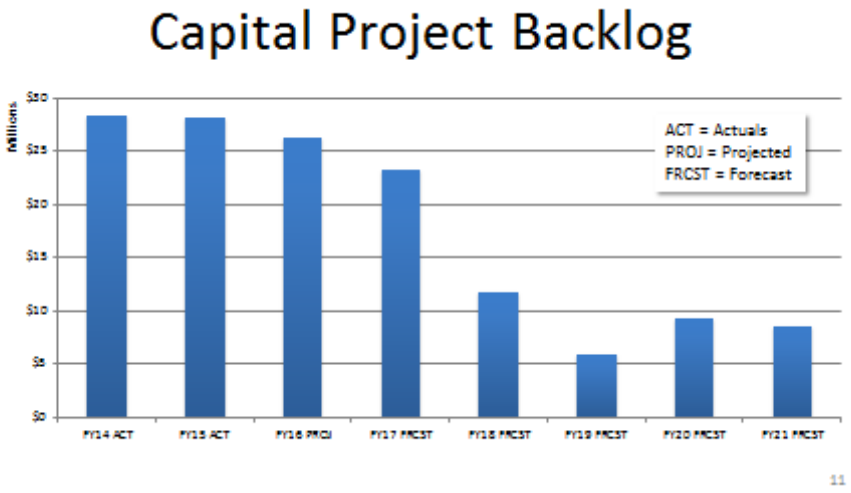
1. $13 million in Neighborhood Drainage Improvements
2. $12.2 million in Lake Preservation Projects
3. $4.1 million in Flood Hazard Mitigation purchases
4. $3.8 million in General Drainage Infrastructure Projects
5. $3.1 million in Drainage Petition Cost Share Projects

It's interesting to look at Capital funding versus capital expenses over the life of the utility:



1. Early in the program, funding substantially outpaced expenditures.
    1. This is not uncommon for new utilities – a significant new funding source coupled with large lead-time projects and a small staff to produce a large backlog.
2. Over the last several years, capital spending has outpaced funding, indicating that we've turned the corner towards drawing down our project backlog.
    1. A big part of this has been getting project management resources and processes in place, which we've done over the last three years.

Looking more directly at the Program's project backlog, you can see that we project about a $2 million decrease from the FY15 level by the end of this Fiscal Year.




Moving forward though FY19, we expect to reach a much more sustainable level of about $5-10 million in rollover funding year-to-year, just because so many of our projects can't be completed within one year.

There are a number of very large projects that will be completed over the next two to three years that make up the majority of our backlog.

It's important to note that this backlog drawdown is in addition to the new projects that we're proposing in a more aggressive 5-year CIP, which we'll discuss in just a few minutes.

Projects:

Brockton Lake – 2 phases; $4.2m
Swift Dr. - $3m+
Lower Longview Lake Dam - $3m
Laurel Hills Dam - $2.5m

Capital Inn Act. - $1.3m
Audubon Dr. Drainage - $1.3m
Drainage Petition Projects - $1.2m
Top 3 projects = 30%
Top 10 = 60%

The number of requests for Drainage Assistance Projects and larger capital projects to solve street flooding and neighborhood drainage issues grows each year.

Our current inability to respond quickly to anything other than very minor infrastructure failures within the right of way leads to extended lane and street closures (Crabtree Blvd is a great example, a lane has been closed for over a year, though I'm happy to report that a design is wrapping up and we'll be to work there relatively soon).

And, finally, there's an increasing recognition that, as Raleigh continues to grow, we have to be more holistic in solving stormwater problems. This includes expanding our Drainage Assistance Project scopes to solve broader problems and incorporating innovative approaches like LID into our stormwater solutions.

If any of this sounds familiar, that's because we've had some of these discussions before.

Shortly after starting with the City, I had the pleasure of speaking with you at last year's budget work session:

- Talked then about our level of service, and areas in which we could make improvement
- And we committed to reviewing various program areas within Stormwater, working with the SMAC to develop options for policy revisions, and bringing those to you.

The first program area that we delved into was the Drainage Assistance Program, and we discussed our high-level recommendations with you back at the November work session.

To expand a little bit on that process with the Drainage Assistance Program:

We started with getting the SMAC's high level feedback on the opportunities and challenges of the program, and we used this to frame the high level recommendations that we discussed with you at the November work session.

The next step in the process will be for SMAC to consider the detailed policy revisions, and provide a recommendation back to Council.

Before it returns to the full Council for consideration, though, we think it's best for it to be referred to the Growth & Natural Resources Committee; and that is one of the actions that I'll be recommending at the end of this presentation.

Zooming back out a little bit to the broader discussion of ways in which Stormwater can provide better service, we see three major ways that we can provide increased levels of service in the short term:

First, the changes that we'll be recommending related to the Drainage Assistance Program will allow us apply the program more broadly, and to expand the scopes of those projects to correct the causes of problems, rather than just their symptoms. We look forward to bringing those to the Growth & Natural Resources Committee in late April or early May if it's Council's desire to refer the matter there.

Second, we can, with slightly increased revenues from a rate adjustment, provide for a more aggressive level of capital project delivery and more timely responsiveness to infrastructure failures.

Finally, in order to be as aggressive as possible in delivering new projects, we are proposing the allocation of accrued fund balance over the next five years to further supplement funding of our Capital program.

So, let's dig into the details of these proposed levels of service increases.

On the operational side, we're proposing the addition of two new Stormwater Construction Crews in the Transportation Field Services Division.

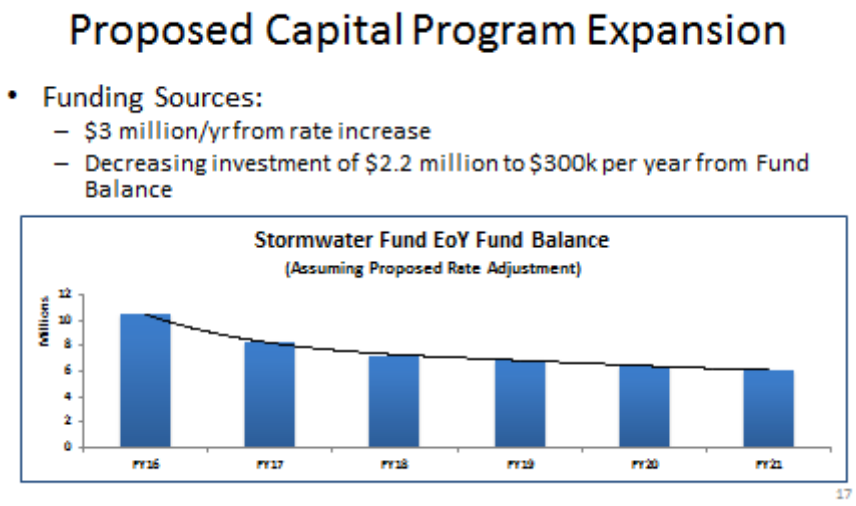
- As we talked about a few slides ago, Stormwater currently provides about $3 million per year in funding to support the existing capability related to stormwater maintenance
- These new crews would require an additional $1.3 million per year
- Once these positions are filled, they will allow us to respond immediately to larger infrastructure failures, rather than having to go through the process of hiring consultants and bidding projects out for construction. (which is a timeline that takes at least months)
- When these crews are not responding to priority issues within the right of way, they'll be able to complete Drainage Assistance Projects and small infrastructure projects, significantly reducing the cost of those projects which they're able to address, and freeing those capital resources up for other projects
- In addition to the increase in responsiveness, we would anticipate that these crews could complete about 20-25 projects per year.

On the capital side:

- As we talked about in November, the SMAC recommended increasing funding of the Drainage Assistance Program by $500,000 per year
    - And staff concurs with that recommendation

- Funded at a level of $1.25 million per year and paired with the policy revisions that we'll be bringing forward, we'll be able to expand project scopes and reach further down the priority list each year
- With the project management and construction inspection resources that have been added to the program over the last two years, we're now positioned well to manage a larger more aggressive capital project workload.
- And finally, we need to do a better job of funding our watershed master planning efforts in order to find broader solutions to the stormwater problems that some neighborhoods are facing

So what would the funding side of a more aggressive capital investment program look like?




As I mentioned earlier, in order to be as aggressive as possible and front-load our proposed CIP with projects that have been on the books for a while.

- We believe that an additional $3 million from the revenue increase is sufficient when paired with an annual fund balance allocation ranging from $2.2 million in FY17 down to $300,000 in FY21

These two funding sources would provide between $5.2 and 3.3 million additional dollars per year to be invested directly into capital improvements to the stormwater system

And the results could be significant in terms of increased project delivery

# Proposed Capital Program Expansion

Comparison of Current and Proposed 5-year CIP

| Project Type | Current 5-yr CIP | Proposed 5-yr CIP | Funding Increase | Change in # of Projects | Notes |
|---|---|---|---|---|---|
| Flood Mitigation | $400,000 | $800,000 | 100% | 3-6 (+100%) | Property Acquisitions |
| Stormwater System Repairs | $600,000 | $3,500,000 | 517% | 5-15 (+200%) | Reserve-type fund for unexpected high-priority failures |
| Watershed Planning | $1,000,000 | $1,400,000 | 40% | 5-10 (+150%) | |
| WQ Cost Share | $1,250,000 | $1,250,000 | 0% | -- | |
| Street Drainage Improvement | $2,325,000 | $4,825,000 | 108% | 2 (+50%) | |
| WQ Improvement | $2,600,000 | $2,900,000 | 12% | 1 (+33%) | |
| Stream Restoration | $3,125,000 | $3,125,000 | 0% | -- | |
| Lake Preservation | $3,750,000 | $3,750,000 | 0% | -- | |
| Drainage Assistance Program | $3,750,000 | $6,250,000 | 67% | 15-30 (+25-50%) | New funding used to expand scopes & add additional projects |
| Neighborhood Drainage Imp | $14,155,000 | $21,265,000 | 50% | 2 (+22%) | Large projects |
| *Total* | *$33,405,000* | *$48,065,000* | *44%* | | |

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This table compares our current 5-year CIP to our more aggressive proposed 5-year CIP, and is broken down by project type. Moving from left to right, you'll see:

- The project type
- The amount devoted to projects under our current CIP
- The amount we're proposing to devote under the proposed CIP
- The percent change in funding level
- And the number of additional projects that we anticipate being able to fund under this more aggressive level of service

Our proposed CIP includes:

- A 100% increase in funding for the Flood Hazard Mitigation program, which will allow for the acquisition of more or larger flood-prone properties each year
- A significant increase in the generic "Stormwater System Repairs" account, which is a reserve fund to fix unexpected, high priority failures.
- Capability to complete additional watershed master planning activities
- The addition of a number of additional Street Drainage, Neighborhood Drainage, and Water Quality Improvement projects
- And finally, as mentioned earlier, an expansion of the Drainage Assistance Program, both in terms of number of projects and project scopes
    - One important note is that the estimated number of additional projects completed each year here doesn't include projects completed by the new in-house operational resources that we talked about earlier; those projects would be in addition to these. Cumulatively, we would expect to complete approximately 40-50 total Drainage Assistance projects per year in total moving forward.

So, what sort of rate adjustment are we recommending?

The rate change required to generate the additional $3 million on the capital side equates to 70 cents per SFEU, and the rate change required to generate the $1.3 million on the operational side comes to 30 cents per SFEU.

In total, we're proposing a $1.00 per month per SFEU increase to the stormwater rate.

What does $1.00 increase mean for our customers?

The majority of our customers (84,000 out of about 127,000) pay the flat rate average residential rate of $4.00 per SFEU, so a $1.00 rate increase would be an additional $12 per year.

Our 17,000 or so commercial customers would see increases of varying levels, based on the number of SFEUs for which they're billed.

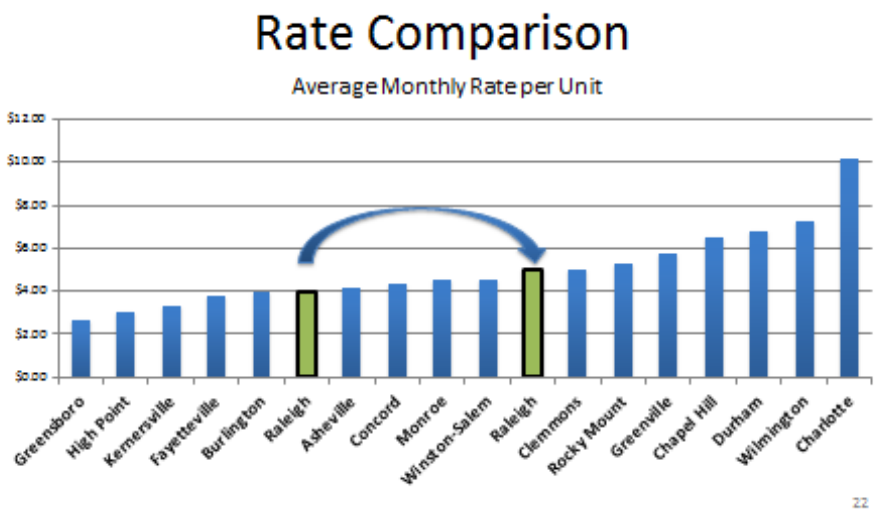
- It's important to remember that the commercial rate is still one SFEU per 2,260 of impervious area, based on actual impervious area present.
- In the examples here for small, medium, and large commercial properties, the effect is a monthly increase of $10, $44, and $327, respectively
  These are representative monthly bills, not averages, to give you a general idea of the impacts.

The average commercial property is charged just under 14 SFEUs, or about $56/month, for stormwater.

Said another way, this proposed rate adjustment would raise the average commercial property's stormwater fee by $14/month, or $168/year

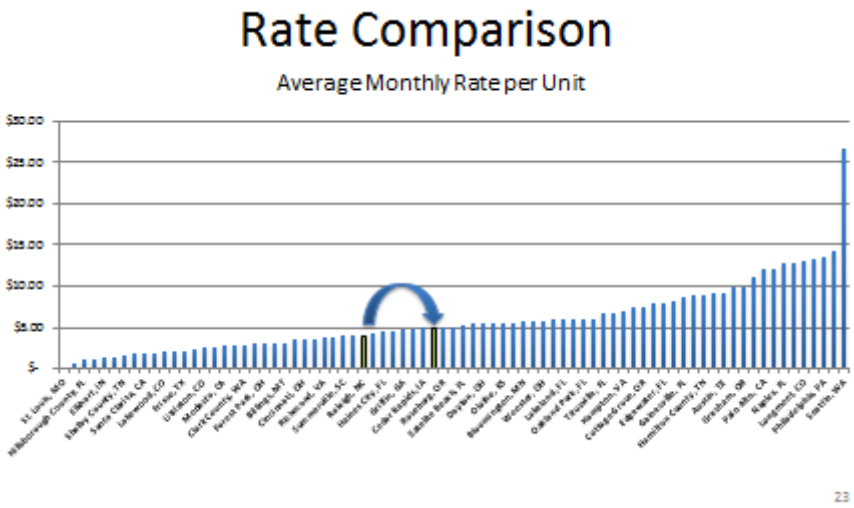
In terms of the impact to our budget of both the funding increase and the fund balance allocation, we would see an increase of 77% to our Capital funding level, and a 45% increase to our direct cost allocation for the new crews in the Transportation Field Services Division. This would result in an overall increase to our FY17 budget of about $6.2 million, or about 35%.

In looking at where this would place us among other municipalities within the state of North Carolina, we'd be moving to the average ($5.00) of this data set, and be 50 cents above the median rate ($4.50).




Comparison of old and proposed rates vs. peers

At the national level, a rate of $5.00/SFEU would keep us below the average of $5.87, and place us directly at the median rate.




Comparison of old and proposed rates vs. peers

To summarize:

- A $1.00 adjustment to the stormwater rate would allow a significantly increased level of service
    - Including reduced response time to failures

- And much more aggressive capital investment, including an expanded Drainage Assistance Program
- All while keeping Raleigh very competitive in terms of our stormwater fee

- We'll also be utilizing our accrued fund balance in a targeted way in order to accelerate several large and critical projects

So I have two recommended actions for you in wrapping up this presentation. The first is that I would be very happy to answer any questions or feedback that you might have related to the information that I just shared.

And the second is, as we talked about earlier, to refer the Drainage Assistance Policy revisions that will be coming out of the SMAC early next month to the Growth & Natural Resources Committee.

Discussion took place regarding how average square footage was calculated with Mayor McFarlane questioning what happened with Seattle's monthly rates and Stormwater Manager Hinkle responding Seattle has a very aggressive stormwater management program.

Ms. Baldwin questioned the project backlog was work the City performed internally with Stormwater Manager Hinkle responding staff utilizes outside consultants and the projects are bid out.

Discussion took place regarding ways improve processing CIP projects process with Mr. Thompson questioning whether most of the project designs are performed by outside consultants and Stormwater Manager Hinkle responding in the affirmative; however, smaller projects are designed in-house.

Discussion took place regarding the project backlog with Mr. Hinkle indicating it would take approximately 2 years to complete the projects on the backlog list. Mr. Thompson questioned how staff defined the "holistic" approach with Stormwater Manger Hinkle responding staff looks at the broader scope for projects in response to stormwater petitions.

Mrs. Crowder questioned with additional crew whether more projects would be completed in-house with Stormwater Manager Hinkle responding in the affirmative.

Mrs. Crowder talked about flood mitigation and questioned whether there was a process in place to show how funds are spent with Stormwater Manager Hinkle responding funds are provided through a matching grant from FEMA. Mrs. Crowder questioned whether the funds are provided based on need with Mr. Hinkle responding in the affirmative adding the funds are provided based on FEMA's determination and indicated the Milner Inn project was a good example.

Discussion took place regarding whether the City could reduce the stormwater fees once it is caught up on the project backlog as well as whether the City would consider the Neuse River a possible water intake source. The discussion also included the number of backlogged projects slated that were not yet approved by Council as well as how future stormwater requests would be

handled with Mayor McFarlane indicating there may be requests in the system that may not yet appear on the list.

Mr. Cox question whether Lake Lynn was included in the project list noting portions of the lake were being filled in with sediment with Stormwater Manager Hinkle indicating Lake Lynn is owned by the County.

Mr. Cox questioned how the SFEU rate is listed with Mr. Thompson indicating the rate is listed on the water bill and pointed out he brought a copy of his recent bill to the meeting to show the rate is indeed listed with Stormwater Manager Hinkle indicating Mr. Thompson was correct.

Discussion took place regarding how residential tier rates are determined and calculated with Mrs. Crowder requesting a printout of the tiers and Stormwater Manager Hinkle indicating staff will provide that information.

Mr. Thompson questioned how stormwater rates are calculated for homeowner associations with Stormwater Manager Hinkle responding staff looks at the total impervious surface area and the homeowners association has the option of dividing the total rate by the number of units in the complex.

Mr. Stephenson talked about the percentage of funds used in stormwater runoff prevention and as well as the City's progress in light of new development.

Following further discussion, Mayor McFarlane indicated that, without objection, the Council will refer the Drainage Assistance Policy revisions to the Growth and Natural Recourses Committee

Ms. Baldwin questioned the last time the stormwater rates were increased with Stormwater Manager Hinkle responding there has been no increase since the fees were enacted 12 years ago. Ms. Baldwin expressed her belief it was about time the City stepped it up regarding the fees with Mr. Thompson expressing his hope the City would not be hit with another major hurricane or else the stormwater funds would deplete quickly.

Mayor McFarlane talked about the timeliness with regard to the proposed rate increase.

Mr. Stephenson talked about the continued need to maintain water quality in the City's streams.

**Mr. Gaylord arrived at 1:45 p.m.**

**PUBLIC UTILITIES ENTERPRISE – INFORMATION RECEIVED; PROPOSED WATER AND SEWER RATE INCREASE AND FOG ADIMINSTRATIVE CHARGE – PRELININARY APPROVAL GRANTED WITH THE UNDERSTANDING FINAL APPROVAL WOULD NOT OCCUR UNTIL BUDGET ADOPTED IN JUNE**

Public Utilities Director Robert Massengill noted the Public Utilities Department has a new logo, which appeared on the first slide of his department's PowerPoint presentation. He went on to present the following information:

Thanks for this opportunity to present our information to you.

We have a very limited amount of time so we will get right to it.

In addition to addressing replacement of our aging underground infrastructure, which we will talk more about later, much of our efforts over this past year have been focused on continuous improvements in the areas of customer service and our day to day operations.

Our Mission is to protect human health and the environment. We are doing both at a very high level.

**On the wastewater side:**

We received the NACWA Peak Performance awards again this year for 100% permit compliance at all three of our Wastewater treatment plants.

Our number of SSO's/100 miles of pipe is among the lowest in the country. Last year, we experienced 1.2 SSO's/100 miles of pipe, compared to the national average of roughly 4.5, and southeastern United States average of almost 7 SSO's/100 miles of pipe.

Our WWTP's performance for nitrogen removal is among the best in the world. The limit of technology for nitrogen removal is considered to be 3.0 ppm, while our plants' discharges are routinely in the 2.0 ppm range.

The Neuse River Resource Recovery facility is recognized internationally as one of the largest WWTP's in the United States performing below the limits of technology. And, both our wastewater treatment and sewer collection Divisions have implemented environmental management systems and received third party audit verifications as meeting ISO 14001 standards, which are all about continuous improvement.

**On the water side:**

We have received the state recognized Area Wide Optimization Program (AWOP) Award for the last 3 years.

AWOP was developed to help water systems meet more stringent regulations and achieve higher levels of water quality. The goals of AWOP are to minimize fluctuations in water quality and treatment plant performance.

We received the Director's Award from the Partnership for Safe Water in 2014 and 2015. The Partnership for Safe Water is a nationally recognized program focused on water plant operations, water quality, and continuous improvements. The Director's award recognizes utilities with high performance in providing safe drinking water. We have placed in the top 2 in the Best Tasting water in NC contest for the last 3 years, which is amazing considering all of the entries from across the state each year.

We have also received the Gold Award from the American Metropolitan Water Association (AMWA), our National Water Industry Association, for our strategic planning initiatives and overall management of the Utility.

We are eligible to apply for their Platinum Award this year and I expect to be able to report that accomplishment in the upcoming year.

Today, our agenda will focus on:

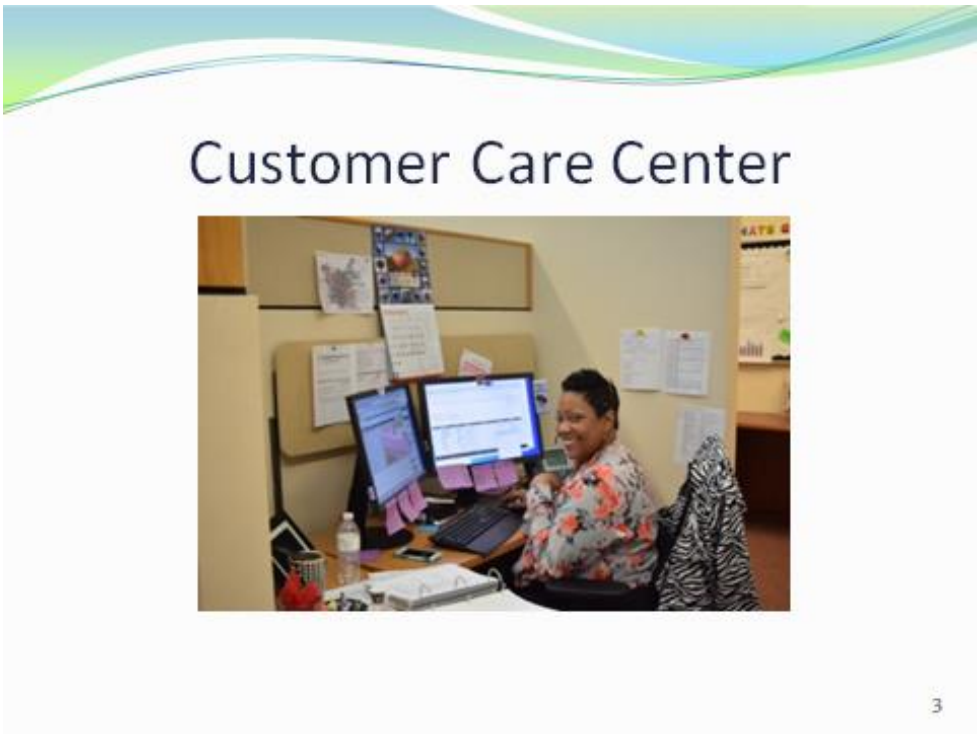
- Customer service
- Replacing our aging Infrastructure
- The Rate Model and Budget
- Our proposed rates for FY 17
- And at the end, a new program that we are proposing to assistant our low income customers

Karen, John and Ed will assist me today and I will introduce them as they come up.

In line with the Mayor's State of the City Address, we've been listening to our customers over the past year to understand how we can better meet their needs. We've been working on several things that will improve customer service and support the initiatives of the Organizational Excellence component of the City's Strategic Plan.

Karen Ray, Assistant Public Utilities Director over Customer Care and Billing, presented the following information:

Hello! Let me start out putting a face with a program.




Tonya is one of our newest Customer Service Representatives. She has a lot of enthusiasm for her job, which is talking to customers all day. Every day. Despite all of that talking Tonya is very polite and professional and she is ALWAYS smiling. We are lucky to have her.

I am proud to be here speaking with you today. As a champion for the Customer Service Initiatives in the City's Strategic plan, my focus for the past year has been on enhancing the customer service experience. So with that, let me share some of our accomplishments over the past year.

This past December, as a joint effort, Solid Waste Services and Public Utilities worked together to consolidate all the SWS and PUD calls into one area. We took eight different phone numbers and centralized them behind the scenes so they all went to the same place instead of scattered throughout the City. By consolidating the PUD and SWS calls to one number we have been able to streamline processes and reduce the number of interactions the customer makes with the City regarding their utility services.

We honestly had a bit of a rough start in December and January. We had high expectations and very aggressive goals and we were disappointed that we were not close to those goals. But staff in both groups persevered, and with your help in pushing through a mid-year personnel request we were able to add four additional positions which has helped us tremendously.

When planning this consolidation we anticipated potential long hold times as we transitioned to a new way of doing business and implemented an option on our automated phone system, or IVR, to allow customers to receive a call-back rather than waiting on hold during high volume periods. Since this offering became available in Dec, over 3000 customers have taken advantage of this option and it is growing in popularity daily.

We continue to seek opportunities to quickly communicate important messages to our customers in a timely manner. One such mechanism is the use of the GovDelivery tool which allows us to call, text, or email customers important and relevant information quicker than going door to door. Some of these messages might be a boil water advisory, pipe freeze warning or water/sewer construction in their area.

Our goal is to help our customers be successful in making timely payments. Timely payments help avoid extra fees associated with disconnection of water. It also reduces the burden of being without water and, paying the utility bill on time reduces unmanageable account balances that customers will struggle to overcome for a longer period of time. With that being said, we listened to our customers and our staff say that we needed to be more flexible with our payment arrangement policy. We re-visited the policy and expanded the options for payment plans also known as payment arrangements.

On average, 2% of our customer base is disconnected for non-payment each month. We don't want that. It is costly for us and frustrating for the customers. We now allow customers as many payment arrangements as they want or need as long as they keep up their end of the arrangement. We work with the customers and allow them to tell us what they can afford and when they can pay. The goal is to keep the water on at the property and still receive the payment for services we have provided. The flexibility we have extended on this policy is helping both staff and the customers.

In the coming months and years we have many projects planned to enhance the customer interaction with Public Utilities and SWS. Our first major task in the new fiscal year is to upgrade our Customer Care and Billing System. This will be a large undertaking, but we recognize the importance of keeping the software up to date now and in the future.

While we work on that upgrade we also have other projects we will be working on. One current initiative is automated payment reminders. You heard me mention that we are more flexible on payment arrangements, but we want to help the customers be successful in making the timely payments so we are creating an electronic method of notification about what to pay and when. The same system will electronically notify customers in advance of their account being disconnected to prompt payment prior to disconnection. We will be working hard in the coming months to collect email addresses for most, if not all accounts to expedite this process.

The next item I want to discuss is expanding our self-service options for our customers. This is the #1 biggest driver of phone calls and the #1 complaint from customers. They

> are frustrated that they have to call us because they cannot complete simple tasks for themselves online like they can with other utilities.
>
> We want to offer these options for our customers. The flexibility to electronically start a new service account on their lunch break or request automatic bank drafts without sending us a form in the mail would be so incredible! One key area we are focusing on is to allow customers the option to request payment arrangements online. By implementing this change we hope to remove the fear some customers have about asking for help, because sometimes you just need a little help.
>
> I want to thank you again for your time today as well as your support for ongoing customer service enhancements.

City Manager Hall expressed his thanks to the Public Utilities staff for the efforts taken to improve customer service.

Mr. Branch questioned whether customers without online access could still call in to pay their utility bills with Assistant Director Ray responding in the affirmative and Mr. Massengill talking about how web access helps younger customers with payments, initiating or terminating service, etc.

Mr. Cox customers going through life-changing events experiencing problems with the fees the City charges for changing the names on utility accounts with Assistant Director Ray indicating in certain life events, there is no fee charged to change the name on a utility account; however, if there is only 1 person named on the account, staff must protect the privacy of that account.

Mr. Thompson questioned the majority of the type of calls fielded by staff at the call center with Assistant Director Ray responding most of the calls involve the starting or terminating of utility services, with a balance of the calls involving restarting service that was interrupted.

Public Utilities Director Massengill continued his presentation:

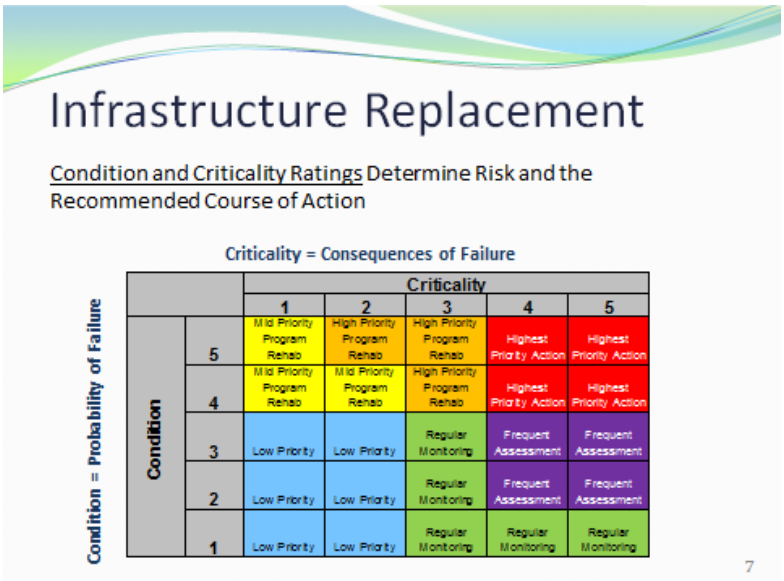
> On the Capital side, long term planning for growth in our pipes and plants continue to influence our Capital Improvements Program, which are important to the Economic Development and Growth of the service area.
>
> Our 10 year CIP is over $1.3 Billion.




This is a snapshot of our largest categories in the 5 year window. Our biggest and most important initiative is replacing our aging underground infrastructure, our pipes, both large and small….out of site, but not out of mind, at least not for us.

John Sorrell, Asset Management Program Manager, talked about how efforts to address the City's aging system utilizing the following outline and charts included in the agenda packet:

**Infrastructure Replacement**



Initial Results:

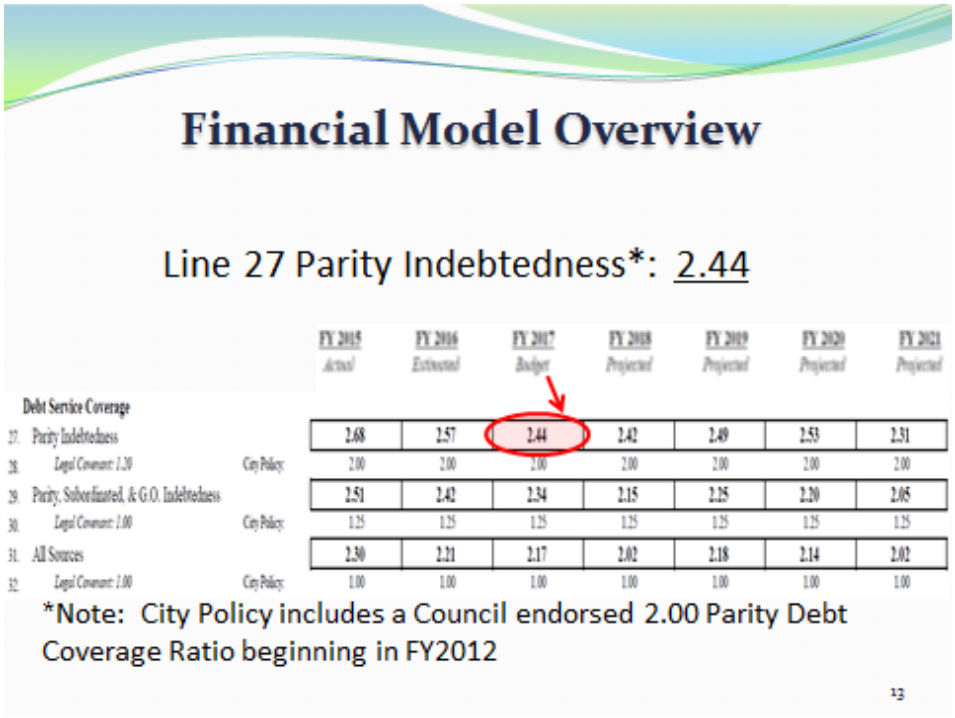
- Upper Pigeon House: 84% of mains inspected require rehab or replacement
- State Street: 80% of mains surveyed require rehab or replacement

In Design:

- 40 Miles of water and sewer main currently in design for replacement.
- Estimated construction cost: $52,000,000*
  - FY16 and proposed FY 17 $34,000,000
  - Proposed FY 17 $18,000,000

* Based on budgetary costs: $150/lf for water; $200/lf for sewer

Public Utilities Director Massengill continued his presentation:




**Financial Model Assumptions**

- Based on 2015 Demands
- Assumes a 1.5% growth in accounts
- Assumes 0.5% growth in consumption beginning in FY19
- Maintains Financial Policies

I wouldn't get too concerned by the funding deficit shown here. We didn't get into this situation overnight, and we don't expect to get out of it overnight. It's going to take some time. As John pointed out, it's all about prioritizing which pipes get replaced first.

The Utility Rate model is the tool we use to do our financial planning and determine what it will take to meet our financial obligations, including our operating costs, debt service payments, and infrastructure replacement funding. We don't have enough time today to go into the weeds of the model, but there are a few important things I'd like to share.

The model includes no growth in overall water demand again this year, and while we do project growth in accounts, we don't anticipate demand will grow until FY19. This is important because almost all the revenue to support the utility comes from water usage.

Since the 2008 drought, our total water demand has continued to decline each year, despite steady population growth in the service area.

We attribute this to three things:

- An intelligent customer base that remembers the drought and continues to conserve
- The pricing signal from the tiered rate system, and
- High efficiency water fixtures which are now standard in new houses and retrofits

Our 2015 water demand is about the same as it was in 2007.

This cuts both ways. On the positive side, it allows us to defer water treatment plant expansions and development of our next water supply.

On the negative side, it reduces revenue.

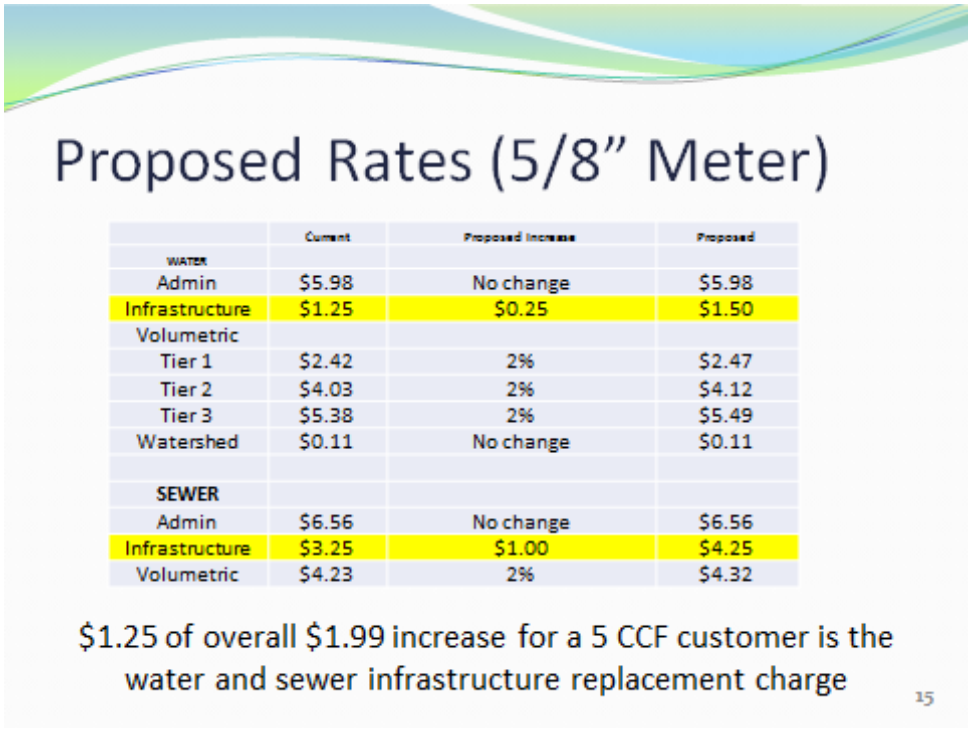
We continue to exceed our financial metrics that are most important to the bond rating agencies (Fitch, S&P, and Moody's) to maintain our high credit rating, primarily the parity debt coverage ratio, which is shown on line 27.

Parity debt ratio is calculated by subtracting our operating expenses (13) from our total revenue (12), and dividing that by our bond debt service payment amount (15).

For the last 5 years, the rate model had consistently forecasted that we would need a 6% rate increase in FY17.

Through operational efficiencies, cutting our operating budget, refunding some of our debt, I am happy to report that we are able to reduce the proposed rate increase to 4%. Lines 41 & 42 of the rate model show the impact on our average residential customer,

which is our 5CCF customer. The increase for them would be $1.99/ month, or about half the cost of a Big Mac, of which $1.25 is for Infrastructure Replacement. (63%).



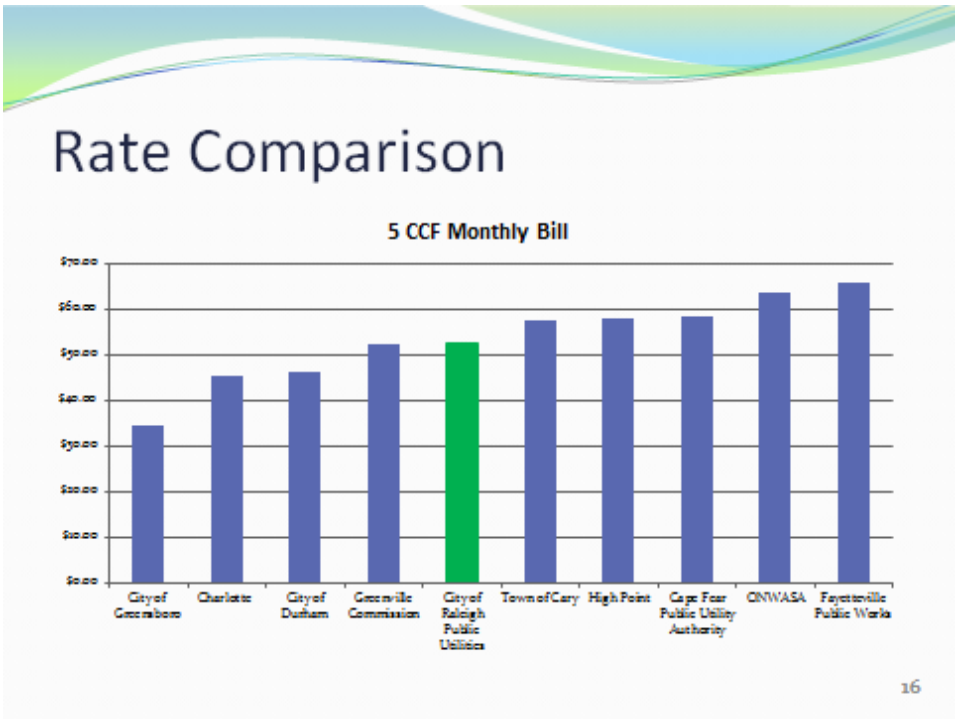

This is how we propose to achieve the rate increase on the 5/8" metered residential customer.

- No Change to the Admin or Watershed Charges
- $1.25 on the fixed side of the bill for water and sewer Infrastructure Replacement, and
- 2% on the volumetric charges for both water and sewer.

The fixed charges on the bill, the Admin and Infrastructure Replacement Charges are based on the customer's meter size, so customers with larger meters will be different than shown here.

The 2% volumetric change is the same for all customers.

So, how do we compare with our peers?




We are not the cheapest, and we are not the most expensive. We are right in the middle, and we can say that we are collecting the full cost of service because we are funding our pipe replacements.

FOG…what the heck is FOG? Well, it is the stuff that's hard to drive in, but that's not what we are talking about. We are talking about Fats, Oils, and Grease. The stuff that clogs our sewer pipes and causes SSO's.

We began a FOG reduction program in 1999 to help reduce the increasing number of SSO's.

FOG comes from many places, but the leading contributors are Food Service Establishments or FSE's and commercial vehicle washing and maintenance facilities.

Food service establishments include the obvious places like restaurants, but also include other places with commercial grade kitchens and grease traps, including hospitals, nursing homes, and some churches.

We regularly inspect and regulate about 2000 FSE's with a staff of four, and a program cost of about $270,000/year.

This year, we are proposing a $10/month FOG charge for all FSE's and Commercial FOG generators, which will cover about 85% of the program cost. (Full cost recovery would be $12.00/month). The intent is to put the burden of the cost of the program on the

users who are creating the costs, instead of the rest of the customers. A $10/month FOG charge is the same as the Town of Cary's current FOG charge.

This year, as in the past, we seek your preliminary approval of the proposed water and sewer rate increase to allow us time to program the changes in the billing system and test the system before the bills go out in July, and so we can communicate the proposed changes to the merger partners and our large customers so they can plan for them in the budgets.

We also seek your preliminary approval of the FOG Administrative charge so we can communicate the new charge to the FSE's and other stakeholders. Final approval would not occur until the City's budget is approved this June.

Before we move on to the proposed bill assistance program, we'd like to see if you have any questions about would we've discussed so far, and ask for your approval of the recommendations.

Mr. Thompson questioned the average daily water usage with Asset Manager Sorrell responding the rate of water usage is about 94 gallons per day system-wide with Public Utilities Director Massengill pointing out the rate is lower than the national average. Mr. Thompson questioned the percentage of customers who are hooked up to water and not sewer Mr. Massengill responding approximately 1,500 customers are hooked up to sewer system only.

Following further discussion, Mayor McFarlane expressed her appreciation for staff's efforts in compiling information for today's presentation and made a motion to uphold staff's recommendations, which include: 1) granting preliminary approval of the proposed water and sewer rate increase to allow staff time to program the changes in the billing system and test the system before the bills go out in July, and also that staff can communicate the proposed changes to the merger partners and our large customers so they can plan for them in the budgets; and 2) grant preliminary approval of the FOG Administrative charge so staff can communicate the new charge to the FSE's and other stakeholders, with the understanding final approval would not occur until the City's budget is approved in June. The Mayor's motion was seconded by Mrs. Crowder and put to a vote that resulted in all members voting in the affirmative. The Mayor ruled the motion adopted on an 8-0 vote.

Public Utilities Director Massengill continued with his presentation:

**Proposed Bill Assistance Program**

Our customers have also been asking about whether we offer any kind of financial assistance with their utility bills. In response, we worked to develop a bill assistance program for your consideration. Ed Buchan, one of our Environmental Coordinators is here to tell you more about it.

Environmental Coordinator Ed Buchan presented the following information:

**Background:**

Following the adoption of tiered residential water rates in November of 2010 and a series of utility rate increases during the subsequent fiscal years, anecdotal feedback from stakeholders and elected leaders suggested the combined utility bill may present an affordability issue for some economically distressed customers. This led the City of Raleigh Public Utilities Department to undertake an affordability analysis in 2015, which indicated approximately 10% of the City's utility customers, could fall outside of the Environmental Protection Agency's (EPA) recommended affordability standard based on their estimated annual income (see "Responses to Possible Questions" section for information on EPA's affordability criteria).

City staff reviewed various utility bill assistance programs provided by peer communities, met with local assistance program managers and explored in detail the limitations of such programs imposed by State law. Local program examples include donation based systems such as the "Oasis" program in the Town of Cary and the "Care to Share" program developed by the Orange Water and Sewer Authority. Funding for these programs relies on donations through bill "round ups" or specified donation options, although customer participation rates appear to be very low (ranging between 2% to 5%), therefore generating limited amounts of available funding.

Another common funding mechanism for utility bill assistance programs is through the General Fund, which often provides an annual sum that is administered by either County social service staff or a 3rd party non-profit organization. Examples include the City of Charlotte and the City of Durham which provide approximate annual amounts of $180,000 and $150,000 respectively for water and sewer utility bill assistance.

**Recommendation:**

City staff proposes the City of Raleigh and the six merger communities allocate resources from their respective General Funds in a prorated share based on the number of active utility accounts in each community to fund a *Utility Bill Assistance Program.* Program eligibility would be based on demonstrated economic need and assistance funds disbursed through a "first come, first serve basis". If a merger community opted not to participate, the customers in that jurisdiction would not be eligible for assistance from the program. Eligibility screening would be performed by Wake County Human Services staff in conjunction with existing social assistance programs and based on the established eligibility criteria for these programs. The total amount of assistance provided in a given fiscal year to an eligible customer would be limited to $240/year/customer. Bill adjustments would be made by City of Raleigh Customer Care and Billing staff. City staff would provide a program summary report annually to the Raleigh City Council and the Boards and Councils of each participating merger community.

**Funding Formula:**

Based on a contribution of $200,000 from the City of Raleigh, total program funding would be $254,000, assuming all six merger communities participate. Each entity's prorated share is shown below:

| | | |
|---|---|---|
| Raleigh | 78.74% | $200,000 |
| Wake Forest | 8.27% | $21,006 |
| Garner | 5.58% | $14,173 |
| Knightdale | 3.20% | $8,128 |
| Wendell | 1.63% | $4,115 |
| Zebulon | 1.38% | $3,505 |
| Rolesville | 1.21% | $3,073 |

Program Details:

Potential program eligibility criteria could include Choice in Housing voucher recipient, housing authority residence, Supplemental Nutrition Assistance Program (SNAP) participant, Temporary Assistance for Needy Families (TANF) recipient, Women, Infants and Children (WIC) recipient or Federal Communications Commission (FCC) Universal Access Initiative participant, and/or other Wake County assistance programs.

The total amount of assistance provided in a given fiscal year to a customer would be limited to $240/year/customer and recipients may elect to receive that amount to pay a single bill, multiple bills, or be spread evenly to each monthly bill.

The funds would remain with the City of Raleigh with no actual transfers between Wake County and the City of Raleigh. Initial transfers of funds from the merger communities to Raleigh would occur at the beginning of each Fiscal Year. Wake County would send a voucher verifying a customer's eligibility via email to Raleigh Customer Care and Billing staff. Raleigh would transfer the funds for qualified customers via journal vouchers between the reserve fund and the Customer Care and Billing unit, which will apply the funds to the eligible account. This is essentially the same program accounting system utilized by the City of Durham and Durham County.

Because the funding source is the General Fund of each participating community, non-metered charges will also be eligible for assistance and service payment prioritization would remain unchanged.

Participation in the existing Leak Adjustment Policy or Payment Plan Program would not impact eligibility for the Bill Assistant Program; water customers may receive assistance or participate in all three options at the same time.

**Responses to Possible Questions:**

- Why can't utility enterprise revenues be used to fund a bill assistance program?

  General Statutes G.S. 160A-314 and G.S. 153A-277 prohibit utilities from charging different rates for customers within the same service class (e.g. residential, commercial). Therefore, no customer in a given service class could receive a reduced or otherwise subsidized rate through utility enterprise fund support. Noted utility legal advisor Kara Millonzi with the UNC School of Government provides further clarification on the issues of utility rate making and the ability of customers to pay: "The same rationale also prohibits municipalities from charging utility rates according to income levels or ability to pay. Redistribution of income is not a valid utility rate- making function ...Similarly, courts have held that underbilling utility customers (even inadvertently) - amounts to prohibited discrimination"'. Additionally, bill assistance program administration appears to be limited to non-enterprise entities based on information from the UNC Environmental Center Blog: "In North Carolina, water utility revenues are not to be used to even administer these programs"". The Raleigh City Attorney's Office has reviewed the relevant statutes and concurs with these conclusions. It should also be noted that City staff are not aware of any public water and sewer utility in North Carolina which uses enterprise funds to support a utility bill assistance program.

- Should available assistance funds be prorated between communities?

  Customer eligibility in any of the municipalities should NOT be based on the prorated contribution of the municipality; the existing Merger Agreements stipulate that customers in the partner communities would be treated the same, without distinction.

- How is utility bill "affordability" defined?

  The affordability criterion is defined by the EPA under the Clean Water Act (CWA) and Safe Drinking Water Act (SDWA) programs. Under this affordability guidance, annual water and sewer bills should be less than 4.5% of Median Household Income (MHI), (2.0% for water under the CWA and 2.5% for wastewater under the SDWA). However, utility industry associations such as the American Water Works Association have developed additional guidance documents which recommend evaluating other economic indicators to help refine the service area income dataset. Using these recommendations, Public Utilities staff were able to provide a more complete understanding of the potential assistance needs beyond the EPA suggested MHI based method.

- Why is the total amount of assistance provided in a given fiscal year to a customer

limited to $240/year/customer?

Public Utilities staff reviewed the average monthly bill for a 5 CCF customer and the difference in that bill resulting from rate increases since Fiscal Year 2011. The total annual increase is approximately $240 over the 6-year period if the proposed rate increase for FY17 is included in the calculation. Under the proposed utility rate increase for FY17, the average customer will pay approximately $653 annually for water/sewer services, and the recommended $240/year/customer could subsidize an eligible customer's annual total bill by approximately 37%.

| Rate Implemented | 5 CCF Customer | Difference |
|---|---|---|
| Nov-10 | $34.42 | |
| Jul-11 | $37.76 | $3.34 |
| Jul-12 | $41.66 | $3.90 |
| Jul-13 | $44.93 | $3.27 |
| Jul-14 | $49.03 | $4.10 |
| Jul-15 | $52.46 | $3.43 |
| Jul-16 | $54.45 | $1.99 |

**Highlights from the Affordability Assessment Report:**

- Actual average water and wastewater bill of overall service area= $51 per month (inside city limits), $103 per month (outside city limits) [pg. 6]
- The Median Household Income (MHI) of overall service area = $56,317/year [pg. 8]
- Average water and wastewater bill as percentage of service area MHI = 1.10% [pg. 9]
- Raleigh's average water and wastewater bill as percentage of MHI = 1.10%, Raleigh's average total bill (including all services) as percentage of MHI = 1.5% [pgs. 9 & 11]
- Throughout the service area, 10% of households (20,246) could be paying more than EPA's suggested 4.5% of income on water and wastewater bills [pg. 9]
- Late fees were charged to 25% of accounts {47,000) on average per month in FY14 [pg. 12]
- 2,711 payment plans were initiated at the beginning of FY15, (representing 1.4% of accounts) totaling $800,107 [pg. 13]
- 20,972 residential accounts (13%) had their service disconnected at least 1time over a 2-year period, 2,618 accounts (1.57% of residential accounts) averaged 2 or more severances per year [pgs. 15-16]

Public Utilities Director Massengill indicated staff has reached out to its merger partners to consider assistance funding as part of their budget process and stated if a merger community opts in, then its customers are eligible to participate in the program; if a community opts out, then its customers will not be eligible for participation.

Mrs. Crowder questioned if staff looked at other models for low income assistance with Public Utilities Director responding because of the Flint, Michigan incident, there may be some federal disaster assistance available.

Ms. Baldwin suggested communities who opt into the program round up the utility bill amounts with the balance designated to low-income assistance.

Discussion took place regarding the legality of having a utility bill round-up policy with City Attorney Tom McCormick stating the City would have to make the option clear to customers.

Mr. Cox questioned the number of customers who pay their utility bills electronically as opposed to writing a check with Assistant Director Ray responding staff will provide the information noting there are very few customers on automated pay process at this time.

Mr. Cox suggested providing a check box on the City web portal so a customer can activate a donation process.

Discussion took place regarding the number of customers qualified for billing assistance with Mr. Branch questioning whether the City could use both general funds and donated funds for the program and Public Utilities Director Massengill responding in the affirmative.

Discussion took place regarding participation rates in donation programs with Mr. Gaylord questioning the number of customers served in the City's system and Public Utilities Director Massengill responding there are approximately 180,000 customers served. Mr. Gaylord questioned whether there were any grant funds available with Mr. Massengill responding there are no grant funds available as of yet; however, there may be funds available down the line given the Flint, Michigan incident.

Discussion took place regarding proposed program models and structures as well as possible criteria for participation with Ms. Baldwin indicating she liked the idea of the program and suggested that staff consider a hybrid model.

Mr. Stephenson talked about utility bill affordability for low-income customers.

Mr. Thompson indicating he would like more information as part of a budget note with City Manager Hall indicating staff can bring the information back to the Council at a later date.

**SOLID WASTE SERVICES ENTERPRISE – INFORMATION RECEIVED**

Assistant Solid Waste Services Director David Scarborough presented the following information:

SWS is responsible for the collection and disposal of solid waste within the City of Raleigh, and promoting the general cleanliness and health of the City. It is supported by user fees, City's General Fund and revenues generated through the sale of recyclables and yard waste materials

- Residential Collection: safe and efficient garbage collection and disposal services
- Recycling Collection: provides and promotes recycling services
- Yard Waste Collection: collection of residential yard waste materials that are prohibited by state law to be disposed of in landfills.
- Yard Waste Center: provides for recycling and sale of yard waste materials




Between 2008 and 2015, SWS's budget has increased from $22.8 million to $35.3 million, and our employee workforce has decreased from 240 to 202.

- From General Fund to Enterprise in 2013, which brought all direct and indirect costs in-house
- Decrease in staffing comes from transitioning to automated recycling.

We plan to address this continuing growth in FY17 by adding 3 new positions in our Operations Division. These additional staff resources will help us to better balance collection routes, utilize available fleet resources, and reduce overtime costs.

We are anticipating repair and other investments to maintain the gas collection system at the Wilders Grove landfill. This will ensure our compliance with standards… (over $300k).

Staffing is covered by reductions in part-time and overtime budgets.

We completed an employee satisfaction survey in October 2013, in partnership with Human Resources to address employee concerns and interests. Employees identified several opportunities for improvement, which were further prioritized by employee focus groups.

One area identified was the Hiring and Selection process. It was thought of as an unfair process that restricted employees' abilities to advance. The department has created Team Advisory Committees (TACs) to enhance business processes and engage employees in participatory leadership. This had led to an open process where all employees who apply are interviewed, all interviews are done by panel and evaluated/ranked, and employees are provided training in both interview skills and business development to help present themselves as viable candidates.

The FY17 budget plans additional investments in technology and training to respond to employee interest in professional development opportunities. (The $109K in training budget this year provides for outside trainers/presenters, workshops, conferences, SWANA and other professional certifications, 6 Sigma training, CDL licensing, and other opportunities.) This training is available to all employees.

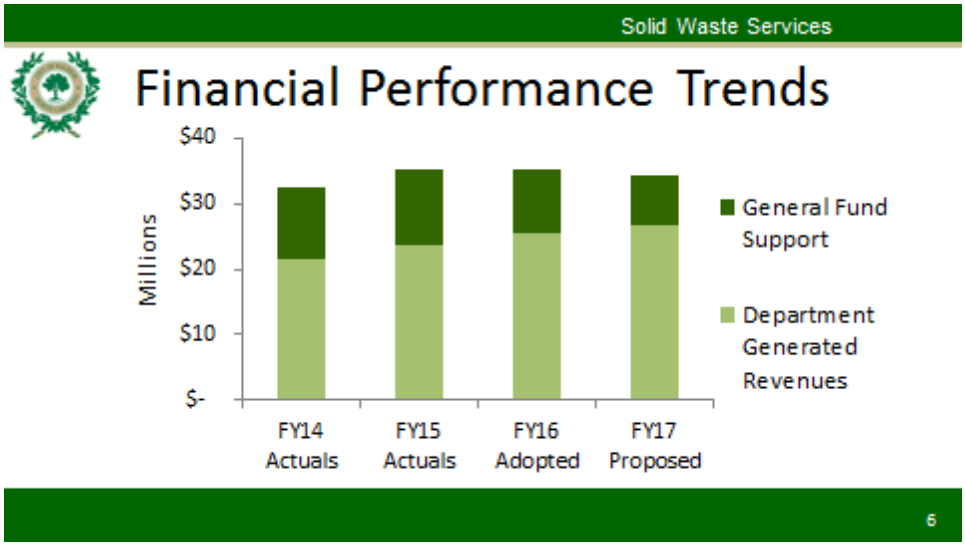
Due to world economic factors and the low price of oil, the recycling industry is experiencing significant changes. Prices in the commodities market have fallen significantly in the past two years. We are working with our recycling vendor to determine how this might change our financial model and ensure that recycling services provided by the city are not impacted. Regardless of the market, we will continue to promote recycling, as every ton of material diverted from the waste stream saves both tipping fees and valuable space in the landfill.

We have worked with Public Utilities and Storm Water to provide a consolidated customer support center for all City of Raleigh utility-related questions and concerns. Cityworks process changes has decreased the number of complaints. We will continue to work with the other utilities as we implement an upgrade to the customer care and billing software to enhance the billing system and provide additional self-service opportunities through the online portal.

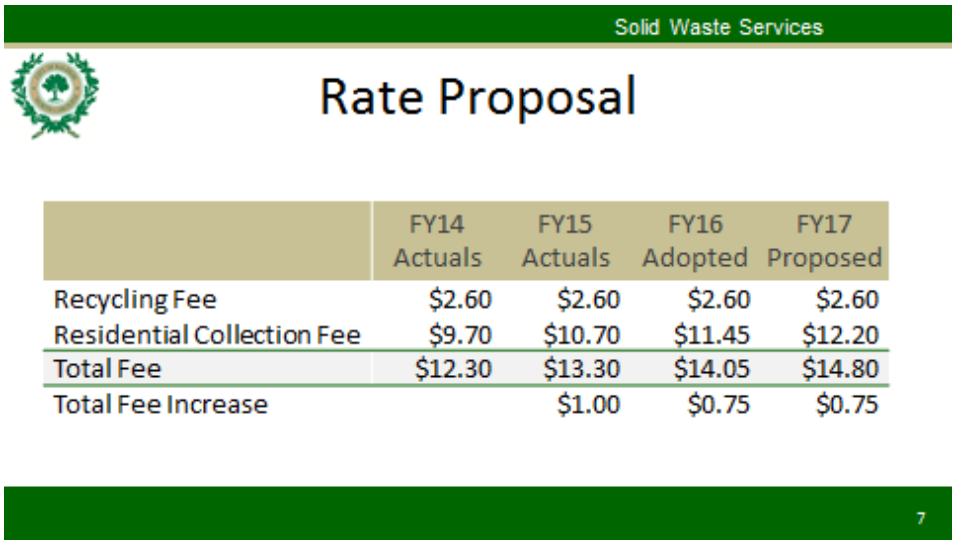
Another effort we have made to improve our service is through several technology enhancements that we are currently implementing. Automatic vehicle locators installed throughout our fleet are helping us to better manage vehicle usage and decrease missed collections. Routing technology is also being implemented to regularly balance collection routes and ensure efficient routing. This will allow the department to maximize fleet and staff resources. One final piece of technology, RFID readers, will allow us to better understand recycling patterns across the city, information we can use for targeting education efforts and future service needs.

May – October 2014, the Waste Reduction Task Force met, with the directive of "identify waste reduction goals and further evaluate the strategies outlined in the Comprehensive Plan Material Resource Management Plan" … considering social equity, fiscal impact to the City and its citizens, as well as environmental impacts.

A report will be presented to Council at the April 5th Council meeting, with recommendations made by SWS staff regarding as to next steps – presentation and discussion of potential costs/benefits of the various strategies.




This graph shows our main revenue sources – fees and charges we generate in the lighter green and general fund support in the dark green on top. As you can see, we've had steady growth in fees and reductions in general fund support.

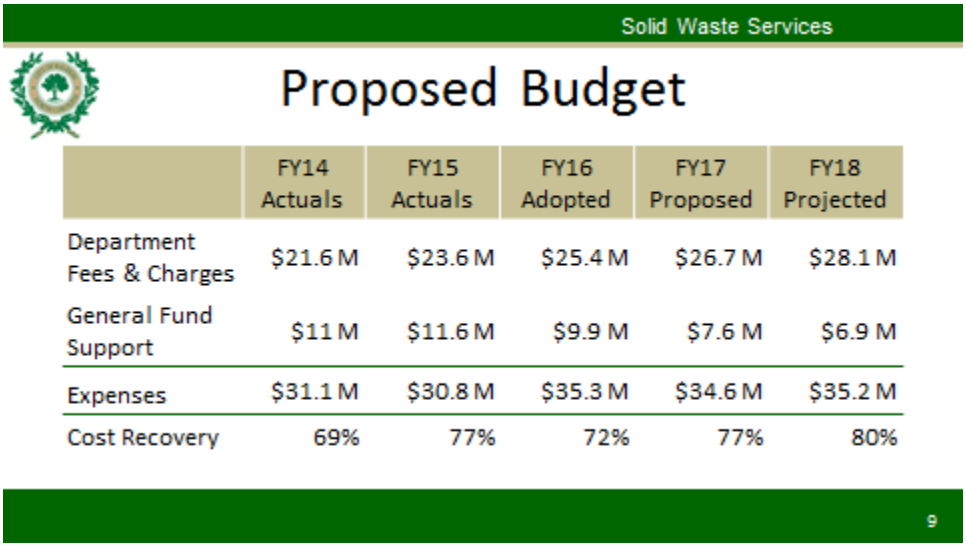



| | FY14 Actuals | FY15 Actuals | FY16 Adopted | FY17 Proposed |
|---|---|---|---|---|
| Recycling Fee | $2.60 | $2.60 | $2.60 | $2.60 |
| Residential Collection Fee | $9.70 | $10.70 | $11.45 | $12.20 |
| Total Fee | $12.30 | $13.30 | $14.05 | $14.80 |
| Total Fee Increase | | $1.00 | $0.75 | $0.75 |

As we shared with you last year, as part of our three year plan to get to 80% cost recovery by FY18, and as such we have proposed a 75 cent increase in the residential collection fee. This additional revenue will allow us to meet the demands of servicing a growing community with additional staff and will also continue to decrease the general fund support for our department.




Even with the proposed fee increase, this chart demonstrates that our rates are very comparable to our peer municipalities within Wake County.




| | FY14 Actuals | FY15 Actuals | FY16 Adopted | FY17 Proposed | FY18 Projected |
|---|---|---|---|---|---|
| Department Fees & Charges | $21.6 M | $23.6 M | $25.4 M | $26.7 M | $28.1 M |
| General Fund Support | $11 M | $11.6 M | $9.9 M | $7.6 M | $6.9 M |
| Expenses | $31.1 M | $30.8 M | $35.3 M | $34.6 M | $35.2 M |
| Cost Recovery | 69% | 77% | 72% | 77% | 80% |

This is a very high level picture of our financial model through FY18. This assumes a 75 cent increase in FY18.

Mr. Branch questioned how the General Fund supports Solid Waste Services and what the proposed $.75 would cover with Assistant Director Scarborough responding funds are provided

through budget transfers and the proposed increase would reduce the amount of support from the General Fund.

City Manager Hall gave a brief history of the amount of General Fund support given to Solid Waste Services noting the goal is to achieve 80% of Solid Waste funding through fees and charges and pointed out that goal was to be achieved over time. He stated if the goal was not reached by FY 19 the Council could re-address the issue at that time.

Discussion took place regarding the recycling process and the amount of tonnage generated with Mr. Thompson questioning the amount of revenue generated with Assistant Director Scarborough stating the City receives $35 per ton; however, the contract with current vendor expires this year, so that rate may change. Mr. Thompson questioned how often the bid request is sent out with Solid Waste Services Director Fred Battle responding bid requests are sent out every 3 years and indicated the current contract has a 3 year extension option; however, the vendor is currently losing $10 per ton.

Mr. Thompson questioned whether pizza boxes could be recycled with Solid Waste Services Director Battle responding pizza boxes can now be recycled.

Discussion took place regarding contract negotiations with the current recycling vendor with City Manager Hall indicating Staff will bring a report of the negotiations back to the Council.

Mr. Gaylord requested a report on fund balances from year-to-year.

Mr. Stephenson questioned whether Solid Waste Services was considering a variable rate based on the weight of trash generated with Assistant Director Scarborough responding staff will bring a recommendation regarding that issue soon.

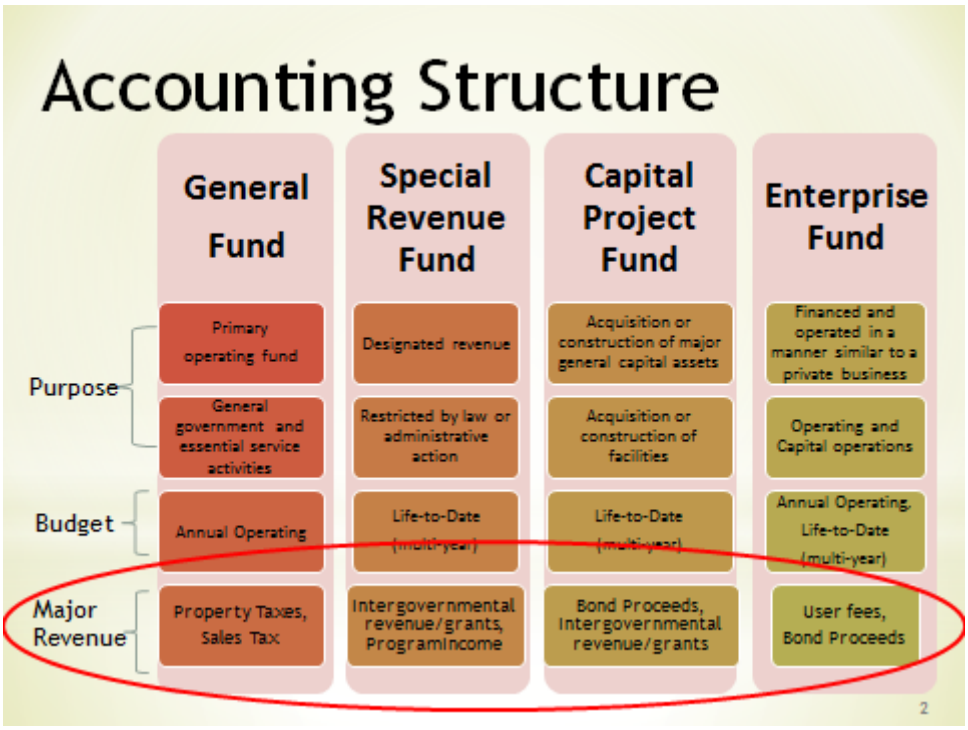
Ms. Baldwin requested information on how the increase in fees would impact local non-profits as well as the Convention Center.

The report was received.

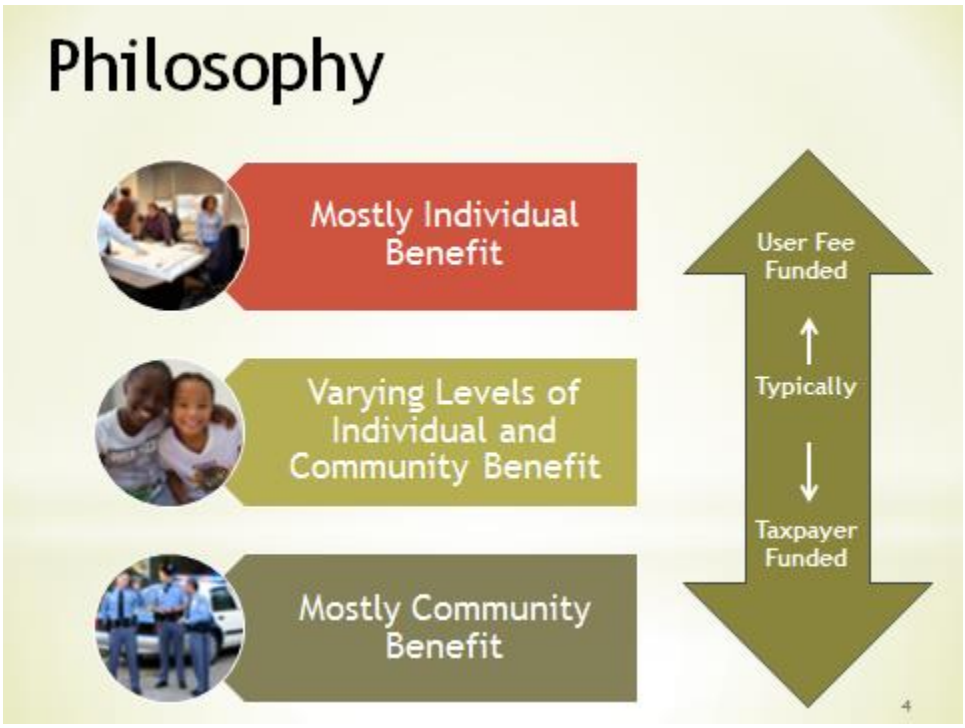
**Ms. Baldwin and Mr. Thompson left the meeting at 3:07 p.m.**

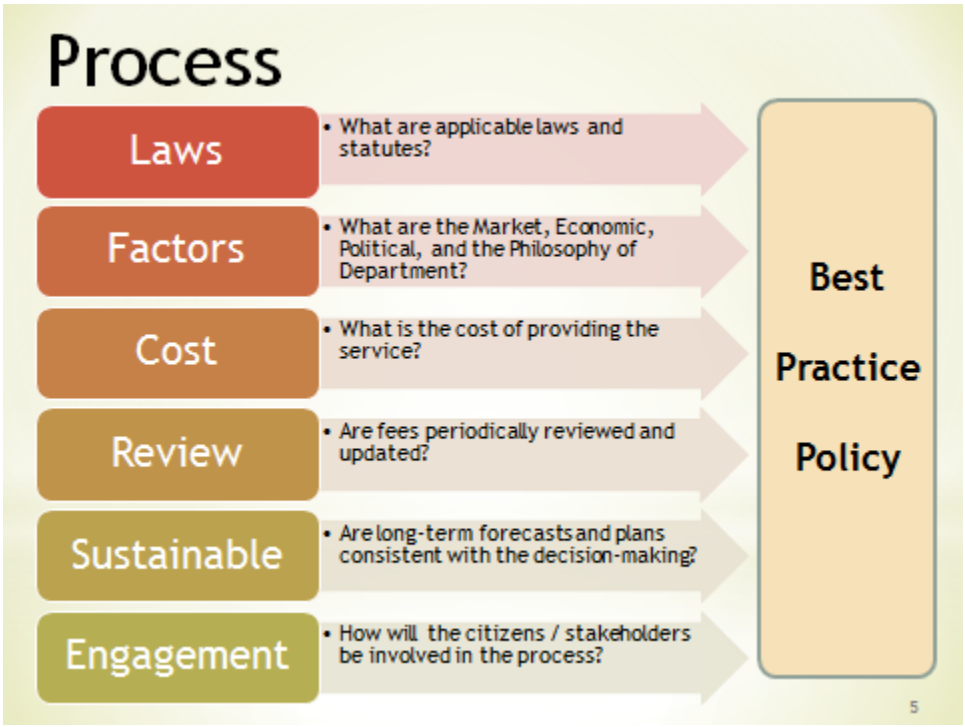
**USER FEE STUDY UPDATE – INFORMATION RECEIVED**

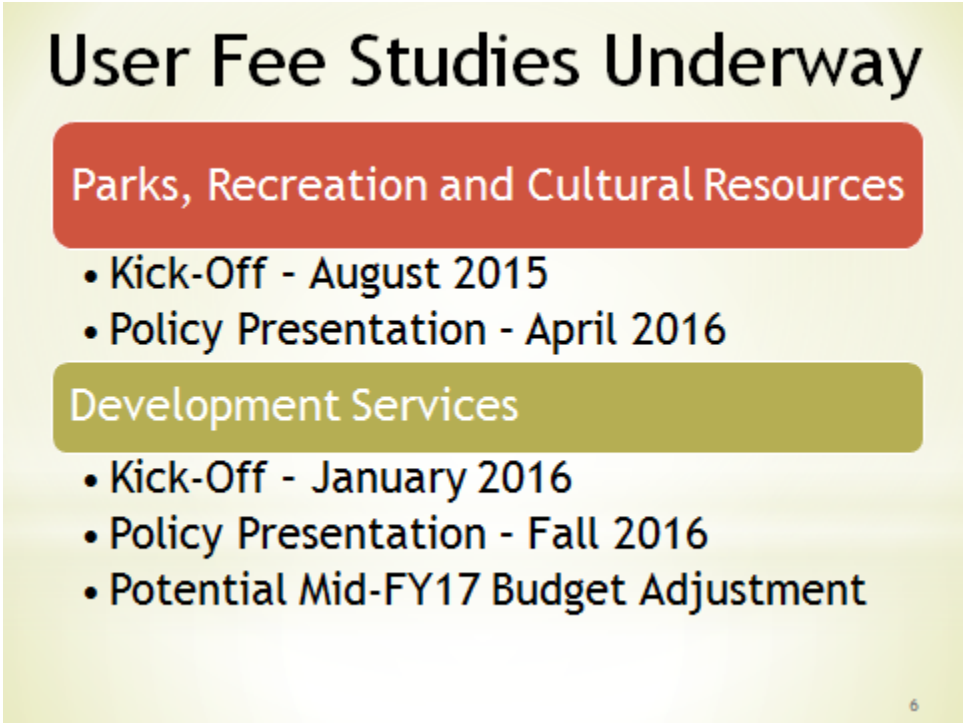
Assistant Finance Officer Alison Bradsher presented the following information:


Accounting Structure
General Fund
Special Revenue Fund
Capital Project Fund
Enterprise Fund
Purpose
Primary operating fund
Designated revenue
Acquisition or construction of major general capital assets
Financed and operated in a manner similar to a private business
General government and essential service activities
Restricted by law or administrative action
Acquisition or construction of facilities
Operating and Capital operations
Budget
Annual Operating
Life-to-Date (multi-year)
Life-to-Date (multi-year)
Annual Operating, Life-to-Date (multi-year)
Major Revenue
Property Taxes, Sales Tax
Intergovernmental revenue/grants, ProgramIncome
Bond Proceeds, Intergovernmental revenue/grants
User fees, Bond Proceeds
2


User Fee
• Fee charged to individuals or groups who participate in a program or service or utilize City services
3


Philosophy
Mostly Individual Benefit
Varying Levels of Individual and Community Benefit
Mostly Community Benefit
User Fee Funded
Typically
Taxpayer Funded
4


Process
Laws
What are applicable laws and statutes?
Factors
What are the Market, Economic, Political, and the Philosophy of Department?
Cost
What is the cost of providing the service?
Review
Are fees periodically reviewed and updated?
Sustainable
Are long-term forecasts and plans consistent with the decision-making?
Engagement
How will the citizens / stakeholders be involved in the process?
Best Practice Policy
5







Ms. Bradsher noted fees do not have to cover the full cost of services and indicated the information was presented to the Parks, Recreation and Greenway Advisory board at their most recent meeting.

Mr. Cox talked about entrance fees at the City's swimming pools and expressed concern that when families bring children to the pool, the children are charged to use the pool; however the parents are also charged a fee even if they don't use the pool with Assistant Parks and Recreation Director Scott Payne responding parents are charged entrance fees as the pools are gated entries and indicated children under 16 are not permitted to use the pool without parental supervision.

Mrs. Crowder questioned whether discount cards are still available to citizens with Assistant Finance Officer Bradsher responding in the affirmative.

The report was received.

**FY 2016-2017 FEE RECOMMENDATIONS – INFORMATION RECEIVED; ORDINANCES AND RESOLUTIONS ADOPTED – EFFECTIVE JULY 1, 2016**

Interim Budget Director Canada presented the following information:

> Beginning with last year's budget development process, staff consolidated the annual incremental fee adjustment proposals into one comprehensive package to allow the fees to be considered holistically, rather than by individual department. Prior to FY16, these fees had been approved via the City Council agenda process. Providing the fee adjustments as part of the work session is intended to allow Council more time for review and deliberation.
>
> **Recommendation:** Adopt these fee adjustments at the work session to allow staff to begin communicating the fee changes to stakeholders, testing and updating systems and using the fees for booking purposes. These fee increases, once adopted, will become effective in July.
>
> Staff will be available at the Budget Work Session on Monday to answer any questions.
>
> Fees proposed for FY17 adjustment include Development, Public Utilities, and Convention and Performing Arts.
>
> **Development Fees (Attachment A)**
> Staff Contact: Taylor Floyd, Budget and Management Services
>
> The City's revenue indexing program allows for the annual adjustment of development fees, facility fees, and fire prevention fees and permits based on the Consumer Price Index (CPI) and the Engineering News-Record Construction Cost Index (CCI). This approach, initiated in 2006, is designed to be customer friendly, increasing development fees in a gradual and predictable manner.
>
> The CPI annual prior year change from 2014-2015 (base years for FY17) is 0.10%, and the CCI average annual prior year change is 2.33%.The fee schedules have been

updated to include the annual increase and are outlined in Attachment A-FY17 Revenue Indexing. If approved, these fees will become effective July 4, 2016 per the Unified Development Ordinance.

**Public Utilities (Attachment B)**
Staff Contact: Jennifer Alford, Public Utilities

Various utility fees and charges are updated annually and adjusted in accordance with the CCI. The increase in the construction cost index is 2.33%, therefore, it is recommended that appropriate fees and charges be adjusted and respective sections of the City Code be amended to reflect the increase. The revised schedule of fees and charges are outlined in Attachment B - FY17 Public Utilities Fee Changes.

- Acreage Fee Reimbursement (Water and Sewer)

City policy provides a schedule of reimbursement amounts for the different sizes of oversized mains that are eligible for acreage fee reimbursement. City Code, Section 8-2094(c), should be amended to reflect the adjustment.

- Sewer Inspection Fee

Prior to being placed into service, all sewer main extensions and sewer service connections to the City's sanitary sewer system installed by a private contractor are inspected to ensure they have been properly installed.

- Utilities Charges- Water Meter/Hydrant Fee

Various charges are applied to utility accounts for additional utility work that is either initiated by the customer or because the customer was unavailable for the initial service to occur. These charges range from an account deposit charge to a Meter Test charge. In addition, these charges include the hydrant meter charges. Hydrant meters are issued as a temporary water service to customers.

- Water and Sanitary Sewer Tap Fee

Property owners are charged a tap fee for water (3/4-inch, 1-inch and associated irrigation splits) and sanitary sewer (4-inch) taps installed in the right-of-way by either Public Utilities staff or contractors working for the City.

- Water Meter Installation

In March 1986, the City began installing all water meters. The fee adjustment affects all the meter sizes indicated in the schedule. The "not-ready" fee remains unchanged.

- Water and Sewer Extension Policies - Reimbursement and Rounding of Indexed Fees

Rates have been adjusted to reflect the increase in the CCI.

All other charges remain unchanged.

**Raleigh Convention and Performing Arts Complex (Attachment C)**
Staff Contact: Hazel Cockram, Raleigh Convention and Performing Arts Complex

The Raleigh Convention and Performing Arts Complex staff annually reviews the rental fees and rates charged for labor, equipment and services at the facilities. In FY2011,·staff determined that the rate structure for the Performing Arts Center was below market and did not always allow for cost recovery. However, because the increases needed to bring rates in line with the market and ensure cost recovery would have been too significant for the community groups to absorb, a decision was made to review and incrementally raise rates each year. These increases bring the rates more in line with the market and increase cost recovery. Consistent with prior years, staff recommends increasing the rates charged for labor, equipment and services at the Duke Energy Center for the Performing Arts by 3% rounded up to the nearest quarter of a dollar.

Staff also recommends rate adjustments for the Convention Center and Red Hat Amphitheater. The recommended increases mostly impact labor rates and are to ensure cost recovery.

Revised rate schedules for each facility are included in Attachment C - FY 17 Convention and Performing Arts Fee Changes. If approved, these rates will become effective July 1, 2016 for all events that have not already received a cost estimate from an event manager or production supervisor.

**Water and Sewer Assessment Rates (Attachment D)**
Staff Contact: Jimmy Upchurch, Public Works Department

An analysis for the costs of water and sewer line installations is completed annually. Actual costs over five years are used through a formula prescribed by the North Carolina General Statutes to calculate the appropriate assessment rate. Based on this analysis, no adjustment to the assessment is proposed for FY17. The water and sewer assessment rates are adopted annually.

**Parks, Recreation and Cultural Resources (No Attachment)**
Staff Contact: Ken Hisler, Parks, Recreation and Cultural Resources

Parks, Recreation and Cultural Resources fees have been included as part of this package previously. No fee adjustments are requested for FY17, and future fee adjustments will be considered pending recommendations from the ongoing user fee study.

Mr. Branch expressed concern regarding the proposed fee increase for basic ballroom and sound system rental from $200 to $500 and questioned the reason behind the increase with Assistant Convention Center Director Hazel Cockram responding the Convention Center upgraded the sound system and the proposed fee increase is to help recover the cost. Ms. Cockram noted the upgrade will also improve clients' ability to tie in to the sound system. Discussion took place regarding who uses the Convention Center's house system with Ms. Cockram noting even if customers use their own sound technicians, the Convention Center has staff on hand to assist.

Following further discussion, Mayor McFarlane moved to approve Staff's recommendations and adopt the ordinances and resolutions to become effective July 1, 2016. Her motion was seconded by Mrs. Crowder and put to a vote that resulted in Mayor McFarlane, Mrs. Crowder, Mr. Cox, Mr. Gaylord, and Mr. Stephenson voting the affirmative and Mr. Branch voting in the negative (Ms. Baldwin and Mr. Thompson absent). The Mayor ruled the motion adopted on a 5-1 vote. See Ordinances 560, 561, 562, 563, 564, 565, 566, 567, and Resolution 278.

**ADJOURNMENT**

There being no further business, Mayor McFarlane announced the meeting adjourned at 3:22 p.m.

Ralph L. Puccini
Assistant Deputy Clerk