

BUDGET WORK SESSION

The City Council of the City of Raleigh met in Budget Work Session on Wednesday, March 15, 2017, at 1:00 p.m. in the City Council Chamber of the Raleigh Municipal Building, Avery C. Upchurch Government Complex, 222 West Hargett Street, Raleigh, North Carolina, with the following present.

Mayor Pro Tem Kay C. Crowder
Councilor Mary-Ann Baldwin (late arrival)
Councilor Corey D. Branch
Councilor David N. Cox
Councilor Bonner Gaylord (late arrival)
Councilor Russ Stephenson

Mayor Pro Tem Crowder called the meeting to order at 1:00 p.m. She announced that Mayor McFarlane and Council Thompson were absent and excused, Councilor Baldwin would be 30 minutes late, and Councilor Gaylord would join the meeting shortly.

City Manager Ruffin Hall opened the work session and explained this meeting was dedicated mostly to enterprise funds. Staff members use this as an opportunity to review those funds and answer any questions so they can foreshadow what the upcoming budget process will look like. For a couple of the presentations, staff will ask for preliminary indications of where the Council wants to move so they (staff) can start to notify stakeholders and being doing some system work. Final approval does not occur until the actual formal adoption of the budget in June. The City Manager turned the meeting over to Interim Budget and Management Services (BMS) Director Ben Canada, who introduced the first item, which did not require any action.

COUNCILOR GAYLORD ARRIVED AT 1:02 P.M.

STORMWATER MANAGEMENT ENTERPRISE – INFORMATION RECEIVED

Staff will briefly discuss the Stormwater Management program's major service areas; highlight budget priorities, successes, and challenges; and discuss opportunities to improve service levels in the future.

Council Action: Provide feedback to staff on policy considerations and budget priorities.

Assistant Engineering Services Director (AESD) Blair Hinkle expounded on information contained in the following PowerPoint presentation:

Agenda

Today's presentation will include:

- Stormwater Services Overview
- Stormwater Budget Status
- Stormwater Program Successes and Challenges
- FY18 Opportunities

- Future Considerations
- Council Questions and Direction

Stormwater Services Overview

Mission: Manage stormwater to preserve and protect life, support healthy natural resources, and complement sustainable growth for the vibrant Raleigh community.

- Business Services
- Development Review Inspection
- Water Quality
- Capital Improvement Program
- Drainage Assistance Program
- Stormwater Maintenance

Overall Capital Investment (pie chart)

Became self-funded enterprise in FY03

Capital expenditures by project type (FY04 to FY16 with FY17 projection) – \$66.2 million total

● Neighborhood drainage system improvements	24%
● Lake preservation	21%
● Water quality	13%
● Street drainage system improvements	12%
● Flood hazard mitigation	12%
● Drainage assistance	8%
● General drainage infrastructure	7%
● Stream restoration	3%
● General	< 1%

Completed Projects

Map showing location of completed stormwater program projects

Generally in areas of old infrastructure or increasing development intensity

CIP Implementation Status (bar graph)

Program status through January 31, 2017 (including projections)

The goal is to reach a carry-over amount of \$10 million

FY17 Adopted Budget (pie chart)

\$23,715,171

Utility fee rate adjustment of \$1.00 per single family equivalent unit (SFEU) effective July 2016 resulted in increased level of service

● Stormwater CIP	\$10.2M	43%
● Drainage system maintenance	\$4.5M	19%
● Indirect cost	\$2.8M	12%
● Program management and planning	\$1.6M	7%

●	Development plan review and inspections	\$1.5M	7%
●	Water quality and mapping program	\$975K	4%
●	Infrastructure projects management	\$820K	3%
●	Drainage assistance	\$663K	3%
●	Business services	\$518K	2%

Successes – Drainage Assistance

- Growth in the Drainage Assistance Program
- Significant increase in project delivery during FY17
- Expect to invest \$2 million in project design and construction by end of FY17

Project Delivery FY15 – FY18 (bar chart)

- 18 projects valuing \$720,491 completed in FY15
- 15 projects valuing \$611,717 completed in FY16
- 20 projects valuing \$1.8 million completed in FY17
- 26 projects at \$2.7 million under construction in FY18

Successes – CIP Projects

- Continued progress in completing CIP projects (Industrial Drive, East Martin Street, Dixon Drive)
- Capital Inn flood hazard mitigation project in progress
- Legacy projects beginning construction in FY17 and early FY18 (Lower Longview Lake Dam, Brockton Lake Phase I, Brentwood Today Stream Restoration, Laurel Hills Dam, Simmons Branch Phase II)
- Estimate delivery of \$124M in projects before the end of FY18

Successes – Drainage Maintenance

- Enhanced drainage maintenance/construction program
- In the process of hiring crew leaders/staff and obtaining necessary equipment
- Efforts are in partnership with Transportation Department – added 12 new positions and associated equipment dedicated to maintaining the stormwater system. To date, half the positions have been filled and the equipment ordered.

FY18 Total Proposed Operating Budget (pie chart)

\$25,952,751

●	Stormwater CIP	\$9.1M	35%
●	Drainage system maintenance	\$5.2M	19.5%
●	Indirect cost	\$2.7M	13%
●	Program management and planning	\$3.1M	12%
●	Development plan review and inspections	\$2.0M	8%
●	Water quality and mapping program	\$1.1M	4.5%
●	Infrastructure projects management	\$1.0M	4%
●	Drainage assistance	\$841K	3%
●	Business services	\$580K	2%

FY18 – FY22 Proposed CIP Budget (pie chart)

\$47,500,000

● Neighborhood drainage	\$17.4M	37%
● Drainage assistance	\$7.5M	16%
● Street drainage	\$5.8M	12%
● Lake preservation	\$3.6M	8%
● General water quality	\$3.6M	8%
● Stream restoration	\$3.3M	7%
● Stormwater system repairs	\$2.5M	5%
● Watershed planning	\$1.4M	3%
● Water quality improvement	\$1.1M	2%
● Flood hazard mitigation	\$1.0M	2%

Active and Projected Projects

Map showing location of active stormwater program projects and projects project for FY18 Budget – Stormwater CIP FY18 – FY22

FY18 Opportunities

- Additional staff resources to increase level of service
- Asset Management Program development and centralization of stormwater control measures (SCMs)
- Water quality and Green Infrastructure/Low Impact Development (GI/LID) implementation
- In-house design for the Drainage Assistance Program
- Enhanced Development Services review
- Communications plan development to bring more awareness to residents about stormwater

Future Considerations

- There is no request for a fee increase in FY18
- Financial model evaluation may result in future rate adjustments to sustain increasing level of service

Current Rate for Single Family Properties

TIER	SQUARE FEET OF IMPERVIOUS AREA	MONTHLY FEE
	0 – 399	No fee
1	400 – 1,000	\$2.00
2	1,001 – 3,870	\$5.00
3	3,871 – 6,620	\$9.50
4	6,621 – 9,500	\$14.50
5	Over 9,500	Commercial billing applies (\$5 per 2,260 square feet)

Mr. Branch asked when the remaining six new positions will be filled, and AESD Hinkle replied this fall.

The Mayor Pro Tem and various Council members commended AESD Hinkle and stormwater staff for the improvements they have made to the program. Complaints from property owners have been reduced and the program is now an asset to the City. The Mayor Pro Tem also thanked AESD Hinkle for moving the legacy projects forward.

PUBLIC UTILITIES ENTERPRISE – INFORMATION RECEIVED; DIRECTION GIVEN; RATE CHANGES APPROVED PRELIMINARILY

Staff will provide City Council information regarding the infrastructure replacement program, major projects underway, and plans for utility growth. Staff seeks City Council input on the proposed rate adjustments.

Council Action: Provide feedback to staff on policy considerations and budget priorities. Provide preliminary approval for FY2018 rate changes.

Interim BMS Director Ben Canada stated staff will ask for preliminary approval of the temporary rate increases for water use charges inside the City, sewer use charges inside the City, infrastructure renewal charges inside/outside the City, watershed protection charge inside/outside the City, and extra strength surcharges as outlined on pages 51-52 of the agenda packet.

Public Utilities Director (PUD) Robert Massengill presented a brief video and expounded on information contained in a PowerPoint presentation. The PowerPoint slides and his comments are below.

Agenda

- Accomplishments and Initiatives for FY18
- Capital Improvements
- Rate Model/Budget/policy
- Proposed Rates and Charges

Accomplishments

- Moody's Financial Services rating – Aaa
 - ◆ Due to collaborative efforts between Finance Department, City Manager's office, and Public Utilities Department, plus City Council's support over past several years.
 - ◆ Rating is recognition of solid financial performance and overall management of the utility, including long-range water supply planning and addressing aging underground infrastructure (both important factors in the rating).
- Sanitary Sewer Overflow (SSO) rate
 - ◆ Metric for benchmarking Raleigh's SSO rate against other utilities is the number of SSOs per 100 miles of pipe in the collection system.

- ◆ Experienced 1.35 SSOs/100 miles of pipe last year, compared to national average of approximately 4.5 and southeastern U.S. average of almost 7 per 100 miles of pipe. The goal is zero.
- 100% Water Quality Compliance
 - ◆ 100% compliant with drinking water quality requirements, and at all three wastewater treatment plants.
 - ◆ Low SSO rate and 100% compliance are mainly due to dedicated staff and their daily efforts.
- Customer Care and Billing Updates
 - ◆ Interactive Voice Response (IVR) improvements (simplified to customers can get to whom they need to speak to quicker, with less wait time).
 - ◆ Increased customer outreach (added a service that allows communication with customers of any language, not just Spanish-speaking customers; send e-mail reminders that a customer's monthly bill is past due and subject to severance, as well as payment plan installment e-mail reminders).
 - ◆ Web self-service enhancements (newest enhancement allows customers to create and view their own payment plans online; next enhancement starting July 1 will expand the credit cards accepted for payment by adding Discover and American Express to the currently accepted MasterCard and Visa).
 - ◆ Billing system (CCB) upgrade to the latest supported version is scheduled to begin in the first quarter of FY18; customer service enhancements will also be provided (expanded Web self-service – solid waste requests, start and stop service requests); upgrade expected to be complete by end of 2018.

Utility Customer Assistance Program

- Began January 6, 2017
- Raleigh FY17 funding \$200,000
- Garner FY17 funding \$14,173
 - ◆ For customers in Garner's jurisdiction
 - ◆ Began assisting Garner customers last week; assisted two so far and expect many more
- At this time, Garner is the only "merger" city participating in this program. The others have been provided with information and hopefully will decide to participate. The funds provided to each jurisdiction stay in that jurisdiction.
- Assisted 328 customers to date
- \$240 credit per customer
- Partnership with Wake County
 - ◆ Wake County Human Services screens customers for eligibility using the same criteria they currently use for the federal Low Income Energy Assistance Program (LIEAP).
- Staff anticipates that all dedicated funding will be exhausted by the end of the fiscal year; will follow up with a report in the weekly *Manager's Update* when that occurs.
- Program was well-received and has provided relief for many of the system's low-income customers; staff encourages Council to fund the program again in the upcoming year.

Fiber Optics Initiative Update

- Since fiber project began in 2014, we have experienced a 178% increase in utility location requests.
- Public Utilities added six utility technicians in 2016 to manage the increase in locate volume. Expect two more positions needed to cover projected work this summer.
- 294 water and sewer utility damages in 2016. Recovered over \$335K in damages from Code Enforcement.

Falls Lake Reallocation

- On January 25, 2017, the reallocation was confirmed by the U.S. Army Corps of Engineers (USACE) as the Tentatively Selected Plan, authorizing the release of the draft report for public, policy, and agency technical review, which will begin March 17.
 - ◆ Reallocation of a portion of the Falls lake water quality pool to the water supply pool has been identified as the lowest cost, lowest environmental impact, and most practicable alternative. It is projected to meet our water supply needs until 2045.
 - ◆ The reallocation request has been reviewed and recommended for approval by the Wilmington District Army COE office. It is currently under consideration by the Corps Headquarters in Washington, D.C.
 - ◆ The public comment period begins on March 17 and will remain open until at least April 17, 2017. We have solicited and received support from our merger partners, Wake County, and organizations like Downtown Raleigh Alliance.
 - ◆ While no direct action is required by state or federal elected officials, letting them know that the reallocation request is important to the economic sustainability of our service area and has the support of the community will help keep the project on the front burner.
 - ◆ Staff has prepared a resolution of support for Council consideration and adoption at its meeting next Tuesday.
- The final decision and Water Supply Agreement will require approval by the Assistant Secretary of the Army for Civil Works and should occur this summer or fall.

Cross Connection Program

- A Cross Connection Program is a regulatory division of Public Utilities that protects our drinking water system from contamination. Program implemented in 1987.
 - ◆ December 2016 – City of Corpus Christi, TX water crisis caused by backflow contamination by an industrial user.
 - ◆ One day "Do Not Drink" order for 320,000 residents.
- Brycer Compliance Engine – Web-based service implemented in 2016 to track NFPA 25 testing compliance and water service backflow containment device testing. Web service provides notification of due dates to customers and collects test reports from contractors. Service financed with \$10 test fee. Fee does not cover any enforcement or program costs of the City.
- 35,386 known service points/backflow information on 22,829/15,500 in compliance.
- Staff increasing compliance efforts with field surveys and enforcement.
- Do not propose a fee increase associated with this program this year. Will be increasing efforts to complete our data base and follow up with noncompliance facilities, many of

which are older buildings in older parts of the City (such as downtown) that existed prior to cross connection ordinances.

- Department needs Council's continued support to protect our drinking water system. To help address the cost issue, staff is working on developing a loan program to help with financing the necessary upgrades, which they will bring back for Council approval later this year.

Mayor Pro Tem Crowder asked if staff had a goal for how bringing the non-compliance customers into compliance. PUD Massengill replied the goal is to show a steady increase in compliance and obtain 100% compliance as quickly as possible. The legacy installations are the ones staff is struggling with to bring into compliance. There are no specific incremental goals at this time.

Capital Improvements Program (CIP)

- Critical component to the utility and accounts for about half of our annual budget, in the form of debt service and pay-go funds.
- The three main components that inform our CIP are Asset Management, Master Plans, and input from Operations.

CIP – Asset Management

Water System Age (map)

- Map of the water system indicating age by color-coding pipes. Oldest are red (some installed in the 1890s) and newest are green.
- Asset management is more than just pipe replacement. Good data is the backbone of a good asset management program – where assets are located, how old they are, and what they are made of.
- Many of the utility assets are 50 to 100 years old, long before computers and GIS. Staff has spent thousands of hours researching, compiling, and inputting data from the State archives, City records (including old Council minutes), and other locations.
- Having a robust GIS system with quality data is critical to the success of our asset management program, our water and sewer system models, Energov, and Cityworks (our new work order system).
- Over the last three years, have made tremendous progress in improving the amount and quality of data, but it is still a work in progress. About 60% of the system has been installed since 1985, so most of the system is relatively young in pipe years. There are still many pre-WWII pipes in service that need to be replaced.

Infrastructure Assessment (chart)

- Assets are evaluated based on their criticality, condition, and capacity.
- Criticality is the consequence of failure, and condition and capacity are related to the likelihood of failure.
- Table in PowerPoint presentation illustrates how we prioritize projects based on these data inputs.
- CityWorks, our new work order system which has just gone live, will feed data back into GIS and in turn, the asset management program to help us better prioritize future projects.

For example, a pipe segment with numerous repairs will rank higher in priority for replacement than another pipe of similar age and criticality with few or no repairs.

Large Diameter Condition Assessment (map)

- Map illustrates the large diameter condition assessment projects the Public Utilities has undertaken as part of the asset management program. Green lines indicate sewer and blue lines indicate water.
- Three important projects:
 - ◆ *72-Inch Interceptor Rehabilitation* – these two pipes carry over 90% of the wastewater that is treated at the Neuse River Resource Recovery Facility (NRRRF) each day.
 - ◆ *Hillsborough Street Transmission Main Replacement* – last year we did extensive condition assessment of the 36" water transmission main along Hillsborough Street and found that the line needs to be replaced soon. We are now in the design phase of a project that will replace this critical pipe. We are visiting the impacted CACs to let them know what to expect. Construction is scheduled to begin later this year. We do not plan to replace this pipe in the same alignment as the existing pipe. More information will be communicated as we get closer to starting the project.
 - ◆ *Raw Waterline Condition Assessment* – we assess raw waterlines in the same way we do potable waterlines. We are scheduled to perform the raw water main condition assessment later this year.
- Waterline assessments are more challenging than sewer because we can't just put a camera in the pipe. It's high tech and very expensive, so we are selective where we use it.
- We can't afford to allow our most critical assets to run to failure, so knowing the condition is very important, which allows us to plan accordingly.

Mr. Stephenson commented that it appears the Hillsborough Street transmission main begins west of Oberlin Road and ends near Glenwood Avenue. PUD Massengill told him the main starts near the Chamberlain Street tank, runs to the Pullen pump station (the brick building beside Pullen Park), comes out near the roundabout, runs down Hillsborough Street, runs up Enterprise Street to get off Hillsborough Street, and runs up Park Drive to get back to Chamberlain Street. That will not be the route for the replacement main. Construction Projects Administrator Eileen Navarette added that Public Utilities will spend less time on the Hillsborough Street pipe because of the disruptions that any event on Hillsborough Street causes. The area is experiencing a lot of construction fatigue. They will be on Clark Avenue for a short time and are in the process of reaching out to the residents and businesses of Cameron Village to let them know ahead of time. They will be doing additional water main replacements on side streets in the area so they can get everything done at one time and not have to come back for a while. Staff anticipates the impacts will be significant. They are trying to get out to the CACs during these early days of the project and are meeting with the Hillsborough Street people tomorrow, to talk with them and their Board about the project. It will be a couple of months before staff knows where the pinch points will be, where they will have traffic control plans, and other details. Projects Administrator Navarette said staff can send the Council a map of the new route. In response to a question from Mr. Branch, PUD Massengill said staff is working on these three projects concurrently.

Small Diameter Condition Assessment (map)

- This map illustrates where we have done condition assessment on the sewer collection system, which involves running a camera down the pipes and noting any defects.
- We have done basin-wide assessments in the Pigeon House and State Street basins. The other green lines represent where we have assessed the sewer mains in conjunction with a water main replacement project or part of our daily operations.
- We are doing sewer condition assessment on any project where we know we are replacing a waterline. This will help minimize the chance that we replace a water main this year and then the sewer main shortly afterwards in a separate project.
- Sometimes one asset is in better shape than the other. If it is, we leave it alone to maximize its life. However, if the condition is such that we think replacement will be necessary before the next street resurfacing, we replace everything at the same time.

Assessment Management by the Numbers (miles of pipe replaced)

	FY 15 (Actual)	FY16 (Actual)	FY17 (Budget)	FY18 (Budget)
Sewer replaced (miles)	3.37	7.54	12.59	24.39
Water replaced (miles)	3.08	7.12	7.74	14.74
TOTAL replaced (miles)	6.45	14.66	20.03	39.13

- We have been ramping up pipe replacements over the past few years. Next year we plan to replace about 39 miles of pipe, but we are still not replacing enough to replace each pipe every 75 – 100 years (their expected service life), which would require between 48 miles and 72 miles to be replaced annually.

CIP – Master Plans

- Major components of system:
 - ◆ Water distribution
 - ◆ Sanitary sewer capacity
 - ◆ Biosolids
 - ◆ Reuse
 - ◆ Long-range water supply
 - ◆ Wastewater treatment
 - ◆ Odor and corrosion
- For these major components, we have planning documents that we use to guide development of the CIP. We update these plans about every five years to keep them current.
- Over the last 18 months, we have added two new master plans to our portfolio:
 - ◆ The Wastewater Treatment Master Plan focuses on compliance and planning for future growth throughout our service area.

- ◆ The Odor and Corrosion Study addresses, in a comprehensive manner, odor and corrosion in the sewer collection system. In the long term, these efforts will help alleviate odor complaints as well as defer future rehabilitation and replacement projects by reducing hydrogen sulfide concentrations in our collection system.

CIP – Operations

- Treatment plant rehabilitation/replacement
- Water quality projects
- Pump station upgrades
- Cityworks
- We don't need studies and condition assessments for everything. Many of our potential issues, especially at our treatment facilities, can be seen by people in the operating divisions who work with this infrastructure every day. That is why our CIP group meets with our Operating Divisions to discuss needs and concerns in advance of our CIP prioritization process.
- (Photo of Walnut Creek Lift Station) – This is the largest pump station in the system and conveys over 90% of the wastewater treated at the NRRRF every day. This station is unique in that it has four vertical turbine pumps and five Archimedes screws. The screws spin, and wastewater travels up the screws and discharges at the top. It's an efficient way to lift wastewater that has been around since approximately 200 B.C. The screws are usually covered to minimize odor issues. In the photo, three of the screws have been removed for replacement, and two remain. The project is nearly complete and will address odors as well as capacity issues in the vicinity of Barwell Road.
- Cityworks, our new work order system, will also provide valuable data to the asset management program to help prioritize projects from the operations side.

Mr. Gaylord asked how the water moves when an Archimedes screw is removed for repair. PUD Massengill explained there are bypass pipes and pumps at the wet wells that pump the water around the lift station. A combination of the vertical turbine pumps and bypass pumps is being used in this photo.

CIP Projects (map)

- Map illustrates active and planned CIP projects, including merger communities.
- We have over 120 active projects at any given time. Many will be disruptive to citizens, particularly the main replacement and interceptor projects like the Crabtree Pipeline. We will continue to communicate about the projects through the CACs, the City's Web site, e-mail, and direct contact with impacted citizens.
- Bioenergy Project at NRRRF
 - ◆ Anaerobic digester project that will convert the facility from being an energy consumer to an energy producer
 - ◆ Currently undersign; expected to bid in 2018 with completion planned for 2021
- Crabtree Pipeline
 - ◆ Phase I, the tunnel portion, nearly done
 - ◆ Phase II, the open cut portion, which will be much more disruptive, has just begun.
 - ◆ Completion scheduled for 2019.

- East Neuse Interceptor
 - ◆ Will include installation of the largest pipes in the system, 84" and 96". Interceptor pipes along the east side of the Neuse River.
 - ◆ Will help Crabtree basin wet weather flows, allow several existing pump stations to be abandoned, and provide for future growth.
- Lower Walnut Interceptor
 - ◆ Includes paralleling the existing interceptor along Walnut Creek with a new 72" pipe to address current capacity issues and future growth.
- Pullen-Bain Transmission Main
 - ◆ Will extend a new water transmission main from the old Bain water plant to the Pullen pump station to help move water between pressure zones, and provide additional resiliency in case of a failure of another critical asset.
- Other major interceptor projects include Big Branch Interceptor, Mine Creek Interceptor, and Crabtree Valley Interceptor.

PUD Massengill advised that all of these projects will be disruptive; staff will be in the neighborhoods and in people's back yards. Staff will continue to communicate with residents to ensure they know what is happening, what to expect, and why the project is important. Outreach includes CAC contact, the City's Web site, direct mailings, and community meetings. Mr. Branch asked about the tentative completion date for all the projects. PUD Massengill replied that he will follow up with more detailed information.

Capital Improvement Plan Budget

- **Total 10-Year CIP: \$1.5 billion**

	Phase I (FY18 – FY 22)	Phase II (FY23 – FY27)	TOTAL	% of Total CIP
Interceptors	\$273,700,000	\$121,650,000	\$395,350,000	26.1%
Asset Management	\$191,680,000	\$200,485,000	\$392,165,000	25.9%
Wastewater Treatment Plant Expansions	\$196,050,000	\$41,000,000	\$147,050,000	9.7%
Water Distribution Improvements	\$32,135,000	\$68,800,000	\$100,935,000	6.7%
Wastewater Pump Stations	\$31,300,000	\$51,300,000	\$82,600,000	5.5%

- Long-term planning for growth in our interceptor pipes and plans continues to influence our Capital Improvements Program, which is important to the economic development and growth of the service area.
- Asset management is also more than 25% of our CIP and will continue to be an important capital initiative in the future as we address our aging infrastructure.

Financial Model Assumptions

(Packet contained a copy of the financial planning model with revenue sufficiency and rate projections)

- Based on 2016 data
- Assumes a 1.5% growth in accounts
- Assumes 0.5% growth in consumption beginning in FY20
- Maintains City financial policies
- 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.
- The model includes no growth in overall water demand again this year, and while we do project growth in accounts, the model doesn't anticipate demand will grow until FY20. This is important because almost all the revenue to support the utility comes from utility rates.
- 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.
 - ◆ The pricing signal from the tiered rate system.
 - ◆ High efficiency water fixtures which are now standard in new houses and retrofits.
- Current water demand is about the same as it was 10 years ago, even though we have added about 10,000 people per year to the service area during that time. On the positive side, this allows us to defer water treatment plan expansions and other capital projects. On the negative side, it reduces revenue.
- We expect the demand trend to eventually start growing similar to the population growth rate. Once we see a trend upward, we will update the rate model accordingly.
- We continue to exceed our financial metrics that are most important to the bond rating agencies (Fitch, Standard & Poors, and Moody's) to maintain our high credit rating, primarily the parity debt coverage ratio. The coverage ratios are consistent with what we have shown the rating agencies in the past. Parity debt ratio is calculated by subtracting our operating expenses from our total revenue and dividing that by our bond debt service payment amount.

Financial Model FY17

Rate Model	FY15 Actual	FY16 Actual	FY17 Estimated	FY18 Budget	FY19 Projected	FY20 Projected	FY21 Projected
5 CCF customer monthly water and sewer bill	\$ 49.03	\$ 52.46	\$ 54.45	\$56.67	\$ 58.71	\$ 60.83	\$ 62.50
% increase for that 5 CCF customer	9%	7%	4%	4%	4%	4%	3%
% of bill which is fixed charges (Admin and IRC)	32%	32%	34%	34%	33%	33%	33%

For the last five years, the rate model had consistently forecasted that we would need a 4% rate increase in FY18 – FY20. Last year we predicted a change in bill of \$2.22 (~4%) for the average residential customer (5 CCF) for FY18.

Financial Model FY18

Rate Model	FY15 Actual	FY16 Actual	FY17 Estimated	FY18 Budget	FY19 Projected	FY20 Projected	FY21 Projected
5 CCF customer monthly water and sewer bill	\$ 49.03	\$ 52.46	\$ 54.45	\$56.10	\$ 57.64	\$ 59.20	\$ 60.86
% increase for that 5 CCF customer	9%	7%	4%	3%	3%	3%	3%
% of bill which is fixed charges (Admin and IRC)	32%	32%	34%	34%	33%	33%	33%

Through operational efficiencies, controlling our operating expenses, and refunding some of our debt, I am happy to report that we are able to reduce the proposed rate increase to 3% for FY18 and forecast lower increases in the out years. This year (FY18), we are proposing a change in bill of \$1.65 (3%) for the average residential customer (5 CCF).

MS. BALDWIN ARRIVED AT 2:01 P.M.

Proposed Rates (5/8" meter)

<u>WATER</u>	<u>CURRENT</u>	<u>PROPOSED INCREASE</u>	<u>PROPOSED</u>
Admin	\$5.98	2.8%	\$6.15
Infrastructure	\$1.50	No change	\$1.50
Volumetric			
Tier 1	\$2.47	2.8%	\$2.54
Tier 2	\$4.12	2.8%	\$4.24
Tier 3	\$5.49	2.8%	\$5.65
Watershed	\$0.11	No change	\$0.11
 <u>SEWER</u>			
Admin	\$6.56	2.8%	\$6.74
Infrastructure	\$4.25	\$0.25	\$4.50
Volumetric	\$4.32	2.8%	\$4.45

- This is how we propose to achieve the rate increase on the 5/8" metered residential customer.
 - ◆ No change to the water infrastructure or watershed charges.
 - ◆ \$0.25 increase on the fixed side of the bill for sewer infrastructure replacement.
 - ◆ 2.8% increase on the volumetric and admin charges for both water and sewer.
- The fixed charges on the bill (Admin and Infrastructure Replacement Charges) are based on the customer's meter size, so customers with large meters will be different than shown here.
- The 2.8% volumetric change is the same for all customers.

- Based on customer feedback, we also plan to change the name of the "Admin" charge to "Base" charge to more accurately reflect its purpose.

Rate Comparison (bar graph)

- Compares 5 CCF monthly bill for Greensboro, Durham, Charlotte, Fayetteville Public Works, Raleigh current, Raleigh proposed, High Point, Cape Fear, Cary, and OWASA (Orange Water and Sewer Authority).
- Cannot share what our peers are planning for FY18 rate increases because that information has not been shared with their elected officials, so the graph contains Raleigh's current rates and proposed FY18 rates compared to our peers' current rates.
- We are neither the cheapest nor the most expensive. We are right in the middle and can say that we are collecting the full cost of service because we are funding our pipe replacements.

Recommendation

- Provide preliminary approval of the water and sewer rate increases.
- This year, as in the past, we seek your preliminary approval of the proposed FY18 water and sewer rates (1) to allow us time to program the changes in the billing system and test the system before the bills go out in July, and (2) so we can communicate the proposed changes to the merger partners and our large customers so they can plan for them in the budgets.
- Final approval would not occur until the City's budget is approved in June.

PUD Massengill announced that this year, the Public Utilities Department will be celebrating its 130th anniversary in the City of Raleigh. There will be an exhibit at the Raleigh City Museum and Council members will be invited.

Mr. Branch noted 328 residents have received help through the Utility Customer Assistance Program. He asked how a rate increase would impact the number of customers that will need assistance and how it would impact the money needed for that assistance that is currently budgeted. PUD Massengill replied that most of the people who are impacted and are eligible for the assistance program will be in the 4 CCF to 5 CCF range, so they will probably see an increase of \$1.65 or less. He does not think that will increase the number of people who would qualify because eligibility is based on their income and whether or not they meet the federal energy assistance program. The funding that is in place now can help up to 833 customers and we are only at 328 now. This is the first year the City has offered this program and staff will report back to the Council by the end of the year on how it worked.

Ms. Baldwin moved to provide preliminary approval of the FY18 rate increases. Her motion was seconded by Mr. Stephenson and carried unanimously. The Mayor Pro Tem ruled the motion adopted on a vote of 6-0 (Mayor McFarlane and Mr. Thompson absent and excused).

Mr. Stephenson commended former Public Utilities Director John Carman, whom he said had set a new tone and a 21st century approach to public utilities. He said PUD Massengill stepped into that role and has done a great job. Looking back at previous year increases, Council and staff knew they had a lot of catching up to do, and that is leveling off now. Staff projected more

conservatively than was necessary. Mr. Stephenson said PUD Massengill has done better than what he told Council he would do and he appreciates it.

SOLID WASTE SERVICES ENTERPRISE – INFORMATION RECEIVED; DIRECTION GIVEN; RATE CHANGES APPROVED PRELIMINARILY

Staff will provide an overview of the department's services and review financial performance, the proposed budget, and budget highlights. The presentation will also focus on the Department's achievements and initiatives. Staff seeks City Council input on a proposed rate adjustment.

Council Action: Provide feedback to staff on policy considerations and budget priorities. Provide preliminary approval for FY2018 rate changes.

Assistant Solid Waste Services Director (ASWSD) David Scarborough expounded on information contained in the following PowerPoint presentation. The PowerPoint slides and his comments are below.

Department Overview

- Responsibilities:
 - ◆ Safe and efficient waste management within the City
 - ◆ Promoting cleanliness and health of the City
- Services:
 - ◆ Garbage collection
 - ◆ Recycling collection
 - ◆ Yard waste collection (state law prohibits disposing of these materials in landfills)
 - ◆ Yard waste center (provides for recycling and sale of yard waste materials)
- Supported by user fees, the City's General Fund, and through the revenues generated by the sale of recyclable materials and yard waste materials.

Service Growth (2008-2016)

Recycling households	10%
Garbage households	13%
Recycling tonnages	52%
Garbage tonnages	13%

- Demand for the services the Department provides has grown steadily since 2008.
- Over the same period, our operation has become more efficient as we transition to automated solid waste and recycle pick. This has resulted in a workforce decrease from 240 to 207.
- As a result of a number of our current initiatives and initiatives proposed for FY18, we anticipate seeing continued growth in recycling participation and tonnages collect, and a reduction in landfill tonnage based on programs focused on waste reduction strategies.

FY17 Initiative Updates

- Waste Reduction Task Force recommendations (April 2016) resulted in SWS focusing on a number of initiatives.

- ◆ Textile recycling effort is currently being advertised and is an opportunity for SWS to work with an outside vendor to further reduce landfill tonnage.
- ◆ SWS is reviewing implementation strategies for multi-family communities and we will present an option as part of the upcoming FY18 budget proposal. Success in this initiative is not only making recycling available to all multi-family residences. Education remains a large part of this initiative, as our overall goal is to increase recycling at these sites.
- ◆ SWS is working with various partners and consultants to review the feasibility and implementation strategies for volume-based collection strategies. We will bring information to the Council in early 2018.
- Fleetmind software implementation
 - ◆ Data analytics effort to assist in improving efficiencies and performance of crews.
 - ◆ Successful rollout of recycling trucks.
- Team Advisory Committee improvements
 - ◆ Shared effort with Human Resources Department that has seen improvements in:
 - Employee recognition programs.
 - Training and development efforts.
 - Route balancing changes.
 - Performance reviews.
- CityWorks enhancements
 - ◆ Have provided additional opportunities for data analytics, performance monitoring, program evaluation, and benchmarking. This ultimately enhances the services we provide to the residents of Raleigh.
- Yard waste center and landfill upgrades
 - ◆ Continue to make improvements at these sites, including work on a stormwater retention pond, continuation of our corrective action plan, efforts for erosion control, and installation of a backup compressor.

Rate Proposal

- In FY16, we brought to City Council a three-year plan to achieve 80% cost recovery in our SWS budget by FY18. This plan included a proposed 75-cent increase in the residential collection fee. This fee increase will allow us to meet the demands of servicing a growing community as well as maintaining 80% cost recovery in this service area.

	FY15	FY16	FY17	FY18
	<u>Actuals</u>	<u>Adopted</u>	<u>Adopted</u>	<u>Proposed</u>
Recycling fee	\$ 2.60	\$ 2.60	\$ 2.60	\$ 2.60
Residential collection fee	<u>\$10.70</u>	<u>\$11.45</u>	<u>\$12.20</u>	<u>\$12.95</u>
<i>Total fee</i>	<i>\$13.30</i>	<i>\$14.05</i>	<i>\$14.80</i>	<i>\$15.55</i>
TOTAL FEE INCREASE	\$ 1.00	\$ 0.75	\$ 0.75	\$ 0.75

Proposed Budget

- Demonstrates an 81% cost recover for FY18.

	FY15 Actuals	FY16 Actuals	FY17 Adopted*	FY18 Proposed*	FY19 Projected
Department fees and charges	\$23.6M	\$26.1M	\$27.2M	\$30.1M	\$29.8M
General fund support	\$11.6M	\$9.9M	\$7.6M	\$6.9M	\$6.9M
Expenses	\$30.8M	\$32.7M	\$34.8M	\$37.0M	\$36.7M
Cost recovery	77%	80%	78%	81%	81%

* Includes one-time fund balance appropriations

Mr. Branch asked how cost recovery decreased 2% from 80% in FY16 to 78% in FY17 when ASWSD Scarborough mentioned the workforce decreased; *i.e.*, what is causing that drop when there are fewer people. Mr. Scarborough replied he did not have the FY16 actuals in hand when preparing the FY17 budget. The Department's proposed budget in FY16 was at 78%. They were able to spend less in FY16 and reduce costs, and the revenues brought in pushed the cost recovery higher than anticipated. Cost recovery in FY17 is actually closer to 79% than the proposed 78%. Mr. Branch said he will follow up with ASWSD Scarborough.

Mr. Stephenson asked if the recycling contract had been renegotiated and ASWSD Scarborough confirmed it had been renegotiated in FY17, resulting in a \$900,000 reduction in revenues. Interim BMS Director noted that expenses increased from FY16 to FY17. He assumes that was not personnel-driven, but was driven by equipment replacement and other things that would have modified that percentage as well.

Cost Comparison (bar graph)

- Comparing our new fee proposal for SWS, our relative position to our neighbors in Wake County remains the same as last year, in the middle. (Graph compared Apex, Fuquay-Varina, Raleigh FY17 and proposed, Cary, Holly Springs, and Zebulon.)

Financial Performance Trends (bar graph)

- Demonstrates that department-generated fees continue to make up a larger portion of department revenues. Part of the goal of the 80% cost recovery is to see a reduction in General Fund support.

Budget Highlights

- We will be continuing efforts on initiatives from the Waste Reduction Task Force. These include:
 - ◆ Multi-family recycling
 - ◆ Variable rate strategies
 - ◆ Textile recycling

- ◆ Increasing educational efforts to address waste reduction strategies in accordance with Solid Waste Association of North America (SWANA) standards
 - \$1.00 per household - \$125K
- Long-term vehicle replacement
 - ◆ In an effort to reduce equipment maintenance costs and provide a high level of service, SWS is working with Vehicle Fleet Services, Finance, and Budget to further develop and implement our long-term vehicle replacement strategy for SWS heavy equipment.
- Fleetmind expansion
 - ◆ Phase 2 will include residential collections and yard waste equipment. Similar to our efforts with recycling, this effort will provide valuable information for services.
 - Photographs
 - Route efficiencies
 - Data collection
 - Benchmarking
- Capital improvements (air and water quality improvements) to the Wilders Grove landfill will continue in FY 18, including:
 - ◆ Perimeter monitoring wells
 - ◆ Control panel upgrades
 - ◆ Upgrades to stormwater basins, flare and blower system

Recommendation

Provide preliminary approval of the increased residential collection fee. This will allow staff to begin the process of programming and testing the implementation of this fee for FY18.

Referencing the waste reduction efforts on the budget highlights slide, Mr. Stephenson asked if those items will be cost production items if they are successful. ASWSD Scarborough replied the department hopes the textile recycling program will not cost anything because an outside vendor is doing the work and the City is merely participating. Mr. Stephenson asked if there would be enough volume in that program to reduce tipping fees. ASWSD Scarborough said once the vendor helps the SWS Department develop variable rate strategies, the impact on tipping fees will be identified. He added there will be no changes to the FY18 tipping fees.

Mayor Pro Tem Crowder asked if anything had been mentioned about leaf pick-up, and ASWSD Scarborough said there had not.

Mr. Stephenson moved to provide preliminary approval of the FY18 rate changes for the Solid Waste Services Department. His motion was seconded by Mr. Gaylord and carried by a vote of 5-1 (Mayor McFarlane and Mr. Thompson absent; Mr. Branch voting in the negative). The Mayor Pro Tem ruled the motion adopted.

FY18 FEE ADJUSTMENTS – ADOPTED

Staff from several departments will be available to answer any questions related to the consolidated package of annual incremental fee adjustment proposals. Staff recommends that

City Council vote to 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. Most of these fees would become effective July 1, 2017 with the exception of the parking rate changes, which would become effective October 1, 2017.

Council Action: Provide feedback and adopt FY2018 fee adjustments.

BMS Director Canada explained this was a packet of fees that are updated annually based on a national index or staff analysis that takes place on a regular basis. He highlighted the following information contained in the packet memorandum from Budget Analyst (BA) Nick Sadler.

This memorandum summarizes proposed fee changes for Fiscal Year 2018. This includes fees that are updated annually for services provided by Public Utilities, Convention and Performing Arts, Parks, Recreation and Cultural Resources, downtown parking and water and sewer assessments. The fees described below do not include development fees City Council approved on February 21, 2017 as part of a broad development fee study.

Staff recommends adopting these fees at the March 15 work session. Most of the adjusted rates would take effect July 1, 2017, with the exception of the parking rate changes, which would become effective October 1, 2017.

Staff requests adoption of the fees at this time for two reasons. First, early adoption allows department staff to begin the process of communicating the fee changes to stakeholders, such as future customers at the Raleigh Convention Center. Second, it provides staff adequate time to update and test automated systems for accuracy.

Staff will be available at the Budget Work Session on Wednesday, March 15, 2017 to answer questions.

Six groups of attachments regarding fees were included with the memorandum: (1) Indexed Revenue Fees (Parts A1 and B), (2) Public Utilities, (3) Raleigh Convention and Performing Arts Complex, (4) Water and Sewer Assessment Rates, (5) Parks, Recreation and Cultural Resources, and (6) Parking Rate Increases.

Mayor Pro Tem Crowder moved to approve the FY18 fee recommendations as proposed. Her motion was seconded by Mr. Gaylord and approval was unanimous. The Mayor Pro Tem ruled the motion adopted on a 6-0 vote (Mayor McFarlane and Mr. Thompson absent and excused). See Ordinances 680, 681, 682, 683, 684, 685, 686, and 687.

ADJOURNMENT

There being no further business, Mayor McFarlane announced the meeting adjourned at 2:25 p.m.

Leslie H. Eldredge
Deputy City Clerk