



CITY OF GERMANTOWN TENNESSEE

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FINANCIAL ADVISORY COMMISSION MEETING MINUTES

Tuesday, March 10, 2015, 6:00 pm
Economic & Community Development Blue Conference Room
1930 S. Germantown Road, Germantown, TN 38138

Members Present: Christy Gilmour, David Jackson, Russell Johnson, Juliet Klein, Alderman Dave Klevan, Walter Krug, Howard Lasley, Jason Lowe, Michael McLaughlin, Christine Menzel, Chris Miller, Frederick Miller, Julius Moody, Paul Mosteller, Michael New, David Rea, Donnie Rose, Dale Stover and Jonathan Turner

Members Absent: Sudhir Agrawal, Clint Hardin, Mark Holland, and Alderman Rocky Janda

Staff Present: Patrick Lawton, Ralph Gabb, Sherry Rowell, Adrienne Royals, Jessica Brown, Bo Mills, Phil Rogers, Joe Nunes, Nick Dahl, Tim Bierdz, Cameron Ross, Alderman Forrest Owens and Alderman John Barzizza

Others Present: Michael Stoll

CALL TO ORDER

Co-Chairman Johnson called the March 10, 2015 Financial Advisory Commission meeting to order.

ESTABLISHMENT OF A QUORUM

Ralph Gabb called roll and announced a quorum was present.

Mr. Lawton called everyone's attention to the FY16 Budget Calendar. He advised that staff is going to meet with Superintendent Manuel and the School Board staff on Thursday, March 12th, 2015 to discuss a budget presentation. He further advised that the Germantown Municipal School District will be presenting their budget to the Financial Advisory Commission (FAC) on March 31, 2015 and again that following evening, April 1st, 2015 to the Board of Mayor and Aldermen (BMA). On April 14th, the review of FY16 Special Revenue Funds will be discussed as scheduled however, the review of Capital Improvements Plan and Infrastructure Replacement Program (originally set for March 31) will be added at this time.

CONSIDERATION OF MINUTES

****MOTION****

Co-Chairman Johnson moved to approve the minutes from the March 3, 2015 Financial Advisory Commission meeting as presented. Ms. Klein made a motion to approve the minutes, Mr. Lasley seconded and the motion passed unanimously.

Mr. Gabb explained that there are two major fund types: 1) The Business-type Fund which will be discussed tonight, focuses on the economic resource much like that of a business; it is also referred to as a "Proprietary or Enterprise" Fund and 2) The Governmental-type Fund looks at the current resources based on a modified accrual system; this fund type includes the General Fund (City's largest fund), Special Revenue Funds and Capital Improvement Projects. As you would find with any business environment, Enterprise Funds recognize revenues when conditions or events occur, have receivables on their books until collected, match revenues with expenses and they purchase and depreciate assets over a straight-line basis because City Governments do not pay taxes.

FY16 UTILITY FUND

Mr. Lawton advised that last year there was a Utility Fund rate increase for metered water sales. He said there was a 30% increase in utility fee which resulted in two or three dollars more a month on the average resident's bill. Referring to the Utility Fund Budget Summary, Mr. Lawton pointed out a dramatic decrease in water sales based on water consumption; the anticipated increase in FY15 (4.5 million) will be achieved this year solely because of the 30% rate increase. Per Mr. Lawton, we will still see in FY15 an 11% decrease in consumption; water usage is on the decline because of wet summers and greater efficiencies and devices that are being purchased today.

After Administration reviewed and discussed with Public Works and the Board of Mayor and Aldermen, it was determined that further changes would still need to be made within the Utility Fund. Mr. Lawton said that we are not going to go back and look at any type of rate adjustment again, but like any operation, we looked to see where we could logically reduce expenses and not impact the fund overall. Adjustments were made in the following areas: 1) Four employment vacancies in the Public Works Department were not filled during the early fiscal year; four individuals in similar type positions were moved from Utilities to Public Works and 2) Allocations were reviewed; those that could be reduced in Utilities and then moved back to the General Fund. As a result, the fund is in much better shape assuming this trend does not get any worse in terms of water consumption.

Mr. Bo Mills, Director of the Public Works Department further advised that expenses in general were looked at. Anything that was not needed (i.e. machinery/equipment) in the budget was deferred until next year and, if there was an expense that could be put off, payment was postponed until the following year. As for Operating Revenues, Mr. Mills said that only a 0.5% increase has been projected for FY16. Although the City has a couple of major grocery stores and a few new subdivisions/hired users coming in, Mr. Mills stated that we don't want to be too conservative with revenue estimates. Mr. Mills re-stated that Operating Expenses have been reduced; our FY15 budget estimate is already lower because of the reallocation of employees and adjustments to the expense accounts. It will be increased only by 2.9% from our estimate which is still well below what was budgeted last year.

Mr. Mills stated that the following achievements had been accomplished in the Utility Fund for this year:

- Aeration Tower Refurbishment (60 % complete) – Final phase of the revision to the Southern Avenue Water Treatment Plant.

- Commercial and Residential Water Meter Replacement Program (ongoing) – “Cash Registers” for the Public Works Department that usually under reads; once the meter is in the four million gallon range it starts to register less (loss of income) and therefore needs to be replaced for accurate water measurements. So far, nearly 500 residential water meters have been changed out this year.
- North Johnson Road Lift Station Force Main Rerouting Project – To avoid pumping sewage twice, Public Works has been considering rerouting the force main from the Johnson Road pump station. Construction was deferred from the FY15 Budget to later years however, the engineering and design work was accomplished this year.
- Annual Well and Pump Maintenance Program – Southern Avenue and Johnson Road water plants each have ten wells and fire service pumps that pumps from reservoirs and into the system. These are mechanical devices with electric motors, pumps, bolts and bearings that wear over time and have to be maintained.
- Blue Grass Lift Station Refurbishment Project (completed) – Very old lift station with approximately 245 homes was completely refurbished this year. A generator was established at this and a second lift station.

Mr. Mills then spoke briefly on Infrastructure Revitalization. He explained that the following projects are being worked on at the present time: 1) Bobby Lanier Farm Park Sewer Design, Bid Award and Construction, 2) Sewer Main, Lateral and Manhole Video Inspections, 3) Annual Wellfield and High Service Pump Analysis, 4) Annual Hydrant Flows and Testing and 5) Long-term capital investment to upgrade 30 year old system for the water treatment plants/sewer lift stations and reassurance of emergency power and dependable systems for threat protection purposes. Mr. Mills further explained that current Capital Improvement Projects include 1) the Western Gateway Sewer Study (\$213,000) to rezone the Kirby Parkway area for higher densities for the Smart Growth Development. Per Mr. Mills, the study will determine if the existing sewer system in that area is capable of handling the influx of larger buildings and 2) Lateral D Protection (\$665,000) for construction on Lateral D (located behind Farmington Elementary School). Because a thirty-six inch sewer outfall line near Cameron Brown Park is siphoned under Lateral D causing erosion to both sides, assistance from the Corps of Engineers was requested approximately four years ago. Now that they have agreed to take on the project, Mr. Mills said that we are ready for the construction work to begin.

And lastly, Mr. Mills discussed the following Infrastructure Replacement Projects (IRP) for FY16:

- Maintenance of Sewer Collection System (\$300,000) – Cured in Place Pipes (CIPP). This is when pipes are lined while in place, making them stronger and better.
- Water Mains Maintenance (\$100,000) and Maintenance of Water Wellfield System (\$20,000) – Funds set aside in case there are problems should anything fail.
- Backhoe-Water (\$125,000) – Acquired in 1999 and has over 4,000 hours on it.
- 1 Pick-up Truck-Water (\$30,000).

Mr. Lawton explained that the first of two major expenses in the Utility Fund is personnel cost which was lessened through reallocation and moving four positions out. The second component is our sewer treatment fee. Per Mr. Lawton, we have a long-term agreement (The Evergreen Contract) that was negotiated in 2003 with the City of Memphis to treat our sewage based on a percentage of what Memphis residents pay for sewer treatment. Memphis' audit statements are reviewed and the fee is re-calculated about every two years. This year fees dropped from 50% to 40% which totaled a savings of approximately \$20,000 per month.

FY16 STORMWATER MANAGEMENT FUND

Mr. Mills continued by discussing the Stormwater Fund for FY16. He said that Operating Revenues come from stormwater fees (\$3.50) that are paid with the water bill each month. Revenues remains unchanged from the FY15 budget estimate while Operating Expenses decreased slightly (0.02%) from last year.

Mr. Lawton advised that the Stormwater Management Fund was put in place in 2009 to come into compliance with the "Clean Water Act of 1972." It helps to protect our lateral drainage ditches, Wolf River and Nonconah. The purpose behind the work that is done in the stormwater management area is to allow the City to have a permit issued every five years by the State Department of Environment and Conservation for dumping our drainage water into the laterals and the two rivers to the north and south of us.

Mr. Mills reported the following Achievements that were accomplished in the Stormwater Management Fund for FY15:

- Annual Street Sweeping Contract – Two citywide sweeps divert large amounts of debris from our stormwater system by removing trash/waste from the City's curbs and gutters.
- Annual Leaf Removal Program – An act of vacuuming and recycling natural debris such as leaves and twigs that fall in the streets, curbs, gutters and drain inlets.
- Annual Monitoring Program – Stormwater Engineer constantly monitors stormwater system through visual surveys and inventory (water testing, discharge of thirty inch or larger pipes, inspection of laterals).

Per Mr. Mills, working projects include 1) Maintaining a stormwater management plan/program by requiring contractors to use the best management practices and public education to help citizens better understand the stormwater system, 2) The Stormwater Engineer meets with residents and developers and works through the construction inspectors to prevent illicit discharges in the system, and 3) Maintenance team respond to customer requests for problems with catch basins, pipes and ditches. Mr. Mills advised that there are no Capital Projects in the fund, however there are a couple of IRPs which include Cured In Place Pipes (CIPP) whereby drainage maintenance is more easily achieved through the process of lining drainage pipes and Skid Steer Mower bushog attachment to help maintain dirt and ditch waste.

FY16 GERMANTOWN ATHLETIC CLUB (GAC) FUND

Mr. Phil Rogers, Director of the Germantown Athletic Club presented the Athletic Club Fund for FY16. He advised that the Club is celebrating their 25th Anniversary this year. With a new approach to become more of a health fitness club the following Mission Statement was adopted:

*"We believe a strong family and community begin with a central place
that fosters relationships and improves the health and
quality of life of every member."*

Mr. Rogers said this is what drives us and is also who we are. He further stated that members come from east Memphis, Cordova, Collierville and other outlying areas of the City and that 60% of our membership base is actually Germantown residents and 40% is non-Germantown residents. According to Mr. Rogers, there are approximately 23 health and fitness club offerings with a five to seven mile radius of the Club.

Operating Revenues for this FY15 total a little over \$4.1 million which is a 3% increase from last year's budget estimate and Operating Expenses came to \$3.7 million and is 9% over FY15 estimate.

Mr. Rogers reported according to International Health Racquet Score Association's (IHRSA) guide to member retention, members leave the club for the following reasons:

- Never reached their fitness goals
- Poor customer service
- Bored with the club's offerings
- Member was not grounded in the first 30 days
- No reinvestment back into club

Last year was the Club's best year to date per Mr. Rogers with a Net Operating Income of \$795,853 and FY15 Estimated Net Operating Income was \$603,571. Mr. Lawton advised that the 2007 re-branding came about because the then, Germantown Centre was losing money in that it was no longer a popular place to go due to the "community center" model. In 2005, the General Fund was having to transfer about the same amount (\$795,000) to support the Centre. Also, in FY13 the Club was able to pay \$850,000 back to taxpayers. Because the City now has a better understanding of our customer's requirements and focusing on their needs, there has been a million dollar shift in operating revenue within the last five or six years.

Mr. Rogers said in the year to come, the Club will be transitioning over to new Club management software that will feature online registration, enrollment, bill pay and nursery check in, etc. Also, there will be increased focus of personal training and continued development of team training model to bring in profits other than that of membership dues. And then there is Improvement of member retention. By focusing on existing members and making sure their needs are met, they will then in turn tell others and thus bring in new members which then produces a continual reinvestment back into the Club. Mr. Rogers advised the Phase 1 Club Renovation (\$1.5 million) that he presented in last year's budget has not yet been accomplished. He said the Club is now much closer and will be starting Phase 1 of the 4 phase project in FY16. Mr. Gabb advised that costs associated with these renovations are being paid strictly with incoming revenue from membership fees—there are no funds being transferred between the General Fund or government tax dollars.

FY16 SANITATION FUND

Mr. Joe Nunes, Neighborhood Services Manager discussed the FY16 Sanitation Fund. He advised four years ago the City signed a ten year contract with the agreement that after five years the City would have the sole discretion to renew the contract. Per Mr. Nunes, because we are now at the juncture where a decision must be made—services that are being provided, performance, survey results and other factors will be thoroughly reviewed and taken into consideration. In FY15, a request was received from Republic Services to assign the contract to Inland Waste Solutions. Mr. Nunes said although the start up did not go spectacularly and initial survey results were not favorable, service has significantly improved.

Mr. Lawton provided survey results going back to 2011. The category "*QUALITY OF RECYCLING COLLECTION SERVICES*" came in at 86% in 2011; steadily declining, percentages have dropped since then to 74% in 2015. The same goes for the category "*QUALITY OF HOUSEHOLD TRASH COLLECTION SERVICES*" which went from 86% to 73%. The response from the community in terms of service levels have declined over the past five years.

It was decided that a sub-committee would be beneficial to review existing sanitation services and rate structure to assist with making a decision to execute the five year option come July1, 2016. David Rea and David Jackson volunteered to serve on the Sanitation Sub-Committee.

Mr. Nunes reported that the budget for FY16 is \$3.4 million (Operating Revenues) which is slightly over the FY15 estimate. He said 90%+ comes from sanitation fees that are paid on a monthly basis. Also the switch of residents from backdoor (\$24.50) to curbside (\$20.00) service and liquidated damages from contractor service level are the main components that impact incoming revenue. Approximately 73% of Germantown residents are choosing curbside service. A third component of revenue is the market for recyclables; we were selling our recyclables to Rock Ten before they went out of business in October due to the market crash in 2009. We now pay \$32 per ton for household waste disposal at the landfill and \$7 per ton to ReCommunity for recycling disposal. Mr. Nunes stated that Operating Expenses totaled \$3.7 million which is a 10.6% increase over the FY15 estimate mainly due to \$200,000 of liquidated damages. In an effort to be conservative, only \$10,000 will be forecasted for liquidated damages in FY16 as it has been determined that services have somewhat improved. Per Mr. Nunes, although solid waste service fees have not been changed in eight years, a 5% rate increase is being considered in FY17 or 18 to offset these years. As for Environmental Sustainability, Mr. Nunes advised that 85% of households have either the 35 gallon recycling carts or the old 18 gallon bins used by 686 high density or condo locations. He said recycling volumes is slightly up by 3% year-to-date as of February, 2015 with almost 400 pounds being collected per household every year.

FY16 GREAT HALL FUND

Mr. Nick Dahl, Manager of the Great Hall and Conference Center advised that the Great Hall is a meeting and banquet facility that operates with two full time and four part time staff members. There are a total of six meeting rooms, a conference center, and five media rooms separated by portable walls. Per Mr. Dahl, rental rates vary anywhere from \$60 an hour (media room) up to \$3,475 (entire banquet room). Operating Revenues for the FY16 budget total \$433,700 which represents a 7.8% increase over the FY15 estimate. Operating Expenses are expected to have a modest 24% increase over FY15. A revenue pattern of the last six years shows that since FY11, after separating from the Athletic Club, there has been a 158% increase up to where we expect to be in FY16.

Mr. Dahl then spoke on the Great Hall's Key Initiatives which include:

- Continue creating positive word of mouth through delivery of excellent service and superior value is the driving force for the Great Hall. Per Mr. Dahl, there is a focus on excellent service to create happy customers who in turn tell their friends, family and neighbors about the great services that are offered by our facility. He further stated that this initiative is also responsible for landing Lipscomb and Pitts Breakfast which is a breakfast series that happens three times of year for "movers and shakers" in the metropolitan area.
- Increase awareness and drive inquiries through marketing tactics including social media, websites, print media, broadcast media, tradeshows, and networking.
- Continue to develop new revenue growth opportunities by working on an idea to have a third party obtain a liquor license for the sale of alcohol on behalf of the facility.
- Improve competition position and boost rental revenue with lobby expansion and new patio project.

Referring to a pie chart, Mr. Dahl reported that of the 98% people who completed a survey, 89% marked that they were "very satisfied," 90% said they were "somewhat satisfied" and 2% marked "neither satisfied nor dissatisfied."

Mr. Dahl advised the proposed capital project for FY16 is an expansion of the lobby area. He feels that expanding the lobby will give the facility a facelift and will help to utilize unused space. He explained that a floor will be built across the stair well that leads down to the Athletic Club. And lastly, Mr. Dahl talked about Community Value. He said that we are the only facility of its kind in the Germantown area that offers a place for meeting and banquet events from 20 to 700 people. Catering services offered by the Great Hall are purchased mainly from

Germantown restaurants and caterers causing a rippling effect that adds dollars to the Germantown economy from event attendees spending money at local restaurants, hotels, gas purchases and shopping.

Co-Chairman Johnson called for a motion to approve the five Enterprise Funds as presented.

****MOTION****

Mr. Lasley and Mr. Mosteller both moved to approve all five Enterprise Funds as presented. Mr. Jackson seconded and the motion passed unanimously.

OTHER BUSINESS

Mr. Gabb asked those members who have not signed and returned the Ethics Form to do so immediately. Co-Chairman Johnson reminded everyone about the next FAC meeting to be held on Tuesday, March 31st to review and discuss the GMSD budget as it impacts the City. Alderman Dave Klevan thanked everyone and said that he was proud to sit in for Alderman Rocky Janda. He then introduced Alderman John Barzizza and Alderman Forrest Owens. Alderman Klevan said this body has an important responsibility in that City looks strongly at the advice of this Commission.

ADJOURNMENT

The meeting adjourned at 8:55 p.m.