

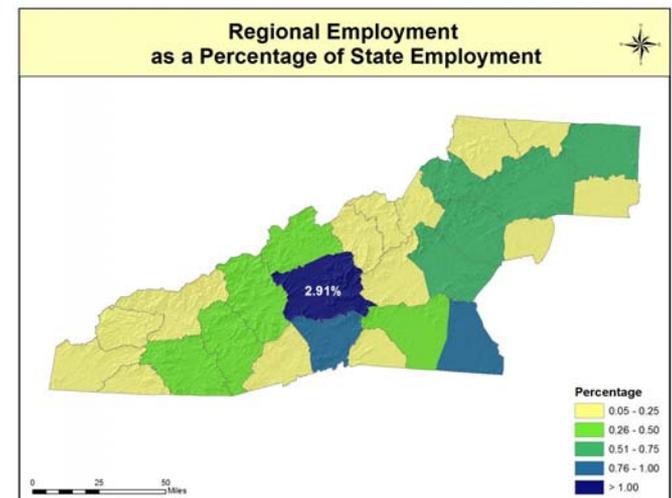


FY 2014 BUDGET PLANNING: COMMUNITY INPUT MEETING

Asheville City Council Budget Session
April 18, 2013

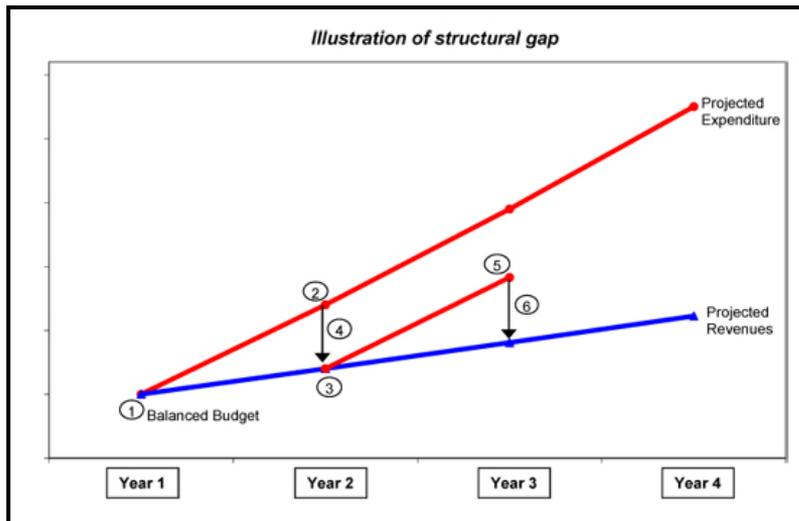
Asheville has been diligently responding to a financial crossroads.

- ❑ Asheville has been experiencing a structural imbalance in the rate of growth in revenues and expenditures. Expenditures are growing at a faster rate (as much as five times faster) than revenues.
- ❑ Real estate growth has been minimal, and property tax revenue is unlikely to grow significantly in the near future. At the same time, Asheville's share of sales tax revenue has been declining. A lack of access to other revenue sources intensifies the effects of property and sales tax revenues on Asheville's financial structure.
- ❑ Despite the recession and relatively tame inflation, many basic costs continue to go up for local governments. These costs include employee compensation and healthcare, fuel, utilities and equipment.
- ❑ As a regional hub for the western portion of the state and a tourist destination, Asheville's services and infrastructure support a broad population. While the interdependency of Asheville and the surrounding area is critical to the region's economy, the property tax base supports majority of these needs.
- ❑ Asheville has been cutting its budget for several years, and this trend is reflected in deferred capital improvements, reductions in force, salary freezes and other cost-saving measures. While fiscal constraint will continue to be required, capturing additional savings will become an increasingly elusive target. For instance, Asheville is on a 65-year resurfacing cycle for streets when the recommended cycle is 20 years. City employee compensation was frozen for three years. Vehicle replacement is on an 18-year cycle when the industry standard is 6-10 years.



Asheville has been developing a fiscally responsible, long-range approach to financial management in FY 2014.

- At the beginning of the budget process, Asheville identified the need to close a \$2.2 million difference between projected revenues and expenditures. A plan was developed to balance the budget by freezing positions, reducing operating line items and making modest adjustments to fees while avoiding a property tax rate increase for ongoing operations.
- At the same time, Asheville developed a Economic Development and Community Investment Initiative designed to address the rate of revenue growth in the city. This strategy called for enhancing infrastructure investment to support redevelopment in targeted areas, business development and job growth with a focus on the River Arts District and Downtown. Projects considered within that strategy included RADTIP, multi-modal improvements in the South Slope area, greenway development, increased allocations to affordable housing development, the Eagle Market Place project, and the Asheville Art Museum renovation project. Services proposed by the BID were also considered in this strategy.



Asheville serves as an important regional hub for economic development, jobs and recovery from the recession.

- The economic interdependency between Asheville, Buncombe County and the surrounding region has an impact on the lives of more than 1.3 million citizens living in 23 counties, an area of about 11,000 square miles (roughly the size of the state of Massachusetts). Asheville's economic conditions impact almost a quarter of counties in the State.
- The Asheville-metro area led the state with 3.6% job growth in year-over-year employment statistics (from Jan. 2012-Jan. 2013, according to the NC Justice Center). Also in that year Asheville had the third largest share of the state's overall employment growth. The metro areas of Asheville, Raleigh and Charlotte together accounted for more than 2/3 of the state's job growth. The table to the right shows a two-year comparison of job growth across the state, where the Asheville metro area follows only Charlotte and Raleigh.
- These are promising figures that show signs of a recovering economy in Western North Carolina. Cities' ability to invest in regional infrastructure or critical services supports this type of economic growth. Without it, cities will be faced with two decisions – to raise taxes or to forego regional investments that support jobs and business growth – both of which are negative for North Carolina's economy.

Nonfarm Employment (Two-Year Comparison)		
Metro Area	Feb 2008 - Feb 2010	Feb 2010 - Feb 2012
Asheville	-7.60%	6.00%
Burlington	-10.50%	5.20%
Charlotte-Gastonia-Rock Hill	-8.10%	8.90%
Durham-Chapel Hill	-4.80%	4.60%
Fayetteville	-0.90%	1.20%
Goldsboro	-6.00%	1.40%
Greensboro-High Point	-9.70%	2.00%
Greenville	-4.40%	4.90%
Hickory-Lenoir-Morganton	-12.00%	2.10%
Jacksonville	2.10%	1.90%
Raleigh-Cary	-6.30%	7.60%
Rocky Mount	-10.90%	-1.40%
Wilmington	-8.70%	2.90%
Winston-Salem	-7.60%	3.30%

Budget Process: February 2013

Assumptions:	
Revenues	
	% Change
Property Taxes	1.75%
Sales Tax	5%
Expenditures	
Employee Compensation	3%
Attrition	1.25%
Revenue	
	Dollar Impact
Property Taxes	772,524
Sales Taxes	722,954
Electronic Gaming Revenue	(200,000)
Privilege Licenses	(250,000)
Parking Fund Transfer	(120,000)
Cost Allocation Adjustment	500,000
Golf Course Lease impact	210,000
Total Revenue Change	1,635,478
Expenditure	
	Dollar Impact
Compensation	(1,775,220)
Health Care	-
LGERS/Pension contribution increase	(150,000)
Post Retirement Benefits ARC	(350,000)
Self-insurance liability contribution	(425,000)
Election Costs	(250,000)
Unemployment Insurance Reserve	(100,000)
Operating Increases	(217,958)
Public Safety Overtime - technical adjustment	(200,000)
Economic Development Incentives	(175,000)
Reduction of State transit funding	(200,000)
Total Expenditure Change	(3,843,178)
Revenue Over (Under) Exp	
	(2,207,700)

Plan A	
Starting Point	(2,207,700)
Expenditure Reductions	
Retirement incentive/Freeze or eliminate 15 positions	600,000
Line Item Reductions/Fleet right-sizing	550,000
Discontinue Bele Chere/Re-engineer special events	200,000
Re-engineering special facilities	108,000
Contract out street and sidewalk construction	-
Revenue Enhancements	
Fee Adjustments	940,000
WNC Nature Center Membership Program	150,000
Property Tax increase	-
Total Budget Balancing Strategies	2,548,000
Ending Point	340,300

Proposed legislation may impact Asheville's financial forecast

- ❑ In the last several weeks, State legislation has been introduced that may have an impact on Asheville's financial forecast. **It is important to note that most of these bills have not yet become law, and they may change as they move forward.** The chart below presents an estimate on the cumulative financial impact of proposed legislation based on noted assumptions. Much remains uncertain about proposed legislation at this time, and so this chart represents our best estimates given what we know today. Asheville's projections have changed since April 3 and are expected to continue to evolve as the legislative process moves forward.

Legislation	Revenue Source/Expense Impacted	Current Revenue	Effective Date of Bill	Projected Impact			Notes and assumptions
				FY 14	FY 15	2 Year Total	
Operating Impact							
H4	Unemployment Insurance Expenses	N/A	7/1/2013	(260,000)	0		Requires payment into a reserve equivalent to 1 percent of their total unemployment insurance taxable wages paid up to a certain cap
H224, H264	ETJ Development Review Fees	219,000	120 days from passage	(219,000)	(219,000)		H224 is a local bill that applies only to Asheville; H264 is state-wide
H488	Water System Transfer	1,900,000	5/15/2013	(1,900,000)	(1,900,000)		Loss of water system contribution to fixed central service costs
H568	Airport Deannexation - loss of revenues from FBOs, rental car gross receipts	193,000		(193,000)	(193,000)		
H708	Parking Fund transfer to Transit Fund	500,000		0	TBD		Eliminates transfers out of Enterprise Funds; likely to be referred to study committee for further analysis between sessions
S394	Utility Franchise Tax	6,000,000	1/1/2014	TBD	TBD		Sales tax expansion and new sales tax on sales of utilities would offset loss promised to offset losses in municipal revenue
S394	Local Sales Tax on Food	N/A	7/1/2015	TBD	TBD		Sales tax expansion and new sales tax on sales of utilities would offset loss promised to offset losses in municipal revenue
S394	Beer and Wine Excise Tax	360,000	7/1/2014	TBD	TBD		Sales tax expansion and new sales tax on sales of utilities would offset loss promised to offset losses in municipal revenue
S363, 394	Privilege Licenses	1,400,000	1/1/2015	0	(1,400,000)		SB 363 would eliminate cities' authority to levy privilege license taxes on businesses
TOTALS		10,572,000		(2,572,000)	(3,712,000)	(6,284,000)	
Capital Impact							
H252	Water Utility Capital Contribution	1,650,000	5/15/2013	(1,650,000)	(1,699,500)		
TOTALS		1,650,000		(1,650,000)	(1,699,500)		

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Golf Course Lease impact	210,000
Water System Transfer	(1,900,000)
ETJ Development Review Fees	(219,000)
Airport Deannexation	(193,000)
Total Revenue Change	\$ (1,176,522)
Expenditure	Dollar Impact
Compensation	(1,775,220)
Health Care	-
LGERS/Pension contribution increase	(150,000)
Post Retirement Benefits ARC	(350,000)
Self-insurance liability contribution	(425,000)
Election Costs	(250,000)
Unemployment Insurance Reserve	(260,000)
Operating Increases	(217,958)
Public Safety Overtime - technical adjustment	(200,000)
Economic Development Incentives	75,000
Reduction of State transit funding	(200,000)
Total Expenditure Change	(3,753,178)
Revenue Over (Under) Exp	(4,929,700)

Budget balancing strategies

- ❑ The estimated impact of current legislation takes the difference between Asheville’s revenues and expenditures from \$2.2 million to \$4.9 million in FY 14 (-\$2.2 million + -\$2.7 million operating impact from legislation).
- ❑ This table illustrates the types of service reductions that would be required to address the financial forecast solely on the expenditure side. The alternative to this level of service reductions is to raise property tax rates.
- ❑ One penny on the tax rate generates about \$1.1 million in revenue.
- ❑ Legislation has been introduced to enable the consolidation of City and County Parks and Recreation services and facilities.. Asheville will continuing to evaluate this proposal.

Expenditure Reductions		Service Impact
Defer Infrastructure & Equipment	\$ 1,000,000	Defer contracted services for Capital Maintenance of building, infrastructure, equipment
Police Reductions	\$ 500,000	Reduce patrol in Downtown
Fire & Emergency Reductions	\$ 500,000	Close fire station
Parks, Rec & Cultural Arts Reductions	\$ 1,500,000	Contract out Cultural Arts, eliminate festivals, restructure management of WNC Nature Center, restructure adult & youth athletics, reduce hours or close some recreational facilities
Reduce Street & Sidewalk Maintenance	\$ 500,000	25% decrease in paving & maintenance
Reduce Transit Service	\$ 500,000	Eliminate Saturday service
Reduce Affordable Housing Programs	\$ 250,000	Reduce loans for development projects
Reduce Administrative & Support Positions	\$ 600,000	Finance, Admin, Human Resources, Information Technology Services, Business Support
Other		
Revenue Enhancements	New Revenue	Examples
Property Tax Increase of 1 cent/ per \$100 of property value = \$	1,100,000	\$200,000 home = \$20 increase in property taxes, \$400,000 home = \$40 increase, \$600,000 home = \$60 increase
Property Tax Increase of 2 cent/ per \$100 of property value = \$	2,200,000	\$200,000 home = \$40 increase in property taxes, \$400,000 home = \$80 increase, \$600,000 home = \$120 increase

The changes in the forecast will likely require deferring capital maintenance, economic development initiatives and enhanced capital investment.

- ❑ If the estimated financial impact is realized, Asheville would lose the flexibility to consider increasing investment in the Economic Development and Community Investment Initiative via an enhanced capital improvement plan. Projects would have to be deferred unless other sources of revenues are identified.
- ❑ Under this scenario, a tax rate for a Business Improvement District has been deferred in consideration of city-wide service reductions and city-wide tax rate increases.



Budget schedule

- Staff recommends scheduling an additional budget work session on April 23 and extending the budget adoption out to June 11. If the financial forecast is not more certain by that time, another extension can be made for budget adoption to June 25. The budget must be adopted by June 30. Staff would recommend using the extension to gain additional City Council direction on budget balancing strategies in response to the changing forecast.

Who	What	Where	When
City Council Finance Subcommittee	Update on key issues for next year's budget	City Hall 1st Floor Conference Room	Tues., Feb. 12
City Council	Budget Work Session	City Hall 1st Floor Conference Room	2 p.m. Tues., Mar. 12
City Council	Budget Work Session	City Hall 1st Floor Conference Room	2 p.m. Tues., Mar. 19
City Council	Proposed Fees & Charges Presented to Council	City Hall Council Chamber	Tues., Mar. 26
City Council	Proposed Budget Work Session	City Hall 1st Floor Conference Room	Tues., Apr. 23
City Council	Recommended Budget to City Council	City Hall Council Chamber	Tues., May 14
City Council	Budget Public Hearing	City Hall Council Chamber	Tues., May 28
City Council	Council to Vote on Proposed Budget	City Hall Council Chamber	Tues., June 11

Citizen Input: Balance Your City's Budget

- Asheville is seeking your input on budget priorities by working in small groups on a budget balancing exercise.
- Your group's recommendations will be made by making funding decisions for services as well as proposing revenue increases. As you make your decisions regarding the level at which to fund services, you will need to ensure your recommendations are in line with your vision for the City.
- Do you have other thoughts to share regarding the budget? You can share those on the comment forms available.
- Your group will present its balanced budget proposal to City Council at the end of the exercise. Staff will summarize all input and recommendations in a report that will be accessible at www.ashevilenc.gov.