DRAFT

Presented to the Asheville City Council by:

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and the Executive
Management Team

Introduction

In 2010, in the middle of the largest global recession since the Great Depression, the City of Asheville produced a paper entitled *Asheville, NC 2010: A Financial Crossroads*. The purpose of the paper was to analyze Asheville's financial structure and the opportunities and challenges it faced in the context of regional growth, municipal service delivery and the community's vision for the future. The introduction to the paper stated:

> *Asheville's position as a regional hub has brought challenges and opportunities as city leaders have sought to accommodate demands for economic development, city services, improved infrastructure, and public facilities to support a growing and diverse regional population. Along the way, Asheville leaders have tried to balance the tax burden on property owners within the municipal boundary with the needs and expectations of a population that far exceeds jurisdictional lines. This report focuses on the issues and challenges facing Asheville as it seeks to address its financial structure while embarking on a path to deliver the community's vision for what it wants Asheville to be. It includes a perspective on the city's role as a regional urban center, its growth and capacity to capture a burgeoning population in the county, revenue diversification and the overall impact the city's financial picture has on city services and citizen satisfaction. Finally, it will pose alternatives in response to the question, "What kind of city do we want to be, and what will it take to get there?"*

In the three years since the *Financial Crossroads* paper was published, the economic, political and social landscape in Western North Carolina and Asheville has continued to evolve. Globally, economic recovery has been slow and inconsistent, and continued economic uncertainty has weighed on business optimism and consumer confidence. As a result, local governments have been compelled to deliver services under significant fiscal constraints due to a variety of factors, many of which are outside the control of local decision makers. At a local level, cities have been attempting to optimize the use of limited resources to preserve basic core services.

In the last two budget cycles since the *Financial Crossroads* paper was published, the costs to support existing city services has continued to outpace growth in revenues. Asheville has addressed this financial gap by reducing expenditures, primarily through freezing salaries, increasing employees' contribution to health insurance, reducing staffing levels through hiring freezes and deferring capital improvements, among other cost savings measures. At the same time, the desire for additional investment in infrastructure (sidewalks, greenways, and street improvements), services (public safety, development review, public transportation, and downtown cleanliness) and strategic goals (affordable housing and multi-modal transportation) has increased.

Cautious optimism notwithstanding, challenging fiscal times will continue. The purpose of this *Financial Crossroads* update is to explore Asheville's financial structure three years later, and to recommend policy alternatives and solutions to address the imbalance that continues to exist. Meeting these challenges will require planning, prioritizing, collaboration and innovative solutions. It will also require fiscal discipline, community engagement and partnerships with organizations that share a desire to resolve the persistent problems of the new normal.

The Nature of the Problem: Our Iceberg is Melting

Our Iceberg is Melting, by Jon Kotter, is a simple story of a colony of penguins facing a dilemma. Their iceberg is melting. It takes a while for them to believe it is actually melting because evidence of the problem, tiny fissures, is well below the surface of the ocean and under what appears to be a massive and stable structure. But there are structural issues with the iceberg, and it is melting. Contained within the story is a message about the fear of change, how to motivate people to face the future and how to support needed changes quickly.

Asheville is not alone in these challenges. The nation's cities continue to cut personnel, infrastructure investments and key services as the prolonged effects of the economic downturn take their toll on city finances, according to the National League of Cities 27th annual City Fiscal Conditions report. The remainder of this section explores these challenges in greater detail.

Asheville's iceberg is melting, and here is why:

- There is 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 is 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. The end result is a revenue outlook for Asheville that is likely to be flat into the foreseeable future.
- 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, Asheville's services and infrastructure support a population that exceeds its residential population. While the interdependency of Asheville and the surrounding area is critical to the region's economy, the city's lack of access to regional revenue sources intensifies Asheville's reliance on its property tax base.
- Balancing the federal budget and trimming the national debt while improving the financial condition of major entitlement programs will have an impact on state governments. This, in turn will affect local governments. The State of North Carolina is dealing with fiscal stress and exploring opportunities to cut spending and reform revenues.
- 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. An article in *American City and County* (Barkin, March 2010) states the problem in rather bleak terms: "Past recessions have led to strong recoveries, but the current prolonged economic malaise is significantly taxing an already overworked infrastructure and may even be establishing a 'new normal' of resource deprivation."
- Citizens are dealing with personal financial stress, the cost of housing, challenges in employment and other economic strains. Their ability to pay more for the same level of service is low. At the same time, increasing the cost of services can cause a dangerous out-migration of people and capital from the city.

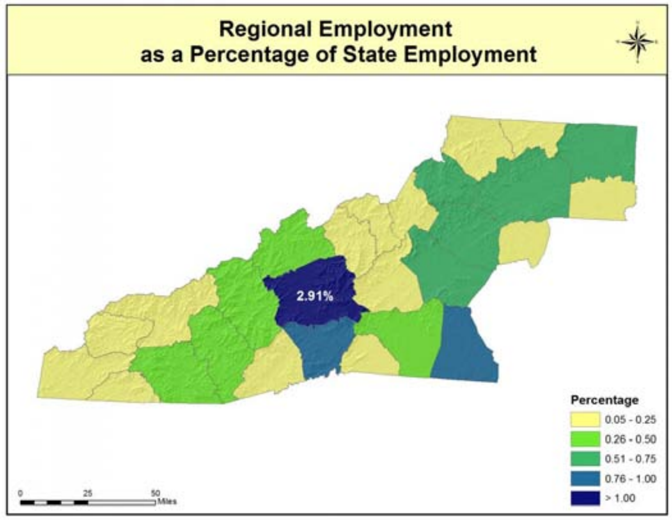
Background: The interdependency of urban and rural areas

A symbiotic relationship exists between urban and rural areas, particularly in Western North Carolina. Urban growth has positive benefits for surrounding rural areas, and rural areas have a critical role in sustaining urban areas. Support of urban growth together with facilitating rural access to its benefits enhances economic prosperity throughout the region.

It is the availability and mutual exchange of diverse resources that shape the way urban and rural areas depend on one another. Towns and cities serve as service centers for rural areas. Rural areas provide raw materials and employment labor while generating demand for the city's goods and services. In this interactive process, urban and rural areas are linked by the flow of people, goods, money, information and natural resources.

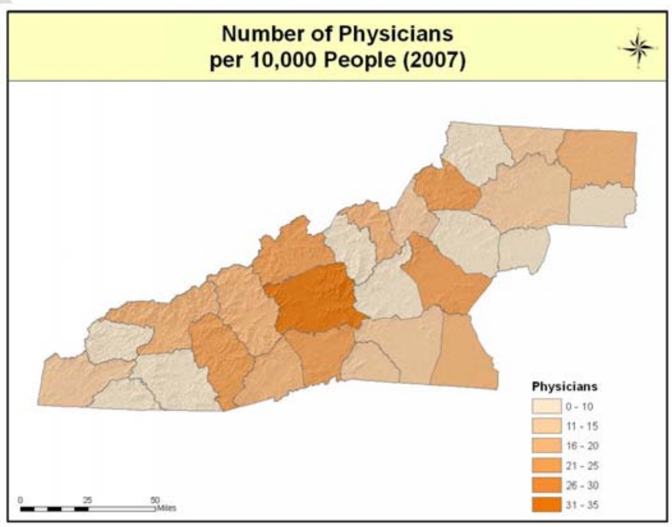
Cities and towns are centers of this economic activity, areas in which businesses choose to locate in order to benefit from the proximity of infrastructure, other business, labor markets and external economies of scale. Due to the concentration of infrastructure and economic activity, cities also provide a rich variety of goods and services, as well as social and cultural opportunities. This relationship allows regions to avoid the over consumption of resources like agricultural land, natural resources and the undeveloped environment (which serves as an important asset to our tourist-based economy) while minimizing the impacts of higher traffic levels, increased energy consumption and other environmental factors that have a negative effect on the production of food and raw materials for the economy.

The importance of Asheville and Buncombe County to Western North Carolina's economy can be seen in the region's employment data (illustrated in Map 1). Three percent of the state's jobs reside in Buncombe County, with most of those jobs in Asheville. This number is three times higher than the county in the region with the next highest number of jobs (Henderson County).



(Map 1)

Another data point that demonstrates Asheville's role in the regional economy lies in healthcare. Healthcare is the largest industry in terms of employment in our region (Asheville Area Chamber of Commerce). The quality of our health care drives our local economy, and the center of that industry lies in Asheville and Buncombe County. Buncombe County has more than four times the physicians and related health care services when compared to our nearest neighbor (illustrated in Map 2).



(Map 2)

The impact of Asheville's role in the regional economy is demonstrated by the significant growth the city experiences with its daytime population. Based on U.S. Census Bureau data from the 2010 American Community Survey, Asheville has the highest daytime to resident population ratio among all cities in North Carolina with populations of 50,000 or greater. The daytime population, which includes people who commute into Asheville for work, is approximately 43,000 people higher than the resident population (taking the population from 83,570 to over 127,000). This data does not take into account people who come into Asheville for shopping, services or tourism.

An analysis of Asheville's public safety data shows the relationship between municipal services and their importance to a regional population. According to FY 2010-11 data from the University of North Carolina School of Government's Benchmarking Project, Asheville responds to more calls for fire and emergency services per capita than any of the other 13 cities involved in the project (158 calls per 1,000 people). Asheville would need to add around 54,000 more people to its population, close to the number of people who commute into the city for employment and services, to bring its call volume more in line with the state average.

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 an area of about 11,000 square miles (roughly the size of the state of Massachusetts). Strengthening this type of urban-rural network involves partnerships to support regional economic relationships. Successful regions must seek to combine the advantages of the range of services available in the city with the benefits of rural life, including exploring sustainable models for investing in infrastructure, services, economic development and land preservation. Given a city's impact on its surrounding region, it is critical for regions to seek financial sustainability, thereby supporting a reliable economy and quality of life.

A lack of ability to access revenue sources that provide support for urban services from the larger population that utilizes them increases the strain on local government property taxes. If local governments increase property taxes, eventually, the cost of the taxes exceed taxpayers' ability to pay, and citizens begin moving outside of municipal and county boundaries seeking alternative housing options, contributing to a cycle of further increased costs, lower city and county services and shrinking urban populations. Demographic contraction in urban areas has been linked to economic and physical contraction in a surrounding region, which can cause economic decline, industrial regression and high unemployment rates. At the same time, accessing resources from already scarce regional sources is also problematic. It is well documented that counties and states are also experiencing serious fiscal constraints and are challenged to meet the needs and service demands of the region's population. A successful city depends on a successful region, and vice versa. Addressing the long-term viability of our region requires taking a broader approach to economic development, government services and partnerships.

Addressing the long-term viability of our region requires taking a broader approach to economic development, government services and partnerships.

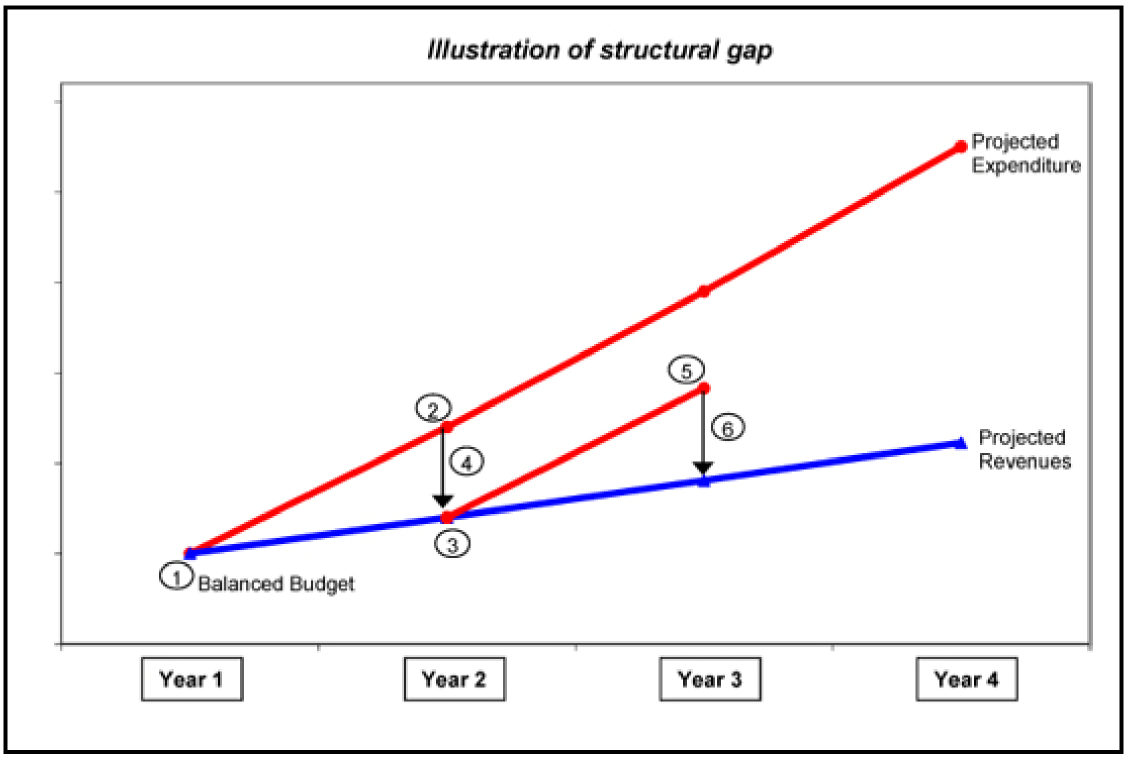
The Nature of the Problem: A Structural Imbalance

The City of Asheville's financial challenges are caused by a structural imbalance between revenues and expenditures. The word "structural" is used to indicate that the problem is rooted in the structure of the City's general fund revenues and the nature and growth of its expenditures. It is not a short-term problem caused solely by the downturn in the economy, although the size of recent budget cuts has been exacerbated by the recession and other factors.

General fund revenues are growing at a slower rate than expenditures. In years without a recession, general fund revenues grew at about 3% annually, while expenditures grew 4-5%. In years with a recession, the structural gap was magnified by a decrease in revenue growth.

During the last few budget cycles, revenues have grown at a rate of about 1%, while expenditures have grown at a rate of 6%. Expenditures including cost of living adjustments for employees, health care costs, utilities and fuel are all growing at a rate faster than revenues. As a service-oriented organization (i.e., public safety, solid waste services, etc.), personnel costs account for about 60% of Asheville's budget. As a result, increases in personnel-related costs have a weighted effect on the overall rate of increase in expenditures.

The result of this structural gap is that the city is required to either cut expenditures or raise revenues (i.e., taxes) **each and every year** to provide the same level of services as in the previous year. Simply cutting the level of expenditures or finding new revenues does not solve the long-term structural problem, unless these actions increase the long-term growth of revenues and reduce growth in expenditures. The graph below illustrates the problem.



(This graph shows projected expenditures growing at 4-5% and projected revenues growing at 1-2%.)

(1) Budget is at balance in Year 1 with expenditures equal to revenues.

(2) With expenditures growing at 4-5%, the cost of offering the same programs in Year 2 grows to here.

(3) Meanwhile, revenues grow at only 1-2%, to here in Year 2.

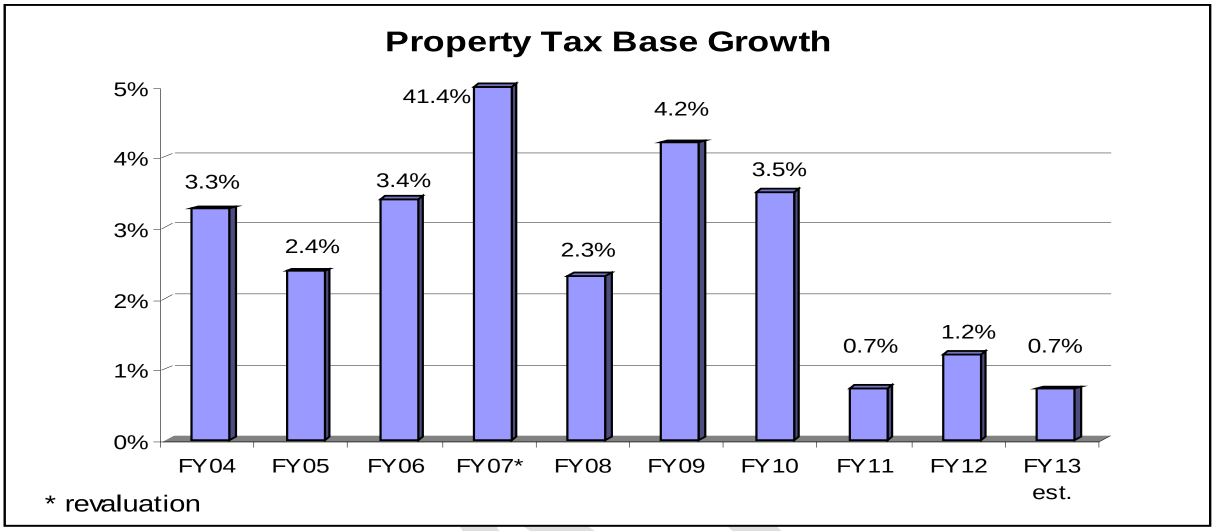
(4) The difference between expenditure and revenue growth leads to a gap, requiring a cut in expenditures to balance the budget.

(5) If the budget cut affects only the level, but not the growth of expenditures, remaining expenditures will continue to grow at 4-5%. The level of expenditures needed to provide the same level of services as in the previous year grows to here.

(6) This structural difference in revenue and expenditure growth creates the need for another budget cut in the following year (Year 4). The problem continues until structural changes can be made that equalize the growth rates of expenditures with revenues.

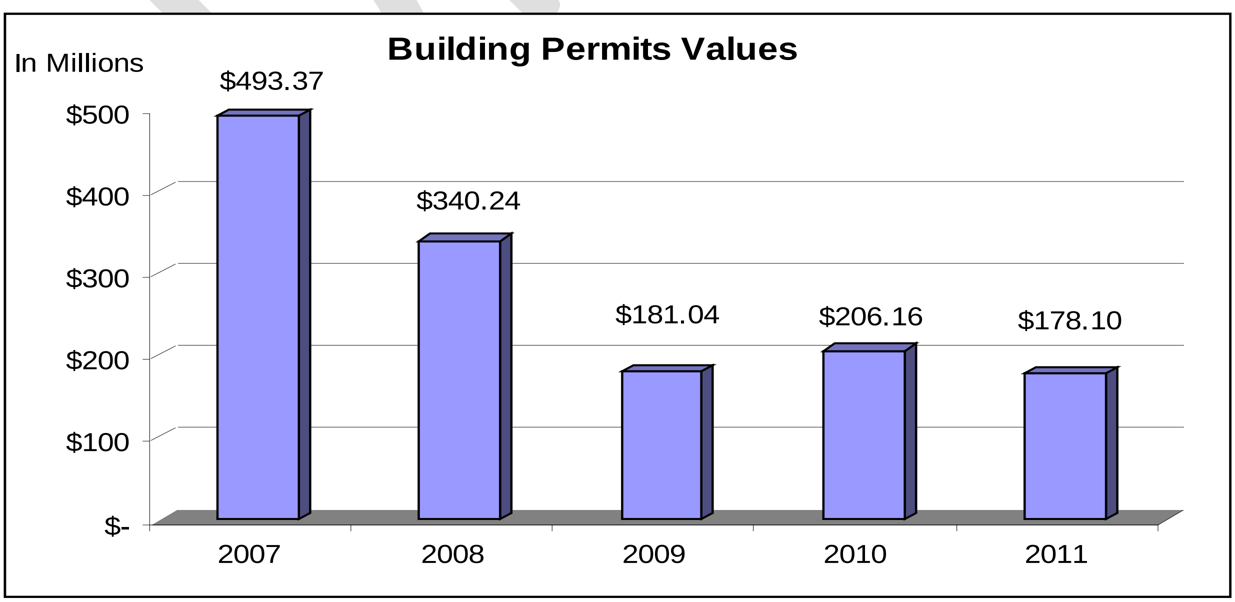
Property Tax Revenues

In North Carolina, property tax is typically the largest source of municipal revenue and one of the few sources which local governments have the power to set the rates. In Asheville, property tax rates have not been increased since Fiscal Year 2000-2001. Asheville budgeted $47.4 million in property tax revenue for fiscal year 2013, which represents just over half of General Fund revenues. Between FY 2000 and FY 2010, property values in Asheville grew annually an average rate of 3.1%. This steady growth in property values helped balance some of the structural financial challenges Asheville faced during that decade. However, growth in real estate property values in Asheville has slowed substantially since the economic recession. Over the last three fiscal years, property values have grown at an annual average rate of less than 1%. In the current year, property tax revenues grew by only 0.7%.



Building Permit Values

The chart below, which shows the value of building permits issued in the City of Asheville between 2007 and 2011, reflects the continuing impact the recession is having on the construction industry. Permit values during the years 2009-2011 dropped dramatically from where they were in the years prior to the recession. With the typical lag time between the



issuance of a building permit and the addition of that property value to the city's tax base being two years or longer, the current data indicate that Asheville will not see a rebound in its property tax base growth to pre-recessionary levels anytime in the near future.

Population Growth and Annexation

In the *Financial Crossroads* paper, *Cities without Suburbs* by David Rusk was cited to analyze cities' fiscal health in the context of demographics, growth patterns and economic bases. Rusk employed a measure of the degree to which a city either "captured" population growth or "contributed" through population loss in a regional area and compared that data to indicators of the cities' fiscal health. Rusk called cities that captured a greater proportion of the population "elastic" while cities that lost a greater proportion of the population were called inelastic." Further detail about the impacts of elasticity is covered in the original paper.

In the past, North Carolina cities grew by one of two methods – through natural growth (in-migration, births) and through annexation. From 1950-2010, Asheville captured 26.68% of the population growth in Buncombe County (see Table 1). This means that for every four people who moved into Buncombe County, one moved into Asheville.

	1950	2010		1950	2010	City's capture rate
Asheville	53,000	83,393	Buncombe	124,403	238,318	26.68%
Charlotte	134,042	731,424	Mecklenburg	197,052	919,628	82.67%
Concord	16,480	79,066	Cabarrus	63,783	178,011	54.79%
Durham	71,311	228,330	Durham	101,639	267,587	94.62%
Fayetteville	34,715	200,564	Cumberland	96,006	319,431	74.23%
Gastonia	23,069	71,741	Gaston	110,836	206,086	51.10%
Greensboro	74,389	269,666	Guilford	191,057	488,406	65.67%
Greenville	16,724	84,554	Pitt	63,789	168,148	65.00%
Raleigh	65,679	403,892	Wake	135,450	900,993	44.18%
Wilmington	45,043	106,476	New Hanover	63,272	202,667	44.07%
Winston-Salem	87,811	229,617	Forsyth	146,135	350,670	69.33%

Table 1.

In the ten year period between 2000 and 2010, Asheville's population grew by 21%. Among the 15 largest cities in North Carolina, Asheville's growth rate ranked 11th and was below the group average of 33%. Asheville has a substantially lower proportion of the population than the residual portions of Buncombe County. As noted in Table 2, Asheville's share of Buncombe County's population is 35.0%. When compared to the other benchmark cities in North Carolina, Asheville's percentage of the total county population is the second lowest in the group.

Taken together, this data shows that Asheville has had much less opportunity when compared to other similarly sized cities to spread the cost of supporting a regional economy across the region's growing population. As a result, Asheville maintains the highest general fund revenues and expenditures per capita in the state. Why? Compared to other larger cities in the state (50,000+), Asheville has had a very modest annexation history in the past 50 years. This tradition of careful annexation is related to its confining topography, and limited ability to use the provision of utility services – public water or sewer– as a condition of annexation while property is being developed and before it is occupied. Instead, Asheville has relied on contentious involuntary annexations.

According to data from the N.C. Office of State Budget and Management, between 2000 and 2010, approximately 45% of the population growth that the City of Asheville achieved was the result of natural growth. With the elimination of annexation in North Carolina, Asheville will have to rely solely on natural growth to increase its population. Projecting forward to 2020, if natural growth rates for Buncombe County and Asheville remain the same as they were over the last decade, then Asheville's share of Buncombe County's population will fall from the current 35% to 33% (Asheville – 91,294; Buncombe County – 275,292).

Population rank	City	2010 pop	% of county	County	2010 pop
1	Charlotte	731,424	79.5%	Mecklenburg	919,628
4	Winston-Salem	229,617	65.5%	Forsyth	350,670
6	Fayetteville	200,564	62.8%	Cumberland	319,431
3	Greensboro	269,666	55.2%	Guilford	488,406
8	Wilmington	106,476	52.5%	New Hanover	202,667
10	Greenville	84,554	50.3%	Pitt	168,148
12	Concord	79,066	44.4%	Cabarrus	178,011
14	Jacksonville	70,145	39.5%	Onslow	177,772
11	**Asheville**	**83,393**	**35.0%**	**Buncombe**	**238,318**
13	Gastonia	71,741	34.8%	Gaston	206,086

Table 2.

Sales Tax Revenue

No city revenue was more impacted by the recession than sales taxes. As shown in Table 3, between FY 2006-07, when sales tax revenue peaked, and FY 2009-10, the City saw its sales tax revenue decline by $3.1 million or 18%. Sales tax revenue finally began to grow again in FY 2010-11; however, sales tax revenue is still not expected to return to pre-recessionary levels even in FY 2012-13.

In addition to the impacts of the recession on sales tax revenue, property tax rates have also played a part in Asheville's declining share of sales tax revenue. In North Carolina, sales tax revenue is divided among local governments based on one of two methods: the per capita method or the ad valorem method. Buncombe County uses the ad valorem method, which means that sales tax revenue is divided between the county, the local municipalities, the city school district, and the rural fire districts based on each entity's share of the total countywide ad valorem tax levy. Over the last twenty years, the City of Asheville has seen a significant decline in its share of the county-wide ad valorem tax levy, and thus a corresponding decline in its share of the sales tax revenue.

Table 4 illustrates this decrease in the city's share of county-wide sales tax revenue. This decline is primarily due to two factors: 1) growth patterns which have led to a greater share of development occurring outside the city limits; and 2) property tax rate decisions during revaluation years in which the city lowered its rate more than other taxing entities in Buncombe County. With revaluation taking effect in FY 2014, sales tax distributions may change significantly again based on the tax rate decisions made this spring by the various units of local government in Buncombe County.

To quantify the financial impact of the city's twenty-year decline, if the city had been able to maintain its share of the ad valorem levy at the 1992 level, it would have received approximately $1.7 million more in sales tax revenue in FY 2010-11. It should also be noted that among the 15 largest cities in North Carolina, Asheville's

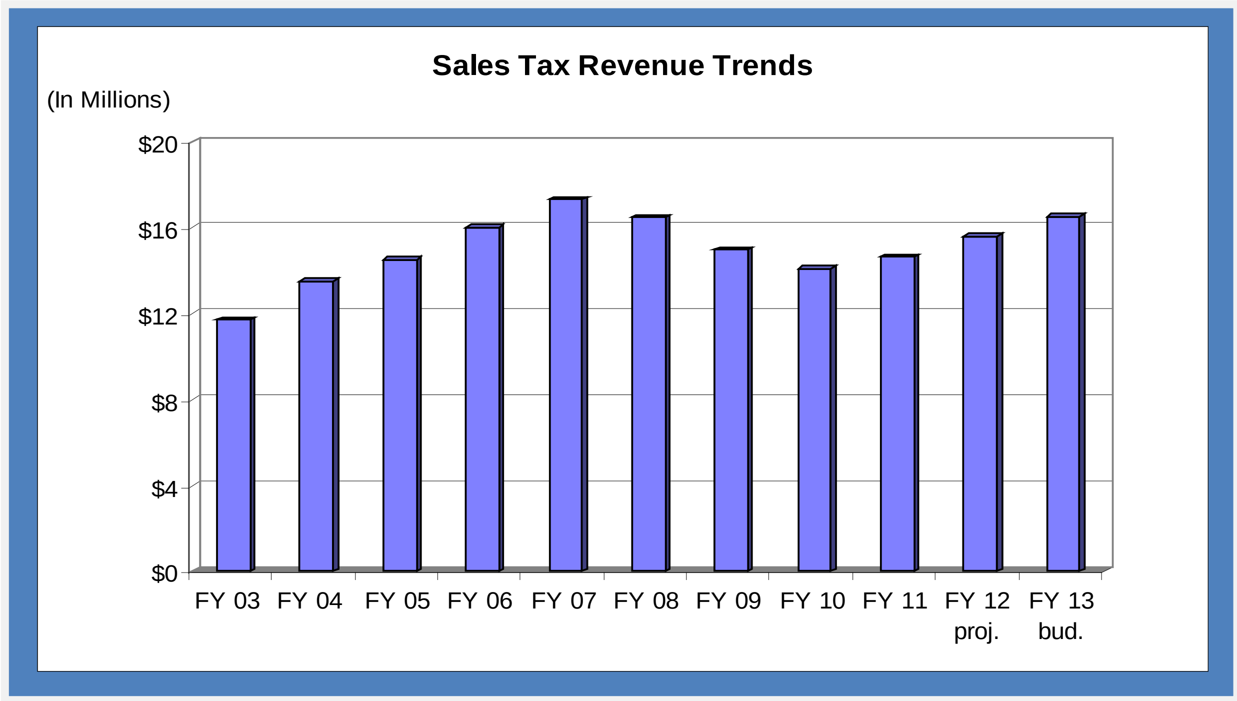


Table 3.

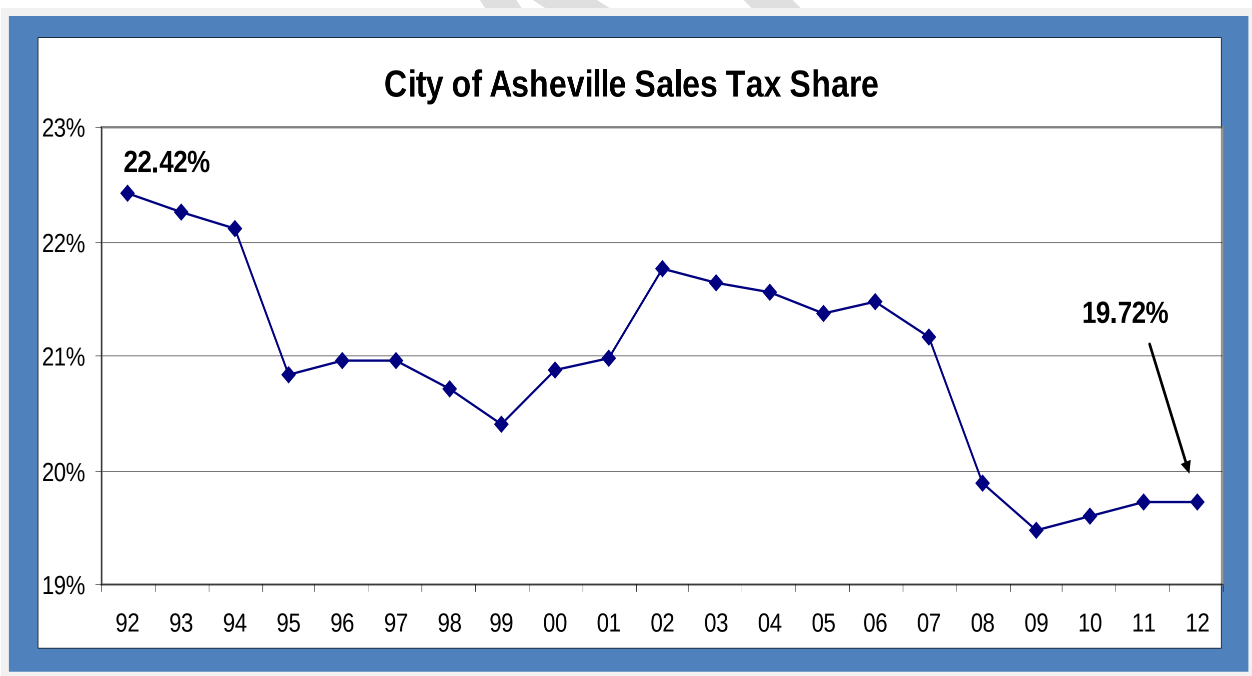


Table 4.

current sales tax share of 19.72% ranks 13th. Only Gastonia and Cary receive a smaller share of their countywide sales tax revenue.

Occupancy Tax Revenues

Occupancy taxes are collected from individuals who pay for a room or a space in a hotel. In 2011-12, Buncombe County collected approximately

$7.4 million in occupancy tax revenues. Local legislation requires these revenues to be transferred to the Tourism Development Authority and used for the purpose of promoting tourism in the county. Asheville does not have access to these funds to support city facilities or infrastructure. Buncombe County's county-wide room occupancy rate of 4% is the second lowest of 15 metro areas surveyed. In several communities, the General Assembly has authorized both a county and a city within that county to levy an occupancy tax. Cities in the survey group that currently have authorization to levy their own occupancy tax include Greensboro, High Point, Wilmington, Chapel Hill, and Gastonia. All five of these cities levy an occupancy tax of 3.0%, which produces revenue ranging from $872,000 in Chapel Hill up to $2.8 million in Greensboro. This tax is used by many communities, particularly those with active tourism industries, to support the cost of municipal services and infrastructure that benefit visitors.

Utility Revenues

While many cities operate water and sewer utilities, and sometimes electric utilities, Asheville operates a regional water utility. In September 2011, the North Carolina General Assembly's Legislative Research Commission received authorization to appoint subcommittees to study various matters. Among these committees was the Metropolitan Sewerage/Water System Committee, which was tasked to study "whether requiring large cities that have a municipal water system and that are located entirely within a Metropolitan Sewerage District to convey that water system to the district will improve the efficiency of providing public services." At their April 19, 2012 meeting, the Committee adopted a final report and recommendations. Among its conclusions, the Committee recommended merging City of Asheville's water utility with the Metropolitan Sewerage District of Buncombe County.

Analysis by the city shows that transferring the water utility would cost city taxpayers approximately $3 million per year due to the elimination of the utility's payment for shared central services (Finance, Human Resources, Purchasing, etc.) and contributed capital for infrastructure associated with waterline improvements. The Asheville City Council has adopted a Resolution stating that the taking of municipal assets sets a dangerous state-wide precedent that threatens the political and operational stability required for effective economic development, job creation and strong bond ratings.

Other Revenues

Like other cities, Asheville recovers revenue from other sources like fees for services, licenses and permits, the motor vehicle tax, investment earnings and intergovernmental revenue. Asheville has adjusted many of its fees for services over time to make those areas more fully funded by the users of those services. In recent years, the city has explored opportunities for converting additional services, like garbage collection, that rely on the general fund for financial support to independent enterprise funds completely supported by user fees. However, there has been reluctance to implement such plans because while they provide financial relief to the general fund, they do not provide financial relief to the municipal taxpayer.

The North Carolina General Assembly has indicated that revenue reform may be a top priority during the current legislative session. While the impact of this effort on municipalities is unclear, there have been discussions about eliminating cities' ability to require business license fees. If this fee is eliminated from the city's revenue mix, Asheville would lose about $1.4 million in revenue.

Service Impacts

City leaders have been understandably reluctant to increase property taxes to address Asheville's financial constraints. Raising taxes alone without a broader strategy to increase the overall rate of revenue growth only solves the problem for a single year and does not address the continued structural issue. In addition, Asheville's ability to rely on the municipal property owner to support the needs and expectations of a much larger population presents challenges. It is an approach that could influence whether businesses and citizens choose to locate inside or outside the city limits based on cost. As the proportion of low to moderate income residents is higher in Asheville than in the surrounding county and other major cities in the state, the city has sought approaches to make living in Asheville more affordable. Leaders have focused attention on maintaining Asheville's population base and attracting families, citizens and businesses by making Asheville's quality of life attainable for people of all incomes.

As a result of this reluctance to increase property taxes, city leaders have balanced city finances instead through cuts to expenditures. Consequently, municipal budgets (based on inflation-adjusted calculations) have actually declined, and shrinking resources inevitably means fewer services. Although expenses grow naturally

Data for the specific focus areas shows that over the ten year period:

- Inflation-adjusted per-capita General Fund salary and benefit expenditures decreased by 4.5%
- Inflation-adjusted per-capita public safety expenditures decreased by 0.6% and,
- Inflation-adjusted per-capita parks, recreation and cultural arts expenditures decreased by 6.8%.

CONSTANT (INFLATION ADJUSTED) DOLLARS			
	GF Actuals	GF Actual Salaries & Benefits	GF Public Safety Actuals
FY 2001-02	$61,926,493.00	$38,976,692	$26,829,894
Population*	68,889	68,889	68,889
Per Capita	$ 898.93	$ 565.79	$ 389.47
FY 2011-12	$67,221,231	$45,049,225	$32,270,069
Population**	83,393	83,393	83,393
Per Capita	$ 806.08	$ 540.20	$ 386.96
% Change	8.55%	15.58%	20.28%
% Change	21.05%	21.05%	21.05%
% Change	-10.33%	-4.52%	-0.64%
June 2002 CPI	179.9		
June 2012 CPI	229.478		
Difference	49.578		
% Change	28%		

*2000 Census
** 2010 Census

every year, and some expenses like costs for salaries, health care, fuel and utilities are growing at rates that exceed revenue growth and inflation, the city's budget has been balanced by trimming those expenditures, namely by freezing salaries, increasing employees' contribution to health care costs, reductions in operating lines items and deferring capital investments (like public facilities, maintenance, and vehicles) and infrastructure (streets, sidewalks, etc.). During the last ten years, data shows that the city of Asheville's overall General Fund spending has remained below inflation when taking into consideration population growth. Expenditures associated with salaries, benefits and parks and recreation services have grown at a rate that is below inflation. Inflation adjusted per-capita spending on public safety services has also decreased over the last ten years.

> During the last 10 years, the city's overall General Fund spending has remained below inflation when taking into consideration population growth.

Between 2000 and 2011, inflation-adjusted General Fund spending increased from $61.9 million to $67.2 million (in 2000 dollars), representing an 8.55% increase. During the same time period, the city of Asheville's population grew by 21%. As a result, inflation-adjusted per-capita General Fund operating expenditures actually went down from $899 to $806. This represents a 10% decrease in inflation-adjusted per-capita General Fund expenditures over the last ten years.

The data shows that Asheville's rate of spending on services per capita has slowed during the last ten years, pointing to a combination of efficiencies and reductions in service over the same period of time. Unprecedented economic conditions certainly necessitated some short-term approaches to balancing the city's budget; however, at the same time, they exposed structural weaknesses in the city's financial foundation that were previously compensated for by steady growth in property values. Now that the country has experienced a significant correction in real estate values and a slowdown in new construction, and the revenue picture shows no signs of improvement in FY 2013-2014, Asheville must explore alternative approaches to balancing its revenues with its expenses, the needs of its employees, and the expectations of its citizens.

An Engaged Community

In addition to considering Asheville's financial picture, it's also helpful to understand the vision and culture of the city's population. According to the 2008 citizen survey, Asheville citizens are active participants in the social and civic lives of their neighborhoods and communities. Sixty-eight percent of citizens ranked their ability to participate in community matters as excellent or good, a rating that is above average for cities of similar size. Many volunteer their time and support charitable causes. Moreover, there is little indication of dwindling engagement found in other communities.

The City of Asheville's comprehensive plan, the City 2025 Plan, was adopted in 2002 after an extensive public input process. The 2025 Plan proposes a land use pattern, transportation network and system of city services and infrastructure that reflects the community's goals for growth as they were identified and documented throughout 2001-2002. The 2025 plan was designed to be implemented by more specific plans and action items considered by City Council, city staff, or other boards and agencies over time. Since then, Asheville has pursued several strategic planning processes focusing on specific areas of importance to the community. By definition, strategic planning is intended to be action oriented so as to show what steps must be taken to achieve goals, who must take them, how much it will cost and how those costs will be addressed; the outgrowth of a master planning process from the comprehensive planning process is logical if not expected.

The city of Asheville's current portfolio of active strategic master plans includes 16 different plans focusing on areas including development and land use, river redevelopment, affordable housing, transportation, parks, sustainability, and homelessness, among others. A full listing of master plans can be found in the attached appendix. There has been an increasing citizen expectation that community improvements outlined in these strategic master plans should be moving forward at a more rapid pace. However, as outlined in this paper, the city's ability to fund existing services and maintain existing infrastructure to acceptable levels is severely limited. Therefore, it is nearly impossible, at this point, to pursue strategic investments in new priorities without a dedicated funding strategy.

At this point in Asheville's strategic planning cycle, it makes sense for the city's leadership to initiate a community conversation about how the vision and priorities contained in its planning portfolio should be funded and carried forward during the next ten years. This may require an update of Asheville's comprehensive plan, which could also serve as a means to combine existing master plans to identify areas of overlap and assist with prioritization.

What Does that Require?

Citizens and local government leaders must prioritize services and be willing to eliminate programs and services that provide relatively low returns.

While our fiscal challenges were exacerbated by the recent recession, austerity is almost certainly long term. Authors David Osborne and Peter Hutchinson accurately portrayed the nature of the problem in their 2004 work entitled *The Price of Government: Getting the Results We Need in an Age of Permanent Fiscal Crisis*. The advice contained in this book concerning prioritizing, determining the price citizens are willing to pay for services, and strategically culling anachronistic programs continues to be highly relevant today. It is also illustrative of the fact that an environment characterized by scarce resources is the "new normal." Local governments must seek to invest in services and programs that meet more than one community priority and promise a return on investment for the taxpayer in the form of economic stability and prosperity. Asheville can no longer afford to invest in programs or services that only serve small portions of the population; while these efforts may be positive and valuable, there are no longer resources to subsidize them. Instead, the city must pursue a model of priority-based budgeting, where resources are allocated to our most valuable programs and services.

The City of Asheville must continue to foster a culture of innovation, continually seeking ways to provide services at a lower costs and higher levels of productivity.

Like the penguins, the city will have to constantly search for a better iceberg. Asheville must continue to pursue rightsizing and reengineering of service delivery to make the most cost effective use of the limited resources available. Insourcing, outsourcing, performance management, reorganization, and partnerships are all opportunities to reap the benefits of innovation. To continue to encourage these efforts, the city must optimize its workforce and then invest in it without compromise. Employees need to be rewarded and recognized for their efforts and high level performance. A recent example of this type of innovation is leasing out the municipal golf course to a management entity, which had a $200,000 net positive impact to the General Fund.

Example>> Municipal Golf Course

Asheville and its partners must increase investment in infrastructure and quality services that leverage private capital, tax base growth, job creation and economic prosperity throughout the region.

Asheville and its partners must aggressively invest in activities that promise a higher return on investment for taxpayers. City staff is recommending a comprehensive Economic Development and Community Investment strategy that relies on putting more money into job creation and infrastructure in targeted areas where tax base growth is most promising. By using a revolving fund concept, tax base growth in these target areas can then fund additional improvements that encourage private investment and economic growth. At the same time, increasing the rate of growth in the tax base can help address the structural gap between revenues and expenses. This strategy, if applied on a county-wide or regional basis, could be economically transformational. Staff is recommending consideration of two investment districts in the upcoming fiscal year: the River Arts District and the South Slope of downtown.

Asheville should re-evaluate how it is investing resources from other sources as well as land use incentives to maximize opportunities for direct return on investment.

While Federal funds for programs like Community Development Block Grants (CDBG) are shrinking, how Asheville chooses to invest them will become more critical. The city should identify ways to use these and other resources to support affordable housing goals while enhancing our property tax base. The same is true when considering investments with limited capital improvement dollars or land use incentives. The city should ensure that every dollar that goes into an incentive grant, a sidewalk project, a greenway investment, a park facility or any other project meets multiple strategic goals and maximizes the opportunity to provide a direct financial return to the taxpayer. We can no longer afford to invest resources with a singular strategic focus. Developing this type of strategy will require the city and the community to revisit its strategic planning priorities. A recent example of success in this area is the City's investment in the Eagle Market Place project, where CDBG, City and County general funds and other sources of revenue are supporting a transformational project downtown that has the potential to encourage tax base growth in the surrounding area while adding workforce housing in our urban core.

Example>> Investment in Eagle Market Place project

Local governments and other organizations throughout the region would benefit from working together to target and share resources in a way that maximizes economic return in Western North Carolina.

Aligning the vision and resources of other local governments and partner agencies around strategies to enhance economic prosperity is more crucial than ever. Collaborating on job creation, transportation infrastructure and other capital improvements and services could present greater economies of scale. Asheville should seek to understand the specific challenges other units of government are facing and then look for opportunities to partner with them as well as volunteers, philanthropies and the private sector to achieve shared goals.

The power of political alignment, citizen education and civic engagement cannot be understated when it comes to the magnitude of the challenges and opportunities that lie ahead.

Western North Carolina is known throughout the state for the political diversity that exists within and outside Asheville. Government leaders and citizens must find opportunities for agreement on common goals and solutions in the context of our limited resources; otherwise, we will continue to waste precious resources fighting among each other instead of pursuing opportunities to positively shape our future. By highlighting alignment in our regional values behind economic prosperity, protection of natural resources and community engagement, we will uncover opportunities for partnership in policy and implementation that have the power to make our region one of the most sustainable areas in the state and in the country. This type of alignment and partnership led to New Belgium Brewing announcing its expansion in Asheville's River Arts District.

The effectiveness of recovery from the financial crisis at the local level will depend on the actions and measures that local leaders succeed in implementing. In the final analysis, this crisis will require us to re-evaluate the paradigms that have been governing the public sector for several decades. Whatever the strategy encompasses, it cannot be realized in a short period of time. It will require significant investment of time and effort, and will necessarily involve all of the major stakeholders in region's future.