

Wednesday – April 18, 2013- 2:00 p.m.
Charles T. Koontz Intermediate School
305 Overlook Road

Community Budget Meeting

Present: Mayor Terry M. Bellamy, Presiding; Councilman Cecil Bothwell; Councilman Jan B. Davis; Councilman Marc W. Hunt; Councilman Christopher A. Pelly; Councilman Gordon D. Smith (arrived at 6:20 p.m.); City Manager Gary W. Jackson; City Attorney Robert W. Oast Jr.; and City Clerk Magdalen Burleson

Absent: Vice-Mayor Esther E. Manheimer

Community Budget Meeting

Mayor Bellamy said that this meeting is the second opportunity for City staff to present to Council and the public budget challenges for the upcoming year and to outline fiscal realities the City may face in light of pending legislation action by the North Carolina General Assembly. The first community budget meeting was held on April 3, 2013.

Executive Director of Finance & Strategic Planning Lauren Bradley provided Council with financial context and estimated impact of introduced legislation on the multi-year budget plan. She also provided suggested alternatives to offset the revenue losses - service impacts, trade-offs and tough decisions.

Using a PowerPoint, she explained that Asheville has been diligently responding to a financial crossroads (1) 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; (2) 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; (3) 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; (4) 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; and (5) 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 Fiscal Year 2014 (1) 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; and (2) 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: (1) 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; (2) 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. She previewed a table which showed a two-year comparison of job growth across the state, where the Asheville metro area follows only Charlotte and Raleigh; and (3) 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.

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. She reviewed a chart that presented 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.

Regarding budget balancing strategies (1) 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); (2) The table below 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; (3) One penny on the tax rate generates about \$1.1 million in revenue; and (4) Legislation has been introduced to enable the consolidation of City and County Parks and Recreation services and facilities. Asheville will continue 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 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.

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.

Asheville is seeking your input on budget priorities by working in small groups on a budget balancing exercise. The group's recommendations will be made by making funding decisions for services as well as proposing revenue increases. As the groups make their decisions regarding the level at which to fund services, they need to ensure that their recommendations are in line with your vision for the City.

Those who did not wish to participate in the budget prioritization were asked to complete a budget prioritization comment form and leave it with staff. Alternatively, they can e-mail comments regarding the budget priorities by visiting www.ashevillenc.gov/budget.

At this time, staff led a facilitated exercise with small groups of citizens demonstrating the decisions and trade-offs involved in balancing the City of Asheville budget given the structural gap and range of options. The groups concluded their exercise and reported their top three budget balancing strategies from the expenditure reductions provided by staff and also other budget reduction ideas. This information will be used to inform City Council's decision-making process. Staff will summarize all input and recommendations in a report that will be accessible at www.ashevillenc.gov.

Mayor Bellamy thanked the public for attending and for their participation in the budget prioritization. Because this is an on-going dialogue, as City Council continues in this process, they will strive to keep the public informed, noting on the City's website there is information on the budget process - www.ashevillenc.gov - City Budget.

At 7:30 p.m., Mayor Bellamy adjourned the meeting.

City Clerk

Mayor