

Wednesday – April 3, 2013- 2:00 p.m.
First Floor North Conference Room

Budget Worksession & Town Hall Meeting

Present: Vice-Mayor Esther E. Manheimer, Presiding; Councilman Jan B. Davis; Councilman Marc W. Hunt; Councilman Christopher A. Pelly; Associate City Attorney Martha McGlohon; and Deputy City Clerk Jaime Matthews

Vice-Mayor Manheimer called the meeting to order. Councilman Hunt moved to adjourn the meeting for 15 minutes to reconvene at the Banquet Hall in the U.S. Cellular Center. This motion was seconded by Councilman Davis and carried unanimously.

Present: Mayor Terry M. Bellamy, Presiding; Vice-Mayor Esther E. Manheimer; Councilman Cecil Bothwell; Councilman Jan B. Davis; Councilman Marc W. Hunt; Councilman Christopher A. Pelly; Councilman Gordon D. Smith; City Manager Gary W. Jackson; Associate City Attorney Martha McGlohon; and City Clerk Magdalen Burleson

Absent: None

At 2:15 p.m., Mayor Bellamy reconvened the meeting.

Budget Worksession

Ms. Ruth Summers, representing the Business Improvement District, briefly explained their progress to date and asked for Council's discretion on the implementation of the timetable.

Mayor Bellamy said that this item is on the April 9 agenda and perhaps their by-laws could be considered and approved so their progress continues to move forward.

Town Hall Meeting

Mayor Bellamy said that this meeting is an 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 City of Asheville currently faces a \$2 Million gap in revenues vs. expenditures. Potential budget balancing strategies to close the gap were introduced at the March 12 Council budget worksession. Financial analysis indicates that legislation currently in the North Carolina General Assembly could widen that gap to \$5.7 Million. The purpose of this meeting is to begin contingency planning in earnest for a \$5.7 Million gap.

Executive Director of Finance & Strategic Planning Lauren Bradley provided Council with financial context and estimated impact of adverse legislation on the multi-year budget plan.

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, 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; 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 fiscally responsible, long-range approach to financial management in FY 2014 (1) At the beginning of the budget process, Asheville identified the need to close a \$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.

Proposed legislation will require service reductions or increased taxes. In the last several weeks and days, State legislation has been introduced that could have an impact on Asheville's financial forecast. She used a chart to show the preliminary 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. The full impact of some bills, including potential financial offsets for cities, is not known. Asheville's projections will change as the legislative process moves forward.

Significant service reductions would be required to address the revised financial forecast on the expenditure side (1) The estimated impact of current legislation takes the difference between Asheville's revenues and expenditures from \$2.2 million to \$5.8 million in FY 14 (-\$2.2 million + -\$3.6 million operating impact from legislation). This is a preliminary estimate that assumes all proposed bills take effect. The original budget forecast assumed expenditure increases for market-based compensation, increases to the state retirement system, election costs, etc.; (2) The table below illustrates the level 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; (4) Legislation has been introduced to enable the consolidation of City and County Parks and Recreation services and facilities. While this proposal could have positive financial impacts for Asheville, the timeline and feasibility of this proposal is uncertain. Asheville will continue to pursue this proposal.

She then provided Council with suggested alternatives to offset the revenue losses.

Starting Point	(\$5,986,000)
<u>Expenditure Reductions</u>	
Retirement incentive/freeze or eliminate 15 positions	\$600,000
Line Item Reductions (reductions to various operating expenses)	\$550,000
Close one fire station	\$530,000
Eliminate Saturday Transit Service	\$500,000
Close the WNC Nature Center	\$450,000
Discontinue Bele Chere this summer	\$450,000
Freeze targeted police vacancies	\$300,000
Eliminate youth and adult athletics	\$250,000
Eliminate nuisance court/cleanliness crew	\$250,000
Reduce Housing Trust Fund allocation	\$200,000
Reduce street and sidewalk maintenance/construction	\$200,000

Close all city pools	\$117,000
Re-engineer staffing at Aston Park & Skate Park	\$108,000
Reduce Police over-time	\$100,000

Revenue Enhancements

Fee Adjustments	\$940,000
Property Tax Increase	-

Total Budget Balancing Strategies \$5,545,000

Asheville serves as an important regional hub for economic development, jobs and recovery from the recession (1) Given cities' role as the center of economic growth and prosperity for counties and regions, taking away all regional sources of revenue harms the ability to support the regional job base and business expansion; (2) 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). Legislation that impacts Asheville impacts almost a quarter of counties in the State; (3) 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 reviewed 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 (4) 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.

The changes in the forecast will likely require deferring economic development incentives and enhanced capital investment (1) 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; (2) Under this scenario, staff would also recommend deferring implementation of a tax rate for a Business Improvement District due to 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.

Next steps include (1) City Council consider adopting a resolution or official message that urges the State to hold all municipalities harmless from any changes to tax structures and the transfer of the water system to provide enough revenue to meet municipal service needs during all phases of the economic cycle; (2) Continue to communicate with legislators about tax reform and the water system transfer and their implications for Asheville. Explain what is at stake for our community; (3) Continue to work with Buncombe County to explore the feasibility of a consolidated Parks and Recreation District as proposed in H418; and (4) Schedule the next budget work session for April 23.

Individuals from the audience voiced their concern over the possible budget reductions outlined above by Ms. Bradley.

Mayor Bellamy thanked the public for attending and noted the concerns that the City is addressing today is not manufactured by the City of Asheville or our economy - they are being manufactured by our legislature. City Council members each voiced their concerns of the proposed

legislation that would require service reductions or increased taxes. They urged our citizens and residents outside the City to join Asheville in this struggle by contacting our legislators, other legislators in western North Carolina, Governor McCrory and others, with the understanding that we can come together and have a unified voice for responsible government. Council is concerned about the damage to cities and damage to the North Carolina economy as a whole. 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 5:15 p.m., Mayor Bellamy adjourned the meeting.

City Clerk

Mayor