

May 27, 2014

Honorable Mayor Manheimer and City Council Members:

The City of Asheville is beginning to see steady improvement over the effects of the global economic crisis which has driven many budgetary and operational decisions over the last few years. While the economic outlook is improving, staff continues to work on reengineering and managed cost savings with an eye toward long-term structural sustainability and a continued high level of service. The 2014-2015 proposed budget for operations is primarily a continuation budget; there are few operational changes from the previous year.

The economic, political and social landscape in Western North Carolina and Asheville continues to evolve. Globally, economic recovery has been slow and inconsistent, and continued economic uncertainty has weighed on business optimism and consumer confidence. In North Carolina, the General Assembly continues to pursue a number of legislative issues including tax reform, the transfer of municipal enterprises to regional entities, and other regulatory changes that could impact municipal finances and service delivery. At a local level, Asheville is working to optimize the use of limited resources. City staff's careful fiscal management and ongoing efforts to reengineer in order to provide the highest level of service for the lowest cost is allowing management to entertain strategic goals beyond the maintenance of core services. As the economic hub of Western North Carolina, Asheville's long-term financial sustainability has a significant impact on the economic health of the region as a whole. As such, City staff has been diligent in planning, prioritizing and collaborating to ensure that the budget for fiscal year 2014-2015 is sustainable.

Asheville entered the operating budget process for fiscal year 2014-2015 with three key goals from City Council: fund the implementation of the police strategic plan, address employee compensation, and make improvements to the transit system. While the City of Asheville continues to face challenges and uncertainty in the economic and legislative environment, I am pleased to present a proposed budget that successfully meets the City Council strategic goals as well as providing for continued service at the high level the citizens of Asheville expect.

It is my pleasure to respectfully submit to you the City Manager's Proposed Budget for the fiscal year beginning July 1, 2014 and ending June 30, 2015 with a total operating budget of \$147.5 million. The proposed budget includes a total General Fund Budget of \$99.5 million, a 3.8% increase over FY 2013-2014. The proposed budget is balanced with no change to the current tax rate of 46 cents per \$100 of valuation.

During the economic downturn, the cost to support existing city services outpaced growth in revenues. Asheville 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. While this allowed the City to persevere through a global economic crisis without raising the property tax rate or reducing core services, it did not come without consequences. The City fell behind in capital maintenance and investment and employee compensation is below market.

The operating budget proposes a three-percent across the board increase in pay, and a planned FY 2014-2015 city-wide compensation study will address the issue of employee compensation. The deferral of capital investment and maintenance has created a significant backlog on projects and other capital needs. The City Council recognized the necessity of addressing this backlog during the fiscal year 2013-2014 budget process; adopting a \$.03

increase to the property tax rate to fund capital investment (\$.02) and maintenance (\$.01). Beginning in 2014-2015, the City of Asheville is embarking on a comprehensive capital improvement program. In order for the City to maximize the impact of the additional revenue from the property tax increase, Finance and Public Works have worked with the City's financial advisors and bond counsel to develop a plan that includes debt financing and pay-go funding of projects. Over the next five years, the capital improvement plan includes \$132 Million in projects, with approximately \$43 million in revenue from outside sources offsetting some of the cost. The Plan is a rolling five-year budget for capital projects. Each year, one year of the five-year plan will be adopted as the capital budget.

The plan includes projects that meet one or more of the City Council's strategic goals: economic growth and sustainability, affordable housing and community development, and high quality of life. Additionally, projects were evaluated for potential outside funding sources in the form of grants or contributions, and perceived return on investment using a triple bottom line approach considering social, environmental and financial returns.

Service continuation and capital improvement define the 2014-2015 budget. 2013-2014 has shown steady growth in revenues, with notable growth in local development permitting revenue. As a leading indicator of the economic health of the City of Asheville, increases in permit activity will translate over time into additional ad valorem taxable value. The turnaround for projects from permit to completion is usually 12-24 months, so the City should start to see the impact of the increased activity as early as fiscal year 2015-2016.

A level of uncertainty remains in the intergovernmental arena, and Asheville will need to remain flexible and adaptive as the North Carolina General Assembly's legislative session comes to a close and the FY 2014-2015 budget is adopted. Four key legislative assumptions contemplated in the proposed budget that may impact our financial projections include:

- **Disposition of the City of Asheville's Municipal Water System:** In May, 2013, the North Carolina General Assembly passed legislation requiring the transfer of Asheville's water system to an independent authority, an action that would cost Asheville's General Fund \$1.9 million due to the loss of the water system's contribution to shared central services. The Asheville City Council unanimously voted to legally challenge this legislation. Because the length and outcome of the legal case is still unknown, the FY 2014-2015 proposed budget assumes the City's continued ownership and operation of the water system. The judge heard arguments in the case on Friday, May 23, 2014. It is anticipated that he will announce his ruling within the following two months.
- **House Bill 1050 Privilege License Tax Reform:** Comprehensive tax reform continues to be a major policy focus of the North Carolina General Assembly Short Session in 2014. HB 1050 proposes reforming the local privilege license tax. This bill is highly significant for municipalities. The State estimates that cities will lose more than \$40 million if the tax is repealed. The General Assembly is considering expanding the privilege license tax base, and creating a flat tax of \$100 per business. In either scenario, the City of Asheville will lose considerable revenue, likely between \$500,000 and \$1.5 million. HB 1050 would not go into effect until tax years beginning after January 1, 2015; the change would therefore not impact the 2014-2015 budgeted revenue. The impact of tax reform will, however, continue to be a significant issue for cities to monitor throughout the coming fiscal year and in future budgets.

## Government-wide Highlights

### **City Council budget goals 2014-2015**

#### **Employee compensation and managed savings**

- City of Asheville Staff has worked to manage departmental budgets conservatively during the financial downturn. With slow but steady improvement in revenues, this conservatism has created adequate savings in the 2013-2014 budget to fund the increase in employee compensation proposed for fiscal year 2014-2015. Staff has been tasked with continuing this careful budget management in order to fund adjustments to compensation identified as part of the planned compensation study upon its completion. Asheville will continue to pursue rightsizing and reengineering of service delivery to make the most cost effective use of the limited resources available. The FY 2014-15 proposed budget for personnel costs includes funding for a 3% across the board compensation pool for employees, as well as a compensation study to be performed by an outside consultant.

#### **Police Strategic Plan**

- The Asheville Police Department has developed a strategic plan to improve service delivery, employee retention and resolve structural issues within the department. The 2014-2015 budget includes APD in its plan for a compensation study. The City's aging police fleet and lack of a take-home vehicle program for its patrol officers is an issue that will be addressed through the CIP program; patrol vehicles will be replaced on a five-year asset life schedule and the take-home program will be implemented over the first five years of the replacement schedule.

#### **Asheville Redefines Transit**

- Asheville Redefines Transit (ART) still faces considerable financial pressure. Revenues do not cover expenditures, nor do they seem likely to do so. Return on investment for a transit system is weighted more toward the environmental and social aspects of the triple bottom line; the transit system provides access to jobs and helps to limit the number of vehicles on the road. ART riders have asked for a redesign of Route C to better enable people to use ART to reach shopping destinations in south Asheville. Sunday service for better job access has also been an ongoing request from the ridership. The 2014-2015 operating budget addresses both of these issues with the requested redesign of Route C and the addition of limited Sunday service. These changes will be implemented in January, 2015, and partially grant funded, minimizing their budget impact for the fiscal year.

#### **Graffiti Initiative**

- In April 2014, City Council approved a new graffiti ordinance that included a 90 day concentrated initiative to aggressively remove graffiti from property. During the 90 day graffiti removal initiative, which will run from July 1, 2014 to September 30, 2014, property owners will receive significant assistance from the City when removing graffiti. As outlined during the April meeting, property owners will be required to sign a waiver and agree to pay 10% of the cost of removal. The City will pay up to \$500 per building per incident. \$300,000 has been included in the FY 2014-15 general fund budget to

fund the City's potential costs for this 90 day graffiti removal initiative. The FY 2014-15 proposed budget also includes funding for administrative costs associated with this program. The money for this 90 day initiative is coming from the City's general fund fund balance.

### **Continuing sound financial management by addressing long-term liabilities**

- The City contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing defined benefit pension plan administered by the State of North Carolina. No increase is required in fiscal year 2014-2015.
- In December 2011, the City of Asheville created an irrevocable trust and fully funded the City's net obligation for Other Post Employment Benefits (OPEB), which consists of retiree health care benefits. The City invested its assets with the State of North Carolina State Treasurer's OPEB Investment Fund, which mirrors investments used for statewide pension funds. Concurrent with establishing the trust, the City also adopted a five-year step up plan to fully fund the annual required contribution to meet the ongoing OPEB obligation. The proposed FY 2014-2015 budget includes an annual contribution in the amount of \$600,000. It should be noted that the City suspended offering the retiree health care benefit to new employees hired after June 30, 2012, which will limit future growth of the OPEB obligation. These actions show that Asheville is taking deliberate steps to ensure retiree health care benefits are sustainable and affordable over the long term.

### **General Fund Highlights**

#### **Revenue Highlights:**

- The property tax is the single largest source of revenue for the City's general fund. The proposed FY 2014-15 budget maintains the current tax rate at 46 cents per \$100 of assessed valuation. Based on projections received from the Buncombe County Tax Office, staff is budgeting a 0.9% increase in property tax revenue in FY 2014-15.
- Based on statewide projections from the North Carolina League of Municipalities and local trend data, staff is projecting a 3.4% budget-to-budget increase in sales tax revenue in FY 2014-15.
- Revenue from licenses and permits in the general fund shows a 10.0% increase. Part of this increase is the result of an upward adjustment in the budget for business privilege licenses to reflect actual collections from the prior year. In addition, based on current trends, staff is budgeting a \$300,000 increase in license and permit revenue in the Development Services Department (DSD).
- Intergovernmental revenue in the general fund, which includes state-shared utility taxes as well as Powell Bill funding, is budgeted to increase 2.5% in FY 2014-15.
- The FY 2014-15 proposed general fund budget includes a \$2.0 million fund balance appropriation. The City ended FY 2012-13 with available fund balance of \$15.4 million, which equated to 17.6% of expenditures. Based on current revenue and expenditure projections for FY 2013-14, staff estimates that the City will end the year with sufficient

fund balance to appropriate \$2.0 million for budget purposes and maintain a fund balance that exceeds the City's 15% policy target.

	<b>2011-12 Actual</b>	<b>2012-13 Actual</b>	<b>2013-14 Budget</b>	<b>2014-15 Proposed</b>
<b><u>Revenues:</u></b>				
Property Taxes	46,800,092	46,891,865	51,606,975	<b>52,103,473</b>
Intergovernmental	10,860,618	11,171,151	11,250,660	<b>11,476,750</b>
Sales & Other Taxes	16,258,875	17,067,516	18,084,277	<b>18,704,766</b>
Charges For Service	4,519,107	4,594,340	8,470,569	<b>8,595,455</b>
Licenses & Permits	4,711,318	5,382,921	4,706,690	<b>5,175,010</b>
Investment Earnings	142,546	69,341	150,000	<b>150,000</b>
Miscellaneous	1,729,173	1,755,350	1,180,063	<b>1,342,500</b>
Other Financing Sources	2,882,915	3,604,870	412,530	<b>2,000,000</b>
<b>Total Appropriations</b>	<b>87,904,644</b>	<b>90,537,354</b>	<b>95,861,764</b>	<b>99,547,954</b>

#### **Expenditure Highlights:**

- Public Safety is the largest general fund service area, accounting for 46% of all general fund expenditures. Public Safety expenditures show a \$2.9 million increase in FY 2014-15. A portion of this increase is due to the 3% COLA included in the budget. In addition, the Police Department operating budget reflects a \$325,000 increase in the City's share of the County's Criminal Justice Information System (CJIS) program costs. This increase is primarily due to debt service on a \$3 million new public safety system. The Police Department proposed operating budget also includes \$187,000 in funding to provide all officers with smart phones and \$85,000 to continue purchasing in-car and body cameras.
- Environment & Transportation is the second largest service area in the general fund, representing 15% of the FY 2014-15 general fund budget. This service area shows a decrease of approximately \$600,000, which is primarily the result of a technical change in which the City's annual resurfacing contract is removed from the Public Works Department's annual operating budget and moved to the City's General Capital Projects Fund. Highlights to note in this service area include: 1) a \$543,000 increase in the General Fund support for Transit Services to cover operating cost increases and the introduction of limited Sunday bus service beginning in January 1, 2015; 2) the inclusion of \$300,000 in contracted services funding in the Public Works Department for a full year of sidewalk cleaning in the central business district; and 3) the addition of \$100,000 in funding in the Public Works Department for median maintenance.
- The decrease in General Government reflects the removal of the every-other-year election costs as well as the accounting change in which unemployment costs and the City's annual contribution to the North Carolina State Treasurer's OPEB Fund are moved to the nondepartmental budget to individual departmental budgets.

- The Culture and Recreation service area shows a 5.0% increase. A portion of this increase (approximately \$234,000) is due to the accounting change in which the US Cellular Center is now being charged the full cost of indirect services provided by the general fund. This accounting change is reflected as an increase in the general fund transfer to the US Cellular Center Fund. Other factors impacting the Culture and Recreation service area include: 1) a \$250,000 increase in pay-as-you-go capital funding for parks facility maintenance; 2) a \$100,000 inflationary increase in the City's mowing contract; and 3) the inclusion of 50,000 for the installation of additional security cameras at parks facilities.
- The increase in the Community Development service area is primarily the result of mid-year FY 2013-14 staffing additions in the Development Services Department to meet the higher workload. In addition, the Planning Department budget includes \$100,000 to fund the River District form based code project.

<b><u>Service Areas</u></b>	<b>2011-12 Actual</b>	<b>2012-13 Actual</b>	<b>2013-14 Budget</b>	<b>2014-15 Proposed</b>
Public Safety	39,101,015	40,978,957	42,630,497	<b>45,499,309</b>
Environment & Transportation	13,269,253	12,919,184	15,298,325	<b>14,749,023</b>
General Government	10,394,336	10,339,111	14,124,847	<b>13,629,169</b>
Culture & Recreation	9,629,199	10,420,301	10,262,024	<b>10,774,113</b>
Capital Pay-Go/Debt	7,163,290	6,038,478	8,181,053	<b>8,995,878</b>
Community Development	<u>6,549,178</u>	<u>7,287,481</u>	<u>5,365,018</u>	<b><u>5,900,462</u></b>
<b>Total General Fund</b>	<u>86,106,271</u>	<u>87,983,512</u>	<u>95,861,764</u>	<b><u>99,547,954</u></b>

#### Unassigned Fund Balance Analysis

The City of Asheville Financial Management Policy recommends that the City maintain a fund balance in the General Fund equal to 15% of expenditures. The City ended FY 2012-13 with an unassigned fund balance of \$15.4 million, which equated to 17.6% of FY 2012-13 expenditures. Based on revenue and expenditure projections for FY 2013-14, staff estimates that the City's unassigned fund balance will increase by another \$1.3 million to \$16.7 million. This level unassigned fund balance will provide sufficient resources for the City to appropriate \$2.0 million in fund balance as part of the FY 2014-15 budget and still maintain an unassigned fund balance that exceeds the City's 15% policy target

## Highlights from Other Funds

### **Water Resources Fund**

- As previously discussed, the City of Asheville is legally challenging legislation that would force the transfer of the municipal water system to another entity. The proposed budget assumes the continued ownership and operation of the water system, pending the final disposition of litigation.
- In April, City Council approved minor rate adjustments for the 2014-15 fiscal year based on the Raftelis financial model. These rate adjustments are expected to generate approximately \$460,000 in additional revenue.
- The current year budget included an \$8.3 million appropriation from fund balance for capital improvements. The FY 2014-15 proposed budget includes a smaller (\$175,907) appropriation from fund balance; as a result, the overall Water Resources Fund budget shows an 18% year-over-year decrease. Even with this decrease, the FY 2014-15 budget still includes \$10.1 million in pay-as-you-go funding for water capital improvement projects.
- The FY 2014-15 proposed Water Resources budget includes funding to add one GIS Technician position.
- The internal Non-Revenue Water (NRW) Team will continue its efforts to establish operational practices for managing and controlling water loss due to leakage, water theft, and metering inaccuracies.

### **Stormwater Fund**

- The current rate structure for single family properties is \$2.34 per month. The proposed rate structure for FY 2014-15 moves to a tiered system - Properties from 225–2000 square feet will pay \$2.50 per month; properties from 2001-4000 square feet will pay \$4 per month and properties greater than 4001 square feet will pay \$5.50 per month. For non-single family properties, the current rate of \$2.34/ERU (Equivalent Residential Unit) per month will be increased to \$4/ERU per month.
- Staff will utilize the additional funds from the rate change to perform more watershed assessments, install more drainage structures through contracts with construction companies, and perform additional maintenance services. These enhancements will include re-engineering a construction crew to become a preventative maintenance crew, which will include adding a FTE position to this crew. A Project Manager position will also be added to the budget to assist with the construction activities and professional service work that will be taking place.

### **Transit Fund**

- The proposed budget includes funding to implement limited Sunday service and make changes to route C to address inefficiencies with that route. Both of these changes will be implemented on January 1, 2015. The FY 2014-15 cost of these two service

changes is \$220,000. The City has applied for additional grant funding that may partially fund the cost increase from Sunday service. If the grant funding is received, the amount of general fund support required in FY 2014-15 would go down by \$80,250. If this occurs, staff will bring a budget amendment to City Council during FY 2014-15, along with recommendations for how the general fund savings might be repurposed.

- In addition to the changes noted above, overall operating costs for the transit system are up about \$300,000 in FY 2014-15. In addition, there is a slight decrease in State funding for transit operations.
- With the reduction in grant funding, increases in operating costs, and the other service changes noted above, the FY 2014-15 budget includes a \$543,000 increase in the general fund support for the Transit Services Fund.

### **Parking Services Fund**

- Revenues in the current fiscal year are performing better than budget, and this trend is expected to continue next fiscal year. There are no rate changes included in the FY 2014-15 proposed budget.
- Overall, the proposed budget reflects a continuation of existing programs and services in the Parking Services Fund.

### **US Cellular Center Fund**

- Event bookings and operating revenue have been higher than originally anticipated in the adopted FY 2013-14 budget, and this trend is expected to continue in FY 2014-15.
- The proposed budget includes a \$60,000 appropriation from fund balance for small equipment purchases.

### **Street Cut Utility Fund**

- The FY 2014-15 proposed budget includes \$100,000 for equipment/vehicle replacement. Debt proceeds will fund these purchases.
- Otherwise, the proposed Street Cut Fund budget represents a continuation of existing services.

### **Conclusion**

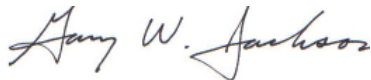
I am pleased to present a proposed budget for Fiscal Year 2014-2015 that continues core services, makes improvements to the transit system and implements, for the first time in the history of the City of Asheville, a comprehensive capital improvement program that is sustainable and will move Asheville to a higher level of financial sophistication and security.



I would like to take this opportunity to thank our department director team for their leadership during the budget process and recognize the tremendous work of the staff in the budget division, Tony McDowell, John Sanchez and Erin Marie Wheeler. Special thanks to the project managers, directors, staff, Barbara Whitehorn and Cathy Ball for their tireless work on the capital improvement program. I would also like to recognize the efforts of all city employees for their dedication to delivering quality services to the Asheville community.

I look forward to working with you and the community to adopt the Fiscal Year 2014-2015 Budget.

Sincerely,

A handwritten signature in dark ink, reading "Gary W. Jackson". The signature is fluid and cursive, with the first name "Gary" and last name "Jackson" being more prominent than the middle initial "W.".

Gary W. Jackson  
City Manager