

BUDGET GUIDE

Local governments exist to provide a wide range of basic services on which we all depend: police and fire protection, streets and sidewalks, water systems, garbage collection, and parks, just to name a few. The ability of a local government to provide this wide range of services rests on its financial decision-making. This document contains the City of Asheville's FY 2011-12 Adopted Budget, which is the financial plan that will guide City operations over the next year.

The City of Asheville budget document is designed to emphasize service areas instead of organizational units or funds. Five major service areas are identified in the budget document: (1) Public Safety; (2) Environment & Transportation; (3) Culture & Recreation; (4) Community Development; and (5) General Government.

The budget document is divided into the following sections:

Introduction - This section begins with the City Manager's Budget Message which highlights and explains the major budgetary issues facing the City of Asheville during the 2011-12 fiscal year. The Introduction also includes a description of the budget process and City organizational structure and a presentation of the City's financial policies.

Budget Summary - The Budget Summary section provides a detailed picture of the City's FY 2011-12 adopted annual operating budget, including information on total budget expenditures, revenues, and staffing. This section concludes with an estimate of fund balance for the City's general fund.

Fund Summary - The Fund Summary section segregates the expenditures and revenues by fund. Detailed information is included for all City

operating funds, with a focus on the City's largest fund - the general fund. This section also highlights the City's major revenue sources and summarizes the trends and assumptions that were used in developing the FY 2011-12 revenue estimates.

Service Area Summaries - The next five sections present budget data for the major service areas. Detailed budget information is included for the City departments and divisions associated with each service category. Departmental goals, objectives and performance measures are presented in this section.

Capital Improvement Program/Debt Management - The long-range Capital Improvement Program (CIP) describes planned capital improvement projects and funding sources for the next six fiscal years. This section also contains information on the City's annual debt service requirements.

Supplemental Information - The budget document concludes with a Supplemental Information section that includes a community profile, which provides demographic and economic information for the Asheville area. This section also contains a glossary of frequently used budget terms.

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CITY MANAGER'S BUDGET MESSAGE

April 26, 2011

Honorable Mayor Bellamy and City Council Members,

As we approached the summer of 2010, there was increasing concern that the budget process for Fiscal Year 2011-12 would be unlike any we had experienced in nearly two decades. With declining revenues and the possibility of a challenging state budget on the horizon, there was apprehension over whether the City could continue to provide the same level of high quality services that support Asheville's quality of life. As early as August 2010, staff was preparing, if necessary, to closely examine the types of actions that so many localities around the country have been forced to take to balance their budgets. Deep cuts to services, widespread reductions in workforce, furloughs, and tax increases have made headlines around the state and nation. Fortunately for Asheville, those actions were not warranted in the previous two fiscal years.

Although the City's revenues did decline in Fiscal Year 2010, we were able to avoid significant reductions in services and personnel as a result of the sound fiscal management of the City Council and financial oversight of our departments. As the economy slowly inches forward, revenue projections continue to be relatively weak for municipalities, including ours. It is for this reason we have once again taken a conservative yet forward thinking approach to preparing the City Manager's proposed budget for Fiscal Year 2011-12.

As a result, it is my pleasure to respectfully submit to you a the city manager's proposed annual budget for the fiscal year beginning July 1, 2011 and ending June 30, 2012 with a total operating budget of \$132,360,548, which represents a 0.14% decrease from Fiscal Year 2010-11. The proposed budget includes a General Fund budget of \$87,549,955, which represents a 0.61% decrease from the previous year.

I am proud to say that the proposed budget continues the City's commitment to living within its means while minimizing impacts to Asheville's citizens, businesses and employees. As a result, the proposed budget includes no property tax increase, no fund balance appropriation from the General Fund, minimal service impacts to citizens, and no widespread reduction in positions. Instead, the recommended budget incorporates savings strategies that focus on minimizing expenditures at every opportunity and re-engineering services where reductions in workload or other efficiencies can reduce costs. Consequently, while the overall budget will decrease for the second consecutive year, Asheville will be able to sustain a focus on core services and support a stable and efficient workforce.

Despite the caution we felt in summer 2010, the good news is that the economy is showing some indications of recovery, and the rate of decline in our overall revenues is beginning to slow. Although economic recovery is not coming as fully or as fast as we would hope, Asheville is fortunate to have avoided extreme reductions in services and employment that other communities have suffered.

Asheville's ongoing resilience during this downturn can be attributed to prudent financial decisions made by City Council over the previous two years. The City, as the proposed budget shows, benefited from the actions taken in previous years. For instance, the proposed budget includes eliminating eight full-time positions, the majority of which are positions that were strategically held open during the FY 2010-11 budget. We could not have made this adjustment without the foresight and careful planning of City Council and departments. Overall, the FY 2011-12 proposed budget includes a \$1.2 million, or 2.5%, decrease in salaries and wages. This clearly demonstrates the City's dedication to continuing the trend of decreasing expenses and reengineering services to position our city to continue providing financial stability and quality core services for our citizens.

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Balancing the Budget

As we developed the FY 2011-12 Proposed Budget, it was vitally important to take steps that would provide high quality services with an eye toward sustainability. Therefore, we developed a budget that takes into consideration decreases in revenues while still investing in our community's needs:

- We are proud to announce there are no reductions in direct services provided to residents, visitors and businesses. We will continue to offer the types of services our residents have grown to expect, such as a nationally accredited fire and police departments, a diverse offering of recreational opportunities, quality sanitation, recycling and public works services, and a fully funded public transportation system, among others. Based on citizen feedback, we will also reinstate brush collection at a frequency of twice per month.
- We are not proposing an increase to our property tax rate, nor have we included a fund balance appropriation in the proposed budget. We have limited fee adjustments to only those fees where current charges were not covering a proportionate share of the cost to provide the service. Adjustments to General Fund fees represent less than one-half of 1% of all General Fund revenues. No increases to business license fees or development review fees are recommended. The proposed budget does include adjustments to commercial and multi-family volumetric water rates as well as the wholesale rate, which are designed to create more equitable cost recovery across customer classes; but no changes are proposed to the residential water rate.
- As mentioned above, the FY 2011-12 Proposed Budget includes a \$1.2 million, or 2.5%, decrease in salaries and wages. The bulk of these savings is generated by a recommendation to freeze or eliminate 15 positions in the General Fund. In addition, staff is recommending a third consecutive year of no salary increases. We are fortunate to have dedicated employees who serve their community well, and it was our highest priority to minimize the possibility of staff reductions, furloughs and other actions that would have further reduced employee compensation. We continue to believe that the long term positive effects of job security, avoiding elimination of filled full-time positions, and future affordability during difficult and unpredictable economic times are critical priorities.
- The cost of fringe benefits is increasing by 3.2% in the recommended budget, the lowest rate of increase in the last six years. The proposed budget includes recommendations from City Council's Blue Ribbon Task Force on Health Care, which were designed to support the long-term sustainability of the City's health care program by reducing medical costs and improving employee health. These changes include capping the City's contribution to the health insurance program for FY 2011-12, offering a plan that incorporates wellness incentives, and expanding the employee health care clinic. These recommendations will require changes to the plan design, including increases to premiums, co-payments, and co-insurance. The relatively moderate increase in the budget for fringe benefits is largely driven by the North Carolina state retirement system's increase in the amount local governments are required to contribute, adding approximately \$300,000 to fringe benefit costs.
- Departments have identified more than \$800,000 in operational savings, including reductions to line items such as training, contracted services, supplies, materials, programmatic costs, and uniforms, among others. These savings strategies mean that we will all continue to provide the same level of service with fewer resources and less support.
- A positive highlight in the FY 2011-12 budget is the development of a general capital improvement program that projects \$59.45 million in investments over five years, which is a 45% increase in funding when compared to the previous five years. While the General Fund transfer into the capital fund is projected to remain flat, Asheville is able to increase the overall level of capital investment by reinvesting funds into the CIP that are becoming available as a result of debt retirement. The FY 2011-12 capital improvement plan proposes investments totaling \$17.55

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- million. This funding allows the city to make significant progress toward its capital goals and Master Plan priorities, increasing funding in almost every area of the capital budget. For instance, when compared to FY 2010-11, funding for street maintenance is increasing by 30% and funding for the sidewalk program will nearly double. Funding is also proposed for construction of 1.5 miles of new greenway, critical infrastructure projects including a bridge replacement, and deferred maintenance in city facilities. The largest project funded in the FY 2011-12 CIP is for major exterior repairs to Asheville's historic City Hall building.

City Council Strategic Initiatives

Over the last six years, Asheville City Council has led an annual strategic planning cycle. In February 2011, Asheville City Council adopted six strategic priorities for Fiscal Year 2011-12 and is considering their adoption as part of the current budget process. These focus areas include:

- **Affordable** - *The City of Asheville will offer a standard of living that is affordable and attainable for people of all income levels, life stages and abilities.*
- **Fiscal Responsibility** - *The City of Asheville will support a stronger, more prosperous community by making smart investments that accomplish lasting, tangible returns.*
- **Green & Sustainable** - *Asheville will be the southeastern leader in clean energy and environmental sustainability.*
- **Job Growth and Community Development** – *Asheville will support a dynamic and robust local economy with balanced sustainable growth.*
- **Safe** - *Asheville will be one of the safest and most secure communities when compared to similar cities.*
- **Multimodal Transportation** – *Integrate and implement a multi-modal transportation plan including sidewalks, bike paths, signal preemption, transit, greenways, streets, rivers and access to river, and other system improvements resulting in a funding priority list.*

As part of the strategic planning and budget process, City Council asked staff to produce a document that outlines projected progress on strategic goals in FY 2011-12, as well as the funding implications of those goals. Attachment A provides detailed information about programs and initiatives funded in this year's budget that directly support the organization's strategic priorities. During FY 2011-12, staff will continue to provide City Council with quarterly financial and performance management reports to inform the public about progress tied to the organization's adopted strategic goals and related initiatives.

The key elements of the 2011-12 proposed budget are outlined below.

General Fund Highlights

Revenues:

- The property tax, which comprises 53% of total general fund revenue, is the single largest source of revenue for the City. In the current fiscal year, the City's tax base grew by just under 1.0%, which was the slowest tax base growth in at least 10 years. Prior FY 2010-11, growth in the City's tax base had averaged 3.4% over the last 10 fiscal years. The Buncombe County Tax Assessor is projecting that tax base growth in FY 2011-12 will remain well below historical norms due to the continuing construction slowdown. Staff is projecting property tax revenue growth of only 1.2% in FY 2011-12.

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- The second single largest source of general fund revenue at 18% of the budget, is sales taxes. No general fund revenue has been more impacted by the recession than sales taxes. 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 has finally begun to grow again in the current fiscal year, with revenue through the first eight months of the fiscal year up a modest 3.3% compared to FY 2009-10. The N.C. League of Municipalities predicts that sales tax revenue will not rise quickly without a recovery in the housing market, and such a recovery is not expected during FY 2011-12. As a result, they are projecting the sales tax base to grow by 3.0% - 4.0% in FY 2011-12. Based on this guidance, staff has built 3% sales tax growth into the FY 2011-12 proposed budget.
- As staff reported to City Council in the quarterly financial report, revenue from investment earnings is down substantially from prior years due to the historically low interest rates currently available in the market. Revenue from investment earnings declined by over \$1.0 million between FY 2008-09 and FY 2009-10. With no major changes in interest rates expected next fiscal year, staff is projecting that investment earnings revenue will remain low in FY 2011-12.
- Revenue in the "other financing sources" category shows a decrease, largely due to loss of one-time grant funding from the American Recovery and Reinvestment Act (ARRA) received in FY 2010-11. In the previous year, staff time related to ARRA grant projects was recovered using those funds.
- Staff has budgeted small adjustments to revenues in the charges for service and licenses and permits categories to reflect collection trends over the last two fiscal years.

<u>Revenue Sources:</u>	<u>2010-11 Budget</u>	<u>2011-12 Proposed</u>	<u>Change From Prior Year in \$</u>	<u>in %</u>
Property Tax	46,055,271	46,602,746	547,475	1.2%
Intergovernmental	11,175,602	10,963,573	(212,029)	-1.9%
Sales & Other Taxes	15,144,688	15,523,305	378,617	2.5%
Charges For Service	5,387,771	5,407,654	19,883	0.4%
Licenses & Permits	5,206,866	5,070,977	(135,889)	-2.6%
Investment Earnings	1,014,000	239,700	(774,300)	-76.4%
Miscellaneous	1,210,943	1,334,680	123,737	10.2%
Other Financing Sources	2,887,821	2,407,320	(480,501)	-16.6%
Total Revenue	<u>88,082,962</u>	<u>87,549,955</u>	<u>(533,007)</u>	<u>-0.6%</u>

Expenditures:

- The FY 2011-12 proposed budget includes general fund expenditures that are 0.6% less than the FY 2010-11 budget.
- Public Safety is the largest general fund service area, accounting for 44% of all general fund expenditures. Operating and small capital costs in the Police and Fire Departments were reduced by a total of \$245,000 in the proposed budget. In addition, the Police Department will hold vacant a Telecommunicator position and a Forensics Technician position, which will produce budget savings of \$71,000. In the Fire Department, one Deputy Fire Marshal position stationed at the Development Services Center will be re-assigned to perform periodic fire inspections, which is expected to increase the annual revenue from fire inspections by \$40,000. The only enhancement in this service area is the addition of three Patrol Officers in the Police Department budget in FY 2011-12 due to community safety priorities associated with the opening of the I-240/Hillcrest pedestrian bridge. The cost for the addition of the three positions is \$129,000. All

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- other essential programs and services in the Police and Fire Departments will be maintained at current levels in the FY 2011-12 budget.
- Environment & Transportation is the second largest service area in the General Fund, representing 16% of the FY 2011-12 general fund budget. This service area shows a \$770,000 decrease in FY 2011-12. Almost half of this decrease (\$316,000) is due to a technical budget change in which the costs of the crew that installs new sidewalks is moved from the Public Works Department's General Fund budget over to the General Capital Project Fund. Outside of this technical change, actual reductions in the Public Works Department include the elimination of 3 FTE positions for a savings of \$146,000 and a reduction of \$92,000 in the City's streetlighting budget. In the Transportation Department, Transportation Demand Management (TDM) program was eliminated from the budget and operational accounts were reduced by \$82,000. The only enhancement in this service area is the addition of \$125,000 that will allow the City to resume twice monthly brush collection. Also as a part of the budget, staff is proposing that the City end loose leaf collection and instead collect only leaves that have been bagged. This service change will produce savings of \$83,000. Finally, this service area includes the \$340,000 increase in the General Fund transfer to balance the Transit Services Fund.
- The Culture and Recreation service area shows an increase of \$230,000 due to the merging of the Festivals Fund with the General Fund. Adjusting for this technical change, expenditures in the Culture and Recreation service area show a reduction of just over \$300,000. These reductions include the elimination/freezing of 5 FTE positions in the Parks Department for a savings of \$270,000, as well as \$55,000 in other operating reductions.
- Both the Community Development and General Government service areas show declines in FY 2011-12 as departments in these areas eliminated and froze positions and cut operating budgets to produce total budget savings of approximately \$400,000.
- Personnel costs, including salaries, wages and fringe benefits, make up 65% of the FY 2011-12 general fund budget. Overall, the proposed personnel budget in the general fund is approximately \$400,000 less than the FY 2010-11 budget. The cost impact to the general fund of the N.C. retirement system increase is \$215,000. Factoring out this mandated cost increase, personnel costs show a \$615,000 decrease. Most of this decrease was achieved by eliminating or freezing 15 general fund positions, which will save approximately \$800,000. The general fund personnel budget does include the addition of 3 FTE positions associated with the return to twice monthly brush collection and the addition of 3 Police Patrol Officers for the opening of the Hillcrest pedestrian bridge. These two service enhancements added approximately \$230,000 to the personnel budget
- To balance the FY 2011-12 proposed budget, general fund operating costs are reduced by \$657,000, or 3.1%. This reduction was achieved by trimming various line items, including contracted services, supplies, and materials, throughout the General Fund.
- Interfund transfers are budgeted to increase by a net amount of \$180,000 in FY 2011-12. As noted on the previous page, the Festivals Fund is being merged with the General Fund in FY 2011-12. This technical accounting change results in the elimination of the \$162,000 interfund transfer between those two funds. Absent this technical adjustment, the increase in General Fund interfund transfers is \$340,000, which represents the change in the General Fund transfer to the Transit Services fund to make up for a loss of State funding for transit services.
- In 2010-11, the City redeemed the final payment on the Certificates of Participation (COPs) Series 1997B, which was issued to fund renovations on the Public Works building. Also in 2010-11, the City made the final payment on the 2006 series installment financing, which was issued to pay for radios and vehicles. In paying off these two debt obligations, the City reduced its annual debt service payments by more than \$1.1 million. In FY 2011-12, the City will use this debt capacity to issue \$12.1 million in new debt to fund critical capital improvements, including exterior

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- repairs to City Hall, construction of new sidewalks and greenways, and the replacement of vehicles. Based on the projected timing of this new debt issuance, the City does not anticipate having to make a debt service payment on this issuance until FY 2012-13. Therefore, the \$1.1 million that will go toward debt payments in future years is being directed to the pay-go capital program in FY 2011-12.
- The capital outlay budget, which is comprised of the pay-go capital contribution, as well as departmental small capital, shows an increase of approximately \$1.5 million. As mentioned above, \$1.1 million of this increase is the result of shifting the FY 2011-12 debt service savings to the pay-go capital program. Most of the rest of the increase (\$316,000) is due to the technical budget change in which the costs of the crew that install new sidewalks is moved from the Public Works Department's General Fund budget over to the pay-go capital program. Adjusting for this technical change, the total general fund allocation to capital outlay and debt service in FY 2011-12 is essentially unchanged from the current budget year.

<u>Expense Category:</u>	2010-11	2011-12	<i>Change From Prior Year</i>	
	<u>Budget</u>	<u>Proposed</u>	<u>in \$</u>	<u>in %</u>
Salaries & Wages	40,636,760	39,917,082	(719,678)	-1.8%
Fringe Benefits	16,894,228	17,224,120	329,892	2.0%
Operating Costs	21,040,664	20,383,101	(657,563)	-3.1%
Interfund Transfers	1,497,442	1,677,889	180,447	12.1%
Debt Service	5,434,922	4,273,832	(1,161,090)	-21.4%
Capital Outlay	2,578,946	4,073,931	1,494,985	58.0%
Total Expenditures	<u>88,082,962</u>	<u>87,549,955</u>	<u>(533,007)</u>	<u>-0.6%</u>

Fund Balance Analysis

The City ended FY 2009-10 with available fund balance of \$12.3 million, which equated to 14.2% of FY 2009-10 expenditures. In the current fiscal year, staff is forecasting that the general fund will end the year with expenditures roughly equal to revenues, which means available fund balance will remain at \$12.3 million or 14.2% of estimated expenditures. The City's Financial Management Policy recommends that the City maintain a fund balance in the General Fund equal to 15% of expenditures. For FY 2011-12, staff is recommending that no appropriation from fund balance be made as a part of the general fund budget, which means that available fund balance is forecast to remain at 14.2% in FY 2011-12. If and when stronger economic recovery is achieved and revenues improve, staff will recommend more aggressive strategies for increasing the City's fund balance level.

Other Funds

Water Resources Fund

- The FY 2011-12 Water Resources budget includes the fee adjustments that were approved by City Council on April 12. These adjustments, which will create more equitable cost recovery across the water customer classes, include increases to the commercial and multi-family volumetric rates and the wholesale rate. There will be no changes to the residential rate in FY 2011-12.
- The overall Water Fund budget for FY 2011-12 remains essentially flat compared to FY 2010-11. There is a significant decrease of approximately \$1.5 million in the Fund's debt service obligations in FY 2011-12. The department is re-directing \$1.0 million of this savings to capital in FY 2011-12. The remaining savings in debt service is being used to cover increases in operating costs.

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- The capital outlay category includes \$6.2 million for water capital improvement projects, \$342,000 for rolling stock replacement, and \$120,000 for small capital equipment. The capital outlay category also includes a \$660,224 Sullivan Act transfer to the General Capital Projects Fund, which represents 2% of Water Fund revenues.

Parking Services Fund

- The operating transfer to the Transit Services Fund is increased from \$484,000 to \$500,000 in FY 2011-12.
- The Parking Fund budget includes \$431,260 for capital outlay in FY 2011-12, which represents a significant increase compared to FY 2010-11. \$201,260 of this amount will be used for the installation of the Streetline Smart Parking system at 694 on-street parking spaces. This system will allow for more effective monitoring and enforcement of on-street parking. Once the system is installed, there will be an annual maintenance expense, but this cost is expected to be offset by additional revenue generated by the system. The capital outlay budget also includes funding for the replacement of 150 parking meters and improvements to the AT&T surface lot.
- \$522,000 is budgeted in the debt service account for payment on the Biltmore Avenue parking deck that is now under construction. However, actual debt expenses will be substantially lower in FY 2011-12 due to the timing of the actual loan take out. For this reason, parking revenues are projected to exceed expenses by \$358,740 in FY 2011-12.

Transit Services Fund

- For FY 2011-12, the City expects state transit funding to be reduced by \$600,000. A portion of this decrease will be off-set by a reduction in expenditures. The remaining amount will be covered by increasing the General Fund transfer to the Transit Fund by approximately \$343,000, and by increasing the transfer from the Parking Fund by \$16,000.
- The proposed budget assumes a slight increase in fuel costs despite efficiencies gained from hybrids and the new diesel buses. Other system operating costs are budgeted to be flat in FY 2011-12. Staff will closely monitor the Transit Fund budget in FY 2011-12 in case union contract negotiations this summer or the upcoming RFP for management transit services lead to any unplanned cost increases.
- \$450,000 in transit capital improvements are funded in FY 2011-12 through the General Fund and various grants. Planned projects include the installation of security cameras on buses, the replacement of three bus shelters, signage improvements, and the installation of an automated vehicle location system.

Stormwater Fund

- A Labor Crew Coordinator position in the Stormwater Fund was eliminated from the budget. A portion of the savings from this position elimination will be used to pay the Stormwater Fund's share of the cost for the new Safety Coordinator position in the General Fund.
- The Stormwater Fund proposed budget includes a significant increase in capital spending. \$700,000 will be appropriated from the Stormwater Fund reserves to fund a major project on Victoria Road. Based on financial standards for enterprise funds, the Stormwater Fund should have about \$500,000 in reserves. This transfer will leave more than \$750,000 in Stormwater Fund balance, so reserves will remain more than adequate. Also, the Stormwater Fund will borrow \$430,000 to fund the replacement of several pieces of equipment, including a street sweeper and a backhoe.

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- In addition to the major capital items above, stormwater crews are expected to complete another \$254,000 in capital maintenance projects in FY 2011-12, including projects on Gardenwood Lane and Robindale Avenue.

Street Cut Utility Fund

- This fund was created in FY 2010-11 to track revenues and expenses associated with the City's new street cut repair program. In addition to handling street cut repairs for the City's Water Resources and Stormwater Funds, street cut utility crews also repair cuts for the Metropolitan Sewerage District (MSD) and Public Service Natural Gas (PSNC). Each entity is then billed for 100% cost recovery.
- The proposed budget represents a continuation of the existing program.

Civic Center Fund

- The proposed operating budget represents a continuation of existing programs and services. Therefore, the General Fund subsidy to the Civic Center Fund remains unchanged in FY 2011-12.
- In addition to the General Fund operating transfer of \$392,594 to the Civic Center Fund, the General Fund is also contributing \$300,000 to the Civic Center Capital Fund in FY 2011-12 to assist with funding the Southern Conference renovations planned for the Civic Center.

Golf

- The Golf Fund budget reflected in the Manager's Proposed FY 2011-12 Budget is identical to the FY 2010-11 budget. However, based on revenue trends observed in FY 2009-10 and FY 2010-11, staff estimates that the Golf Fund will require a \$150,000-\$200,000 transfer from the General Fund in FY 2011-12 to break even. This transfer is not currently included in the proposed budget. Staff is working to identify opportunities for cost savings and revenue enhancements to minimize or avoid a General Fund transfer in FY 2011-12. With City Council's approval, these strategies will be incorporated into the adopted budget.

Next Steps

The City of Asheville's Budget and Research Division coordinates the city's budget process every year. I would like to take this opportunity to thank the staff in this division, Tony McDowell and John Sanchez, for their thorough work. I would also like to recognize the efforts of our department directors and all city employees for their efforts to support and offer an affordable tax rate along with quality core services.

It is also with gratitude that I recognize you, Mayor and City Council members, for your commitment to our strategic planning and budget development processes. The direction and feedback you have provided throughout the year, and especially during the last four months, have supported significant progress and improvements at all levels of the organization. As a result of your sound financial planning and careful decision making, the City is in a strong position to withstand the lingering effects of the recession and to take advantage of economic recovery when it occurs. Despite the challenging financial environment, your leadership has poised Asheville to implement a significant capital program in FY 2011-12, which includes important investments in streets, sidewalks, infrastructure and facilities. The capital program will make significant progress toward achieving high priorities in Asheville's Master Plans, while also having a positive impact on the local economy.

It's true that full economic recovery has not arrived as quickly as we would all hope, and we are entering another financially challenging year. However, with a solid financial foundation, new approaches to critical

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community partnerships, and an organization-wide commitment to quality and innovation, I am confident Asheville will continue to experience great progress next year and in the years that follow.

I look forward to working with you and the community to adopt the Fiscal Year 2011-12 Budget.

Sincerely,

A handwritten signature in black ink that reads "Gary W. Jackson". The signature is written in a cursive style with a large, stylized initial "G".

Gary W. Jackson
City Manager

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ATTACHMENT A

Strategic Initiatives

Affordable - *The City of Asheville will offer a standard of living that is affordable and attainable for people of all income levels, life stages and abilities.*

Goal I: Hold the line on taxes and support tax and fee relief.

Objectives	FY 11-12 Projected Progress	Funding Notes
<p>Objective 1: Explore opportunities to enhance affordability by reducing utility costs through innovative energy efficiency financing programs.</p>	<p>Asheville has two affordable housing rebate programs and has been actively reviewing our operations to contain cost and improve service.</p> <p>Staff will pursue PACE or PACE-type programs that are approved at a Federal regulatory level.</p>	<p>Investment of staff time and resources as well as rebated revenue through program. In FY 09-10, the value of rebates reached nearly \$134,000. Year-to-date in FY 10-11, rebates are valued at almost \$40,000.</p>
<p>Objective 2: Create an Affordable Housing Standing Board or Commission to advise City Council on matters relating to affordable housing consisting of a diverse stakeholder group.</p>	<p>Applications received through the City Council Boards and Commissions process. Development of scope, role and by-laws for board.</p>	<p>Investment of staff time and resources to assist with board facilitation and meeting logistics.</p>

Affordable, Goal II: Support the creation and preservation of affordable rental and home ownership opportunities in Asheville so that all citizens have access to safe, sufficient and affordable housing.

Objectives	FY 11-12 Projected Progress	Funding Notes
<p>Objective 1: Implement reforms to Unified Development Ordinance to encourage affordable housing development; utilize zoning where possible to encourage and align affordable housing with transit.</p>	<p>Sustainability and Density Bonus policy changes adopted by Council to help achieve these goals. Staff continues to have a goal of consideration of land use regulations in important neighborhood corridors.</p>	<p>Resources associated with increased staff time needed for detailed reviews, permitting, and inspections.</p>
<p>Objective 2: Explore opportunities for public/private partnerships and innovative financing mechanisms to incentivize affordable housing development.</p>	<p>The Council's recently adopted Land Use Incentive Policy will provide additional support for development that reflects Council's highest goals and objectives.</p>	<p>Resource investment affected by number of applications received balanced against existing workload of Community Development staff assigned to evaluate applications vs. limits on local work allowed under federal guidelines.</p>
<p>Objective 3: Support the Housing Authority to develop a comprehensive plan for public housing; continue to pursue redevelopment of public housing with a HOPE VI-type project.</p>	<p>Housing Authority has made significant energy-upgrades using ARRA funding. Its grant application for the Reid Center was strongly supported by the City. The Housing Authority will apply for a HOPE VI/Choice Neighborhood planning grant in the next available application round.</p>	<p>The City Council HCD Committee is recommending CDBG funding of \$43,500 to support application. The Housing Authority has also requested that Community Development staff assist in the preparation of the application.</p>

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Affordable, Goal II, Continued

<p>Objective 4: Support initiatives to end chronic homelessness in Asheville with an emphasis on the Housing First philosophy</p>	<p>Strong support for Housing First in Asheville.</p>	<p>The HCD Committee is recommending an increase of \$25,000 (from \$35,000 last year to \$60,000 this year) in CDBG funding for the Homeward Bound Pathways to Permanent Housing. The HOME Consortium is recommending tenant-based rental assistance funding of \$170,000 this year, an increase of \$44,000 from last year.</p>
<p>Objective 5: Continue to provide funding for affordable housing development loans through the Housing Trust Fund; increase the number of long-term affordable units supported by the Housing Trust Fund.</p>	<p>In 2010, the City supported the development of 72 new units of affordable housing through the Housing Trust Fund. Additionally, the City purchased 16 acres of land and entered into a contract to sell the land to Habitat, which if successful, will result in the development of 56 new affordable Habitat homes.</p>	<p>Proposed FY 11-12 budget includes a \$300,000 allocation for the Housing Trust Fund. The administration and management of the HTF program (as well as other city affordable housing incentives) requires the support of .75 FTE.</p>

Fiscally Responsible - *The City of Asheville will create a stronger, more prosperous community with smart investments that accomplish lasting, tangible returns.*

Goal I: Operate the City of Asheville to the highest levels of fiscal responsibility.

Objectives	FY 11-12 Projected Progress	Funding Notes
<p>Objective 1: Identify resources for strategic initiatives and create meaningful performance measures for programs and services.</p>	<p>Continued Quarterly Strategic Operating Reports, established with measurable objectives.</p>	<p>Staff resources dedicated to developing aligned business plans, tracking performance and producing quarterly management reports.</p>
<p>Objective 2: Sustain at least a 15% Fund Balance</p>	<p>Fund balance is currently at 14.2%.</p>	<p>To reach the 15% standard, fund balance would need to grow by an estimated \$1-1.2 million. During FY 2012, staff will continue to closely monitor revenues and expenditures as well as other financial management methodologies to ensure fund balance maintains or improves its current position. When revenues recover, staff will recommend more aggressive strategies for improving the fund balance level.</p>

CITY MANAGER'S BUDGET MESSAGE

Goal II: Explore alternatives for enhancing the city's long-term financial commitment to master plan implementation, infrastructure maintenance, capital improvements, and public facilities.

Objectives	FY 11-12 Projected Progress	Funding Notes
<p>Objective 1: Leverage internal and external partnerships for pursuing capital improvements and infrastructure projects.</p>	<p>1. Secured Civic Center Renovation funding, energy grants. 2. The TIGER II Sustainable Communities Planning Grant and our successful partnership with Land of Sky COG in the HUD Sustainable Communities regional grant creates a working partnership with HUD, DOT, NCDOT and EPA for resource development.</p>	<p>Strategic partnerships for capital investment could lead to creative cost sharing opportunities. An example of success in this area is the Water Fund allocation for infrastructure associated with water lines. In FY 11-12, this transfer will fund \$660,224 in capital improvements, including completion of the Azalea Road project.</p>
<p>Objective 2: Review analysis of revenue streams to identify opportunities for revenue diversification.</p>	<p>Held two Council work sessions; formed Council/Commission study group</p>	<p>An example of success with this goal is the recent approval of MSD's extension line policy, which will allow the City to recover the capital cost of sewer projects through a revenue sharing partnership with MSD. The Airport Road sewer line project, included in the FY 11-12 CIP, will be eligible for this policy.</p>
<p>Objective 3: Explore feasibility of a bond program now or in future years; learn more about financing options outside of a property tax increase.</p>	<p>Capital Planning work session 10/8/10</p>	<p>Five year CIP represents a 45% increase in funding over the previous five years. The FY 11-12 CIP, funded at \$17.55 million, achieves important community goals and Master Plan priorities, including a 30% increase in street maintenance funding and double the funding for the sidewalk program. Staff would recommend considering an increase to the contribution if and when economic recovery leads to revenue growth.</p>
<p>Objective 4: Seek efficiencies in master plan implementation by identifying plan interdependencies, funding sources and key partnerships.</p>	<p>GIS Project mapping; Prepared CIP Analysis work session.</p>	<p>Pursuing partnership with NEMAC for the second phase of project (a decision making tool for capital planning), including development of cost impact not yet quantified.</p>
<p>Objective 5: Conduct a comprehensive review of the City's Enterprise Funds, including financial, operational and capital performance.</p>	<p>Staff recommends considering Water Enterprise Fund financial planning and policies in Fall 2011.</p>	<p>Staff time and resources devoted to comprehensive financial management and facilitation of Council policy review.</p>

CITY MANAGER'S BUDGET MESSAGE

Green & Sustainable - Asheville will be the southeastern leader in clean energy and environmental sustainability.

Goal I: Set and develop a plan for implementing a community energy reduction goal.

Objectives	FY 11-12 Projected Progress	Funding Notes
Objective 1: Work with regional partners to create incentives for green building, energy conservation and energy independence.	Ongoing efforts with Land of Sky Regional Counsel for electric vehicle charging stations and continuing permit rebates for green building. Conducting a neighborhood scale energy assessment and community energy policy tool assessment with local partners through the East of the Riverway Grant Program.	Grant funding will support the installation of 2-4 electric vehicle charging stations, as well as the neighborhood energy assessment and policy tool analysis.
Objective 2: Expand community education programs including climate awareness, water conservation, recycling, stormwater, and sustainability.	ECEBG funding for education programs being implemented; partnered with Land of the Sky to offer water usage audits for commercial and institutional users.	ARRA funding will carry this program forward through December 2011. It is anticipated that savings generated through the Green CIP could continue to fund the effort beyond 2011.

Goal II: Take the City of Asheville's sustainability program to the next level.

Objectives	FY 11-12 Projected Progress	Funding Notes
Objective 1: Identify strategies and costs for increasing the city's annual energy reduction goal to 4 percent.	Opportunities reviewed at April 12, 2011 City Council meeting.	FY 11-12 Capital Improvement Plan includes a Green CIP that identifies in the amount of \$1.2 million for energy efficiency projects for city buildings, facilities and infrastructure. Plan is funded by utility savings.
Objective 2: Implement ways to reduce city-wide solid waste.	Staff is pursuing alternative models for recycling and residential solid waste collection.	Single-stream recycling is being considered by City Council.
Objective 3: Review the City of Asheville's ordinances that relate to tree topping, as well as parking lot tree requirements for spacing and shade.	Staff will evaluate the ordinances noted, discuss legal options and constraints with Legal staff, discuss available options with interested stakeholders and prepare options for the consideration of the Council.	Resources associated with staff research and development of new ordinances. Enforcement of expanded ordinances may require additional staff, entailing salary and benefits costs.

CITY MANAGER'S BUDGET MESSAGE

Job Growth & Community Development – *Asheville will support a dynamic and robust economy with balanced and sustainable growth.*

Goal I: Create more collaborative and effective working partnerships between the City of Asheville, the business community, and other key organizations to effectively manage the city's regulatory environment while accomplishing economic development goals.

Objectives	FY 11-12 Projected Progress	Funding Notes
Objective 1: Support diversified job growth and business development.	No property tax increase, plan review or permit fee increases. Re-engineered and relocated privilege licensing to One Stop Shop. Continue existing industrial incentive policy and implement the new land use incentives.	In FY 10-11, the City provided \$100,000 in funding in support of the opening of the UNC Pharmacy School. The school is expected to open in Fall 2011. The FY 11-12 budget includes an economic incentive payment to Biltmore Farms in the amount of \$525,000 for public improvements at the Biltmore Park Town Square. Staff expects to launch a site assessment program for developers in FY 11-12.
Objective 2: Support business through reductions in taxes, fees, and regulations.	Re-engineered plan review process for small business adoptive reuses; Urban Progress Zone Designation renewed by NC Department of Commerce; Pilot Program development for small business building reuse assessment	FY 11-12 budget includes no tax rate increase, no development fee increases and no business license increase. Staff recommends allocating existing staff resources for economic development activities and leveraging outside agency contributions.
Objective 3: Partner in regional economic development strategies, including the HUB; continue partnership in the Economic Development Coalition.	Ongoing representation on new AB Tech incubator foundation; HUB alliance; EDC Partnership; CarolinaWest; Sustainable Communities Partnership; Asheville Buncombe Regional Sports Commission; LOS CEDS; SoCon Local Organizing Committee.	Staff recommends maintaining existing indirect and direct cost support.
Objective 4: Expand partnerships with UNC-Asheville, A-B Tech, Mars Hill College, Warren Wilson College and other institutions to achieve common goals, including health and wellness, workforce development, and sustainable Economic Development.	Multiple projects with UNCA; negotiations with AB Tech for drainage improvements and fire station locators; Established BLOCK Academy Partnership w/ EMSDC& AB Tech; RENCI local engagement site lease partnership.	Staff recommends allocating existing staff resources to continue efforts.
Objective 5: Provide leadership in buying local products and services.	Staff research conducted on "buy local" policies. Policy consideration could move forward in FY 11'-12'.	Continued efforts to reach out to local and minority owned businesses to register as vendors with the City of Asheville. Recent changes to the purchasing and contracting policy intended to make it easier to do business with the City, including adjustments to insurance requirements and payment procedures.

CITY MANAGER'S BUDGET MESSAGE

<p>Objective 6: Work cooperatively with state and county elected officials to enable the City to implement practical water system management and voluntary annexation policies</p>	<p>Ongoing communication with Woodfin about annexation and boundary adjustments. We have participated in a regional Land of Sky water resource allocation study and have been involved in a Mills River Watershed partnership. Water Resources has had conversations with County, State and Federal officials regarding CTS site.</p>	<p>No anticipated costs</p>
<p>Objective 7: Consider funding for Asheville Civic Center improvements by building on momentum with existing partners.</p>	<p>Seek out new financial partnerships for investment in the Civic Center.</p>	<p>FY 2012 CIP includes \$300,000 allocation for Civic Center renovations.</p>
<p>Objective 8: Seek partnerships for the 4th of July and New Year's Eve fireworks displays.</p>	<p>A partnership for the 4th of July fireworks has been secured and staff will seek additional opportunities for the New Year's Eve show.</p>	<p>No direct costs.</p>
<p>Objective 9: Support local and regional Sustainable Community Initiatives and seek investments in Sustainable Community target areas, such as the East of the River and Between the Bridges Initiative; seek opportunities for recognition.</p>	<p>The East of the Riverway process is in beginning stages. Significant commitment to neighborhood resident engagement is the key to a successful planning effort. Targeting of resources and new resource development will be necessary to turn the resulting plans into reality.</p>	<p>City staff time is providing the match for federal TIGER II funds. Making sustainable communities a priority for that time will require departmental coordination and balancing of other City priorities.</p>

Job Growth & Community Development, Goal II: Support a strong local economy by continuing to implement sustainable growth and development policies.

Objectives	FY 11-12 Projected Progress	Funding Notes
<p>Objective 1: Promote sustainable, high-density, infill growth that makes efficient use of existing resources.</p>	<p>Sustainable Density Bonus Ordinance adopted. Ongoing support for pertinent policy changes. Partner with development community to actively manage sites adopted in Brownfield program. Expand marketing program for appropriate available city owned sites via social media.</p>	<p>Investments associated research and development of new ordinances. Depending on new policies and/or ordinances, additional staff time may be needed for detailed reviews, permitting, and inspections.</p>
<p>Objective 2: Support the riverfront redevelopment partnership and formation of a dedicated office.</p>	<p>Continued organizational development of Asheville Area Riverfront Redevelopment Commission. Ongoing policy analysis from Between the Bridges project.</p>	<p>Dedicated staff member funded in the FY 11-12 for continuation of river redevelopment efforts.</p>
<p>Objective 3: Complete the Downtown Master Plan implementation.</p>	<p>Land use portions adopted by Council. Ongoing implementation of other recommendations will require staff monitoring and support. During 2011, committees will transition private sector work to existing partners for continued implementation.</p>	<p>Transitional staff support funded in FY 11-12 for committees, directed predominantly to the Downtown Management committee.</p>

CITY MANAGER'S BUDGET MESSAGE

<p>Objective 4: Pursue models for re-formatting the Unified Development Ordinance so that it is easy to use and understand.</p>	<p>Some modifications adopted by Council and additional modifications will be considered during the upcoming year.</p>	<p>Staff will continue to seek opportunities for updating and streamlining the UDO using existing staff resources. Staff will remain informed regarding alternate options for formatting the UDO using consultants when fiscal means allow consideration of that level of change.</p>
<p>Objective 5: Consider tools and programs the City could use to promote job growth and creation.</p>	<p>Continue City Manager's Development Forum to educate community on City tools and programs. Refocus of Minority Business Program. Review with other partners how small businesses and entrepreneurs access capital.</p>	<p>Outside agency funding; staff time and resources.</p>
<p>Objective 6: Improve the affordability of water and stormwater utility rates for residential customers and ensure effectiveness and value for fees charged.</p>	<p>Water Resources Department currently participates in three rebate programs for affordable housing and infill development. Also, Water Resources maintains an active adjustment policy which allows adjustments to bills for leaks or high consumption of undetermined cause.</p>	<p>Water Rate Study was fully funded in FY 10-11 and recommendations are incorporated in FY 11-12 budget.</p>

Job Growth & Community Development, Goal III: Maintain Asheville's commitment to being an "employer of choice" in the region.

Objectives	FY 11-12 Projected Progress	Funding Notes
<p>Objective 1: Attract and retain quality employees with an emphasis on local labor pool development opportunities and by paying sound wages and benefits.</p>	<ol style="list-style-type: none"> 1. Creation of the Healthcare Task Force to review benefits package. 2. Ongoing workforce development opportunities. 3. Increased healthcare cost sharing with employees. 	<p>Blue Ribbon Task Force recommendations are incorporated in FY 11-12 budget. These changes include capping the City's contribution to the health insurance program for FY 2011-12, offering a plan that incorporates wellness incentives, and expanding the employee health care clinic. As a result, increases in fringe benefit costs have slowed dramatically in FY 2012.</p>
<p>Objective 2: Enhance diversity in the City as an organization so that the workforce more closely resembles the community, especially in the area of public safety.</p>	<ol style="list-style-type: none"> 1. Expanded job postings and recruitment methods. 2. Working with departments to improve diversity. 	<p>Staff resources dedicated to implementing objectives.</p>

CITY MANAGER'S BUDGET MESSAGE

Safe - Asheville will be one of the safest and most secure communities when compared to similar cities.

Goal I: Make Asheville the safest city in America based on approved metrics for similarly sized cities; bring benchmark metric back to City Council for approval and tracking.

Objectives	FY 11-12 Projected Progress	Funding Notes
<p>Objective 1: Implement strategies to significantly improve public safety in neighborhoods in Asheville with the highest levels of crime.</p>	<p>Continue reviewing the adjustments to the Patrol beat structure, as well as the number of beats within each district to improve response time.</p>	<p>Three additional patrol officers are funded in FY 2011-12 in support of community safety priorities associated with the opening of the I-240/Hillcrest pedestrian bridge. Funding for three officers is \$129,000.</p>
<p>Objective 2: Reaffirm commitment to eliminate open air drug markets in Asheville.</p>	<p>Continue maintaining a strong presence in high crime neighborhoods and conduct proactive and undercover buys in areas that have open air drug markets.</p>	<p>Funding for Drug Suppression Unit is included in FY 11-12 budget.</p>
<p>Objective 3: Track and monitor performance of the Nuisance Court and the "Changing Together" program.</p>	<p>Staff will monitor progress of the Nuisance Court in conjunction with the District Attorney's Office.</p> <p>The first call-in for "Focused Deterrence" was held with 14 subjects targeted. This was in conjunction with Changing Together and other community based partners.</p>	<p>FY 2011-12 budget includes continuation funding for nuisance court at \$10,000.</p> <p>Staff time with existing resources.</p>
<p>Objective 4: Support recreation and employment alternatives for youth at risk of gang exposure.</p>	<p>Gang Detectives are making home visits to adjudicated youth involved in gang crimes. (178) home visits were conducted this quarter - 263 YTD.</p> <p>Council support for the sale of the Reid center, and TIGER II Sustainable Communities funding are essential elements in the HACA grant application to transform the Reid Center into a community training and education center</p>	<p>In FY 11-12, staff applied for a three-year grant of \$750,000 in funding that would support the creation of a Police Activities League. Grant announcement is anticipated in Fall 2011.</p>
<p>Objective 5: Support the Safe Routes to School program by implementing one school this year.</p>	<p>There has been no statewide competitive grant call since we applied in 2009, but did not win the grant.</p> <p>Statewide grants have required school participation in encouragement programs as well as a large number of children within 2-mile walk/bike zone.</p>	<p>Working with local NCDOT division staff on funding a pedestrian project tied to Bell School, and expect to construct Emma School project this summer.</p>
<p>Objective 6: Seek resources to enhance the Asheville Police Department's internet child abuse program.</p>	<p>A third full-time staff member is currently being trained. Additional computer equipment and software will be provided to assist in investigations.</p>	<p>Seizure monies have been set aside to provide additional training to detectives.</p>

CITY MANAGER'S BUDGET MESSAGE

Safe, Goal II: Maintain accreditation and ISO ratings of Asheville Fire & Rescue Department.

Objectives	FY 11-12 Projected Progress	Funding Notes
Objective 1: Develop an action plan for maintaining fire and rescue standard of cover throughout the city.	Action Plan developed for two areas that currently have low SOC performance. This action plan includes partnering with AB-Tech and AVL Airport to partner with Fire Department facilities.	FY 12-13 CIP includes \$1 million for Airport Rd. facility. CIP year 3 includes \$4 Million for Sandhill Rd. Public Safety Facility.
Objective 2: Increase participation in state fire code inspection schedule to 90 percent.	Increased participation from 75% to 80%	FY 11-12 Budget includes \$25,000 increased revenue from fire inspections.

Multimodal Transportation - *Integrate and implement a multi-modal transportation plan including sidewalks, bike paths, signal preemption, transit, greenways, streets, rivers and access to the river, and other system improvements resulting in a funding priority list.*

Objectives	FY 11-12 Projected Progress	Funding Notes
Objective 1: Make headway on multimodal transit options by doubling the output of sidewalk construction and maintenance.	Proposed FY 11-12 CIP estimated to result in 1.82 miles of new sidewalk and 1.68 miles of sidewalk maintenance.	Proposed FY 11-12 CIP includes a 94% increase in funding for the sidewalk program for a total investment of \$2,861,000.
Objective 2: Seek partnerships for investments in greenway and sidewalk infrastructure, including cost sharing options.	Proposed FY 11-12 CIP includes funding for construction of Beaucatcher Greenway and land acquisition funds for Town Branch Greenway.	Proposed FY 11-12 CIP funding for greenways is \$1.45 million.
Objective 3: Clearly develop a long-term Capital Improvement Program funding plan for sidewalk, bike lane and greenway projects beyond a pay-go strategy.	Proposed FY 11-12 CIP includes debt financing for multi-modal investments including sidewalks, greenways and street rebuilds; FY 13-14 planning year also projects debt financing for multi-modal projects.	Proposed debt financing for multi-modal projects in FY 11-12 is just over \$3 million. Continuing to invest in multi-modal projects at this level in the CIP planning years will require an increased General Fund contribution to the capital budget.
Objective 4: Leverage existing funds to pursue a pedestrian and bike friendly community opportunity.	Assign to the Transportation Department. Identify stakeholders. Process does not include grant funding; it is an earned designation. Review criteria and expectations. Public hearing process, if needed. Share recommendations with City Council. Submit appropriate applications.	Possible costs relating to police training and enforcement of laws affecting bicyclists.
Objective 5: Make progress in solving the Merrimon Corridor problem by pursuing an N.C. D.O.T. analysis using their Complete Streets Policy	Assign to the Transportation Department. Review previous studies. Meet with local NCDOT staff. Share recommendations with City Council	No direct costs anticipated.

CITY MANAGER'S BUDGET MESSAGE

<p>Objective 6: City Council adoption of a Complete Streets policy</p>	<p>Form an internal steering committee including the Transportation, Public Works, and Planning Departments. Identify stakeholders. Review elements of an ideal complete streets policy. Review complete streets policies approved by various cities including North Carolina cities. Prepare draft policy. Public hearing process. Submit policy to City Council for approval.</p>	<p>No direct costs anticipated</p>
<p>Objective 7: Study alternative options for downtown parking, to include the creation of a downtown trolley.</p>	<p>Assign to the DMP Transportation sub-committee. Identify stakeholders. Public hearing process. Share recommendations with City Council</p>	<p>Could involve a contracted study at an estimated cost of \$30,000 to \$50,000. Staff will come back to Council with options during FY 11-12.</p>

ORGANIZATIONAL STRUCTURE

Fund Accounting

The accounts of the City of Asheville are organized and operated on the basis of funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues, and expenses as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Funds included in the City of Asheville Adopted budget can be grouped into two types: governmental funds and proprietary funds. Governmental funds are those through which most functions of the City are financed. Proprietary funds are used to account for City activities that are similar to those often found in the private sector. Specific City of Asheville funds include:

General Fund

The General Fund is a governmental fund that encompasses most of the City's day-to-day operations, such as police, fire, refuse collection, street maintenance, and parks and recreation. General Fund operations are primarily funded through property tax dollars, but are also supported through sales tax revenue, charges for service, license & permit fees, and investment earnings.

Enterprise Funds

Enterprise Funds are proprietary funds used to account for activities that operate like private businesses, where expenses are primarily financed by revenues derived from user charges. For the City of Asheville, these funds include:

- Transit Services Fund
- Parking Services Fund
- Water Resources Fund
- Civic Center Fund
- Stormwater Fund
- Golf Fund
- Street Cut Utility Fund

Capital Funds

Capital Funds are used to account for capital replacements and improvements. Funding is provided from operations, federal or state grants, or long-term financing and may be annual appropriations or project appropriations. Appropriations are approved through the Capital Improvement Plan process. Capital Funds include:

- General Capital Projects Fund
- Community Development Fund
- Water Major Capital Improvement Fund
- HOME Fund
- Civic Center Capital Fund
- Parking Services Capital Fund
- Transit Services Capital Fund

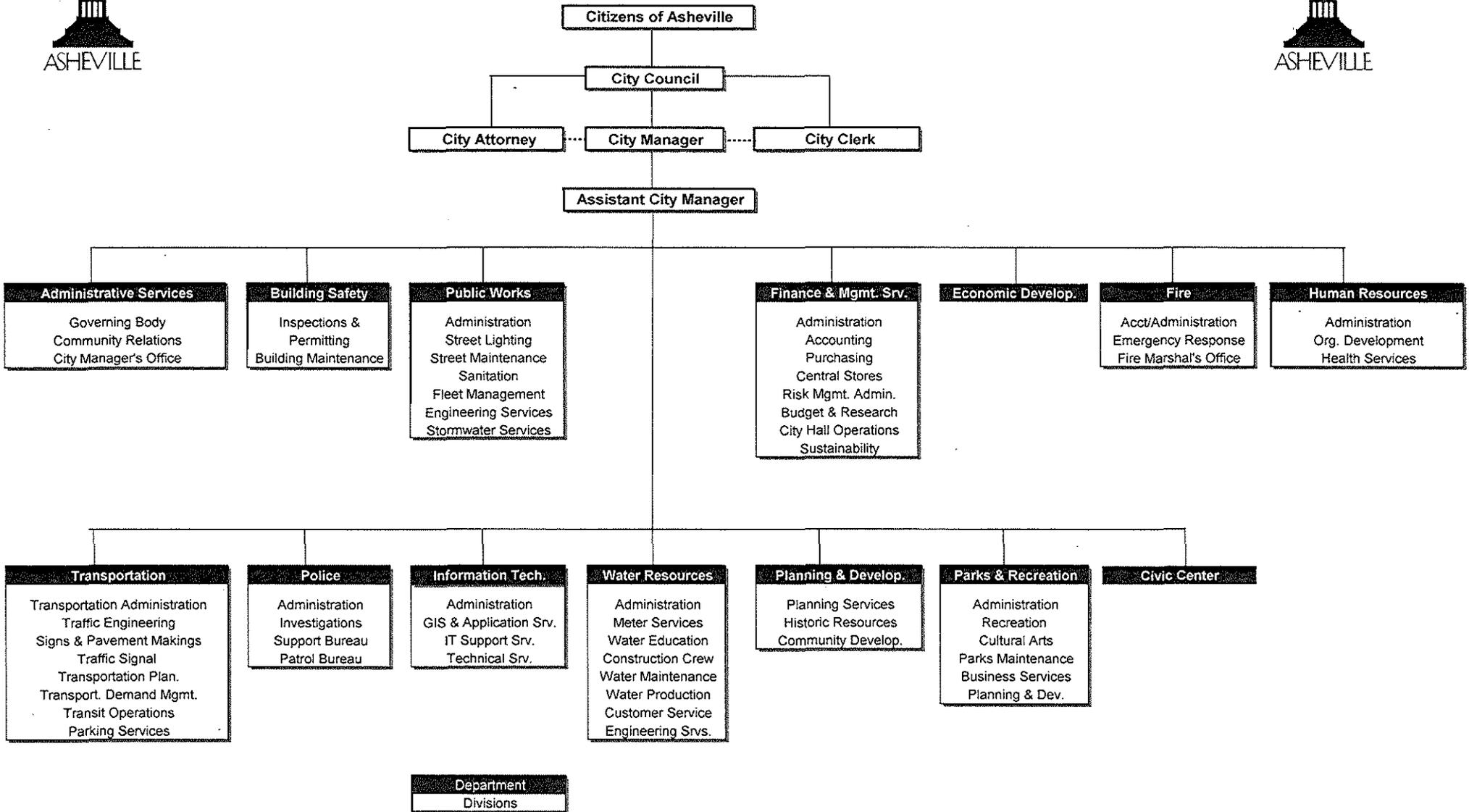
How Funds Interact

City funds interact in a variety of ways. Expenses that occur in one fund are frequently incurred to benefit another fund. When this occurs, the benefiting fund may reimburse the fund providing the goods and services. Examples of such transactions include general government services provided by the General Fund to the Water Resources Fund. Interfund transfers may also result from the exchange of resources between funds to cover operating and capital expenses. For example, the FY 2011-12 budget includes a transfer from the General Fund to the Civic Center Fund to support operations. Transfers between funds result in the budgeting of dollars in both participating funds.

Departments & Divisions

Departments are organizational units that provide a major type of public service, such as fire or police protection. Departments are usually subdivided into one or more divisions. For instance, the police department consists of four divisions: administration, criminal investigations, support bureau, and patrol bureau. Often within each division there are smaller units responsible for performing specific activities. For example, within the police patrol division is the K-9 patrol team and the anti-crime team.

A City organizational chart is presented on the following page.



BUDGET PROCESS

Budget Preparation Overview

Budget preparation affords departments the opportunity to reassess their goals and objectives and the strategies for accomplishing them. Even though the budget may be heard by City Council in May and Adopted in June, its preparation begins at least six months prior with projections of City reserves, revenues, and financial capacity. It is against this backdrop that departmental expenditure requests are formulated and reviewed. The FY 2011-12 Budget Calendar is displayed on page 25.

Financial Forecasting

The annual budget process begins with the Budget Office preparing revenue and expenditure projections. These projections serve as the framework for financial decision-making during the City's annual strategic planning and budgeting process. The Budget Office updates the City's general fund forecast annually to adjust for changes in local, state, and national economic conditions and trends; changes in City Council priorities and policies; and other variables that might affect the City's ability to provide needed services and maintain its financial health in future years.

City Council Strategic Planning

Linking important objectives with necessary resources requires a process that identifies key goals at the very beginning of budget preparation. The annual strategic planning process begins with the City Council Retreat in late January, at which time Council identifies its goals and priorities for the upcoming fiscal year. The Council's directives set the tone for the development of the annual budget.

Departmental Budget Development

Departments begin developing their budget requests in January. During this phase, departments are encouraged to thoroughly review all programs and services assessing their "value" and priority to the citizens of Asheville. Examination of current departmental programs or positions for possible trade-offs, reduction, or elimination is strongly suggested.

Any new programs or services that departments would like funded are submitted to the Budget Office as expansion requests. Expansion requests identify the program's purpose, costs, objectives, and Adopted funding sources. The expansion request also describes how the new or enhanced program is linked with overall Council priorities. Departments are encouraged to prioritize their expansion requests and only submit a limited number of requests each year.

In addition to the budget worksheets and expansion request forms, departments are required to submit the following information to the Budget & Research Office:

- *Low Priority Services.* Each department is required to submit a list of existing programs and services that could be eliminated, reduced or scaled back. These services can be used as possible "program trade-offs," allowing departments to shift resources from low priority services to new or enhanced services in order to maximize budget target allowances.
- *New or Increased Fees.* Proposals for new or increased user fees are also submitted with the departmental budget request packages. Some or all additional revenue generated from new or enhanced fees may also be used as a way to maximize departmental target allowances.
- *Performance Objectives & Measures.* Performance measures are used to report on the achievements, impacts and outcomes of key City programs. Departments submit an update of their performance objectives and measures during the budget process. Departments report on prior year performance, update current year estimates, and set targets for the upcoming fiscal year. Departments are also encouraged to continually evaluate and refine their performance indicators to ensure that they accurately reflect the organization's mission and priorities.

BUDGET PROCESS

City Manager Review

Once the Budget Office has completed its technical review of the budget, department directors meet with the City Manager in team sessions to discuss the operating and capital budget requests. Expansion requests are evaluated based on the City's financial capacity and on how they relate to City Council priorities. In most years, monies exist to fund only a small number of expansion requests. Following these senior management sessions, a citywide proposed operating budget is developed.

Budget Adoption

The City of Asheville adopts its annual operating budget in accordance with North Carolina General Statutes (N.C.G.S. 159 - Local Government Budget and Fiscal Control Act). These statutes require that City Council adopt a balanced budget in which estimated revenues and appropriated fund balances equal expenditures. The City Manager must submit a balanced budget proposal to the City Council by June 1 of each year, and City Council must adopt the Budget Ordinance by July 1. A formal public hearing is required to obtain taxpayer comment before City Council adopts the budget. By state law, the fiscal year begins on July 1 and ends on June 30.

Budget Amendments & Revisions

After the Budget Ordinance is enacted, state law permits City Council to amend it at any time during the fiscal year. Each amendment must continue to adhere to the balanced budget statutory requirements. Amendments may in no way change the property tax levy or alter a taxpayer's liability.

Budget revisions are transfers within a departmental budget not affecting the total departmental appropriation or fund total. Budget revisions do not require City Council approval.

Basis of Budgeting

As required by the North Carolina Local Government Budget & Fiscal Control Act, the budget is prepared and Adopted using the modified accrual basis of accounting. Briefly, this means that obligations of the City are budgeted as expenditures, but revenues are recognized only when they are measurable and available. The City considers all revenues available if they are collected within 60 days after year end, except for property taxes. Those revenues susceptible to accrual include: investment earnings, sales tax, and grants-in-aid earned.

During the year, the City's accounting system is maintained on the same basis as the Adopted budget. This enables departmental budgets to be easily monitored via monthly accounting system reports. At year-end, the City's Comprehensive Annual Financial Report (CAFR) is prepared on a basis consistent with "generally accepted accounting principles" (GAAP). This basis of accounting conforms to the way the City prepares its budget, with a couple of notable exceptions. One, certain items that are referred to as revenues and expenditures in the budget are included as other financing sources and uses in the CAFR. In addition, for financial statement presentation, proprietary funds are adjusted to the full accrual basis. The most significant differences between budget and CAFR for proprietary funds are: a) capital outlay & debt service principal payments are recorded as expenditures for budgetary purposes as opposed to adjustments of balance sheet accounts in the CAFR (GAAP); and b) depreciation is recorded as an expense in the CAFR (GAAP) and not recognized for budgetary purposes.

All outstanding encumbrances on the accounting system on June 30 are carried over into the next year's budget. Outstanding encumbrances at year end do not constitute expenditures or liabilities.

FY 2011-12 BUDGET CALENDAR

Item	Notes	Date/Deadline
Department Directors Overview of 2011-2012 Budget Process: - Team Management Meeting		January 10, 2011
2011-2012 MUNIS Departmental Budget Entry: - Operating Instructions Provided - Operating Accounts Entered By Departments - Salary Data Reviewed & Entered by Budget		January 11-31, 2011
Finance Committee - Annual Audit and CAFR		January 11, 2011
Finance Committee - Health Care Recommendations		January 25, 2011
Retreat City Council Retreat	Agenda: - Council Goal Setting FY11-12 Budget - Financial Forecast - Legislative Agenda	February 4, 2011
Finance Committee - Update on Key Budget Issues - Fees and Charges		February 22, 2011
City Council Formal Meeting Blue Ribbon Task Force on Health Care recommendations to City Council Q2 City Council presentation: - Strategic Operating Plan updates - Quarterly Financial Report - Preliminary Budget Outlook	All department directors to attend Council	February 22, 2011
Team Management Budget Review	Team Management meeting, note extended time	March 7, 2011 2-5 p.m.
City Council Work Session - Strategic Plan Review - Budget Process		March 8, 2011 3:30 p.m.
Team Management Budget Review	Team Management meeting, note extended time	March 14, 2011 2-5 p.m.
Executive Management Proposed Budget Finalization		March 15-March 21, 2011
City Council Budget Briefing - Compensation and Benefits - Fees & Charges	All department directors to attend City Council	March 22, 2011 Briefing 3 p.m.

FY 2011-12 BUDGET CALENDAR

Item	Notes	Date/Deadline
City Council Budget Briefing - Capital Improvement Program - Enterprise Funds City Council Formal Meeting: - Adopt Fees and Charges		April 12, 2011 Briefing 3 p.m. Formal Meeting 5
City Council Budget Briefing (If Needed) - Remaining follow-up items City Council Formal Meeting: - Proposed Budget Presentation - Set Public Hearing	All department directors to attend Council	April 26, 2011
City Council Formal Meeting Budget Public Hearing	All department directors to attend Council	May 10, 2011
City Council Formal Meeting Budget Adoption Q3 City Council presentation - Strategic Operating Plan updates - Third quarter Financial Report	All department directors to attend Council	May 24, 2011

FINANCIAL POLICIES

A. Revenue Policy

1. As provided by the North Carolina Local Budget and Fiscal Control Act, estimated revenue from the Ad Valorem Tax levy will be budgeted as follows:
 - a) Assessed valuation shall be estimated based on historical trends and growth patterns in a conservative manner.
 - b) The estimated rate of collection of the levy shall not exceed the rate of the preceding fiscal year.
 - c) The tax rate shall be set each year based on the cost of providing general government services. Rates shall be adjusted periodically, but shall not result in revenues exceeding a 5% annual growth in Ad Valorem Tax revenues excluding growth in valuation or an increased collection rate.
2. The City sets fees that will maximize user charges in lieu of Ad Valorem Taxes for services that can be individually identified and where the costs are directly related to the level of service:
 - a) To the extent possible, user charges for water, sewer and downtown parking will be sufficient to finance all operating, capital and debt service costs for said services.
 - b) The Civic Center will operate in a manner such that 90% of budgeted operating costs will be financed through user charges. A profit and loss statement will be prepared for each event for evaluation of cost recovery.
 - c) Recreational programs will be funded from user charges for all programs for which it is practical to charge. User charges should represent at least 10% of the total recreational budget.
 - d) Building and code enforcement activities will be funded through user charges in the form of building permits, inspections, and plan review fees. These fees should represent 100% of operating costs.

e) To the extent practical, any general city service, which is of a higher level or benefits specific recipients, shall be supported by user fees designed to recover costs from such recipients.

f) Where user fees are based on cost recovery, said costs shall be reviewed annually and fees adjusted as practicable.

3. The City will project revenues for five years and will update the projections annually.

B. Operating Budget Policy

1. Current operating revenues will be sufficient to support current operating expenditures. Fund balance appropriated shall not exceed an amount that management can reasonably expect to save during the year.

2. Debt or bond financing will not be used to finance current expenditures.

3. The City will begin to develop a program to integrate performance measures and productivity indicators with the annual budget.

4. The City will prepare a five-year operating budget projection which will include projections of annual growth plus allowances for operating costs of new capital facilities.

5. The City will establish a risk management program to provide for protection against loss and a reduction in exposure to liability. The City will investigate the establishment of a self-insurance program to provide for protection against major loss in excess of an appropriate amount with excess coverage being purchased to cover catastrophic loss. The establishment of a comprehensive safety program will also be investigated to minimize the City's exposure to liability and thereby reduce the number of claims filed.

6. The City will maintain a capital reserve fund to replace all vehicles and other capital outlay items with a life of more than one year and a value of \$7,500 or more. Revenue equivalent to 7.0 cents on the tax rate and 60% of one-half cent sales tax will be appropriated annually to this fund.

FINANCIAL POLICIES

7. The City will maintain a street & sidewalk reserve fund to provide for upgrading the City's street, sidewalk, and storm drainage systems. Revenues equivalent to 4.1 cents on the tax rate and Powell Bill revenues will be appropriated annually to this reserve.
8. It is the City's policy not to fund requests from outside organizations which provide social services or services which are County-wide in scope.
9. It is the City's policy that all general fund balance exceeding 15% of expenditures shall be earmarked for capital reserve purposes.
10. It is the City's policy that the operating budget be prepared in accordance with Generally Accepted Accounting Principles.

C. Capital Improvement Policy

1. The City will update and readopt annually a six-year capital improvement program which details each capital project, the estimated cost, description and funding source.
2. The capital improvements plan should be tied to the City's comprehensive growth plan, "City Plan 2025," to ensure that the capital items requested meet the future growth needs for the City.
3. Operating expenditures will be used to maintain the Capital Improvements Program and provide all salaries, operating costs, and small capital outlay required.

D. Accounting Policy

1. The City will establish and maintain the accounting systems according to the North Carolina Local Budget and Fiscal Control Act.
2. An annual audit will be performed by an independent public accounting firm which will issue an official opinion on the annual financial statements, with a management letter detailing areas that need improvement if required.

3. Full disclosure will be provided in the financial statements and bond representations.
4. Financial systems will be maintained to monitor expenditures and revenues on a monthly basis.
5. All revenue collections will be consolidated under the Director of Finance and be audited at least annually.
6. The City's annual financial report will be prepared according to the standards necessary to obtain the Certificate of Achievement of Excellence in Financial Reporting from GFOA and submitted each year for the recognition.
7. The City's Fiscal Procedures Manual will be maintained as a central reference point and handbook for all activities which have a fiscal impact within the City and will serve as the City's authoritative source for fiscal procedures.

E. Debt Policy

1. Capital projects financed through the issuance of bonds shall be financed for a period not to exceed the expected useful life of the project.
2. The general obligation debt of the City of Asheville will not exceed 8% of the assessed valuation of the taxable property of the City.
3. Total debt service on tax-supported debt of the City will not exceed 15% of total general government operating revenue.
4. Interest, operating, and/or maintenance expenses will be capitalized only for facilities of enterprise activities and will be strictly limited to those expenses incurred prior to actual operation of the facilities.
5. The City will maintain its financial condition so as to maintain a minimum AA bond rating.
6. The City's debt policy will be comprehensive and the City will not knowingly enter into any contracts creating significant unfunded liabilities.

FINANCIAL POLICIES

F. Reserve Policy

1. The City will maintain an unallocated fund balance to be used for unanticipated emergencies of 15% of the general operating budget (excluding capital outlay). These funds will be used to avoid cash-flow interruptions, generate interest income, eliminate need for short-term borrowing, and assist in maintaining an investment-grade bond rating.
2. The City will establish a contingency reserve to provide for unanticipated expenditures of a nonrecurring nature or to meet unexpected increases in service delivery costs. This reserve will be budgeted at 1.5% of the general fund revenues estimated for that fiscal year.
3. The City will maintain a two-to-one ratio of total current assets over total current liabilities in all enterprise funds.

