City Council Budget Work Session

April 14, 2020

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Presentation Overview

- Fiscal impact of COVID-19 on current year.
  - General Fund
  - Enterprise Funds
- Fiscal Year 2020-21 (FY21) Budget Planning.
  - Revenue Changes
  - Expenditure Changes
  - Review of Strategic Investments

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COVID-19 Impacts

- Operational changes:
  - Fare-free transit service.
  - Free on-street and garage parking.
  - Deferring/waiving some leases, monthly charges and loan payments.
  - Contribution to One Buncombe Fund.
  - Sheltering at the Harrah's Center.
- Significant revenue and expenditure impacts.

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Key Presentation Takeaways

- We are operating in the grey.
- Decisions will need to be made with limited information about the length and severity of the economic downturn from COVID-19.
- Manager's FY21 Recommended Budget will likely be a continuation budget with no new services or enhancements.

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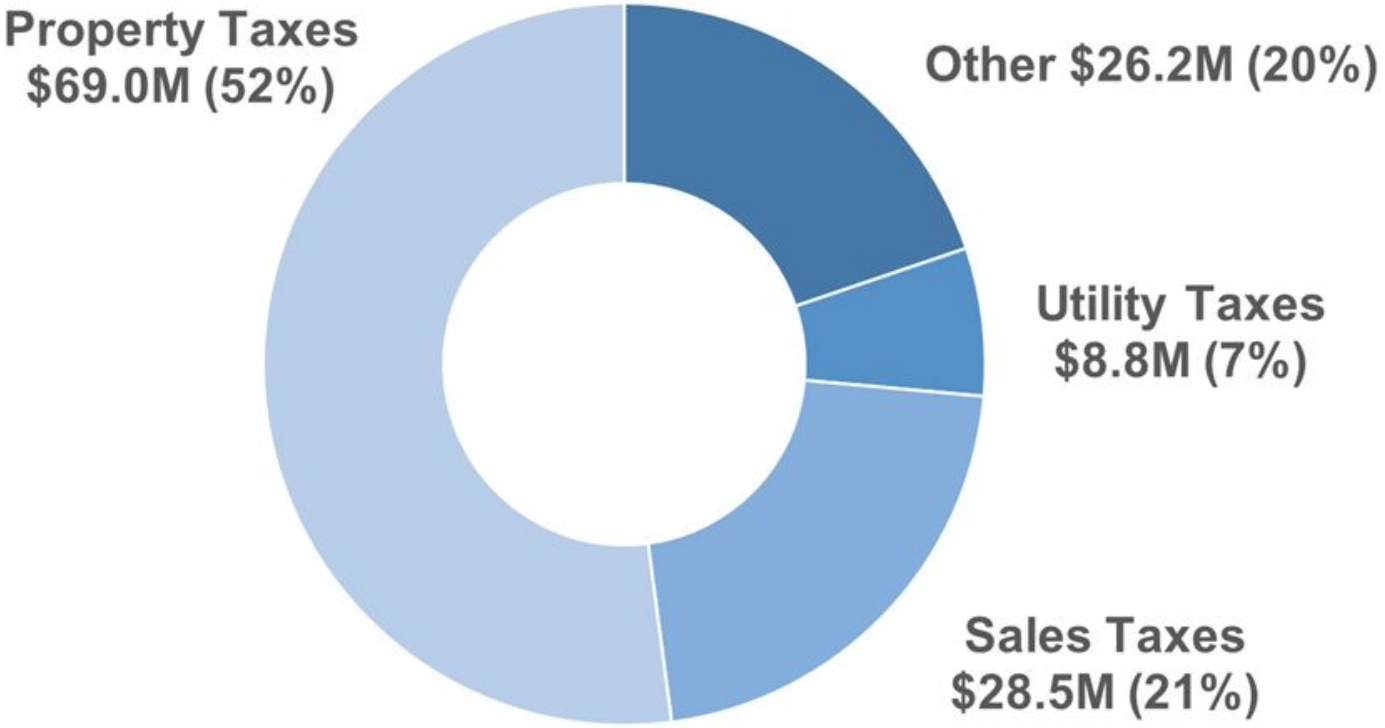
Current Fiscal Year Update

Current Year Summary

- Spending will continue for essential services.
- Implementing targeted, strategic reductions and/or delays in spending where possible.
- General, Parking, and HCCA Funds are likely need to utilize fund balance, as expenses will exceed revenues.
- Federal/state assistance will help to mitigate financial impact.

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FY19-20 General Fund Revenues



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General Fund Revenues: Property Tax

- On budget, but lower estimate.
- Most revenue comes in during winter.
  - 99.15% of levy collected as of March.
- County Tax Office estimated collection rate for Asheville:
  - Current year: 99.25% - 99.30%
  - Last fiscal year: 99.95%

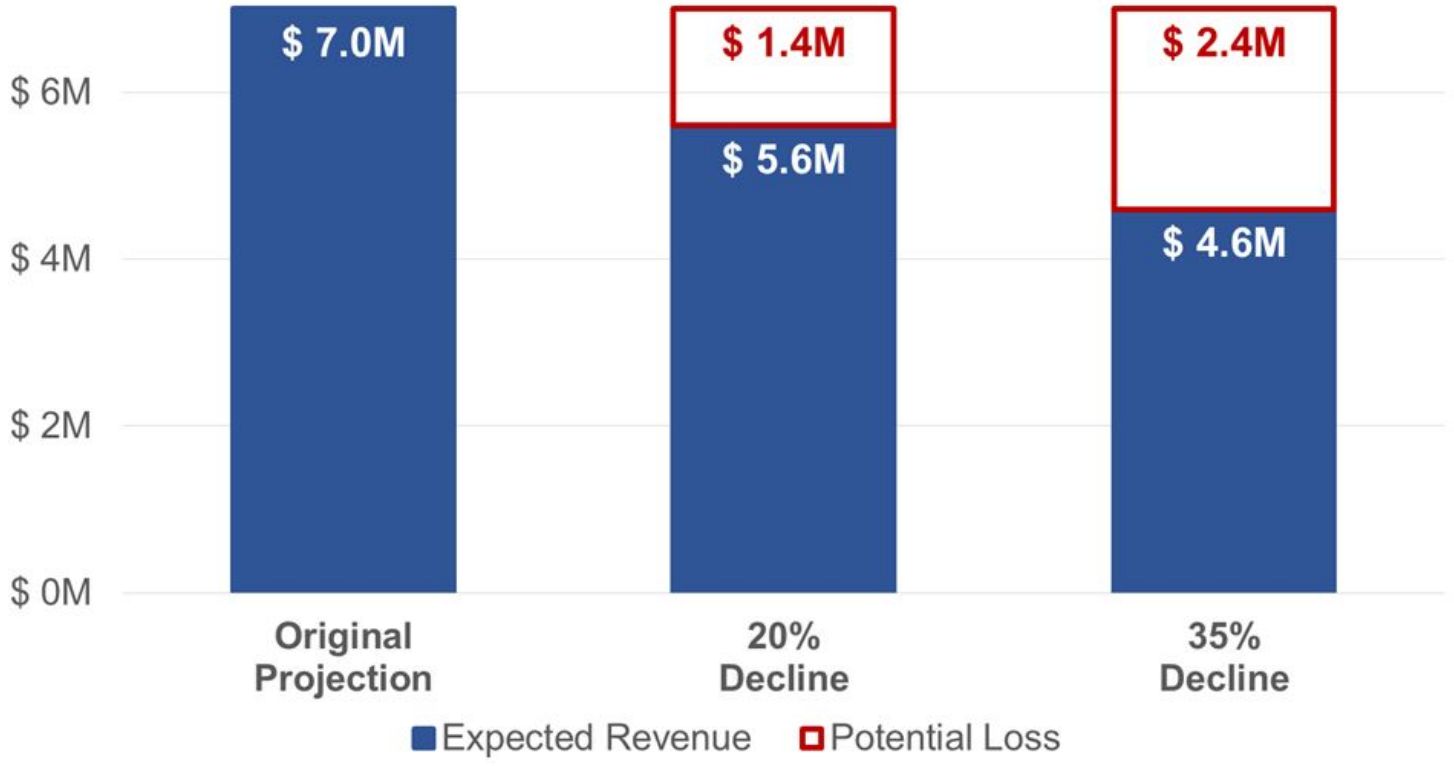
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General Fund Revenues: Sales Tax

- Substantially under budget, but decline very difficult to predict.
- March sales data not available until June.
- Estimates for remainder of fiscal year:
  - NC League of Municipalities: 20% decline.
  - Buncombe County assuming 35% decline.

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General Fund Revenues: Sales Tax



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General Fund Revenues: Other Losses

- **State Utility Taxes:** electricity consumption down from reduced commercial activity.
- **Investment Earnings:** interest rate reduction.
- **Development Fees:** slowdown in new construction activity.
- **WNC Nature Center:** currently closed.
- **Recreation Fees:** no programming provided.

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General Fund Revenues: Unknowns

- Breadth and depth of decline in sales taxes.
- Potential State action to delay revenues:
  - Suspension of motor vehicle registrations.
  - Deferment of sales tax payments.
- Potential for federal and state assistance.

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FY20 General Fund Revenue Losses



General Fund Expenditures

- Spending Priorities:
  - Current personnel.
  - Essential services.
  - COVID-19 response.
  - Implementing $31,200 on May 8 paycheck and addressing the associated compression (est. impact $75k).
- Targeted Reductions:
  - Hiring freeze for existing vacancies.
  - Delay or forego operating expenses.

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Current Year General Fund Summary

	Mar. Est.	Est. Changes
Revenues	$ 133.4M	$ 2.5M - $ 4.0M
Expenses	$ 132.8M	$ 0.0M - $ 1.0M
Rev. vs. Exp.	$ 0.6M	$ 2.5M - $ 5.0M
Transit Shortfall	$ 0.3M	$ 0.3M - $ 0.5M
Rev. vs. Exp.	$ 0.3M	$ 2.8M - $ 5.5M

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Enterprise Fund: Civic Center

- Revenue $575,000 under budget (if closed through June 30).
- Expenses under budget due to reduced event staffing, supplies, and other services, offsetting most of revenue loss.
- Estimated fund balance impact: $100,000.

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Enterprise Fund: Parking Services

- Revenue $1,500,000 under budget due to free parking on-street and garage parking (if offered through June 30).
- Limited flexibility to reduce expenses.
- Estimated fund balance impact: $1.5M of $2.2M available.

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Enterprise Fund: Transit Services

- Revenue $200,000 under budget due to free fares (if offered through June 30).
- Expenses over budget, but potentially lower due to falling fuel prices.
- Estimated shortfall: $300,000 - $500,000.
    - Federal assistance will help offset COVID-19 impacts.

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Enterprise Fund: Others

Water Services

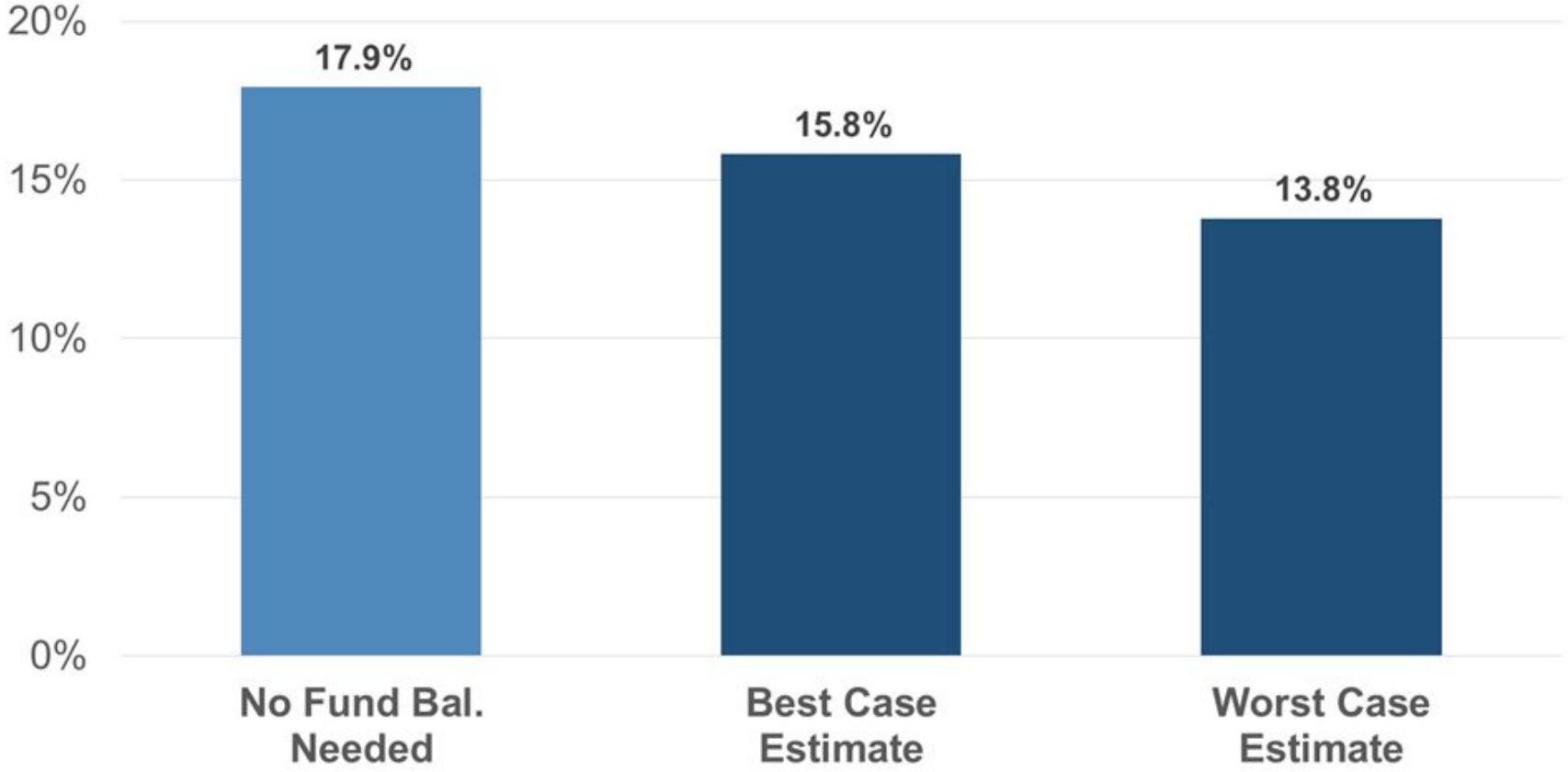
- Revenues will be impacted by decrease in usage with businesses closed and no cut-off policy.
- Overall, no major financial impact through June 30.

Stormwater & Street Cut

- No major financial impact expected at this time.

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Current Year Fund Balance Need



Financial Impact Summary

- General Fund projected fund balance decline: $2.8M - $5.5M.
- Parking Services Fund projected fund balance decline: $1.5M.
- Other Enterprise Funds unlikely to experience major financial impact in the current year.

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Discussion

Fiscal Year 2020-21 Budget Planning Update

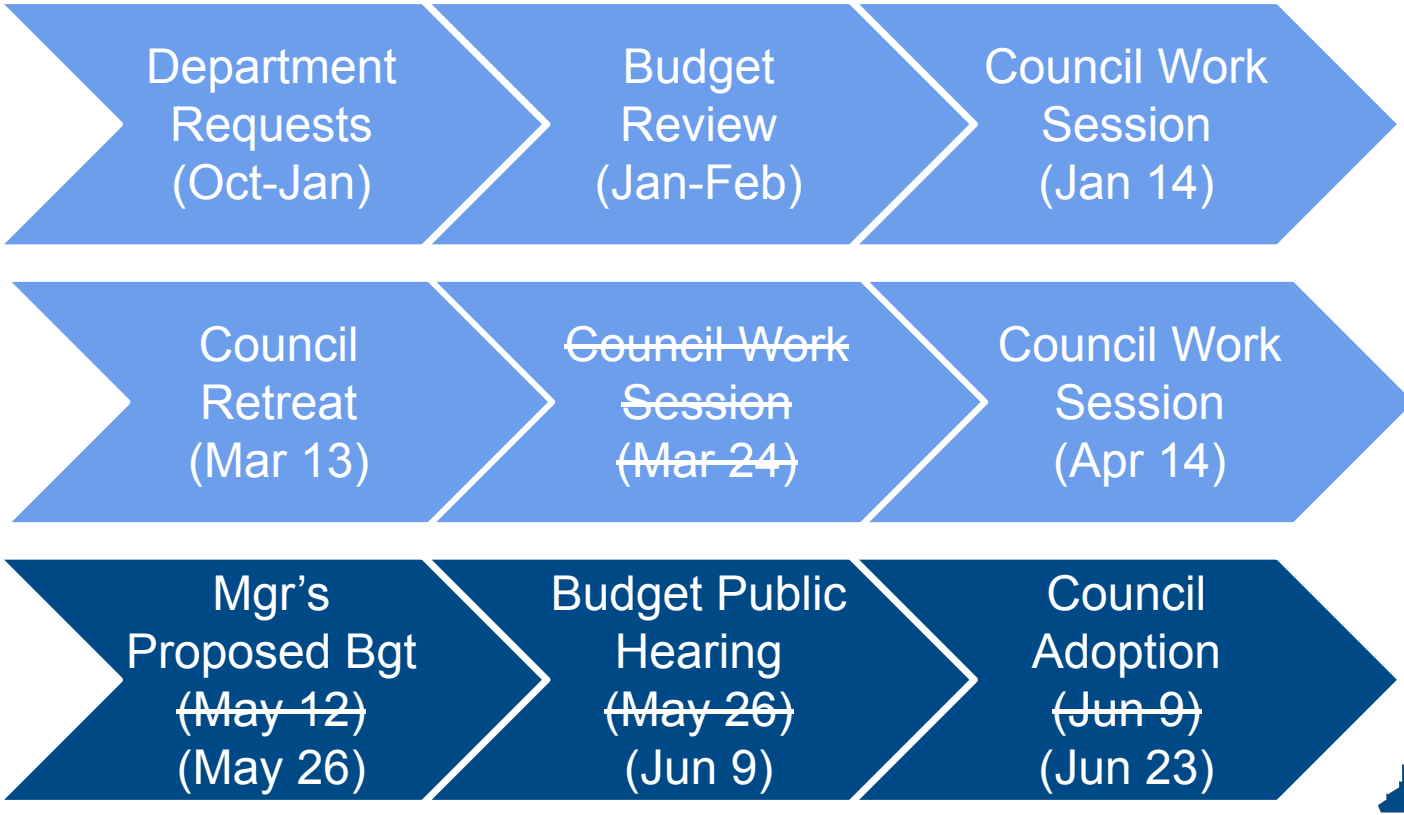
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Budget Planning Summary

- Budget decisions for next fiscal year need to be delayed as long as possible.
- General Fund revenue projections have been reduced.
- Implementing new services or program enhancements will need to be delayed.

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Changes to Budget Schedule



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Interim Budget Option

- State statutes allow for the adoption of an interim budget.
- Asheville and many NC local governments adopted interim budgets in FY03 due to uncertainty over state reimbursement revenue.
- Utilized interim budget in FY03 for 2 months.
- Consider only if other local governments in the state are doing the same.

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Fiscal Year 2020-21 Unknowns

- How far will sales tax revenue fall?
- How quickly will economic growth return?
- Will property tax collection rates decline due to the economic crisis?
- Will city facilities have to shut down for any length of time after July 1?
- When and how much assistance will the City receive from the federal & state government?

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FY21 Baseline Revenue: Overview

Projected General Fund Revenue Growth	
Council Retreat (3/13)	$ 6.8M
Council Work Session (4/14)	$ 2.0M
Difference	$ 4.8M

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FY 21 Baseline Revenue: Sales Tax

- League of Municipalities scenarios:
  - 3.2% decline (most conservative).
  - 2.3% decline (severe).
  - 1.5% growth (moderate).
- Currently assuming moderate scenario.
- Reduction vs. original estimate: $2.8M.

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FY 21 Baseline Revenue: Property Tax

- Cannot budget a collection rate higher than current year by state statute
  - Original rate assumed: 99.95%
  - Current rate assumed: 99.3%
- Reduction vs. original estimate: $600,000.

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FY 21 Baseline Revenue: Other

- Federal Reserve interest rate cuts will result in lower investment earnings.
  $1.1M reduction vs. original estimate.
- Recommending no fee increases based on economy.
  $300,000 reduction vs. original estimate.
- Budgeting most other general fund revenues at the same level as current year.

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FY21 Baseline Revenue Summary

Revenue	Reduction
Sales Taxes	$ 2,800,000
Property Taxes	$ 600,000
Investment Earnings	$ 1,100,000
Fee Increases	$ 300,000
Total Reduction (vs Mar 13 estimates)	**$ 4,800,000**

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FY21 Baseline Revenue vs. FY20

	FY20	FY21	Change
Property Taxes	$ 68.98M	$ 71.40M	$ 2.42M
Sales Taxes	$ 28.46M	$ 27.98M	($ 0.48M)
Intergovernmental	$ 12.99M	$ 13.30M	$ 0.31M
Sales & Permits	$ 18.25M	$ 17.66M	($ 0.59M)
Other	$ 3.57M	$ 3.97M	$ 0.40M
Total Revenue	**$ 132.26M**	**$ 134.32M**	**$ 2.06M**

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Expenditures

FY21 Baseline Expenditures: Overview

Projected General Fund Expenditure Growth	
Council Retreat (3/13)	$ 6.8M
Council Work Session (4/14)	$ 3.4M
Difference	$ 3.4M

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FY21 Baseline Expenditures: Included

Budget still includes funding for:

- Implementation of $31,200 minimum and addressing related compression.
- State mandated increase in retirement contribution.
- Continuation of transit service enhancements that began in January 2020 and paratransit cost increase.

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FY21 Baseline Expenditures: Changes

- Hiring freeze for currently vacant positions.
- Eliminate employee pay adjustment (COLA).
- Maintain at current year amount:
  - OPEB contribution
  - Capital debt model contribution
  - Health Fund contribution
  - Department operating budgets
- Fund RADTIP maintenance for partial year.

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FY 21 Baseline Expenses

	March	April
Continue Current Transit	$ 1,720,000	$ 1,720,000
Mandatory Retirement	$ 700,000	$ 700,000
AFD Grant Staffing	$ 316,000	$ 316,000
$31,200 & Compression	$ 300,000	$ 300,000
River Arts Maintenance	$ 504,000	$ 250,000
Operating Cost Increases	$ 372,000	$ 114,000
General Pay Raise	$ 1,600,000	$ 0
Additional CIP/Debt	$ 588,000	$ 0
Health Care	$ 500,000	$ 0
Additional OPEB	$ 200,000	$ 0
Total	**$ 6,800,000**	**$ 3,400,000**

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FY 21 Baseline Budget Summary

Current General Fund Planning	
Revenues	$ 134.3M
Expenditures	$ 135.7M
To Balance	$ 1.5M

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FY 21 Baseline Budget Summary

- Options for balancing the budget:
  - Fund Balance
  - Revenue adjustments
  - Further reductions to operating budgets

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Strategic Investment Requests

Transportation & Accessibility	• Transit Master Plan implementation.
Clean & Healthy Environment	• Waste reduction planning & staff. • Urban forestry planning & staff. • Sustainability initiatives.
Well-Planned & Livable Community	• Initiate UDO overhaul. • Noise Ordinance implementation. • Winter seasonal shelter funding. • UNCA track renovation.

Strategic Investment Requests (Cont.)

Financially Resilient City	• Compensation study implementation. • Facility, technology and infrastructure maintenance.
Connected & Engaged Community	• Participatory budgeting through neighborhood grants.
Equitable & Diverse Community	• Additional summer programs for youths and teens. • Business inclusion training. • Extended hours at community centers.

Strategic Investment: Transit

- Full year implementation of January 5 service enhancements will continue.
- FY21 funding unavailable for extending service hours, operational software, and additional routes/frequency.
- Federal CARES grant will help offset COVID-19 impacts and other needs.

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Strategic Investment: Compensation

- Implementation of $31,200 minimum and associated compression ($450k annual).
- FY21 funding unavailable to address additional recommendations from the compensation study.

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Strategic Investment: Sustainability

- Green Savings available to fund:
  - Sustainability Management Plan Update
  - Climate Justice Screening Tool
  - Blue Horizons Project
  - Renewable Energy Projects
- FY21 funding unavailable for other capital investments (e.g., roof replacements, building systems) and waste reduction.

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Updates to Key Takeaways from Retreat

- **Even more** uncertain economic outlook.
- **Minimal** revenue growth will be used up by ongoing operating cost increases, **even after making reductions to expenditures.**
- **While enhancements can be considered if the fiscal picture improves later in the year,** additional revenue will be needed to fund any new capital and operating investments.

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Next Steps

- Adjust budget adoption schedule.
- Monitor economic trends and adjust estimates as needed.
- Work to balance general fund budget over next few weeks.

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Discussion