March 24 FY 2027 Budget Work Session

March 24, 2026

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Agenda

I. General Fund Base Budget Expenses
II. Update on the Gap
III. Possible Budget Balancing Strategies
IV. Compensation
    A. Background
    B. Scenarios for Discussion
V. New Funding Requests

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FY27 General Fund Expense Projections

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FY27 General Fund Expense Projections

- Budget staff instructed departments to keep base operating budget submittals flat compared to current year but unavoidable cost increases are making that challenging.
- In addition, health care and state retirement costs are increasing in FY27.
- The City must also move forward with budgeting debt service expenses from the 2024 GO Bond referendum.
- ***Overall FY27 General Fund base expense estimates, including debt service, are up approximately $16.8M.***

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FY27 Major Expenditure Drivers

Expense Increases	$ (in millions)
General Obligation Bonds Debt Service	$6.5
Health Care & Retirement	$5.1
APD Staffing	$1.8
Community Center Security	$1.8
Transit Contract	$0.8
Housing Trust Fund Contribution	$0.5
Fleet Maintenance	$0.5
OPEB Trust Fund Contribution	$0.2

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2024 GO Bonds

- Asheville voters approved $80M in General Obligation (GO) Bonds in November 2024 for improvements to Public Safety Facilities, Transportation, Parks, and Affordable Housing.
- The estimated annual debt service on the bonds is $6.5M.
- The ballot referendum estimated that debt service on the bonds would require a 2.58 cent property tax rate increase.
- The City delayed the tax rate increase in fiscal year 2026 due to Helene and the fact that revaluation did not occur.
- For fiscal year 2027, staff has included the full debt service and the tax rate increase in the initial budget projections on the following slides.

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FY27 General Fund Expense Projections (in millions)

General Fund	FY26 Budget	FY27 Projected	FY26 vs FY27	% Increase
Personnel Costs	$117.4	$124.8	$7.4	6%
Operating Costs	$32.3	$33.9	$1.6	5%
Transfer to Other Funds	$11.1	$12.4	$1.3	12%
Capital/Debt Program	$16.3	$22.8	$6.5	40%
Total	**$177.1**	**$193.9**	**$16.8**	**9%**

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FY27 General Fund Revenue Projections (in millions)

General Fund	FY26 Budget (Adjusted)*	FY27 Projected	FY26 vs FY27	% Increase
Property Taxes	**$91.5**	**$92.6**	**$1.1**	**1%**
Property Taxes (GO Bond Debt Service)	**$0.0**	**$6.5**	**$6.5**	**100%**
Sales & Other Taxes	$42.3	$42.4	$0.1	0%
Intergovernmental	$14.2	$14.6	$0.4	3%
Fees & Charges	**$15.7**	**$17.6**	**$1.9**	**12%**
Investment Earnings	$2.5	$2.4	-$0.1	-4%
ABC Revenue & Other	$3.2	$3.6	$0.4	13%
FY26 One-Time Revenues	$5.6	$0.0	-$5.6	-100%
Total	**$175.0**	**$179.7**	**$4.7**	**-4%**

**Reflects change in accounting for cost allocation charges.*

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FY27 General Fund Revenues Vs Expense (in millions)

General Fund	FY26 Budget	FY27 Projected
Revenues	$175.0	$179.7
Expenses	$177.1	$193.9
Fund Balance Used	**$2.1**	**$14.2**
Fund Balance %	**14.1%**	**5.9%**

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Discussion

- Does Council have any questions about the initial base budget projections for revenues and expenses?
- Does Council support staff continuing to move forward with fully budgeting the 2024 GO Bond debt service and associated property tax rate increase in fiscal year 2027?
  - A second option would be to phase in the tax rate increase with 50% in fiscal year 2027 and 50% in fiscal year 2028.

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FY27 General Fund Budget Balancing Strategies

FY27 General Fund Budget Balancing Strategies

- Staff has developed an initial list of General Fund cost saving strategies for FY27.
- Reductions include eliminating some vacant positions.
- Staff has also identified potential service reductions for discussion.
- ***Identified a total of approximately $6.9M in initial strategies.***

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Budget Balancing Strategies for FY27

Category	Recommended
Efficiencies	$1.0
Eliminate Non-Critical Vacancies	$0.3
Employee Benefits/Incentives	$0.7
Program Pause	$0.5
Reduction to Match Trend	$0.2
Service Reduction	$2.3
Transfer to Other Funds	$1.9
Grand Total	**$6.9**

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Budget Strategy Examples

- Efficiencies:
  - Departmental reductions to training, supplies, software, contracted services, etc.
- Eliminate Non-Critical Vacancies:
  - Staff reviewed vacancies that had been open >250 days and targeted certain positions for elimination and/or reallocation based on need.

Budget Strategy Examples

- Program Pause:
  - Continue to pause the contribution to the Housing Trust Fund
- Reduction to Match Trend:
  - Reduce Neighborhood Matching Grants budget to match historical spend
  - Reduce pool maintenance budget while pools are closed for construction

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Budget Strategy Examples

- Employee Benefits/Incentives:
  - Pause Quality of Service Award program
  - Eliminate 1% 401(k) matching program that was added in fiscal year 2024 (employees still receive 5%)
- Transfer to Other Funds (one-time):
  - Pause transfer to the Harrah's operating fund and replace with HCCA fund balance
  - Utilize Transit fund balance to cover increase in Transit contract

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Service Reduction Examples

Reduction	$	Impact
Reduce Community Center Hours to Pre-COVID Levels	$424K	Summer hours would remain the same. Off season hours would decrease by 13%.
Pause Public Art Contribution and Maintenance	$274K	The fund would keep its existing funding but no new contribution next year. Maintenance projects would be delayed.
Reduce Security Contract	$290K	Adjusted security presence at some community centers based on low incident levels.
Reduce Median/Guardrail Maintenance	$141K	Eliminates contract that mows 29,000 ft near guardrails and 20,000 sq. ft. of medians.

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Service Reduction Examples

Reduction	$	Impact
Eliminate Financial Support for Holiday Events	$98K	Organizations that manage holiday events would need to find additional funds to cover lost revenue from City.
Reduce Litter & Hotspot Cleaning Contract	$36K	30 miles/week cleaned instead of current service levels of 40 miles/week.
Pause AVL Arts Grant Program	$25K	Organizations that hold events on city property wouldn't get grants to cover city fees and charges.

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FY27 General Fund Revenues Vs Expense (in millions)

General Fund	FY26 Budget	FY27 Projected	FY27 Projected w/Savings
Revenues	$175.0	$179.7	$179.8
Expenses	$177.1	$193.9	$187.0
Fund Balance Used	**$2.1**	**$14.2**	**$7.2**
Fund Balance %	**14.1%**	**5.9%**	**10.0%**

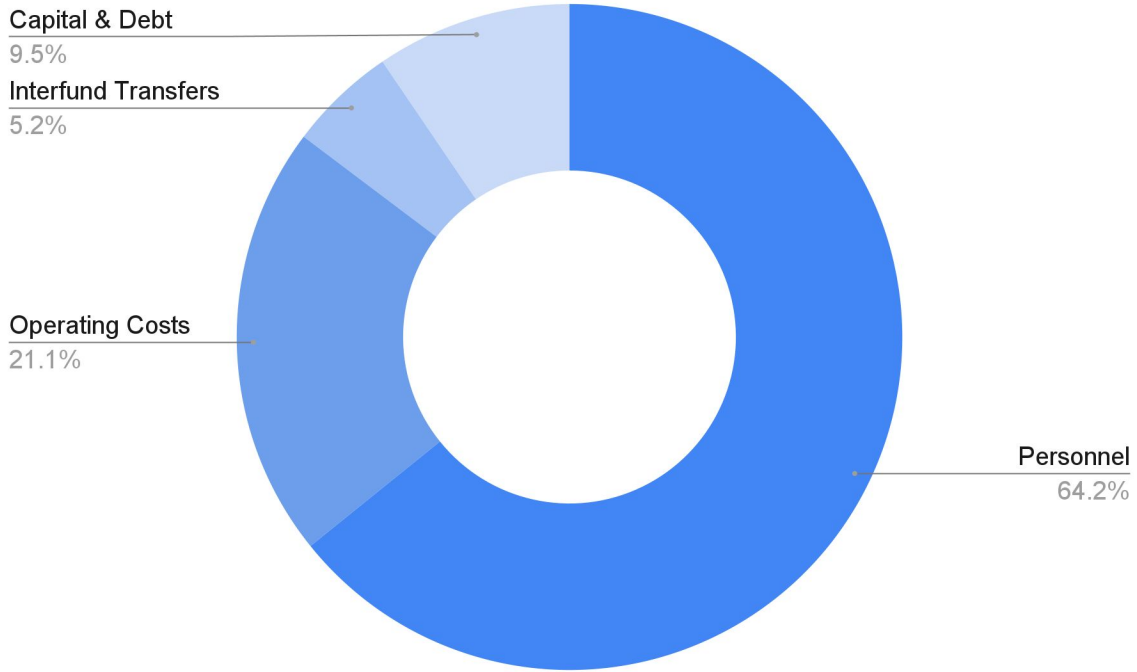
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Discussion

Compensation

Compensation

- Compensation and benefits are the largest component of the City's budget.
- The City has invested significant resources in compensation and benefits over the last several fiscal years.



Note: The average % of personnel for state and local govt. organizations is 63.94% (US Bureau of Labor)

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Comp & Benefits Budget History

Fiscal Year	Budget	% Increase
2020-21	$ 81,160,359	0.7%
2021-22	$ 88,778,641	9.4%
2022-23	$ 98,242,300	10.7%
2023-24	$ 107,806,392	9.7%
2024-25	$114,453,120	6.2%
2025-26*	$117,363,874	2.5%

*Compensation increases were partially offset by additional vacancy savings included in the FY26 budget.

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Historical Compensation Adjustments

FY	General Increase	Other
2020-21	0.0%	One-time payment for on-site ($750) and front-line ($1,000) employees (COVID-19)
2021-22	Min of 2.5% or Archer amount	Archer recommended changes to pay plans Additional adjustments to AFD pay plan (Nov 2021)
2022-23	5%	Recruitment & retention incentives for APD (Aug 2022) Additional compression adjustments (Nov 2022) Increased minimum salary to $36,816 (Nov 2022)
2023-24	5%	6% increase for sworn APD
2024-25	4%	Flat dollar increase of $4,053 for beginning on-shift Firefighters; 6.0% increase for sworn APD
2025-26	3%	$1,740 flat increase for those below the median salary Transition to new APD pay structure

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FY26 Budget Compensation Adjustments

General Pay Plan (3% Hybrid): 3.0% increase for staff above the $58,000 median salary; $1,740 flat increase for staff below the median.

Police Pay Plan: New pay structure implementation, including compression adjustments. Officers without a compression adjustment receive a one-time 3.0% equivalent amount.

Fire Pay Plan: 3.0% increase for all Fire pay plan employees.

Pay Grades: No change

Overall, the general fund budget included a $3.7M increase in personnel costs (offset with higher vacancy assumption).

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Compensation Strategy Considerations

- Accelerate progress toward living wage for full-time staff.
  - Local calculations from Just Economics estimates the living wage to be $50,128 annual salary.
- Manage pay scales to minimize salary compression.
- Base recommendations on quantifiable benchmarks: 3.3% per Bureau of Labor Statistics average for state and local government wages (this represents $3M general fund only).
- Develop a multi-year plan to resolve systemic compensation issues, transitioning toward a performance-based pay model.

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Compensation Structural Issues

- Current pay lags inflation, which means employees lose purchasing power and the organization loses talent.
- Relying exclusively on across-the-board increases causes salaries to cluster on a stagnant horizontal line rather than an upward growth curve.
- Increasing pay grades at the same rate as annual raises compounds structural flaws. This prevents the overall scale from catching up.
- To remain competitive, new hires often start at rates near or above those of existing staff which creates friction and negatively impacts morale.

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Scenario #1

- 3.3% across the board salary increase for all permanent employees
  - Simple approach that raises the minimum salary to $41,692 and gives every full-time employee a clear, easy-to-understand raise.
  - Low-maintenance and doesn't add to existing compression.
  - While it helps move everyone toward market rates, it won't significantly impact hard-to-fill roles, close the gap with competing local employers, or reward top performers.

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Scenario #2

- Use the same $3.0M cost to distribute dollars equally to all permanent employees
  - Estimated $2,244 increase for every full-time employee
  - Prioritizes simplicity by raising pay for lowest-paid staff and ensuring every full-time employee earns at least $42,604.
  - May help boost recruitment for entry-level roles
  - Easy to communicate, it isn't performance-based and won't close the gap in market competitiveness more than Scenario #1.

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Scenario #3

- Conduct a salary study in early FY27 and allocate the identified $3.0M in January 2027 to address the most significant pay disparities
    - Study will provide a foundation for addressing the structural issues in compensation structure.
    - $3M will not be enough to fully implement the study's recommendations.
    - Adjustments will create a permanent cost to our budget and because this is a market correction it's probable that not all employees would receive increase.
    - Internal communication would be important to ensure transparency and understanding.

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Scenario #4

- Give staff a 2.5% increase in July and set aside ~$725K to begin addressing critical market disparities after rate study completed
  - Simple approach that provides raise to every full-time employee.
  - Low-maintenance and doesn't add to existing compression.
  - Allows for data-driven adjustments for market disparities.
  - Doesn't address performance.

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Compensation Discussion

- Preference between scenarios?
- Any other scenarios to consider?
- If decision is made to increase compensation, HR recommends increasing pay grade ranges by 1.5%.

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New Funding Requests

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New Funding Requests (General Fund)

- Last year, departments were instructed not to submit new funding requests and to keep operating budgets flat.
- This year, departments were instructed to submit requests, with understanding that funds are very limited.
  - Important to keep track of citywide needs even if they aren't funded this year.
- Departments requested ~$7.5M in new funding requests, including 38 new positions.

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New Funding Requests (Bond Related)

- When the GO bonds were approved, staff indicated the need for additional positions to ensure project success. This was delayed after Helene.
- Staff recommends adjusting the tax rate increase for the bond to include 2 positions:
  - 1 Affordable Housing Bond Manager ($99K)
  - 1 Capital Program Manager for Public Works ($130K)

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Fire Department 4th Shift

- 16 Firefighters requested
- Total cost of the request $1.4M
- Implementation timeframe: 6 months after approved

Each additional 16 people allows for an improvement towards the progress of the 4th shift. Adding 16 people will allow for an additional debit group to be added.

This additional debit group will equate to the following gains:

- Reduction in hours per week from 52.6 to 50
- Increased number of scheduled 24 hour shifts off per year to 12 from 8
- Corresponding increase in hourly rate without an increase in annual salary bringing AFD members closer to hourly living wage

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Discussion

Work Session Topics

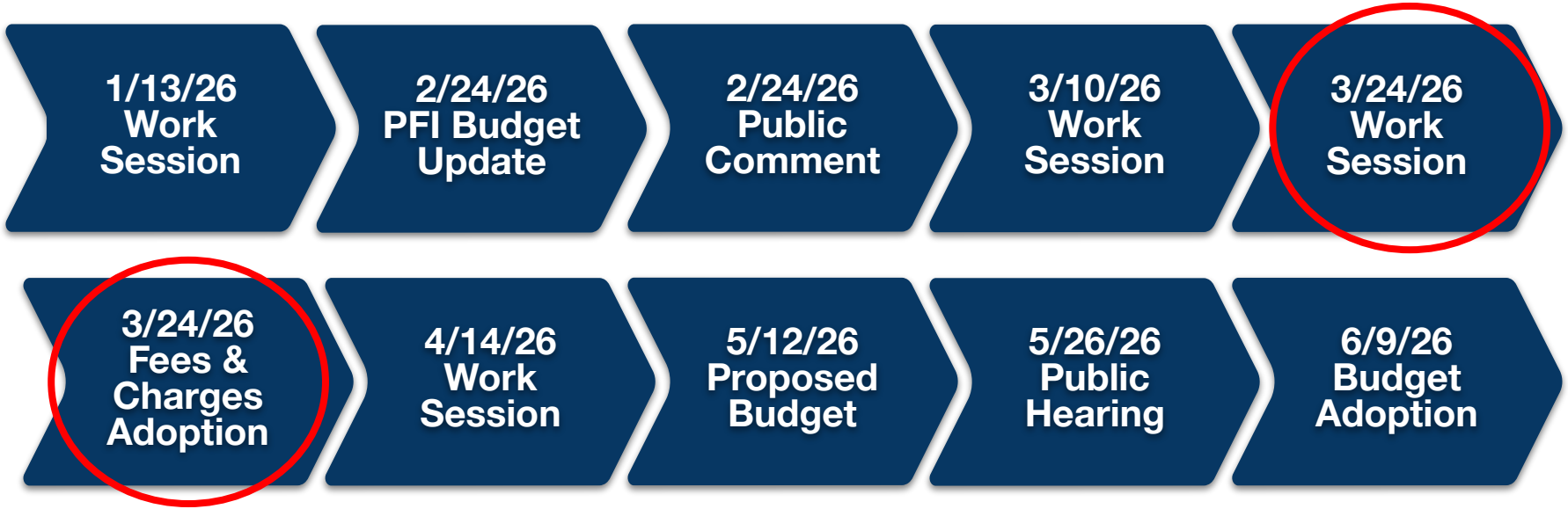
March 10	• Updated GF revenue projections • Fees & Charges

March 24	• Updated GF spending projections
	  ○ Savings
	  ○ Other operating changes
	• Compensation strategies

April 14	• Enterprise Funds & BID • Capital Improvement Program • Finalize Council proposed budget direction • Property Tax Rate

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FY27 Budget Next Steps



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