

The City Council of the City of Charlotte, North Carolina convened for a Budget Retreat at 3:08 p.m. on Wednesday, March 24, 2010 in Room 267 of the Charlotte Mecklenburg Government Center with Mayor Anthony Foxx presiding. Council members present were Michael Barnes, Patrick Cannon, Warren Cooksey, Andy Dulin, David Howard, Patsy Kinsey, Edwin Peacock, and Warren Turner.

ABSENT UNTIL NOTED: Council members Susan Burgess and James Mitchell.

ABSENT: Council member Nancy Carter (Was connected by phone for portions of the meeting.)

Mayor Fox called the meeting to order at 3:08 p.m. and said it is clear that our number one priority is public safety and that is part of the way you will see this budget process being played out. I am interested in where the City staff feels that we should try to cover our funding gap and dealing with reductions. You've heard about them at the County level, you've heard about them at the School System level. We have budget impacts too and as we work through this process identifying those areas that are core to our City is going to be the work of this group. Let's work at it and do our best work for the people of Charlotte.

City Manager, Curt Walton, said to echo a few of the points the Mayor just made, at the Retreat we talked about the fact that there would be a gap going into the next fiscal year and while it was a gap that we were not accustomed to, it was a gap that was manageable. Today we want to start working through with you how we are working to get that gap down. We have not eliminated it yet, but we are getting much closer and we still have about six weeks to go. Today we want to give you a feel for where we are and we will present some information later to you in the General Fund Budget Update. It is a lot of information so we will leave it with you and be glad to answer questions now or later, particularly along the process because it has a number of reductions, probably too many to digest in a budget retreat today. It is something that we are not accustomed to, but we are not looking at anything even, in my opinion, remotely comparable to what we are seeing with other governments across the country. As you know, from our past, as we move through the spring our revenues get a little bit firmer so this is a point as opposed to earlier in the month when we didn't have much new to talk about, Gregg has an update on that. Mr. Peacock had asked at our last meeting about an article that was in the *Wall Street Journal* about municipal bond markets so Gregg is going to address that as well.

FINANCIAL UPDATE

Finance Director, Gregg Gaskins, said let me quickly run through a couple things that are going to be consistent with the economic information that we have been talking about. Number one is that we had a big dip and we are in a slow recovery, slow growth. I don't think there is anything that I'm going to tell you today that is any different from where we have consistently said. Where the economic analyst are is that we are in a period of slow recovery. What that means is when I talk about growth, it is going to be off a base that is lower because we had a large dip in the economy. Nothing has change in that. That is what we said last time and that is where we are. Mr. Gaskins used PowerPoint for his presentation. There is one interesting fact here and that is that top bullet, at a recent presentation we heard that for the first time in 24 months that we had actually had a break in this declining job situation for the State of North Carolina. That is something that had been predicted that was going to happen, but this is the first time we have actually seen that. That is also consistent with the projections that we've had. The unemployment rate is still high, 11.2%. This entire downturn has been characterized by high unemployment and that continues. We are seeing that sales prices and the figures are better than many other places in the country and even in the State of North Carolina, but once again it is indicative that we haven't turned around except a little bit. We've just made a little movement forward and the information we are getting is consistent with that. What we expect to happen continuing is that related to the property tax, and there are some factors in here related to the property tax and because we are expecting low growth in terms of the lag in the property tax, in other words, during the period of time we should have seen average starts in terms of residential and commercial building, we know that we have a lull in that and that lags in terms of the property tax impact. That is the reason we are looking for low growth in terms of what is happening with property tax. We are seeing that and that is expected, not no growth, but low growth in terms of property tax. The tax base for our activity is also impacted, not just by property tax, but also as you know, automobiles has been a part of the sector that is down so

that slow growth is also having to cover the downturn in terms of the part of that revenue that is on automobiles as a big component of the property tax rates. We talked about that before and we haven't seen since then that there is any change in that picture. It is what we anticipated and we are not seeing anything different from what we did.

With regards to sales tax, this is where all the activity has been and with good reason because in this economy, both with the state and for local government we saw a big drop in sales tax and sales tax activity. That ultimately results in revenues from sales tax being lower. We are seeing increases according to where they are projecting and what is happening from retail sales associations, from the banks that things are getting better. It is very difficult to go and look at the numbers that are coming in and have the same level of optimism. However, at this point in time in the recovery, that would be typical. You generally don't see it and we don't see it in terms of the revenue. There is at least a two and a half-month lag and with the way that things actually go through the black box at the State Revenue Department, sometimes the lag is longer than that. There is nothing in the numbers we see that would indicate that it is not starting to recover, it is just that we haven't seen it in the revenues yet to the extent that we might see it. But, once again, the data, both at the state level and at the local level is indicating that we are also going to have some recovery in sales tax once again because of the big dip that we had. That still does not mean that we are back where we are supposed to be and we are not going to be in this short a period of time. It simply means that we've hit the bottom and that we are above the bottom. As you can see we had a tremendous dip and if you will look at the increase since the 911 incident and the subsequent year after that, look at the increase and then look at the drop that we had after that, you can see even with that red line going up a little bit, in terms of revenues that we're affected, we've been affected severely in terms of revenue from sales tax.

Mr. Gaskin directed their attention to the first slide on Page 6. This is exactly the change that happened in 2007 related to the situation of the Medicaid of release that they had to do four counties in North Carolina. How were we impacted by that? Some of you may remember we talked about in the initial version of the correction. We had no part of that obligation related between the state and counties for Medicaid and they were going to take our revenue and without giving us any benefits, whereas on the county side the county was going to get rid of all of these obligations to the state and they were going to give revenue for that. This is the correction they did instead of that and not to go through all of this, but what it amounted to was that we held harmless in the City since we had no part of the benefits being offered by the state. This complex formula is what led to that. Later on, and not for today, we are going to talk about the slight change that we might need to make in order to implement this all in the state. This is also an explanation of why it was harder for the county to figure out what happened in this change than the City because they tend to do two things where we had to do one. The two things they had to do in addition to figuring our some Medicaid situation and swap, they lost an entire tax and they had to hold us harmless out of it, so they had two functions that they had to figure out without any history, whereas we had one to figure out. That made their job a little bit harder than ours because of this. Once we do that, what we were supposed to come out is basically equally to where we were before with no loss. The county actually, and I think some counties may have, benefited when an up economy because their Medicaid liabilities were so great that there probably were some counties in North Carolina that would have benefited tremendously from this, more than other counties simply because their burden of Medicaid was so large. But the economy dropped and they probably didn't achieve that goal either. We had a lot of changes that were not anticipated in the economy when this change was done in 2007. That question about why was it different is largely because of this piece of legislation.

Mr. Gaskins continued his presentation with the last slide on Page 6 and said let's look at what the real revenue picture is from where we were last time. Where we are going to be in terms of the ten revenues is I think we are going to be slightly up in terms of sales tax. That is not unusual for us to have that happen because when you project it in the first years they have a lot less data. Actually this is maybe a smaller increase than we have seen in past years, it's very minimal. It is not great news, it is just not horrible news. We told you when we first forecast this that this would be something we would be watching. That is largely based on the fact that from a general trend State of North Carolina wise, what people are seeing is a slight increase in sales tax. When that washes through two and a half months of activity, it is harder to see it, but we still think this is a conservative thing and a little bit of good news in terms of 2010. On the property tax side we are looking at a minimal increase there, \$300,000 for the remainder of the

year. Therefore based on that the combined projection of those two taxes in 2011 would be \$1.2 million so what you basically have is that the property tax is level in 2010, the sales tax is slightly up. On the property tax side you are looking at about \$300,000 and on the sales tax you are looking at about \$900,000. How you get that, that is taking that slightly more sales tax from 2010 projecting that out over 2011 and that is another \$900,000. That means for 2011 you are looking at about \$1.2 million. This is approximately where I thought we were going to be when I talked to you the last time. The only change that could have been made was if that report that we did not have the last time, if it had come in and had really shown some kind of vastly changed trend. That did not happen and we have not see that. Based on what everybody is saying, we are looking at another low growth year, not no growth, but low growth in terms of both sales and property tax.

Mayor Foxx said there have been some recent public articles about uncollected property tax. What is the state of play with trying to gather those resources back.

Mr. Gaskins said a couple of things. One thing is that property taxes, if you wait long enough you are going to collect way over 99%. What can happen though in the first year at the time they are required to publish, it can vary quite a bit what the collection rate is at the time those things are published. In this particular case there were quite a few on that list at that point in time. Two things are happening, the county tax office on behalf of both the county and the city is being very aggressive in their collection techniques. This published list is one of those, but I'm talking about in their efforts to actually make collection. In addition to that we are looking at other opportunities to see if there is anything that is better. I still believe that you are going to look in a couple years, back at this year and see that you are at or above where you have normally been in terms of collections, but we are being aggressive and in fact the county and the city are both meeting with a firm, Mr. Mayor, that you introduced us to, to hear their presentation related to how they would, could or might improve our collection techniques. I think that meeting is set up for next week so we are continuing to pursue that. I am not alarmed by those numbers simply because they can vary at little bit at this point in time and that doesn't ultimately have that much impact on collections. Even though we pointed out a statistic the last time we were here related to foreclosures being up typically because banks or financial institutions pay those taxes, we ultimately receive the taxes even on those foreclosures. I'm not alarmed and we are being aggressive in terms of looking at ways to collect those taxes.

Mr. Gaskins continued his presentation with slides on Page 7 and said these other revenues for food and beverage, occupancy, NASCAR, U-Drive, Transit and Rental Car, all with the exception of transit which in a sense is already ahead of us anyway in terms of the decisions that have to be made. You have already seen some indication of what is happening in their sales tax so that one you already know. With these others we have looked at drops in these and issues with these taxes. The good news is that I reported to you before, that even with these drops in revenues in terms of the models that support the debt that we are talking about, all of the models that we run and we have a consultant that runs them with this are not impacted. We can in fact afford all of the debt issued supported by these even with these drops. That is by design that they are conservatively put in there so that when we issued this debt we are assured that we in fact can pay that debt back.

Council Member Dulin said how much more of a cushion have you got in there on those accounts for us to borrow?

Mr. Gaskins said it depends on what you mean. If you mean versus the current debt you have a lot of cushion, if you are talking about additional debt then that is a different issue.

Mr. Dulin said in a year from now if we are down another four percentage points across the board like we are now, would that be a different conversation or are we still okay?

Mr. Gaskins said we are still okay.

Mr. Dulin said that is long term planning then to make sure that we are still okay at that point.

Mr. Gaskins said you've got to understand, all those models are built that way, but where it impacts you is, it might impact your ability to issue new debt for any of those. It is going to
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impact your ability to issue additional debt. For example NASCAR, fortunately we are not going to be issuing any, but we wouldn't be able to issue any right now. With the declines we've had we would not be able to issue additional debt on NASCAR, however at one point in time there might be a need to expand NASCAR or something and these revenues might produce money that would allow us to issue something for an expansion of that, but that is in the future.

Council member Cooksey said on the issue of the decline in the revenues, we are fine on the model for however long we are fine on it depending on the variables, but it creates difficulty for issuing new debt. Would there be any refinancing issues if we had an opportunity to take advantage of some lower rates by refinancing any of the debt on these projects?

Mr. Gaskins said currently yes. I think that might have something to do on refinancing with what they anticipated. Once again we go to the projection gain then in terms of that because you are going to have to project over the life of that new bond what is going to happen. Without the projections I couldn't answer that, but there is no inherent reason why you couldn't.

Mr. Cooksey said I know from time to time we give you kind of the blanket authority to refinance millions in debt in case the window opened where we could get a more favorable interest rate and we could do that. What I'm hearing is that is still an option with these as well.

Mr. Gaskins said actually that is a great point because we have had the conversation, and I think you and I had that conversation in a Budget Committee about this because we actually never lost the ability, even in the worst or the market, to reconsider and do refinancing. We actually saved money in the current market because we were in that position. We are still today in that position. If we had an opportunity today, we could take advantage of it.

Mr. Cooksey said I presume that would extend out the cushion on the model, to Mr. Dulin's point, but if we could refinance that will adjust numbers more in our favor for several years thereto.

Mr. Gaskins said that would be something that we would put in there. We did in fact have a discussion about this I think.

Mr. Gaskins continued his presentation with the last slide on Page 7. Related to the City's general model the exact point Mr. Cooksey was making is because we were able to take advantage of a lot of those things you've got an additional \$40 million to \$50 million in debt capacity. The way we operate there is no requirement that we use that \$40 to \$50 million and in fact I don't think we currently have a plan to use it. It is there if you needed to use and that is money that is available without a tax increase because this is built in the model. Continuing with the slides on Page 8, this is related to the AAA issue that has come up, the value of the AAA and I know this is one of the questions that we got in an earlier meeting. Simply it works like this, the better credit that you have the less it cost you to issue debt. That is simply because that is the way the yield curve works related to risks. We have taken advantage of that by being for 40 plus years a top credit and it is important to know that that isn't just what the rating agency gives you, that has to do with the policies and procedures that are adopted by the Mayor and the City Council over the succeeding years that have put in and the way you actually run your business over those years. As a result of that, actually when you issue debt you save money, more importantly, and what Mr. Cooksey is saying, is also true. When troubled times are there you have access to the market to save even more money. If you were a bad credit in those times, even though you could save money for the exact reason you are talking about, you couldn't go to the market and do it because the market wouldn't accept you. We happened along in a great time and we had an opportunity to do refunding last year that saved us some money and as a result of that that is one of the contributing factor to having that debt capacity on the prior slide. What this is really reflecting is basically very common if you look at the AAA differential on a lifetime cost, it is amazing an A credit versus a lower credit over the lifetime because you are talking about 30 years of debt ends up being millions and millions of dollars, depending on your issue. This is just a fact and the way it works in the bond market. In addition to that we are always looking for ways to enhance credit on all our deals. Part of the way we do that is in the prior thing I showed you and the question that Mr. Dulin asked, if you have models that demonstrate you can pay debt in good times and bad times you get a benefit for that in terms of what they are willing to take your costs for. That is the reason we adopted these policies and

procedures 25 to 30 years ago. This is another chart that is very interesting, (last slide on Page 8) if you will look at your rating going from AAA at the top to C- at the bottom, this is a chart that is actually showing the probabilities of default. This is a chart that people have in their office to look at what is the value of this. You will notice at the top it is .362 basis points, versus at the bottom it is 88.268% from the top to the bottom. What is more interesting, if you will look just from the AAA down to the BBB+ it is an increase that is a 100 times. It is 100 times more probably to have a failure at the BBB level than it at the AAA level. That is the reason people are willing to actually give you their investment and be willing to accept less yield, because of this kind of chart. The primary benefits to having this are the fact that it affects all of our ratings on all of entities to our advantage. It creates a low interest rate environment, it has allowed us this year to be very active in the market and save money which in this case is reflected in increased debt capacity and it also allowed us to reduce risk. I think what is interesting about this year is because we took, in some cases, variable rate paper, that is paper where we had some kind of credit entity support and this is what collapsed in some areas of our marketplace because those people providing that support ran into problems with their own credit. We were actually able to replace that with fixed rate bonds and save money, reduce risk and save money into a fixed rate instrument. That is because we were AAA and had access to the market when that was available. Not everybody could do that. This is a distinguished, a definite advantage that we had in the current market and the ability to do this. It is actually very rare to be able to save money and to reduce your risk at the same time.

Mr. Cooksey said how many cities are in the same position?

Mr. Gaskins said actually in the whole entire country, there are more AAA cities in North Carolina than anywhere else. The reason for that is because of the laws and structure in North Carolina because the Institute of Government and because there is accepted policies related to how to handle finances in North Carolina that other people don't have. At one time when credit was really bad, it was when we had some of the credit crisis around 1993. There were only four AAA credits left in the country in cities and we were one of the four. At its low point when there were four we were one of the four that was left. We have had some selected cities who have run into some real problems with the current status of the market, however, generally the market has been very strong comparative to other people. In North Carolina that is particularly true because of our legal structure that supports the way we do finances in North Carolina.

Mr. Cooksey said as far as a communication message to help sum up this, Charlotte is one of X cities. Do we know what the X is at this point.

Mr. Gaskins said I think it is around 100, but it has been as low 4. We can get you the exact number. In fact I was looking at Moody's book and it is in there so I will get that before I see you next time.

Mr. Gaskins continued with slides on Page 9 and said the other question we had was a question related to the Local Government Employees Retirement System and the question had to do with the strength of this system. They have experienced difficulties and they have asked for an increase in the rate of 1.55% that we talked about, but how does that compare related to the strength? I think these are some key factors that have to do with the asset mix. They have a diversified asset mix in terms of investments. We have that breakdown and can actually show you what that is. Their benefit levels are rated and by NAZRA they are rated as moderate benefit levels. That is just comparative between us and other governmental entities. The employees share in the cost of the pension at 6% which if you look at averages is on the high side related to those plans. The system uses very conservative actuarial assumptions. Going into the 2000 market they were funded at 105% which is really extraordinary. I think they were number two in the country at 105% and this is the point that I want to make. This issue right here is the reason they ask for the 1.55%, extremely conservative methods of doing that such that this level is still going to be 99% even after the biggest dip in terms of the value of these things that we've had since the great depression. That is remarkable when you talk about the strength of it and it is primarily because of this issue.

Council member Peacock said MPR reported just yesterday comparison between the State of Nebraska and the State of Kansas and the state of their pension program. Both come from similar agricultural based economies and Nebraska is doing extremely well and Kansas could

not be in a worse position right now. Could you provide follow-up data to show us how conservative our actuarial assumptions compared to theirs. It really strikes me that we have a lot of states out there where you are surprised at how things were managed. When I heard that story it really hit home because those are two states that have been traditionally grounded I would say in pretty conservative government dealings, at least historically, so to hear that was just a surprise to me.

Mr. Gaskins said there is a lot of potential reasons for that because it has to do with what is their funding level, how was it bid, how conservative were they so there is a series of factors but we can easily check that. We have a source to verify what the differences are. You want Kansas, Nebraska and North Carolina side by side?

Mr. Peacock said why not.

Mr. Gaskins said I wanted to mention one item at the bottom and that simply is that there is still an outstanding issue about the governance of the LGERS system. What that means is that when they changed the law to convert the LGERS system over to where it was no longer approved by the General Assembly they didn't really change the structure of the board that governs it. I think at some point in the future we are going to be coming back to the Council or to a Committee with a possible suggestion about an improvement in that management system. The reason is this has become an issue for a number of units of government who don't, now that we are separate from the State, don't necessarily have the vote of the state controlling what is done for the local people. I think this is going to be a statewide issue so at some point in the future we may come back and explain to you what those issues are. That doesn't have anything to do with the management of the fund. It is solely with the representation of local governments in that management.

Mayor Foxx said other than the obvious shortfall issues and covering those, do you see any threats to our AAA bond rating going forward?

Mr. Gaskins said the largest threat I would say today would be the actions taken by the General Assembly after you adopt your budget. We don't know for sure how bad they will be at that point in time. They are obviously facing a shortfall that is quite large and we don't know, even though we have been attending the joint House and Senate Sub-Committee meetings related to revenue reform, we don't know at this point in time what they are going to do. In the past they have suggested things that might have a negative impact on our finances. The reason that is a real problem is it could happen once the budget is adopted and that would create problems for us because then our tax rate is fixed. To me that is the most immediate concern.

Mr. Walton said Mr. Cooksey, that is not the committee that you are on is it?

Mr. Cooksey said no, the one I'm on is basically the Advisory Committee of the local elected officials. We don't have any decision making authority. We advise the NCLM Executive Committee about what positions they should adopt on finance administration. This issue does get discussed in that group and I expect that to be part of the conversation on Friday, but there is not a decision making part. I appreciate the reminder and we actually had some conversation about it in that committee last year. Mostly about the assumptions and the percentage increase being asked for, not about the governance, but I guess governance would be the next item.

The Mayor said thanks for doing that. That is really important stuff.

EMPLOYEE COMPENSATION AND BENEFITS

Budget Director, Ruffin Hall, said as you may recall, normally in your process this is when we bring forward options and discussion points as it relates to both compensation and benefits. We had some of the conversations about what our benefits package will be in the Budget Committee and one of the things that I wanted to emphasize before Tim does the presentation is that Benefits Management, particularly as it relates to health insurance, is something that we've been doing for a really long time. The Council has participated in that discussion every year so rather than getting ourselves into a situation where you have to dramatically shift all of your employee related benefits at one time, using that approach of addressing the issues and staying aligned with

what the market is doing has put you in a position where that incremental change means that we are ahead of where a lot of other organizations are. There is a lot of information in here and Tim is going to talk about some slides that are in the back after appendices. There is a lot more data that he is not planning to go over, but it is background information for those of you who would be interested in referring to it. One other thing Tim has a presentation piece related to Towers Perrin. Towers Perrin is going to comment on the Federal Healthcare Legislation that came up in Committee, so Tim has a handout on that and it will be a little bit more information than we had before.

Human Resources Director, Tim Mayes, said what I want to do today is provide a status report on the work we've been doing relative to benefits and compensation issues for FY11 and as a way of doing that I do want to provide some background information for you that puts in context a more complete picture of what we are addressing as we move into FY11. One of the things I do annually when I have the opportunity to speak with you and we have this conversation is draw our attention to what guides us as we come to you with recommendations, or in my case as I go to the City Manager with recommendations for employee related compensation benefits issues. What guides us is the Human Resources philosophy that this body adopted in the early 90's. We had a slight change to it in 1995, but it is essentially the philosophy we've been following for a number of years. That has put us frankly, relatively speaking, in pretty good position now on these sorts of issues I'm going to be reviewing with you. I'm going to go through the cost containment strategy that rolls off of that philosophy, summary of the benefits and issues, initiatives that we have taken and we do plan to take in FY11 and then talk to you about where we are relative to pay plan administration, trend data relative to anticipated pay increases that we need to take into account for FY11 etc. The philosophy is what guides us and guides this body as we made decisions relative to these sorts of issues.

Mr. Mayes used power point for his presentation and said we have highlighted in yellow the key phrases that are most compelling. You have in your philosophy a commitment to a market driven way of looking at how we structure pay and benefits. We look at essentially the very highest level. We try to gather as much information as we can relative to competitive practices and peg ourselves in the middle of the road relative to compensation and benefits. We have also over the years been paying much more attention to private sector data locally particularly even for smaller employers. Mr. Hall made some comment about this and I think it is actually the fourth appendix in the package has a detailed description of what we have done year by year beginning in FY01 to bring light to this cost containment strategy. What you will see in your fourth appendix for each of these six areas that are shown as part of the cost containment strategy what we have done year by year again to comply with this philosophy or to work ourselves into a position of effectively and aggressively managing costs. Costs containment is predicated based on these six items and I will highlight a couple of them for you, but refer you to the fourth appendix for the detail year by year FY01 to the present. This is a slide (Page 20) that relates to cost sharing and you will see that essentially what we have done from FY02 to the present is shift a lot more of the cost of the premium structure to employees and retirees. That has not been the most popular thing for us to have done with the workforce, but it has been consistent with your philosophy of having a moderate level of benefits and being driven by competitive practices. Cost shifting has been occurring definitely in the private sector. I will tell you that we have not seen nearly as much of this sort of phenomena of cost shifting in the public sector. I may be getting a head of myself just a little bit, but I think it is important now to make the statement that some of what other public employers are experiencing now, quite frankly is because they have not been as aggressive with some of these issues as we have. Particularly, this is one of them as it relates to cost sharing. You will see that in FY02 employees had to pay 5% of the total cost of the premium and those who have individual coverage in FY10, that moved to 20%. You see similar kind of numbers for retirees and also shifts for those who have dependent coverage as well. Again, I was having conversation with a state retiree yesterday and this person had worked seven years with the State of North Carolina and retired. She retired with full benefits and with full retiree health care coverage without paying a premium for that. That is not at a blanket statement about how all public employers are handling this issue, but we are in much different position in the way we have managed this cost than you would see in virtually any public employer I would content. Plan design changes, these go to the structure of your benefits plan. What are you really providing in your benefits plan? What are the benefits as employees would know them. We have shifted more cost to employees in plan design as well, with

additional co-pays, higher co-pays for office visits, emergency room visits, admissions greater out of pocket. Once again not the most popular thing to do with the workforce, but consistent with your philosophy. So, at the end of the day what does this mean to us? Appendix IV shows year by year from 01 to present what we've done in each of the six prongs of our cost containment strategy. At the day what does all of this mean. This slide has been prepared by Towers Perrin (Page 22) and it is a kind of a traditional bench mark that helps companies understand how they compare to others relative to overall cost containment. Basically you take your entire cost of your health care plan, claims and administrative fees, divide that by the number of employees that you have and you have a unit cost per employee that is expended. That is what these bar graphs show and you will see in the public sector we fared well particularly with regard to public sector employers nationally and we fared well with all of these measures. As you will also note that we don't have FY10 shown on our chart because we are not quite sure where we are going to land yet. I would expect that we would still be benchmarking very well.

Mr. Peacock said are you saying that our costs are lower per employee meaning that the amount of claims that we pay out and the amount of premiums that the City of Charlotte employees pay are less than what the normal market place would pay?

Mr. Mayes said yes sir.

Mr. Peacock said lower being ?

Mr. Mayes said better, good for us.

Mr. Peacock said I think when you shared your example earlier of the person with the state that did not pay anything, but yet now has full retiree health insurance paid for, that is an enormous unfunded liability that has infinite amounts of costs associated with it and Mr. Turner just made a comment to me that when he compared looking at the City of Charlotte as a place to put his family's health insurance, it was a lot less expensive to do business here. That sort of concerns me because he is a State employee and on the same side I did a similar evaluation and I am part of a large major medical plan for a large employer that has over 8,000 people under the plan and this plan was less expensive. It is good for me but it also concerns me when we are as low as we are.

Mr. Mayes said in many cases it is less expensive and I think when we've had expert advise given to us by our consultants, what they tell us is they really benchmark the richness of our plan that contrary to the opinion that public employees have much richer benefits, the City of Charlotte's plan and the richness of that plan is not at all at the upper end of the scale. It goes back to plan design and some other things. I'm aware of our cost relative to the State's plan and I think that analysis would also show that the richness of our plan, when you really dig into the benefits levels is not quite as high as the State, quite frankly.

Mr. Peacock said I just wanted to make that distinction because a lot of people associate what they pay for something for how good it is and therefore we are cheaper and there could be someone that would come to the conclusion that we are not pricing ourselves correct with the market per se. I appreciate you clarifying that.

Council member Howard said my question has more to do the recent health reform. Did anybody calculate what is going to happen in all those charts and especially our costs for employees?

Councilmember Mitchell arrived at 3:00 p.m.

Mr. Mayes said when I conclude my presentation I have a representative from our consulting firm to take just a few minutes and give you some highlights of the impacts. We don't have the details of how the Federal Legislation will impact some of these comparative figures but we do have at least some high level information that will give you some feel for what the impacts may be.

Mr. Mayes continued his presentation with the slide on Page 23, and said in addition to the fact that we have been on a path for a number of years to aggressively manage cost we are not sitting
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still. We are continuing to apply that philosophy and I want to share with you some of the actions that we are considering for FY11. I think we had a pretty good discussion at the Budget Committee meeting a couple weeks ago about these items. I want to go through those and make the full Council aware of them. The first bullet refers a program that you approved last year, a program that is focused on diabetes management. We have retained a firm that has set up a network of pharmacist in the community to provide face to face counseling to help individuals who are in the state of diabetes, face to face, one on one effectively manage that condition. We are going to expand that concept in FY11 likely to include cardiovascular and asthma management. The third bullet, a very important bullet that I want to make sure you are fully plugged in on. Last year when I shared with this body what our plans were on a going forward basis, I shared with you that we really wanted to ramp up our wellness efforts and you will see that in the first two bullets I've mentioned. But I shared with you that what I was foreseeing that we may want to strongly consider for FY11 was a premium structure for employees that would work like this. We would identify the premium increase that the City would experience and that employees would experience. Whatever that amount would be would be set. Individual employees that would engage in our wellness program would receive that premium increase. Individuals that did not engage in our wellness program, individuals that chose not to avail themselves of free for them healthcare counseling and coaching from healthcare professionals would pay a higher premium. Our message is that this is a tough predicament for us all. It is obviously an international issue and our message to folks is that we encourage you to step up to the plate, help us with cost containment and if you do that and engage in health management programs with the advise of an expert you would pay a base premium. If you elect not to do that and not to be a part of our efforts to control cost you are going to have to pay a higher premium. That additional premium is going to be in the range of about \$400 per year. With us having a weekly payroll it would be about \$8 per week. I shared with you last year that that was the path we were on, that I thought that would be where we would head and that is absolutely where we are headed. The next item relates to that, consider setting a higher deductible amount for tobacco users. Again this body has had conversation about that issue before and what I am recommending to the Manager is that we establish a higher deductible for tobacco users. Tobacco users that would be in a smoking cessation program or a tobacco cessation program would not have to pay or be subject to the higher deductible. The deductible now is \$300, that would be doubled for folks who are tobacco users. The next item, consider having one medical insurance provider. We currently have two, Blue Cross/Blue Shield and Aetna. We are looking at whether there is some financial gains that we can experience if we would pool all of our business with one provider. We are also looking at whether we could package some of our other group coverage with that same provider. Consider additional changes to pharmacy. Pharmacy is a big cost of our medical plan. It takes about 20% of our total cost. Once again one of those six prongs in our strategy and we've got an additional item that we are looking for possible implementation in FY11, a front end deductible of \$100 for brand name drugs. Long-term disability, next to the last bullet refers to a plan that we now have in place whereby individuals who are not vested in the Local Governmental Retirement System or the Firefighter's Retirement System. If they are not vested we provide a long-term disability benefit until they become vested. Once they are vested, if they become disabled they would be able to get a benefit from the retirement system. This has come to our attention and it is a more common practice for this benefit to be provided to employees on an optional basis so we are going to work it as an optional benefit to employees as opposed to a base benefit that we provide paid for by the organization. Finally, we are trying to position ourselves for even more engagement with wellness programs and ownership on the part of employees relative to healthcare cost. Consumer driven healthcare plans is something that we are very interested in. We've got a lower level benefit plan now, PPO Plan that we want to restructure so we can possibly position ourselves for implementation of the consumer driven plan in ensuing years. Those are the issues relative to benefits to pay.

Mr. Peacock said yesterday Manager Walton sat down with several council members to give us now 48 potential recommended budget reductions for FY11 that are under consideration. Under bullets 4 – 9 that you just went through, I would like to ask if possible for you to maybe give us some cost savings potential for each one of those bullets. I don't know if you have them already, but yesterday in the 48 that Mr. Walton and Mr. Hall showed us, I counted Item No. 15, Worker's Comp salary charge back wage replacement, change in Police pay cycle from 14 to 28 days, and the final one, Worker's Comp supplemental wage replace. Those all had dollar figures associated with them so out of the 48 there were only 3 that I really saw that related possibly to

HR and benefits and each one of those they are striking that maybe they should be added to this list. I don't know if that would be appropriate to be added to this list.

Mr. Walton said they are not on this list, but they are on the macro list of how we reduce the deficit. I think it was \$700,000 that was the associated savings with these changes.

Mr. Peacock said all of those collectively, \$700,000.

Mr. Hall said I've got that point in the general fund up-date portion when I get there later in the agenda. That group of health related cost is about an additional \$700,000 of estimated savings. Mr. Peacock said is that low, \$700,000 for all of those strikes me that we would probably gain a lot more savings from them.

Mr. Mayes said some of these won't be implemented until mid-year so that would be the cost for FY11, but not an annualized cost. Their annualized would be greater savings, but some of these are mid-year implementations.

Mr. Peacock said I want to commend you for obviously continuing to look at consumer driven and we've talked about the high deductible and the HSA Plans that are taking great root in the private and small business market places everywhere. The closer we can get to that obviously and having significant savings, I think this is really a big part of where our long-term cost savings would be. I think you mentioned to me as well, we are benefiting in this city right now on some decisions of our leadership in 1993 and 1994 that are really coming to help us at this moment. The actions of this Council as it relates to benefits comparative to what the other markets are doing right now really could have a significant impact on future Council's decisions.

Councilmember Turner said we talked about this last year with regards to the tobacco users, I expressed my concern and I'm also expressing a different look here. Did we consider the direction in which the state took in regards to weight? Are you aware of what they are doing?

Mr. Mayes said we are aware of that and we do have some questions about the implementation of that and how it really works. I am reluctant to head that step down that road right at this point. It is not something that we are totally going to disregard, but I think at the end of the day, what they are doing is taking body mass index measures and basing premiums and benefits around that measure. I'm a little bit reluctant to take that out as a first step at this point.

Mr. Turner said I just wanted to get that on the record that we did consider that and I'm still waiting on the outcry in regards to the smokers that we have targeted on this matter.

Mr. Mayes said the message to tobacco users is that there is a cost associated with that usage and if you want to be an individual that steps up to the plate and works on helping the organization and community out with that by being engaged with the program that can help you stop, then you won't feel the impact of a higher deductible.

Councilmember Kinsey said Bullet 3, Employees Participating Wellness Programs – are those wellness programs that the City provides? Who pays for them is what I want to know.

Mr. Mayes said the actual cost of our wellness programs, we set in place a cost structure some 5 or 7 years ago I think where employees actually do in their premiums contribute toward our wellness programs. It is a city cost shared with the employees. The employees don't have to pay a fee to be in most of our wellness programs because it is built into their premium structure.

Ms. Kinsey said so it is not over and above premiums, to which Mr. Mayes said correct.

Council Member Dulin said we don't have any legal exposure discriminating against smokers do we?

Mr. Mayes said we have been working with the legal office and we are still working through some of the impacts of what the higher deductible can be. There is not a problem I understand with having a higher deductible. We may have more work to do as to what that amount can be, but we've been tracking with Mac's office on this subject.

Mr. Dulin said are we planning on charging somebody who uses alcohol more for their deductible? I'm just curious as to whether we legally can discriminate against somebody who uses a legal product and charge them more.

Mr. Mayes said frankly in the past when this issue has come up I've been a little reluctant to take a step like this because I felt like we needed to do everything we could to communicate to the work force to help us have good health habits. We've have had smoking cessation, tobacco cessation programs in place for a good while now and I think we've been doing what we can possibly do to communicate the fact that there is evidence that tobacco usage does create higher cost so I think it is time to take this step. I don't know what ensuing steps would be Mr. Dulin in terms of other health habits.

Mr. Dulin said how are we going to enforce it. If we are going to say when you sign your paperwork, do you smoke and they check no, then if they smell like smoke one day are we going change the paperwork?

Mr. Mayes said we are planning on folks self reporting. There are some other pieces that we are looking at that I'm not sure we going to take these steps, but there is actually, and I think the State even does this Mr. Turner, a testing process which includes a mouth swab of some sort. We have some details to work through on that, but at least we are going to ask for self report.

Mr. Dulin said smoking is not good for you and I don't like the smell of smoke, but it is a legal product. I'm against making somebody get a mouth swab to check them to see if they are and I suspect we drug test our employees and we can do that. Tobacco is a legal product and I'm against that. For instance I don't smoke very often, but I smoked a cigar last night. I may smoke 5 cigars a year, so am I going to be charge more?

Mr. Mayes said the question that we will be asking will be relative to an ongoing health habit they have, not a one occurrence thing.

Mr. Dulin said when I started my question I wasn't even think about me, but I think that is an interesting question.

Mr. Peacock said I think the correct term is nicotine users. Are you specifying tobacco or nicotine?

Mr. Mayes said we are specifying tobacco which includes smokeless products as well.

Mr. Peacock said sometimes nicotine is picked up in those that are trying to use the gums so I just wanted to find out what scope of direction you were going with that and make sure you have the correct term. I'm sure you do.

Mr. Mayes continued his presentation with the pay and compensation on Page 25. A quick review our pay structures, one is the Broadbanding Pay Plan and the other is Public Safety Pay Plan. Broadbanding Plan goes back to some earlier work back in the early 90's when we set in place a different pay plan structure for non-public safety employees which was basically a private sector sort of model. It focused on gathering of market data and employee compensation related to looking at that market date along with employee performance. We do a lot of market data gathering on an annual basis. Our appendix shows a number of the sources that we use in our market surveys. We try to peg our market data at the middle of the road, the 50th percentile of actual salaries that are being provided to individuals who do comparable work in the areas in which we recruit for those given occupations. Public Safety Pay Plan includes Police ranks below Captain and fire ranks below Battalion Chief so the upper ranks are included in the Broadbanding Plan. We take a look at the market data at the end of the year to see if there needs to be some adjustments there. It is a step pay plan contrary to what we have in the Broadbanding Plan which is an open range. This is a step plan and the last slide in your Appendix shows what those current pay steps are for individual job classes in the Public Safety Pay Plan. There are 5% differences between those steps and 63% of Police in Public Safety are below the top step in their range and now 38% of Fire personnel in the Public Safety Plan are below top step in their plan. We also provide educational incentive pay, 5% to 10% depending upon whether the degree would be a two-year or four-year degree. A 5% language incentive for individuals who are

checked out on an additional language beyond English and an additional 5% for fire hazmat pay and search and rescue pay.

Mr. Dulin said the 63% of the Public Safety Pay Plan are below step. The step pay for Police is a big deal to those folks and it should be because they are looking after their people. This year's number, if you don't give a pay increase this year then technically older folks will retire and then that number will grow for FY11 if we don't give a pay increase. Do we have any idea if it will grow by 3% or 5% or 10%?

Mr. Mayes said I don't know right off hand.

Mr. Walton said we can take a guess at that.

Mr. Dulin said it would be interesting. How many sworn officers would we expect to retire in one year?

Mr. Walton said 50 to 75 maybe.

Mr. Mayes said obviously it would vary, but there have been over the last 4 or 5 years probably 50 or so per year.

Mr. Dulin said that is about 4% of the sworn workforce so technically that number might go as much as 4%. We would like to be shrinking that number, not growing that number.

Mr. Mayes said I wanted to share some information with you relative to common practices for step plans. Nationally it is not an uncommon practice for a step pay plan to be provided in the Public Safety arena. In North Carolina as well as some of the local municipalities you will see that many organizations no longer have step pay plans in place. They have more of an open ended range similar to what we have with our Broadbanding Plan. I wanted you to be aware that it is not universal practice to have a step plan, but it is more of a common practice nationally than it is in the state or locally. The next 4 or 5 slides is information that I think you were given several articles in your package at your Council Retreat in February and we have cited again the four or so largest consulting firms in the country in terms of what is going on with compensation adjustment plans for 2010. This refers to Tower Perrin which is now Towers Watson. At the time the study was done it was Tower Perrin but you will see a significant shift from the lock down many organizations placed on compensation adjustments during 2009. In fact 65% of companies that froze salary budgets in 2009 will unfreeze them 2010. Hewitt is another large national consulting firm and has a large presence here in Charlotte. Unlike a year ago, most US companies are keeping their compensation budget intact for 2010, making just minimal changes to salary increases and employee bonuses. In addition the number of companies planning to freeze or reduce salaries declined dramatically compared to 2009.

Mr. Dulin said those companies that froze salary budgets in 2009 will unfreeze them, those are private businesses. Did Tower Watson give us any information about what the percentage of public entities are unfreezing.

Mr. Mayes said I don't recall that we have that.

Mr. Dulin said that is pretty important because I really don't care how many private businesses are unfreezing salaries. Cathy Dulin has frozen my salary at home.

Mr. Mayes said I want to make a comment about that. I understand your thought as you would say that, but I would share with you that the philosophy that you have been following since 1995 that has been a philosophy that has brought about a great yield for you on the benefits side. The companies that we have looked at to benchmark what our actions have been year by year to do all those things that are in Appendix IV, those are companies that we are also looking at now relative to compensation. If we are going to have a consistent application of your philosophy, I would think it would be important for us to look at these companies in addition to the public companies. I think the philosophy that we apply relative to pay ought to be the same philosophy we apply relative to benefits.

Mr. Dulin said I will give you that point to stay constant, but I think it is important for us to find out what other public entities are doing, whether we are leading, whether we are following. We have worked very hard to be in the median of public entities on benefits and salaries.

Mr. Mayes said there is a slide coming up that will touch on some of this. There are comparable sorts of messages from other consulting firms that essentially say that pay trends are turning around in 2010 from they were in 2009. I do want to stop on this item, Employer's Association, Page 35, we do pay particular attention to this source of data because this is an organization composed primarily of smaller employers in this community. You will see that what they are reporting as they surveyed their membership, even when you factor in organizations locally that are not planning to give increases this year, that the average increase anticipated for 2010 is 2.1%. Taking out of that analysis the companies that will not have an increase and those that will be a 3% increase.

Mr. Dulin said the slide before that one is also interesting, that nationally among employers that are considering giving raises budgets for merit base pay hikes are expected to increase 2.8%. It is interesting data nationally.

Mr. Mayes said this is the slide (Page 36) I referred to and this really gives you a five-year snapshot of different data sources, different areas, whether it be local or national data. What you see is that national municipalities in the last five years, they actually have had until perhaps this year, pay increases that are higher levels than we've had, as have most of all of these sources. I would conclude by saying that we have done, based on the Council's philosophy, there has been a lot of aggressive work done to manage costs, it continues to follow that philosophy across the board. I would be in a position I believe of recommending to the Manager that there be some pay adjustment for the City workforce if it could be afforded. As I would make that recommendation to the Manager, it would be based on the same philosophy that we've had in place for almost 20 years. We are in relatively speaking, although the pain is deep for us, we are relatively speaking, in a solid position in terms of our total comp package, our total overhead costs as it relates to Human Resources. I would be making that recommendation to the Manager, if affordable, that we make a pay adjustment.

Mayor Foxx said have we compared Charlotte to other municipalities both in North Carolina and across the country of like size in terms of what they are thinking on this issue.

Mr. Mayes said we have and some of that information, I will go back to the Market Movement Summary, Page 36, and you will see for 2009 national municipalities experienced relatively low, but some sort of adjustment. That is being reduced in 2010, but that the average increase.

The Mayor said that includes large cities and small cities?

Mr. Mayes said includes cities 250,000 and above population wise. It is primarily larger cities in the country. I think the cut off is either 250,000 or 300,000 population and above.

An unidentified person said 175,000.

Mayor Foxx said 175,000 – for my benefit I would like to see a list of what cities we're looking at in that national number.

Mr. Mayes said we've got that city by city so we can tell you city by city what each of those cities are reporting to us that they plan to do.

Mr. Peacock said my first question is about employee turnover rate. In calendar year 2009 summarized by job category, this was reported to us by I guess Tower Perrin?

Mr. Mayes said the turnover rate is data that our office compiled.

Mr. Peacock said can you explain this because I had a hard time following what this is as it relates to your precious slides which were really leading to the suggestion of what you just mentioned as far as having the ability to consider a pay increase. How does this relate to it?

Mr. Mayes said there is a lot of information on this page, but essentially what we've done in the category column, there are two major categories, Broadbanding and the Public Safety. Within each of those major categories we have occupational breakdowns and in similar fashion we have a breakdown in the Public Safety Plan. Because you have asked for this information in the past we wanted to go ahead and prepare it for you for what the experience was in 2009 calendar year. The total number of terminations, where from retirement or termination was voluntary or involuntary what this shows is voluntary terminations for our Broadbanding Plan, the turnover rate for 2009 was 3.2%. That is typically the question this body has asked, how many people are voluntarily leaving the organization. In the Public Safety it was 1.2%.

Mr. Dulin said does Charlotte fall into that 1.2%?

Mr. Mayes said this is for our workforce, only the City of Charlotte employee base.

Mr. Dulin said I'm trying to run those numbers in my head to see how many people we are losing. 1% of 2,400 would be 240 last year.

Mr. Mayes said the first column includes the total of all the categories. The total number of voluntary termination in the Broadbanding Plan is 113. In the Public Safety Pay Plan 31.

Mr. Dulin said that's good. I'm trying to get my head wrapped around about units.

Mr. Peacock said you are helping me to understand better how these tie together as it relates to the preliminary paid survey findings that you all have. Because I interact a little bit with Towers and Hewitt and a little bit of my private sector work and what I do, they are always basing their data off of where we are right now relative to what employers are doing and where the trends are going. I appreciate that rosy projection because I certainly hope that is going to begin to happen and it is very consistent with what Mr. Gaskins has said, however, what it doesn't tell us in your quote there is how many companies had to lay off individuals. How many companies had to reduce pay scales? How many companies were doing all these draconian measures that we've heard about and had many friends go through? While a good benchmark for us to maybe make some of your related comments about possibly recommending a pay increase, I just think we are missing maybe not the whole story here on that. This City Council is going to have to answer to the public and right now at this very moment we have received news of a County budget crisis. We have libraries closing. We have 13% unemployment. We have 600 school teachers who are getting ready to be potentially let go. In approximately an hour we will learn that they are going to debate between an increase of \$1.50 to \$1.75 for people to ride on our transit system and we've got a lot of uncertainty on the state level according to Mr. Gaskins. We have to answer the question why are we different if we are going to make that recommendation. Mr. Gaskins gave a little bit of an answer to that, but just knowing and having a real hard time trying to copy Mr. Gaskins on some of his answers, I don't know how we are going to be able to explain that very well on this body. I think we've got to ultimately be able to answer that question in less than 30 seconds that someone can understand. Why are we different? Why could we possibly think about doing that amidst all of this sea of turmoil right now that people are feeling and anxiety is so high in the community about our financial certainty. I couched this comment and I said it last night to Mr. Walton, I'm very appreciative of the work that he has done and that our City has done to have us right the financial ship through this storm, but we are not out of it yet and I just don't understand how we could possibly make that recommendation at this time.

Mr. Mayes said I don't know precisely what your message can or should be, but in my position I'm compelled to give the Manager my best recommendation following your philosophy. In all due respect to Mecklenburg County government and all due respect for the State of North Carolina government, I don't think that you will see the kind of track record over the last 15 years as it relates to Human Resource cost containment that we have and that is actually shown to you in the fourth appendix. I hear that and I'm not insensitive to that but a great part of why we are the point that we are right now goes back to the great workforce we've got. If you look at this data, even before the downturn we experienced a couple of years ago, our pay adjustments were lagging a little bit and each time I stood in front of this body, I would say that the data I'm giving you is data based on practices. It is what it is. To interpret what that needs to be in terms of policy, it is a complicated subject with a lot of moving parts, but again in all due respect to some of our peers they have not been where we have been. One of the subjects that has gotten quite a bit of attention nationally is the subject of retiree healthcare funding. We have a strategy,

and I shared it with you last year, we had a 15 year strategy to be in a position at such time that we had to start accounting for retiree healthcare costs on our books. We had a 15-year strategy that put us in a position to be as solid as we could be at that time because it didn't take a rocket scientist to see that when the private sector started to have to account for those costs in the early 90's, likely there would be a point in time when public sector organizations did. Part of the ankhs that scream on that topic, retiree healthcare, we did not experience that level of ankhs because we were 15 years ahead of the curve. I'm not sure how that message is communicated in tougher times, but my recommendations are based on your philosophy and what I think we've done to get us to a point where we are relatively speaking as good a shape as we can be in. Council member Carter, connected by phone, said I would like to ask a question about the salary increase that the Manager is trying to address. Is there a possibility that we could look at the health provision as a compensation rather than increasing the salary and to have a report on what difference that would make financially would be helpful to me as we go through the deliberations.

Mr. Walton said the portion the employee will pay versus what the City will pay so what Mr. Mayes is talking about is keeping those proportions intact. Our fear of doing something like what has been suggested is that means in a future year, whether it is next year or the following year, the City would have to double up. It is going to catch up with us in another way if we defer a benefits increase to either the City and/or the employee. The costs are the costs so we are going to have to handle it one way or the other and in the future we probably have to double up the rate increase to ourselves and to the employee.

Mr. Cannon said it has been my experience that the Council has always been brought the most conservative numbers possible. That said, are you bringing the Manager the most conservative recommendation dealing with those step costs that you have suggested in your opinion?

Mr. Mayes said we are still working on what that adjustment amount would be.

Mr. Cannon said but you've made some and in your presentation today you have alluded to some things that you would like to see that you would recommend to him. I would imagine that when it all is said and done you will be coming to him with the most conservative numbers possible, with of course something in between and not right at us being on the line where we will be teetering over whether or not we can afford it.

Mr. Mayes said I think that is accurate.

Mayor Foxx said I just want to make it very clear that we, the Council haven't recommended anything at this point. The recommendation that is being discussed is a staff recommendation.

Mr. Mayes said I want to make sure that we've got 10 to 15 minutes for you to get the overview of the Federal Legislation and its potential impact on us so Sharon Cunningham from Towers Watson is here to do that. We have worked with this firm for quite a while and they have been tracking the situation relative to the Federal Legislation. Ms. Cunningham is not in a position at all to go through every detail of the impact of the Federal Legislation, but there are some things that do jump out at us that might be impacting us in 2010 and potentially 2011 and a couple years after that. She just wants to give you a high level summary of some of the things we do expect to face.

Sharon Cunningham, Towers Watson, said I am a healthcare consultant and we've been following very closely, as most of you have, the last couple of days, everything that has been going on in the healthcare reform arena. I won't give you a very detailed background because unless you live under a rock you have seen what has been going. The President passed the Patient Protection and Affordable Care Act yesterday. That is now law. The healthcare and education reconciliation act is being debated by the Senate. If there are no other changes it will go back to the house and it will be voted on and then it will go to the President's desk to be signed into law. When I go through the couple of provisions that I think are going to have an impact on the City in 2010 and 2011, we are taking both of those pieces of legislation and merging them together to give you a complete picture of what we think will impact the City. The law itself is 2,500 pages long, there are lot of things that down the road are going to have an impact on the City and the City's budget. Most of those do not take effect until 2013 or 2014.

Some of have actually been delayed until 2018. What we are going to talk about are those that are actually coming down the wire within 2010 or for plan years starting with 2011. The first one for 2010 is being referred to the early retiree reinsurance program. Basically, what it is doing is trying to reduce the employer cost for early retirees. That is for individuals who retire between the ages of 55 and 64 who continue to be covered by an employer health plan. Essentially, the City will be reimbursed for 80% of the costs between the threshold of \$15,000 and \$90,000 for each retiree that falls into that category. That actually will be a positive impact on the City's bottom line budget. We haven't had the opportunity to quantify what that savings will be so we will be looking at that in the next couple of weeks. That program is temporary. There is currently \$5 billion that has been set aside for this program. The program will either end the earlier of 2014 or whenever the money is exhausted. A couple things that will be happening in 2011, dependent coverage will be increased to the age of 26.

Mr. Barnes said back to the first issue, the early retiree reinsurance program, do you know what our current thoughts are for that category of people and secondly, when the \$5 billion is exhausted or we reach 2014 I assume that costs will simply come back to us in full and at that point asking you to forecast a little bit Mr. Manager. Would we make an effort to keep ourselves in the same situation we would be in prior to the exhaustion of the program, i.e. shifting more costs to the retiree? The first question what are we currently spending, second question, what do we do when the program is over?

Ms. Cunningham said we do currently know what we are spending for that population, however the way this program actually works, it is going to be on an individual basis, so it is any particular individuals costs that are above \$15,000 and below \$90,000. It is very hard to say without digging into the data how many people you have that reach that lower threshold and are below the higher threshold. I can't tell you exactly right now what the savings would be. The second part of your question, will that come back to you in 2014.

Mr. Barnes said the second question is for the Manager.

Mr. Walton said it is hard to know. I don't really have a feel for whether we are talking about \$10,000 or \$110,000 but when it sunsets we would have to again pick up whatever costs that would be and we would just plan in those intervening two or three years and try to keep that isolated so we would know what was coming. It could be that we could just keep the savings in the health insurance self insurance fund and set it aside for when the costs go back up.

Mr. Barnes said even if you don't know the answer to my first question, do we know what we are spending on insurance for retirees right now. Is that in the material?

Mr. Mayes said it is not in the material, but we can get that for you.

Ms. Cunningham said dependent coverage will be increased to the age of 26. Currently the City does cover dependent children between the ages of 19 and 25 if they are full time students. The new legislation will require employers to offer coverage to these individuals to the age of 26 regardless of whether they are full time students. They cannot be eligible for other employer coverage so there will be some work around determining whether people have coverage or not, but starting in 2014 that particular requirement will also go away. There will be an increase in costs in that the City will be covering more dependent children.

Mr. Dulin said all of these two or three year benefits to us regardless how small it is. I have no idea how many kids are between 24 and 26 that will get benefits for two years, but all of this stuff that sunsets, we need to have the information to know how much we are talking about. Little sums add up to big sums and one of the reasons we are not in as much trouble as some of our other bodies around here is because we do a pretty good job of planning for the future. The stimulus money, COPS that sunsets in three years is a pretty good example of how we plan. We've got to know how much to plan for.

Ms. Cunningham said we are absolutely capable of doing that model and have started discussions with the City around how to accomplish that. I think we are just waiting for the final legislation to understand exactly what those numbers were going to look like. We will be able to have some cost estimates very shortly.

Mr. Dulin said we've just got to have those numbers before we vote.

Ms. Cunningham said currently under the flexible spending accounts that the City provides, and this is basically a vehicle for individuals to put tax free dollars away and then pay for eligible medical expenses. Currently, individuals can pay for over the counter medications through that reimbursement account. Going forward over the counter reimbursements will be eliminated. There is also going to be a requirement and this isn't necessary around a cost impact, but certainly from administrative standpoint this will take some work on the City staff's part. Beginning with the 2011 W-2, employers will be required to disclose the aggregate value of the benefits that are being offered to employees. The reason this is happening is some of the later legislation will actually begin to tax employees on the value of benefits above a certain threshold. That does not go into effect until 2018 and we will do some modeling around that to let you know if your benefits will be affected, but the W-2 requirement goes into effect in 2011. There will be new fees on healthcare entities. This is defined as pharmaceutical and medical device manufacturers. These fees will actually start to go into place in 2011 for the pharmaceutical manufacturers and 2013 for the medical device manufacturers. We do think that those fees will actually be pushed on down to the employer level so at this point we can't even begin to estimate what the cost will be on the City. We just know that it probably will trickle down at some point. There is also going to be a provision around life time maximum so currently there is a life time maximum where the plan will pay only so much for an individual on a life time basis, and I believe that is \$1.5 million. Going forward those life time maximums will have to be eliminated so benefits will be unlimited as well as some annual maximums will be eliminated, starting in 2014. There needs to be more definition around exactly what that means and we are sort of waiting for that guidance to come out. Finally, this is along the lines of where the City's philosophy is and where their strategy has been around wellness. This is a big piece of the legislation that the provider community actually wanted in the legislation and was able to get. Beginning in 2014, so this is a little bit further out, the hippo related limit on total financial incentives will increase from 20% to 30% of plan costs. Right now you can only either provide an incentive or charge somebody a penalty, 20% of the plan costs. That will increase to 30% starting in 2014 and they have actually given regulators the discretion to increase that to 50% if it is deemed to be appropriate. One thing that is not on here that we wanted to mention is preventive care, so annual exams, mammograms, PSA's and things like that, preventive care will have to be covered on a first dollar basis. Right now the City's plan requires an individual to pay a co-pay. Going forward that will have to be provided on a first dollar basis so no co-pays, no co-insurance and no deductible. That change is also going into effect for 2011.

Mr. Peacock said can you tell me what the tax treatment anticipated for someone who has participated in a City of Charlotte Flexible Spending Account would be. What I'm hearing is the Flexible Spending Account is going away.

Ms. Cunningham said no, the Flexible Spending Account themselves are not going away so you will still be able to have a flexible spending account, use it for eligible medical expenses. The only thing, the definition is being slightly changed. Right now that definition includes over the counter medications, going forward over the counter medications will be eliminated,.

Mr. Peacock said then an employee will still be able to defer money into an FSA and still spend for un-reimbursed medical expenses.

Ms. Cunningham said yes, that limit right now is \$5,000 in the City's plan. There is provision in the law that as of 2014 that will be limited to \$4,000.

Mr. Peacock said I'm a little confused by your statement which says the cost of over the counter medicine i.e. I go buy some aspirin, will not be eligible for reimbursement from an FSA unless obtained with a prescription. I thought the purpose of an FSA account you have a lot of expenses that are related to the care of an illness in some say that are outside of what is covered under most major medical plans. I'm trying to understand what that means in the real world.

Ms. Cunningham said you can pay for lots of things out of a flexible spending account. You can pay for eye glasses, you can pay a co-pay to go to a doctor. You can put money away to actually reimburse yourself for co-pay. The only thing that is being eliminated going forward is just your ability to pay for the over the counter drugs.

Mayor Foxx said that is good discussion on that topic and I want to reiterate that we are receiving information, asking our hard questions now but the result of this will be a recommendation from staff on a budget, which we will have the responsibility of figuring out how to react to it.

Mr. Peacock said in your introduction you mentioned that we would hear from Mr. Gaskins on the Municipal Bond Market. Did you make a comment and I missed it or what?
Mr. Gaskins said I did.

Mr. Peacock said you didn't reference the article that I sent you that were comments from Warren Buffet about very serious concerns about the Municipal Bond Market. I shared with Chairman Barnes that I felt like this is a subject that we just don't know this much about.

Mr. Gaskins said it was one of the handouts that were in front of you.

Mr. Peacock said the Bank of America one, to which Mr. Gaskins said and also Moody's.

GENERAL FUND BUDGET UPDATE

Budget Director, Ruffin Hall, said we are handing out some revised information for this portion of the program and due to some limited time I'm going to kind of skip through to the good part. If you look at the revised power point that we are handing out to you right now, the first several slides are a background of what we have been doing for the last two years in preparation for the budget process going forward. In October 2008 we started taking some action and in January 2009 we reduced the budget mid-year to account for the downturn in the economy. These are some examples of cuts that have been done in the past.

Mr. Dulin said should we be following you in the new stuff you just handed out or the stuff that we did our homework in?

Mr. Hall said the new stuff. Many of them are duplicate but it is altogether, but the power point is a replacement. When we prepared the budget that we are in now property tax were up slightly due to the lag effect of how property tax is collected. Sales tax was down 10% and we had a decrease of about 44% in user fee activities. That is really development related regulatory fees. These are some of the highlights. As you may recall we had 257 positions frozen and unfunded, all funds. We had about 120 positions frozen in the general fund and no salary increase for employees. At your February Retreat we projected \$8.5 million below budget on revenues. If you were watching carefully in Mr. Gaskins' presentation, he noted in 2010 that we were going to do a little bit better on revenues by about \$1 million. So actually that \$8.5 million estimate for this year is now \$7.5 million. We are going to have at least \$4.2 million projected savings on the budget and a few weeks ago, you appropriated some money to cover that shortfall so we are okay in the current year. These are just some of the examples of cost savings things that we've done. Mr. Peacock had asked me to give some illustrations on some cost savings and I have pulled that in for you. We have some long-term structural cost savings initiatives which you are very familiar with, but I think it is important to remind everybody about what we have been doing. The Recycle It Program, as you may remember the new marketing term for single stream recycling, that in conjunction with the reorganization of Solid Waste four zones means for 2011 we are going to save about \$2.7 million and increase service. Victoria deserves a lot of credit, along with other city staff members for doing some pretty creative stuff to improve service and decrease costs. Another example, which isn't as a direct impact to the citizens, but certainly is an example of how we are constantly looking at how to reduce our costs, is our Business Support Services Group combined City and County Fleet Maintenance and that benefit went to both the City and the County from a joint local government perspective. This is the revenue trends you saw at the Retreat that matches what Mr. Gaskins told you and this expenditure trend is to show you that we are almost \$10 million down from where we started at the overall budget when the crisis hit.

We have been doing a lot of work and this is not the first time we've been dealing with the budget issues and it is not just our folks, it is a lot of folks out in the Key Business Units. You may recall at the February Retreat that we estimated a gap for the general fund, and I'm focusing on the general fund in this conversation. I'm not talking about CATS or Utilities, those are other
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discussions. I'm focusing on the general fund operating budget. We estimated a gap of about \$9 million to \$11 million for next fiscal year, 2011, and these are the pieces which we talked with you about. Mr. Gaskins mentioned the retirement system increase, the estimated health insurance costs. We decreased budgeted estimates for revenues. We had some things in our self-insured risk fund that we have to grapple with. We do have some additional costs that are going to occur going forward related to the Police staffing and the 125 officers. Duke Energy raised electricity rates and of that number almost \$400,000 is in street lights. With no salary adjustment for employees, but we estimated at the time about \$2 million of savings from Solid Waste, so the gap \$10.3 million is in that \$9 million to \$11 million range. Since the February Retreat a couple of the variables have gotten a little better. The health care changes that Mr. Mayes talked about in his presentation on that slide is about \$700,000 of additional savings if we implement his proposals in the upcoming budget and we also got the cart bid after we had our February meeting and those came in better than we estimated. We are always trying to be conservative and try to go in the right direction, so those were two things that got better. Mr. Gaskins mentioned to you that his revenue estimate got slightly better between sales tax and property tax. That matches what he told you just a few minutes ago. We started at about \$10.3 million and now the general fund gap projected is about \$7.7 million. Process wise it is a joint effort as we go through this and I can never take enough moments to underscore that. Finance is constantly reviewing the revenue data, Human Resources is sharing with you the market data. Our staff as well as the staff out in the Key Business Units are scrubbing the budget looking for opportunities to cut costs and programs. With a \$10 million gap we had to do a little bit more than our normal effort, so the Manager asked the Key Business Executives or our Department Heads for a list of programs that could be reduced, suspended or eliminated associated with trying to close the gap. The following list is what we came up with. What we are going to put in front of you is another \$5.7 million of additional cuts that you can consider that we plan to recommend to help close that \$7.7 million gap. If you do everything on the list that we are putting in front of you, we are still short by about \$2 million. This is March, your second budget retreat and we are doing this a little bit earlier than we normally do. Part of that is because this year is different. This \$10 million is a tough \$10 million to reduce and we felt it was important to put that in front of you a little bit earlier in the process than we normally do. The actual amount of reductions is \$7.7 million, but you have to back out the \$2 million that we already counted at your February Retreat for Solid Waste. This is \$5.7 million of additional reductions to help address the gap. If you include Solid Waste at its full amount it is \$7.7 million.

As part of your handout you have a long sheet and I apologize for the small font. We are trying to save paper so we ask you to get out your magnifying glass a little bit. This is in effect what we want to try to do for you, give you as much detail and thoughtful analysis of these 48 items as we could early in the process. Normally, this is baked into our recommendation in May. This year we decided that we wanted to try and give you that information earlier so you had full description. There is a lot of background information in here and I don't have time to go through all of that, but certainly I would encourage you to read that as background information and if you have any questions you can let us know. There are several categories of reductions and we tried to comply them. These are service reductions (first slide on page 9). House Charlotte Program is a reduction of about \$462,000 in our loans in excess of 80% AMI. This is in your pay as you go fund and not in your general fund. That would reduce by about half the number of loans for down payment assistance that occurs over 80%. Number 4, the CharMeck 311 reduction of operating hours, eliminating 8:00 p.m. to 7:00 a.m. service. That one is a tough one because that is one of the core customer service items that is part of our customer service strategy. 91% of the calls occur during the day from 7:00 a.m. to 8:00 p.m. so this would eliminate the night hours and take those folks that were working the night hours and transfer them to working on the day. Once you do that then your service delivery during the day gets better. Our service delivery has been slipping down into the 60% range and we have a goal of 80%. This allows you to improve your service level during the day when we get 91% of the calls.

Mr. Dulin said as a sidebar I called 311 yesterday and was on the phone for 2 minutes and 12 seconds from the time I started to dial the phone until my business was completed.

Councilmember Burgess arrived at 3:56 p.m.

Mr. Hall said #7 on this slide, suspension of new street lights. We spend about \$8.2 million on street lights which is over a penny on your tax rate. We already have an increase of a little over
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\$300,000 built into that program just to pay for the electricity increase. If we were to continue to fund the program in its current form we would have to add another \$235,000 for new petitioned neighborhood streetlights. By suspending that program for three years we are able to avoid that cost increase. External Agencies, (last slide on Page 9). This is the part where you get to say this isn't a very fun list. I don't say that trying to be funny or anything, it is just that this is a part of our list that is difficult for the community given our current circumstances. We have to address the \$10 million gap so these are part of the things we have to examine. Number 8, Partners in Out of School Time (POST) \$454,000. This program is funded in the Police budget and CMPD's priority is with other youth related programs. Certainly, I think Chief Monroe, and I'm not speaking for him, but as you may recall from last year the written documentation that is provided is supportive of after school programs but his priorities are on youth related programs that he feels has a direct link to crime related activities. So things like the Police Activities League, Right Moves for Youth and Gang of One are the programs that are of a higher priority than POST. This is obviously a difficult recommendation, but it is one that we have to do based on our priorities. Arena Traffic Control, that is just reducing our current amount down to cover the major events,. As you may recall we started around \$600,000 and now it is down to just under \$300,000. A portion of that reduction is simply due to the fact that people have gotten used to coming up town associated with events and so that level of service is not needed. We are also not sure what the capacity of that was going to be. This will take it down to about \$112,000 and we will continue to do major events, play off games, basketball tournaments, circus and the large seminars, but for the regular games, the regular activities that service will not be there. For transportation traffic related control, CMPD will still be out there.

Mr. Dulin said that service is there if they choose to pay for it, but at no City expense?

Mr. Hall said no, this is our expense. By contract we provide traffic control to the arena.

Mr. Howard said with the new way finding system that we are putting in with parking, will that help with some of the need for directing traffic downtown?

Mr. Hall said I think it will definitely help. Some of the traffic control issues are related to getting people in and out of parking lots, and some of it is VIP parking and special buses and things like that. I think the answer is it will certainly help a portion of that. There is another portion that you have to do because of the special events

Mr. Walton said part of our concern to begin with was that we had bisected Brevard Street and people didn't know that traffic pattern and they have gotten used to it now.

Councilmember Kinsey left the meeting at 4:08 p.m.

Mr. Hall continues, Number 10, Children's Theatre, this is another one that is certainly difficult. The City owned the facility on Morehead Street before it moved into its current facility at ImagineOn. ImagineOn is not a City facility, but is owned by the County but the Council chose to continue the same level of building maintenance funding at the new ImagineOn that we provided in the old City facility. We have recently over the last several years and are beginning the process of phasing out a portion of building maintenance expenses on our existing cultural facilities. You may remember from the Cultural Facilities Plan there is a three-year phase out of a portion of the building maintenance expenses associated with the Cultural Action Plan. This proposal would be to treat ImagineOn the same as our current City owned facilities and phase that contribution out over three years. It is about \$282,000 for the current year so if you take 1/3, 1/3 and 1/3 by the third year it goes to zero.

School Resource Officers and Crossing Guards – this is a perpetual budget discussion item for the Council. What we are proposing to do is put this on the table for discussion during fiscal year 2011 for implementation in 2012. For School Resource Officers, right now the current formula by contract with CMS is to pay 50% of 80% of the fully allocated costs. If you increase that formula amount by 10% per year for three years you can get it to 80% of 100% of the cost. 80% would be defined as the time period when the officers are in the schools. One piece of information that contributes to this is that the schools were able to get authority to have their own police force, to have their own policing authority. They can arrest and have the policing power as the legislature gave them that permission. They have about 14 positions today so it is not

adequate to cover this service, but they do have the legislation to staff up if they so choose. School Crossing Guards was to simply get out of that business beginning in 2012. The Criminal Justice Technology reduction, you may recall there is \$3 million set aside for the judicial system technology contribution. This proposal is to transfer ¼ of that, \$750,000 starting in 2011 to CMPD to help assist them with some of their budgetary issues. If for some reason things move on that frontier and a system does come in place, there is still money available, but given the current budget situation, it is difficult to let \$3 million sit there and not start addressing it.

I've already mentioned number 16, the Recycle It Program (first slide on Page 10). Number 17, Police pay cycle from 14 days to 28 days. The US Department of Labor allows local governments to use a 14 or 28 day cycle. Several years ago that was changed to 14 days and this proposal puts it back to 28 days which is the more common business practice. The practical implication is it reduces the amount of overtime paid to Police Officers because you have a larger window to schedule comp time and do the scheduling to account for their 28 day week as opposed to 14. When you compress it you have to pay overtime more frequently because you can't schedule out the time. Number 29, Code Enforcement Operations (last slide on Page 10). This is to freeze two code enforcement positions related to the new reorganization in Neighborhood and Business Services. This proposal is related to the five positions that you added for non-residential code enforcement. Neighborhood and Business Services filled those five positions with existing code enforcement people so they hired those people from their existing workforce. That left five vacancies in their normal code enforcement operations. This proposal is to fill three of those positions instead of five and encourage and incentivize the code enforcement folks to work more directly with Tom Warshauer's group on community and commerce to help reduce the amount of nuisances coming out of the neighborhood through that collaboration and reorganization of cross purposes within that unit. If this doesn't work what we are talking about is just freezing those positions so at a later point you can certainly pick them back up and fund them and not lose a whole lot. We don't think the service delivery will decrease and it is a way of encouraging the collaboration within that department.

I will wrap up with the total general fund reductions of \$5.75 million excluding the additional \$2 million we already counted at your Retreat. One quick comment on positions, we had 120.75 vacant positions in the general fund, if you include prior years. The proposals I just skimmed through include 5 frozen positions and 20 additional deleted positions. We do have 4 layoffs associated with some program reductions within the Key Business Units as a part of the things they submitted. Three are in Engineering and one is in Finance. That gets you down to about 150 positions or employees impacted by our current budget situation. We started at \$10.3 million at your Retreat, we worked and the variables got a little bit better down to \$7.7 million. The list of cuts is an additional \$5.7 million which gets you down to a \$2 million gap where we are today. In terms of next steps we have a Budget Retreat on April 14th and what we've got scheduled on that agenda is reviewing the Capital program, Utilities coming back from Restructuring Government and another General Fund Update where we will give you some more suggestions and ideas and proposals on how we will continue to close the gap.

Mayor Foxx said I want to comment the staff on the work that has been done over several years to make tactical changes in the budget to keep us in a good place. The economists projections that I've seen suggest that we are going to see very anemic growth in the economy that present this new normal kind of environment that many people are talking about where times when you see a 6% or 7% revenue growth rate may not be happening in the near term. To what extent in the thought process of building in these reductions and structuring the operating budget that is coming together have you factored in a strategic approach to restructuring. One example of that is the single stream recycling. That is huge structural change that brings with it \$43 million of savings over a ten-year period, which is fantastic, but has there been thought about other significant structural changes to help us navigate through this new normal environment on an ongoing basis.

Mr. Hall said that is an excellent question. Two quick answers to that. The first is yes. We have considered structural changes. The list in front of you, and I may get caught since there is 48 of them, I think are all on going operating budget savings. In other words, they all continue to have operating savings going on in the future unless you were to choose to put something back. One of the things that is often tempting when you start talking about structural issues in the budget is use one time revenues or one time savings to plug holes and put it off for another day. The list in

front of you are all operating budget savings so they are reoccurring unless you put it back. The second point, which is a little bit more general, is that the growth projections are slower, but we are always looking to ways to save costs that don't necessarily generate a lot of excitement on the list. On that list of 48, several of the ones I didn't mention, for example, probably the most powerful internally is the consolidation of our maintenance of our IT infrastructure internally. That is going to save us a lot of money internally and will mean that we don't have to add more servers later because we are going to use our existing IT infrastructure better. That is structural. It is not now something that gets a lot of attention publicly, but it is an internal thing. Fleet consolidation, driving down fleet costs are another thing. The answer to that in two ways, one is they are operating budget savings and secondly some of those items in there are not as interesting publicly, but they do save money behind the curtain.

The Mayor said I notice in the series of reductions that there a lot of reductions that impact children from after school, school resource officers, school crossing guards and I have a lot of heartburn about those reductions. I want to do everything we can to avoid that. I should also report that since we sent our letter about Safe Light/Safe Speed Camera issue I have heard back from the County Commission Chair Jennifer Roberts and School Board Chair, Eric Davis and they both express openness to exploring initiating that program. There are obviously a lot of logistical and legal issues that have to get worked through before we get that program restarted, but I would like us to go ahead and let our legal staff in particular work with the school system legal people and the county legal people to see if they can develop an approach that we can consider from a policy level.

Mr. Barnes said I wanted to mention to Mayor and Council some information I received from somebody on staff regarding the data that backs up the safe light program. I think it will be worth us looking at it. After I reviewed it I had some reconsiderations about that effort. I don't know if everybody got the information, but there were some things if you dug down into that made you wonder whether it is worth the lift. I don't recall that being a part of a dinner presentation but it would be useful to have a discussion about that raw data.

The Mayor said I think it could be academic if we can't figure out a way to do it so maybe if we let the staff work through the mechanics of it we can have a conversation in the Public Safety Committee about whether it is something we want to do or not.

Mr. Barnes said I can appreciate that approach. I was suggesting that even before they spend their time doing that leg work that we talk about that data.

Council member Burgess said I have asked the Manager for our own data and our experience because I remember we were told that accidents went way down at our intersections and speeding certainly decreased. At any rate I hope we can get our historical experience as I recall it was very positive. It may be that Charlotte is different from the rest of the country. We have more yellow light runners or red light runners and I also spoke to the School Board Chair and I was really concerned about the head line in the *Charlotte Weekly* paper about the discussion regarding the City Council approaching the School Board with this possibility. The article said the School Board didn't know anything about it. Actually they did. The person who didn't know anything about it was the temporary spokeswoman for the school system because their chief right now is on maternity leave. That was a breakdown in communication if you saw that, don't be concerned.

Mr. Cooksey said I think the better idea would be to look at the data and decide whether it is actually worth pursuing before we choose to pursue it. I too can appreciate the notion that maybe academically it can't be done, but let's first see if it is something we want to try first in light of additional data. I think we should have that conversation first and then make a charge to staff rather than the other way around.

The Mayor said I'm not agnostic on the point. We just spent some energy communicating with these other boards about wanting to move forward.

Mr. Howard said my only take on that would be to do that quickly. I personally think there is some validity to getting the program going again and would like to see us to do that sooner than later. I appreciate the approach and that doesn't bother me at all, just sooner than later.

Council member Turner said the program was never about whether or not it was a successful program. It was the legal actions that we had to deal with. The data that we had in the past supported that it was a very successful program and we put these safe light programs at our higher intersection impact areas throughout our city and we were able to prove that. I would still be very interested in seeing the data today while they have been out of service over this period of time. I will support that initiative to go forward with that. Back to this Criminal Justice Technology, you have proposed, and I have really been pondering over this list, and still we are \$2 million short. There is \$3 million that we set aside toward this program and if you reflect on the night when Mr. Gilchrist, the District Attorney, reported before us, he himself did not think that was a good idea. I am just really trying to figure out why we would not take all of the \$3 million, versus phasing it out at \$750,000. I respect that, but I just don't think it is necessary. I think we should take all of it because we need it now and we need to take the money back because they are not going to use it anytime soon. I think we need to determine that and deal with that issue when the time comes. Right now we have a \$2 million shortfall and I think it would be premature for us to leave it there when in fact we need it and they are not going to use it anytime soon. I hope we will reconsider that.

Mayor Foxx said is the feeling to go ahead and get a report back on the red light data then make a decision.

Ms. Burgess said our local data as I think that is much more pertinent national data out there.

The Mayor said is that okay with everyone?

Mr. Walton said we will do that in April. I don't know that we've seen what Ms. Burgess referred to and what Mr. Barnes referenced.

Mr. Barnes said it came from you didn't it?

Mr. Walton said no, I think it was an unsolicited e-mail you got and staff didn't get that. If somebody would just forward that. It may be somewhere in the organization but I haven't seen it.

DISCUSSION ON SEXUAL HARASSMENT ISSUE

Mayor Foxx said there was an article in Parade Magazine this past week-end if you have that, but I think it refers to the same thing.

Mayor Foxx said I have talked to about everybody about adding an item to the agenda this afternoon and those I didn't reach I tried to reach. It really picks up on the conversation we had in the meeting last Monday. We agreed to place an item for discussion on the agenda on April 12th relative to an investigation and using my discretion I have placed this item on the end of our agenda today to have it considered so that we can move things along a little quicker and maybe bring this entire issue to a speedier resolution. What you have in front of you is the verbatim language of the motion that Mayor Pro Tem Burgess moved on Monday. In addition to that there is also an item relative to updating our Code of Ethics which frankly we have to do anyway because the North Carolina General Statutes have changed and we are required to do an update of our Code of Ethics. What this would add on top of what we are required to do is further consideration of whether to cover conduct beyond what the current Rules of Ethics currently address. The thinking there is that staff will come back with some thoughts about a process to the full Council and we would then decide what to do with it, whether to send it to Committee or whatever. Those are the two items for consideration. It is on the agenda we just need a motion to do something with it.

[Motion was made by Councilmember Burgess that the Council authorize the City Attorney]
[to contract with an outside investigator to conduct an investigation into the allegation of]
[sexual harassment with the understanding that the identity of our city staffers will be]
[confidential and will not be revealed; and (b) instruct staff to develop a process for the City]
[Council's review of the City's Code of Ethics for City Officials to ensure that the Code is in]
[compliance with 160A-83, which process will include consideration of whether the Code of]
[Ethics should be expanded to cover other areas of conduct beyond those which are addressed]
[in the current code. The motion was seconded by Council member Cooksey.]

Ms. Carter said I hope that these deliberations will go forward. I am sorry that I am there to support the motion. I hope the current Code of Ethics/Conduct that was voted on in 2000 will be the basis for any addition. I think it has language that is applicable and so we have a basis for deliberation and a point of additional consideration and additional language will be very appropriate.

Mr. Cannon said I would simply ask, especially coming out of what we have just gone over with regard to our budget retreat that we make part of motion, that part of the find be to see out pro bono services for this without restriction to obviously stopping it as it goes forward. I think all of in which we can do to try to attempt to get this done free of charge we ought to be about that program. If that is okay with the maker of the motion and the seconder I would ask that we add that in some type of way.

Ms. Burgess said did I understand you to say “to try to”?

Mr. Cannon said yes, to try to.

Mr. Peacock said I have given a lot of thought about this discussion and the fact that we were going to make this motion tonight and I would like to make a substitute motion. It will be a two-part motion.

[A substitute motion was made by Council member Peacock (1) to authorize the City Manager to facilitate a private meeting between the City Attorney, the Director of HR Mayor Foxx, Council member Turner and his attorney, to discuss three items: the e-mail that was sent on Sunday, March 14th, the details of what was reported by staff to the Human Resources Department, and solutions to resolve this matter privately and to avoid an outside investigation. (2) The City Council and Mayor to adopt the City of Charlotte Employee Policy Procedures and the general rules of conduct in the workplace. The substitute motion was seconded by Council member Dulin.]

Mr. Peacock said I think as many of you all know, and I commented on this subject early, but I really truly believe that the damage of this e-mail has already been done. The decision to send an e-mail rather than convening a private meeting between parties has led us to the following: Unnecessary speculation about each of the Council members and especially the male members, unnecessary scrutiny on a staff member who clearly did not want this type of attention and finally unnecessary tensions now exists now between the Mayor and City Council. I believe that my first motion would move us closer to avoiding the public drama and I believe it would be a necessary first step that was unfortunately not take originally. At a minimum before we consider an outside investigation council we need to consider this motion as a first step prior to an outside investigation.

Mr. Cannon said you have singled out a member of this Council to be a part of the discussions. No-one has been identified on this Council per se. I have been very cautious and conscious about making sure that I wasn't pointed about any one particular person on this body. What concerns me is there is a publication today that had a quote in the paper from you with regard to calling our or singling out the person and then suggesting that the damage had already been done. That concerns me because you have on your own singled that person and no-one else on this body has done that to my knowledge. To move it forward in a way that includes the person that you have called out I think has given the general public beyond now speculation that it happened to be that individual. Are you suggesting that it is that individual. I just want to know from you right now for the record, are you suggesting that it is that individual?

Mr. Peacock said Council member Cannon, we talked at the Retreat about conversation that are occurring at this level and conversations that are occurring at this level. What has been reported by multiple media outlets have unfortunately put the picture of one Council member on this body in that light. I am not saying it is anyone individual. I have been advocating from the very beginning that I would like to know the specific fact about what Manager Walton knew, about what Mr. Foxx knew, what the City Attorney knew and what Human Resources Department knew because an e-mail was sent with information that those parties knew but this Board did not know, but yet the e-mail affected all of us. I am not going to allow an allegation to be to any member here and what I'm speaking to right now has to deal with a private matter that could

have been avoided by a meeting one on one. It is as simple as that and that is what I am speaking to right now Councilmember Cannon and I appreciate that question because you and I talked privately the other night about this very subject and I think your comments at the end of the meeting the other night were very, very good because you know personally how this feels and that is where I feel all of us have been affected here.

Mr. Cannon said I think it has gone beyond an allegation is my point. I think we should continue to be careful as we are talking about doing an investigation and to allow that investigation to take its course to flesh out everything that you just made mention of that I think all of us probably around this dais agree to in terms of fact finding, but you don't want to do that in a sense that puts someone out there and in my opinion that person has been put out there.

Mr. Peacock said point well taken, thank you Mr. Cannon.

Ms. Burgess said that points out the need for an investigation so that there is no question about which Council member was involved. I want to reiterate that we will protect the identify of the staff members and not reveal those in anyway. I think we can do an investigation and I don't think it will take long, even if we don't get pro bono, it will not be an expensive proposition. I appreciate you putting this on the agenda today because we just need to get this over with because it is taking up way too much of our time. Mr. Peacock I do appreciate what you are saying and I think we ought to divide the question because B I need to find out from you how your process differs from this one so is it agreeable that we divide the question?

Mr. Peacock said I will speak to what you just mentioned.

Mayor Foxx said Mr. Turner actually is next and I will come back to you.

Councilmember Turner said my concern here is in the first motion that was made, Part A. Based on what I'm still hearing and I'm reading this now and in here it clearly indicates that an investigation happened into the allegation of sexual harassment. Everybody is cautioning everybody and the language to me is not fitting for what you are trying to do. Again, I'm going to have some serious problem with voting for such strong words again being used before the investigation and a whole lot of other things. At this point I'm willing to entertain the correction or consideration of correction the language that is being used in this document that is being requested by Ms. Burgess.

Council member Howard said is there a suggested word other than allegation?

Mr. Turner said I'm quite concerned where I have obviously become the target and my family is having to go through this and I'm going through it but I'm going to be okay. The concern I'm having here is that there is someone in this room, and I have asked that question many times to the City Manager, the City Attorney, that works for us, is there any document that indicates sexual harassment. It goes along with the e-mail that I read and was notified that was out there. To hear that now you want to investigate allegations that are based on sexual harassment still leaves me with great concern when it is my face that is posted in the paper. Mr. Cannon, I think it is a little late to caution people about that. That water is under the bridge and that old mule is at the gate and we are going to deal with that. I am very concerned again with this language, but please do not talk like I'm not at this table.

Ms. Burgess said Mr. Manager when the staff had conversation with HR, were those conversations documented?

Mr. Walton said I have not had conversations with the employee and whether they were documented in writing I don't know.

Ms. Burgess said it would be documented by our HR Department?

Mr. Peacock said Tim is here if you want to ask him.

Mr. Turner said that is a bit late.

Ms. Burgess said Mr. Manager can we ask Mr. Mayes that question?

Mr. Walton said yes.

Ms. Burgess said if we have an investigation there would at least be something there to investigate unless we go back to the employees and ask them.

Mr. Walton said I agree.

Mr. Mayes said this one is very difficult for me because in these sorts of situations out of confidentiality. I would say that I had a conversation with a City employee and that City employee expressed some concerns, and that person was very clear about the fact that he or she did not want his or her name being made public, that his or her concerns were not ones that they wanted to be made in a formal way, but that they wanted to be on record in some manner indicating that there were some concerns. I made notes to my file about that conversation.

Ms. Burgess said so there is some documentation in the file.

Mr. Mayes said yes, I made notes to my file, actually my personal file in my office to that extent.

Mr. Howard said I just want to caution us. This is the whole point of having this happen is not to sit around the table and question staff. It is awkward and I think that is the whole point in having this process go forward so that can happen and not put people up on the stand and ask questions right here and now. That is why I was asking Mr. Turner if there is a word other than allegation so that we can move past this.

Mr. Turner said no sir. The word allegation does not bother me. This whole process bothers me but when you use the words sexual harassment I think it should concern all of us. I respect your comments but again our HR Director just told you it was a private matter, but our form of government at this point and the Council has clearly allowed this to be a public matter that should have been a private matter. I don't know how you fix that at this point. I don't know how you address that, me being a Council member, I have always cautioned us and I will continue to caution us that when we get into HR issues and try to manage our Manager and manage our HR and manage our Attorney that gets paid to give us good advice it brings these kinds of issues out. It is out and you've got to deal with it. I don't know if you are going about it right and that is not my job and I don't get paid to tell you that, but I do get paid to make sure that we bring no harm to our citizens and the City of Charlotte and I think we have already missed that boat. The individuals that are involved are alleged to be involved.

Mr. Peacock said I just want to speak to my secondary motion here. What I'm suggesting to you all is that we take an intermediary step here to avoid an outside investigation. What could possibly go wrong with a meeting between the parties that have been suggested? Alleged, whatever it may be that could possibly avoid this and that speaks to exactly what Mr. Howard is referring to right now, to not have to ask specific questions about this, to have all parties agree that this is a matter that we need to drop and we need to move on with the City's business in this very serious budget crisis that we are in right now.

Ms. Burgess said two things. One this does of course involve City staff but this is really about behavior of a City Council member. It is not a personnel issue of the Manager's staff. Secondly, Mr. Turner was concerned that there was anything to investigate and I think Mr. Mayes has made it very clear that there is a note to the file, so indeed there is something to investigate.

Mr. Dulin said a question for Mr. Mayes or the Manager. We have HR policies and procedures for sexual harassment for employees which can go to us as well in my opinion. We are technically employees of the City, which is interested because I didn't know I was going to become an employee when I got elected. That said we have policies and procedures for sexual harassment and there are multiple kinds of sexual harassment that I have come to learn about in the last ten days. Verbal, physical, mental and on and on I'm sure. Each one of those triggers something else. None of those say send out a blast e-mail to Council and let's get it out in the sphere of America. I really like the way Mr. Peacock is thinking, trying to corral this thing back in. The employee, and I have no idea who it is, has said he or she would like to stay quiet and under the radar. Whether that can happen or not I don't know how this will play out, but Mr. Turner has made a point that there is nothing to investigate if the employee says leave it alone,

don't investigate it. I've been thinking hard on my vote Monday night to investigate and here we are two days later, 48 hours talking about it again. We made, I thought, pretty good work at our Retreat about handling things privately and not going to the media when we have personal matters and this thing could have been handled with the HR Director, the Manager and the Mayor and with Mr. Turner in a business like manner on the 15th floor of this building and handled this without going public. It is now the famous e-mail but I've got my Mom calling me from the beach asking what is going on when she reads the *Observer*. We are all having to explain it to our wives and now today my 14-year old son is playing basketball at home and one of his buddies that is playing hoops at my house asked him about his dad and the sexual harassment. The kid comes into the living room with the basketball in his hand wanting me to explain to him about sexual harassment. I spent 20 minute last night setting on the back steps explaining sexual harassment to four 13-year olds. One is 14 today, my son. That could have been avoided had we kept this thing, not buttoned up, but within HR who we pay to do these things. I'm going to vote today with Mr. Peacock to have those men try again to get together and handle this in a business like setting and in a way men and gentlemen handle it. I don't think we need a sexual harassment thing because dad burn it, we are supposed to act like gentlemen and ladies down here. I thought that was just the way it was supposed to be so I'm going to support Mr. Peacock's motion, the substitute motion to ask those four men to get together and handle this like men and like gentlemen that are running a big business. I would really like for us to go back to our work that we did our Retreat and try to handle things without blasting things to world.

Mr. Turner said once again, my name keeps being mentioned, remind folks don't act like I'm not sitting at this table. There can't be anyone in this room or City government or a City employee that is going through the hell that I'm going through and my family. Mr. Dulin I have an 11-year old daughter that is very bright. I have neighbors that I have had to address and I don't have a problem with that. I'm going to leave it at that. I would respectfully ask the media to leave us alone until we come public to decide and you will get that time, but it is not now. I'm conducting my business as a City Councilman and as a father and as a husband, and I respectfully ask you all to respect that.

Mr. Cooksey said I would like to revisit the request to divide that question because there were two parts to the original motion and there are two parts to the substitute motion. I would like to separate those two.

Mayor Foxx said I do want to ask the issue of applying the Human Resources Policy applicable to staff has come up before. Can someone on staff speak to some of the challenges with doing that with Council members?

Deputy City Attorney, Bob Hagemann, said the policy was adopted by the Manager, who has of course authority over City employees. He does not have authority over the City Council members. We would have some concern if you wanted to pursue that policy about certain aspects of it, particularly the procedural aspects involving investigation and the remedy section speaks to termination and discipline. The Manager does not have the authority to terminate or discipline a Council member. If you want to pursue applying the substance, the conduct aspects of that policy to the City Council, we would request an opportunity to clean it up and pull out the things that the Manager doesn't have authority to, given that it would be applicable to the City Council.

Mr. Cannon said one of the things that I had gone on record to say was that I would like to have an opportunity to try to draft something in the way of a potential policy to be considered. I have drafted such a policy for consideration to Mr. Hagemann's point that can be dissected, just sort of a working document to consider and look at that does have, in my opinion, the appropriate definitions if you will, and even outcomes should such an allegation take place by Mayor or Council. I would like to be able to submit that at the appropriate time to whomever the appropriate parties are for consideration as we move forward on either one of those recommendations this day. If that could be included in Action Item B I certainly would appreciate the maker of the substitute or the main.

Mr. Peacock said I would be happy to accommodate.

Mayor Foxx said a lot has been said and I'm going to probably repeat some of what I have already said about this. I don't know whether this type of issue has come up in the past. I don't know that it has and I don't know that it hasn't, but when you are faced with something where there are no rules, and with a subject as sensitive as this one, there is no perfect way to deal with it. I received this information about an issue and actually suggested some of the things that have been suggested, including some of these meetings that are being talked about. What has troubled me about this whole situation is that for us as a group, there is no good way to approach a topic that really is a Council topic. I sent you an e-mail that has been much maligned, but it doesn't lay an accusation at anybody. It simply says that my concern is that none of us approach the line of conduct that could be considered sexual harassment. I didn't invite a bunch of media scrutiny to it. There are people on this dais who did and who did so after I spoke to them, after I had advised them to reach out to HR, to the City Manager, to the City Attorney, whoever they needed to speak to, to learn more of the facts. Frankly, for me I'm not an HR Director. I'm tasked with trying to do the best job I can to help this government move at a level that is beyond reproach. For those of you who feel that you have been singled out or unduly targeted, that was never the intention and I don't think the text of that e-mail suggest an accusation towards anyone. It is a difficult situation and I would argue that the messiness of it is inherent to what the issue is. I hope that whatever we do we develop some type of agreed upon process for dealing with these issues in the future so that there is not a cliff out there that I or any successors of mine or yours find themselves dealing with. If what you are wondering is whether there was encouragement for staff to discuss this issue with the individuals, there was that encouragement. At the end of the day for me the e-mail was ultimately about sending a general message to the general Council about conduct. It was not taken that way, but that is what was intended. I understand the criticism, I understand why some might think I was mistaken in the way that I communicated that, but I assure you that had the message come from HR, had it come from the City Manager, had it come from me, I think the reaction would have been much the same. It is a hard issue to deal with. One other piece, I do understand the sensitivity of these issues to everybody and that is why I have taken great pains not to comment about individuals in public or anything else. Unfortunately that hasn't been done across the table, but again we don't have a process for it so it is messy. Curt, I want you to take a little time, I think there is some concern about the dialogue that I've had with our staff about this subject. I have nothing to hide in terms of that dialogue, but I invite you to offer your response to that and Tim Mayes, if you wish to as well.

Mr. Walton said thank you Mayor, and we have nothing to hide either. I think we are clearly in a gray area. You are not accountable to me. You are accountable to the voters. I report to you, not the other way around. It is a situation where we have never found ourselves in before so there is no track record to follow. In talking to some of you I think there has been the presumption that there should have been more intervention. That is fine, but I need to hear that from you going forward. Otherwise, if I were you, I would completely dismiss me when we had that conversation, and if that happens in the future. It is clearly a very gray area and there were a series of choices, most of them bad. I say most only because I can't think of any good ones, but in case there were good ones I won't preclude them. Could it have been handled differently, yes. Could it have been handled worse, yes, and am I stuck in the middle, yes. What I would suggest and hope selfishly is whatever motion you choose that it answers a so what question. When you get through with it, so what. What do we learn, what do we have in place going forward that takes the ambiguity out of this. I asked the Mayor to be involved because it was, in my opinion, an elected official to elected officials, not an employee to supervisor discussion. I don't know of any situation regarding something like sexual harassment that the supervisee is to reprimand the supervisor so it puts me in a situation that is very, very difficult and I understand the difficulty for you too. We are all in this difficulty together, but it is new, never happened before and hopefully it will never happen again. We just need to figure out how to eliminate the ambiguity going forward.

Mr. Foxx said I will share with the Council that you all may know more about some of the specific issues regarding this than I do. My challenge is the reverse challenge of the City Manager in the sense that I'd never received a direct complaint. The complaint went to a staff person and there sensitivities around that process that I wanted to be sensitive to. We are just in this no persons land so to speak and that is where it is. The last point I will make is that I think this is a situation in which it is easy to criticize, very easy to criticize because someone like me in my position, I'm choosing between bad alternatives. I understand that but what I think I have been most interested in is getting to a place where we can figure out what to do. I hope that we

can make a decision. I don't think candidly, Mr. Peacock, it is necessary to achieve the result that you are seeking. In fact I think Mr. Walton and Mr. Mayes can confirm that I have offered to meet with an individual along with staff who have the facts available to them. I don't know where that offer landed, but it obviously didn't land with a meeting. This is a very difficult situation and I don't relish myself. I feel stuck in the middle too. If you all want to keep attacking the e-mail go right on ahead, but it wasn't sent with malice. I think that is the most important thing you need to know.

Mr. Foxx said there is a substitute motion on the table. There is a question of dividing the issue and is that the intention to divide the question on your motion Mr. Peacock?

Mr. Peacock said yes, I think not knowing exactly what the second part Mayor Pro Tem Burgesses motion was, ours are very similar and Council member Cannon's is very similar to try to getting us out of the ambiguity from a policy standpoint. My substitute motion is simply trying to make a formal meeting that could possibly avoid Ms. Burgesses first recommendation for an outside investigation. In that respect my substitute motion is only part one.

Mr. Dulin said we still have April 12th if your motion doesn't work.

Mr. Cannon said I call the question.

Mr. Foxx said the question has been called. Is it broken up or not.

Mr. Peacock said yes it.

The vote was taken on the substitute motion, Item A and was recorded as follows.

Yeas: Council members Cooksey, Dulin, Peacock and Turner.

Nays: Council members Barnes, Burgess, Cannon, Howard, Kinsey, and Mitchell.

Mr. Peacock said I'm removing substitute B.

Mayor Fox said we are back to the original motion.

The vote was taken on the original motion, Item A, and was recorded as follows:

Yeas: Council members Barnes, Burgess, Cannon, Howard, Kinsey, Peacock and Turner.

Nays: Council members Cooksey and Dulin

The vote was taken on the original motion, Item B and was recorded as unanimous.

Ms. Burgess asked if Ms. Kinsey's vote will be counted as a yes on A and B.

Mr. Cooksey said she is counted aye on every vote.

Mr. Peacock said she didn't formally ask to be excused.

Mayor Foxx declared the meeting adjourned at 6:10 p.m.

Stephanie C. Kelly, City Clerk

Length of Meeting: 3 Hours, 2 Minutes

Minutes Completed: April 9, 2010