

The City Council of the City of Charlotte, North Carolina convened for A Budget Retreat at 3:03 p.m. on Wednesday, February 29, 2012, in Room 267 of the Charlotte-Mecklenburg Government Center with Mayor Anthony Foxx presiding. Councilmembers present were John Autry, Michael Barnes, Warren Cooksey, Andy Dulin, Claire Fallon, Patsy Kinsey, LaWana Mayfield, and Beth Pickering.

ABSENT UNTIL NOTED: Councilmembers Patrick Cannon and David Howard

ABSENT: Councilmember James Mitchell

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ITEM NO. I: INTRODUCTION

Mayor Foxx said welcome to our first Budget Retreat for 2012. This Budget Retreat finds us with a slightly improving economy with a community that is still growing and facing challenges, but also full of opportunities and this process of the process by which we try to address those challenges and opportunities in the best way we know how. A lot of work goes into this process, probably more than those of us of the City Council elected side really know. I think it really starts as soon as the budget is approved every year so I would like to acknowledge the staff and the hard work that goes into getting this ready for this discussion.

The first thing is that over the last few years our city has really benefited from tough decisions that were made in the past. I can remember just as a citizen watching the Council struggle with its budget in the early part of the last decade and making some decisions that ended up being pretty tough decisions. I remember specifically the decision one year to cut the road resurfacing budget pretty substantially and that decision was made to keep the budget in balance, but it also created some complications in terms of getting our road conditions back to an acceptable level. Today our pavement rating is at 88 when I think 4 or 5 years ago it was down to 82 and probably looking like it was going to dip into the 70's. That is just one example that has real impact to people because our citizens drive on those roads and when they are bumpy their tires blow out and their fuel efficiency isn't what it is supposed to be so those costs end up getting realized. We know this year that one of the most significant challenges we face is a community that still needs a lot of infrastructure, whether it is roads or sidewalks, as we heard citizens in the community increasingly voicing concerns about and that costs money and it requires us to make tough choices to make room for those types of things. In addition to that our Public Safety Pay Plan is one that has been the subject of a lot of discussion. Our police and fire workers deserve a sustainable plan and we know from this task force that met a couple years ago that that plan isn't currently sustainable. I just want to say that I appreciate the work that our staff has done to try to help us focus on the issues that are going to help us move this city in the right direction long-term and I want to thank the Budget Committee led by Michael Barnes for helping devise the process, not only to consider these issues ourselves, but I think there is also going to be a public outreach component this year that is going to be a little different as well.

Councilmember Barnes, Chair of the Budget Committee said it is interesting you mentioned that public conversation. During our first Committee meeting last week we discussed the idea and there was a general feeling that the full Council's budget hearings would be sufficient. If the full Council would like us to revisit that issue we will be happy to do so. I want to thank the members of the Committee, Vice Chair Dulin, members Kinsey, Mayfield and Fallon for their participation at the first Committee meetings and the subsequent Committee meetings. I want to thank Mr. Harrington for his support as a member of staff and our Interim Budget Director and of course the godfather of budget around Mr. Walton, our current City Manager, and all the other folks on Randy's team who support him in supporting us. As I described to the Committee last week I believe we are going to have a fairly robust discussion this year about what will be a fairly bold budget and I look forward to working with you guys to come to some agreements on what we can do, what we need to do and how we are going to do it. I think today will begin that process of exploring what the picture looks like for the city and what our needs are and how we might go about meeting those needs. I believe this will be a fairly engaging budget season, in light of what we experienced in 2006 when we had to front certain challenges and figure out how to address them. I appreciate your support and the appointment of the task force to address the Public Safety Pay Plan and other structural issues that we needed to address. We believe we will

be hearing about a fairly aggressive and stable way to address Public Safety Pay and if it needs to be tweaked we can obviously do that. The parties of CFD and CMPD sent representatives to work together to arrive at some consensus and I think they have.

Mayor Foxx said the other piece that I don't think we could have anticipated a few years ago with the downturn and the fact that construction pricing has gone down significantly. Actually for the City of Charlotte that has enabled us to do more infrastructure than we actually planned to even back in 2006. We are still at a relatively low point in terms of construction pricing which presents some opportunities for us so part of the balancing act we are going to walk through is how much can or should we do to help build the community for the future versus being very careful not to impact our citizens too much in the pocket book in the process.

City Manager, Curt Walton said Mayor, you and Councilmember Barnes summed it up very well, so I don't have a whole lot to add. As I said at the Retreat, I think it is time for us to consider playing more offense than defense. We've all been in a defensive mode, not by our choice for a few years because of the economy, but I think some of the traditional partners we've had, the state, the county, the federal government and even for a large part the private sector is not going to be in a position to help us accomplish the things that we ultimately decided was the most important for Charlotte-Mecklenburg. That is what I mean by playing offense. There may be some things if we deem them important enough that we figure out how to move ahead. The street resurfacing is a great example of that, taking some that we have usually relied on a state funding source to do and as that funding source began to dwindle through a number of different factors in the mid 2000's Council applied more of our money to it and we have started to see an up tic in the street conditions and it is also kind of an indicator that public process takes time. It takes a while to work through the public input process appropriately and then to go through the bidding process appropriately so it does take a number of years in some cases to do some of the major things that we have to do. The comment the Mayor about pricing, we are still seeing that particularly in the construction/transportation industry so that has allowed us in 2008, 2009 and 2010 to go further than we thought we would in 2006 when we started out on that program. With all of that in mind the current year which ends June 30 is the first year that we were able to go back to our two-year budget in several years. We had to scrap that because of the volatility of the revenues, but we will be in the second year of a two-year budget next year, which means traditionally we focus more on the capital budget in the second years because you have an operating budget on the table and I think that will be the case again. There are certainly some issues to deal with in the operating budget but more of the attention I think will be on the capital budget and we will start that in March and continue in April. Unless there are any questions we will go ahead with the agenda.

Randy Harrington, Interim Budget Director, said from a process perspective this is the first of three budget retreats for Mayor and Council prior to the May 14th scheduled Manager's recommendation budget presentation. We've got five topics for you today and the purpose of the Retreat is an opportunity to share what staff is thinking in terms of ideas and options as it relates to addressing Council's priorities and key initiatives, a chance to have that dialogue and feedback and hear some of the comments as we continue to develop the recommended budget.

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ITEM NO. II: PROPERTY AND SALES TAX REVENUE UPDATE

Finance Director, Greg Gaskins said I'm not going to give you a formal presentation and what the Manager wanted me to do was to update my presentation that I gave to you at the Retreat. Basically three features to talk for a moment about the property tax and the sales tax and then one comment on the capital capacity. I will tell you that a good piece of news that we got which confirmed something we talked about at the Retreat, last Wednesday I was in Raleigh and I actually got a report from a member of the Treasurer's staff that is indicating that they are still receiving revenues according to their projections for the state budget and that they are on projection. That is good news on their part so we had gotten that report before and I got that reconfirmed on Wednesday, so that is good news from that perspective.

Let's talk about the property tax for a moment. We talked at the Retreat about the fact that there is a unusual number of appeals of the property tax valuation and that is probably to be expected, given the economic conditions and the situation that we had, it being 8 years since the last appraisal and many things happening in there, including a large increase and then a dip and as a result of that it is not surprising that there are that many appeals. How that affects the property tax office is that does divert some of their resources from their normal responsibilities related to giving us updates on property tax values, so it shouldn't be a surprise that they are somewhat behind their normal schedule in terms of providing us with routine information. We are still not as certain as we would normally be at this point in time related to where those projections are. We are expecting by around April 1 to have a good estimate from them. I still believe that estimate will exceed the current forecast for 2013. How much it will exceed it is the question that is impacted by just their normal process of measuring new value as well as the impact of the appeals processes on what those numbers ultimately will be. Where does that put us? That means that for 2012 in terms of property tax revenue, we feel like we are on target and that 2013 will slightly exceed and how much slightly is, is the question that we don't know at this point in time for the 2013 revenues.

Councilmember Howard arrived at 4:12 p.m.

On the sales tax side there are a couple factors. We have talked about before the black box impact and that it, it is very difficult because of the way the sales taxes are distributed to always tell the trend what you see is a trend in sales tax collection versus the revenue we receive. That impact is still there, for example the holiday sales in some cases, if you read the raw data, they appear to be up and the sales tax numbers don't seem to match that, although they are still at projected levels. We are not seeing them below projected levels, we are simply not seeing them exceed projected levels by what we hoped we would see. That is very hard to tell if that is a trend or not for the reason that in some cases those projections are delayed and we see those reactions later. Part of that has to do with the refund process, the facts that tax exempt in non-profit entities get refunds and that can sometimes be higher for a particular period and therefore it can mask the impacts of the sales tax so there is a delay process there in terms of correct prediction of sales taxes. I don't think we've seen anything that is negative, it is just not as positive as we thought we might see. There is another factor that we've already talked about related to sales tax. As you know and it has been in the paper, and we discussed this before, we are taxing a smaller part of the economy with sales tax than we used to tax. The goods and services area is changed. It used to be more goods and less services and not it is more services, less goods. We are therefore taxing a smaller part of the economy, therefore old projections and models may not apply to today. This is the reason why in the newspapers around the country various candidates in both parties for office and in the halls of the legislature, there is discussion of tax reform. One of the things they have talked about reforming is this issue about the proportional amount of tax that the sales tax delivers versus the old economy. In some senses we already know that in the future that those are probably going to get even smaller. In other words the goods portion compared to the service portion is going to be smaller, that reduces future tax collections. It makes the game of predicting sales taxes harder than it used to be because we are dealing with both the economic situation and the drop from 2008 as well as the fact that there is a change in the structure of the actually economy. John Connaughton has talked about this a number of times and there was an article in the paper about a year ago that John wrote concerning this particular issue. It just makes it more difficult to predict. Given that, however, on our analysis at this point and this stage we will think we are about on target on the sales tax, both for this year and the coming year. Now remember we had projected growth in those years so we I say we are on projection that is including a growth target and that is not a level target. We also are still not beyond the level we were at the high point in 2007 and 2008. We are below that still. We haven't caught up yet, but we are gaining on it. The good news is we are gaining on that in terms of sales tax collection.

Councilmember Cannon arrived at 4:16 p.m.

Mr. Gaskins said how does that affect capital capacity which is going to be a discussion for us as we start talking about the capital program. We do not have enough capital capacity, even close to deal with a major CIP program for the city. As you know when we did the last bond referendum and we used the capacity for that, we virtually used all of it and as you know we
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have a small amount left over. It may be a little bit more than that when we come to the calculation time, but it will be nowhere near sufficient to fund even the first segment or the first referendum that we are proposing. Given current capacity, you are not going to have enough capacity to fund even segment one of a capital program. That is where we were when I talked to you last and we are still there. We will give an update on that, but it will not be enough to even fund segment one. I don't think that is a surprise, we are about where I told you I thought we were going to be at the Retreat, maybe a little bit better news. The revenues are a little bit better on both sides, but not enough to make any real change in the predictions that we gave you.

Mayor Foxx said Gregg I want to thank you and that was the best PowerPoint presentation I have even seen. Really, thank you for not doing a PowerPoint presentation.

Councilmember Howard said I heard the Speaker of the House the other day and so many talking about the fact that they were really going to try to push through tax reform this year and if we've heard anything from the state while you were up there talking to people, what that meant, he said they thought would be talking about taxing things they haven't taxed before. I would hope that however we do it, with Dana's help or the League or whatever we need to do to be a part of that conversation, but I just wondered if you've heard anything in the direction they are going?

Mr. Gaskins said two things on that. For one the issue of some type of tax reform has been talked about seriously since about 1992. The first time there was a real major effort to deal with it was 1992 and what that effort was in 1992 was partially a recognition of the change of the parts of the economy that we were taxing so it is not a new concept. The committee that I think met on this in 1993 outlined some things that I still hear on both sides of the isle, Republicans and Democrats. I still hear the same things talked about that were talked about in 1993. One of those is sales tax reform where you would in fact apply that and two different things you would do. You might apply it where there is less exceptions to it and primarily those exceptions would be in the service area so services are not covered, and where you might get enough increase in value doing that that you would actually lower the rate. This is the same thing that was talked about in the General Assembly two years ago so that is not new. That is still out there and that issue is still one of the things being talked about. There are obviously other loopholes that you could close or taxes that you could increase. Remember we are talking about the fact that the existing tax at the same level it is at doesn't have the potential to bring in from the economy the same revenue that it used to so it is a revenue replacement issue. It is not a tax increase or tax decrease, it is a revenue replacement issue about getting the same level of tax in the future that you are going to get. Depending on who you ask about that, there are multiple ways to get that revenue replacement so I have not heard or seen a specific bill. Obviously, the people in the local government commission that I was meeting with and talking to have been asked questions about that from a local government perspective, but what anyone in particular is planning, I don't know. That was not discussed at that point in time. We could probably tell you pretty quickly the type of things that it might be, particularly in the sales tax area. As you know unfortunately some of the things that some people have talked about eliminating would negatively impact Charlotte, the Business Privilege License Tax being one of them and that is one that is sometimes mentioned that would negatively impact us.

Mayor Foxx said when we set our rates typically within a five-year capital program, I guess my assumption as a Councilmember has always been that that five-year period is the period in which projects will be identified, let, done and then you have another five-year period of time to consider a different set of priorities. Is that the way it actually works or does spending get slowed down based on various fluctuations and what are those variables?

Mr. Gaskins said we have two different things. Let's talk about the two different concepts. For purposes of making a determination about the capacity, etc. you do have to make an assumption and that assumption would be based on what we would interpret as traditional type of spend rates that we have related to those projects. That is the way you would make a prediction, however, when you do a real bond issue we would be very confident that if things worked as that says you would have more than sufficient money to pay those back without a tax increase because by the time we get to that point you have either had the increase or you had the capacity, one or the other. Once you get to that point there is predictions. Now in effect if you get out and that doesn't happen that actually does create additional capacity for you or give you the ability to

make some other kind of adjustment. As you know in rare cases, at least two in over 20 years, we have made that type of adjustment because we had to in order to support something on the operating side. That possibility based on results exist so there is a projection phase and then there is the actual phase, but the results are always back in front of Council to see and for that matter the public. It is not hidden and we always get the results of what happened. Every budget year see the results of that.

Mayor Foxx said over the last five years we've had two of the largest transportation bonds in the City's history and I would love to explore what that has meant in terms of how many jobs grew out of that, what kind of economic impact can we measure from those investments. It would be helpful to understand that retrospectively.

Mr. Gaskins said I think we'd have to hire somebody to do that. There are people who do that and because there are a lot of assumptions that come from doing that. Similar to other things we've talked about, any type of economic activity like that there are models that you can run to say if you spend this much money this is the model to do that. We could estimate that for you in some way, but it is actually a fairly complex study. That is the kind of thing that in the past the City has brought in somebody to do that kind of work and present, not for what you just asked, but the same type of principles would apply to that as for other kind of economic activity that you measure and talk about those results. Similar to the work that we did when the consultant came in when we went down to where the metropolitan project was and from that investment that we got there was an estimate of how much economic activity there would be. It is the exact same principles that we used in that study. We have not done that.

Mayor Foxx said Michael Barnes has just volunteered to do it pro bono. Thank you Michael.

Councilmember Barnes said let me ask you another way. Can you tell us how many miles of road have been repaved, how many miles of sidewalks have been paved, how many bike lanes have been created?

Mr. Gaskins said I'm sure Mr. Blackwell can.

City Engineer, Jeb Blackwell said we can provide that.

Mr. Barnes said does that make sense in terms of the hard projects that we've done?

Mr. Blackwell said miles of road, miles of sidewalks and miles of paved?

Mr. Barnes said what I would suggest is all of the capital improvement projects that are noticeable, measurable to the general public. People won't see the sewer lines unfortunately which comes out of a different pool, but they will see the roads, the sidewalks.

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ITEM NO. III: CATS BUDGET

CATS CEO, Carolyn Flowers said CATS has been going through its budgeting process with the MTC and we wanted to give you an overview of our operating and capital budget for this upcoming fiscal year. Critical to our budget are some tenants that we are trying to insure that we address as we develop our budget and one is maintaining our core service levels. This is a critical element of sustaining service as well as a factor in obtaining funding for capital investments. We have to demonstrate that we can sustain our service levels, provide access and maintain the equity between modes so we have to demonstrate to the federal government that we can operate both bus and rail and that we don't have a significant impact on the population that are using either mode. We also, as an enterprise fund have to demonstrate to you that not only in our current budget, but in our long-term financial plan that we can balance our expenses to the revenues that we are projecting and that we have the ability to move forward on our financial plan and continue through the federal process to obtain the funding for the Blue Line Extension. We are going to cover our FY13 operating budget as well as our five-year CIP.

In terms of what we are recommending we want to maintain our core mass transportation services and we are going to be adding some additional bus hours, but these are going to be funded with federal grants. I think that is key for you to understand that we don't have the capacity to really expand our service, but we are competitive in terms of going after CMAX, that is congestion management, air quality grants and job access revert community grants that are allow us to augment our bus services.

Councilmember Dulin said I understand not expanding bus service, but do you expect to retreat any?

Ms. Flowers said no, that is going to be further in the discussion. Our base budget assumptions do not anticipate any reduction in service levels.

Councilmember Barnes said you mentioned adding the service hours with the federal grants, but my question is if we add the service hours with the grant, once the grant expires and once the grant is exhausted, are we going to eliminate those service hours? What happens, the general public will get the service and say wonderful and then the funding goes away, the service goes away and they say what did you people do to us.

Ms. Flowers said we always have in our budget an assumption for some growth in the budget so those services that we are adding would be absorbed in that growth factor in the future because these are demonstration projects and if they provide the level of productivity from the demand then we can continue that service.

Mr. Barnes said during your presentation during the next few minutes will you be detailing some of those new service hours projects?

Ms. Flowers said I don't have the details on that with me, but I can get that for you. It is about 10,000 hours and I think one of them is the Pineville/Matthews Road area, which has been a large demand and we've had a lot of public input. There is some other cross town service also.

Ms Flowers continue her presentation with slides on Page 5, and said we are also going to be adding back to the budget some additional funds for our ADA paratransit service. We have had a lot of increased demand for that service because of demographic factors, aging population and there is a wellness factor of the population where we've had to have numerous additional people who are certified for those services so besides adding 300,000 back to the county, we also are adding about \$400,000 to the paratransit services so that we can continue to meet that demand.

We are guided by our financial policies. MTC has established financial policies to guide the budgeting, the financial viability and the financial responsibility to our tax payers so we want to insure that we have guidelines and that we follow those guidelines in our budget and meet those policy guidelines that we insure that we continue to be financially viable and that we have sufficient funds to cover all of our responsibilities. The last column to the left, you will see what the parameters are and then in the last column under 2013 you see what our recommended parameters are and we have met all of our financial objectives.

As an overview we are expecting a slow recovery. Our sales tax escalation is gradually sloping up in both our budget and in our long-term financial plan. As I indicated we want to make sure we strengthen the core of our ADA paratransit services. If you are not in compliance with the ADA you put all of your financial grant opportunities in jeopardy because that is a civil rights violation and we've added approximately 1% additional bus revenue service hours. Our asset maintenance is a high responsibility and in our budget we want to insure that we keep the fleet in a state of good repair and we continue to provide reliability and safety of that fleet. We came to you about two months ago for the overall of our light rail vehicles and we continue to plan for the preventive maintenance on both the bus and the rail vehicles and to insure that we continue that program as part of our budget. We are moving forward on the Blue Line Project and we want to insure that we are in compliance with all the federal guidelines to not put that program in jeopardy as we move forward.

Councilmember Howard said you mentioned strengthening the core of the ADA paratransit services, how far are we off from being where we need to be for that not to be an impairment to fund it?

Ms. Flowers said we make our ADA rides on a daily basis. Previously our program had an element called STS2 where we were able to provide rides beyond the ADA. The ADA requires you to offer paratransit services within $\frac{3}{4}$ of a mile on each side of a local bus route. That is what the law requires. In the past we've had the ability to fund beyond that and we have not been able to do so in the past year and a half so we are adding some additional resources to insure that we not only meet the demand that is increasing but we can try to provide those services as we have capacity.

Mr. Howard said so it is not that we are not meeting, we want to do better and doing better positions you better for other funding?

Ms. Flowers said we are trying to sustain the levels that we have.

Councilmember Fallon said on the overall for the light rail, they have to go to California to be fixed, there is no-one locally?

Ms. Flowers said no, there are only about three or four light rail manufacturers in the world. One in Japan, Kinky Charlow, one in Spain and then Seaman's who is actually headquartered in Germany. As part of the buy America Seaman has one plant in the United States outside of Sacramento California. It requires shipping to German or shipping to California. We are only shipping the trucks and that is part of the contract with them. There aren't that many options for maintaining a rail fleet. The other work is being done here. Our light rail facility does not have the capacity to do that work here and that is why we have to ship them out.

Ms. Fallon said would it be a problem to do the work here?

Ms. Flowers said we would have to basically expand the facility because we don't have the type of machinery to do the work and we don't have our mechanics trained on that either.

Mr. Barnes said you mentioned shipping the trucks. Part of the train is the truck, which part?

Ms. Flowers said that is the chase.

Mr. Barnes said so that is the under part? Regarding the first bullet point, the slow recovery, and this may not be a question to you specifically, but it relates to what you are talking about, what was the amount of money we received in sales tax revenue that would assist the CATS budget from the CIAA Tournament last year?

Ms. Flowers what amount of sales tax do we get from the CIAA?

Mr. Barnes said yes, and the way I specifically said it was that would benefit CATS so however you slice and dice that I don't know. I know that is not your thing and there are a number of people in here.

Mr. Gaskins said our best guess would be that CRVA might know that.

Mr. Barnes said could we find out? I asked the question in part because we are expecting a historical turnout and historical revenue to be generated by the tournament over \$50 million I believe.

Ms. Flowers said that is one week.

Mr. Barnes said it is one week, but it is still money. I'm also thinking down the line to September and that will be two huge weeks that will occur for us, one this week and one in September and there are obviously other times throughout the year, but I'm curious as to what sort of impact big events like the CIAA and DNC have on sales tax projection.

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Ms. Flowers said I do want to clarify that though. For the last three years we have seen actually less sales tax revenue historically than we received in the past. We are still in a lag on sales tax receipts next to what had been projected in the past and the growth rate in the past. The CIAA I would say that week in our sales tax receipts don't really make up for the downturn that we have experienced over the last five years.

Mr. Barnes said my issue is if there is \$44 million being spent last year and over \$50 million this year, where in the hell is the money going if we aren't getting some of it? I know the hotels and restaurants are making money, but in terms of sales tax revenue and other tax revenues, is it benefiting Charlotte at all and to what extent? That is the issue.

Mayor Foxx said let me jump in on the Blue Line Extension. Carolyn you were putting our efforts there in the context of what is happening in other communities that are also trying to move project forward. Can you share that insight?

Ms. Flowers said we received news that there was \$70 million included in the President's budget for us to complete right-of-way acquisitions as well as final design. We are the only project that has basically been green lighted to move ahead in the next year to get a full funding grant agreement and we also received a rating of medium-high for cost effectiveness. To put it in context the original Blue Line received a medium rating and this is a recognition of the land use potential on that segment so we received some very positive indicators on progress for the commitment from the federal government for a full funding grant agreement. We expect this week, with the help of many people in this room, to get a commitment, actually signing by the state on their portion for the full funding grant agreement from the State of North Carolina.

Mayor Foxx said we are the only project in the country that got green lighted for the process this year. Is that right?

Ms. Flowers said that is correct. The other projects that were moving along with us were moved to next year's presidential budget.

Mayor Foxx said just so you know, it has taken a lot of effort by Carolyn and her team and many other people so that is a testimonial to your work. I want to give credit where credit is due there.

Ms. Flowers said we thank you for all your support of the project and the entire team in the room.

Ms. Flowers continued her presentation with the slide on Budget Summary on page 6 with the expenditures and the revenue sources. You will see on the operating revenue side an operating balance of \$20.2 million. I want to point this out because this isn't funding that is left over. This is part of our financial policy and these funds are not un-programmed, they are being move over to support the capital program. When you look at the operating budget those funds will be moved toward the capital side, which we will cover later.

The key assumption in our in budget is sales tax growth of 4.5%. We are including a fare increase which I will be covering in subsequent slides. We have had a very successful program with our advertising. We went to MTC to get the ability to advertise on our rolling stock and we are looking at other ways to increase our revenues and it has been very successful so next year we are predicting well over a million dollars in advertising revenues. For our capital program it is going to be funded through actual grants and debt. For expenses our city employee assumption is that it will be determined by Council. We have the union employees who are the bus operators and mechanics and those are determined by our collective bargaining agreements. You see the other factors, fuel is probably one of the key factors that we have to watch and especially the volatility. We have actively engaged in a hedging program that gives us more budget certainty, but we have to continue to look at the daily fuel prices to determine when to get in and out of the market.

Mr. Barnes said regarding the fuel cost issue, how much additional capacity have you factored into that cost? Right now it says about \$3.15 per gallon and I know you buy in large quantity, but could we absorb enough in the budget?

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Ms. Flowers said we've increased by \$.12 and you know we don't pay taxes.

Mr. Barnes said is it \$3.07 now?

Ms. Flowers said \$3.15 is increased over the prior year by \$.12.

Mr. Barnes said I'm saying how much more for example, if Iran is attacked and gas jumped up to \$5.00 per gallon, how much more could you absorb in your budget before you come to us and say we need a \$.50 fare increase?

Ms. Flowers said we would have to review and amend our entire budget if Iran was attacked and it got to \$5.00, everybody would have to look at resetting what they are doing because that is going to be a major risk. The geopolitical issues are major factors in fuel prices.

Mr. Barnes said off that slide there have you guys just decided that we need to include another \$.50 in the budget someplace?

Ms. Flowers said no, we have not projected for the most dire of geopolitical issues. Those are possibilities and then we would have to reassess our budget at that point. We can only hope that Israel and Iran will get along through our next budget cycle.

Ms. Flowers continued her presentation with slides on Page 7. Bus revenue service hours, we have our base here and our rail revenue service hours and our passenger projections. These are breaking down the major components of our revenue, sales tax, fares, fare box recovery, the maintenance of effort that we continue to get from the City of Charlotte, Huntersville and the County. Our operating assistance, we did get some good news this year with the recognition of light rail as part of the operating assistance and that is something we have been pursuing for the last two years and other small ancillary revenue sources. Our main expense elements are labor, fuel and insurance and will actually be a larger element as we start the construction of the Blue Line Extension. Inventory costs and then the combination of other discretionary expense.

Mr. Howard said what about debt service on the South Line or even coming up on the Blue Line?

Ms. Flowers said that is included in the other, the \$13.2 million where we just put all of the other together and you will see a little bit more information about our debt profile in a future slide.

Councilmember Autry said help me as a newbie, operating assistance.

Ms. Flowers said the State of North Carolina helps all transit providers in the state through a portion of funding that they give us for operating. They look at the number of hours that we provide and they have a formula and that is what we call operating assistance.

City Manager, Curt Walton said just to point out the Maintenance of Effort, that \$18.6 million has been fixed for us since 1999 so we've gotten a good ride out of that. That is probably going to have to increase a little bit since it is our of pay as you go I believe because the state continues to reduce and doesn't recognize things so that is probably going to grow a little bit, but it has been 11 years.

Mayor Foxx said we are going to pay more?

Mr. Walton said for the Maintenance of Effort, yes. The \$18.6 million is what our transit system costs at the time CATS was consolidated.

Ms. Flowers said it has been a flat amount as the system has grown.

Mr. Walton said we haven't increased along the way.

Mayor Foxx said is that going to be spread across the jurisdictions that contribute to it or will that be us?

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Mr. Walton said there are only three.

Ms. Flowers said we are asking for an escalator from all of the participating parties, Huntersville and the County.

Mr. Walton said their numbers are much, much smaller.

Ms. Flowers said most of the funding comes from the City of Charlotte. I think \$18.4 million so most of it is coming from the City of Charlotte.

Councilmember Cooksey said spinning off Mr. Barnes' concerns about potential future fuel costs, previous slides pointed out that operating balances were required to be greater than 20% of the sales tax revenue and must be transferred to capital program. Well, 20% of the sales tax revenue is \$12.3 million and the operating balance is \$20.2 million. Is there any potential if fuel goes up that \$8 million of that be yanked back or if it is transferred, it is gone?

Ms. Flowers said we would have to go back to the MTC to amend policies. That is an option because if you don't have anything in your reserve to keep the service level going and to keep the budget balanced, we would have to look at what our policies are.

Mr. Cooksey said let me phrase it a different way. The operating balance is \$20.2 million and going to be transferred as income to capital program, but the policy requires that minimum \$12.3 million to be transferred. Does that give you \$7.9 million flexibility or does the \$20.2 million have to with \$20.2 million?

Ms. Flowers said the \$20.2 million is actually some share that is going toward the Blue Line so we are trying to size our capital needs along with our operating needs. Since we are actually starting to ramp up the expenditures on the Blue Line and you have to have the local share to match the federal and the state we would have to look at how that impacts the capital program also.

Mr. Cooksey said basically what I take away from that answer is that although the operating balance is greater than 30% of the sales tax revenue, the entire \$20.2 million is needed on the capital side.

Ms. Flowers said yes.

Mayor Foxx said under other on the income side, is that where the advertising revenue is?

Ms. Flowers said yes it is.

Mayor Foxx said I want to applaud you for the way that has been rolled out. I was reading some material that said we were bringing in upwards of a million dollars from advertising revenue, which is almost half of what that other category is and it is done a very tasteful way I think on our facilities. I just wanted to give you some coo dos for how that is being handled. We had this discussion a few years ago and we were told it wouldn't generate much money and that it would be unsightly and you have handled both of those things very well.

Ms. Flowers said I have to commend our staff for the efforts that they have in terms of addressing the issues that MTC as well as Council have had about the aesthetic value of that.

Councilmember Dulin said I concur with that Mr. Mayor. You and I, Mr. Barnes and some others were here when they said we will never do that, we don't want our buses junked up.

Ms. Flowers continued her presentation with slides on Page 8 – Operating Expenses. We have tried to include what we know thus far. We know conditions can change as we talked about the volatility of fuel. We have included the city benefits and I want to make some points about these ADA rides because that has been something I know several of you have gotten input from the public on. We've had between 2007 and 2012 we've averaged 614 new riders per year under ADA and in 2011 we got a request for some 2,227 customers that applied for certification to ride
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this service. Our certifications are up 330% in FY11 and as I indicated before we cannot deny ADA eligible rides or we will risk losing our federal funding. 97.4% of the rides that we provide are ADA mandated so we've had about an additional 3% that we've been able to provide beyond what the ADA mandates and that is the STS2 service. I just wanted to give you some flavor for how that area is growing and the need to support that service. Inventory and insurance are key drivers and key risk for us. The insurance market had some volatility in it also because of what is happening on the geopolitical level.

Mr. Howard said what we know about our population is that the senior population is going to get older. What do we do to get in front of that?

Ms. Flowers said there are two things that you can do. You can accommodate or also you can do training, which we do. There is training that you can provide to the aged as well as the disabled to ride fixed service. You can add resources, but you also have to have a training program so you can get people on fixed routes where we have the capacity to serve them. You have to insure that your fixed route fleet is ADA accessible and that you provide all of the needs to transport them on the fixed route, however the fixed route doesn't go everywhere and doesn't have frequency for some people who need specific doctor's appointments. There is a lot of people who go to dialysis clinics and you have to have a balance between both fixed routes and your paratransit services.

Mr. Howard said went to the Council on Aging Legislative Agenda a couple weeks ago and one of the things they requested was more across town services so they could deal with exactly what you said, not having to go all the way downtown to go back out. Are there other things we could do like amending routes?

Ms. Flowers said we just completed our five-year bus restructuring study where we went out and got public input and you are correct public input said that we need more cross town routes. As you see us adding services or making adjustments to services we are trying to respond to that issue. People don't want to come downtown, they want to see us move more from the hub and spoke model to more cross town grid type service. Except Charlotte isn't laid out like that so we have to look at opportunities where we can serve the demand across town on certain streets that have that demand and have that connectivity to them. The Pineville/Matthews Road is a perfect place to do it. I think we are looking more at Tyvola and Woodlawn area as cross town route that we can connect through the rail line and connect with other bus services on streets that are running north/south like Park and like south and Tryon.

Mr. Barnes said my questions concern the paratransit service and also the CATS van pool vehicles. With regards to the ADA paratransit service it is tied to the location of a fixed CATS bus stop and you just indicated that 600 more people per year are using that. If push came to shove and we had to adjust service because of cost issues, the only way to do that would be to eliminate stops.

Ms. Flowers said when you eliminate fixed route service you reduce paratransit service simultaneously because there is less eligibility. The question is how do they get service? Do they get service through social service network or some private network so that is something you have to think about, where the resource is going to come from.

Mr. Barnes said who is funding the taxi rides? Is that us?

Ms. Flowers said the county was. That service has been eliminated but we are still funding in the budget this year the DSS services that provide access to jobs and employment.

Mr. Barnes said regarding the CATS van pool vehicles, I see them traveling to other counties and out of the state and I understand why we do it. You don't have to answer this now, if you want to get me a report that will be fine, but I wanted to know how much that costs us and understand more about how the program is structured.

Ms. Flowers said we can get you that information. Van pools are sort of a supplement to the fixed route and it allows people who live in a cluster to basically share rides. It is also an air quality mitigation issue at the same time.

Mr. Barnes said do we put governors on those vehicles? When I see them in the left lane of I-85 going north at about 90 miles an hour it bothers me.

Ms. Flowers said I will check into that.

Mr. Barnes said is the insurance on us?

Ms. Flowers said yes.

Mr. Barnes said we need to talk about that because I see them in the left smoking and you are saying if they hit somebody we get sued, not the moron doing the crazy driving?

Ms. Flowers said the vehicles are owned by us.

Mr. Barnes said I get that piece, but there is no subrogation. That really bothers me because they are not city employees and I understand we own the vehicles and we are loaning them. I don't know if Mr. Hagemann can help but it concerns me that we've got people driving these vehicles, they are not city employees and if they do something stupid, the people in the vehicles sue us and the person outside the vehicle and another vehicle potentially would sue us and we have no recourse. I guess we could sue them but they probably have nothing. Do you get my point?

Ms. Flowers said that is something we will have to get back to you on.

Mr. Barnes said at least put a governor on them so they can't go over 60.

Ms. Flowers continued her presentation with the last slide on Page 8 – Fare Increase. One of the critical elements in our budget assumptions is the fare increase this year. MTC changed their policy and we do have in the MTC policies for fare increase every two years and it was amended to a 25 cent increase in base fare and that is what we are requesting. I'm going to go through some additional slides that basically talk about why we need this and what it does for our budget. The fare increase does provide \$2.5 million additional revenue in the next year and that is equivalent to 28,178 revenue service hours.

Mr. Dulin said was that per bus?

Ms. Flowers said no, that is total 28,178 and an average route is about 39 hours per day so this is cumulative of the equivalent \$2.5 million funds on an annual basis, 28,178 hours of service.

Ms. Flowers continued her presentation with slides on Page 9. This chart represents a comparison of our fare increases which are in red, as compared to the accumulative CPI growth and this shows you the effect of trying to keep up with CPI which we absorb in our expenses. There is a gap between the fare recovery and the growth in CPI. I think that is key for you to understand the basis of why we are asking for a fare increase and then I will give you some other reasons why we need the fare increases by giving you some details and the type of expense growth that we've had to absorb to keep our system going.

One of the biggest cost factors, which we have discussed, is fuel. In the last two years our fuel costs has increased by \$8.9 million and in FY11 it is going to be \$10.3 million. This is the actual amount in our budget, but fuel costs increases have been about 15% and I think everyone has seen that in their own personal pockets. At the same time we've lost ground on sales tax revenue and you see that in 2009 we had receipts of about \$61.7 million in FY11 we are about \$55.9 million. During this period we didn't reduce service so we have kept the levels of service up, both bus and rail and we've absorbed these costs and we have to insure that along with labor, which is 70% of our overall operating budget, which has not had a major increase, but with the fuel, the parts and supplies and receipt going down, we've had to insure that we maintain a core operating budget and in the market volatility we've been able to do so in the last few years. We have to continue to insure that we balance our budget as we move forward. Our strategy has been to insure that we provide a fare base that is equitable to all. When we talk about our base cash fare I want to make you aware that most people don't pay a cash fare. Our fares are deeply discounted with passes and they will continue to have passes as we increase the fare base. What

we actually get as an average fare is much less than what you see as the base fare. On a \$1.75 fare we only receive on average \$.93 because we have all of these discount passes. We have a monthly pass, we have a daily pass so people can get multiple rides with these passes and basically that improves their access to the system and it gives the patrons an opportunity to reduce their cost of riding. Even when we increase the fare to \$2.00 these passes will be also be out there that allows them to continue to have some productivity on the fares with using the passes. In terms of maintaining and growing our transit service, this is a key factor for the system. It is a key factor for equity. I like to point out that FTA does not like to see reductions in bus service at the expense of building a rail service. We want to make sure that we continue to balance the system needs by putting in a share from the fare box and that the reduction in service hours could subject CATS to a Title 6 violation. We want to be aware of all those issues if we are talking about reducing hours to balance the budget instead of putting in a fare increase that could affect us.

I want to also go over what we've done in the past 2 ½ years to achieve structural balance because people are saying why are you increasing fares and why aren't you doing other things. We have done a lot of things and I wanted to make you aware of all the things we've done to reduce our expenses and control our costs over the last 2 ½ years. We have reduced our administrative costs, we've eliminated 29 positions, we've reduced our worker's comp costs because we have reduced days lost to injury. We've hedged our fuel, we've implemented energy conservation efforts to try to reduce our utility and other energy related costs. We reduced our inventory, we tried to standardize our vehicle specification so that we don't have a need in the fleet inventory to have multiple inventories in there so by maintaining a standardization, that has helped us. We've gone back to the corporate side and reduced the fare discounts to them to increase our revenue. We've reduced our discretionary spending. These are little things, but we've looked at everything, plant maintenance, we've eliminated that by watering our own plants. We reduced tuition reimbursements, we reduced travel and training, meals, we don't validate anybody's parking except for MTC. We changed our security structure to optimize our expenses. We've reduced our capital expenses, we basically are focusing on the essentials for preventive maintenance. The Blue Line Extension and some other capital items that we will discuss. We've increased our ancillary revenue with advertising and we've also trimmed non-core service that we had in the budget. That was the taxi cab service, the trolley service, so we've taken a review of our budget in the last 2 ½ years and looked at all the ways that we could actually contain our expenses.

We put this together and this is basically a sensitivity analysis to give you the value of the number of revenue service hours with each level of fare increase so you see what those fare increases are worth and then what it would do to our budget if we had to look at less than \$.25. You can see from the bottom \$.25 is in the \$2.5 million in our current balanced proposed budget and as you go up you see the impact of the amount of hours that the equivalent reduction from our proposal would cause in terms of service hours because we don't have many other options beyond service hours at this point. As I said in the last slide, we basically have scrubbed our budget and tried to look for ways that we could balance the budget in the past and have taken most things that we can do under our control to balance the budget.

Councilmember Fallon said I know it is not going to make a tremendous difference, but you don't have turn styles, how do you know you recapture all these fares that people are riding the LYNX?

Mr. Flowers said we do a periodic fare checking. Our last one said there was a 2.6% fare evasion rate. The turn styles and barriers were eliminated from the original design and it is a significant capital costs to go back and retrofit the system and also it would increase the cost of the Blue Line Extension. When I was in Los Angeles it was also a barrier free system and when they went back to put the barriers in it was about \$65 million. This is a smaller system, but it would probably be in the range of \$25 million to \$30 million to go back and put the barriers in because the design to insure that you don't have any other option to get into the station, based on the way our stations are designed, would cause you to have to put in not only the barrier system, but some additional rework in the design. It is a capital costs that we don't have right now in our budget, but it would be a significant capital costs for us to go back and do it at this point.

Councilmember Mayfield said in the new proposed budget is there a cost adjustment for an additional pay station at the rail stations. I know there has been some discussion regarding having only the one pay station on the far end as opposed to having an additional or would that fall in the same category of adding an additional?

Ms. Flowers said it is not in the budget to retrofit our current alignment and moving forward I would have to look at that as an additional costs in the budget. It would be a betterment to what we have as a design in the system right now. I could give you a projected cost for doing that.

Ms. Flowers continued her presentation with the capital budget. The sources for the capital and this is for our capital cash flow for the next five years. We anticipate a 50% share for the Blue Line Extension. We are anticipating state funding which is essentially their share for the Blue Line Extension. The City of Charlotte is committed to us in terms of helping us with the ... program to insure that we have the design elements in there for the project and then we have the sales tax operating balance and the debt financing, this is a projection. We will not have the exact number until we work with City Finance and work on the numbers that we need in terms of the cash flow to fund the Blue Line. This is what we put into the budget programming our in the future until we actually have those numbers. We have the uses for our capital funding which is primarily the BLE replacing our revenue vehicles that would be the buses, the vans and the STS vehicles. We have the light rail overall that you have already approved and our capital funded grants that we have already received, the TIGGER Grant and State of Good Repair and other grant funded projects that are smaller in scope that we have received funding for.

These are the main elements of our capital program and these are details of the funding that we will have over the next five years in the program. This is the information on those elements here. Most of the funding is the Blue Line Extension. With regards to the debt profile this is what has preliminarily programmed. Our debt numbers will be finalized working with City Finance on the BLE project and this is our plan over the next budget year of what we are going to be doing as well as the five year program debt profile.

Mayor Foxx said we will keep watching this, but the Blue Line Extension sounds like the thing we are trying to get reined in right now so we will keep working on that.

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ITEM NO. IV: STORM WATER SERVICES

Interim Budget Director, Randy Harrington said our next presentation will be on the Storm Water Budget and Jennifer Smith, Storm Water Engineering is going to give that presentation.

Jennifer Smith, Storm Water Engineer said I am here to talk about Storm Water Services and I will go over a little bit of history of the program, the types of projects that we do, talk about the storm water fee, talk about fee credit and also share with you staff's FY13 recommendation. Ms. Smith used PowerPoint for her presentation. A copy is on file in the City Clerk's Office. Many, many years ago through the Clean Water Act, the US EPA mandated that localities must reduce pollutants flowing to streams. The City of Charlotte decided the way to deal with that was to set up a utility and that utility was set up in 1993 and we charge a fee based on the contribution to the problem, which is impervious service. Impervious service is roofs, concrete driveways, asphalt roads, concrete sidewalks. There is a huge backlog of problems, both in water quantity and stream water quality and fee increases started in 1997 and were projected to continue throughout the life of the program. I'll spend a little bit more time and more detail on the flood control, maintenance and repairs and water quality, but we do strategic collaboration with other city programs and city types of projects whether that be in the neighborhood improvement program, economic development, transit, whether it is the Blue Line Extension or Streetcar and transportation projects. What we are trying to do is when those projects are worked on that we evaluate the storm drainage system in that area so that we are only affecting those residents once. We don't want a road widening to go in and that road to be widened and a couple years later have to come back and tear out any new roadway work to fix the storm drainage system.

In flood control projects we have two levels or types of projects that we do. We have a major flood control project and a minor flood control project. The major flood control projects are generally neighborhood wide, large scale. They go from the 12-inch driveway pipe all the way down to the FEMA regulated floodway and massive boxes underneath roadways. The minor program is a little bit smaller, but typically these are projects of 20 or more properties and are generally a little bit more isolated than the neighborhood wide ones, but we are talking about a lot of systems and big systems that are maintenance and repair program is too large for them to deal with. Currently we have completed 66 projects in the flood control program. We have 32 projects in progress and there are 46 major projects and 29 minor projects that have been identified for future work. Those numbers represent projects that we know about today. If we have a large rain event we may actually see more projects pop up onto that list. Our FY12 program goals are to start four major projects per year which essentially takes us about 12 years to complete those 46 projects, and also to start two minor projects per year which will take us about 15 years to get those 29 projects. If you will remember in FY11 Council asked us to reduce our major flood control backlog which was originally at 19 years to get that number down and we were originally only starting three projects per year. Last year we started 6, this year we started 4 and we are projecting to start 4 more projects per year. Our capital spending is about 50% that goes toward this program.

Our maintenance and repairs program, the main premise of this was originally set up to maintain the system if a specific pipe separated and you saw a hole form at the top, it was to go in and fix that pipe system. What we've seen over the past years is that our system is ageing and we are seeing more and more problems and it is not that one location on that one segment of pipe, but every segment in that pipe is having problems. We are seeing the costs of these projects go up and we are seeing the scope of these projects expand.

Councilmember Dulin said since we are here together today, fill us in on the sink holes that have started to pop up a little bit. We've had a couple of them in District 6 and it goes to an aging system, but one of the things was interesting when you were talking about the lengths of the pipe when we fixed the Runnymede sinkhole last summer they had to flush it out but they didn't want to put it under pressure right away because they didn't want to blow out something down.

Ms. Smith said the Runnymede situation was actually a water line for drinking water that blew out. What we are talking about today is that that comes down when it rains. But because of the aging infrastructure we are seeing a lot more problems and that is one of our concerns. We have completed 22,000 requests since the program was initiated in 1993. We have 293 high priority projects and a high priority project is house flooding, street flooding, street failures. We have 183 medium priority projects and that is crawl space flooding and that could be a hole or sink hole that has developed within 10 feet of the roadway. It is not quite affecting the roadway yet, but it is getting close to it. The same thing with 10-feet within a house and we have about 5,000 low priority projects on the list. These are blockages into the channel, ones that aren't creating flooding problems but they are blockage in the system so it is not fully functioning. It could be minor erosion on a stream bank that is happening. Our FY12 goals were to complete, and this has been the goal for several years now, have the high priority projects ready for construction within 6 months of the person calling in. Right now we are working at about two years so from the time someone calls in it takes about two years to have them project ready for construction on the high priority. On the medium our goal is one year and we are currently at about three years. Again this is due to the cost of the projects increasing, the length of the projects increasing and just a large number of requests coming in. We are working to get that back down to the six months and the year but we are behind right now. We spend about 20% of our overall budget on these types of projects and programs.

Regarding water quality, our main goal with this program is to restore impaired water. We do stream restoration projects with these types of projects we are looking at 1,000, 2,000 and in some cases up to 10,000 linear feet of stream segment that is eroded. There is large sediment and every time it rains it is continuing downstream and with these projects we go in and try to repair that, stabilize that system and restore those streams so there is no more erosion on those segments. This also includes a lot of tree planting and vegetation to stabilize those banks. We've completed 11 projects to date which equates to approximately 8 miles. We have 8 projects in progress, which equates to about 9 miles and we estimate about 700 additional miles

of stream that will need to be restored. Our water quality enhancement projects are our pond retrofits, rain gardens and other types of best management practices that actually treat the water. A lot of times we have a pipe segment that discharges into the pond, that water is then filtered and treated before it is released so we have cleaner water coming out than what came in. We have completed about 33 of those projects to date and we have 16 in progress and believe there are thousands more that are needed to improve the water quality. Our mitigation bank revolving fund is tied to our stream restoration projects. Essentially what that is if we are working on a stream restoration project and we work with the state and get their okay to get what we call mitigation credit for that project, we can put that into our mitigation bank that has been set up. If another city project comes in and impacts a stream, for example a transportation project comes in, widens the road and there is a stream that goes under that road, we have to install additional culvert to widen the road, that culvert or that pipe system in that stream is an impact and that project would either have to mitigate for that impact or they could pay the state money. That money could then be taken anywhere else in the state to be spent on restoring streams. What we have set up is a bank where that project can pay us for that credit, credits are taken out of our bank and then that money is spent in our community, so it doesn't go somewhere else throughout the state. We have sold about 3.66 miles of credit that has been to Charlotte Mecklenburg Schools, the Airport and other city projects. Our FY12 goals were to start to repair one mile of stream and to start 4 water quality enhancement projects. The spending on these types of projects is about 25% of our program.

Some information on the Storm Water Fee, as I mentioned the utility was set up in 1993, fee increases started in 1997 and they started fairly high at 10% fee increases. Our goal at sometime in the long-term future is to get to pay go program and what we've done is continued to decrease our fee increases over time. Looking at generally a 10-year spending projection we are trying to balance what our fee increases need to be so that one year we don't have a 20% height because we are having to issue bonds or construction projects are going in. We are trying to kind of flatten that line out. With the Storm Water Fee currently our tier 1 single family residence, any single family residence that has less than 2,000 square feet of impervious surface on their property pay on average \$4.79 per month. The tier 2, 3 and 4 which are those residents that have 2,000 square feet or greater of impervious surface are charged \$7.06 per month and all other non-single family, your commercial, multifamily, churches are charged a fee based on the actual impervious amount that they have. If they have a 100 square feet that is what their rate is based on and that rate is \$117.68 per month per impervious acre. For FY13 we are recommending a 6% fee increase which is 29 cents on the tier 1, 42 cents increase on the tier 2,3 and 4 and a \$7.02 per month increase on the commercial and multifamily. Just to give you an idea of what that may look like for a resident of Charlotte, every resident within the City of Charlotte is charged a City of Charlotte rate, a Mecklenburg County rate and then a fixed bill fee that basically is the cost of us sending out the bill every month. You can see for the tier 1 it would be \$6.70, tier 2, 3 and 4 varies from \$9.53 up to \$11.29 and I will share with you that in FY10 the county decided to do more than two tiers, they went to a 4 tier system so tier 2 is 2,000 to 3,000 square feet, tier 3 is 3,000 to 5,000 square feet and tier 4 is all those residents that have greater than 5,000 square feet of impervious. Even though the city rate is one number, the county does charge different based on the amount of impervious for those. Then the commercial rate would be \$145.55. I am using FY12 numbers and I have not heard yet if they are going to increase their fee or not. They are also working through their budget process, but these numbers are current FY12 numbers for Mecklenburg County.

I'll talk a little bit about fee credits. Fee credits are a reduction in the storm water fee and they are offered to commercial properties as well as single family properties. We currently offer up to 100% fee credit for a site and we are proposing or in the process now of working through updating the fee credit methodology and the storm water ordinance where the fee option fits. What we are trying to do is provide credit for storm water requirements that are currently in the Post Construction Controls Ordinance. There are certain things that are required on a developed site that we want to give credit for to those folks that put those features in place. We also want to match the fee credit policy with our current spending so where we are spending money, are we fixing flood control issues, are we fixing water quality issues and we want to max that with the credits that we are going to offer as well as reflecting how a developed site actually reduces the expenses to the program. If a site reduces the amount of flood water, the quantity of water that comes off the site they would get a credit that matches how we are spending that money. We

have discussed the methodology with the Storm Water Advisory Committee on both January 19 and February 15. We held a public sounding board meeting for all the non-single family accounts, this is the commercial type account on February 9th and we did receive some feedback, some questions and we are looking into those. We are going through this process so you may hear some comments or questions from developers, but we are proposing to continue to review this and discuss this in the next 6 months to a year.

Staff FY13 recommendation is a 6% fee increase to continue to working on that maintenance backlog that we have and to continue the flood control programs and the water quality program and also that we would continue exploring revisions to the fee credit methodology in the storm water ordinance.

Mayor Foxx said thank you that was a great presentation.

City Manager, Curt Walton said one distinction I might should make when we talked earlier we talked about the Retreat and Gregg mentioned today that we have very limited capacity for capital projects. Those are general capital projects so primarily roads, neighborhoods, police stations, fire stations, affordable housing which is what we traditionally put on November ballots. Storm Water, the Airport, utilities and CATS are enterprise funds so their revenues and expenditures are contained in those funds so they don't compete for general capital dollars. There is no property tax dollars in those funds unless we are buying something from that fund or paying something. We do pay a storm water fee to ourselves for example. I just wanted to make that distinction, we do have capital capacity in some of these other funds, we don't have capacity in the general CIP.

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ITEM NO. V: PUBLIC SAFETY PAY PLAN RECOMMENDATION

Human Resources Director, Cheryl Brown, said we going to review with you the work that has been done on the City's Public Safety Plan for certain uniform police and fire personnel. There have been several efforts over the years to look at compensation plans within city government. In 1992 the Mayor appointed a Compensation Task Force and if you've heard the term boardbanding that was also when we were looking at implement the broadbanding pay plan. The public safety pay plan also came out that task force work and you can see it did streamline and simplify the pay plan structure. It made it a more market competitive pay plan and we implemented the change in the public safety pay plan in July 1994. Then in recent times, December 2009, the Mayor appointed the Efficient and Effective Government Review Task Force and we will refer to that as Budget Task Force and they were also charged with evaluating the budget to improve efficiency, productivity and cost effectiveness.

The Budget Task Force spent a significant amount of time reviewing several particular areas within city government expenses, but they really looked at the long-term budget impacts of the Public Safety Pay Plan and they looked at that in light of the fact that we were experiencing reduced revenues and our projections for increases in revenues were also reduced. The Task Force Report contained a number of findings and recommendations, but as you know one of the major findings was that the Public Safety Pay Plan as it had been structured for many years was financially unsustainable without looking at some sort of increases in taxes or other budget cuts to help fund the pay plan. As a result of that work the City Manager charged the Human Resources Department and the Police Chief and the Fire Chief with convening a group and designing a new Public Safety Pay Plan. Chief Hannan and Chief Monroe both appointed 12 employees in police and fire to the committee and I'd also give a shout out to Deputy Police Chief Katrina Grahl and Deputy Chief Rich Granger who joined us in the committee work and served as a great resource for that group as we moved forward. The committee started this work in 2011 and we still had done some work in early February of 2012 particularly on the costing piece. It was a long-term project, but it has been very successful and we also hired an external consultant to help us in particular with determining market competitiveness and conducting salary survey of communities of similar size. I just want to add that the 12 members of police and 12 members of fire, I think when we first got together we had police on one side and fire on the other side, typical police and fire interaction, but by the time the work was done they were

very well integrated as a group of 24 and we just had some really good work come out of that group and we really appreciate the work of the employees in helping us design this pay plan.

The current pay plan contains 5% pay steps from the minimum of the pay plan to the maximum of the pay plan. In addition to the 5% steps there was also an annual market adjustment to those steps. For police officers and fire fighters, the committee has proposed that from the minimum of the pay range to the midpoint 5% steps would remain in place and this is to reward the newer employees with the higher level of increases that have been experienced by the seasoned employees over the years by the prior structure. From the midpoint to the maximum the steps have been reduced from 5% to 2.5%. Police Sergeants and Fire Captains are also covered under the Public Safety Pay Plan and they as well currently, the 5% steps from minimum to maximum is a little reversed, but the concept is the same. Part of the steps will remain 5% and the other half will be reduced to 2.5%.

Councilmember Howard said some of the correspondence we've gotten from folks in this field have noticed this difference between these two categories and I was wondering why there is a separation between Police Officers and Fire Fighters and Police Sergeants and Fire Captain? Is that more of the continuum of their career or is there in our work with them the two different categories?

Ms. Brown said are you referring to the 5% and the 2.5% and then 2.5% and 5%?

Mr. Howard said I'm wondering why there are two different categories? Is there some reason why we do something different with Police Officers and Fire Fighters? It is just two separations, is that the way it has always been done, is that an agreement we've always had and there is something that happens different when you become a Sergeant or a Captain, why the two different things?

City Manager, Curt Walton said if you stay a Police Officer or Fire Fighter you top out eventually and you may be at that maximum so it doesn't have any room for capacity if you become a Sergeant or Fire Captain so that means you have to go into a different classification with a different pay scale.

Mr. Howard said so this has to do with pay scale?

Mr. Walton said yes.

Mr. Howard said so you can only make so much if you stay a Police Officer?

Ms. Brown said yes. As we just spoke the Police Officer and Fire Fighters have historically seen the 5% step from minimum to maximum and we are changing that structure. As you can imagine there will be a cost savings as a result of doing that. Instead of moving at a 5% step from minimum to maximum now they will move at a 2.5%. As a result of the survey we are eliminating the first three steps for Police Officer and the first three steps for Fire Fighter so that our minimum pay ranges will be more competitive with the market that we surveyed.

Mr. Howard said how do we deal with maximum growing? When I'm hired is my maximum that or does it grow to what the maximum is?

Ms. Brown said it would grow according to market adjustments over the years. There is an established range from minimum to maximum but the pay ranges are reduced according to market changes across the country and for someone for example who was at the maximum of the pay range, if there was movement in the market, let's say 1.5%, the step moved 1.5% then the employee would also move 1.5%. We are where we need to be on the minimums and we are moving with the implementation, if we are able to implement the new pay plan, we will be where we need to be on the maximum as well. Police Sergeants and Fire Captains, we've pretty much covered this as far as progression through the range. This slide will show you the number of employees that are covered by the Public Safety Pay Plan. If you look at line #3, total, we've got 2,742 employees that are covered under the Public Safety Pay Plan. Mr. Howard, back to your point, if you look at the two columns, the one titled steps and the one titled top, the folks that are
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in the top, the 955 employees would be those employees who are at the maximum who would get the market adjustment.

Councilmember Dulin said I don't expect you to have this number with you, but how many living retired Police and Fire do we currently have who are drawing pensions?

Ms. Brown said I don't have that number with me, but I can certainly get that for you.

Mr. Dulin said that would be an interesting number and I think it will be a big number.

Ms. Brown said as far as the implementation of the plan we would recommend placing all employees onto a step at the beginning of the fiscal year, July 1 and then we would like to resume their merit increases on their merit dates for FY13. There is a \$1.0 million conversion cost that we could need to cover if we implement the plan and the majority of that is the result of the elimination of steps 1, 2 and 3 for the Police Officer and the Fire Fighter job classification.

Councilmember Kinsey said how many years will it take for us to recoup that \$1.0 million?

Mr. Harrington said it is a one year, one time only.

Mr. Walton said the second year is significantly lower than if we hadn't done this.

Ms. Kinsey said but is it \$1 million lower is what I meant?

Mr. Walton said yes.

Ms. Brown said one additional comment if you look at bullet #2 there was discussion and agreement among the members of the Public Safety Pay Plan committee that if it was needed the amount to fund any sort of a market adjustment that we would give in July could be reduced to help fund that conversion cost, and it is a onetime cost.

Mayor Foxx said what might be helpful at some point to produce a chart that would show the Public Safety Pay Plan on its current course and how this affects the trend line over a period of years. Just a suggestion for material coming down the road.

Mr. Howard said I was going to ask that same question in another way, but a chart would be great. I was going to ask Curt when we finished, how is this different. When we heard from the Budget Committee we were concerned about the trend so I was wondering how is this different and why does it not give you pause now when it did before.

Mr. Walton said I think the main difference is before we were doing a 5% step and a market adjustment or 2%, 3% or 4% every year and this still retains the 5% which is very important to the Public Safety folks, but it goes every other year for the market adjustment and that slows down the growth considerably.

Mr. Dulin said a moment ago I asked how many living fire and police officers we have on retirement benefits, not to exclude them it would be interesting if we knew City retirees as well, other than Public Safety. If we are going to look at one let's just have the numbers from all. It would be very interesting.

Ms. Brown said as far as the Market Adjustments that we will be making to the pay ranges, any market adjustment that is given is determined through salary data gathered, market data gathered by Budget and Evaluation and Human Resources and we do not know that number as of yet. We are working on getting those numbers, but we don't have a number to bring to you. The market rate adjustment is a difference in the way the new pay plan would be structured. Any market rate adjustment would be applied at 50% of the market rate. For example if had a 3% market rate recommendation then the adjustment to the pay steps would be 1.5% and again that is going to result in a significant savings from the way the pay plan has been previously structured. There was a lot of talk within the group about incentives and we have certain incentives that are already in place. We have education incentives for two-year and four-year degrees. We have second
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language incentives, we have Police Training Officer incentives and on the fire side of the house we currently have incentives for those folks that work in the hazmat stations and the urban search and rescue stations. The education incentive is currently the only one for which recruits are eligible when they start the academy. With the change in the pay plan, we are recommending that we do begin awarding that incentive once those recruits graduate from the training academy. I don't know that it will be that much money, but it is a change the committee recommended. There were also discussions regarding additional incentives. There was a group on the Police side who wanted to recommend that a 5% incentive be given to Detective employees who move out of the patrol area into the detective area. That is not going to be an incentive at this time that we are going to be recommending. On the fire side there was an additional 5% incentive recommended for those employees who work at the dive stations, Station 38 at Lake Norman, again specific certifications and requirements for that level of work and we are recommending the dive certification and you can see there is quite a bit of difference between the two recommendations.

Mr. Howard said are those one time incentives or when you get the certification you get it or is it a salary increase?

Ms. Brown said it is a salary increase. It increases the base pay, they are typically 5% and for example on the fire side, if I am fire fighter and I move to one of the stations who does hazmat, urban search and rescue or dive, I get the incentive when I go. When I leave that station I lose the incentive.

You were talking about a chart and seeing some of the numbers, this will give it to you in number form. The pay plan as it was structured and has been structured, you can see the cost projections from FY13-FY16. HR and the Budget office worked together to put these numbers together. You can see the changes, the middle line, proposed steps with a 1.5% market adjustment, implemented FY13 and you can see the difference, \$2.2 million, \$2.8 million, \$3 million per year over what it would have cost us had we left the pay plan structured the way it was.

Mayor Foxx said in terms of the million dollars for conversion, what is baked into that?

Ms. Brown said what is baked into that, you have employees now who are on steps from minimum to maximum. Because we are going to be adjusting the minimum, essentially we are moving the minimum from step 1 to step 4 so that we be competitive with our minimum. We will be moving any employee who is on step 1, 2 or 3 to step 4 so there is an expense associated with that. That is the majority of what that conversion costs is coming from.

Mr. Walton said really the better question is the first year, the conversion cost is recovered in the first year.

Ms. Brown said to wrap it up, speaking for Curt, the City Manager's recommendation, we would like to have the Public Safety Pay Plan Committee's proposal implemented and they actually came up with a little different methodology than we had used prior to this work, which is great. That is a positive outcome of their work as far as salary studies that are conducted, cities that we solicited information from and how the pay ranges are calculated so that is part of the recommendation. We have already touched on the fact that we won't be recommending the Police Detective incentive at this time, and we would like to recommend that the potential pay adjustments for the new Public Safety Pay Plan as well as those employees that are in the existing broadbanding pay plan which I think minus one, that is everybody else in the room that that be considered as part of the FY13 budget development.

Mayor Foxx said we've gotten some material from some of the police and fire agencies for following up on this issue of benefits, issues and payroll deductions and I would really like if it you could take a look and maybe give us your position on those things.

Mr. Walton said I had already committed to them that we would look at those. They forgot to mention that. We couldn't do it now because we are finalizing health insurance which is a much,

much bigger issue, so we would look at these other ancillary benefit issues, but probably not right now, sometime later this year.

Mr. Howard said that would include the whole 14-day/28-day thing?

Mr. Walton said I would suggest not because that was one of the cost reductions we did and that is a significant issue. I don't think that is a benefit issue. I think that is a compensation issue. We did tell them we couldn't look at benefits during this task force process, but police particularly have benefits that are significantly different than the rest of the workforce. We will point all of those differences and look at them, but we have to look at them citywide because we have a uniform benefit package, other than the state mandated police thing.

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ITEM NO VI: FINANCIAL PARTNERS AND OUTSIDE AGENCY FUNDING REQUESTS

Interim Budget Director, Randy Harrington said we don't have a PowerPoint presentation, but I can highlight a couple areas and then if you have any questions I'll be happy to go into those. I will give you an overview of the Financial Partner and Outside Agency requests. These are not the recommendations, but what has been requested by these groups. Traditionally the City Council has funded financial partners and outside agencies in three areas. One would be in a case to help advance Council priorities and focus area plan initiatives. Another would be providing a service that the City doesn't provide or the City doesn't have the expertise into to provide, or if an existing departmental effort where there is an opportunity for an outside agency to partner with one of our departments and advance what they are doing. The financial partners and outside agencies are funded from two general areas, the first one being the general fund and general tax dollars and there are 8 of those. The other group of agencies are part of what we consider the Neighborhood and Business Services area and that involves CDBG and home grant funding and then some additional funding from your innovative housing fund which is part of the pay as you go program and that supports some of those CDBG and home related non-profit and financial partners.

A summary is provided on Page 32, an overview of all the financial partners. There are two new requests, one is from the Charlotte Mecklenburg Development Corporation for \$525,000 to assist with the implementation of the Business Corridor Strategy Plan and a second request from the Men's Shelter of Charlotte for \$100,000 to help move 25 men into housing. Those are the two new requests and just a basic overview of what is contained in your financial partner and outside agency funding requests.

Councilmember Barnes said if you all would allow me to make some comments about a few of the requests I would appreciate it. I wanted to address the Charlotte International Cabinet and as a part of the request they asked for \$25,000 for website construction design maintenance. It seems a little high so that gives me some concern. United Family Services asked us to fund a cola which concerns me. I had a question I wanted to put to the Mayor and Council regarding whether we should continue to pay out the \$10 million or \$12 million in marketing funds to the CRVA in installments. Perhaps the Manager could give us some feedback regarding how that has been going. I wanted to know if you wanted to continue to do that to maintain a fairly close relationship with them. With regards to the Carolina's Care Partnership, their target for the number of clients served was 522. They served 455 and I wanted to know why. With regards to the CMDC requests, they are simply asking us to be their sole source of funding and I wanted to understand from our Economic Development Office perspective, whether they are asking us to do work to fund work that we are already doing or simply supplementing it to some degree. In other words could we hire one more person for \$75,000 to do some percentage of what it is they would do with the \$525,000. With the Men's Shelter, I understand and appreciate that they want to put 25 men into homes at \$4,000 a piece, but I also want to understand what they are going to do to help those men become more independent. The best cure for homelessness is a job and I would like to know what they are going to do to help these men become more self sufficient and able to move out of those spaces so that 25 more people can come in. I have no formed opinion yet as to whether or not I will support the funding requests, but I want to ask that question. You

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are asking for the money, but what are you going to do to help them move on to get a job or get out of that situation so other people can be helped.

Councilmember Kinsey said the Charlotte International Cabinet, they talk about part of the money would go to promote economic development and assist in the recruitment and acquiring some firms. I don't see that as their role. That is what the Chamber does, that is what the Partnership does, that is what we do and we don't need somebody else out there recruiting in my opinion. I've always shied away from adding new partners so I'm not real sure where I am on that either. Once they are on there, they are hard to tell to get off and we know that.

Councilmember Howard said I was wondering about the CRVA and their request going up \$2.4 million. Is that just because of the funds coming in? They just get whatever comes through?

City Manager, Curt Walton said we are a pass through for tourism and marketing, it doesn't have to go to CRVA, but it has to go to tourism and marketing.

Mr. Howard said is that a recognition that that fund is just throwing off \$2.4 million more dollars than it did before or is their budget just requesting that with anticipation?

Mr. Harrington said that is the requests and that will be refined once we have better numbers on food and beverage taxes and a portion of the occupancy tax that goes toward that. That is tried up based on what the actual projections will be, but at this time that is an estimation.

Mayor Foxx said following up on that, are we doing anything different with our budget this year against that recommendation or are they asking for more money for something else?

Mr. Harrington said they are not asking for additional services or a change in services, it is just a reflection of the pass through money that comes through. No change or additional requests for tourism programs.

Mr. Howard said so it is a projection somewhere that we will get more money than we have before in that area, which is probably some of the money Mr. Barnes was asking about earlier. Do we change the goals when that happens or are they just adjusting their market more?

Mr. Harrington said I don't know the exact answer to that, but we can certainly get you some more information on that.

Finance Director, Greg Gaskins, said the process related to them is a little bit two-fold. They make a request and at this point in time they don't know the final number available. It is a complex formula so their request is probably higher than the money we are going to have and they probably already know that because we have ordinarily already talked with them about available numbers. This request is probably higher than the actual money that will be available.

Mayor Foxx said I guess to Mr. Howard's question they are asking for more money this year than last year so is that for some project, or let me dare say to cover losses. I'm trying to figure out what is going on.

Mr. Gaskins said they asked for more last year than they got than what you are seeing. Their actual request was for more than the amount that you actually see.

Mayor Foxx said I guess that is something to engage with them on as we go through the process.

Councilmember Cooksey said related to CRVA and the rest of them actually, the performance items that are here, are these simply performance items that the financial partners are reporting to us or do we put them into the contract each year by which we transfer funding?

Mr. Harrington said they are in the contract.

Mr. Cooksey said back when it was CVD doing sales and marketing there were no goals in the contract at all. At the time it was like \$6 million which always bothered me, but by the time I
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got to a point to do something about it we were creating the CRVA. Could we in a future write-up see whether folks actually target which I am assuming is an FY13 target. I see prior year actual which I presume was an FY12 actual. How are the FY12 actual versus the FY12 performance targets for each of the partners that have performance provisions in their contracts? That way we can see better how they are doing. It is not an apples to apples comparison if we look at what they did last year versus what they are targeting to do this year. I realize the year isn't fully over yet, but something close to that I think would be useful.

Councilmember Mayfield said looking at the Charlotte Mecklenburg Development Court, is there any other funding source or are they looking at us for the full amount of funding for what they are attempting to do? Also looking at the Carolinas Care and the YMCA Community Development, the same question as Mr. Cooksey looking at where were their goals. I would like to see the date not only met but exceeded the goals if they are coming back and requesting additional funds. What exactly are these funds going to be covering, other expansion, offsetting the costs and identifying that we are not the only source of income for this request.

Mayor Foxx said I would actually like to have some more information on what the needs seems to be trending toward Crisis Assistance Ministry and some of the human service providers to kind of get a feel for how our dollars match up to what the need is. A number of these partners have been fairly flat for a period of years even the needs in the community have increased.

Councilmember Dulin said we obviously will be going through these during adds and deletes but after today and until adds and deletes will we have as a group another opportunity to take a look at these?

Mr. Harrington said you will as part of the adjustments process.

Mr. Dulin said and then for instance on March 21st will you be coming back to us with the answer to these questions?

Mr. Harrington said we will include it in the packet for March 21st Retreat.

Mr. Dulin said could we put on the agenda that day a little bit of discussion time for this?

Mr. Howard said on the International Cabinet, I don't know if they are looking at doing international recruitment as much as being a part of the process facilitating the relationship building because they do have established relationships in certain places. They are the first people that when the international diplomats and other people come to town, they are the ones that interact with them. What I heard was it more of a recognition that they could help build a relationship for the partnership and the Chamber. I didn't think it was doing something separate and apart. With CMDC, at the Economic Development Committee the other day, we heard that there would be an effort to build a capacity in that organization so that they could do more in the community to be a partner when there is a lot of work going on in some of these corridors. It is a capacity they don't have right now because they have been really somewhat of an arm of the Chamber and not their own organization building their own balance sheet and their own wherewithal to become their own organization. I would like for us to consider, as opposed to looking at them as an established partner, that we start building their capacity so they can be more of a partner in some of these corridors.

Mr. Harrington said I wasn't at that Committee meeting.

Mayor Foxx said you are talking about CMDC? There is a good strong argument that they could be the equivalent of what the Housing Partnership is to us in housing in economic development area. We kind of support them project to project and there is not an operating level of support there. There is some conversation about that.

Ms. Kinsey said I will say again, once they get on in our budget they are in there and they will come back and ask for more every year. I'm not saying that they are not good or not doing a good job at what they do, but I just know once they are there it is very difficult to phase them out.

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Ms. Mayfield said just for clarity sake regarding the questions I had for more information, specifically we are looking at CMDC and what I would like to see were any other organization that is seeking funding from a Board source. They need to show that they have been able to identify other funding sources so that we don't become the main source. We see that the need and the capacity is growing daily and I'm looking at this, if there is a way where we can consolidate some costs, especially if they are not meeting or exceeding the goals that were set, in order to fund some of the services that are direct needs, and that organization is becoming self sustaining so they are putting themselves in a position where they will be able wean off of services from the city or reduce the need from the city, it makes me feel a lot more comfortable to know that they were able to identify these are our goals, these were the goals that were met or exceeded, this is why we need this and if we are brand new this is who I talk to in a committee to help say that they also support this next step that we are taking.

Mayor Foxx said one last thing I want to applaud the staff, they have done a lot of work on after school programming and we asked them to do a lot of work and I want to remind us now before we get into the foes of that process where we asked them to the work of creating a competitive process for after school dollars. We don't know what that process is going to yield yet but it could yield some changes in who we use and it is likely that if that were to be recommend there is going to be some pressure on us to slow up the process we asked the staff to do. I want to acknowledge the work that is being done on that. The idea is to increase the effectiveness of the dollars we have but I just know as this process goes forward it is up to us to stick to it.

Mr. Dulin said did I miss the part today crossing guards and School Resource Officers?

Mr. Walton said both of those are in the budget as approved last year. School Crossing Guards already became effective and the SROs it is a \$1.9 million, almost \$2 million shift in the next year followed by the rest of it to fall on out years. We are following the schedule that you all approved last year.

Mr. Dulin said it was a three step-down. Do we remember what that vote was on Council last year to take that action? I don't think it was unanimous.

Mr. Harrington said I don't recall off the top of my head.

Mr. Walton said during the straw votes, we will find out.

Mayor Foxx said we had a gap filler last year and I don't think that was unanimous to plug the hole and I also don't think the vote to go forward with the recommendation was unanimous either.

Mr. Dulin said those questions are popping up in my neighborhood meetings and I'd like to be exact with it if I could get that information.

Mayor Foxx said Mr. Manager do you have any other wisdom you want to convey to us?

Mr. Walton said I'm out of wisdom.

The meeting was adjourned at 5:21 p.m.

Ashleigh Price, Deputy City Clerk

Length of Meeting: 2 Hours, 18 Minutes
Minutes Completed: April 27, 2012