The City Council of the City of Charlotte, North Carolina convened for a Budget Retreat on Wednesday, April 11, 2012 at 3:07 p.m. in Room 267 of the Charlotte Mecklenburg Government Center with Mayor Anthony Foxx presiding. Councilmembers present were John Autry, Michael Barnes, Patrick Cannon, Warren Cooksey, Andy Dulin, David Howard, Patsy Kinsey, LaWana Mayfield, and Beth Pickering.

**ABSENT:** Councilmembers Clarie Fallon and James Mitchell

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Mayor Foxx called the meeting to order at 3:07 p.m. and said we have quite a number of topics on our agenda today, including the Utilities budget and rates, Employee Pay and Benefits, General Fund Update, CIP Update and Financial Partners and Agency Funding Recommendation, so I will turn this over to the City Manager and let him help us walk through this.

**I. INTRODUCTION**

**<u>City Manager, Curt Walton</u>** said this is the last Budget Retreat before presentation on May 9th and this is a reminder of the date that we moved our presentation to. It is at 11:00 a.m. before the HAND Committee Meeting on Wednesday, May 9th. Between now and May 9th we will be finalizing the recommendations and a lot of them are already final and you will see some of those. This is still the work in process so anything you feel like you need as a result of these topics, or anything else related to the budget, just let us know as we move toward May 9th. Our goal with the Budget Retreats is by the time we get to May 9th there will be no surprises and I think we have structured it so as far as we know right now there aren't surprises. If we get surprises in between now and then we will let you know. Unless there are questions about process I will turn it over to Barry Gullet to talk about the Utilities Budget.

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**II. UTILITIES BUDGET AND RATES**

**<u>Utilities Director, Barry Gullet</u>** said I want to start off this afternoon by reminding you where we were last year and telling you a little bit about what we have achieved this year and where we are going forward. If you remember last year this time we had just finished a new rate methodology study and you had actually adopted by this point, a new rate methodology that included the addition of an availability fee which helped our revenue stability. We were having a lot of customer service issues. We were coming off of a two plus year hiring freeze. We were down a lot of employees and out customer service levels in terms of responsiveness to water leaks were not as good as anyone wanted it to be. We proposed a budget last year that would make some improvements in that. I want to tell you how that has worked out, what the results have been and what our plan is going forward from here.

One of the things we did was implement the new rate methodology that was approved last year and if you remember we also eliminated 50 positions from Utilities. Going into this fiscal year we had a lot of vacancies so we emphasized this year restoring those field crews. Those vacancies took the form of the guys out there is the field with the boots on fixing water lines and cleaning sewer lines. We have been able to fill a lot of those crews and it has been an ongoing process. We are not quite there yet, but we are almost. We have filled over 100 positions over the course of the last year. Some of those were internal promotions so we are still down some vacancies, but again we eliminated 50 positions and we've been trying to fill our vacancies in those field crews and get things back in order there. We have implemented a lot of customer service improvements. The number of calls and complaints that we are getting this year has been down considerably from prior years. Sewer spills are an ongoing issue with our system as well as many systems across the country. If you remember, we are under an EPA Administrative order to reduce our sewer overflows. This is the last year of that order and our trend has been downward. The EPA has been very happy with what we have been able to accomplish under that order but we still have some more work to do there. We slowed our capital spending. One of the drivers for our budget has always been our capital expenditures. When Charlotte was in a high growth mode and we were adding 3% or 4% to our customer base every year we were struggling to keep up. We were doing big water main projects, big water plants and wastewater plants expansions projects and our service area was growing. When the economy changed in 2008 our capital program was a little bit slow to respond. We already had too many things in the works so to speak that we couldn't stop or slow down so that continued completion of those projects was driving our revenue requirements and therefore our rates for a while. This year we have been able to slow that down. We are getting back in sic with our growth rate and out capital spending. We have emphasized spending our capital dollars on maintaining and repairing what we have in place already, keeping our service levels up for the customers that we have and I can also tell you that for this current fiscal year, our budget is roughly in round numbers, $300 million per year and we are within less than 1% of that right now on both revenues and expenses. That is pretty tight, but the good news is that we are within 1% and we are on the good side of that 1%. That is where we've been this past year. I just wanted to show you the impact that those extra field crews are having just on our ability to go out and repair water lines that are leaking. You can see that our number of employees had been going down. This is not total employees, these are employees that are actually out there, boots on the ground fixing water lines and sewer lines. You can see that number had been going down since fiscal year 2008 because of the hiring freeze and not filling positions. You can see what happened to our responsiveness, our ability to respond. One thing we have to keep in mind is that even when the economy goes bad, the water mains don't know that and they keep breaking. We can defer fixing them, but eventually they have to be fixed. We got behind and we have been working to catch up and our response time is much better now than it was even a year ago.

Councilmember Cooksey said as we look at the staffing levels we are back up to roughly 2009, but the repair time is still a little off. Trending well I agree. How much bigger is the system that the field staff is maintaining now versus three years ago?

Mr. Gullet said I can't give you a number on that but I'll tell you that it is bigger. Even though the growth rate in Charlotte has been down, we have taken over some private systems that has added a significant number of miles to our pipes. I would guess that our system now is probably somewhere between 1% and 2% bigger than it was just a couple of years ago. That is not a numeric answer, but it is bigger.

Mr. Cooksey said just looking to add that little bit into there.

Mr. Gullet said the other thing to keep in mind is that the addition of the staff in the field didn't take place immediately at the beginning of the year. We had to go through a recruiting process, a hiring process and a training process and we've changed and complexly reconfigured the way we go through that and the way we bring people on board and it has worked very well. We are making good progress there.

Mr. Gullet continued his presentation with slides on page 4 and said the rate methodologies that Council approved last year have worked out pretty well for us. There were two components of that rate methodology that had a delayed implementation. One of them was the Smart Controller Program and this is the program that allows a customer who install an intelligent irrigation control, one that only waters the grass when it really needs to be watered and who put in a separate irrigation meter, it incentivizes them do this by not charging them for water at the highest tier. If you recall we have four tiers in our rate structure so that was an incentive. We needed some time this year to set up the billing systems and the customer service functions to be able to support that. We've done that so this program will go live on July 1. The second change that we needed some time to continue evaluating and figure out an implementation plan for was basing the sewer bills on the average water use during the winter months for each individual customer. This is something that increases the fairness and the equity of our billing system pretty significantly because it only charges people for the service that they are actually using. That is what we want to get to. During this past year we have communicated with other utilities that have had this kind or program in place for a number of years and with utilities that have recently implemented it. We've learned about some of the difficulties they have had and we see that we need more time to work out our system and get our support processes in place before we make that transition. We also, in doing further analysis, saw that the impact on low users would be pretty significant to do this all at once. It is going to need to be phased in over a number of years. Going into this next fiscal year we want to continue working with this and planning for it and getting the process in place, but we are not quite ready to roll it out yet. We don't believe that would be in the community's best interest at this point.

When we set water and sewer rates there are four things that have to be considered. There are four parts to the process. The first part is that we need to determine our revenue requirement and we need to determine the service level that we are going to provide. Those two things are very much linked together. The second thing we have to do and this is just as important as the budget and can have as big or bigger impact on what the final rate winds up being as the budget and expenses, is how much water we expect to sell. This is part cart and part science in projecting what our sales are actually going to be. It is depending upon a lot of factors, weather being the biggest one, but the economy also being significant. Once we determine those two pieces, the revenue requirement and the consumption forecast, then it is pretty straight forward to apply the rate methodology that has already been approved last year and the practices that we have for calculating the bill, it is pretty mechanical process that we go through to generate actually the final schedule of rates and fees. That is what I want to present to you today, the parts of this process. The first part is determining what the revenue requirement is and there are really three components to that revenue requirement. The first component which is blue on the chart are our operating costs. That is what it cost us to run the water plants, fix the pipes, pay our people, make the repairs and keep things going. The second component is debt service. That is like our mortgage payment, payment on our credit. That is payment on money that we have borrowed for the last 30 years to build and expand our system. That is the red part and you can see that is a larger component of our revenue requirement than our operating expense. The third part or green part at the top is the combination of money that we are using to pay for capital projects on a cash basis, pay as you go fund, and also a contribution to our fund balance that we need to generate to meet our bond debt service coverage ratio requirement to maintain our bond rating. Those are the three components and you can see how those have grown through the years.

The 2012 column is what we are projecting to finish this year at. The data on here for 2011 and before is actual data so you can see there has been quite a bit of growth in the red segment of this. You can see that our operating expenses were flat since 2008 up until last year and that is when we kind of caught up with inflation where we had been funding our operation by cutting people and absorbing cost increases in the commodities that we have to purchase to run the system. Last year we were able to make some progress in refilling that to restore service levels. You can see it went up a little bit last year and I will cover the difference between last year and this year in another slide in just minute. You can also see that the debt service component is going up in 2013. I'll show you the reason for this but it has to do with a bond sale that took place in 2009. I'll show you in a minute why that is still a concern. The green part is the pay as you go fund and meeting our debt service coverage. We have a financial plan, a ten-year model that we look at for financing utility capital projects. In the past we have funded almost all of our capital program through debt issuance. Our plan is to rely less on debt in the future than we have in the past. We are trying to get to a 60/40 split where we are financing 60% of our capital program with debt and 40% with cash. We need to keep increasing our PAGO contributions to get to that goal and we are almost there. The other thing that is significant about this I want to compare this to where we through we would be last year. Last year when we showed you this slide, the numbers at the top of those last two years were $300 million for 2012 and $317 million for 2013. What we were able to do to reduce that is that we worked with the Finance Department and they were able to help us refinance some of our debt in 2012 which reduced our total revenue requirement by $5 million and that helped us keep our rates down for this current year. Going forward we were able to reduce our expected debt service by delaying an additional financing. We had originally proposed to do a bond issue this year in which case we would have had another debt service increase, but by delaying and deferring and extending our capital program and slowing down a lot of those growth related projects we have been able to push that out into the next year and by doing that we have eliminated an extra debt service payment which has kept our total revenue requirement down. We are coming in $7 million under where we told you last year that we would be for this coming fiscal year.

Here are the changes in our revenue requirements from this current year to next fiscal year (first slide on Page 6). You can see the $13 million increase in our bond repayment and PAYGO. That is what we talked about a minute ago. You can see the other changes and a significant increase is in power costs and chemical costs. About $12 million of our budget goes to power costs each year and Duke Energy is increasing the rate that we pay for power. It averages about 7% or 8% increase this year. That is a significant amount of money there in itself. We are always working to find way to use less electricity and we are making progress on that. We are using less to do the same amount of work, but the rate that we are paying are still outpacing the savings that we are able to produce there. Fuel costs are going up and the chemical that we use to treat water and wastewater are very fuel dependent. A lot of them are derived from chemical sources and they are delivered in trucks and rail cars so there is a lot of energy reliance there. About 63% of our total budget is related to our capital side and about 37% is related to our operating side.

This is a complicated chart, but let me see if I can step you through it (last slide on Page 6). We finance our capital program as an enterprise department a little bit differently than the general fund capital program is funded. We finance our capital program on a cash flow basis so what you are seeing on this chart, these bars represent cash on hand. Cash proceeds from either bond sales or from the contributions to PAYGO. The red bars are PAYGO contributions and the yellow bars are future debt issuances. This starts in 2009, which is the last time we sold debt and we wound up with $267 million in proceeds from that debt sale. We had a series of projects, these are just representative, but there are many, many more projects that are ongoing all the time. We sell debt and we make payment. We write checks every month to contractors and consultants for the work that they are doing for us. We keep drawing down and each month as we write those checks our cash on hand keeps coming down. Then we hit the beginning of a fiscal year and we make a PAYGO contribution so you see a little bit of the spike back up for our cash on hand. We keep writing checks so what we’ve done, these bars on here actually represent the time that those projects are under construction. Where we are now is we are pretty close to having committed all of that $267 million on projects, but some of those projects are still underway. We will be awarding new projects. These projects have already been awarded. This sale has already taken place. This is a project that will be coming to you in a few months for award as will these others. If you look at this chart last year there would have been a yellow bar right here and that is the bond issuance or the debt issuance that we’ve been able to push out and keep our revenue requirement down. We are looking at a debt issuance in July 2013. But it is in the next fiscal year so that helps us a lot.

Councilmember Autry said Independence widening, what is that with CMUD?

Mr. Gullet said when the state does a major road project like Independence or I-485 there are almost always conflicts with water lines and sewer lines. If there are improvements that we need to make there we have to pay for those and in some cases we have to pay for relocations if we are in a state DOT right-of-way so that is our part of the cost of doing that.

Mr. Gullet said that covers the how much money do we need and what are we going to use if for part, and then the other part of setting the rates is forecasting how much water are we going to sell. This is a piece of information that can have just as much impact on the rates as the dollar side can. What this chart is illustrating is for residential customers there are four rate tiers of consumption and for commercial or non-residential accounts, it is a flat rate. We get a different amount of money for each gallon of water that we sell in each of those various categories. What this is showing is for each of the fiscal years back to 2007, how much water we sold in each of those categories each year. You can see that it went down from 2007. It decreased pretty dramatically until fiscal year 2009. That was a result of drought and water use restrictions and piled on top of that the economic conditions that were going on. Those were the years that we were really struggling and those were the years that we implementing hiring freezes and we were really struggling to make budget. We had higher rate increases than anyone wanted during those time period because we weren’t selling as much water. You can see that it has trended back up just a little bit, but we still aren’t seeing those 3% and 4% per year increases that we grew accustomed to in earlier years. For fiscal year 2013 we are projecting a ½% increase in consumption in each of the tiers over what we are forecasting to finish this year at. That is a small growth amount, but we believe it is a realistic growth amount. We’ve gotten advice from our consultants to help us reach that conclusion, but we believe that is a realistic forecast for where consumption is. As I said earlier, it is very much driven by weather and economy.

Councilmember Dulin said I realize we had a relatively small annexation last year. In 2009 is when we brought in the big group, 18,000 homes or something?

**City Manager, Curt Walton** said utilities were impacted for 2011 as well.

Mr. Dulin said the sale of water is the business here we are talking about. We need to sell water so our smaller annexation last year didn't help with that bump much.

Mr. Gullet said let me tell you about annexation. The last annexation was a little bit different in that we wound up actually acquiring private systems there were communities out there that had private water systems. They got their water out of wells and they had packaged wastewater treatment plants. We wound up acquiring those so we bought a customer base that was already hooked up and working. The problem was there was a delay. When it is a 2009 annexation, they wind up as utility customers two years later. We are just now seeing some of the impacts of that and we've accounted for that customer base increase in our structure here. Remember we provide service all over the country and a more typical annexation is that we would be annexing a lot of people who were already our customers, in which case it has no impact on consumption forecast as it already part of it.

Mr. Gullet continued his presentation with slides on Page 7. When you put those two pieces together the dollars part and the sales part then that gives us our rates. We have two fixed fee components of our bill, the first one is the billing fee. That is the cost of actually managing the account, servicing the account, sending the bills and that type of thing and we are proposing a 6 cents per bill increase in that amount. The second part is the availability fee. If you remember from the new rate methodology the availability fee is set to recover 20% of our debt service. Our debt service went up so our availability fee is going up. The other thing I didn't say about the debt service, that 2009 bond sale was structured in a way that the debt service increased for three years before it leveled out. This coming year is the third year so we are actually seeing a debt service increase in the upcoming fiscal year from the bonds that were sold in 2009. When you look at the residential rates, the first tier has a modest increase, as they all do, but they are based on cost of providing service at those levels. It costs more to provide service to a large user than it does to a small user. The pipes have to be bigger, the pumps have to be bigger so there is a higher cost there. That is the basis of the tier structure.

Councilmember Barnes said before you leave that slide I wanted to suggest something to you and perhaps make a suggestion proposal to my colleagues. As I understand it, most of my constituents are in one of the first two tiers.

Mr. Gullet said about 75% of our customers are in the first two tiers.

Mr. Barnes said a lot of my seniors are in the first tier. I would like to see that tier one rate stay at $ .98 and shift the $ .11 down to tier four. I wanted to get your reaction to that either today or at the next retreat. Could you react to it now?

Mr. Gullet said I can give you an initial reaction. My first reaction is that it doesn't translate exactly that way because we have more units for sale and we sell more units in the first tier than we do in the fourth tier. The fourth tier is a risky tier because if we have a wet year and people don't water their grass as much, our sales in that tier are a lot lower. It is a risky place to put money and it is less likely that we will earn that revenue. Again we sell more units in tier one than we do in tier four. Taking $ .11 off of tier one and moving it to tier four would be much more than $ .11 when you put it on tier four to generate the same amount of revenue. My other reaction is that isn't consistent with the rate methodology. We set these rates according to a cost of service type methodology. We really would recommend that we stick with that methodology for equity issues, fairness issues and possibly some statutory issues about how we structure our rates.

Mr. Barnes said is the $1.09, $2.18, $3.81 built on some methodology that is based upon the law?

Mr. Gullet said it is based upon the policy that Council adopted last year. It sets out what goes into each of those costs.

Mr. Barnes said are you saying that there is no flexibility in those yellow numbers?

Mr. Gullet said I'm going to say there is very little flexibility in those numbers.

Mr. Barnes said here is the deal. People are saying you guys are talking about raising our taxes, you are talking about giving baseball some money and now you are back at my water bill again. We are constantly getting e-mails and especially from folks on a fixed income, about the impact these water bill increases on their budget. I think it would be in the best interest of many of the people that I represent and I'm sure many of my colleagues feel the same way, to find a way to minimize those increases without doing damage to the strategy that we approved last year. What I'm suggesting is, for example I know what the fixed billing fee is, I understand what the availability fee is, I get those but I don't like them because it is a lot like your phone bill. It can have an impact on a senior on a fixed income and other families. I'm saying to you if there is a number under $1.09, under $2.18 that works we need to hear it before we kind of categorically determine that there is a better number. We don't want to do damage to what you are trying to do is my point, but I would like to find a way to take some pennies off of those increases.

Mr. Gullet said I understand.

Councilmember Cooksey said let me add something about the methodology that Mr. Gullet probably had on the tip of his tongue to say next. Based on the methodology, the tier one rate is already a subsidized rate. Tier one doesn't actually reflect the costs of providing tier one water, it is less than that.

Mr. Barnes said I recall that from last year.

Mr. Cooksey said it is already a subsidized rate. We can talk about the amount of subsidy, but it is already that.

Mr. Barnes said Mr. Cooksey I'm sure you will appreciate the fact that 99% of the people that we represent won't appreciate that. All they will see is that their bill has gone up. That is my only issue. If there is a way to bring us back a number that is somewhere south of where you are proposing that would be helpful in light of the other expense increases. We know what is going on in society, there is a whole slew of things that are going up and if we can reduce some of them I think we should.

Mr. Gullet said I appreciate what you are saying. I pay these water bills also, but I also remind you that those same costs that are going up for each of us as citizens are going up for us as a utility also. We are trying to maintain a reasonable service level and as Mr. Cooksey and you acknowledged tier one is already a subsidized rate that the other customers are paying for. Let me go to the next couple slides and talk about how much the bill changes for the different customer groups. This is the same type of slide for the sewer side (top slide on Page 8) showing a change in the sewer rates. We are proposing to leave the sewer cap as it is at 16 ccf. Remember we lowered that last year and the proposal is to leave that where it is. This chart shows the combined impact, in other words how much is your actual water and sewer bill changed because of the proposed increase. You can see for that 4ccf customer it is $1.70 per month increase. For the 8ccf customer it is $3.30 per month increase and 75% of the customers fall in one of those two brackets. Customers can always help control their costs by conserving water. Sometimes they can manage to get into that lower tier and sometimes they can't. It depends on a lot of circumstances, but the customers can conserve and help control their own bill to a certain extent.

Councilmember Dulin said it is true isn't it that the higher water usage it is cheaper for us to provide water to them because in a lot of cases we only touch it once. If somebody is filling up their pool and the pool evaporates or a large industrial site, watering grass?

Mr. Gullet said there are two parts to your question I believe. The first part is related to the cost of providing large amounts of water versus small and I think the other part of your question is do they pay sewer charges on that extra usage. The answer to that is, people that are irrigating their yard don't pay sewer charges on that amount of water. That is the sewer cap. Once you pay that 16ccf mark you don't pay sewer charges on it any longer.

Mr. Dulin said for instance we are a family of five and we consume a lot of water. We take baths, do a lot of laundry, do a lot of dishes, almost daily on all of those and daily on the baths. But then as we discharge that water there a cost associated with the city recapturing and treating that water and then sending it back out.

Mayor Foxx said are you saying that we drink your bath water?

Mr. Dulin said that cost for a consumer is larger than somebody in tier four.

Mr. Gullet said that is the sewer component of your bill. Your sewer component pays for that water that you send down the drain and yes, the unit cost for that is higher than the unit cost for the first three tiers of your water consumption. We also recognize that very few people actually put more than 16ccf, which is 24,000 gallons, back into the sewer system so we don't charge the sewer bill on that amount. That is the equity and fairness issue. That really is what the winter use average sewer bill process is about, is improving that fairness even more.

Mr. Gullett continues his presentation with the last slide on page 8. One of the things that we get asked is people wanted to see how we compare with other cities. This chart is based on current year rates for these other cities and you can see Charlotte's 2012 rate, total water and sewer bill and this is where we would stack up with the proposal. This is actually for a 10ccf customer. This is above our average customer, this is more water than our average customer uses. We use 10 because that is a number that is out there is in the industry so we don't have to gather all this data and calculate it ourselves, we just rely on industry sources to do this comparison. You can see that our 2013 rate still has us in the bottom half of other cities and I know a lot of these other cities are going to be proposing rate increases for the upcoming hear. We will probably drop down a couple notches after their new rates get factored into this as well.

Mr. Dulin said is Atlanta spiked because of their continual water problems down there?

Mr. Garret said let me just comment in general, not specifically about Atlanta. There are a number of cities if you look at them across the country that have very, very high water and sewer rates and there are different reasons they have that. For instance Chapel Hill provides a very high level of service. They provide levels of service that we don't provide. Atlanta has a high rate like some other cities. They got behind in investing in their infrastructure. Where we are spending money on ongoing rehabilitation and replacement they got behind and wound up under a judicial order to deal with sewer overflows and to deal with water leaks. It got out of hand so they are playing catch-up. There are a couple other cities that have rates very similar to that who wound up in the same situation. What I'm trying to do as the Utility Director is keep Charlotte out of that situation. If we make investments all along, it is kind of like taking care of your house. You can move in a brand new house and not do anything to it for 30 years and it won't be in very good shape and if you want to bring it up to standards you've got to take out a second mortgage, borrow a lot of money, put on a new roof, new plumbing and new wiring, or you can do it as things happen and take care of it. Keep it painted, etc. and you spread that cost out. The Utility system works the same way. We need to make ongoing investments in maintaining it and keeping it in good working order so it doesn't fall apart on us all at one time. Cities that have gotten behind on that process aren't doing well.

Mr. Gullet continued his presentation with the last slide on page 9. Our revenue requirement this year is lower than we had projected it was going to be by about $7 million, mostly based on pushing that next debt issuance out and doing that by managing our capital program and controlling the spend rate. The rate increase that we propose will have a $3.30 per month impact on 75% or less of our customer base.

Councilmember Kinsey said going back to Page 7, Proposed FY13 Water Rates, how much are we still subsidizing tier one.

Mr. Gullet said I don't have the dollar amount right off the top of my head. I can get that and follow up with you.

Ms. Kinsey said I would just like to know.

Mr. Barnes said with respect to that second bullet point and the 2009 bond sale, do the interest payments on that debt fluctuate and do we pay the bonds off at a particular time. Is there no predictability to the cost of bond sale?

Mr. Gullet said yes, there is predictability and I will defer to our Finance folks here after I get them in trouble with my answer. We sell bonds generally for a 30-year period, but the amortization schedule on them isn't always exactly linear. In the 2009 sale, it was structured so that the debt service increased for the first three years and then it becomes flat after that. It was predictable and we knew in 2009 that it was going to increase for these first three years. We have that built into our ten-year financial plan. What we didn't have built in in 2009 was the economy. We were anticipating that our growth rate and sales would continue to be higher than it has been and that would have given us a lower rate increase. Remember there are two parts to that rate model, the dollars and the sale.

Mayor Foxx said I have said this about every time we have looked at our water situation. Long term I think we were positioning ourselves to be able to handle a lot more volume in the future and that was driving a lot of the capital cost. We have adjusted the model some to scale that back a little bit, but I think long-term we are going to have to really try to force our models to not be so driven by trying to pedal water and more by being more sustainable on a more conservation basis. I know our rates are conservation rates and we've done some things in the past to kind of get there, but I think the more we can push in that direction, even if it means looking at some of the building codes and making those more strenuous in terms of reducing the use of water, I think that is ultimately going to be better for the consumer at the end of the day.

Councilmember Mayfield said this proposal of a water rate increase, are we also looking on the county side a sewer rate increase or is this going to be potentially an increase across the board. On the back of the handout, which is actually looking at a water bill and the breakdown, where if your actual water usage is $13.00 by the time you have water usage fee, the sewer fees that bill is now $68.92.

Mr. Gullet said the bills that go out each month have three things on them. They have the water bill, the sewer bill and the storm water services bill. Those bills are really more than just CMUD. They are city services bills, but the rates that we have proposed here and the numbers you have seen are water and sewer both. This chart, the $1.70 is the net of the water and sewer increase. It doesn't include storm water, but it is drinking water and sanitary sewer both in this table. The chart that you are looking at, I didn't mention it, but last year we did this brochure and it seemed to be pretty useful so we've reproduced it again. The bill that everyone gets, you can see it breaks down your water usage, your sewer usage and your storm water fees line by line. The numbers I have shows you today includes everything but storm water.

Mr. Barnes said that number that we charge folks for the rain that hits their roof, it is based on the size of the house. Why is that necessary other than just a few from the government?

Mr. Walton said flooding is one of our worst problems and it occurs a lot of times in the backs of private property along the creeks that we are responsible for. It is a separate utility that was set up in the 90's really to address our chronic reoccurring problem.

Mr. Barnes said is that fee what we use to pay for all the projects Mr. Dulin votes against?

Mr. Walton said only the ponds. If you take the ponds out of the equation even Mr. Dulin votes for those.

Mr. Barnes said those rehab projects?

Mr. Walton said not just rehab, but there is some rehabbing of storm water systems, but in those cases there is no storm water infrastructure where we are going.

Mr. Barnes said Mr. Autry was talking about this bank draft. Do we provide a discount for the bank draft?

Mr. Gullet said no we do not.

Councilmember Cooksey said I'm going to be that guy again on the topics that are relevant but 99% of our constituents don't care. I think it is also important and as I do from time to time, the storm water utilities existence and the fees we have to charge are by EPA mandate more so than local choice. Yes, they address flooding and that is a local problem, but the reason we address them in the way we do and the way we have to address them is because the EPA told us to.

Mr. Barnes said they don't tell us how much to charge.

Mr. Cooksey said they don't tell us how much to charge but they tell us we have to do some things. They tell you how clean the water has to be and we have to figure out what it takes to hit their target.

Ms. Mayfield said while we are looking at making these improvements, has there been any conversation for us to move forward so you can view your bill on line as opposed to the paper bill? If I go on line I have several different ways to pay the bill, but I can't view the bill on line. It seems there is some efficiency costs that would be associated with making it more accessible on line.

Mr. Gullet said there are two parts to that. Right now working through your bank you can be billed electrically, but it is done through your bank billing system. That process and technology is in place today. We are wrapping up the development of a city portal for customers to access where you will be able to view your bill on line on the City's website and I believe that is scheduled to be live by the end of June.

Ms. Mayfield said so it is in process, it just wasn't presented in today's presentation?

Ms. Gullet said that is one of the multitude of projects that we have underway, along with the folks from Finance who handle our billing and generate these bills, they are working very hard at getting that process in place. You have heard us talk about our 40 point plan for customer service improvement, one of the parts of that 40 point plan is the electronic bill presentment.

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## III. EMPLOYEE PAY AND BENEFITS

**<u>Human Resources Director, Cheryl Brown</u>** said I have to admit I don't have anything quite as exciting as drinking the Dulin's bathwater, but I will give it a go. Some of this you've probably already heard and we will touch on briefly, but just to give you a little view of how we do our business in Human Resources. We always refer back to the Human Resources philosophy which was adopted and approved by Council in 1993 and then was amended in 1995. I have pulled what I consider the four main points out of the philosophy to share we with you. We are a group that we want to very aggressively have cost management for our benefits. Our employees are expected to share fairly in the cost of their benefits. We provide, according to the philosophy a moderate level of benefits and pay. We don't want to be too far on the low side and we don't want to be too far on the high side. As you know over the last several years we have been actively supporting our wellness program to try and improve the health of our employees and thus reduce future healthcare costs.

The first piece that I'm to talk about with you today is our benefits program, what we have done and what we are planning to do for FY13. We have several souses of comparative information that we use and I want to point a few of these out to you. Every three to five years we have our health insurance consultants conduct what we call a BENVAL. They get all their actuarial minds together and get a group of the large area employers and they compare our benefits to their benefits, then they give us some information about the relative value of our benefits to the comparative group. We can look at that and see where we may be doing something that might be a little on the high side or where might need to make some improvements to make us more competitive with the market. Very valuable study. We also use a survey tool provided by the Employers Association, a company that has about 860 member organizations and they provide human resources and training services for a variety of different employers across the area and the region, all sizes, all areas of business, public and private. We also have Towers Watson Survey information. This used to be Towers Perrin and they merged with Watson Wyatt and now we have Towers Watson, another very good and helpful survey on employee's benefits. The same with Mercer, another very large national consulting firm. We have traditionally studied every year the six components of what we call our Health Insurance Cost Management Program. It is going to be the cost sharing, those costs that are born by the employee versus those costs that are born by the City. Our Prescription Drug Plan Management Program, our various Plan Design, our Vendor Selection, again our Wellness Program and a Chronic Condition Management Program that we currently have in place. I will give a few examples of each of these. As far as the cost sharing piece, we have consistently cost shared over the years with employees, both active and our retirees. We have shifted costs from maybe increasing their contribution from 18% to 20%, so that is a cost sharing example. We've implemented a variety of different pharmacy plan changes. A main one of those is to promote the use of generic drugs as we all know the generic drugs are going to be cheaper. The employees have responded very well to our efforts to get them to use generic drugs. As far as plan design, typical types of things, we have increased our premiums, plan deductibles, out of pocket maximum again for both active and retirees. One area that we have been focusing on pretty regularly has been the consolidation of vendors. As you know there are a lot of vendors out there that provide medical service, pharmacy service, dental service, vision service and a lot of those different programs. When we found that we have consolidated vendors we have been able to experience some efficiencies, some price savings and it is just the way for us to try and reduce our spend on our medical and pharmacy program. We have continued our wellness focus through plan design incentives and we are going to be continuing that for the this next fiscal year. We have implemented a chronic condition management program for one condition, that being diabetes. We are hoping to expand that and with our diabetes chronic condition management program, we connect our diabetic employees and pre-diabetic employees with resources in their community for one on one sit down for the pharmacist or with another healthcare provider to make sure they are getting the medicine they need, that they are taking their medicine and that we are trying to maintain their compliance with their medicine regiment so that we hopefully can reduce larger claims down the road which again impact our costs.

Recent successes, we share this with the Committee a couple of weeks ago and we did consolidate our medical claims administration under one vendor which has resulted in significant savings for the 2011 calendar year and that has mainly been attributable to discounts that the administrator has been able to provide us. The employees have responded very well to our prescription drug program and some of the changes. We've actually seen a 6.7% decrease in prescription drug trend. Pharmacy costs is one of those things that you keep hearing over and over again that continue to go up so I think we are really moving and our employees are moving in the right direction. Part of what contributes to that lower trend is going to be our generic utilization rate at 79%. That is above industry average. That is above the book of business for CVS Caremark and we are really proud of our utilization rate for generic. When we put our wellness program in place, particularly with the incentives we have approximately an 85% participation rate by our workforce, which again is good because if you have employees that are paying attention to their health and they are doing things to promote wellness with themselves, and hopefully with their families, we see that having positive impacts on claims cost and reducing cost for the organization and our employees. Several of you probably remember, we did have a dependent eligibility audit conducted last fall and it wrapped up a few weeks ago with final numbers. We had a 97% response rate and the vendor that conducted the audit through that was quite impressive so we are pleased with that. The $403,000 net estimated plan savings, that is avoidance because those folks did not need to be on our plan because they were not eligible or they chose to voluntarily remove themselves. The estimated was that that would be about $403,000 avoidance of cost in the future.

Councilmember Dulin said during that audit, and the people that dropped, was there fraud found?

Ms. Brown it was their chance to come clean. Let's say someone had had a dependent on the plan and maybe they had aged out and they had failed to remember to take off or something of that sort. I wouldn't say fraud, as much as oversight.

Mr. Dulin said they were very thorough. Did some of those drop out because they didn't meet the criteria?

Ms. Brown said that is true, we had some people who did not respond to the various inquiries that the consultant made. There was a lot of outreach because we did want people to be able to maintain coverage for their dependents. There were some that just simply did not respond and we ultimately did drop those dependents from the plan.

Mayor Foxx said did I see up there that consolidation resulted in significant savings?

Ms. Brown said some of the actions that are under consideration for FY13, continue looking for ways to do things better, do things cheaper. We are going to continue to focus on wellness. We will be maintaining the incentive that we have in place now, our employees have to complete a health risk assessment. They have to go through a biometric screening process and they have to be actively involved with a wellness coach for the year in order to receive the $400 incentive on their premium for the year, which is about $7.86 per week lower out of their pay check. We are going to maintaining that and we are also going to be maintaining the additional deductible for tobacco users which is something that is a continuation from this year. As far as our vendor work we are looking to transition to a single vendor to administer our wellness program and our chronic condition management program. Sometimes you associate with a vendor and you think we might could do that better and we've had a very positive experience with our wellness program vendor and again think that we could experience some cost savings and hopefully the ability to expand our condition management program to include something like asthma or high pretension because there are a lot of other chronic conditions out there that we would like to help our employees manage as best they could.

When I talked about the BENVAL earlier, one of the areas where it has traditionally shown that we are a little less than where we would like to be compared to the market is dental. What we are considering is implementing a high/low dental option for employees. Very minor changes, but one significant one. The high dental option would add orthodontist coverage for employees and we would have a $750 calendar year max on the low dental and a $1,500 calendar year on the high dental. Some minor changes, but those folks who have children of age, or even adults that would need some orthodontist care, we think that is going to be a really positive addition to the plan. We are going to be implementing changes to consolidate our administrators for our flexible spending account and COBRA administration. Again seeing the ability to save some money and some administrative tightening up there. It might be a whole lot of money, I think the projection is around $22,000 but every little bit helps.

Councilmember Mayfield said have we had conversations regarding access for payroll deduction for some of the staff to have the option if they wanted to have deductions for the employees to be able to pay into their dues?

Mr. Walton said that is not a benefit as much as it is a payroll administration and we have traditionally not done that because there is some significant costs to that. To me it seems kind of out of sic in a state where you can publically bargain. That is not something we are contemplating.

Councilmember Howard said in one of the recent write-ups I think there was a response to the Fraternal Order of Police and they went into a lot of detail about why it didn't makes sense.

Councilmember Cannon asked the City Manager to explain it for the record and for clarity and understanding about when there are deductions for something like the United Way and the difference between that and public safety employees which I think there is a difference.

Mr. Walton said there is a difference between non-profit organizations in the community that we support and there is really only two. The ASC and the United Way that we do through employee campaigns and union dues. I think union dues are a completely different category and we would have to provide it for anyone who wanted to pay their union dues through payroll deductions and there are at least five unions that I know of in the City. We would have to make that available for everyone across the board. They can have it deducted automatically from their checking account so there is a way already to automatically have that deducted without doing it through payroll.

Mr. Cannon said are they familiar with that? They have been coached on that or brought up to speed to know that?

Mr. Walton said yes.

Ms. Mayfield said I think there is also a concern where that pretax deduction that can happen as opposed to a deduction that will happen after.

Mr. Walton said I don't think that would be eligible for pretax.

Ms. Mayfield said I need something to offer constituents when they call and ask me for them to know what the limitations are and what is acceptable.

Mr. Howard said the two you mentioned, Arts and Science and United Way, that is not pre-taxed.

Mr. Walton said no they are not. It is just life insurance, health insurance and those kinds of things that can be pre-taxed.

Mayor Foxx said there is a position there because state law prohibits collective bargaining by unions by public entities, is the view that there is a legal prohibition against this?

Mr. Walton said we will be original test case, Charlotte was back in the 80s for the issue. There is not a legal prohibition against it. To me is just seems like it is philosophical inconsistency.

Mr. Cannon said it sounds like it could be more cost related than anything else.

Mr. Walton said there is a cost.

Mr. Cannon said cost perspective from your side or staff's perspective, but a judgment call from the body's perspective on getting into something like that because you have to remember all the other implications that it may or may not cause if you go that route.

Mayor Foxx said for the sake conversation let me ask this question. If a group of employees decided they wanted to raise money for something outside of United Way, outside of Arts and Science, outside of unions, is there a process by which payroll deductions process can be set up?

Mr. Walton said they could always raise the issue and make a fuss, but we don't do that for other than those two.

Ms. Brown continued her presentation with the slides on Page 17 and said we are in transition with our medical plan contribution strategy and I won't get into too much detail about this, but we are changing the way our premiums are charged so that our PPO B Plan, which is our basic plan, we have two, the B and the A and the A is the more expensive plan. It provides a higher level of benefits so we are transitioning the way the City contributes to those two plans so their contribution is equal and PPO A Plan will truly a "buy up" plan. What that means is for folks in the PPO B Plan the premiums this year will remain the same. We were able to do that last year as well and are actually already looking for next year to see if we can do that again. As far as changes to the medical plan design, we are going to implement minor changes to the medical plan design, particularly with our out of network benefit. When I mentioned to you that we are under one medical provider and we get very, very deep discounts from that medical provider, if you go within network. You've heard the term "in network" or "out of network" and the provider has a tremendously large network. Our out of network utilization for the last three years has average about 1% so we are making some changes to the out of network benefit to hopefully steer any folks considering out of network to in network so they can experience lower costs and the city can also experience lower costs.

We are going to be talking with our consultants, which is Willis of the Carolinas and Jennifer Dunn, the Executive Vice President with Willis is actually here with us today in case you all throw out a question that I have no clue how to answer, I will punt. We are talking with Willis about implementing a strategy to offer an additional medical plan and that would be the high deductible health plan. We talked about this in Committee and the reason we would put a third option in place, it would save the City money and in addition the premium structure would be between 20% and 25% less in cost for the employees. These are plans with higher deductibles and often times the employees who don't visit the doctor often benefit from such a type of plan. I know Mr. Barnes had mentioned putting in a higher deductible for all of the staff. We are in no way considering doing that. We would just look at as adding it as an option and communicating it well enough so if folks were interested they would certainly be able to move into that.

Mr. Howard said is there an extra cost of doing this options way of doing benefits?

Ms. Brown said as far as adding a third plan design?

Mr. Howard said or doing the optional dental? I find it interesting that not a lot of companies offer options like the City is doing and I was wondering if there was some costs prohibitive reason why people don't normally do it. Is there extra costs to the city to do that?

Ms. Brown said no sir, actually when we've been considering implementing high and low plans there may be a little bit of additional costs but on the other side there is more of a savings typically.

Mr. Howard said seems to make so much sense and I was wondering why other people don't do it and have more than one option for employees.

Ms. Brown said I know Bank of America or Wells they've got such large workforce I don't know if there is an administrative reasons that they wouldn't want to offer.

**Jennifer Dunn, Executive Vice President of Willis of the Carolinas** said the larger the employer the more options we typically see in a program. Smaller employers would experience adverse selections if they have multiple medical plans and they would have additional administrative expense, there is payroll deduction expenses and that sort of thing. So there are expenses for a smaller group, under 1,500 employees.

Ms. Brown said we've talked about cost sharing and we are going to be doing some additional cost sharing for our retirees. For retiree only we are going to shift from 37.5% to 42.5% for their contributions to the premium and for retiree and dependent, 47.5% to 50%. When I tell you we look at the market to compare we are reaching our threshold on that. For those retiree only it is about 52% responsibility for the retiree and for the retiree and dependent it is about 54% so we are about to our max of our ability to make any more changes at least the way things are right now with cost sharing for retirees.

Mr. Howard said is that a big increase in cost to do the different sharing?

Mr. Walton said it is an increase cost to the retiree each year in relative small percentage.

Ms. Brown said that is about a $218,000 savings on the city side if we do that. When we started this back in the fall and we always start early looking at what trends are tells us and we were looking at about an 8% trend nationally. Back in July 2011 the Budget Department always ask us to give a best guess estimate as to what we think the increase will be for the next fiscal year and we gave them a 5% number back in July 2011. With the proposed changes that we've gone through briefly, we've lowered that increase on the city side to 2%. We are happy with that and the 2% will be an increase in the cost to the city and we are also planning about the same amount of an increase on the employee side as well. We think 2% is a really good number.

Mr. Walton said we are evaluating domestic partner benefits as something whether to recommend to you as part of the benefit package. We are going to have to make a number of assumptions that it appears that the annualized cost would be about $150,000. All benefits changes happen on a calendar basis so it wouldn't happen until January. That means the impact to next year would be about $75,000. We are looking at our peer organizations, both public and private with about the same number of employees and where the market is falling. That is something we don't have ready to recommend to you yet, but it is something that we will have a recommendation for you one way or the other in May.

Ms. Brown continued her presentation with the slides on page 18 and said we have two different pay plans. I've been before you earlier in the year to talk about the changes proposed for the public safety pay plan. Our Broadbanding Pay Plan covers the bulk of the employees within the City organization. It is based on two factors, merit which is an employee's performance and position relative to market. When I say market, we have market rates for all jobs within the City and they are set at the median of salaries of those organization's data that we gather at the median and that is our market. There are about 50% above us that pay more and about 50% below pay less so we are kind of right in the middle. The data that we have gathered so far gives us the indication that the market is going to be moving between 2.5% and 3.3% this year. That is the merit budget that if we are able, and hopefully we will be able to offer some sort of a merit increase to our employees. That is the range that Curt is evaluating as we go through the process.

This is just a quick peek at our internal data sources, our compensation manager is really busy this time of the year surveying municipalities all across the country. We do a lot of nationally, regionally and Charlotte area companies and we also do industry specific work, airports, utilities, crime labs, and transit organizations so we are doing a lot of data gathering inside the organization. We also pull a lot of data from external sources and we've already talked about the big consulting firms that we use. You can see some of the types of job fairs that are covered in those surveys. We make sure we get a cross section of office, admin, technical management, engineering, transit, airport, financing and accounting and even throw some HR and IT jobs in there to make sure that we get a good base for setting our market rate which we will publish at the beginning of the fiscal year.

This is just a quick chart to show you what we found (slide at the top of Page 20) over the recent years as far as actual market movement 2008 through 2011. The projected market movement for 2012, you can see at the bottom, the City of Charlotte, what we have done. We did have two years, 2009 and 2011 where we were not able to provide a merit budget for departments to award employees. The last column on the right, the 5-year average market movement, we included that and put Charlotte's numbers in there again with the range of the 2033 which is under review right now and you can see how that would compare us with the other groups, the national stats from World at Work, Hewett< Mercer Municipalities, Charlotte area municipalities, Employers Association and Large Charlotte Employers.

We have already talked about the Public Safety Pay Plan Committee work that was conducted over the last year, starting in March 2011. It includes the positions of Police officers, Police Sergeant, Firefighter I, II and Engineer and Fire Captain. Historically they have had five steps from min to max. That was one of the concerns as far as the sustainability of that type of program. The group worked real hard to get to a new pay plan structure that would include both 5% and 2.5% steps to help slow the progression through the range for those folks that are in that pay plan, and to help reduce the cost of the pay plan and to give us a pay plan that would be sustainable over time. Historically that pay plan received a full market adjustment to the steps each year and the groups decided that what they would do would be instead of a full market adjustment to the steps, to pay 50% of that market adjustment and again to help reduce the costs and get us in a position where we can sustain the pay plan. This is a visual of what the current looks like, 5% steps min to max and what the proposed is. At the top we've got our non-supervisor rates for Police Officers and Fire Fighters and down below the supervisory ranks of Police Sergeants and Fire Captains.

As far as the wrap-up, our costs have been aggressively managed over the years and we are continuing to do that. Employees continue to fairly share in the cost of the benefits. Our wellness program has generated many positive benefits and some of those life saving because we have had some folks come in for their diametric screening and through either blood pressure readings or finger sticks and blood analysis we were able to catch some very significant illnesses and doctor referrals that resulted in some cases a person not realizing they had cancer and were able to get under the treatment of a physician for that. You may not see those in the end, but it is nice to get those feel good stories and know that at least and somehow we have helped somebody get some treatment that they would desperately need. We would like to have the ability to recommend the pay adjustments for the Public Safety Pay Plan and the existing Broadbanding Pay now under review and being considered for 2013.

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## IV. GENERAL FUND BUDGET UPDATE

### A. <u>**Property and Sales Tax Revenue**</u>

**<u>Interim Budget Director, Randy Harrington,</u>** said the next topic is General Fund budget Update and of the May 9th Manager's recommendation budget presentation we will roll out the series of recommendations that we are still working through right now. A couple that we wanted to brief you on at this point is the Property and Sales Tax Revenue, where we are and where we think we are going to be on that particular fund. You have the material for that in your packet. The second piece will be the recommendation on the multifamily garbage collection and we will pass out that material when Victoria Johnson and Thomas Powers come up for that presentation.

**<u>Finance Director, Gregg Gaskins,</u>** said as you know we've had a couple of updates talking about what the revenue pictures looks like. I'm going to talk about the Property Tax and Sales Tax today and it is going to be fairly consistent with what we talked about earlier and I will start with the property tax. Based on the current projections we believe we will have between $6 million and $10 million higher that the estimated mid-year report that we discussed with you at the Retreat back in February. This number is a little big different than the number we talked about last year when we were talking about events at the same time. As you know we had the revaluation and associated with that there was a large number of appeals which was expected. Everybody knew that there were going to be a high number of appeals after 8 years anyway in a market like Charlotte's you would always have that because 8 years is a long time given the growth in our community and the expected difference in values over an 8-year period. When you add to that the situation we had with a way up and a down in a period of uncertainty, that makes it even more likely. When I say $6 million to $10 million at this point in time, what is going on. We have looked at a lot of data about what is happening with those appeals, the wins and losses and where they are in terms of the value. If you will look down below it says approximately $6 billion in value is still under formal appeals. Even though that is the case you have a lot to go on in terms of past history of appeals and what has happened in the appeals process this time. We think, and we meet with the County Tax office and the County Budget people and we use a similar philosophy in looking at the data because it comes from the same source the County Tax Office. In looking at that data in the past and using the same type of methodology we are fairly comfortable that we are looking at a $6 million to $10 million increase that we would be recommending to the Manager and to Randy to use in terms of the budget. They own that history and the record that we have of what has happened in the past. We are still being somewhat conservative in there, but let me give you an example of what we are talking about. At one point in time in the process, they were looking at 36% and there was as much of 36% of that value that could be appealed and lost. That would be a very high number compared to expectations on appeals. The actual experience is much lower than that in terms of current appeals and the number we are looking at is probably closer to a range of 9% and 18%. That number we think is $6 million to $10 million within the next week we will be giving the Manager our best guess estimate necessary for him to come up with the budget.

With regards to sales tax, sales tax also has an interesting component. As you know in North Carolina based on the way Mecklenburg County does the sales tax selection, when they go with their property tax in a year that we don't go up, the following year we suffer a loss in sales tax.

Not because of anything other than the operation of the law. We are estimating that law says $1.8 million that we will lose as a result of that law and just the way it operates. We are thinking that the improvement in sales tax sales is about going to balance that such that we are projecting zero difference. In other words what we had been projecting as a sales tax gain, the $69.8 million, we will just get that and we will just offset the loss to the county, which means that if we had not had that we would have had about $1.8 million to deal with.

Mayor Foxx said the perverse thing, if we have lower taxes, the county jacks their taxes up, they get a sales tax benefit out of it and it works the other way when we do it. It is actually a perverse incentive to raise taxes to avoid this.

Councilmember Cooksey said in addition there are two methods and the county gets to choose it. The other method would be advantageous to us if it were done on a per capita basis.

Mr. Gaskins said in some cases it would not.

Mr. Cooksey said when we annex it would help us.

Mr. Harrington said one other area that we are currently reviewing and will have a recommendation for you in May is on the topic of user fees and as many of you know since FY2005 Council's policy has been a 100% user fee recovery fee policy. For our regulatory user fees such as land use permits, subdivision reviews and fire permits, those type of items, in FY10 due to so many uncertainties in development activities and the way the economy was, we recommended and Council approved an exception to that policy and we recommended that rates be kept flat. We are reviewing that right now to see if there should be any potential adjustments and we will have a recommendation for you in May, but I wanted to give you a heads up on that.

Councilmember Dulin said I heard on the radio today about unpaid parking tickets. It was over a million dollars of unpaid parking tickets out there that we are not pursuing.

Mr. Gaskins said they are pursued because everything that is there is pursued. It may not be successfully pursued, but things go on a time schedule. There is for example a new method to collect, including debt set off process that the City has, so not pursued is probably the inappropriate term.

Mr. Dulin said the story I heard on the radio today was that we handed it over to a collection agency and they contacted the person or persons for three years and if they don't get any response after three years they literally drop it.

Mr. Gregg said at some point the statute prohibits you from continuing to try to collect.

Mr. Dulin said if we can use technology to capture money that is owed to us by parking violators I would be for that.

Councilmember Howard said before we go past what the Mayor was talking about with tax and sales tax, could I get something on that so I can understand what he is talking about?

## B. Multifamily Garbage Collection

**Solid Waste Director, Victoria Johnson** said we are going to be talking about the FY13 Solid Waste Multifamily Service disposal fee impact and change to the City Ordinance and what staff is recommending. The three sub-sections that we will be covering in this presentation, Multifamily Service Option, the Impact of the Increase of the FY13 Garbage and Yard Waste Fee charged by Mecklenburg County. That is the tip fee proposed increase and the proposed changes to the Solid Waste Section of the City Ordinance. During 2005 a budget decision was made to reduce multifamily collection from twice a week to once a week. When that began we had to find a supplemental service which is defined as any extra service of garbage collection of a multifamily complex that is beyond their once a week collection that is provided by the City's provider. In order for multifamily complexes to have their supplemental disposal costs paid by the City they are required to contract with the City service provider. Complexes could decide to contract with another service provider, but due to monitoring requirements the city would not pay the supplemental disposal fee if they contracted with a different service provider other than the City's contractor.

**Thomas Powers,** said as you are well aware the multifamily supplemental program was put out for bid as a new contract in 2010 and it was awarded to Republic Services who was one of six bidders that submitted a bid before the August 2010 deadline. The contract was then signed by the Manager's Office and implemented in January 2011. Thereafter in May 2011 Cedar Green LLC, which owns an apartment complex as well as the Alleria Waste Group System sued the City in regards to alleged violations of State Law. In particular they alleged that the City violated North Carolina General Statute 160 (a) 314 as well as the equal protection clause of the North Carolina Constitution. A judgment was rendered in favor of the plaintiffs and against the City. The City then filed notice of appeal with the Board of Appeals and obtained a stay of that ruling in February of 2012. At this time the litigation is still ongoing before the Court of Appeals. The City Attorney's office is estimating that a decision from the Court of Appeals could be rendered as early as fall of 2012 or at the latest probably spring 2013.

Ms. Johnson said multifamily units that have 30 units or more that are serviced by the City contractor, for every 30 units they are entitled to one 8 cubic yard dumpster or for every 90 units one 8 cubic yard compactor. They also provided one recycling station per 80 units and those consist of five 96-gallon recycling container. Bulk item collection is upon request and there is an annual Christmas tree collection also. We will be discussing the FY multifamily service level options that staff has been looking at. Option 1: This will continue the Contract with Republic providing once a week service for garbage and recycling collection and service request bulk item pick-up and the annual Christmas tree removal. The City will continue paying the supplemental collection disposal cost to Republic the City service provides. This option does present a legal risk such as the North Carolina Court of Appeals if the North Carolina Court of Appeals affirms the lower court's decision in full or in part. The Courts of Appeal could impact the city options and service levels in the future. Option 1 will have no changes to the user fee for multifamily, no units under the multifamily definition would be affected and it would be a zero net increase impact to the budget.

Option 2: This would be eliminating all multifamily collection service and disposal fee that is provided by the city. Multi-families would be responsible for all their collection and disposal cost. This option would terminate the contract with Republic effective July 1, 2012. The City would eliminate the $27 annual solid waste fee that the multifamily pay and this would be classified as any residential units as multifamily under the Mecklenburg County Tax Office. This would be in effect during the next tax billing cycle. This opposition would render the alleged violation of the State Law. The City would eliminate the budget of the $2.5 million plus collection fee and the direct disposal cost of the $2.67 million disposal expense. The revenue of the $3.7 million collected, the estimated amount from the $27 multiplied by the number of multifamily units, would go away because we would no longer charge it. It would be a net savings to the City of $1.4 million. We would eliminate the Solid Waste service fee and the number of units impacted would be 139,806 units.

Option 3: There are no changes to the service levels for the multifamily complexes. The required payment could be as many as 20 different Solid Waste providers that could be out in the market to provide supplemental collection to the multifamily complexes. This could increase disposal costs up to an additional half million dollars and it would be an increase in Solid Waste budget because there would be a staff side of costs of $105,000 plus an ongoing $190,000 every year thereafter for monitoring those additional 20 service providers that could be actually providing that service or supplemental service. This would remedy the violation of State Law. The budgetary impact that Option 3 proposes is that it would increase the half million dollars and there would be a one-time start up during FY13 of $105,000 for the additional monitoring service and $190,000 ongoing. This would mean that we would have an FY13 budget impact of $795,000 for this year and an ongoing of $690,000 thereafter. The multifamily user fee wouldn't change and it would not affect any units with the fee change because no fee would change.

Option 4: It has been recommended to eliminate multifamily supplemental disposal payments. Basically eliminate the multifamily supplemental disposal payments and multifamily would assume the cost of supplemental disposal. This would affect 40% of the multifamily units and estimated of approximately 43,411 units. Multifamily would continue to receive the once per week garbage and recycling collection and the scheduling of bulk items to be removed and the annual Christmas tree collection service. Also multifamily could choose to recycle more and that could reduce their need for supplemental service. 64% of the multifamily complexes service under the City contract do have recycling stations. Solid Waste conducted a recent waste audit and what we found is that there is about 34% that was going into the garbage waste stream that could be recycled with those recycling stations and this could help reduce the need for supplemental service.

Councilmember Barnes said with regards to the fact that a third of the garbage in those apartment complexes is recyclable have we made an effort to have Mr. Szymanski work with his constituents to educate their residents?

Ms. Johnson said we are in the process of that and what we were thinking about was actually providing larger tote bags. We did do a pilot of providing tote bags, but they were very small, but providing them to the size of what you would get at IKEA to be able to transport more recyclable stuff down to make it more convenient for these multifamily tenants to be able to do that. That is a program that we are looking into to help facilitate additional recycling.

Mr. Barnes said are we working with the Apartment Association to have them also help educate their tenants?

Ms. Johnson said we had contacted the Apartment Association to actually bring them on and help us identify the ones we are increasing recycling to help reduce their waste output and transfer it hopefully to the recycling.

Councilmember Howard said thank you for the work you have done on this and I know it hasn't been easy for any of us. Do we actually provide at our cost recycling for multifamily now, like you do with single family with the roll out?

Ms. Johnson said yes, with each 80 units in a multifamily complex they get five 96 gallon carts for recycling. As I said 64% of them do actually have the stations. The amount of recycling that is done is very small.

Mr. Howard said when I got educated on this by Thomas and Mr. Szymanski it was really interesting for me to understand how this works. The question that came to me had more to do with if we want to say equal multifamily/equal single family the way I understand it there was a study done some time ago to figure out what the appropriate tonnage per unit is. I think that study was done in 2008 or 2009.

Mr. Powers said at this time I cannot recall when the study was actually done.

Mr. Howard said the point I'm trying to make it seems to me that if what we are saying if we want to be fair and everybody gets equal treatment that means they get pick-up once a week. The question for me is why do we need supplemental? Should it be a container for every 70 units and not every 80 units? Should we allow bigger containers? I am just wondering what do we need to do to make sure that if they need to get it once a week, is it how much they can collect at one time. Have we looked at that to make sure that is equal because if we did that equal it was correct. If we figure that out we wouldn't need but once a week.

Ms. Johnson said we have two issues. One issue may be the space issue and the 8 cubic yard container, either a dumpster or a compactor, it may the only station the apartment complex have and they may not have the space to actually allow for a bigger container or additional container. The only other way to do it is to give additional service for existing dumpster that they do have.

Mr. Howard said if we had a study that says what is equal that would eliminate whether or not we had the whole supplemental thing at least from a service stand point. To me when you have extra trash men out there that says something about now having enough space for what is anticipate for that number of units.

Ms. Johnson said we have that study and we can pull it and get it to you. We actually looked at the methodology for coming up with the 30 units for every 8 cubic yard dumpster or 90 units for every 8 cubic yard compacting unit. We also looked at how did the $27 correlate to what we were charging single family which is $45. Roughly it was about 60% and when we weighed the amount of tonnage coming out of multifamily it is about 60% ratio so it is the key to cost of that $27 but that included the supplemental.

Mr. Howard said I would like to see that study but it also says to me whether or not we are planning for enough in the future with requirements for developers so that we can get it down to once a week. That goes to the question of is it 80 per dumpster or 30 per dumpster so we get that right so we only need one pick-up per week and we don’t get into this extra. If we could eliminate the extra cost further down the line it could make a lot of sense. Right now we are talking about passing this cost on to them.

Ms. Johnson said I think that was the driver behind doing the waste audit to see how much of the waste stream, what is going in the dumpster that could be recycled because it is not cost to the multifamily complex.

Mr. Howard said what I’m saying if it is the right size we wouldn’t need a supplemental. Maybe the size is wrong.

Ms. Johnson said it could be a waste generation issue that the amount of waste is being generated.

Councilmember Pickering said I applaud Ms. Johnson and her staff and I have met with them a couple times on this issue of recycling at multifamily units and Mr. Szymanski who has been very helpful with the Apartment Association. He is very excited about increasing participation in multifamily units and I appreciate that very much. This is the first time I’ve seen the results of the waste audit that was done so I am happy to see that. I’ve said it before and I’ll say it again, if folks want to recycle they will recycle. We just have to make it convenient for them. Ms. Johnson and her staff are going to make those IKEA tote bags available to them for that reason and then the plan is to do an educational program with our association partners. I’m concerned about one of these options where we would eliminate pick-up altogether and how that might impact our renters. We are talking about our folks getting hit on a number of fronts now with gas prices, a tax increase on the table and we are looking at baseball stadiums, we’ve got a number of things and it keeps going on and on. I’m wondering if we have a sense if we were to eliminate in order to save the city some money, how that would impact our renters. Do we have a sense if the apartments needed to go out and put this out for bids for that service how that might impact our renters?

Ms. Johnson said just to make sure I understand your question would you restate it again because I want to make sure I give you the right answer.

Mr. Walton said we don’t know the answer to that and we are not recommending that. I have recommended it in the past so I won’t go there again. I consider it a business and we don’t collect business garbage, but we are in this business. The recommended option doesn’t do what you are afraid of.

Ms. Johnson said the recommended option is really talking about eliminating the supplemental, not all collection to the apartments.

Ms. Pickering said I’m sure that number of $1.4 million or whatever it was, the savings might appeal.

Mr. Barnes said I support Option 4 and I’ve supported it since we got the court ruling, so I think it is a good move. What I heard you say Ms. Johnson is that we pick up more tonnage from apartment complexes than we do from single family residences per capita. Did you say that?

Ms. Johnson said no, I said that if you look at the $27 as it compares to the rate of the $45 and it is 60% of that $45 annual rate for single family, the rate is equated because it is based on how much generation is being generated by single family and how much is generated by multifamily. It is like a .81 rate to a .61 rate.

Mr. Barnes said what you are also saying is that by reducing the multifamily pickup to once per week we are treating those communities the same as we treat single family residential communities and that if people who live in apartments are educated more about recycling we will perhaps divert some of that 34% wasted recycling into recycling. I think we might find ourselves actually being able to see them accommodate the existing facility. One of the reasons the dumpsters are filling us is because people are recycling. There are recyclables in there so I think this option is in the best interest of the city.

Councilmember Mayfield said do we have an estimate cost on the education that is going to be needed if we were to move forward with this recommended option? Thinking about looking forward, we are constantly receiving zoning petitions and requests for new multifamily because that is the direction that we are headed in. What I'm hearing is moving forward, making sure that these dumpsters and the recycling is big enough to handle what is coming down the pike as far as new development, but I'm wondering the cost of this education that is needed in order for this to be successful.

Ms. Johnson said we did an estimate and the education that we were looking at would be an additional $50,000. We already have recycling educational program so it would be another arm of that component. It won't be like you are starting from scratch, we will be expanding what we already have so that costs will probably be about $50,000. The additional recycling containers that we will end up putting out could be from $200,000 to $300,000 but remember 64% already have the recycling stations. That means another 36% if they want to take on recycling to actually reduce their waste stream it would be another 34% of the multifamily units. The key will be getting that 64% to do more recycling because they do have the station and they are not using them to the full capacity. For most of them the stations are already there it is just giving them a convenient way to get the material from the apartment down so they can actually utilize those recycling stations that are already on the premises. I'm not looking to have to up-fit all the 108,000 units because 64% of them already have recycling stations and that only leaves an additional 36% to actually recycling stations.

Ms. Mayfield said the question was really regarding what is the going to be the cost to educate the 64%. The 36% should be easier because if they are just receiving it they will be more likely to utilize it, but if we can't tap into the 64% and what that cost is going to be because if it is just going to be a wash then I'm not seeing how this is going to be a savings.

Ms. Johnson said it will probably be an additional $50,000 because we already have a recycling program in place and we would be extended that and going out to the multifamily and doing the educational process with the apartment association.

Mr. Howard when you mentioned Option 1, were you saying that remedy is not possible, so what is Option 1, waiting to see what the courts say?

Ms. Johnson said yes.

Mr. Howard said going back to Option 4, just a conversation about recycling, right now recycling is optional for multifamily sites. Any thought of requiring it?

Ms. Johnson said recycling is optional in North Carolina.

Mr. Howard said when you did the last waste audit did you actually include what would happen if people recycled?

Ms. Johnson said when I said an additional 34%, this is hiring, we've got a group of people who actually survey the trucks coming from the multifamily and they were at the Republic Transfer Station to go through and see how much of that percentage could be additionally recycled. They made actual visual checks of the truck to see how much material in the trucks could have been in a recycling station.

Mr. Howard said I like this whole idea of working with our friends at CAA to say we need to get more serious about recycling, but you know the offset of that is if it works, just like the city had to go from the red containers to the big containers, are we prepared for the increase that could happen too. I guess that would be a good problem to have.

Mr. Walton said your disposal costs goes down and the disposal is far more expensive.
Mr. Howard said how often do we pick up the recycle bins in multifamily right now?

Ms. Johnson said once a week.

Councilmember Dulin said are those apartment picks done by Sealand, the private company?

Ms. Johnson said Republic.

Councilmember Cooksey said on the mandatory versus optional recycling, didn't the General Assembly pass a law a few years ago prohibiting certain recyclable materials from being in the waste stream?

Ms. Johnson said yes, certain materials, I believe it is cans, bottles, but you don't have to recycle, you just can't put those things in the waste stream.

Mr. Cooksey said how are they doing with enforcement of that?

Mr. Johnson said we don't have the capacity to have people actually check that. The only thing our vendors are checking for is to make sure that contamination is down.

Mr. Cooksey said I've got to go back and look into that more.

Mayor Foxx said what is the total operating budget of our Solid Waste Department?

**Interim Budget Director, Randy Harrington** said $45.3 million.

Mayor Foxx said what is the equivalent of a penny on the property tax in the operating budget?

Mr. Walton said $8 million.

Mayor Foxx said that is roughly 5 cents.

Mr. Cooksey said not quite have the budget at the disposal and only half is general funds so maybe $21 million so 2.5 cents maybe.

Mr. Walton said the expense side is 45. He was asking the equivalent in tax dollars.

Mr. Cooksey said if we weren't doing it we wouldn't get that much property tax out of it.

Mayor Foxx said the reason I'm asking that question, in the context of everything else we are talking about budget wise, there has been a suggestion in the past about doing in the Solid Waste area what has been done in the water and sewer areas and I wondered whether you all had done the analysis of what that would look like in terms of a cost structure and whether you could tie it to use. Is that possible?

Ms. Johnson said it is called pay as you go and basically they have it now and other cities are doing it. It is by the number of the bags you put out or the trucks are equipped with scales to actually weigh it and that generates your bill. Basically the incentive would be the more you recycle, the less you would pay. You would control what your bill would be by the amount and you may end up paying a penny on your garbage. It is a model and we haven't done it but there is a model out there that can be used.

Mayor Foxx said right now when I pay my property tax I'm loaded into that if I put a lot of trash out, someone else is subsidizing the cost of my collection. If I put a little bit in and I recycle more I'm subsidizing the cost of someone else's and there is no incentive for me either way to adjust how much waste I'm putting in. I think it is something at least worth discussing.

Mr. Walton said the capital conversion cost is pretty significant. That is one thing that we've looked at. I think two things in the past, the conversion cost and that makes it non-deductible from an income tax perspective. Those are the two issues that we've encountered before.
Mayor Foxx said how significant is the capital conversation costs?

Mr. Walton said you do have to have the ability to either weigh and in some places it is more volume because you could have a anvil that doesn't take up much room in the landfill, but weights a ton. Some places do it by weigh and some places do it by volume. You could have a styrofoam block that weights nothing, but takes up a lot of space. You would have some of those decisions to make and I don't think we have ever estimated what the capital conversion costs would be. We would probably have to do some conversion with spend.

Ms. Johnson said you … spend but it would probably the scales on the truck to get the actual weight of what that container weighs and what that charge should be.

Mayor Foxx said is there a report or something that has been done on this in the pasts that we could have access to or is there some kind of summary you could do that would show what would be involved?

Mr. Walton said we have looked at it in the past but it has probably been more than 10 years.

Ms. Johnson said it has been longer than since I've been here, but the Solid Waste Association of North America does have that and we can get it.

Mr. Walton said it does drive your labor costs up because it is slower to have to weigh instead of just pick-up and go.

Mr. Howard said are you talking about converting this to more like the enterprise?

Mayor Foxx said I'm suggesting that we look at it.

Mr. Howard said just like Utilities and the Airport. Has that been done?

Ms. Johnson said yes.

Mr. Howard said so you just add a fee?

Mr. Walton said you replace the property tax with a fee.

Mayor Foxx said it is tied to your use so you are actually paying for what you use as opposed to paying for someone else. I'm not asking you at this point to do anything, but if you've got something in the can that we can look at.

Mr. Walton said we can define the concept.

Mr. Powers said as part of the budget ordinance you will also be asked to consider a revision to Chapter 10, Section 141 of the City Code to basically have the language changed from a title which calls it a disposal fee to residential solid waste facility service fee. This allows this section to be more consistent with the language of the general statute. In the actual proposed ordinance revision, there is a new Section A which will be the purpose which allows any constituent to understand that the fee is for Solid Waste Facilities and/or the provision of Solid Waste Services. Otherwise the remaining portion of the ordinance is consistent with the prior version but for this new section.

Ms. Johnson said in summary of the recommendation, eliminate multifamily supplemental disposal payments and what that would do we are looking at reducing the multifamily annual user fee by $3.82. The other recommendation was to adjust the single family and multifamily user fee to reflect the increase from the Mecklenburg County disposal fee. Mecklenburg County is increasing their tip fee $1.50 per ton for disposal in the landfill and $1.00 for compose central which is where we take our yard waste. That is an additional cost of $2.50 on that side and the recommendation is we would actually for the single family propose an increase from $45 to $47. It was really $47.02, but we rounded it down. We did the calculation as to what that impact would be and actually spread it over the cost of what the increase would be to single family. As for multifamily the increase would actually be $24.01 but we will round it to $24.00 so instead of that initial $3.18 we will reduce it down by $3.00 to $24 in order to absorb the additional disposal tip fee for the landfill. Recommendation number three would be to amend the Solid Waste Section of the City Code, Section 10-141 to achieve greater consistency with the North Carolina General Statute Section 168-314.

Mr. Howard said in our conversation with the Apartment Association one of the things that came up, the whole idea that at sometime in the past before we went to once a week, multifamily had twice a week and the rate was still the same. I would like a response to the fact that the rate was the same for multifamily at the time and now it was said they are getting half the service they got for the same amount of money. I'm sure you responded to this when you made this recommendation some years ago and I'd love for it to be on the record again to kind of respond to this whole idea that you should get a certain amount for the fee that you pay.

Mr. Walton said that assumes that the volume was double when we did twice a week instead of once a week and I don't know that that is true. We will be glad to take a shot at answering that question for you.

Mr. Howard would you? You must have went back and figured out what you said then. I just don't have the privilege of having that memory of what you said so I would love to know what the response is.

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**V: DRAFT GENERAL CAPITAL INVESTMENT PLAN (CONT)**

**Interim Budget Director, Randy Harrington** said Greg Gaskins is going to start off just briefly touching on some of the debt capacity questions that were raised at the last meeting. I'm going to touch on a couple of adjustments and then what we would prefer is to have an open discussion among the Mayor and Council to talk about any pieces of the CIP. I don't plan to talk about it or give a presentation on it, but you do have the Public Art Allocation in the back of this particular section that is available to you.

**Finance Director, Greg Gaskins** said in the interest of time Randy has actually asked me to skip some of these detail charts that I had and I'm sure you are all going to be disappointed by that. Instead of going over this let me just state a couple of general things that maybe ultimately will help clear the mist about what it takes to support the kind of model the Manager has proposed. We can answer any detail questions after we cover part of the issue that came up the last time. It is important to know that the city doesn't do debt like the federal government. It is very important to keep that in mind. For the City we have some limitations that they don't have. We cannot print money, even what you think to the contrary, we cannot print money. We cannot run a deficit and we cannot do the kind of cash flow financing that the federal government does. We have to distinguish between our operating budget and how that is funded and the capital budget where we can issue debt. Years ago this City Council and it has been supported by those, developed a methodology to think about those obligations given the limitations that we have on the issuance of debt. That is they separated the revenue stream and they created a revenue stream to support debt and a revenue stream that supported the operating budget. They then tied that to a CIP process of planning what the needs were and trying to determine some way to fund not all of those needs, but the essential needs that they had. That process that started 50 to 60 years ago is still in place.

We are going to skip some of these because it fundamentally talks about that and then how we think about that in terms of determining how much revenue it takes to support this. We are going to go past that because we need to get to this issue, can the authorized but unissued debt be used to fund the proposed $926 million capital program? That was what we had based on the last issue that we had done and was voted by the people, etc. We are going to talk for a second about the remainder of this. The current authorized and unissued bond capacity, which is a portion of the $926 million, is approved by the City Council in previous years and there are various stages of construction and completion that those projects are under. The debt will be issued when the project expenses are incurred. That makes sense, you have to spend the money before you reimburse the money and the capacity is not available for new projects unless existing projects are eliminated. That is basically saying no for this $926 million, and we are going to talk for a second about what is left of this that is committed by the vote taken by the people and the action taken by the City Council. What is left over? As of June 30, 2011, which was the date that we talked about last time, it was $493 million. What has happened since June 30, 2011? Well, $53 million has been spent and there is $28 million pending that will be spent up through July 1, 2012 that will leave you with $412 million. Where are those dollars? It shows (top slide on Page 42) housing, neighborhoods and street – there is the $412 million. What is the explanation of this and why do you have $412 million left over? As with anything the circumstance arise and it happens. There are a number of reasons for this. It has to do with the contracting basis and the time that it takes to actually go from the planning of a project to the completion of the project, but in this case it also has to do with the fact that there was a deliberate slow down in reaction to what happened to the economy in 2008, and actual pulling back. For the same reasons that Barry talked about earlier with utilities, where he looked at the world and people questioned in 2008 whether the world that we predicted prior to that was still the world that we were going to have. There was some of that involved in the projects. The result of that is what we talked about last time we mentioned spend rates and about what speed we spend at and how many dollars that we spend. That rate and average can vary quite a bit depending on the projects that are out there and the desire or will to spend those. For example, we have had spend rates up to $200 million annually in the past. I think with an aggressive program like we are talking about, and this is what I mentioned before in talking with Mr. Blackwell and in talking with Randy where we talked about managing this program once we put it in there where we are actually going to be looking at capacity, but we are looking at managing in a different way where we were looking at what is happening with those projects and how those spend rates relates to the dollars that we are going to have to spend and when we are going to spend those. Part of the process and the big idea that the Manager talked about is really looking to try to manage that rate and look at those conditions and circumstances in terms of what we've seen. This is what we have given the circumstances and if you will remember, and I think there is a chart Randy where you have in there where you show the bond issues projected, etc. In Randy's chart is shows you that there was kind of a big tail at the end because the last two were big bond issues. That is also part of the picture that leads to this result which Mr. Cooksey rightly pointed out the last time.

This chart relates to an issue that we have about the impact of this overall issue and this is something that finance people talk about with each other. This is not something that is out that much and it is not a public figure, but it is the thing we talk about. This is one measure of cost of government that sometimes like particularly people may be in the states and they use this because it is kind of an apples to apples thing. It talks about property tax per capita, what you are paying in per person and comparing that to your per capita income which is the moving scales that you can look at and you can see over time what is happening to your cost of government, one measure. The reason I pointed this out it has to do, and this is a finance director talking to other finance directors, but it is an interesting thing for you to think about that we don't talk about with citizens that much, it has to do with the overall cost of government and what happened. In our case between 1972 and 2013 you can see there is a big drop then there is some unequal portions there. There are a lot of reasons for that, but if you will look at this it goes down close to the 1.50% line from 2.33% down to just above 1.50%. The reason I point that out is, one of the functions that we have as a government is the formation of infrastructure. In the charts that we skipped, there is a lot of talking about how rating agencies and local government people look at that. They look at one of the responsibilities of government is to create essential infrastructure. An interesting thing that we've done for years about that is, when you create infrastructure it tends to have an impact on you in terms of bringing growth, which ultimately results in more value, which ultimately helps keep this type thing down. That has happened in Charlotte. Charlotte, over the last 10 years in the area of growth for metropolitan areas above one million was number one. We were number one in terms of our growth over the last 10 years in the United States. This is a reason there is a pressure on us to continue with infrastructure. At the same time what we've seen in the past is that where we tend to do that there appears to be and there is evidence for the fact that that impact has resulted in greater property values, greater growth that ultimately reduce the cost of government. That is one of the drivers and one of the things we look at in terms of determining after the fact. You have to guess going forward, but after the fact you can go back and look at statistics like this and say those infrastructure investments had the type of impact that the Manager was talking to you about when he posed the $926 million issue.

One more fact and then I will take questions. The other day there was something in the paper about our Airport and it was about the billion dollars that they were spending in that. Our Airport is number 6 in the world, 25th if you look at passengers, etc. and certainly one of the top ones in the country, but as a region you weren't 25th, you weren't 6th you were number 1. This program is a $926 million, a smaller program than we are talking about for the Airport in terms of the expenditure on infrastructure. It is a smaller program for the number one growth area above a million in the United States. It sort of starts to put in perspective what we are proposing here versus those expenditures and those costs that we have to pay for.

Councilmember Howard said is that saying that the amount of tax per person went down because of growth over time?

Mr. Gaskins said it is not really saying that. I'm saying that people who do what I do look at this kind of statistic as a way to guess or estimate whether that was one of the causes. Yes, that is one interpretation and it is not perfect by any matter. I use this simply because this is something that finance people talk to each other about related to their expenditures.

Mr. Howard said what I was wondering is how much of that is because of annexation. We were able to spread it out over more people by bringing more people into the city.

Mr. Gaskins said there is all different kinds of measurers related to that and that is the reason I say it is not a perfect one. If you compare this to certain other cities, Raleigh is the only big city that really would be lower than us, but Raleigh receives payments in lieu of taxes so it is not apples to apples. Therefore it actually reduces their view of this chart because of the fact that would have to be tax money that would go in there that would raise it if it wasn't for the fact that they happen to be the seat of state government and they have all of those structures that the state pays for and not in the property tax, so it is not a perfect measure by any means, it is simply an indication.

Councilmember Cooksey said since you've introduced this measure and we need to be cognizant of total impact of local government on the citizens that we are representing and taxing, as a follow up I would like to see that chart for the county and for the city and county combined. Well, don't do city and county combined because you can't do that because of the different populations, but I would be interested in seeing what the county chart looks like and the direction it goes in.

Mr. Gaskins said there is a chart in there that shows the county versus the city and you will see that the county versus the city.

Mr. Cooksey said this chart, the comparison of their property taxes per capita versus?

Mr. Gaskins said yes, I'm simply pointing out the trend will be exactly like that because if you look at the city versus the county, the only understated in there, for the same reason I'm talking about Raleigh is understated because included in there are taxes in lieu of property tax, so it would be exactly like that. We could show it to you, but that will tell you what it is going to look like.

Mr. Cooksey said it would be interesting to see it.

Mr. Gaskins said you as a Council and the Mayor don't manage those expenses for the county so you are not responsible.

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Mr. Cooksey said I know and that is one of the things I don't want to get into too much debate on this topic, but that is one of the things that is tough to manage and it is a constant source of irritation to me to have to deal every year with the John Locke Foundation Report that gets misinterpreted saying that Charlotte is the highest taxed city in the state when it is not, because what the foundation does, it combines the city and county local government expenditures and I have to explain to people you can't hold your city accountable for what the county does. Yet that is the measurement that group puts out. One of the responses I get is yeah, well I have to pay it all.

Mr. Gaskins said we can take a shot at giving you that and it is going to reflect what you just said for the reason of that chart.

**Scott Grier** said I will add in 1972 the city rate was higher than the county and now it is about half.

Mr. Gaskins said the last point and I think using to your issue Randy, what we are capable of doing ultimately the Council grapples or wrestles with the issue about what to do about the $926 million and the rates etc. As you deal with those decisions we can come back and it is in those notes, but I'm not going to cover it, and we will have to recalculate, based on what your decisions are and what those costs are. That would be a part of the process that we would do in the add and delete. That is the part that I left out but what we will actually do to respond to you as Council is making those decisions.

Councilmember Barnes said I need to leave but I need to talk about something that is coming up in the presentation. It concerns the housing funds, the $28 million that is unspent and the proposed $60 million over the next four budget cycles. I wanted to have a discussion with Council and Mayor and staff regarding use for the $28 million and use of the $60 million that is proposed and what I wanted to do is of the $28 million, shift $10 million of that to an RFP, $5 million for multifamily and $5 million for single family that would request proposals for how to rehab existing housing, single family and multifamily for working families. I think the Manager can articulate his understanding of this request. Also I wanted to talk to you about shifting of that affordable housing, 2012, 2014, 2016, and 2018 bond money, $30 million of it to neighborhood improvement projects which would allow us to accomplish about two more of those large neighborhood projects. It would still leave a balance of $48 million for affordable housing. Over the last two bond cycles $30 million for affordable housing, only $2 million has been used and we've heard some of the issues surrounding the inability of some of our private sector partners to address those issues and that is why I thought the RFP route might be useful and also use some more of that $30 million of the $60 million to help address some of the neighborhood improvement issues and that would take the balance f the NIP program to $150 million over ten years as opposed to $120 million and there would be $48 million left in our housing needs in terms of the original pool of funding, but $10 million of that would be used for the RFP process, the $5 million for single family and $5 million for multifamily. Could I ask for the Manager's thoughts if you understand what I just said.

Mr. Walton said it sounds like an A and a B. Part A the $28 million existing from the voter approved affordable housing bonds, if you wanted to develop an RFP process or do something other than that going through the normal housing trust fund coalition process, you could do that now. You don't have to determine this budget so if you wanted to do that it sounds like something maybe would go to committee to discuss that concept and the RFP process and bringing that back to the full Council. I say that because that money is already in our bank. It is in that number that Gregg talked about. Part B sounds like something that is more suited to add and delete process on May 16. That would involve a vote up and down on the reallocation so there are those two pieces. The future money and the reallocation between neighborhoods and housing is probably a May 16th issue for the RFP and use of the $28 million, if you so chose you could refer that to Committee now.

Mayor Foxx said I think you are putting your finger on a structural/policy issue that I think is worthy of discussion which is the model we've been using for the affordable housing dollars as been sort of a leverage ratio for private sector dollars to everyone public dollar. When the market tanked it made it difficult for those type of deals to happen. You could get at it by taking a chunk of the money and saying we are going to do RFPs, some for multifamily and some for community, but it also strikes me that you could also look at from the policy perspective of giving more broad authority to the Housing Trust Fund Board to look at neighborhood rehabilitation, housing rehabilitation as part of something that could be funded and then maybe you subject all of the money to that potentially. The other thing is that I wanted to know whether there was money that was committed in that $28 million that hasn't been spent because there are projects that have been picked, but for whatever reason haven't actually happened. I'm thinking about for example the land swap, the Second Ward Project that I know we committed some dollars to.

Mr. Walton said that is probably in addition to the $28 million, would be my guess. If it is okay let us answer that question in better detail for you.

Mayor Foxx said if you want to make that motion.

[ Motion was made by Councilmember Barnes, to refer to HAND Committee to explore the ]
[ first half of the RFP piece and I'll talk to you all about the add and delete piece for the other ]
[ $20 million. Councilmember Mayfield seconded the motion. ]

Mayor Foxx said would you accept as a friendly amendment to maybe also look at the policy issue or whether we create a policy regarding using Housing Trust Fund dollars for neighborhood improvements or housing improvements, whatever?

Mr. Barnes said as a part of the Committee discussion, yes sure.

Councilmember Dulin said you wouldn't expect that to be done before budget season though?

Mr. Barnes said no, it would be in the summer probably.

Mr. Dulin said including the answer to A, the first question, you want the RFP process you want done right away?

Mr. Barnes said not necessarily right away, but it would be part of the committee's discussion, refer back to the full Council. The affordable housing shift to neighborhood improvements would be within this budget cycle, so that would be in the next month.

Mr. Dulin said can HAND get that done?

Councilmember Kinsey, said yes we can get that done.

Mayor Foxx said the Part B is an add and delete discussion that is separate from the HAND Committee discussion.

Mr. Walton said Part A doesn't have to be done by budget adoption.

Mr. Barnes said Mr. Howard, regarding the $28 million in unspent affordable housing money, my motion was to send to the HAND Committee discussion regarding creating an RFP process for $10 million of that money, $5 million for single and $5 million for multifamily for a list of proposals regarding rehabbing those types of housing for working families. The Mayor made a suggestion also about an underlying policy issue regarding HTF.

Mr. Howard said I heard add and delete.

Mr. Barnes said on the add and delete piece, on page 45, I was going to talk to you all about shifting $30 million or that $60 million for affordable housing to neighborhoods improvement projects to create $150 million for neighborhood improvement, still leaving a balance of $48 million for affordable housing in order to address some of the larger neighborhood improvements in area plans and also essentially respecting the fact that we've got a lot affordable housing money that is not being spent, but we could do more for neighborhoods at large.
Mayor Foxx said the motion is on the A portion of that.

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Mr. Howard said I think Council has the ability to move money around in the Trust Fund already. Right now the coalition would come back with a suggestion on allocation, but the Council still decides how it is done.

Mr. Barnes said true, but I think there is some concern on the committee about how the coalition goes about doing its work and we want to have some more deliberative process and a more hands on approach as to how that work is done.

The vote was taken on the motion and was recorded as unanimous.

Mr. Gaskins said obviously, anything that has been done that is subject to documents that have been issued, etc. we will have to look at that because there could be limitations on that money, based on the language that was the vote. I think that would be part of the deliberations we would have and give that information to the committee.

Mayor Foxx said the same point we were talking about because I'm not sure that that $28 million is really $28 million. I think there may be some of it committed so we need to get an answer.
Mr. Dulin said I don't mind voting yes on that either, as I did, but I look forward to other communication and the numbers.

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**VI: FINANCIAL PARTNER AND OUTSIDE AGENCY FUNDING RECOMMENDATIONS.**

**Interim Budget Director, Randy Harrington,** said two quick things on the CIP, as you can imagine with a CIP of this size, we continue to refine and examine and discuss with our potential partners on these projects. There are two suggested adjustments related to two Transportation projects, essentially moving them earlier into the 2012 referendum. The other piece that I would mention and I think it was Mr. Howard's suggest, so you have as a handout a two-page talking point piece that you are welcome to use. Finally on page 87 you have a summary of the projects, the proposed bond year that they would fall in and then the breakdown of the voter approved, general obligation debt versus certificates of participation type of debt. I just wanted to point that out to you.

On the Financial Partners you will see that on Page 53 and 55 provides a summary of the Manager's recommendation. As some of you recall in FY10, as part of a series of general fund cuts we proposed a 2% and Council approved a 2% cut for most general fund financial partners. We would propose restoring the 2% back to those financial partners that requested increases in this year's budget process, excluding any where their funding is driven by a formula or a dedicated revenue source so the three that would receive a 2% proposed increase would be Arts and Science Council at $57,663; Charlotte International Cabinet at $3,061 and United Family Services – Victim Assistance at $6,549. That is the 2% restoration amount.

As you may recall from earlier the Community Building Initiative and Charlotte Regional Partnership did not request increases earlier in the process. The one piece that you have in front of you that we handed out, yesterday we received a letter from the Charlotte Regional Partnership requesting $50,000 of additional funding that would support the Film Commission effort. We just wanted to pass that along to you. We don't have a recommendation on that at this time, but this is for your consideration.

Councilmember Mayfield said just so I have a clear understanding, there is a request for additional funds and I'm looking at the letter that was just handed out and it notes some exciting things we've had happen in Charlotte with the Show Time Series and with the movies, did that not generate funds for the area? I'm trying to understand why they are increasing their request when we just had two blockbusters that should have generated the funds they are asking for.

Mr. Harrington said yes, and I'm not sure if this is directly answered, but none of that revenue goes directly to the Charlotte Regional Partnership. There is a regional economic impact from those, but there is no direct tie of that revenue going back to the Charlotte Regional Partnership.

Councilmember Barnes said I wanted to speak briefly to the Film Commission issue. I had a very good meeting with some of their Board members and leadership last week. I support their request because based on one example with the Hunger Games there was about $62 million in direct spending, most of that in Charlotte. There was about 25,000 hotel room nights, 1,700 car rental days and there are some of other facts that they gave us at the meeting. The bang for the buck on movie production in this region, particularly in Charlotte is fairly phenomenal and so the bang for the buck on the amount of money they are asking for, the rate of return in other words, is outstanding based upon what I've seen. There are other projects that are coming this way and they essentially need warm bodies to help them do things, for example they will get a call from Hollywood, somebody wants a particular setting and they need people at the CRP who can go out and actually photograph these scenes and get the pictures to Hollywood and the folks out there. They like it and it is great then they come visit and get the production going. It is one of these deals where they need some people and I talked to them about having in-turns, which they have, but getting on board who can help them do some of the leg work it takes to get a movie project based here. I think it is a great thing. I know you have questions but that is kind of what it is about, tremendous bang for the buck, I think.

Councilmember Cooksey I appreciate that summation and reminder because just at the questions that are out there, as far as a source for funding the Charlotte Regional Film Commission, can we use hotel/motel tax dollars?

**City Manager, Curt Walton** said no, you cannot.

Mr. Cooksey said that sounds like a good chunk of the money they are generating.

Mr. Harrington said the two last points, the Neighborhood and Business Services Financial Partners, proposed to be held flat. We are not recommending any new financial partners at this time. The two that were requested new, the Men's Shelter and the Charlotte Mecklenburg Development Corporation. There may be appropriate situations down the road in exploring the relationship and how they work with the city, but at this time not recommending as a formal financial partner.

Mayor Foxx said is that on general principle, or did you evaluate them and just decide on the merits it wasn't right?

Mr. Walton said on the CMDC?

The Mayor said on both of them.

Mr. Walton said couple things, I've said before I'm hard pressed to ever recommend a new financial partner because they do kind of hang on for a long time, but we did evaluate these two. CMDC, we have a great relationship with and they do good work. The relationship, in our opinion seems to work the way it has been working and that is when we have a specific project we engage them to do the development. Down the road maybe that could change, but right now it didn't seem like changing the relationship for that price on an ongoing annual basis was what we wanted to do.

Councilmember Dulin said Randy, I know you went back to the financial partners that had requested increases and you took them flat and then we came back to them and added in Arts and Science Council, United Family, Center City Partners and Visitors Authority. Tell us why you picked those to put money back into their request.

Mr. Harrington said they were cut back in FY10 at a 2% rate. They had requested amounts higher than the 2% but we felt that the logic and rational on it was if we were going to restore anything to them it would be the 2% that was cut in FY10.

Mr. Dulin said did you discuss keeping them flat? I don't mind keeping them flat and some of these I'd like to get rid of and let them swim on their own.

Mr. Harrington said we did and we felt the merits of their requests warranted consideration and that is why we proposed.

Mr. Dulin said last year the hot topic over their executive compensation, over their performance, etc. and we haven't really seen any of that dust flying up this year.

Mr. Harrington said on the Charlotte Center City Partners as well as the Charlotte Regional Visitors Authority, those are formula based so it is strictly based off of the formula for the revenues and of course those will be trued up once we know what the actual revenues will be.

Mr. Dulin said we can keep them flat if we wish to?

Mr. Walton said no sir, not in my opinion. On the CRVA, as we've talked about in the past, it has to go for marketing and you could creating another marketing organization, but it still has to go for that purpose.

Mr. Dulin said how have those organization, particular Center City Partners and Arts and Science Council done a better job than the rest of them, but how have they done on their executive compensation? Where are they this year, do you know?

Mr. Harrington said I personally don't know at this time, but we certainly can find out.

Mr. Dulin said that would be interesting because that is still a pretty big deal to me, I don't know about my partner, Mr. Barnes just left, but if they are bumping their executive pay substantially and still asking us for more money that would be of interest to me as we go through our negotiations.

Councilmember Howard said the only thing I would add to that Mr. Dulin is remember we all sit on those boards for that very reason. As Council representative I hope you would ask that person about that as well, whatever your questions are.

Mr. Dulin said it is on the table and everybody can say where they are sitting and what Boards they are on. I don't know what everybody does.

Mr. Howard I just wanted you to remember that we sit on those boards for that reason.

Mr. Dulin said good, then I would hope that the Councilmembers that are sitting on those Boards are trying to hold those boards accountable and those boards expenditures down in a recession would be my desire.

Mayor Foxx said 24 successive months of positive shots.

Mr. Howard said they don't remember that part Mayor.

Mr. Dulin said I remember a lot David, and I'm a part of the 24 months too.

Mayor Foxx said we can also re-circulate the list of boards that people sit on.

Mr. Dulin said it doesn't matter to me I just hope everybody is working to hold folks accountable.

Mr. Harrington said the last thing I will point out is this is our third and final budget retreat and the next step in the process is the May 9th Budget Recommendations, then following that we move into Budget Adjustments on May 16th and then Straw Votes on May 30th, and adoption scheduled for June 11th.

Ms. Mayfield said going back to Page 55 Randy, with the conversation that we had earlier with Mr. Barnes and making a motion to move a discussion to the HAND Committee, for the amount that is listed here for the Charlotte Mecklenburg Housing Partnership, under Housing and

Community Development will these numbers potentially change based on the conversation that we had earlier?

Mr. Harrington said those are two separate pieces.

Mr. Walton said the discussion was on capital and this is on the operating.

Ms. Mayfield said just for reminder sake, and I believe it is because of the conversation we had about combining the Charlotte Mecklenburg Development Corporation that was zero in 12, it looks like a one-time financial request of $525,412?

Mr. Walton said I was for ongoing operating support the first year of which would have been $525,000. It would be that going forward each year.

Councilmember Cooksey said with regard to the Q and A portion, I had asked a questions that I didn't see captured and I don't know if it was just missed or if I ask for something impossible, but on discussing the bond referendum, we have the chart on when bonds were approved by year. I was interested particularly looking forward for the existing authorized and issued and also best guess estimate for the $926 million proposal of when would that debt be issued? Not when would it be voted on, but when might it be issued? One of the other little fund facts I dug up we were aiming to end this fiscal year with about $412 million of authorized, but unissued. At no point in the past 10 years do I see that our total general obligation bond debt, backed by property taxes outstanding has been higher than $483 million. We seem to hover at a range between $363 million and $483 million outstanding in any particular year so I'm curious if our estimates for future issuance of debt will take us above that historic point, particularly with the $926 million proposal over four bond issues. I presume there may be a capacity issue driving those numbers as well. My question was not approval years but issuance years, what is our issuance year look forward on here. I've got a number for FY12, but how about 13, 14 and 15 to the best of our ability to estimate.

Mr. Harrington said I apologize for the misunderstanding we'll be happy to get that to you.

Mr. Gaskins said it wasn't ignored. I actually said something and I should have directly said this when I was talking earlier. When we talked about the change of the big idea, it partially relates to your questions where we are talking about Randy and Jeb and my office working together on that. That is not the way that was done in the past, that is partially related to your statement and one of the ways we are trying to leverage is to make that work together better which would actually make that number slower. That is not in place, that particular phase and we couldn't really give you the answer because that process has not been created yet.

Mr. Cooksey said that was one of my options, it got overlooked or I asked for something that couldn't be produced. Maybe for the existing $412 million that they are look forward estimates on when that might be issued.

Mr. Grier said there is another aspect of this which is we actually issue this debt on a monthly basis through the commercial paper program. Generally between 2 ½ and 3 years we are going to issue $150 million and that probably won't change. It is a consistent process that we don't actually issue the debt like we did years ago. It is done on a monthly basis with short-term commercial paper and then at the end of 2 ½ years it is sold as permanent debt.

Mr. Cooksey said there is a chart around Page 38 or so that shows the outstanding debt and it covers what was outstanding for the fiscal year general government which I'm interpreting as property tax and then we've got some business related holdovers back when revenue bonds had to be voted on. That is a separate column and I was trying to keep it to that one column. Then it's got the unissued number and the tax then there is a number which I don't trust at all where it says what was newly issued, because the newly issued numbers don't match with anything. The second and last item I had on the Q and A, I didn't know whether to laugh or cry on question 9 about Councilmember Howard's question about the capital investment. From a data presentation perspective it would have been a lot better not to use as example projects, things where you can't go and point to any work having been done. Four of the ones listed there, Rea Road, Ballantyne

Commons Parkway/Elm Lane Intersection, Community House Road and McKee Road/Providence, there is no evidence anything has been done. We voted on it, but if you drive down Rea there is no dirt being moved. If you drive down Community House, there is nothing being moved.

Mr. Walton said you will see a lot of utility poles being moved, you will see a lot of entrance signs.

Mr. Cooksey said Rea is finally getting started after the first public meeting in 2003. Of course Ballantyne Commons Parkway and Elm and McKee Road/Providence were just in 2010 so there is no visible work on those either because you've got to go through all the planning and the public process. It would have been more interesting to have a sample list of completed stuff to point to rather than half of them if something were to happen to cause the city not to have a responsibility for those anymore they wouldn't be an obligation to the city.

Mr. Walton said but they were the answer to the question.

Mr. Cooksey said capital investment have been made, that is open to interpretation.

Mr. Howard said I'm interested in what Mr. Cooksey asked a little while ago about staying and hovering around $400 million worth of potential projects. Is there is a reason why we've never got off of going higher than that in the past?

Mr. Walton said the voters approve about $175 million to $200 million every two years so there wouldn't be the capacity to go a whole lot higher than that.

Mr. Howard you kind of asked if we stayed there for a reason and I was wondering have we stayed there for a reason.

Mr. Walton said it just fluctuates.

Mr. Howard said it is not something that the bond agencies or somebody else would say is a bad thing?

Mr. Grier said it is just the nature of the CIP process that is five years long and then the way the capital flows.

Mayor Foxx said I would come at it from the other way, what if anything can be done to lower the amount we are holding from year to year, how can we accelerate the spend on these projects to get them moving quicker? Is there anything that can be done?

Mr. Gaskins said that is part of the process that we were just describing working with the Engineering Department and the budget. Part of it is the limitations the builders have about how long it takes to actually do a project. We did talk and I think Mr. Blackwell said one of the things they are trying to do was to think of upgrading that for this project so you could spend more than one year, the higher end versus the lower end of capability. That is part of the process that we going to try to manage.

Mayor Foxx said very few people outside of this room are going to lobby us to figure that out in a better way but I think it is so critical to the mentality people have, I just spent a bunch of money on something and I don't see it. It is sort of like what Mr. Cooksey was going through, there is a disconnect between when bonds are approved and when things actually happen, and I think the more we can shorten that timeline the better.

Mr. Gaskins said one of the issues with that which we really didn't get into today is if you spend faster and have operating costs impacts it does things, and in fact because of the way you issue it actually chances the number of cents it takes to support the project. You have to be careful that you don't actually for the same amount of projects, you don't increase the costs, so part of it is that measurement about how you try to be efficient with the tax money and build the project as fast as possible. That is the reason I'm saying it is a level of complexity that is beyond what we have done in the past.

Mayor Foxx said I get it and I appreciate what you all are trying to work with.

Mr. Walton said we will try to answer that question for you on the spend rate and if you approve this package, what happens when. As I said before the two longest portions of the project are the public input process and the real estate acquisitions process. Charlotte has always had a history of spending a lot of time in each phase so we can talk about the pros and cons, but that is where a lot of the time goes.

Mr. Howard said the Observer posted a story that said the final number for the CIAA was $50.5 million in economic impact. Just a reminder of what we do and these public/private partnerships that we do work. That came with the grant total of us putting in $200,000 and I asked Ron what kind of tax revenue that generated and all we got was some general things, but the state and local tax was $2.6 million and that is not even counting what the businesses made. Again we do good stuff and I just wanted us to know that before we left here that $5.5 million and 197,000 people visited the area during that time.
Mayor Foxx said thank you, I'm going to throw a baseball to you.

Mr. Howard said that was my point.

The Mayor said there are lots of ways to do good things.

The meeting was adjourned at 6:10.

Ashleigh Price, Deputy City Clerk

Length of Meeting: 3 Hours, 3 Minutes
Minutes Completed; June 9, 2012

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