The City Council of the City of Charlotte, North Carolina convened for a Budget Workshop on Wednesday, March 19, 2014 at 3:04 p.m. in Room 267 of the Charlotte Mecklenburg Government Center with Mayor Pro Tem Michael Barnes presiding. Councilmembers present were Al Austin, John Autry, Claire Fallon, Edmund Driggs, Vi Lyles, LaWana Mayfield, Greg Phipps and Kenny Smith.

ABSENT UNTIL NOTED: Councilmember David Howard

ABSENT: Mayor Patrick Cannon and Councilmember Patsy Kinsey

Mayor Pro Tem Michael Barnes called the meeting to order at 3:04 and said this is the March 19, 2014 Budget Workshop for the Charlotte City Council. I appreciate everyone coming and we will start with our esteemed City Manager, Mr. Ron Carlee.

City Manager, Ron Carlee said you have your agenda in front of you and you will be hearing from two of our major departments this afternoon. These are two enterprise funds; that is an important distinction of these two departments, the Aviation Department and the Utility Department by being an enterprise fund. They are not a business enterprise, they are pubic enterprise. Enterprise funds are created for public services where they are expected to generate their own revenues and to be treated like a public business; they are not a private business because the market forces would not actually permit a profit in these kinds of enterprises or because of equity and other public good benefits. They do generate their own revenue, but there is price sensitivity and these will be important policy issues for you as you look at both budgets.

In the case of the Aviation Department we have an Airport that exceeds what Charlotte and would typically lead you to expect us to have because of the compelling price advantage that we have, the way that calls for airlines using our Airport so we have many more flights and as you hear many times the second largest hub for the world's larges airlines. That price sensitivity is really important in terms of aviation. In Utilities it is less price sensitivity because it is more of a monopoly but it is in terms of the equity relative to the fee burden on the users of our water and sewer service. In both instances we are looking to access whether or not the cost actually provide appropriate value; appropriate value to the airlines and the customers using our Airport and appropriate value of our water and sewer users. Both of these enterprises are also involved entrepreneurial activities which is the nature of the enterprise. In the Airport you obviously have the Intermodal Facility which is an entrepreneurial revenue generator. In the case of our Utilities Department we've recently been asked to manage utilities for Union County, which again helps to offset some of the overhead of our own utility. So looking for a good value and entrepreneurial activity is important. The other thing that you will note about both of these enterprises that is typical then the operating departments like Police, Fire, Solid Waste is these are very capital intensive. There is a large capital plant so there is a need in some instances to expand the plant as we are looking at the Airport, but there is also a compelling need to maintain the plant at the Airport and in our water/sewer system as well. Where cities get in trouble is where they don't maintain their infrastructure and both of these departments are responsible for some of the most critical infrastructure within the City of Charlotte. Ultimately the budget expenditure side and the fees they charge end up being a balance between how much do you put into your maintenance and your capital and you operating and what kind of value do you actually provide to your respective customers. I encourage you to look at both the similarities and differences between these two departments which we have scheduled together precisely so that you could look at your enterprises at the same time. Unless there are questions of me at this point I would like to invite Barry Gullet to come forward and begin with Utility discussions.

Mayor Pro Tem Barnes said I do have one question and one comment and Mr. Gullet may get to this, but I would like to know how our venture in Union County is performing; secondly, the Mayor is out of town today; he may be watching on line, but he is out of town today and couldn't be here, if you will get to that Union County question at some point, please.

Mr. Carlee said Mr. Gullet will be happy to address that.

Barry Gullet, Charlotte Mecklenburg Utilities Director said I want to start out real quickly with just a little bit of an overview about Charlotte Mecklenburg Utility Department, what we do and who we are. Some of you are perhaps not very familiar with our operation but we do operate across the whole county. We are a City Department obviously, but we have interlocal agreements with the other six towns in the county as well as the unincorporated areas of the county and we actually lap over into some adjoining neighborhoods as well. We are a big utility in terms of size; we compare pretty well to a lot of cities that are larger than the City of Charlotte as a utility because of the fact that we are regional and serve the whole county. Most cities, like in Atlanta, are served by a number of different utilities instead of one consolidated utility so we are considered to be a large utility in this country.

Mr. Gullet used PowerPoint for his presentation to the Council. (A hard copy is on file in the City Clerk's Office). Just a few numbers to give you a sense of scope and scale about what we do every month; these are monthly numbers and these kind of go down from the top. There are some big numbers at the top, but to me the most interesting numbers on here are the number of water leaks that we repair every month, which is about 450 and out of that 450 we get to about 150 of them within 24 hours. We also deal with sewer spills unfortunately, and you will hear more about that later, but we have about 23 of those sewer spills every month that we work on stopping and cleaning up. We are very proud that our average response time for those sewer leaks is 32 minutes. That is by the time we get the call until we have someone on site. We have rapid response crews to actually help the customer get any problems on their property resolved and let us move on to other things.

I want to emphasize that we don't just work on budget and planning one time a year. This is something that we are constantly doing and we do it from three perspectives. Just like Mr. Carlee said, we have a big investment in infrastructure and operating and maintaining that infrastructure is what we really focus on, but we try to do it in a planned way and in a way that is systematic, it is based on documented processes and produces the best results for the dollar. We are always trying to become more efficient and effective at what we do and the output that results from that. We are trying to be responsive to our customers; we need to be sure that we are complying with all of the regulations out there and there is a ton of them out there for our industry. The third thing you see is supporting economic development and we support economic development in a number of different ways and you will hear more about that as we go. The second part that we are planning and working on all the time is our Community Investment Program. We are doing master planning on a continuous basis for various aspects of our operation. We are planning for and providing for growth in the community and growth in the region; but like Mr. Carlee said we have a huge investment in our infrastructure. We have a multi-billion dollar infrastructure system out there in terms of plants and pipes and it is important that we keep that up. You wouldn't go buy a Ferrari and never go change the oil; you've got to do the maintenance to keep it running so we really put a lot of attention to that. The third aspect that we do a lot of planning in is the financial planning. This is a very large and a very expensive operation to run so to get the maximum effectiveness we have to plan and we don't plan in one year increments, we plan in a 10-year look ahead. We are looking back and we are looking ahead so that we have a consistent and sustainable financial plan for the utility going forward that provides the best value to our customers. I'm going to show you a chart that I have used for several years now; I've expanded it a little bit from what some of you saw last year and what this shows are the three major components of our budget every year. The blue part that you are seeing on the bottom is our operating costs so you can see what that trend has been since 2005 and what we are conservatively projecting it to be going forward. When I say conservative, it is probably a little on the high side, that is the side of conservative I'm referring to there. The red part of the bar is our debt service. We have a large outstanding debt; we've leveraged our financial capacity through the years to grow our system and keep our rates low and so we have a big debt service payment that is due every year. The green part at the top is our contribution to fund balance and PAYGO and if you will notice in some of the years in the past those were really small increments on top of the blue and the red. You will see that going forward those are growing, but I would point out that between 2005 and 2014 we had a 65% increase in our debt service during that time and that reflects the high growth rate that we had and the way we were financing our capital program. Between 2015 and 2021 we are projecting a 7% increase in debt service because we are beginning to rely more on PAYGO financing and other financing way other than just issuing more and more debt. That money goes directly back into the system; we are not paying interest on it going forward and it helps us become a more sustainable and more flexible and more agile utility going forward.

Councilmember Driggs said could you explain what the debt coverage term refers to?

Mr. Gullet said yes I can; when we issue debt and our bond rating agencies come to rate our credit worthiness, one of the measurers they use is a debt coverage ratio and these bars really kind of reflect that. It is not exactly accurate, but it is pretty close. The debt coverage ratio is really the ratio of the green and the red to the blue so what the rating agencies are looking for are debt coverage ratios that are 1.9, 2.0 and higher and they are looking for those to be growing. It is kind of like when you apply for a mortgage to buy a house, they want you to have to some multiple of your mortgage payment as income and so that is essentially what this is. The rating agencies will give us a better credit rating if we have a higher ratio of income to debt. That is what we are building with those green increments up here; we are building that debt coverage ratio. We are currently rated at the highest credit rating by the three major rating agencies and the feedback that we get from them is that maintain this debt coverage ratio will help us sustain that credit rating.

Mr. Driggs said what I'm trying to understand is that you've got what are basically expense items here and the debt coverage ratio is a ratio so is this a set aside of some kind, is there cash that is being set aside?

Mr. Gullet said no, the labeling probably isn't 100% accurate but the green bar contributes to meeting those debt coverage requirements and by putting more money into the PAYGO and into fund balance contributions that improves our debt coverage ratio. It is a little bit of a mislabeled item right there.

Mr. Driggs said fair enough. Thank you.

Mr. Gullet continued his presentation with the slide on Page 9 of the PowerPoint. Where does our money go; this is where we spend money and the other thing about our budget as the Manager said, is there are really two parts of our budget, the expense side and the revenue side. We have to match all of those up so this is the expense side and you can see that a large part of our expense is that debt service payment which shows up in the gray over here. The top issues and impacts that we see in Utilities for the next fiscal year and there are five. The first one is that our per capita water consumption continues to decline and our costs continue to go up. That is an issue and I'm going to go into more detail about each one of these as we move forward. The second issue is that we have a lot of water leaks and it takes us too long to respond to some of them. We are going to talk about that a little bit more, so our response time is an issue. Sewer spills – our goal for sewer spills is always zero. I don't know of any utility in the country that has gotten there yet, but we still have too many and we still have to keep driving that number down. The fourth bullet up there, responsiveness to an improving economy, and this is a place that we really have to be careful about because we can go too far in either direction so we want to talk about what that really means to our utility and to the community.

Councilmember Mayfield said are we going to, as we go through your presentation Mr. Gullet, are you going to give us a breakdown of the financials around the sewer spills so we see exactly, get an idea of how much, even though we have a goal of less than 24 hours, are we going to look at how many sewer spills we have or more importantly for me, looking at Mountain Island Lake and looking at what if any has been the financial impact on our services?

Mr. Gullet said I know I'm going to hit part of that. If I don't cover it all come back to me, okay.

Mr. Gullet continued his presentation with the slide in Page 10 of the PowerPoint. The fourth one is improving the economy and the effects that the relationship between utilities and improving the economy. The last one up there is also really important and I mentioned earlier that we have a 10-year financial plan and one of the reasons we are able to sustain a high credit rating is that we have followed that plan. We need to continue to follow that plan and stick with our financial targets so that is an important consideration for the utility going forward. So to very quickly address the declining water consumption issue; this is not just Charlotte that is experiencing this, this is across the whole country. Our number of customers is still growing so even though our customers are growing the amount that each one of them is using is less than it has been historically. Here is how that plays out. Our water rates, if you remember, are divided into four tiers and the four tiers correspond to different levels of consumption and usage by the customers.

Councilmember Phipps said what do you attribute the decline in water consumption to come from in view of the fact that you have an increase in population, but decrease in water consumption? Is that a matter of conservation that people are exercising or what is your opinion on that?

Mr. Gullet said I think there are three major drivers to that. I think efficiency or conservation is a big one; the building codes have changed and the effects of that are now being seen. People are putting in more efficient shower heads, more efficient dish washers, more efficient clothes washing machines and they are using less water on a day to day basis. I think they are also using less water outdoors watering their grass than they use to. We don't see the kinds of peaking in the summer time that we used to see so that is another factor and that is really all one, better efficiency and conservation. The economy I think has had an influence on this. I think people have become more sensitive to what they are paying for water and how they are using it and some of the industrial uses have tapered off some. The industries and businesses have gotten a lot smarter about how they use water. The other thing is that our rate methodology has worked. Our rate methodology with the tiered rate structure is designed to encourage people to use less water and I think it is working so that is this slide actually (Page 12) and what you see here is that the first tier, tier one up in the top left hand corner, that is the first water that everybody uses. That is about the first 2,500 or 3,000 gallons and that is the cheapest water that anyone uses and you can see that the trend there is going up and that reflects the increasing number of customers that we have. They are all using some water and so that number is continuing to go up, but the other three tiers are all declining and that represents the efficiency gain, people are not using as much and it also represents particularly in tier four, which generally you don't hit tier four unless you are doing some pretty serious lawn watering. Tier four is a lot of water. You have to use a lot of water to get to tier four so people are using a lot less water out doors so you can see particularly for the last several years how that has really just dropped off. But that is also the most expensive water; it generates a lot of revenue so there is a tension there between using less and generating revenue. When you put all that together here is what the total looks like. If you look at the total billed water consumption, this is how much water did people actually use each year and you can see that we are using less now than we were in 2005. If this chart went back a few more years you would see even a larger decline. This line would look like it was going down and has flattened out, which is really what it has done. This is a driver. A lot of our costs in our utility are fixed costs, but a lot of our revenue is variable revenue so this is the challenge that we are facing.

Councilmember Howard arrived at 3:23 p.m.

Mr. Gullet continued his presentation with the slide on Page 14. Water leak response, as I said, this is an area where I believe it takes us a long time to respond to water leaks in cases. You all get phone calls from your constituents and from the public about water leaks, wanting to know why aren't they fixed yet. I will tell you that our target for fixing water leaks is to get 100% of them fixed within 8 weeks. That is a long time and I will also tell you, you can look at this chart and you can see that we fix about half of them in three days or less. Those first two bars are the number that we fixed within three days and that is about 49% of the total number of leaks that are on this chart. We get to about half of them within three days. We get to about 70% of them within two weeks, within 14 days. Then we about 90% of them in less than 30 days so we have this 10% out there that are generally very small leaks. If it is in front of your house it might not seem like a small matter, but it could be. If there is a dribble going down the curb we classify those as routine leaks and it takes us a while to get to some of those. If it is a gusher as they say and it is doing a lot of property damage and really any property damage to speak of, we are going to classify that as an emergency or a high priority and that is going to be one of those that get done in 24 hours or in the first three days.

Mr. Phipps said I can understand where you are coming from. I received a phone call recently over the weekend from a constituent that had a complaint in about a water leak up the street from her that was pooling in her yard or whatever. I guess she saw the person come out to take a look at it, but I guess they evaluated it and determined on a priority scale that it probably wasn't within I guess the priority for you all fixing it or whatever, but in those cases do you usually inform the customer that we've looked at it, we are going to get to it or do you just leave it to get the queue and they are just still wondering why the water is running down and we get calls for that.

Mr. Gullet said we try to respond directly to the customer. I will tell you that we are not always successful. I will also tell you that one of the things we are looking at for the future is changing how we do the first response to those leaks. I mentioned on the sewer side we respond within 23 minutes on average, I believe that was the number, and on the water side we have a different response mechanism, but we are looking at modeling the water side after the sewer side so that we have a dedicated person when we get a leak call, go straight to that customer, talks to the customer and if it is something they can fix right then, fix it while they are there and take care of. If it is not, then they communicate with the customer about what the priority is, how long it might be and what is going to be involved in getting it repaired. They can also determine if it is a leak on the City side or on the private side of the meter and help the customer from that perspective. That is something we are looking at going forward. Right now what happens is that we have people out who are responding to turn-ons and turn offs when people move in and out of houses and that sort of thing so when we get a call now we pull one of them off their route and they go check the leak and they prioritize it, but they don't have the tools or the time to do anything about fixing it so a lot of time they can't make contact with the customer. That is the change that we are looking at.

Councilmember Howard said the question for me is a little different. What is the cost of it; one of the perceptions in the community and if it is wrong let me know, I would love to know when you see a leak it is costing the City because there is good water running down the street, good water that has been treated already so is that a wrong assumption and if it is a correct assumption what kind of costs are we talking about when you have leaks?

Mr. Gullet said that is a really good question and the answers vary. If it is a very large leak and it is a gusher then that one is very, very cost effective to fix obviously. If it is a trickle running down the curb, if you really ran the dollars and cents on what it would cost to repair it versus the cost of the water that is running down the curb, you would never fix it because it isn't truly cost effective to repair. Now there are a lot of other good reasons that you might want to fix if but if you looked at it purely from a dollars and cents perspective it doesn't always make sense to speed up the repair on that. We use those routine leaks to kind of fill in workload so it varies quite a bit from week to week.

Mr. Howard said that is why I'm asking you about system wide, have you actually looked at, take all the trickles, take the other 25% that you didn't get to for 8 weeks or whatever it was you said. Do we know what that is and does that equal another position to deal with that? Do you do those types of analysis and make sure…

Mr. Gullet said those types of analysis are possible; they are really hard and you have to make a lot of assumptions and that is part of what we are looking at and working on to see how we can best address those leaks and how we can move more of the ones that are here over to here. That is our goal really is to move more of them to the left side of this chart. We are trying to figure out now what is the most cost effective way to do that. Probably our first answer to that is going to be that first responder that we were talking about. We believe that will have a pretty large impact and help us with our customer contacts as well. We've looked at the cost of adding crews and adding a crew to deal with water leaks is very, very expensive. If we add two crews our estimates are that we shift our target from having all of them done in 8 weeks to having all of them done in 7 weeks so it doesn't make a big impact.

Mr. Howard said I think you know where I'm going. I would love to know what that total loss is in leakage and in revenue. That is really what I'm getting at to see if make any sense to do what you are doing differently. Actually I think I'm making that an official question as a follow-up if it is possible and if it is not possible let me know, but I would love to know if it is possible.

Mr. Gullet said we can absolutely address it.

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Councilmember Smith said Mr. Gullet do we track leaks that require multiple times out so we either don't quite fix it properly or a problem crops up after it has been repaired, just to see how many sort of repeat offenders so to speak are out there? Do we track that data?
Mr. Gullet said we track that and we track it for a number of reasons. We track it for productivity purposes; we also track it in terms of managing the asset. In other words if we have a segment of pipe and a segment of pipe might be miles long, but if we have a segment of pipe that is starting to show a repeated need for repair then that would start to fall under that maintenance and rehab and replacement and it is a line that we might want to look at replacing.

Mr. Smith said if that is information that you can share I would love to see some of that.

Mr. Gullet said we'll do.

Councilmember Autry said Mr. Gullet the instances for investigating a leak, I had a citizen contact me and said the crew showed up to investigate a leak on a day that it was raining. That made it almost impossible for them to identify even the source. Is there some flexibility in how that process works from the department?

Mr. Gullet said there is; I'm not sure it is fortunate or unfortunate, but we operate 24/7 every day of the year. We have people out repairing water leaks on Christmas Day. We had people out repairing water leaks in the snow storm, we really did and we had people out clearing sewer blockages during the snow storm. They don't always know when they get dispatched, when they get a call from a customer there is a water leak out here and then it starts raining an hour later. They don't know if they are going out to look for a dribble or if they are going out to find a gusher. We really need to respond right away so we can assess what is going on and then determine what the best course of action is. There are some leaks that you can't find them. If it is raining you can't find them. There are others where the rain is not a problem.

Councilmember Fallon said do we use contractors or are all the crews ours?

Mr. Gullet said we do use contractors from time to time. It is not practical for us to staff for those peak workloads so from time to time if we get too far behind we will bring in contractors to help us knock the workload down.

Ms. Fallon said where in the budget are they; on what line?

Mr. Gullet said there are a couple of places that you might find them. We have contractors that have ongoing contracts with us as capital budget that go out and do small jobs. Sometimes we will call on them so that would originally show up in our capital budget; line 199.

Mr. Gullet said the next thing I want to talk about is sewer spills. (Page 15) Like I said our target is always going to be zero for sewer spills and we are making progress, we really are. If you go back a few years between 2007 and 2012 the United States EPA took enforcement action against the Charlotte Mecklenburg Utility Department because we had too many sewer overflows, so we entered into an administrative order with EPA to do certain things to try to drive that number down. We completed that order, they released it, closed it, were very complimentary about what we had accomplished during that time and you can see on here if you look at where we were in 2007 which is that peak right there and where we are now, which is down here and consider that we were growing during that time too, we've made a lot of progress but it becomes more and more difficult to reduce the number. We are doing things that are using technology that didn't exist 6 or 8 years ago; we are using technology that some of our staff helped develop that helps us be more effective in finding and removing and cleaning sewer lines, so this is something that we want to continue to put emphasis on and continue to put the necessary resources into to continue to push this number down. Sewer spills are not good obviously, they are nasty, they cause problems and we need to keep putting work into it to drive it down.

Mr. Driggs said a neighbor of mine and a business associate of his had a meeting with a member of your staff talking about a device that actually monitors water levels and things like that. How do we decide whether to invest in something like that? I think we've got 10 of these things installed or a certain number of them. Is that is something we want to build out or how does that work?

Mr. Gullet said when we come across new technology or ideas for new technology we tend to be a little bit cautious because there are a lot of things out there that don't always work the way they were planned to and depending on how big of an investment it would be to pilot them or to install them, we will generally kind of stick our toe in the water first so to speak before we plunge in. In a case with new technology we would start out small and if it works really well over a period of time and it is reliable, provides a good value for what we are paying for it then we would invest more heavily. We have a number of technologies that are in that stage right now. We have something called a smart cover that is basically a type of manhole cover that helps us figure out what the water level is in there and then sends a message to someone that says hey, the water level is rising you better go do something about it. So we use that kind of technology and again that is predictive. One of the things that we've found, we put a lot of work into reducing these sewer spills. That number didn't come down by accident. There was a ton of work that went into pulling that down and a ton of thinking, it wasn't all spending money and just throwing more dollars at this problem. This is a problem that requires resources, but it also requires a lot of process and a lot of thinking and thought and methodical approach to making it happen. We've been doing that; we've tried to get out of a reactive mode. You can't stop sewer overflows by cleaning up the ones that have already happened. That just doesn't work, so you've got to get ahead of that and you've got to figure out why are they happening and what can we do to prevent it? We are putting a lot of effort into that side of this equation; this is not all about just fixing them after they happen. The same thing applies to the water leaks. One of the ways we can reduce our response time on water leaks is to have fewer of them. What we have been doing in the past is that we went out and we fixed it after it broke. That doesn't help us move ahead of the curve so we are looking for ways and we are applying he same kind of thought processes and creative solutions to driving down the number of water leaks as we did in driving down this number of sewer spills. The difference is that we are just getting started on the water side, and it is a lot more difficult on the water side. We are working at it and putting a lot of work into it.

This is just a chart and I want to tell you this is not a scientific analysis but it is just sort of an illustration and what it does is it is comparing how many cleaning crews, these are sewer cleaning crews, these are two guys in a big $350,000 truck, cleaning machine that it takes to clean sewer lines. In Charlotte we have 14 of those crews that are out cleaning sewer lines and we clean about 950 miles a year of sewer pipe which is almost a fourth of our system. We have about 14 crews out and we are averaging now about 6.2 sewer overflows per 100 miles of pipe. When you look at these other cities, when you look at Raleigh, Raleigh has 16 crews but they have a lot less pipe than we do. They have a spill rate of 3.0 spills per 100 miles, so they have more trucks and fewer spills. You go to Greensboro and Greensboro has even less pipe than Raleigh, but you can see they only have 4 crews and they have much more than ¼ of the amount of pipe that Raleigh does and they have 14 spills per 100 miles. Then you go to San Diego and San Diego is actually very comparable to Charlotte in terms of utilities. Their utility is almost the same size as Charlotte's and you can see they have 25 crews and they are down to 2.3, they are 1/3 of the number of sewer overflows that we have. There is at least an anecdotal relationship there.

Mr. Phipps said when it comes to a sewer spill, is that something that the public contributes to or not? Could they contribute to a sewer spill like having grease going down their drain or something?

Mr. Gullet said I am really glad you asked that question. The answer is absolutely and the most prevalent calls of sewer overflows are grease blockages. We use to think the grease was coming from the restaurants; it is not coming from the restaurants; it is coming from people's houses, it is coming from cafeterias, it is coming from apartment complexes so it is out there. One of our major efforts in driving down that number of sewer spills is education. We've put a lot of effort into working with property managers at apartment complexes and condominium developments, working with the community in getting the word out. You see one of our big cleaning trucks, there is a big poster on the side of it, a big wrap on there that talks about keeping grease out of the sewer system so that is an important aspect, very much so. People put things down the drain;

you'd be amazed at some of the things we find in sewer pipes. We find bowling balls, we find 2 x 4s; we've even found vacuum cleaners in the sewer pipe. I don't know how anybody gets their vacuum cleaner in the sewer pipe, but honest to goodness, we've found vacuum cleaners in the sewer pipe. Does that answer your question?

Mr. Phipps said are there any punitive measurers if you could locate the source, are there fines or anything like that if you have repetitive sewer spills in a location?

Mr. Gullet said I don't know of any case where we've fined a residential connection. When we start getting a lot of spills that are just down stream from an apartment complex we really intensify our effort working the property manager and with the residents there to help them understand what is going on and try to address it that way. Occasionally a commercial customer that is doing something that is causing a repeated problem and in those cases we have issued fines and we have issued ceasing to assist orders where we actually order them to stop discharging to the sewer system if they are putting some by-product of their process or some waste product into the sewer system that is causing a big problem.

Mr. Gullet said I want to talk about the economy and the relationship between our utility and the economy and there are several. The first thing is when the economy is booming our system grows and we have to be in a position to manage that growth and to be sure that it is done in a systematic and orderly way. We have to be sure as our economy grows and more people are moving here and more businesses are moving here that we have the capacity in our systems, in our plants and in our pipes to support them. We don't want any business or entity to not come to Charlotte because there was no water or sewer capacity. You don't have to go far from Charlotte to find areas where that is the case; and so we are trying really hard to not let Charlotte get into that position. The third part is that during those high growth times which we've experienced for years before 2007 and 2008, things are hectic so we want to be sure we do it right. When we build things and when developers are building things that they donate to us, we want to be sure they do it right and we don't want to be an obstacle in terms of schedules. We do reviews of plans for neighborhoods, for sub-divisions for new development, we do reviews of their water and sewer construction plans. We don't want to hold that process up so those are some of the impacts you can see in this chart. This goes back to 2005 and the bars on here are the number of plan reviews, number of projects that come through utilities to review on a calendar year basis. You can see plummeted after 2008; nobody was building anything, but it is picking up. Now the significance of the red and the blue, I want to talk about that a minute. The red are the new projects. One of the phenomenons that we've seen is that a lot of the projects that were approved pre 2008 are coming back in front of us again, but they've been changed. They've been substantially changed because the market has changed and so it might have originally come in as a 200 house sub-division, but they may have redesigned it and now it is a 300 house sub-division or it is now multi-family. So the whole layout has changed and we have to go back through the process again, but you can see that is a significant portion of the workload that we are seeing right now.

So what are we thinking about doing to address some of these issues that we've been talking about? The first one dealing with sewer overflows; the acoustical inspectors, this is a use of technology like we were talking about earlier; this is a way that we can for about 10 cents on the dollar find out which sewer lines need cleaning instead of just going and cleaning them. That is an important distinction to let us get the most use out of those $350,000 cleaning trucks so that is one thing we are looking at. Another cleaning crew is another option; you saw the chart a while ago and we believe that there is some relationship there so we believe we need to clean a little bit more. Work and asset management, again this is related to the sewer overflows; helps us manage that data. I talked about the planning and the thought process and the work that goes into figuring out what to do and where to do it. That is what this person can help us do. The locate technicians, what we are talking about here is as the economy improves there is more and more construction going on in our City, so more people out there digging in the ground and before you dig you have to call a number, you are required by law, to call a number and we are required to respond and go out and paint on the ground where the pipes are so that people don't break them. We can't keep up, we can't respond to all the calls that we are getting so this request would help us keep up better than we are doing now. Back flow plan preventers and a couple of the others down below, the new development plan review and the construction inspector are all related to the improving economy and to that change in the workload that we saw a while ago and the environmental compliance specialists, back to the question about are our customers doing anything that blocks the sewer, well yes they are also discharging in a number of cases very high strength waste products into the sewer system and those are regulated. We are required by federal law to regulate and monitor those and actually issue a permit to those industries. Today we have about 59 of those industries in our service area, but we know that number is growing. We use to have over 100 and we've worked on that; some have left and others we've been able to work with and help them get out of the program so they manage their waste stream in a way that they are not a high strength and regulated customer any more, but the number is going up so for us to continue to be responsive and support that segment of our economy we are going to need to add some resources.

The last one on here is that the Water Rapid Response Technicians and that is the water leak that we were talking about earlier and this request would allow us to have that first responder to get out to those customers quicker.

Mr. Carlee said as you can see several of these items are related to the improving economy and the importance for this part of the system not to create delay because delays are money to the developer and they are ultimately money to the City and the County because it is delayed when things go on a tax roll and funds become rolling in. If Mr. Gullet could I would like for him to discuss a little bit about the sort of unique arrangement around our development services and fees related thereto.

Mr. Gullet said when a developer comes in to build a new neighborhood anywhere in Mecklenburg County that is going to be connected to the water and sewer system, they submit a set of construction drawings to us and we review those drawings to be sure that they are going to install the system according to our specifications and our requirements so that it is sustainable over a long period of time. They actually then enter into a contract agreement with the utility, with the City, that they agree to do that and when they finish it they build it and they donate it, they give it to the City, give it to the Utility Department for us to own and operate for ever and ever. When they do that the work that we put into reviewing those plans and issuing the contract and the permit for them to do that, we don't recover that cost from the developer. In other areas of the City and the County where there are land permitting activities, the philosophy is to recover those costs and so that historically has never been part of utilities and there are pros and cons both ways. One of the issues is that in some cases in the past the thinking has been that the developer is building a substantial amount of infrastructure and donating that to the City so the City is avoiding that costs and some folks would argue that it might not make sense to charge someone to give you something. That has been part of the philosophy in the past, but I think this is what the Manager is wanting me to point out, that there is a difference between how land permitting or water and sewer system permitting is done compared to how other City and County departments deal with it.

Mr. Carlee said I though this was really important to point out because at some level these development positions are almost non-discretionary. There is a real loss of revenue across the board by delaying development projects, but the way the system is set up in Charlotte for the reasons Mr. Gullet has just identified, the cost of development services are born by the overall rate base as opposed to a direct fee for service because of the quid pro quo, the receipt of this public asset, this infrastructure worth many times more than the costs of the review that comes to the City and actually enables us to sustain future growth.

Councilmember Lyles said the question that I and you say this is the way that it has been, you also talked about San Diego being a system like ours, we've got a number of things that we talk about throughout the presentation that we are a model for this. I guess by question is more around when you put all of that system, everything together, is it the most current way that people are doing it now versus we started this in 1950 so we added something in 1960 and each 10 year we've added. So when you look at the complete package how we do our water billing, the tiers, the usage, all of these things development, are we current in comparable communities with the way that we finance our overall system? Is there any aspect of it that we are not current or lag or that we are out in front of?

Mr. Gullet said that is a difficult question to answer because –

Ms. Lyles said great that is why I asked you.

Mr. Gullet said I will tell you that there are a lot of different financing mechanisms for utilities across the country and ours is very highly respected; we are AAA rated with our credit, in large part it is not because of those ratios that we were talking about. It is because of our policies and the way our utility has been managed through the years and the way our whole City has been managed through the years and our willingness to have a plan and stick to it. Those are really the drivers that help us sustain ourselves as a top credit worthy utility. When you start breaking that down into the components, we did sort of a real informal quickie survey of some of the larger cities around us about how do they deal with the water and sewer permit reviews and that sort of thing and we found that they are all over the board. They literally are. We do charge, we charge $200 for a plan review. That number comes from the State of North Carolina because they delegated the authority to us to issue these permits because it was taking them months to do it years ago and we wanted to do it faster. We accepted that authority from the State and we charge the same fee that they were charging, which has never changed. It has been $200. There are other cities in North Carolina where that same project might cost $40,000 to go through the review and inspection process and there is everything in between. That is that piece of it. When you look at rate structure, our rate structure right now is pretty much the current norm. Most utilities across the country now have some of form of tiered rate structure. The movement in the utility industry on rates is toward more fixed fee to improve the stability of the revenue stream. We have started moving in that direction, again very slowly when a few years ago Council approved a new rate methodology that I will talk about in a minute that includes a fixed component of the fee. When you put all those pieces together I think we compare pretty well. There might be some pieces of it that you could quibble with one way or the other, but generally speaking I think we are in pretty good shape; I think we compare very well with other utilities. When we go off to conferences and to training we get a lot of questions about how we do things; people are interested in what Charlotte is doing; they see Charlotte in a lot of ways as a model and people are copying us. People are asking us for documents, they are duplicating what we are doing.

Ms. Lyles said I think that is great so I would just ask when you come back into the process of this if there are things that you say we do need to either catch up or change because we've gotten too far ahead, I'd like to see that list.

Councilmember Austin said my question was actually kind of similar to Ms. Lyles' however I think it got answered, but another question I have, you said that maybe we do not invest in as much technology on the preventive side. Why is that and are there other cities doing or investing in more technology that we have not; if that is the case, then why not again?

Mr. Gullet said actually, what I mean to say, was that we are investing in technology; the problem is, there is not a lot out there. We are investing in a lot of cases in helping to develop some of that technology. This acoustic sewer monitoring program that we are taking about is something that was developed by a couple of Professors at UNCC. It came out of a brainstorming session that they had with me and several others of our utility staff 6 or 8 years ago and they came to us and said we've got an idea. We said that idea doesn't really solve a problem that we have; here is the problem that we have and they took that back and came back to us and we've gone through literally several iterations of developing this product. Those two Professors have now spun off a company, the company has won all kinds of awards for this new technology and we are one of the biggest users of it. It literally does for 10 cents on the dollar find the problem areas in your sewer system so you can put your cleaning resources there instead of just blanket cleaning like most utilities have done for ever and ever.

Mr. Phipps said you said earlier that you don't currently have the resources to respond to every notification of calls before you dig and it was a state law that they call. In essence are we playing like Russian roulette with our pipes?

Mr. Gullet said to some extent maybe, but we are responding to about 60%. I don't have the number in front of me right now, but we get well over 100,000 calls a year to locate utilities. We put those requests through a triage system because some of the requests come in places we know there aren't any pipes so we obviously aren't going to respond to those. There are a lot of places where the pipes are either, in other words it doesn't make sense for us to go, but there are a lot of places that it does make sense for us to go and we are not getting there. So that is what we are trying to address. I don't think we will ever propose to get to 100% unless the law says thou shalt get 100% and the law is moving in that direction. The North Carolina State Law changed in the last legislative session and tightened it up so what we are proposing and thinking about is to move us in the direction of complying more with the law, but more so it is protecting our underground utilities. We added resources in this area last year; we need to add more because we are not keeping up. If the numbers that you saw on the screen there, we believe that would take us from 60% up to about 80% response rate.

Mr. Gullet continued his presentation with the slide on Page 19. I want to talk real quickly about CMUD's Community Investment Program. Now this is completely separate and not separate from the general fund Community Investment Program and I say that because there are a number of utilities projects out there that are stand alone projects, but they all are built in the community and all the things that are going on in the community affect the utility. We are joined at the hip so while we have a Utility Community Investment Program that is funded through utility revenue or utility funds we also support the projects that are going on throughout the rest of the community and vice versa. We break down the projects into several categories just to kind of help everybody get a handle on it, so the first priority is take care of what we have, maintain the existing system and you can see that is the largest chunk of our 5-year program at $322 million over a 5-year period. We want to maintain those service levels to our current residents so that is another $91 million; we have regulatory requirements that we have to meet so that often requires us to spend money to build things to comply with new regulations. Supporting public projects; that is that interaction that I was talking about and I will tell you the way that is split is that if there is a, say there is a roadway project or something that has a conflict with a water line, if the roadway project causes the conflict then the roadway project pays for it, but in a lot of cases there is a betterment or an improvement that needs to be done at the same time and the utility fund would pay for that. We work on those projects sort of on a case by case basis to figure out which side the money should come from. The last category there is growth and development and that one varies and that is where we have the most flexibility, but we also need to be the most responsive. We try not to build a lot of things way in advance; we use to say we try to be in lock step with the development community. That is really hard these days because the development community isn't walking at a constant pace. It is hard to stay in lock step when they are moving and backing up and moving and backing up, so we are really working hard to not run out of capacity, but not over build. We've been able to stretch projects out for expansion of plants and pipes, we've been able to push them out a little bit and not spend the money until we really need to spend it so we are trying to be very careful about that. We haven't issued any new debt since 2009 and the time is coming in the next few months; we're going to need to issue debt. I don't think this number is right that is on this slide, we are working literally on a daily basis now on what this number needs to look like and how it will be structured. We are working with our Finance Department, with our financial consultants, the City's financial advisors on how to structure that and what it should look like, so you will be seeing more about that upcoming.

Mayor Pro Tem Barnes said do you think it will be much higher or much lower?

Mr. Gullet said I think it will be a little higher, but the effect of that is that it just means it is longer between issuances.

Mr. Gullet said I want to talk for just a minute about our Financial Plan. (Page 20) I'm taking a lot of time here, but the financial plan is important and it helps us maintain that credit rating that we talked about so we've already hit a lot of these areas. One of our goals is to maintain our fund balance at 50% of our following years operating budget and debt service payments. You will see how that looks in a minute and we want to reduce our reliance on debt by increasing our PAYGO investments and to do that our 10-year plan is based on projections of our capital needs of our operating needs and all those things that go into our expense side and out of that it projects a consistent and moderate rate increase that would support that. That is how it works.

Councilmember Mayfield said going back to the last slide, are we having conversations now considering it was mentioned earlier that we have a reduction because people are conserving. Are we looking at other ways outside of having built in the modest rate increase annually to really try to balance that off because it would be helpful if we could not have a rate increase for a year or two to benefit the community when we tell the community to reduce their water consumption based on the weather conditions and the climate. We also know there is a loss when we have high rain and snow which we've had recently. Are there other models across the nation or comparable cities that we are looking at that may have figured out how to maintain and grow their utilities without having an increase included into the debt service?

Mr. Gullet said there are two things that I can say in response to that and if the two of those together don't cover it let me know and we'll try again. The first one is that a lot of utilities are looking for other alternate revenue sources other than the rate payers. It kind of gets to Ms. Lyles' question about what is the norm out there and I will tell you that there a lot of people looking for those, but very few people have found any that have any real significant impact. So that is one piece of it. The second piece of it is that if you look at our model and that is what this next slide is looking at, this slide is a little tricky to interpret so let me see if I can explain it. (Page 21) What this is showing is what we need to do to maintain our target of that 50% fund balance number and for us 50% of our fund balance for next year will be about $140 million, just to help put some numbers on this. What this is showing is that if next year in 2015 we went with a zero rate increase, if we went with no rate increase, then we would still be right there relative to our target, but these subsequent years these are all assuming the rate increase that is built into our financial model so this assumes not a zero percent in 2016, the rate model shows a 5% to 6% rate increase each year going forward so if we did zero in 2015 and we did 5% or 6% in 2016 that is where we would be. Then if we did 5% or 6% in 2017 that is where we would be and if we did 5% or 6% the next year we would still be there so you can see we are not gaining on our target. What the next bar means is if we did a 1% rate increase in 2015 and then in 2016 we went with our 5% or 6% and the year after that we went with 5% or 6% and the year after that we went with 5% or 6% then you can see what the impacts are. You can go all the way across this and it shows different scenarios for next fiscal year for each one of these rates increase ranges and these are just even numbers, zero to 5%. What it does on our ability to reach that target going forward, assuming that we get rate increases that are consistent with the financial plan in those out years.

Ms. Mayfield said follow-up on that because for the question that I'm asking even though we know that no comparable cities have found a way, what I want to know is are we diligently working on finding a way because this looks great in our numbers but the reality is as far as the impact on the community, people aren't receiving a 3% to 6% increase in their income and as we look at the totality of all the different services that we provide, 2%, 3%, 5% increase here along with all the other increases that may be needed, it still will be beneficial to know if we could be that model city that figures out the way opposed to waiting for another one to figure out and seeing how we can tweak theirs to make it fit the City of Charlotte.

Mr. Gullet said I understand what you are saying and yes we are looking for those alternative revenue sources. I can tell you though that the order of magnitude of those revenue sources is going to be very small compared to our total budget. It is not going to have a great impact. We are looking at things Council has talked about and you see presentations at some of the conferences that you go to about private line warranty programs. Those include a revenue component back to the utility but it is not enough to move the needle on these charts. That is a potential revenue source and it is one that some utilities are taking advantage of. The City Manager mentioned Union County and the fact that we might be entering into an agreement to operate their wastewater treatment plants. We are not approaching that as a money maker; we're approaching that as the right thing to do for the residents of the region. It is important to Charlotte that the areas around us are healthy, and Union County has issues. We share a water supply with them; we discharge into the same receiving body with our waste water; so there are a lot of reasons that we should be a strong partner with them from an environmental perspective. We are not approaching that for a money maker but we are also not proposing to count their revenue toward a lot of things either. If we get into a situation where we have to bale out we don't want to come up short. We can give you more information about that; we are still working on the agreement with them; it is not finished but is scheduled to come to you in April for a

Dinner Briefing and then a couple weeks later perhaps to approve the agreement. We will have more details about what that looks like then, but it is not going to be a big revenue source for the City at all.

Ms. Mayfield said we are thinking about the last piece regarding Union County, even though we are looking at this as a partnership, are we also when the presentation is made to Council will that presentation also include any potential impact to our numbers negatively, and if there will be then that is something that we need to make sure that we are looking at because if it is going to cause an increase on our end that we are then turning around asking our citizens to pay that is going to be something that needs to be – because anytime you are taking on additional responsibilities there is going to be a cost. So if we are saying we are not going to really necessarily charge them to the benefit of the service that we are providing because we are trying to provide a service that is beneficial and supportive, not saying that is what the presentation is going to be but I want to make sure we have a full picture of what if we move forward with this Union County partnership what is that financial impact going to be negative or positive.

Mr. Gullet said yes ma'am and I will tell you that we are approaching it in a way that one of our criteria going into it is, it can't cost our customers anything. They've got to carry their own weight. That is the terms that we are working under in trying to negotiate this, including overhead costs, so that is a piece of it.

Mr. Howard said that wasn't my original question but I'm glad Ms. Mayfield came on the end of that with that because if we are not operating in a profit we shouldn't do it. I heard you say we should do it because of all the great things we discharge but there should be something in it for our tax payers to spread you guys thin.

Mr. Gullet said we will address that in April when we come back.

Mr. Howard said my first question is on the next slide your second bullet talked about a 51% fund balance. Is that some type of criteria that is set by a bonding agency, a finance agency, who determines why we need 51%? Another way to deal with that is to lower the line.

Mr. Gullet said that is right. There are a couple of reasons it is at 50%. That is considered as Ms. Lyles said, that is considered kind of a standard across the industry that you have money in the bank in case you have a disruption to your revenue stream or in case you have some catastrophe or you need some reserve. You can't not fix something that breaks in the water system. Then the second part of that is that yes, it is a recommendation from the City's financial advisors and financial consultants as a target that we should be shooting for to maintain the credit ratings that we are after.

Mr. Howard said this is usually when Greg jumps up but he hasn't jumped yet so I'm asking. I want to congratulate you on your retirement and thank you for your years of service.

Greg Gaskins, Finance Director said Barry is right and the Manager has actually asked us to do some additional work that Barry and I are working on related to this very issue, but what Barry said is true. That is a standard and when we go to issue debt out in the market place we are competing with a lot of people in terms of what is available and we are competing for those funds and there are certain standards that we have to establish in order to be able to achieve a certain rating in order for us to sell those bonds at the cheapest rate. What is reflected on here is that and I will point out to you that over 5 years if you look at Barry's number, we're issuing a huge amount of debt, over $600 million in five years. That is a lot of money in a short period of time. Why are you doing that, you are doing that because there is a demand and that demand actually as it turns out for a community like Charlotte that is growing and everything means what? Jobs, businesses, economic opportunities and you will see when we talk about revenues, there are revenues that are coming as a result of the fact that Barry is doing the seed work and putting this money out there. So to answer your question is yes, we are putting a lot of money out in a short period of time, we do have to pay for it and that does result in jobs and income back to the City.

Mr. Howard said but we are not doing something right though; because it should be paying for itself and it is not paying for itself if, every year I've been on Council, we have to deal with an increase. What do we do to correct that and I heard you talking a little bit about it, but it sound like you were kind of talking about going to the development community up front to help with some of it or that is what I thought I heard. We've got to do something different so that we are doing – if it is a good thing it should be a good thing for everybody and it doesn't strike as a good thing for everybody if we go up on fees every year.

Mr. Gullet said I skipped ahead a few slides because this is what you are really talking about. What this is doing is comparing the rate increases that we've had here in Charlotte-Mecklenburg County for the last 9 or 10 years to two things. It is comparing it to the consumer price index which is the green line and also to something called the water and sewer consumer price index. You can see that some years we are above and some years we are below that water consumer price index. One of the significant things about this is that the rate of increase, this is the increase from year to year; it is not up and down so you can see that the water and sewer index is higher than the consumer price index. I want to tell you what the water and sewer index is based on; it is not based on what it necessarily costs to run a utility, it is not like they go buy some power and some chemicals and that sort of thing and put it in a basket like they do with the consumer price index. That is based on the rates that are being charged in 87 cities across the country, so that really is an index of what other cities across the United States are doing with their water and sewer rates. You can see from that that they are all having rate increases and the rate increases are higher than the consumer price index and there are a couple of reasons for that. One is that this is an increasing costs business because we are having to make more and more investment into rebuilding the infrastructure that is aging so much and that is in need of replacement. We are having to plow a lot of money back into the system that doesn't gain any new customers. When we were in the hay day of our growth we would go spend $5 million or $6 million on a new water line and before we would get it build there would be sub-divisions coming out around it with new houses getting ready to connect to it so those rate payers then start paying that costs. We are at the stage now when we are doing many more projects that don't generate any new revenue, in other words the customer is already there. All we are trying to do is maintain the service that they have so it is a different situation then we had in the 80's and part of the 90's when we were growing so fast.

Mr. Howard said I would love to know more about this 51% and the way it stands to come from if you could back that up with some information in one of the questions Randy. I would also like to know in that same question how close can you get to the line without messing up your bond rating, even if you went down to 49.5% you save something.

Mr. Gullet said that is not the only measure. There are a lot of measures that go into that bond rating and there are a lot of factors that go into where our rates need to be. All those come together but I understand the question.

Mr. Howard said the 51% is really what I'm talking about. There are a lot of other things inside of all of that. I would also like to know that if we just adjust it for when it went up for inflation every year, if we made it tied to something would that help us at least even this out some for the tax payer. Why don't we do this like we do the rest of our capital programs, just set aside a certain amount so it is a certain amount going in every year so we don't have to deal with the ups and downs every year; we could just deal with it every 4 or 5 years like we do the property tax. Is there a way to set up a fund like we do our regular CIP to deal with this?

Mr. Gullet said there are a lot of ways to respond to that, but I would say that is probably not the most efficient way to do it because the needs aren't consistent and a lot of them aren't discretionary. For instance, if one of our wastewater plants is bumping against the regulatory capacity and we don't expand it the affect of that is a moratorium on building, so in the area that that treatment plant would serve it would essentially stop any growth. We don't believe that is an appropriate response based on the direction that we've gotten from Councils in the past. If that is what Council wants to do then we can certainly do it, but that is not what I would recommend as Utility Director.

Mr. Howard said what I hear is that we have capital needs and we adjust to deal with the capital needs. Once the capital needs are built do we ever go back and we are finished with that now, we have the capacity we need and we can lower it. We never lower it; we deal with our capital needs and those are one time get them up and going and we never go back to change that. It seems like there would be a better way to regulate that with some normal adjustment as opposed to kind of spike it when we need something.
Mr. Gullet said some of our largest capital investments are related to the plants and to the pumping stations and those are generally financed for about 30 years; 25 to 30 years and they generally have a life expectance of about 25 or 30 years. What happens is that about the time we get those bonds paid for we need to do it again and it cost more to do it that time than it did 30 years ago, at lot more in most cases. That is one of those cost drivers that makes this an increasing cost business. You can't put it in and just forget about it. You have to put it in and maintain it and keep it going and then you have to replace it. We are getting ready to replace a wastewater pumping station on Steele Creek, down by Carowinds. It serves southwest Mecklenburg County and that is about a $45 million to $50 million project. We just replaced it. I was here when we replaced it last time; it was 30 years ago but I was here. It has reached its life expectancy. We are just about to get it paid off from the last time. I'm going to guess that is probably four times what it cost 30 years ago and maybe more than that. The point is that this is not a static situation where you can just build something and you don't have to deal with it again. You build it and then you have to invest a lot to maintain it and then you have to replace it so it is an increasing cost issue.

Randy Harrington, Budget Director said Mr. Gullet correct me if I'm wrong, but a little earlier you alluded to a long-term financing strategy of using more PAYGO financing for capital projects. Over the long-term that is going to help mitigate the pressure on future rate increases.

Mr. Gullet said yes, that is correct. It gives us more flexibility because when we are issuing debt to pay for these projects, we issue the debt and then we have to pay for it so whether we delay a project after we issue the debt, we still have to repay the debt. If we are doing more PAYGO then we can start and stop projects more real time, in other words we can be more agile and more adaptable to changes in the economy and changes in the growth patterns than we can otherwise.

Mr. Driggs said I'm kind of interested in listening to this, it sounds like a case study in microeconomics; high fixed costs, variable costs and it is a tricky situation. I would point out that running your fund balance down by keeping rates low is in the long-run not a winning strategy. This is like a bathtub with water in it and it is a question of how fast you let the water out and how fast you put it in. I think we need to look more fundamentally at the capital needs and the schedule we have for funding them to create some smoothing and I'm particularly worried about the possibility that we wretch it up. Just to clarify this graph with the bars, this is saying that if we make the one-time decision to increase rates by 1, 2, 3, 4, 5% this year that then the outlook according to your model for our fund balance is as pictured.

Mr. Gullet said that is correct.

Mr. Driggs said that is based on a lot of assumptions. Are you for example, including the 18 FTEs in there that you alluded to before?

Mr. Gullet said the answer to that is that I believe they are.

Mr. Driggs said you've mentioned the economy a couple of times; interest rates are going to be affected by the economy too. With this kind of debt load that's got to be a pretty big piece so what are you assuming about interest rates in this projection?

Mr. Gullet said you are absolutely right. There are a lot of projections and assumptions in that model and they are all based on the best information we can get from our Finance Department and from our financial advisors.

Mr. Driggs said right, I think that is a safe assumption. I guess my only point is there are a lot of moving parts in here and particularly if we are considering rates, the last two cities on the different parts of your rate structure, etc. The one underlying thing that I think is on everybody's mind is the incidents of these costs among different parts of the population. Who actually bears the costs in relation to who uses the water and it might be helpful if we understood a little better how you are modeling. I have looked at this through to the end and I don't yet have a good sense of the way the capital needs are being met. It feels like maybe we underinvest a bit for a while and that we are playing catch-up and that is one of the reasons that the rates are going up. I think Mr. Howard has a good point, if there was more of a sinking fund or a smoothing structure in place for capital costs that might also help rate payers.

Mr. Gullet said we will be glad to go through the details of the model with you. Nor right now, but –

Mr. Driggs said I just think we need to look at it a little closer and maybe get a couple assumptions in the model and the implications in terms of future rates. If we agree to any one of these percent rate increases this year I have no doubt that we are going to be back here next year looking at more pictures that tell us what is required then, even though this would appear to suggest that based on a certain rate increase that we assume this year we are going to get to our target in a couple years on the 50%.

Mr. Gullet said we have to sustain it once we get there.

Mr. Driggs said maybe just off line I would like learn a little more about the modeling assumptions.

Mr. Gullet said I'll be glad to do that.

Ms. Lyles said on page 24 you included the costs per customer and where those impacts would be if we go with where we are; 42% of our customers pay for an average of 4 Ccfs and then it goes on and on. I agree with Mr. Driggs, is the residential customer raise?

Mr. Gullet said yes.

Mr. Lyles said I don't know how the model treats industrial, commercial and those kinds of things so I don't have a good grasp of the overall model and that is why my inquiries have been around the idea of let's see what that model looks like and are there tweaks that ought to be in the model versus the idea of just the model is there and the percentages will be variable.

Mr. Gullet said I think I can answer a couple of those going forward.

Mayor Pro Tem Barnes said years ago you guys told us and it made sense to me, that as Mecklenburg County grew and has grown over the last 15 to 20 years that you've built a lot of water/sewer infrastructure throughout the county and the funding methodology and the financing methodology that we have used or at least used then wasn't adequate to pay for that infrastructure. Then we had that dramatic drought in 2007 I believe and things kind of got off kilter and then the downturn occurred. A lot of us at those Councils sat around and talked about the fact that we needed to raise rates by 5, 6, 7, 8% and how the public was pretty upset about it. The response from our staff was that because of our efforts to build out the system years ago we are having to play catch-up in terms of how to pay for that work. What I think you all are trying to get to is a scenario where we actually finish paying for some of that work and figure out how to pay for the future work.

Mr. Gullet said that is correct.

Mayor Pro Tem Barnes said and you are building in a little excess capacity in order to do that, but I think in order to help the Council and to help us help the community understand, you may want to consider looking back at some of the things you told us years ago about what went on in the 90s and the early part of the 2000s in terms of expansion of the system, the cost of the expansion and the way we are paying for it and the way you've tried to adjust that payment model to make it fit with 2014 as opposed to 1974.

Mr. Gullet said at that point we were financing between 90% and 100% of our capital program, all debt financed and what we are working toward is more of a 60/40 split where it is 60% debt and 40% PAYGO and that will help us control the rates, provide a better value to the rate payers and give us more flexibility as well.

Ms. Fallon said are we doing just maintenance or are we doing replacement? I know there are an awful lot of those mains that are very small for what they have to carry now because of the building we've done.

Mr. Gullet said we are doing both. For water lines for example, in some cases where the line is big enough, but it is deteriorated on the inside we are actually going in and cleaning the inside of the pipe and relining it, putting a liner inside and then in other cases where a line is not big enough, we can do two things. If it is like one size too small there is a technology, and this is another instance where we are using technology called pipe bursting and you actually without digging it up, you can put a machine through a small diameter pipe that breaks it, explodes the pipe so to speak, not literally explodes, but it shatters it and makes it move out so you can slide another pipe inside of it. We are using that kind of technology where we can to avoid those disruptions. Going in and replacing pipes in existing neighborhoods is extremely disruptive and very expensive. We are trying to manage both the disruption and the costs by using those kinds of technologies that aren't all fancy electronic technologies, a lot of it is mechanical technologies and applying the latest things that are out there that can help meet our needs.

Mr. Gullet continued his presentation and said I've used way too much time and Brett is either going to thank me, or run me off and I'm not sure which. He might not know until after his presentation. I want to talk a little bit about how we set rates and what our rate setting philosophy is because some of you haven't heard this before and some of you have. There are really four parts to setting our rates and the second one is the hardest one. The first one is determining what our revenue requirements are, in other words, how much money do we need and at what service level are we going to be able to provide for that level of funding. Those two things are obviously related. The next thing and the hard part is predicting how much we are going to sell; how much water are people going to use? There are so many variables there with weather and the economy and efficiency and just a lot of things that influence the sales forecast. You take the revenue requirements and you take the sales forecast and divide that out and there is not a lot of complexity to that, and you get a rate. We have policies then that we apply that Council has approved that help us determine how to use those two pieces of information and what the formula looks like that cranks out the rate. That is where we are in the process. Council approved in 2011 a new rate methodology. Some of you remember this, but the basis for our rate setting methodology is to recover the full cost of service. This is an important absolutely critical piece that utilities hold up as this is the gold standard. If you are a utility that is not setting your rates on a full cost of service basis, then it is shame on you in the industry. That is a really important component, to recover our full cost of providing service. Our water rates for residential customers are tiered. The first tier is for zero to 4 CCF for water. 4Ccf for water is about 3,000 gallons so we refer to is as a lifeline rate and we provide that water at less than costs. In other words we are losing money on that first 4 CCF of water because water is an essential thing; people have to have it, can't live without it so we try to give people a way that they can have a very affordable water bill by providing that lifeline rate. Tiers two and three are based on the average cost of providing the service; the marginal cost of providing that service as you move up into tier three and then we have to recover that subsidy that we provided to that tier one customer. That is our tiers two and three are set. Tier one is actually set at half of tier two and then tier four is the highest users. That is the people that are doing a lot of lawn watering and it costs us more to provide that increment of water so that one is based on that marginal incremental costs of providing water at that tier four level and that tier four rate is high. It really is high. That tier four rate for this year is $6.76 per 100 cubic feet so that is 748 gallons compared to tier one which is $1.20. You can see that if you hit that fourth tier your water bill is going up and it is going up fast and that is the way it is designed and intended.

Our customer and industrial customers, Vi you mentioned this; we don't apply the tiered structure to them. They pay at a uniform rate for water and sewer service. For sewer service, our residential customer's sewer bills are based on their water bills and they are capped at 16 CCF. The assumption is that if you are using that much water you are using it outside and it is not going into the sewer system and therefore you shouldn't be billed sewer charges on it. In 2011 one of the big changes at that point was implementing what is called the availability fee. This is a fixed component for the bill and it is based on recovering about 20% of our annual debt service. That availability fee produces about $30 million per year in revenue that helps us offset those tiered rates structure. When someone connects, builds a new house or a business, and connects to our system they pay a capacity fee which is like a buy-in fee so that they are buying into the capacity that was already built so that they can connect and they pay a connection fee which is the actual cost of going out and digging the hole and connecting the pipe and filling it back up, so it is the cost of the work.

When you look at how our rates compare to other cities I think we compare very well. I want to point out a mistake on this chart before somebody else finds it. (Page 25) I found it today and that number right there is wrong. The $52.75 should actually be $55.17 I believe. I think that number got picked up from last year's chart. That numbers needs to do over but it is based on this year's rate, in other words the typical customer this year, for water and sewer combined, pays $55.17 so that moves us one bar to the left on this chart. You can see that we compare very well; we took out some cities on here that were kind of extreme on the high side because it really made them look bad and we didn't think it was a fair comparison. They have some serious problems that they are addressing because they didn't invest in their system through the years and now they are playing catch-up. They are trying to fill that bathtub up with big gaping holes in it so that is why we didn't put them on here this year.

We've already talked about that slide so this slide that Vi jumped to, what this is saying is that 75% of our customers are less than 7 CCF on an annual basis. What we are seeing is that most of our customers are in the lower end of our usage rate here and the thing that I will also point out while I'm at this slide is that if you break this down into a cost per person per day, if you are that typical customer there you are paying about $.70 per day per person for water and sewer service in our community; $ .70 per day per person so that is a pretty good deal.

Mayor Pro Tem Barnes said Mr. Gullet, could you go ahead one? (Page 27) I get more questions about that green space, the sewer space, than anything else because people say well if I use $12.00 of water why am I paying $31.00 for sewer.

Mr. Gullet said there is a really good answer to that.

Mayor Pro Tem Barnes said explain it.

Mr. Gullet said the really good answer is that we take out of the lake is really clean and we treat that water and pump it to the customers and they use it. When they give it back to us we've got to make it cleaner than it was when we took it out and the customers get it really dirty. It is much harder to clean up that really, really dirty sewer water than it is to clean up the water that was in the lake.

Mayor Pro Tem Barnes said is that chemicals, is the equipment that you use?

Mr. Gullet said it is the equipment that we use; the process that we use is much more complicated on the sewer side than it is on the water side. The equipment is more expensive, there is more of it, it doesn't last as long because it is a very harsh operating environment; you've got disposal costs. One of my favorite things to tell people is that treatment plants are not magic; they don't make anything disappear; they separate the good from the bad and when they can turn the bad into something that is not so bad they do that, but you still have to dispose of everything that comes in. Everything that comes in has to go out so we not only have to clean it; we have to pay to get rid of a lot of the material, the sludge, the bio-solids that come out. Those reasons are why it cost a lot more to treat waste water than it does to treat drinking water.

Mayor Pro Tem Barnes said what you just described I think is very practical, understandable. I might suggest Mr. Manager that we put some sort of an insert in the bills or publicize it on Channel 16; say something to indicate to the public that it is all those simple things that are very complicated that you just described that create that difference.

Ms. Mayfield said I had a visual, it wasn't a good one. Does it make a difference as far as when we are looking at these numbers and the impact, the fact that we are having what seems like a large number of multi-family that is being built opposed to homeowners? When we are looking at the breakdown of our water bills and we do have homeowners and resident that are looking at their bill and looking at the example that Pro Tem Barnes used as far as how that breaks down. Are we looking at the impact of all the multi-family that is happening and also going back to the earlier conversation as far as new development that is happening; they are basically buying into the system. How is that working with the multi-family since as you said we are growing at a much quicker capacity than what we can keep up with?

Mr. Gullet said we serve about a million people everyday. The population in Charlotte is 750,000 to 760,000 plus the people that live in the other towns, plus the 150,000 people that drive into Charlotte everyday. They use our water while they are here so we are serving something north of a million people with water and sewer everyday. Your multi-family question is generally, this is not always true, but generally people who live in multi-family units use less water because they are not watering grass, they are generally not washing the car in their driveway, a lot of times it is a smaller family size, not always but sometimes and so I think it is a fair statement that people that live in multi-family are generally lower water users. I think that is one of the things that is driving down our average residential consumption is that we have more multi-family development in Charlotte now than we use to and it has reached sort of a critical mass where it is starting to affect the average. In terms of providing service to those customers, it is pretty economical actually to provide service to multi-family. When they connect to the water system they are going to connect with a larger meter, they are generally going to have one water meter that we have to read instead of 200 or 400 that would be a subdivision that would have the same number of people living in it, so we have one meter to read instead, but it is a larger meter. The cost of that meter is more, but they pay that cost and their buy-in fee that they pay is based on the side of the meter. That buy-in fee, that capacity fee scales up with meter size so they are paying the same proportional amount as a single family customer would pay.

Ms. Mayfield said that is what I wanted to hear. Thank you.

Mr. Gullet said I just want to point out another couple of examples here. For a dollar, what do you get? You get 315 gallons of water or you flush your toilet 91 times or you can go to the grocery store and get ¾ of a gallon of water. I would also say that one that didn't make it onto this slide is that if you take an 8 minute shower, what do you think it costs? If you take an 8 minute shower what does it cost for the water and sewer combined?

Ms. Mayfield said 25 cents.

Mayor Pro Tem Barnes said 30 cents.

Mr. Gullet said 20 cents. If you take an 8 minute shower we will deliver the water you need; we'll collect it and clean it up after you are finished with it for 20 cents. Our next steps are finalizing the operating costs. We are still not quite done with that. We like to get as much history from this year as we can to predict next year. The consumption forecast that is particularly important. A lot of times the springtime consumption is a pretty good predictor of what the summertime usage is going to look like. We need to calculate our rates; we need to put the numbers into the formula, turn the handle and see what comes out. We have an Advisory Committee, if you remember they came and spoke with you a few months ago, gave you the annual report. They don't approve our budget but we like for them to review it and then finally the Manager will make the rate recommendation when he presents the rest of the budget to you in May. Now I've used everybody's time.

Ms. Lyles said thank you Barry.

Mayor Pro Tem Barnes said any further questions for Mr. Gullet? I know you didn't expect to be up here almost two hours.

Mr. Gullet said we try to be open about what we do. We don't have anything to hide and it is good to have the opportunity to spend this much time so we can share more with you.

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Mayor Pro Tem Barnes said we appreciate it Mr. Gullet. To the Council we have another robust presentation ahead of us but I don't know if it will be this long. We have three more to get to and I know that a lot of people want to get out to another couple of events so if we can go through this with Mr. Cagle and then decide to continue the agenda later. I want to say at the beginning that the Mayor wanted me to tell the group that in anticipation of what Mr. Cagle is going to be sharing with us that he has spoken with US Airways and they understand and appreciate what Mr. Cagle is going to present to us.

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III. AIRPORT BUDGET

Brent Cagle, Interim Aviation Director said for the record I don't mine the questions for Barry at all. I'll jump right in, I think a lot of the Council and a lot of the community are really familiar with our vision. Charlotte Douglas will be the preferred Airport and Airline Hub by providing the highest quality product for the lowest possible costs. I didn't put that on this slide; what I did put is what I think that means as we move forward and we focus on the future of the Airport which I think is a very bright future. What I boil that down to is that Charlotte Douglas will maintain its cost competitiveness while providing value to its passengers and business partners. I think the keys there are our cost competitiveness and value. You have to balance those two things and we understand that one key to what has made this Airport great; the 8th largest Airport in the country, the 6th largest by operations is our cost competitiveness. The other side to that is the extreme value that we bring to the community, to our passengers and to our business partners. It doesn't suit us well to just focus on one or the other. Our growth strategy is we will respond to our business partners and growth facilities based on demand. The Airport will engage in economic development efforts to insure its continued success and promote new global development opportunities. One of the ways we keep our capital costs low is responding to demand. What was the movie; Field of Dreams, if you build it they will come. Some cities, I think their Airport Directors watched that movie too many times because they have embarked upon a philosophy of if you build it they will come. We don't do that. We don't want to do that; we want to be demand driven and respond to our partner's needs and bring them the facilities that our passengers and our business partners require to operate efficiently and effectively here in Charlotte.

Just a few fast facts; we are served by 6 signatory carriers. Signatory is one of those terms that we talk about but let me explain that real quick. A signatory carrier is an airline that has signed our airline use agreement so by doing that they have made a long-term commitment to this market and they have signed on with our airline use agreement. That sometimes if referred to as the airline lease. It is the airline use agreement and that is a long-term use agreement. It is nearing the end of its term right now, but still has a couple of years left. We have a lost cost per enplaned passenger; that is referred to as CPE. For fiscal year 2013 our CPE was $1.15. To put that in perspective Moody's and Fish, the rating agency sometimes will publish averages for larger hub airports. The average usually hovers around between $9.00 and $10.00 for large hub airports and for FY13 we were at $1.15. For the current fiscal year we estimate somewhere in that $1.15 to $1.20 range.

Our passenger growth has exceeded the national average for about a decade. We have 733 daily departures; 550,000 operations; 43.5 million passengers, 2013 was a record year; that was a 5.4% increase and I think it is safe to say that we will remain in the top ten. We probably won't past the next airport, the 7th busiest airport on the list; that is San Francisco, but to put that in perspective their numbers for 2012, we haven't seen their 2013 numbers; we are at about 44 million, our nationwide rankings, 8th in passengers, 6th in movements. This slide I think is very telling. (Page 37) If we had grown over the last decade at the national average we would be at the green dotted line, but since we are Charlotte and we far exceeded the national average that is the blue line. We have had one of the fastest growth rates of any airport over the last decade that represents a plus 70% increase over 10 years. There were some questions, some interest in how we deal with airline rates and charges because as Ron mentioned we are an enterprise fund, but there are areas, especially airline rates and charges where we have federal guidelines. The airline rates and charges, the key to the first bullet is no profit. We recover our costs and only our costs from the airlines and that is a federal requirement. Secondly, the guidelines don't mandate a specific way to do rates and charges; they mandate that you create a methodology that follows certain basic principles. Number 1 it be fair and equitable; number 2 would be cost based and number 3 that it be transparent. We always strive to do that in all of our rates and charges process and then lastly the FAA grant assurances require the Airport to operate in a financially self-sufficient manner.

The other framework we have when doing our rates and charges is our bond order. When we issue debt we have a bond ordinance or a bond order and that legal framework sets out some other items that we have to think about when we are doing rates and charges. One, is the concept of pledged revenues, and pledged revenues is a defined term in the bond order and it is also referred to or it equals the included revenues. Included revenues are airline revenues, concession fees, concession revenues and parking revenues. Again airline revenues are equal to cost; that is not true for concessions and parking. Concessions and parking are gold and if we are managing the programs right we will generate a profit. Those profits help us pay for common area maintenance like roadways; for common areas of the terminal; they help us maintain our cash reserve which in turn helps us maintain our excellent bond rating and helps us provide assurances to those investors that even in a downturn we will be able to pay that debt service on those bonds that they hold.

Non-pledged revenues – those equal excluded revenues and those are excluded because they are not included in pledged revenues to the bond holders and they are revenues for the cargo area, for the fixed based operator, the general aviation area and commercial leasing. Those we operate on a pure profit and loss basis. We bare the brunt of the O & M that is not passed on to the airlines and we fund the capital investment solely, those are not passed on to the airlines so we look at those ventures purely from a profit and loss standpoint. Those need to make money and be self sustaining. It also obligates the Airport to collect sufficient revenue to pay included operating expenses and debt service. The Airline Lease or the Airline Lease Agreement – it was created or entered into in 1985; it will expire June 30, 2016. Back in 1985 a 30-year lease was the norm in the industry; that is not true anymore. We would anticipate that the next lease be significantly shorter than 30-years. Usually the Department of Transportation views a 10-year term or something close to that as a long-term in what I'm going to call modern leases. Around the country a lot of these 30-year leases are getting ready to expire because it was the norm back in 1985.

Councilmember Howard said that makes me nervous when you say the norm for a long one is 10-years and we're making the level of investments that we are making. Is it possible can you show us, if it is public information, kind of what those leases are kind of from place to place, not just American and US Airways, but period just to make me feel more comfortable?

Mr. Cagle said we absolutely can. I honestly tell you just to show you how much the market has changed and how much the environment has changed; there are airports, Phoenix being one of them, and as you know I came from Phoenix, they don't carry a lease, they are on 30-day agreements with their airlines, cancelable by either party. What that really indicates is two things, the FAA desire to promote competition because competition is good for the passengers and also the acknowledgement that the strength of the market drives really the desire of the airlines to locate here and those two factors alone have started to significantly change the terms on leases. We can start to gather data on other large hub airports, but what you see is usually the large hub airports that are still in their 30-year lease, you will find those towards the tail end and then you will see other airports who have maybe just come off of them and are now transitioning down to something shorter.

Mr. Howard said is there a disadvantage to a long-term lease to the Airport? You told me that from the federal government and from the airlines standpoint, what about for us. It sounds like competition means that they are winners and there are losers. You either win that one or you lose that one.

Mr. Cagle said let me answer that with my opinion. I think that the results of the 30-year lease in Charlotte show that they can be very valuable tools and you can't argue with the result. I will say that the longer the lease is the more out of date it can become and I will also tell you that our

Airline partners value the business relationship we have with them, but they have also noted that certain elements of our current lease need to be modified and modernized. With an extremely long term the lease can become more and more out of date and out of the norm with current practices and that is true for airports and airlines.
Mr. Howard said going forward do you see any disadvantages?

Mr. Cagle said only in as much as it may in theory hinder our ability to address changing climate or changing conditions. The Airport is a dynamic environment and it could do that or it could hinder competition in theory. That of course is the Department of Transportation's concern with it. No, I think that there are ways to have long-term leases that can be beneficial and I think that Charlotte is a good example of that.

Councilmember Driggs said the profit share that you talk about; is that a quid pro quo with the debt guarantee or what exactly are the economics of that relationship?

Mr. Cagle said it is. If it would be agreeable for you let me put that question on hold and in two slides your question will be answered. I'm getting there. So the airline lease, the signatory carrier signed a long-term lease, they receive a profit share, more to come on that. The lease establishes required cost centers; public airfield facilities, terminal complex and ASF. ASF should be viewed as overhead; it is operating costs but are those costs that can really kind of in a nutshell can be viewed as overhead. The lease specifies some of those things and it defines its specific rates and charges methodology.

How do we go through our process? We start with our budget and our operating expenses and our debt service; we remove the excluded expenses because those don't flow into the rates and charges base for airlines. We allocate the included expenses to the various cost centers, the airfield, the terminal, the ASF and that then works its way out into three basic types of fees; the landing fee which collects costs associated with the airfield. The signatory carrier terminal rents which collects for operating and maintenance costs, ASF costs and capital costs of the terminal. Then we do have non-signatory carriers and they pay for their costs based on a use fee which is a fee per available seat that they bring into the market; a jetbridge fee which the jetbridges we own. They pay to use those and then for FIS or the international arrivals area, they pay on a deplaning passenger basis; deplaning passengers getting off the plane and that is where for FIS it only applies to deplanements, not inplanements so that is a unique fee in that it only assessed on deplanements.

We tried to model it because that is a little bit hard to think about in words. So we take our O & M and our debt service, we split it out into three areas, the airfield, the ASF and the terminal. We then allocate 50/50 of the Airport services fee to the terminal and to the airfield, generally 50/50. I'm generalizing that because it is a more detailed calculation but it works out to about 50/50 and then if flows down into the various fees that I described above and you will note here that to the bottom right are where those concession and parking revenues come in and those revenues are offset by those costs also. Those revenues do help us pay the costs associated with the terminal and the ASF.

Moving on to our reconciliation and this is an important part that is sort of unique to an airport environment. I'm going to liken this as going into McDonald's and buying a cup of coffee, it is $1.08, I do that every morning and then a year later having the McDonald's call me up and say you know Brent we ran the numbers and it should have been $1.07 so we are going to send you a check of the money back or maybe the other way they missed it by a penny and it should have been $1.09 and they need me to pay a little more. Well, that is exactly what we do. We reconcile our budget at the end of every fiscal year to insure that the rates and charges to the airlines are only based on cost. To your question, if at the end of that reconciliation non-airline terminal revenues when they are netted against costs, if the net non-airline terminal revenues are positive the airlines receive 40% of that net revenue; however and this is the give, if there are negative the signatory airlines pay 100% of the shortfall. Now you think well do you ever run short? I guess that would be a question, that, if you would, Pittsburg, if they thought they would ever run short; they did when there were dehubed. It can happen and the airlines by virtue of signing up for that burden take on that risk and in exchange when there is a profit we share the net profits with them. That is a tradeoff and they take risks associated with that.

Mayor Pro Tem Barnes said would US Airways get 90% of that profit share? Is it shared proportionately? Like if they control 90% of the gates?
Mr. Cagle said generally speaking yes. It is not based on in planed passengers, but generally yes, they receive the lions share. Let me clarify, US Airways constitutes about 80; American constitute about another 7 so combined yes.

Councilmember Driggs said the airlines are backstopping the debt is that right? Do they do so by virtue of this make up provision, the 100%?

Mr. Cagle said yes.

Mr. Driggs said so the bond holders do not have direct recourse to the airlines, they have rights as a result of the airlines undertaking in this contract?

Mr. Cagle said that is correct.

Mr. Cagle continued his presentation with the slide on Page 44 of the PowerPoint. FY15 Areas of Emphasis – I focus on asset preservation. I think Ron is tired of hearing me say asset preservation and preserving the asset. As Ron stated this is a very capital intensive business that we run and our business, if you think about our facility it truly is a 24/7 operation. Everyday we see over 100,000 passengers and every evening we try to recover from that because tomorrow morning there is going to be a new 100,000 showing up and all of them expect convenience, ease, a pleasant experience and that is what we expect to provide them. We literally are the first and last experience of Charlotte that some of our passengers may have and we are definitely the last thing that our local passengers when they are headed for vacation or the first impression of Charlotte when they get back. If our passengers are like me, I'm usually tired by the time I get back from vacation and what I really want is ease and convenience and a high quality of service and that is what we are trying to do. We do that everyday for over 100,000 people. It is a challenge; it is a challenge maintaining the facility; it is also a challenge meeting the expectations of the world's largest airline. We are a major hub for American and there is an expectation that they have from their major hubs and we need to meet that. That helps us insure our place in their system.

Maintaining our cost advantage and focusing on a proactive management approach. We are updating key planning documents. When we get into capital I'll talk a little bit about our master planning update. We are also looking at our strategic plan and we are taking a look at how we position ourselves for the next 30 years. We are looking at proper staffing and contracts to meet our O & M needs; providing proper administrative oversight of our revenue contracts and establishing policies and procedures to insure proper internal control. A lot of that work is underway; we are doing many studies over the last 8 or 9 months, we've embarked upon a study looking at pay and compensation, at finance and procurement. We are doing the turn over audit; all of those are underway and some of those are very close to complete and we will be coming back to talk to you about those results as we start to understand the recommendations and observations and develop a plan for how to address those things.

Mr. Howard said when will we start to hear from those audits that we commissioned sometime ago? Is that going to be part of the budget process; I would hope that it is somewhat separate so we are not trying to cram it in.

Mr. Carlee said it is feeding into the budget process and it is a bit of a dynamic process where the people we have hired are consulting with Mr. Cagle as he goes through his evaluation and determining what he needs. There is a good bit of back and forth between Aviation staff and the consultants that will ultimately will result in some reporting, but we are getting information and applying things as we learn them. We expect over the coming weeks that we will be able to pull together most of the findings from major consultants, not all of them, some we've delayed a little bit for business reasons to be able to share with you. It is not waiting for like one end product and acting then, but really looking all along the way and really using these consultants to help basically recalibrate what it takes to professionally run an Airport that is matured to this level.

Mr. Howard said I asked that question because I figured we were starting to get some of that and this whole slide is probably part of that information. Getting it in parts and not as a whole, which is what I think happened with parking issue when I asked you that question, kind of leads to confusion given the way we are use to receiving information. If we actually kind of understood the breadth of what you know and that is why I didn't ask you this sooner than later. That would help me understand why you are making some of the decisions that you are making. This presentation is a whole new thing for me because we never got this before.

Mr. Cagle said me too; this is my first time reporting to City Council for budget.

Mr. Carlee said we are learning a lot about the Airport and what Mr. Cagle is doing in addition to preparing his budget is looking across the whole group of consultants that has come in and is pulling together what is basically his strategic assessment of where the Airport is and where it will go with this external work backing it up.

Mr. Howard said this will be nice to know. You guys have information we don't have so when we have to react it is still based on old assumptions and the old way. You are doing things different and we've been told we should do it different, that information would be helpful.

Mr. Carlee said you will be getting a full report.

Mr. Cagle said I want to hit a couple of other things here; one is we know that it is part of our values to retain our competitive cost edge. That will always be part of our DNA as an Airport, but we also, for example, have embarked upon an effort to take a look at our key financial matrix to compare ourselves to industry averages and to set established and stated financial targets. We have contracted with Frasca and Associates to help us with that and also to publish an Aviation annual report, which is in line with the industry; with the Airport industry and it is something that quite frankly we are a little behind on. We should be doing that and we will be doing that and all of that is designed to help us improve, maintain if not improve our credit rating. An emphasis on economic development, we are in process of expanding our foreign trade zone designation; we are looking to dedicate positions to economic development or a position to economic development and positions to our revenue contract management. I'm going to refer to that as our business office, as a dedicated business office to oversee the business of running the Airport, overseeing those revenue contracts and then partnering with the City and the community to identify additional business opportunities and to participate with land use planning around the Airport; to insure compatible use and to insure that we can promote economic development opportunities on our property and in the area and the region.

Councilmember Phipps said I was looking at this section with interest because I don't know if I'm conflicted or not, but I was just wondering if in an effort to do this are we entering into any kind of duplication of effort or is this a genuine attempt to have a line of demarcation where you could focus more exclusively on Airport operations and how they can promote economic development, but I would just be interested in knowing would we consider, with all we have going in economic development and the partners we have, even on the City's team. Is there duplication of effort here or how comfortable are we in going in this new direction, given what is going on at the Airport, the new expanded activities we have going there? I was just wondering about that whole new emphasis and focus.

Mr. Cagle said we have revenue diversion requirements from the Federal Government from the FAA and so we are careful to make sure that our efforts are promoting and associated with the Airport, but protecting the Airport through proper zoning, through proper land use planning. One of the worst things that could happen to this really gem this economic engine that we have is if we don't have compatible use and that incompatible use conflicts with the Airport and jeopardizes the asset or creates a low quality of living for citizens who may move into new developments. We do have a vested interest, I think the City does, but also the Airport in insuring; we love the idea of development and growth around the Airport, but we need it to be compatible and not to jeopardize the long-term health of the asset. As the Aviation Director that is where I see our role come in, as a complimentary role to those larger efforts in the City and the region.

Mr. Carlee said the Economic Development's position specifically has been strongly advocated by people in the business community to focus especially on how we take advantage of the Intermodal Facility and leverage that asset in economic development that would support the Airport so it is really not a duplication, it is actually a gap that we have currently.

Mr. Phipps said the comments you made about making sure that the land use designations were compatible and such, should we infer from that that there is some concern that our existing Planning Department is not really working in that regard?

Mr. Cagle said no, that was not the inference that I was trying to make. I was just saying that we would like to be a partner in the City and in the region to help insure everyone's success. It was by no means an implication good or bad of the existing efforts.

Mr. Carlee said it really intended to be a partnership as part of the internal task force that I put together to really look at what is the appropriate development west of the Airport, taking into consideration how the Airport has grown, the assets that it has, particularly the Intermodal and the opportunities for the areas to the west in a way that does not create conflict but does maximize economic opportunity while protecting neighborhoods. It is a balancing to take place, especially around our older neighborhoods there and a fairly extensive amount of undeveloped property as well so we want to do that in close coordination and not in siloed areas.

Mr. Cagle said looking at our Operating Budget Priorities, (Page 45) number one a new economic development role or position; implement a new organization structure for additional oversight; transition long-term temporary positions to full-time status. Those are primarily existing Airport Shuttle Bus drivers. Create a business affairs division or business office to manage our revenue contracts and look at the need for additional maintenance positions dedicated to the second and third shifts and week-ends. As I said before we are running a 24/7 operation and that really means we can't staff Monday through Friday 9 to 5. We need to staff appropriately.

Councilmember Mayfield said I just want to thank you for bullet #3 the transitioning long-term temp positions to full-time status because that is definitely a concern that came from the community and from employees. I'm glad along with Mr. Howard of the presentation that you have given us today, but I'm also glad to really see that we have it in writing how we are going to move forward, so thank you.

Mr. Cagle said absolutely, and I will tell you it is my pleasure. Those employees work incredibly hard and they literally are frontline employees who without them the Airport wouldn't work. It truly was my pleasure to focus on and bring them in as full-time employees, or will be as we work through this budget.

Mr. Cagle continued his presentation and said in looking at a public safety manager role and looking at in general the need for additional public safety positions as we transition to a joint and collaborative model, splitting duties between Airport Safety Officers and CMPD. Contractual services – technology contracts to enhance customer service; financial services contracts; additional costs associated with customer-facing contracts, due to increased passenger and customer service efforts. That was my way to make glamorous elevator and escalator maintenance contracts. I was working hard for it, but I think I should have just said elevator and escalator maintenance contracts. Those are maintenance contracts in the terminal. A lot of those contracts, we need to expand them because we really have to maintain those units. It is hard, if you've been in the E Concourse and a moving walkway is down, that can ruin your day for sure. Commodities – additional utility costs associated with terminal enhancements and expansions and additional fuel costs associated with expanding our bus fleet. That brings me right in to Operating Capital which is continuing our investment in our bus fleet. We need more buses and the buses we have, we need to replace. We have an order for 20; we will need to order more. Ten of those buses will be supplemental; they will increase our fleet, 10 of them will replace fleet. That is an excellent start but we need to focus on those buses. They get hard miles driving around the Airport.

Mr. Phipps said is there in this the commodities terminal enhancement, is there any improvements to the baggage claim area, particularly the B and C baggage claim area?

Mr. Cagle said in our operating budget the baggage claim area has been recently renovated so in the operating budget we are always looking for more efficient lighting and other efficiencies in the operations of the facility. But no, the bag claim area is fairly modern as far as the equipment and the lighting.

Mr. Phipps said this is related to the buses; how many miles do we try to squeeze out of those buses that go to long-term one, long-term two?

Mr. Cagle said that will be one priority of our proactive management approach is to have a set replacement schedule. What I would say now is a lot; we try to squeeze as many as we can get, maybe a few too many in some cases. We are looking at that and I would say the vast majority of those buses are either at or maybe even a little beyond their routine replacement or useful life. That is what we are focusing on now is how we can have a more standardized replacement schedule and routinely replace that equipment when it hits its useful life.

Mr. Phipps said are we talking about maybe 100,000 miles or what are we talking about?

Mr. Cagle said I'm getting this (gestures 3) which I think means 300,000 miles. We need to do one of those Toyota commercial on our buses; they are not Toyotas by the way, that was just for example.

Councilmember Fallon said when are we going to renovate the actual halls because those things are like 42nd street; there are so many people coming and going there is no place to move anymore?

Mr. Cagle said I will answer that question in three slides. How does that sound?

Ms. Fallon said that is terrific.

Mr. Cagle said airfield equipment, we have a busy airfield and there is a lot of specialized equipment, rubber removal, paint removal, we just need to invest in bigger and better equipment. Additional maintenance and operations; I've said most of this already, staffing for a 24/7 operation, oversight controls in key areas and continued development of the business affairs. Capital Budget Priorities – We have airfield projects, high-speed taxiway, cargo ramp, runway 18Left/36Right and a possible fourth parallel runway; however I will go to the very bottom bullet and say we need to do our master plan first. We are not assuming that we need a fourth parallel runway. We are currently engaged in master plan effort and should that effort prove out the need for a runway then we would look to bring that into the capital plan. I put it on there because if the study, the master plan, proves out the need for a fourth parallel runway that will be a major capital investment and a major project over the next 5 to 7 years, I'm going to call it 3 to 5 years. I'm going to shave a couple years off of that next runway if we need it. We can't make the assumption that we do need it yet; that is the point of the study.

Terminal Projects – checked baggage in-line system; terminal building west expansion; the east terminal expansion and electrical infrastructure upgrade. The more people plug in, the more things we plug in, the more we are taxing our electrical infrastructure. Access/Roadways and Parking – clearly we have less than desirable conditions right now in that area. By next Thanksgiving that will be vastly improved, but we will continue working on it so that we can meet those capacity constraints and those demands as they come.

Terminal Rehabilitation – Another priority is preserving our assets. We are in daily discussions it seems with our airline partners and they agree that our terminal, the concourses, they need a little refresh; they are 30 years old; they've been worn. What we are first going to look at is fit and finish, furniture, flooring, wall panels, ceiling. To expand or widen the concourses is a much more complicated project and also a much more expensive project, and it also has ripple affects across the other concourses. For example, if we were to expand or widen the B Concourse that would narrow the ramp alley, if you will, for the C Concourse. There are a lot of moving pieces to those that we have to consider and we have to work with our airlines on because first and foremost they need their operation to flow smoothly and they need access to those gates. Just as a parting word on cost competitiveness, Operating Expense per Enplaned Passenger, this is not as common of matrix as CPE, but you can see our cost per enplaned passenger, you can see how Charlotte stacks up and I'll say I think we are not only very competitive, we are ultra competitive in this area and we will remain ultra competitive in this area. You can see we are sub, we are at around $4.00 and I will point out on the next slide, (page 51) the red bars here, this is our CPE a more traditional measure, the red bars here are hubs for the new American. Phoenix is our closest competition at $5.23 and this is on our last reporting year, this is for 2012 and we were at $ .96 then. As I stated before we are at about $1.15 or $1.14 something like that as cost, as we need to invest in more maintenance.

Mr. Howard said I was waiting for you to get to that slide because we saw a lot of great new projects before this one. What is the anticipation of that bar moving with all the improvements you've made? Have you looked at what that $1.14 will be in the end because ultimately our goal is to stay far below that to keep a competitive edge?

Mr. Cagle said we obviously understand that we need to be very competitive for pricing. We do anticipate and we are looking now at what those impacts are. What I will tell you is it is dynamic and those needs may change over 3 to 5 years. We will always bring to City Council a package that we have worked with our airline partners that brings in the costs for the services that they need and that the Airport needs. I can't put a top number on it; that would be very difficult given that some of this is 3 to 5 years out as we develop and mature, but I think it is safe to say that we will remain well below any of our competition whether they be American hubs or large hubs in general. Right now you can see Atlanta is about $2.34, they are our closest competition and adjust it for some uniqueness about their airport. Atlanta, a lot of folks unofficially think they are really running more at around the $4.00 range rather than $2.00.

Mr. Howard said I appreciate it, while we wouldn't talk about here in public, but just know that I'm asking to make sure we remember that. All those projects that you put at the top of the slide sound like things we've all agreed, we've seen and we can agree need to be addressed. I just want us to be as frugal and efficient as possible.

Mr. Cagle said we will. I will also say part of protecting the asset is also protecting the investment that American and the other signatory carriers here make. Everyday they invest millions of dollars in this market and if we were to fail to provide consistent reliable service the Airport could literally cost them millions of dollars. They invest that everyday here and so this asset preservation is about good passenger experience, but it is also about insuring success of our business partners and protecting their investment. That makes them successful which also in term makes us successful.

Councilmember Driggs said you've been talking about the need to invest, do you have actual timetable for issuing bonds?

Mr. Cagle said we do not. Right now we anticipate, we are pulling together the next package of projects that would lead into a bond issuance. Right now because of some of the uncertainty with the airlines and when I say that I don't mean uncertainty, I mean uncertainty about the exactly the nature of development and where that development happens. We need to work with the airlines to better define that and then we will be able to bring back to you a more exact schedule of our capital needs and when we would anticipate going out to market. Of course we will continue working with the Finance Department to best time that to meet our needs.

Mr. Cagle said this is my summary and I will leave you with cost competitiveness and reliability, preserving the assets, meeting demand and enhancing economic development opportunities to promote global competitiveness.

Mr. Howard said one thing we talk about a lot about and that is how the Intermodal plays in. I know we just leasing land to them, but is there anything that plays into that conversation about what you just said and how they fit into this? Are they just kind of operating over there by themselves?

Mr. Cagle said well we view them as a very valuable business partner. Their business is literally their business. They are a tenant of the Airport and we appreciate their rent payments every year and they may choose to buy that leasehold, they do have that option down the road. That is the simple answer; the more complicated answer is we are partners.

Mayor Pro Tem Barnes said Mr. Cagle we appreciate you coming and giving us this very insightful overview of Airport Operations and continue to support you in your efforts.

Mr. Cagle said thank you, and thank you for the opportunity.

Mayor Pro Tem Barnes said we have two more items that we are obviously not going to get to. Mr. Manager, will you arrange to have those addressed at some other time.

Mr. Carlee said yes sir, I can arrange for them to be addressed at some other time.

The meeting was adjourned at 5:37 p.m.

Emily A Kunze

Emily A. Kunze, Deputy City Clerk

Length of Meeting: 3 Hours, 33 Minutes
Minutes completed: March 27, 2014

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