The City Council of the City of Charlotte, North Carolina convened for a Budget Workshop on Wednesday, February 25, 2015, at 2:09 p.m. in Room 267 of the Charlotte Mecklenburg Government Center with Mayor Dan Clodfelter presiding. Councilmembers present were John Autry, Michael Barnes, Edmund Driggs, Patsy Kinsey, Vi Lyles, LaWana Mayfield, Greg Phipps and Kenny Smith.

ABSENT UNTIL NOTED: Councilmember Al Austin and Councilmember David Howard

ABSENT: Councilmember Claire Fallon

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I. INTRODUCTION – BUDGET OVERVIEW

Mayor Clodfelter said good afternoon everybody. I'm not sure who's going to be here or when they're going to get here so since most folks are here out of respect to those who are here we'll go ahead and start and I suspect we have a lot of talking ahead of us on this so folks who may be drifting in late probably won't miss their chance to have a say. This is the first workshop of the year on this budget and I'm going to start off and let the Chairman of the Budget Committee, Councilmember Phipps say any opening he wants to say before we go to the staff.

Councilmember Phipps said welcome to our first major budget workshop for this budget cycle. I just wanted to thank the committee consisting of myself, Vice Chairman Driggs, Councilmember Mayfield, Councilmember Lyles, Councilmember Kinsey and we just thank the rest of the Councilmembers for referring Charlotte Water and Storm Water issues to the committee for a further detailed review. What we have before us now is the result of several spirited discussions that we've had as a Committee and we've suggested and recommended some things to the finance team, Ms. Eagle and her team and Mr. Harington, to come before us with more in depth explanations; so hopefully we could use this workshop as an opportunity to vet these issues and come up with a consensus on how best to proceed as we move forward in the budget cycles. We have a lot to cover today and I just look forward to the presentation and the debate that will certainly ensue as a result.

Councilmember Austin arrived at 2:11 p.m.

Councilmember Driggs said I just wanted to add to what the Chairman said; the Committee made several requests of staff related to identifying issues that require our attention and highlighting them so that we can focus on the decision points instead of reviewing a stream of information and also generating some more financial data that give us a good picture of the health of the city and I just wanted to say the response of the staff has been very helpful and I personally and I believe the Committee appreciates that and I hope the Council will find some of the kind of new presentation useful.

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VI. STATE BUDGET UPDATE

City Manager Ron Carlee said thank you Mayor and thanks to Councilmember Phipps and the Budget Committee for helping guide us as we prepare this. Hopefully we've gotten it right based on their guidance. I'll just very quickly give you an overview and let you know what we're trying to work towards in balancing the budget. We have just a couple of slides from the retreat that we had earlier. This is what's happening relative to our revenue picture with of course the big piece being the Business Privilege License Tax. What we are led to believe at this point is that the Governor will include in his budget that he releases this week recommendations on replacement of Business Privilege License Tax. That's not been confirmed directly by the Governor's Office but that's what we're hearing from other sources. We have no idea what that will look like, how much of it would be replaced or what it would be nor do we know the prospects of the acceptance of the Governor's recommendation with the General Assembly therefore we're still continuing to do what we discussed we'd do previously and that is to provide you a balanced budget within the known revenues and then a contingency budget that both Council could consider if we have replacement of any of the Business Privilege License Tax.

Mayor Clodfelter said I can confirm from a conversation with the Governor this morning that he will have a proposal. There is going to be a proposal when the budget rolls out. We did not get a chance to talk about details but you will have something in the budget.

Mr. Carlee said that's a very positive step. That's the first real movement we've seen so we're feeling optimistic about that but guardedly so. The bottom line that we're working towards right now is a gap of $15.7 million dollars. We're trying to drill down and reduce that gap based on any discretionary increases that are in the budget, really focusing on what is absolutely essential based on commitments that we have and our gap right now does not include any compensation adjustment for employees so we have a really significant hurdle to get to. By your next workshop I'll have a much more refined idea of how much that gap truly is and what we may have to do to close it.

Councilmember Barnes said Mr. Manager, if we factor into that fiscal 2016 gap of $15.7 million, if you add into it projected raises is that another $5 million or so?

Mr. Carlee said well if you did it at market rate it's probably closer to $6.8 at 3%.

Mr. Barnes said so $7, just around $7 million so it would be around $22 million. Is there any indication regarding whether the leader of the house or the leader of the Senate or the leadership of both houses of the General Assembly would be receptive to any plans to make up for that loss revenue without cutting something else?

Mr. Carlee said I have no intel on that whatsoever at this point.

Mr. Barnes said does Mr. Fenton have any intel? No intel. Okay.

Mr. Carlee said I have no intel at this point as to what the Governor's recommendation may look like, what area he's really exploring.

Mayor Clodfelter said The League has suggested to the Governor that the replacement should be a supplemental add-on based on the state corporate franchise tax. That's a proposal that was in legislation that Senator Hartsell and I made in 2009 and 2011 and then Budget Director Art Pope also supported. The conversation I had this morning suggest he's got something different than that because the Legislative leadership has not been particularly receptive to that proposal so far. I think he's going to have something different but I don't know what it is.

Councilmember Howard arrived at 2:17 p.m.

Mr. Driggs said this projects $15.7 million deficit in 2016 and then a growing deficit in years after that and we talked quite a bit about the revenue assumptions and scenarios but what are the basic assumptions about expenditures that point to those deficits in the following years?

Mr. Carlee said it's both a combination of revenues and expenditures and these are done at a very rough cut level so it's not drilled down and refined on a by department and unique expenditures. There sort of gross percentages for the different categories of expenses that we have and again the same kind of projections with regard to revenue. As we proceed forward we'll be refining those numbers as well. I would describe those as order of magnitude right now if everything continued on a path with no intervention on either the revenue or expenditure side.

Mr. Driggs said so they have for example 3% annual compensation increases. It's kind of the path we would expect to be on if we had a more normal revenue outlook.

Mr. Carlee said and some of those are identified there in the bottom footnote. We can give you all of those variables and the levels if you'd like to see them.

Councilmember Smith said I understand this is sort of the 30,000 foot level and this could be sidebar conversation but to Councilmen Driggs point within three years we jumped $13 million dollars. There has to be something cooking that expense more than just a 3% increase. No? Are there items that are coming down the pipeline that we're aware of that are factored into that more than simply….

Mr. Carlee said what I would like to do if I may is to take that back to the Budget Committee. I was only putting these up here to give you an order of magnitude to sort of set the stage and if it would be helpful I'd like to have that discussion with the Budget Committee on how we frame some of those issues for you. I'd be happy to do that. Because we have two really huge items on the agenda today and that's our Charlotte Water and Storm Water; big policies questions for you and then of course we have our financial partners which have been of significant issues to the Council in the past and we would greatly wanted to have very upstream input from the Council in terms of what we're doing and whether or not it satisfies your intent.

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II. CHARLOTTE WATER BUDGET

Charlotte Water Director Barry Gullet said thank you for the opportunity to present today and before I get started I want to say a big thank you to the Charlotte Water staff particularly Chad Howell and Rod Knicks, Jennifer, Kim has helped us a lot. We've put together a budget presentation I think quicker than we ever have before. We're typically on the April Workshop Agenda so we're really scrunched down and because of that also we don't have as much data to work with as we normally do so we usually have a couple more months of consumption data to help us make our forecast going forward so the numbers that you're going to see today are not in my opinion not final. They are projections based on the best that we know right now and we'll keep monitoring the consumption and the trends for the next month or two and their might be some tweaks or adjustments. Let me jump right in last May when we were going through the budget process Council asked some questions and asked us to address part of the rate setting methodology this year and so we've done that and we've held meetings with Council and a couple of meetings with the full Council and a meeting with the Budget Committee to go through some of that and to get direction. What you're going to see today is based on the direction from the Budget Committee.

Our goals for today are really to receive direction. We're going to show you at least four different scenarios around rates and we're going to talk also about some options related to connection fees, capacity fees and that type of thing and are really looking for some feedback about which direction the Manager should put in his budget recommendation. To start off not to spend much time on this but our current year budget from the revenue perspective is $336 million dollars and we're projecting for 2016 for that number to go up to $349. You can see that just about all of that really is in the capital part, that's the lighter blue part at the top. It's blue on my screen anyway but it's this part up here. One thing I want to point out is this increase from $120 to $123 is primarily the Union County operation so it's in these numbers but that's a wash. We get reimbursed for all of those costs and that's working quite well so that's what you're seeing there. It also includes our service levels changes are built into these numbers as well. If you break our budget down by where is the money going you can see that that big slice over on the left hand side is capital so that's where most of the money is going by far and then we've broken it down into these other categories so you can see how much of it goes to water treatment, wastewater treatment and so on and so forth. When you look at our community investment plan we've tried to illustrate here our projected five year costs and our projected ten year costs so the first part of the bar is what we are projecting to spend in the first five years and this is what we're projected to spend in the second five years by category. If you remember we broke the capital projects down into four categories for you.

We have asked for a number of service level changes. Some of these are driven by legal and regulatory changes particularly that first one up there is locators; when people are getting ready to dig underground we're required to locate our underground facilities to protect them and to avoid disruption and the state changed the rules on that game. They went into effect in October and they require us to do more than we've done in the past so we're asking for that to meet that. I'm not going to go through all of these individually. If there are any there that you have questions about I'd be glad to try to address those but generally speaking this is a request for 26 positions and these numbers are built into all the numbers that you see going forward in the rest of this presentation. I will call your attention to the bottom one on here because there's a zero for cost; that is accurate. When we began doing contract operations for the Union County wastewater plants they were outsourcing their laboratory work to a private lab. We continued that for the first year. This proposal is to bring that into our laboratory and do that with our forces we can be more responsive and probably save a little money at the same time but Union County is paying for all of that so there's no cost to our customers.

Councilmember Mayfield said so these requests are if approved going to be the new annual costs for one position of records management program. Is that for the actual maintenance? Is that the actual programs that will be running and the maintenance that's going to be the annual cost or is that a one-time fee?

Mr. Gullet said that is the on-going personnel costs related to adding a records management program person. That's the cost associated with a person…

Ms. Mayfield said that's one salary?

Mr. Gullet said its salary plus benefits plus some supplies so it's not pure salary but it does not include a computer system or if there's a new software system. There's nothing like that's included in that request. We're proposing to work with the city. There are some existing systems that we hope to be able to tap into to build that program up.

Ms. Mayfield said so that I'm completely understanding; you have it in ranking order based on the most immediate need so that means that in a dream world you would request all nine positions but there's room to discuss which positions are the most needed at this point.

Mr. Gullet said yes ma'am.

Ms. Mayfield said so do you have that breakout; even though I see the ranking do you have another PowerPoint that's coming after this one that says even though I'm saying that this ranking of one through nine if we're able to get the top four we will still be able to successfully perform our duties.

Mr. Gullet said these are my recommendations to the Manager about what Charlotte Water needs to conduct its business next year and going forward and to meet all of the legal and regulatory requirements and to meet the expectations of our customers.

City Manager Carlee said I have not decided which of these to recommend forward in the budget. This is preliminary review for you. What I decide to recommend to you you would then be able to see the different options and the pros and the cons of which positions you may or may not approve.

Councilmember Lyles said I just wanted to ask if you would remind me how you do your plan review and construction inspections. Are those a direct offset with partial fees, any fees at all or are they built into the system? I just don't remember.

Mr. Gullet said at this time we charge a very minimal fee for plan review and we would like to bring forth a proposal to recover the full cost of our program and to transition into a full cost recovery fee over a period of maybe three to five years and we'd like to start that next year. Would that make it consistent with other fees we have for other permitting and those areas. Is our general cost recovery 100% for fee based programs and permitting?

Mr. Gullet said the City has an approved methodology for that cost recovery process and we propose to follow that same methodology.

Mayor Clodfelter said is that approved methodology though 100% recovery of costs?

Mr. Gullet said my understanding is that it is. I will also say about this if I can we need to do a lot of work with our customers on this, we need to work with our advisory committee, we need to work with the development community and be sure that we implement this in a way that doesn't cause any undue disruption on their business and so with that I don't believe we'll be in a position to implement a fee on July 1st. I would hope that it would come later in the fiscal year but we have a lot of work to do to figure out exactly what the fee would be how it would be administered, how it would be assessed and to be sure that we get it right.

Councilmember Howard said I'm going to go at this a couple different ways because I'm trying to get my hands around what service level change means. In this situation are we saying that we're not meeting a certain level that's required or are we talking about customer service? What level are we trying to get to and I'll give you an example. We talk a lot about our storm water problems and we know that they put that on the scale of kind of immediate, long-term, I think it's a, b and c, I think is the way it's done. That makes sense to me in the service level change there we're trying to eliminate one of those, make it shorter, make the service delivery faster. What are we trying to get at when we say service level change? Is that just growth? What is that?

Mr. Gullet said it's similar to that but there are different drivers for each one of the items so let me give you two examples. I'll just pick the first two off the list. The locators I talked about, it was a regulatory change and it's a workload increase because the economy has picked back up and we're being requested to do more locates and the law says that we have to do more than what we have done in the past, a higher percentage than what we have done in the past.

Mr. Howard said those are customer service changes?

Mr. Gullet said it is but it is driven by a regulatory, statutory requirement.

Mr. Carlee said if I may service level change is term of ours in Charlotte and it can encompass any of those things that you just identified so when departments build their budgets if there's anything that they want to do that is beyond the current base budget be it more services or meeting regulatory changes, providing a higher level of service all of those come in as service level changes. That is the actual term of ours for any budget change.

Mr. Howard said in my mind Council those all have different levels of priority though and I guess that's the part that would be helpful to know. The ones that are regulatory would mean one thing; the ones that are service delivery because of customer service would be another one and I don't even know all of them right now but to me that would be different priorities for each. Again, given the storm water conversation getting rid of things being out for 12 years that makes sense to me. I'm not sure this translates.

Mr. Carlee said this was intended as an early preview for you…

Mr. Howard said so a needs request.

Mr. Carlee said that's right. Typically Council wouldn't necessarily see every change that a department made. They go through a vetting process internally to adjust those priorities not just intradepartmentally but interdepartmentally. As an Enterprise Fund we thought it was appropriate for you at least to see what Barry is thinking as the menu of issues that he's trying to balance and sort out.

Mr. Howard said and also Council I hadn't thought about it until Ms. Lyles said it but this is definitely one of those ones that we can make them pay for themselves so we should start those conversations … (audio interference).

Councilmember Barnes said Mr. Gullet, I just wanted to clarify, you may have answered this question; if you have tell me so but for example with number one there the locators plus team lead there are five positions at an operating cost of $1.3 million. Does that which is about $260 grand per person; what does that number mean the $1.3?

Mr. Gullet said it's the people and their salaries and benefits but it's also the equipment that they use. It's the vehicles, the trucks, and the locating equipment so there are a lot of ingredients that go into that number. There is another piece to that one that I need to explain too. What we're proposing there is not to meet the full workload with these positions. What we're proposing if we were going to do the full workload we would need a lot more people than this to meet the regulatory requirement so what we're trying to do is staff up a little bit to meet sort of a base level and proposing to use an outside contractor to meet the balance and so that's most of what that $1.3 million dollars is. There's a lot of money in there for that contract with the private company to supplement and to handle those peaks in the workload that are certainly going to come so you shouldn't divide that by five and say its $260,000 per person. It really is not.

Councilmember Driggs said I'm interested that we've noted all of this increase needs is there ever a time when we can use less of something anywhere. One of the ways to consider this would be to see whether there's a reallocation of resources might occur or should we assume that all of these are needed and everything that we had before?

Mr. Gullet said we do that on an ongoing basis internally and so we very often reallocate a person. They were doing this, we don't need you to do that anymore so we shipped them to something that needs to be done worse so we do that as an internal process for the most part but yes we do that.

Mr. Driggs said but that's not reflected here. You note that there's a .8% increase over 2015 but these are operating costs so wouldn't it be more appropriate to know that's about a 2.5% increase over the operating cost component of the 2015 budget. Isn't that the more relevant comparison because you're capital costs are growing on a different path and with that it's 2.5% for service level changes. I assume they're also organic needs so that therefore this 2.5% is a part of a bigger increase that would be required for operating. Is that right? This is one piece which is service level changes and then you've got organic growth in … (audio interference).

Mr. Gullet said the baseline operating proposal that we have prepared at this time actually shows our operating costs exclusive of these service level changes to be flat. No increase.

Mr. Driggs said alright. Again, the capital needs are tracked on a whole different timeline right? Which I'm sure you'll talk about.

Mr. Gullet said that's correct.

Councilmember Phipps said I just had a simple question on the priority ranking and I guess when the Manager gets a chance to review this then are you saying you have the flexibility to rearrange some of these priorities here?

Mr. Carlee said yes, absolutely. That's part of the responsibility of budget reviews and vetting them and I'm worried a little bit that we're not going to get to the major policy issue around the rates scenarios. This was intended as an order of magnitude. Those that are recommended back to you you'll have a detailed breakdown of the cost. You'll have actually what the requirements are, what the workload measures are, what the projected outcomes, you'll have a full discussion of any of these recommendations that I bring back to you in the budget. The only purpose of putting them here is not to actually discuss the details of them but to give you an order of magnitude of what the total revenue needs may look like relative to what Charlotte Water is currently identifying. Now that's a plus or minus or we go through and prioritize them and look at what results in what is affordable and reasonable rate changes based on the rate methodology that we end up setting. The compelling need that I have in terms of putting together the budget though is guidance on the rate methodology which are the scenario pieces that we need to go into next.

Mayor Clodfelter said with that I'll hold a question I had because it's…go ahead.

Mr. Gullet said just very quickly this is just a look back and a look forward. When we talked in December we talked about the importance of doing a long term financial plan, this is a graphic representation of that plan so you can see what's projected. I want to point out the rate impact line down at the bottom and you can see that it's 3, 3 here and then it jumps up. I want to say that these numbers out here are very conservatively projected. There based on a whole lot of assumptions and for instance if you went back last year and you looked at our projection for 2016 that number is now 3.8% on there would have shown as 5.57% and if you went back another year and you looked at the projection for 2016 it would have been 5.86% so my point is that those projections going forward are best projections and estimates but they get highly refined as we get into those years.

Mayor Clodfelter said Mr. Gullet, on that chart at the bottom part is the operating and the top is the capital. Is that still the way you're showing that graph?

Mr. Gullet said that's correct. It's operating and capital. I want to say also that the capital number on here; this kind of gets confusing sometimes is that is payments that we're making. In other words it does not include debt proceeds. In other words it does not include bond proceeds. This is our debt service payment and our PAYGO payment that we're making, that we're spending each year on capital so that number won't align back to the five year CIP document for that year. Here's where we getting into some of the policy decisions for today I think. At the Budget Committee Meeting a couple of weeks ago we were asked to do more work on four items and so that's what I want to present to you today. I want to point out that we're going to talk about four different rate scenarios. I wanted to say right up front that all four of those rate scenarios generate the same amount of revenue. In other words it's a zero sum game so it's the same amount of revenue from each of the four scenarios. They're just distributed differently.

Mayor Clodfelter said that's if you take them in isolation. If Council were to decide to mix them together that would not be true.

Mr. Gullet said actually a couple of them are mixed. The first one is if we didn't change anything. If we just kept doing what we're doing you can see that in 2016 the average 7 CCF, that typical 7 CCF customer would see a 3.8% rate increase and you can see that if you look at all of our customers the amount of the increase varies depending on exactly how much water you use so it's in even increments of 1, 2, 3, 4 and so on. It's in whole numbers and so if you look at Tier 1 the impact on the bill if we don't change anything and if the numbers that we have projected stick going forward would be between $.82 and a $1.59 and so the same thing we've looked at for four tiers. I think we capped Tier 4 at 20 or 30.

<u>Chad Howe, Charlotte Water</u> said it stops at 30. Our sheet stops at 30 CCF.

Mr. Gullet said that $22.18 increase would be someone using 30 CCF. I would say also, you'll see it in a minute, but less than 4% of the bills that we send out are at the Tier 4 level. 96% of the bills that we send out are Tier 3 or less.

Mr. Driggs said I just want to quickly clarify. That increase comes about because you compute the rates that are needed to meet your costs. Is that right?

Mr. Gullet said that is correct.

Mr. Driggs said using it in the present environment we're in without changing any of the parameters is calculate what it takes in order to be zero sum within water.

Mr. Gullet said we're following the methodology that Council has approved for calculating rates and so its allocates costs to the various tiers and sets guidelines for how we charge for capacity fees and the other services that we provide so using that rate methodology and the numbers that we have put out as our preliminary budget this is what comes out.

Mr. Howard said every one of these scenarios you're showing us a three year projection.

Mr. Gullet said actually this is this year.

Mr. Howard said I'm sorry two year projection you're right.

Mr. Gullet said so this year folks had a 3.1% increase and that 7 CCF customer water and sewer bill total is $56.90.

Mr. Howard said part of the conversation last budget year was to get in front of annual increases. Does this imply that there wouldn't be a need for another annual increase until Fiscal Year 2018?

Mr. Gullet said that's not intended to be implied at all. The long term model continues to predict annual rate increases and we talked about that in much detail with the budget committee.

Mr. Howard said I get it, I just was wondering if you showed it does that mean…so you're just really showing us one year beyond what we're looking at what will come in.

Mr. Gullet said it would go further. It would look like this.

Mr. Howard said but that's not going to prevent a need for an increase next year.

Mr. Gullet said that's correct. I would assume maybe one of the scenarios are showing us what that would look like.

Mr. Gullet said no because that is not the guidance that we received from the Budget Committee. Scenario 1 would eliminate what we've referred to as the Tier 1 subsidy. If you remember when we talked before I said that Tier 1 we're selling folks water service at a cost that's lower than it costs us or a rate that is lower than it costs us to produce it so there subsidized. There subsidized by the customers in Tier 2 and Tier 3 so this option, this scenario would eliminate that subsidy. It does not eliminate Tier 1. It eliminates the subsidy for Tier 1 which is about $.36 per CCF so the total amount, the maximum subsidy that a customer gets if they're a 4 CCF customer in Tier 1, that's as high as you can be and still be in Tier 1 is $1.44 so that's the amount of subsidy but it pulls, if you eliminate this subsidy it reduces the rates in Tier 2 and Tier 3 because that's where the subsidy was coming from so if you look at the same kind of chart that I showed you a while ago the Tier 2 and Tier 3 customers some of those customers would actually see a decrease in their monthly bill. Some would not. It depends on which specific increment you land on but that 7 CCF customer would wind up with a 3.9% increase.

Let me talk about the advantages or the pros and cons just real quickly. The advantage to this is that the only one of the tiers that we're really seeing growth in consumption in is Tier 1 and so what you would expect normally is that if we're adding customers you would expect our revenue to grow proportionately with the customers that we're adding but because of the subsidy situation that's not happening. We're adding customers but we're not increasing revenue because a lot of the customers are Tier 1 customers and so we're selling more at less recovery rate and so we're not trending in a way that I think is positive because our revenue is not following our customer growth.

Councilmember Autry said just for the record and the discussion here and the folks that are not in the room here would you define Tier 1 again please?

Mr. Gullet said Tier 1 is the water that is used between zero and 400 cubic feet. That's about 3,000 gallons per month. If a customer uses 3 CCF then they get a bill for 3 CCF and it's charged at a subsidized rate. If they used 5 CCF they're billed for 4 CCF at the Tier 1 rates and they're billed for 1 CCF at the Tier 2 rate which recovers $.36 basically or less actually of their subsidy.

Mayor Clodfelter said where is your growth in Tier 1, is that because of the number of single person households is growing?

Mr. Gullet said the growth in Tier 1 reflects the added customers because everybody is using water. In other words even if you are a Tier 3 customer you use 4 CCF at Tier 1.

Mayor Clodfelter said okay, got it.

Mr. Gullet said and so those other tiers are either flat or declining.

Mr. Barnes said explain that again.

Mr. Gullet said okay; let me give it one more shot. When we add customers and we are. We're adding customers at a reasonably good clip but our total billed consumption is not going up. It's actually flat or slightly decreasing and the reason for that is that people are using less water in those higher tiers and those higher tiers are subsidizing the lower tiers so we're selling more water at a rate that is less than it costs us to produce it and so it concerns me that where we should see our revenue following our customer growth we aren't.

Mr. Barnes said my question was going to be related to that and with regard to all the multi-family development that's going on in Charlotte are these newer apartment complexes putting meters in each unit or are they buying water for the entire complex?

Mr. Gullet said I believe that most of them are doing a master meter for the entire complex and when the do that for apartments we still charge them according to the Tier structure based on how many units they have and so if they have 100 units. Do I have this right Steve? If there are a 100 apartment units and they are all behind a master meter they get charged for Tier 1 consumption for the first 400 CCF that they use.

Mr. Barnes said and then so on from there.

Mr. Gullet said that's right. The second scenario that I want to go through here would leave the subsidy in place but it would increase the availability fee. The availability fee is set now to recover 20% of debt service and it generates roughly 30 million dollars a year in revenue. Where I would like to see us go longer term is to increase that percentage so that more of our revenue is a fixed revenue. Again, that follows customer growth because every customer pays this fee so it helps us start tracking revenue with customer growth which can help us hold down or perhaps avoid rate increases in the future. This proposal would increase from 20% of debt service to 25% of debt service in this year and you can see how that impacts the various bills within the tiers and you can see that under this scenario that 7 CCF customer would see a 4.5% increase in their monthly bill. Now Scenario 3 combines 1 and 2. Scenario 3 says okay let's get away from the subsidy and lets increase the availability fee the 25% so when we do that you get back into this situation where some customers are going to see a reduction in their bill. That doesn't really feel right to me okay. You may decide otherwise but it doesn't feel right to me and so in this scenario that 7 CCF customer would see a 4.6% increase. This fourth and this is the last scenario related to the variable rates. This puts them altogether but it also freezes the rate for the Tier 3 and Tier 4 customers and so what that means is that their bills don't go down like they did in the third scenario. They actually would increase just a little bit and the overall you can see that the monthly bill increases are more balanced across all of the customers then they are in the other scenarios and that 7 CCF customer would see a 4.1% increase. This scenario is one that I kind of like. This scenario keeps us closer to that cost of service principal for paying for what you're getting by getting rid of the subsidy, the availability fee, raising that increases the fix component. Getting rid of the subsidy also, Tier 1 revenue is very predictable and its very stable and so it's almost as good as fixed fee, not quite but almost as good and so this scenario kind of maximizes the proportion of our revenue that is less impacted by weather and less impacted by economy and it makes it a lot easier to predict and a lot more dependable.

Mr. Driggs said you're saying it would go down because we do not refund the subsidy. Is that why it would go down because you're not funding the Tier 1 thing so therefore you're eliminating the subsidy in Tier 1 but you're keeping instead of refunding to Tier 3 and 4.

Mr. Gullet said in the scenarios where the bill would go down in 1 and 3, in those scenarios Tier 2 and Tier 3 are no longer providing that subsidy to 1 so their variable rate comes down. Their variable rate comes down and so whether they have a positive or negative impact depends on where they are in that scale and it's not necessarily an order. That $2.25 is not necessarily associated with 9, it might be 12. It's not exactly in order.

Mr. Driggs said my point is the temporary freeze thing eliminates that right?

Mr. Gullet said that's correct and then we'll catch up.

Mr. Driggs said so that any additional revenue in Tier 1 is retained instead of redistributing as a reduction in the other rates.

Mr. Gullet said that's correct. What will happen is that we will catch up and then when we catch up then everything moves together again. This is really just a summary table to help you see it all in one place. Are there any other questions about this before I go?

Mayor Clodfelter said on Scenario 4 you're eliminating the subsidy to Tier 1 but you're keeping the same rate structure that now subsidizes Tier 1 in the upper tiers; you're keeping the same rate structure.

Mr. Gullet said we're freezing the rate instead of decreasing it.

Mayor Clodfelter said so you're capturing the revenue that now goes to the subsidy and you're increasing the fixed charge component; so why doesn't 4 produce more revenue than 1, 2 or 3? I'm math challenged here.

Mr. Gullet said it doesn't produce more revenue because we adjusted all of the rates downward slightly to generate the same amount of revenue.

Mayor Clodfelter said in Scenario 4 but if you left the rates flat in all scenarios 4 would produce more aggregate revenue. Is that right?

Mr. Gullet said I'm not sure I'm following your question.

Mayor Clodfelter said well you adjusted the rates down you just said.

Mr. Gullet said so Tier 1 went up, Tier 2 went down, Tier 3 was frozen and Tier 4 was frozen.

Mayor Clodfelter said so you're losing revenue in Scenario 4 because you're keeping Tier 2 down. You're adjusting Tier 2 down that's why 4 doesn't produce more revenues because you're downward adjusting Tier 2 rates. If you froze Tier 2 rates what would happen?

Mr. Gullet said I don't know we haven't ran that.

Mayor Clodfelter said okay, now I get the math but I was having trouble following you.

Councilmember Lyles said I think my question follows the Mayor's question. It may be helpful to see what happens if you also keep Tier 2 as even and try to retain that so you're consistently applying the principal. Well if you're going to freeze it it seems like to me you freeze it or if you're not you're not. It's hard to choose in between and I'm not sure I understand the rationale of why or what principal is behind that?

Mr. Gullet said here's my way of looking at it is that Tier 4 first of all doesn't provide any subsidy to Tier 1; all of the subsidy comes from Tier 2 and Tier 3. I'm trying to stay as close as you can to the cost allocation process because each of these tiers the amount of revenue that's supposed to be produced by each of these tiers is based on the cost of providing service at that tier and so I'm trying to stay as close to that as I can and not to stray from that any longer than we need to and so I believe we can get things back in line and what's driving this is the subsidy and the availability fee changes but I believe we can get this back in line pretty quickly if we just freeze 3 and 4 because that's where we were seeing customers that would actually get a lower bill.

Ms. Lyles said what I'm struggling is I understand what you're doing to make it kind of like let's keep the customer at the bill that they are but it just doesn't… I don't see the principle behind what the overall principle is for the rate increases that way. Do you see what I'm saying? The numbers work but how would I explain it besides the numbers just work that way?

Mr. Gullet said I've got more work to do.

Mayor Clodfelter said I think we do too.

Mr. Driggs said I just wanted to say that and there's a comment I wanted to make anyway we have to separate revenue neutral changes and actual increases so on an annual basis we have to come up with enough money to meet the costs and the other question is what that trend looks like so the moving parts in here consist of changing the rate methodology which impacts the incidents of the costs on people in the different tiers but always comes back to a number that equates to your cost projection in future years right? What we're really looking at here is how the costs are redistributed and not a change in the total cost. That's the point is there a rationale? I think to your question is there a rationale for the changes that are implied by this methodology? Is there a story as to why we would make these changes and why that's a better system. I think part of it is we spoke in committee about the fact that the subsidy to Tier 1 is not actually achieving what it is probably intended to do because the correlation between Tier 1 use and the ability of users to pay is so poor and that's why I think there was this feeling in Committee that we should eliminate the Tier 1 and spread those costs and maybe separately take up the subject of how we make sure that people are able to pay their water bills.

Ms. Lyles said just to add onto Mr. Driggs we also talked about the availability fee and how we felt that that was an important area to look as it dictates the capital program so Mr. Driggs said it very well is that I can't figure out what the story is for the direction to fix Tier 1 and do the Availability Fee and how it turned out on paper for math. I think we need to look at that.

Mr. Gullet said okay, well these scenarios do increase the availability fee and I am interested in working toward an even larger increase of the Availability Fee in years going forward. When we increase the availability fee that pulls the variable rates all down to get back to that revenue neutral scenario. Can I point out one more thing on this slide? These percentages up here are the percentage of the bills that we send out over a 12 month period that fall into those categories so you can see from here that 59% of the bills, actually more than that, 59% of the bills that we send out are beyond Tier 1. In other words they have moved all the way through Tier 1 and they land in Tier 2, 3 or 4.

Mr. Howard said I'm still back at this issue of kind of going up on fees every year. I'm sorry. One of the things we talked about Mr. Manager and Barry was this idea of having a Capital Fund to deal with just the same way we do our capital needs across the city and I'm wondering if you don't do a decrease and I guess you're saying this is kind of on an automatic but if you didn't do decreases what would that throw off so that we could start building some nest egg for your capital?

Mr. Gullet said we talked about that concept in the Committee and one of the issues is that we go to the bond market and issue debt so frequently that it's not like you're saving up for a one-time event way into the future. You really have to start saving for every two years and so the ability to implement a sinking fund like that around a program that's issuing debts so often becomes very complicated. When we talk to our rate consultants and our financial advisors about it who set up by the way the sinking fund in the General Fund back sometime in the 80's or whenever that was they told us that they have not seen a water and sewer utility use that approach to Capital Funding. They didn't say it wouldn't work they just said it's not normal, it's not common, they haven't seen it.

Mr. Howard said I was getting ready to make a point, a second going to you to explain that a lot of the billing that we're doing is still at the higher rates because I'm also wondering what happens with technology. One of the things that is happening with all kind of appliances and the way that we live right now is that we're learning how to live with less so that we learn how to live more with less and I was wondering if that had anything to do with the growth in the first tier as well because people are just using less they're going to continue to move down. We still seem to have this chicken and egg where if we get more efficient and we still have higher capital needs we're going to outpace the regular rate of inflation at some point and it's not going to make sense. I keep challenging us what are we doing to get in front of that dynamic because every year of just kind of looking at increases is not doing it and Mr. Manager and Barry I did this last year; I will continue to challenge us to try to get in front of where things are going.

Mr. Gullet said I think you've hit the nail on the head and the way we're addressing it is we're trying to move less of our revenue from that 4th tier, from those high users, we're dependent on them. That tier as I've shown you in other presentations, that tier generates more revenue than Tier 1 but it's only a fraction of the consumption and it's also the fraction of the consumption that goes away first when we have a drought, when we have wet weather, when we have an economy issue that's the first dollars that we lose. That's the first CCF that people don't use and it costs the most and so we lose more revenue so what we're trying to do is move more of that revenue lower down into the rate structure so eliminating that Tier 1 subsidy will help greatly in that. Increasing the Availability Fees and everybody pays the Availability Fee and so that helps hold down rates overall. That's really I think the approach we need to take is we need to have a higher component of our revenue coming fixed sources as opposed to variable sources. We still need the tiers to encourage people not to waste water but we need to be in a position to not have to count on that Tier 4 revenue which is very risky revenue on a day to day, year in year out basis.

Mr. Howard said and I hear you. You're talking about a day to day operational scenario dynamic. I got that part and I'm really talking about still the fact that I feel this train wreck coming that I don't know if you still have an answer for. I'm wondering too by the way with technology becoming better in our households, I think I asked this question last year, is that scaling up to your level where technology can be part of the answer to the future as well. There's a better way to do it, a cheaper way to do it, a more technological way to do it that we're making sure we stand in front of those too.

Mr. Gullet said we're working on that every day.

Mayor Clodfelter said Mr. Gullet; I want to take from where Councilmember Howard was and the point he started off with on that. I understood your answer to him about why you wouldn't be able to use the sinking fund concept but let me ask this question differently. Is given that you're recommended methodology changes will produce more stable revenue, that's your objective and it will eliminate the subsidy, if you then so did not try to make it also revenue neutral…

Mr. Howard said which is what I'm saying.

Mayor Clodfelter said I understand I'm picking up where you were exactly. I understood your answer to him it went to the sinking fund concept but still if you didn't keep it revenue neutral you'd have more money for Pay As You Go would you not?

Mr. Gullet said we would have more money and what it would do is we're budgeted for a spend rate and so that money would sit there until we spent it so the customers would be paying more this year than they would need to so we could put money and let it sit in the bank. The approach that we've taken so far is that we fund what we need this year and we work on that every year. It could have the effect of just doing a smaller rate increase next year. That's really probably what would happen if we stick with our fund balance…

Mayor Clodfelter said could you humor us at least with just showing us what would happen with the aggregate revenue number if you did not reduce the rates on these scenarios.

Mr. Howard said which would I know Ed will drive you crazy.

Mayor Clodfelter said I know. I'm not trying to presume a policy decision here I'm just trying to collect some information based on the questions that I'm hearing from these Councilmembers.

Mr. Gullet said my concern about that is that it strays away from the rate methodology because the rate methodology is based on assigning costs to those tiers and so if we assign a false cost to those tiers then we're straying from that methodology.

Mr. Howard said but don't we do that with property tax now?

Mayor Clodfelter said I understand but will you just humor us and generate the figures and then we can debate whether we like them, don't like them or agree with you or disagree with you.

Mr. Gullet said okay.

Mayor Clodfelter said Councilmember Driggs I know you agree with him, I understand.

Mr. Driggs said I wanted to say for one the sinking fund concept just to be clear about that a sinking fund is what we should have done for the arena. You use it in a situation where you have a known liability in the future and you accrue money for the day when you have to pay it. We're talking here about future needs; needs for equipment that will be used in the future and paid for in the future. The other thing though to your point Mr. Mayor as we look at some of these pricing scenarios where we're not paying our current capital costs with our rate structure but actually running ahead you're introducing a time shift component and as a current consumer of water I feel that being required to pay for stuff that's not going to be purchased until sometime in the future is chronologically unfair so I'm absolutely in this case with Mr. Gullet that we track our capital costs on a current basis and we charge on a current basis and that way everybody pays for whatever it is their using.

Mayor Clodfelter said I'm purporting to enter into the debate here I just would like to see the numbers.

Mr. Driggs said alright.

Mayor Clodfelter said then we could have the debate.

Mr. Driggs said alright, yeah, I'll look at them.

Mr. Howard said tell me Ed from yesterday how is that different from the sinking fund we have for general funds. Right now even with what you just said we're all getting charged more property tax for things today for things in the future right now. It's what we're doing.

Mr. Driggs said the PAYGO portion of that is true but on the other hand when you have the borrowings that we do you're basically paying your property tax to serve as debts which relates to capital investments that we made. The point of the debt is it spreads the costs of the capital investments over the life of the capital assets that's the way it's supposed to work so your property taxes pay on a current basis whatever this year's use of the capital investment was. PAYGO is a little bit of problem that way because that's a case where we do actually pay for capital assets currently and I have a bit of an issue with that because one of the things that will come up in this conversation is a growing use of PAYGO for water needs and I think that brings with it some of the same issues I just talked about; pre-funding future capital needs.

Mr. Carlee said I wanted to make sure that we have an opportunity to do the Storm Water review.

Mr. Howard said it's the same conversation.

Mayor Clodfelter said I'll second that.

Mr. Carlee said it is the same conversation but there are some distinctive differences around it and so you have the other illustrative material that Barry has provided you. What I would like to suggest is that at this point unless I receive strong guidance to the contrary from the Council it would be my intent to put together a budget that eliminated Tier 1 subsidy and increased the Availability Fee. I'm not prepared at this point to determine what the amount of the fee actually would be and would further study the pros and cons around freezing Tier 3 and Tier 4 and as to whether it would be revenue neutral or not. I would expect to give the Council at a minimum some options in those areas regardless of what my recommendation would be.

Mayor Clodfelter said I think that's fine and I think the last thing you said is probably the important thing in terms of where we stand as of this afternoon.

Mr. Carlee said so if there would be no objection I would like to move to the Storm Water so that you have a good idea of what the big policy issues are and that other huge ….

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III. STORM WATER BUDGET

City Manager Ron Carlee said Jennifer Smith is becoming a regular before us. We'll do on Storm Water what Barry did for you on water/sewer.

Jennifer Smith, Storm Water Services said I spoke in front of you on January 5th, and I shared these three policy questions at that time along with an overview of the Storm Water Program describing the backlog of our problems. We also had a third party review of the program and the consultant shared his findings and recommendations at that time. From there staff began looking at the options to help you answer these questions and today I'll be sharing a lot of data and several options that kind of address these questions. The stuff I'll be sharing is kind of a range of options, maybe some highs and some lows and we can certainly run a different options if need be.

The first thing is talking about the current fee structure and rates. Currently our fee structure is based on the amount of impervious surface on each parcel. Detached single family residential is grouped into one of four tiers and all other impervious whether it be a duplex, a triplex, an apartment building, a commercial site, an industrial site, a church is charged by the actual amount of impervious surface on their property on a per acre cost basis. This chart is showing the current city rate of $5.52 for those parcels that have less than 2,000 square feet of impervious. When I'm talking impervious I'm not talking the size of the house. It's actually the footprint that's on the ground, whether it be the driveway footprint, the rooftop, a storage shed in the back, a sidewalk that might be on your property, patio, pool aprons, it's that area; not the square footage of the house.

Councilmember Howard said how do you keep up with expansions? I'm thinking about Myers Park where they took a little house and it became a big house. Do you do that area wise or do you do it every two years, three years?

Ms. Smith said we're looking at aerials every single year so if we have the aerial we're evaluating that throughout the year. It may take us a year to get to that particular parcel but we will eventually go through the entire city in a year.

Mr. Howard said so you're using aerial views not just permits.

Ms. Smith said correct. We are actually looking at the aerial look.

Mr. Howard said we're a pretty treed city so that's good science?

Ms. Smith said if we have a question about something we send an individual out to look at it and verify what that impervious is. The City then charges a second rate for the remaining three tiers so Tier 2, 3 and 4 those parcels will have 2,000 square feet of impervious and greater are charged a monthly rate of $8.13. As you can see from this chart the Tier 1 and Tier 2 are essentially paying a monthly per square foot charge of 33/100 of a penny but the Tier 3 and Tier 4 and all other impervious are paying less than that 33/100 so it's not an equitable distribution across the tiers. This chart is showing a comparison of the percent of impervious surface and the percent revenue from each of those four tiers and ultimately in a perfect world those bars would be the same level in each category. It's just going to show that the amount of revenue that's coming in from the impervious on Tier 1 and Tier 2 is greater than the revenue that we're getting in from that Tier 3 and Tier 4 that actually has more impervious surface.

If we look at going to either three rates or four rates to be more equitable and try and get the same per square foot costs against all the tiers I'm going to take about the four rates first because that's a little bit easier to explain. I simply took the 33/100 of a penny and multiplied that by the median square footage in each of the tiers so the $12.04 comes from 33/100 of a penny times 3,648. The same way with Tier 4 the 33/100 of a penny times 6,034 is the $19.91 per month rate. To get to the 3 rates I grouped the Tier 2 and the Tier 4 together and got a new median for those combined tiers that median is 3,995. I took that number and multiplied it by 33/100 of a penny to get the $13.18. You see the 36/100 of a penny under the $13.18 and the 22/100 of a penny under the $13.18 in Tier 4 that is simply taking that $13.18 divided by the median of that tier to get that median square footage rate. On the all other to get the rate whether it would be three rates or four rates I simply took the 33/100 of a penny and multiplied that by the square footage in one acre which is the 4,560 to get the new rate of $143.73. You can certainly use whatever base rate you want to. I simply chose the $.0033 because that's currently what Tier 1 and Tier 2 are paying.

If we look at that impact of the rate increase over the four tiers the second column that's moving to four rates in 2016, a couple clarifications here. Because this would be a change in the way we bill citizens I looked at the rate being effective in January of 2016, so the additional revenue that's generated would be $5.26 million over that six month period from January until the end of June in FY 2016. The remaining four columns that are showing rate increases in 17 of either 1%, 2%, 3% or 6% and the dollar amounts that are in that are actually the added increase on top of the change from going to four tiers. If you were looking at Tier 4, in 2016 you'd have an additional $11.78 and then if you did a 1% increase in 2017 it would be an additional $.20 on top of that $11.78.

Mayor Clodfelter said I'm not sure I'm following your chart, so the $5.26M number at the bottom of the page moved to four rates, is a half year.

Ms. Smith said yes. Its six months additional.

Mayor Clodfelter said why isn't it the sum of the numbers above it?

Ms. Smith said that's the monthly charge, that's on a monthly basis multiplied by 12 would get the number.

Mayor Clodfelter said I got it. Thank you.

Ms. Smith said the last row there is the additional revenue that you would gain from the 1% increase, 2% increase, 3% or 6% on top of the $5.26 million dollars that you gain in the first year. A couple other options that we evaluated based on the recommendations from the consultant was revising the maximum, well first let me say that none of these options really change your revenue or generate a lot of additional revenue the first year or even probably the first couple of years. It would be something that really is trying to align the program better or to help in future years out. The first one was revising the maximum fee credit and in this one currently property owners that have storm water features on their property that store or release run-off at a pre-developed rate are eligible to receive up to a maximum 100% storm water fee credit. Our current credits reduce the revenue by about $2 million dollars a year so it's not a big chunk of money but if additional properties would apply for fee credits in future years or over the years that number could certainly grow even more than what it is today. We had done a study a couple of years ago that looked at the fee credit program and really evaluated what costs can be covered or should be covered no matter what type of storm water feature is on a property. There is monitoring requirements that we have to do no matter what. We have to maintain pipes and street systems no matter if somebody else has something on their property to control run-off or not so there's some cost of our program that we would have to do no matter if that property had a storm drainage feature on their property or not. That number was about 25% or 30% of our revenue that goes to fixing and maintaining a program so if that maximum credit was reduced from 100% down to the 70% or 75% you'd probably see a savings of about somewhere probably between $600,000 or $800,000 dollars.

Councilmember Mayfield said worst case scenario what happens if you have a homeowner that is unable to participate with that 25%. Is this going to include somewhere language to assist those homeowners that would normally qualify under our current policy, under the current 100% but are unable to financially contribute?

Ms. Smith said the 100% is actually somebody who doesn't have to pay a storm water fee because the actually put a storm drainage feature on their property and these are typically commercial properties so it's not typically a residential house.

Mr. Howard said we're actually getting ready to transition and start looking at the maintenance issues but before we transition we talked about the tiers. Council my concern is a little bit of what I just talked about with Charlotte Water. The fact that how do we get in front of that dynamic that I feel is happening with technology getting better. In this situation because we're using impervious area; I was sitting here talking to Councilmen Autry how do we deal with green roof? Is that because more and more of something that people use as an option? Do we still count that? We talked about Johnson C. Smith roots now that just almost goes against everything we like because its five layers of parking underneath there but it's still a green roof. Do we still charge people if we have a roof that's actually retaining and treating the water before it goes into the system which is what this is all about?

Ms. Smith said that would be part of our fee credit policy that they can apply for fee credit and we could evaluate to see…

Mr. Howard said we actually already do that. I'm sorry, I missed that part but again if we do more of that into the future that's more credits so we still have that same dynamic of technology now; us not keeping up with it and what it means and increasing needs and trying not to outpace inflation too much. It's still this conversation about what do we do to get in front of it is still a concern for me so we're not going up every year. I've been beating that drum now for a couple years that the yearly increases is kind of hard to stomach every year and explain it to the public.

Mayor Clodfelter said on the credit program do you get credit for installing impervious pavement?

Ms. Smith said that would be something we would evaluate. You'd have to submit the calculations to show how that decreases your peak and the volume of run-off that's coming off your site but that would certainly be something we'd look at.

Mayor Clodfelter said but not an established item for that yet?

Ms. Smith said no.

Mr. Howard said I thought about P Gravel when I was thinking about this too because if it will absorb it you kind of doing that if it's not run-off and I actually would argue that you have some places where there is no grass and it's just hard soil where it's running down to. This seems to be a kind of imperfect science and approach to this.

Mayor Clodfelter said it is. Although I solved every bit of my back yard flooding problem when I ripped up the concrete driveway and put down gravel. Every bit of the flooding problem went away.

Councilmember Driggs said I want to make a comment. We were just looking at the water and sewer situation and we started from a cost projection and then we kind of operated on the assumption that we were going to meet those costs every year so the whole conversation was about how those costs effect different users in the tiers. It was a methodology question. That assumes that we accept as given that cost projector. In this case we're looking at increases that create a revenue projectory and then we're going to back into what the service delivery capabilities are associated with each revenue projector so it's a different decision. One of the issues that arises in my mind as we look at this is who's paying for what so if we start loading up on Storm Water fees to for example address a backlog are we going to lock in place higher fees that will then stay there when we've caught up or do we have some sort of interim measure for trying to catch up so that's I think the difference in the dynamic and I just wanted to share that observation.

Councilmember Phipps said I can assure the rest of the Councilmembers that the Committee was sensitive to annual increases and the need to try and avoid the annual increase but we didn't want to substitute an annual increase and give residents a false sense of security and when they go into year two or when another increase is expected that those increases would be double or instead of 3% on an annual basis it might be 6%. We looked at it and to me it could be an unattainable situation; a rate shock when the time comes for the fee increase, from 3% to 6% or more so those kinds of things we considered.

Mr. Howard said is this another situation where a sinking fund wouldn't work like we just talked about with water?

Ms. Smith said we have not evaluated that. I think that would certainly be something we look at but we also are trying…

Mayor Clodfelter said we kind of, sort of have a defacto sinking fund almost now because we have unused debt capacity according to the consultant that we could issue debt on so we almost we don't call it that but we have an ad hoc capability on that now because of what the consultant reported.

Mr. Howard said I was wondering if you could use debt capacity for a sinking fund.

Mayor Clodfelter said well that's how we would repay it. It was out of the current excess on the revenues of over current expenditures.

Mr. Howard said but it wouldn't be the fees that would be…

Mr. Driggs said if you had a situation where we were years behind or unable even to indicate any timeframe for service and you were also accumulating cash over here I think that would look bad. In other words I don't think we have the luxury right now of being able to prefund. We're trying to catch up with service that we've been unable to render in the past.

Mr. Howard said and I'm tough enough to do that.

Mayor Clodfelter said but the point I took away from the consultant was that the rates we're charging right now are yielding revenue sufficient that we could right now do a lot of catch up work through debt issuance with current rates so we are in effect over charging right now for the work we're doing, for the level of work we're doing.

Councilmember Lyles said we could issue debt now.

Mayor Clodfelter said yes, we could issue it today under the current rates and catch up work with it.

Councilmember Kinsey said I hesitate to say this because I'm playing devil's advocate but at some point we may have to decide what level of service we can continue to offer.

Mr. Driggs said that was part of the conversation at Committee.

Ms. Smith said the second option is revising the cost sharing policy. This was another one that the consultant had recommended. Currently if a property owner is willing to pay 50% of the cost to repair their elevated in priority and we do that request sooner. This policy is rarely utilized…

Councilmember Smith said I'm curious as to, this is quasi on topic, do you track how often do we have individual property owners that are effected? The situations that I seem to have had in District 6 tend to be multiple property owners and their disagreement over whether or not they want to shoulder the 50% burden. It doesn't need to be answered today but I'm just curious if do track that.

Ms. Smith said we aren't tracking that right now but I would say the majority of the work we do involves more than one property.

Mr. Smith said thank you for letting me go off. It elevated a thought when you showed the ….

Ms. Lyles said I'd like to note that I asked the same question that Kenny Smith asked for once in my life.

Ms. Smith said the cost share actually probably costs us more money than it saves us money because we do spend time doing estimates for individuals that think they might want to choose that option even though we give them that our average project cost is somewhere between $60 and $80,000 dollars. They don't seem to believe us with that and they really want the cost estimate done so when we do the cost estimate it takes time to evaluate that request, what we need to do, put together the cost estimate so we are spending a lot of time and money doing that. That would cost us money so there are a couple of options with this one that you could either change or lower that cost in the percentage that you're asking the citizen to pay or total eliminate it from the policy and the last thing here would be to begin evaluating conditions of existing infrastructure. I look at this similar to what Charlotte Department of Transportation does on their resurfacing and looking at their streets. They have a set schedule on when they need to resurface streets. They look at that pavement condition to determine that. If we included some additional staff to go out and look at the condition of our pipes system, we could look to schedule that maintenance and repair before failures happen possibly then saving money because the larger failure would cost more than the scheduled maintenance on that pipe. The other thing we could also probably predict more of the costs that are in the future if we know when that maintenance or scheduled repair or replacement would be needed on some of those pipe systems.

I'm going to switch gears just a little bit and talk about our request for service and our wait times and this is kind of going back to that what level of service do you want to have for your citizens.

Mayor Clodfelter said this is Councilmember Kinsey's point.

Ms. Smith said to refresh your memory in order to qualify for service you must receive run-off from the public street and you must have a qualifying problem. We classify our problems as AI's, A's, B's and C's. The AI's are the most severe or the highest priority that we look at and the AI's are typically holes or settlement that is occurring in the public streets. An A is our next highest priority and it's typically street flooding, living space flooding or failing infrastructure, holes that are forming near the house, near a building or near sidewalks. The next category is our B request for service and this is typically crawlspace, garage, HVAC, basement flooding. It could also be failing infrastructure or holes that have appeared in the yards but there are further away from the house so they really aren't causing any sort of or don't have the ability to cause any structural damage to that house right away. This chart, before I go into the details of the chart and the backlogs and how it got there I want to share that there's a lot of assumptions that go into looking at and predicting the amount of money we're going to need and those wait times. We have to hire staff, contractors, in some cases consultants, the timing on hiring them and how much we can hire a given year, their productivity when the first come in, how productive they are and then how long does it take for them to get up to full production. We're also estimating the cost of the project, inflation on that cost of the project over many years and how many requests for service are actually going to come in any given year.

Mayor Clodfelter said I just want to share an observation; not to start a discussion but I want you to just go ahead and think about it and then decide if you want to discuss it in the future. When this program was originally instituted the recognition was that the Storm Water contribution from the publically owned infrastructure was a general expense of the City and should be born from the General Fund and that the General Fund would make a contribution to the program to match the contribution to the Storm Water problem related to public infrastructure. It seems like Mr. Manager over the years we sort of scaled back the General Fund contribution but we kept the top priority of spending the funds is on damage in the public infrastructure so we've done a cost shift away from the General Fund and on to the private infrastructure to pay cost of the public streets. I'm not sure that was what was originally contemplated when the program was set up; just an observation. It one of the reasons too why we don't have as much funding is because the General Fund is no longer supporting Storm Water maintenance in the public streets.

Ms. Smith said the other thing I'll point out is that the time frame I looked at was FY16 to FY28. That's a 13 year period. I know that's odd. I'm a little odd. The reason why I did that is on some of these options that we looked at it takes many years to hire the appropriate staff, to get them trained, to get them fully productive and so to really see the benefit of hiring some of that staff we looked at a 13 year period. I apologize the math is not easy to divide quickly, the numbers but that's kind of where we are. The current projected funding for our maintenance and repair program addressing the AI's, the A's and the B's is $267 million dollars. What that does is puts us at a nine year backlog or a nine year wait which is growing by the end of FY28 and the reason why I say it's growing is that we're predicting that more requests, well even currently more requests are coming in that we can currently resolve in a given year so we see that trend continuing and therefore the backlog is continuing to grow for 28. If you want to try and get down to a four year backlog you would need to add an additional $218 million dollars over that 13 year time period to the$267 million. If you were trying to get down to a two year backlog you would need to add $268 million dollars to that $267 to get down to a two year wait time.

Mr. Carlee said just one point of clarification I'd like for the Council to have in mind as you go through these next several slides of the different classifications or problems and then when you get to the summary slide at the end the projected amount of funding from the current program shown in this classification or project is at $267 million dollars is based on the best professional judgment of our Storm Water engineering staff on how to allocate funds across the different classifications. That is a professional judgment that's ultimately a policy decision in your budgetary process and so this is not based on dedicated funding and you can move from one classification to the other but what you have seen all along in your earlier presentations and what you see today is the best professional judgment of staff. Likewise, as they go through some scenarios and how you might generate additional funding and allocate it that is also reflecting their best engineering judgment.

Ms. Lyles said if I recall Mr. Carlee in our presentations and conversations in the budget review were that the staff really felt like even Classification C was perhaps not completely defined in a way that would separate it and would be able to have a clear line of reference between B and that was really something that was surprising to me. I think we really kind of thought there were distinct lines between those classes and they're not so I would agree this may be something as the Mayor said when do we do this we may have some budget issues right now but right now I don't believe that we could actually define B and C as being different in a way that would hold up to scrutiny.

Mr. Carlee said I don't know that I would go quite that far and say it wouldn't hold up to scrutiny but I think it would be accurate to describe the classifications and Jennifer you correct me if I'm wrong, as more of a continuum so that B's can evolve into C's and so as you get to that line there is less of a distinction.

Ms. Smith said or C's go to B's.

Mr. Carlee said that's right C's go to B's. It would be great if it went the other way though wouldn't it? That would be pretty awesome; that's the kind of evolution we're looking for in Storm Water management. B's can become A's depending on when their dealt with and the underlying conditions that exist. I think that's one of the reasons why staff has been reluctant to say we just won't do C's anymore because that may be just deferring a water going to be vehicle problems later.

Mr. Phipps said also in the Budget Committee discussions there was talk of going in and evaluating those fees to see if there was some cleanup that needed to be done to get that list down to a more realistic managerial…a list with integrity to make sure we have what we have. Even looking at these scenarios with the nine year wait, the four and the two certainly nine years is totally unacceptable in my mind and even four that's better, it cuts it in half but it's still in the whole scheme of things you're talking about a whole presidential first term or even a school board term right? Four years. Is that something that people are just willing to wait okay well I'm on the list four years from now I could get some service. I don't know that it's acceptable.

Mr. Carlee said part of our problem there is how much production we can actually generate. How many people can we hire, get trained, and push the project's design and get the contracts literally out the door? There are some practical constraints. If there is sufficient funding to get the projects to whatever the X number of years are and they're realistic and they're foreseeable I actually think people can adapt to that because it's real. What we have to do is then deliver on it and make it real. Right now when you're at nine years I don't think any member of the public has any clue what that can be. You start doing plus and minus's around that and it feels like it will never be done.

Mr. Driggs said just to interpret are we saying that over 13 years you would need to have $218 million dollars in revenue above what is projected in order to achieve a four year wait? What is the base revenue projection over that 13 year period, what percentage of the revenue that we project in the base case does that represent? You're about $50 million dollars a year now, right?

Ms. Smith said yes, $53.

Mr. Driggs said so probably $8 or $900 million allowing for growth over 13 years?

Ms. Smith said yes and our models do have a growth factor in it that impervious is going to grow. It's not by very much but there is some growth factor in there. That still means you're looking at 25 or 30% above the current revenue run rate to achieve these outcomes. Okay…ouch.

Ms. Smith said the lowest priority classification is our C classification and this is typically severe or moderate erosion in backyards, maybe side yards but it's not endangering a house, a building or the roadway. It could also be sedimentation that's accumulated in the channel or some type of channel blockage that's needs to be removed for better flow of the system. Again, these requests are typically in backyards far away from houses and not really endangering any building or structure or house. We typically do not put any funding towards these projects today, no dedicated funding source however we do complete probably 50 to 100 of these types of requests for service when they are adjacent to one of the AI's, the A's or the B's or if they're in a flood controlled…another type of project; flood control project. Some are being completed each year it's just not anywhere close to what the backlog is.

Ms. Mayfield said it's more of a statement back on the last PowerPoint. Even though we have a rule with looking at whether or not it poses a threat to the home, building, driveway or sidewalk I kind of want us to rethink that idea of what's considered a threat so I have just one particular. We've all seen a number of homes where they may live right off of a creek or by it. The City is growing so quickly, new construction is happening outside of that 300 feet impacted area but you're seeing an impact but when we're having these heavy rains you're seeing erosion of backyards, you're having stagnant water which is creating mosquitoes and so many other insects that are seeming to be more and more impervious to the chemicals that we use because they are coming back stronger and quicker so when we're talking about impacted area and how long it takes getting a C moved up the impact on that quality of life, the impact of health if there are any children around or seniors and having this stagnant water, the impact of the erosion of the home in the meantime so you're in a home that you can't utilize; quality of life which we support as well as possibly selling the home because of the devaluation of the property values so when we're having this discussion about a C and saying posing a threat we need to have some real conversations about what's considered threats when you look at the real impact of homes that have lakes and where we the City or a contractor that we've identified and we're paying has gone in and done work that has caused adverse situations at a homeowners home and their quality of life.

Ms. Smith said with this chart I have used a similar assumptions that we did with AI's, A's and B's however some of the data that we have on this type of request for service dates back to the early 2000's. Again, we haven't done these types of projects for a really long time so some of my data is pretty dated. I've had to make some conservative assumptions to get to some of these options but some of the other assumptions involved in the C's is since they're so many requests for service and the backlog has been going for many, many years and we haven't been working on it we're making some assumptions that some of the requests for service may not actually need work; That the property owner has changed hands and that the new property owner either fixed the issue or doesn't think it's an issue. We are making some assumptions on that but here are two options; one of the things Councilmember Phipps had brought up is a third option of doing some evaluation over this next year to try and get a tighter number on some of this stuff before you make a decision on what sort of additional funding would be needed. We could certainly do that but on the middle column here is trying to get down to a nine year backlog would require an additional $126 million dollars in funding and this is assuming that you continue to qualify C requests for services as well. The last column here is that if you decide to no longer qualify C requests for service and completely eliminate the backlog in 13 years it would take about $109 million dollars using my conservative assumptions so that number could come in much less if we found a lot of properties that did not need service.

The last program category is our flood control program. The current projected funding here that we have in is $506 million dollars. That's gets us on average about 3 projects a year. At the end of 2028 we'd have about a 47 year wait on this type of project. If we did 4 projects a year we'd need an additional $138 million dollars over that 13 year period and if we started an average of five projects a year we would need another $237 million to get down to a 22 year wait.

Mr. Carlee said Jennifer, would you please describe just briefly the scope of these projects and the typical range of costs.

Ms. Smith said the flood control projects are generally neighborhood wide, could be several miles of system that we're evaluating and improving and fixing. They could involve some failing infrastructure but a lot of them are looking at flooded streets and flooded houses and trying to fix those. The projects tend to come to this list because a maintenance and repair request is too large for that program. Once we evaluate that request for service and we see there's failing infrastructure but 2,000 feet downstream of that is also failing infrastructure we certainly don't want to move the problem from that one citizen to the next citizen to the next citizen so they become larger, broader projects and that's what these types of projects are. They are more of your typical capital improvement large. The costs tend to range from a couple million dollars up to our largest project so far is $30 million dollars for one neighborhood wide area and that's our Myrtle/Morehead Project that's active construction right now.

I wanted to just share some kind of rules of thumb numbers with you so when you're thinking about how much work can we do or can't we do you have some sense of what a 1% increase would get you. If we use the four rates and we have a 1% increase in 2017 and no further rate increases in the future years you can do an additional 100 maintenance and repair requests or 350 low priority C requests or one flood control project over that one year period.

Mr. Carlee said so here you see how you have the ability to pick and choose where you want to target any additional services. Again, Storm Water staff could have some recommendations to you on allocation but there's clearly some policy decision making if you're looking at increasing resources especially as it relates to the level C projects.

Ms. Smith said the next option is if you did a 1% increase each year from 2017 until 2028. That would get you 555 additional maintenance repair or 1,918 low or 5 flood control projects. Again, it's over that 13 year period. I think Councilmember Driggs you had asked this question in the Budget Committee meeting is what's the increase that's needed just to take care of the annual incoming requests for service and right now the number of requests for service with a projection that they will go up because we have more system out there would be 5.9% increase from here on out just to keep up with the annual work that's coming in. That's not addressing any of the backlog work.

Mr. Driggs said am I looking at this right $237 million to get to 22 years on the flood control, $218 million to get to 4 years on the A1's, A's and B's and $109 million to work off the C's. That would be $560 million dollars in additional funding to achieve each of those goals. I guess on the next page you show that 6% declining gets us less than that and that's why you're saying it actually takes 5.9% every year to get to a steady state.

Ms. Smith said just to keep up with…

Mayor Clodfelter said what is the annual increase in the number of flood control projects?

Ms. Smith said we get about six flood control projects in every year.

Mayor Clodfelter said and we're doing how many a year on average?

Ms. Smith said about three.

Mayor Clodfelter said so we're of the really big projects we're falling behind three a year.

Ms. Lyles said and to point out those projects are in areas mostly in what geography; describe kind of the areas that those projects are located.
Ms. Smith said we have had a project in every district.

Ms. Lyles said I know that but the area; what type of area would that project serve? I remember Morehead Street being one of them.

Ms. Smith said we have about 40 active flood control projects right now. I think it's between 40 and 50. We just completed one off of Shillington, Glen Eagles area, we completed one…gosh, I'm drawing a blank on where our projects are, Allenbrook, Westridge area we just completed a project. We have another one off of Glenheim that we're looking at now and hoping to go to bid probably within the next six to eight months which is off of Hoskins and Rozzelles Ferry. I have a map, I could show you but they're covered throughout the city.

I talked to you a little bit about the revenue side of things and with additional revenue we can certainly also increase the amount of debt so this is truly looking at the additional funding capacity that we gain by increasing our revenue either by going to more rates for the tiers or additional increases throughout the year. That's row really is showing that just by going to three rates or four rates and having a zero percent fee increase we do generate additional funding capacity and part of that's is because I think the Mayor had mentioned that we do have some debt capacity out there. Our debt coverage ratio right now is a little bit above three. The recommended to keep our bond ratings in good standing in order of where we are today we could go down to a little bit above two because we still want some ability for an emergency; if there was a hurricane or a large flooding event and took out some roads we'd have some additional capacity there for some emergency. That's where you're getting some additional capacity with just the zero percent increase and then you see as you add fee increases the additional capacity goes up.

This chart is really just my opinion of if you went with zero percent annual increase and you went to four rates and you got that $67 million dollars where would I put it. I would put it under the Maintenance and Repair Program which would then that $67 million would probably get you down to a 7 or 8 year backlog or wait time. If you went and choose the option of 3% annual increases and four rates and got to the $335 million I would put $218 million to Maintenance and Repairs to get you down to a four year backlog, $109 for the low priority to eliminate the backlog and no longer qualify any C requests for service and that would leave you about $8 million dollars to go to Flood Control Projects which would be about 1 project. If you looked at the option, the 6% declining and the $441 million again, I would probably put the majority of it to the Maintenance and Repair and Low and then the remaining $114 million would go to Flood Control which would get you somewhere probably between 10 and 11 projects over that 13 year period.

Mr. Carlee said the idea of no longer qualifying C level projects we might think of the analogy as to closing the Section 8 waiting list. Basically what we're saying is that we have a waiting list, we're working that waiting list, we have resources to work it but we're not going to add anything to the waiting list until we get down to a level that we have some realistic idea of when we could actually do additional projects. A different concept in the context of Storm Water Program but that's essentially the notion that we don't give people a false hope that they're projects going to be done when we don't have any pathway to get to it.

Ms. Lyles said I think the Manager addressed it to say that we're accepting them is to say that we'll continue to evaluate you, tell you that we're going to do something about it and never show up. It's a very difficult message no matter what we do or chose to do but I am very concerned about that we all decide and have at least an idea about why we're doing it. I have a question that I meant to pull up from last year; last year in our budget sessions you provided some information on rate increases and they were variable. It was like a one year a 4% rate increase and the next year a 6% and then it went back to 4%. It was kind of like a differential every other year and the reason I remember that is I thought that that had a higher impact upon getting to the backlog in a shorter time frame. If you could pull that out at some point for us to take a look at but I just remember that we could cut by doing differentials annually one year lower than the other we were really making more headway into the list of the A's and B's.

Interim Strategy and Budget Director Kim Eagle said we will do that.

Ms. Smith said one of the last things is really talking about what should qualify for service and we've kind of already touched on this with the C's. We did make some changes several years ago and eliminated yard flooding as a qualifying criteria and also minor erosion. I would say with those changes we've probably cut the list at about or the number that qualified probably in about half so that kind of gives you some sense by taking those out we changed the number half.

Mr. Phipps said in regards to the Flood Projects has the City, I mean recently, have we embarked on purchases of residences in flood areas or is it cheaper to do that as opposed to some of these maintenance projects or it just would be…how do we?

Ms. Smith said we have evaluated that more so with our Flood Control Projects and the Maintenance and Repair but I do think that's something that we need to evaluate more and more.

One of the legislative requests we have in right now is to actually purchase flood prone properties, elevate properties if it's cheaper to use our fees to do that rather than you spend millions of dollars on some larger project.

Ms. Mayfield said piggy backing on my colleague I know I along with a resident have been having discussions because of a project that was done. The project has basically taken away the ability for them to utilize the home, quality of life again, and they aren't able to sell the home, they have a home that their whole front yard basically has been destroyed because of work and we're looking at about $1 million and some change to do the repair opposed to $80,000 for the cost of house so trying to get and I say just the financials, just looking at the financials of it logically it would make more sense to look at purchasing the home, potentially creating a pocket park or something because that's a part of the community where there aren't any immediate public space and doing something other with it then paying over $1 million dollars to have to go in and try to repair it of which there's no real repair because of the way the construction was originally done there is no fixing it so it would really just be spending a million and some change but I also recognize there was some pushback on us moving forward and just closing because we got and appraisal for the house to be this amount based on our whole appraisal system that wasn't a realistic or logical amount so there's conversations that are happening as far as the reality on the ground, what staff is faced with when making decisions financially and then when we are working directly with our constituents and looking at a situation and saying okay so tell me how much they're asking for. Tell me what would it cost if we were to fix this. Now tell me if we were to make this investment would it really fix it? Well, no, not really so why would we have the investment of over a million dollars when we could get it taken care of. Just purchase it and look at doing something completely different that could be of benefit to the entire community but just piggy backing on Councilmember Phipps of do we have those discussions and do we have them realistically or do we have them in a way where okay well we'll give you $20, $30,000 for your home. What exactly can you do with that? I just wanted to contribute.

Ms. Smith said so that was my last slide. I think the policy questions there before you is should the fee structure rate change, how should a citizen wait for service and should we change our qualification criteria?

Mr. Carlee said based on the discussion at this point unless there is strong objection from the Council I would be prepared to recommend a four tier fee structure. As to what that fee would be though and the amount of revenue that would be generated and how resources would be allocated among the projects I have not reached a recommendation and would appreciate as much feedback as I could from Council in terms of to what level you would be interested in going.

Ms. Kinsey said a very low level.

Mr. Driggs said one of the things we need to look at I think is look closer at what the other solutions actually imply. I think we have one useful indication here but in reality we're looking at a needs statement that amounts to 6% per year for Storm Water and for water and sewer roughly and I don't think we want to go there so the question is if we get down to kind of constraints, reasonable constraints on the growth what does it look like. I pointed out before we've been working from a cost projection on the water and sewer side it's kind of outside of the realm of this conversation. This has been told here it is it's got to be up 50% in 6 years. That's roughly what it works out at so maybe we need to bring that into the conversation. Think out what the tradeoffs are if we operate within a more realistic envelope because I really don't think we can go out to the public and say the good news is no new property taxes this year but we're going to get you over here and then maybe the property tax issue comes up again next year. I'm not quite sure what happens if we just say look 2% maybe or whatever. Where are we then?

Mr. Carlee said about the only place that we can affect that on the water/sewer side is the capital program because that's what drives the rates in water/sewer and so we will have to do less capital investment and we will defer maintenance and capacity expansion in the water/sewer system and what we can do is give you projects that you can actually see what we would do and what we wouldn't do at the different rates lowering the water capital budget accordingly.

Mr. Driggs said in committee I think we all felt pretty strongly that continuing to purport to offer a service where the service horizon was ten years or never, never land made no sense so we have to find a service offering or a financial solution some way to get to the point where whatever it is we say we're going to do is actually available in a reasonable time frame. I had this experience in my own district where they said congratulations you qualify for service the bad news is you'll never get it.

Mr. Phipps said I was wondering by us looking at potentially going with the four tier rate structure as opposed to maybe the three would that more or less get us clear of concerns over the Water Quality Review Board or the Storm Water. Would that alleviate that concern or that inequity in the structure?

Mr. Carlee said it is around eliminating the equity in the structure. What we're doing now is giving a break to basically larger homes that have larger amounts of impervious surface and I can't think of a policy rationale for us to do that. It's like on the Tier 1 subsidy on water and sewer that's not means tested and so you could be the wealthiest person in Charlotte who just doesn't use much water and you're getting subsidized by a low income family that has to use more water. It's just not equitable and so in both of these instances we're trying to bring more equity to both of our rate structures.

Ms. Lyles said we've had a lot of review and I'm not sure Mr. Driggs if your first question was related to Charlotte Water. A 2% rate increase in Charlotte Water or were you talking about storm drainage? I'm just clarifying it.

Mr. Driggs said we've been talking about percentage increases in the context of Storm Water but if you look at the projection in cost increases that underlies our whole conversation about water and sewer it amounts to 6% per year so our conversation was about the methodology but the backdrop was this projection going up if you look at the little organ pipes of annual rate of about 6%. I think the combination of what we're being told about Storm Water and what we're saying there amounts to an unacceptable prospect of increases.

Ms. Lyles said I know but I'm sorry were you asking the Manager to bring back a scenario with Charlotte Water for a 2% rate increase?

Mr. Driggs said not as such. I was just saying let us look at other where we are with more realistic assumptions about what the rate increases might be and so I mention 2% but I didn't attach any significance to that. It's just what we're seeing right now is not going to happen so realistically speaking what choices do we have?

Ms. Lyles said okay. I think the thing that I was hearing that was in Charlotte Water is that we were looking at it from a projected amount for an expense that was fixed and given to us and said here's the methodology and what we're doing and I stepped out of the room so I think what Mr. Driggs is saying is well how do we know that is the number and that number what does it mean capital and operating if we're going to try and look at the rate increase and so I just wanted to make sure it wasn't 2% but leave way to say here's what you get at 2%, 1%, 3% whatever it doesn't really matter but the concept around it.

The thing about the Storm Water that is really, really difficult is that, and the Mayor talked about this, at one time we had a General Fund contribution to Storm Water that helped with the rate increase and helped accomplish some of the projects and somehow with the stress on the other side of the system we didn't put that money in and we call this now an Enterprise Fund and when we were in the Budget Committee we talked about keeping it as an Enterprise Fund and not going back to the methodology of having it go from the General or contribution from the General Fund. I think that's a fair assumption to make so if we're doing that then we have to got to somehow figure out what do we want to accomplish and so part of this that I can't in both Water and Storm Water is that a lot of this is about as we've grown and putting opportunities for growth in the community and capital plan we've got maintenance of existing structures that haven't occurred and for whatever reason this Council is actually saying hey look let's step up and do something and make it realistic so that's I think a real step in the right direction. When you look at the Storm Water Fee I think the four tiers is a good idea. I also think that saying that we're not going to do anymore C's is realistic and as well accessing what we have as C's and determining what might be a B and even looking at those that we said that might be still C's may be something that we have to do because we're not going to get there if we are deciding the rate structures are going to be a certain percentage and no more then you've got to really actually be realistic about what you're going to be able to accomplish. I do look at the projects of priority as dropping the rate structure in some respects so I think looking at some of the major flooding issues and trying not to be so far behind from doing 50% of those that are identified annually which is the biggest chunk. I mean isn't that the 70 $50 million project? That's really more of the problem than a lot of the B's combined. I know that we've got to figure out some way because those are the types of projects that cause sinkhole pictures on national news that put cars in holes and streets collapsing, houses collapsing so I do think that Mr. Manager we ought to come back with looking at those kinds of maintenance projects that we ought to not fall more than 50% behind. I would look at that as definitely something that we don't want to be a community that people can't come in and operate their businesses or drive on our streets or have streets that we'd have to repair at $20 and $50 million dollars because we let pipes and things fall under them. I don't know if the remaining how to deal with the residential issues as much. I know that their out of the price range of most of our citizens whether they live in a half a million dollar house or if they live in one for $40,000. It's just really out of the range to do that kind of pipe work in a residential area and yet we've not addressed even those that are most important so I would like to suggest that we actually do look at maintaining our transportation system. What gets our economy going and that we include those major projects and that we actually look at something in the 10 year period for B projects and C projects. I don't know how we can address with where we are and I don't know if the Council sees it that way. I tend to think come back with something that we can see that range of how it works and if there's not any agreement among my colleagues that's okay we don't have to do it. I don't want you to do extra work for someone that has just one idea but I again think maintaining our infrastructure in a major way is really key and one project a year seems to me to be negligent for our transportation system and as well a potential even greater cost in the future.

Mayor Pro Tem Barnes said let me ask a question Mr. Manager; the Mayor referred to this and Ms. Lyles did as well and that is this fact that 24, 25 years ago a City Council decided that the City should contribute from its General Fund a contribution for the Storm Water impact that it created with its on building and Councils have decided not to fund that. Since Storm Water is an Enterprise Fund do we participate at all though in our water bill and paying for like Steele Creek Police Division Office or Providence Division Office are we paying that fee at those buildings?

Ms. Smith said are you talking Water or Storm Water?

Mr. Barnes said Storm Water.

Ms. Smith said there is not a specific bill that goes to that police station. There is a General Fund contribution that comes which is $4.5 and then … is another…

Mr. Carlee said let me research that a little bit more and understand all of the intricacies of that.

Mr. Barnes said just to be clear about what I'm asking though so if you have a Division Office, the Eastway Division Office in Merry Oaks, a lot of concrete for the parking lot, large building, do we pay a fee for them? I'm just curious as to how much we pay if anything.

Mr. Carlee said let me double check how we deal with our building footprint. The one that has the biggest impact is of course our roads and that's what we're not paying a fee for.

Mr. Barnes said roads are a little different; I get that but the buildings I'm curious about.

Mr. Howard said and the real question is are we paying our weight or are we paying more or less of what the water bill would be. I mean what the Storm Water fee would be. That's really what you're getting at right.

Mr. Barnes said right. If we're paying anything.

Mr. Howard said based on what everybody else's building footprint is are we paying what…

Mr. Carlee said I actually have a meeting that I have deferred during this weather.

Mr. Howard said the point and issue that is what you were getting at.

Mr. Barnes said it is because I heard Ms. Smith at the beginning say that I'm paying for the sidewalk in front of my house that I don't own.

Ms. Smith said let me clarify that. It's the sidewalks around your property. The sidewalk in front of your home is part of the City.

Mr. Barnes said good. I want to make sure I'm paying for what I own or not.

Ms. Smith said it would be the sidewalk to your house from the sidewalk.

Mr. Carlee said but we could adjust it to charge people for the sidewalk and to the center line of the road in front of them.

Mr. Phipps said in all this discussion are we going to make sure that we have funds to do more proactive, preventive type projects as opposed to reactive type projects.

Mr. Carlee said I don't know Councilmember Phipps because what I keep hearing a real mixed message from Councilmembers in terms of wanting to do more projects but wanting to restrain the rate increases and there's just it is an either or. There's no freeway to do it. There is some bond capacity by lowering our coverage rate and I will be bringing you recommendations based on our consultants review to actually take advantage of the additional bond capacity but other than that if you want to do more Storm Water Projects you have to generate more funds through the fee or through the General Fund. Likewise with water/sewer if we're going to keep up with maintenance and capacity in our water/sewer program we have to increase fees to keep up with it which will not match inflation. There's none of the bench marking that I have seen out of Charlotte Water of any other systems that are actually able to maintain water/sewer systems within inflation. If we artificially suppress those rate growths then what we run the risk at is putting our water sewer system in the same boat that our Storm Water System here is in and the consequences are far more dire if we start having failure in our water and our sewer systems. Flood water will recede but the dependable water and sewer system is absolutely a minimum basic function we have to provide. Again, we'll be more explicit about what some of the tradeoffs are so you can see the projects but that's the note of caution on the water/sewer side.

Mr. Phipps said I just wanted to say that in those discussions in the Budget Committee process there was mention made that there are places where the pipes are reaching their useful life in different areas of the City so we're essentially saying that we're going to have to wait for those things to manifest themselves into a major problem before we embark on them.

Mr. Howard said I need to be clear especially you took what I've been asking about is what you just related. My trepidations are about the Water fee and the Storm Water fee is doing it every year and not having a lot of explanation. It's not the amounts.

Mr. Carlee said I understood.

Mr. Howard said I'm not one of the ones saying that keep it low I want it to be more predictable and right now it's kind of hard to go to the public every year without a solution to that and a solution to our capital needs. I don't mind going to sell we're going to take care of that by going up in you fee more than we normally would. It's hard to say we're going up on your fee and you still have to deal with that. I just want to be clear on what I'm saying. It's hard to explain to the public we're going to do it every year and we're not going to make the plight any better or any…that's the hard part.

Mr. Carlee said I think we can message that on the water/sewer side because we can actually show what we're doing and people have the dependability of the water/sewer system. We have no creditability in the Storm Water side right now at all and giving someone an increase there with this kind of backlog I think results in exactly the conditions you're talking about.

Mr. Howard said I get the narrative on the Water fee as well but to me that dynamic that I explained earlier about technology changing but our capital needs not changing is still going to be a problem at some point. That narrative needs to be explained because we're not doing that really well if we do it every year. This narrative is different. I agree with you but the point is the same we keep going up every year without a lot of explanation about what it's about.

Councilmember Autry said just for the record I like the four tier fee structure. I think it's overdue. Back to the Charlotte's roads and streets and paying the Storm Water fee for that impervious surface. Do we have any calculations or do we intend to do any calculations on what taking that on would do to help the system and then if we do it for the City of Charlotte there are certain roads and infrastructure that pass through the City that are state roads. Would we be able to send them a bill for their impervious surface?

Mr. Carlee said we would love to and we think actually that would be positive but their policy is explicitly not to pay.

Mr. Autry said no kidding.

Ms. Lyles said I was making this point to the Mayor Pro Tem, I know this is really hard to do but I think about it I think citizens understand rate increases for utility systems better than they understand property taxes because we're Bell South, we're Duke Energy, we're Piedmont Natural Gas and basically you get the letter explaining it in your bill just like well if you get a bill anymore you get something like that. I think the relationship is that utility systems are growing and their cost structures are not changing so we should look for every efficiency that we can and we should be very mindful of that. I think to constrain our community by not doing the capital work that would lend to more growth for us is a philosophy and if we're like into well we don't really want to grow as fast or we don't want to accommodate the folks that might be one way to do it but we're approving hundreds of apartment buildings that are Tier 1 users and I don't know how we bill subdivisions out beyond 485 or around the City without having that infrastructure of pipes and so I'm just wondering really being clear on what happens as we come back and making sure I think Mr. Howard makes a good statement in that we need to be a lot more educational on what we're doing and why these rates are there and what they're accomplishing and if citizens come back and say well we really don't want that then that's a different thing but right now I'm not so sure that we would be able to describe to them what's really going on as a result.

Mr. Barnes said I know you are dying to get to the financial partners. I am having spent two and a half hours on this topic but I do have one more question Mr. Manager and maybe for Mr. Gullet if he's still here. He left. The question is I was thinking back to this apartment thing there's a lot of multi-family development happening in Charlotte right now and he said that we charge the Tier 1 rate until they get beyond the 4 CCF's. If I own the Coca Cola bottling facility for example are they are Tier 4 or do they start at 1 as well?

Mr. Carlee said they're commercial. The tiers are residential.

Mr. Barnes said and where do they start?

Ms. Eagle said there's a separate rate for commercial.

Mr. Barnes said is it higher than Tier 4?

Ms. Eagle said is it higher than Tier 4? It's its own separate rate. It may be higher than some and lower than some others.

Mr. Barnes said so let me tell you what I'm getting at because we have approved and are seeing so much multi-family, in fact dense multi-family development in many respects the questions becomes should we be charging a higher rate in my mind for those types of properties. If I'm building a single-family home I may have an impact, I go to Tier 2 at some point perhaps but if you are an apartment I understand that each unit if you judge it individually may stay at 4 CCF's as well but that entire project creates a greater impact on the environment from the water use and the Storm Water perspective than other types of properties. Is it something to think about there?

Mr. Carlee said it's actually the opposite. It's actually more efficient if you're looking at say a 200 unit single-family subdivision than a 200 unit apartment building.

Mr. Barnes said that's fair. I was comparing one house as opposed to the 200 apartments.

Mr. Carlee said you going to have substancially less impervious surface and in the subdivision we're taking control of all of the distribution system over the entire size of that subdivision whereas in an apartment building the apartment building itself owns the distribution system so we're not taking on any of that liability within…

Mr. Barnes so the question then becomes Mr. Manager; looking at one of the most recently opened dense apartment projects are they more efficient than single family communities that we've approved? I just like to know intellectually whether it makes any sense.

Mr. Carlee said we'll be happy to analyze that.

Ms. Eagle said I will say for the multi-family that is does create system capacity issues on water and sewer that do have a large impact.

Mr. Barnes said say that again, I'm sorry.

Ms. Eagle said when we have multi-family units go in that are large in size we go through the analysis of the impact on system capacity to make sure that the water and sewer system is adequate to provide that capacity so that does have an impact.

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IV. FINANCIAL PARTNERS REQUEST

City Manager Ron Carlee said if you would like we have the material in front of you. You can see what has come in and what people have requested and my main objective is getting it in front of you before we make any recommendations or any decisions at staff level and if you'd like to take it and look at it and talk about it we'll be happy to bring it back to you.

Mayor Pro Tem Barnes sad well from my perspective until we know what's going to happen with the $18 million dollars and potentially the sales tax issue I don't think we should increase any of these contributions.

Councilmember Kinsey said or take on any new ones.

Mr. Barnes said or take on any new ones.

Mr. Carlee said that certainly is on the table. The area where you've had the most discussion during my past two budgets is how we allocated the pot of money that is available for Out of School Time and I would like to before staff makes any recommendations to me or I make any recommendations to you I'd like to know what you're looking for.

Mr. Barnes said do you all want to spend 15 minutes on that?

Mr. Carlee said I'm not asking you to make that decision tonight but I'm trying to get you to look at it and give these items.

Mr. Barnes said do you guys at least want to spend 15 minutes talking about that?

Ms. Kinsey said I'd like to make a comment. I've always been of the notion that we should take staff's recommendation on that. Not yours, theirs. The problem in the past has been we don't stick with it. We have got to stick with whatever we do accept. I'm not the professional on this and that's why I think Mr. Warshauer and his group they're the ones that are doing the work, the leg work and I think what they present to us has been well thought out and unless there's somebody else around the table that's a professional or knows about the subject I think we ought to accept that and somebodies always going to come to us crying and we're going to have to have the fortitude to accept it and to stick with it.

Councilmember Mayfield said I don't necessarily agree with us going into long detail now but I will tell you that I do have one question. The funding request that was submitted to us these are just the total requests that they sent in or are these requests and recommendations?

Interim Strategy and Budget Director Kim Eagle said no, these are only the requests that have come in. No recommendations for today.

Ms. Mayfield said so we haven't gotten to the point where we're looking at…

Ms. Eagle said based on you feedback from last year we've put financial partners on two of your Workshops with recommendations coming back in April at the Workshops so today was only intended to be an overview and highlight the requests.

Ms. Mayfield said then I'm good. Mr. Warshauer at some point can I get on your calendar just so I can ask some questions.

Mr. Barnes said let me ask a clarifying question of either Mr. Warshauer or Mr. Mumford. Are the Out of School Time partners requests, has your thinking on them been informed by the committees work, the EDGC Committee's work on those issues last fall? Does that make sense?

Ms. Eagle said absolutely it has. I can speak to that.

Mr. Barnes said in other words the committee as I look at it now it seems to be consistent with what we talked about at committee.

Tom Warshauer, Neighborhood & Business Services said correct.

Mr. Barnes said to Ms. Kinsey's point if we all stick to that then we should be.

Ms. Eagle said if you take a look at page 15 in your book we have included the criteria that came out of that process so that you can see what staff is using to go through the evaluation. That came directly from the work that you're speaking of Mr. Barnes.

Ms. Mayfield said just for clarification and for transparency I'm specifically looking at the General Fund financial partners and some of the increase requests that fall under that line item not necessarily the Out of School Time. We've spent a lot of energy; I did review the recommendation and the information that came from our meetings but I think also what I have seen in the short period of time is that some of us go through all of the requests, we go through just the ones that jump out at you, that interest so I had some questions regarding our General Funds and some of the other funding requests outside of Out of School Time.

Councilmember Phipps said you said that these are the requests you have right now is there any kind of deadline that we gave people?

Ms. Eagle said yes the deadline has passed.

Mr. Phipps said oh, it has passed so we're not accepting any more requests.

Ms. Eagle said that's correct.

Mr. Barnes said so do you want to just start and see where it feels good to stop.

Ms. Eagle said okay. I'll hit the high points and stop me with questions. Today was intended as an overview of the requests. No recommendations or decisions points for today. We have the two types of partners. We have the General Fund partners as already been mentioned and we have the Neighborhood and Business Services partners and those are divided into these three categories and we will be back in April with our recommendations that will be included for your discussion prior to the Managers May budget presentation. Lots of discussion last year on Out of School

Time partners and we really are interested in your feedback and questions that you have around that. As I mentioned we are using the criteria that was determined last year but just very briefly. We're in the fourth year of the RFP Process and this is the first year of the two year contract period for these and there are eight proposals being evaluated currently using that criteria and if you look at page 31 in your material there's a full summary of what the requests are in terms of the dollar amounts. We did have three come in that were ineligible.

Ms. Kinsey said what would be helpful too on some of these not just this but some of the others some of this is, obviously we know the General Fund but on things from Neighborhood and Business Services some of that's federal money.

Ms. Eagle said that's correct.

Ms. Kinsey said if we can know that, I don't remember it, I know it is but I don't so if we can have that information spelled out that would help me.

Ms. Eagle said that's a great question and it is spelled out when you go to the individual summary pages in the back. Those start on page 16 and we actually have listed the funding source for each one so you can see that.

Ms. Kinsey said okay, good.

Ms. Eagle said so here's the first summary we start with the General Fund partners and the first section here are those that have discretionary funds associated with them and I will not read this to you but you can see what increases have been requested or those that have stayed flat and then the bottom section is the dedicated revenue source items so these have revenue sources that are dedicated such as the Municipal Service Districts for example and others. Questions?

Councilmember Lyles said I was just thinking the Film Commission I thought was integrated into the CRVA and I didn't know why it was a separate line now.

Ms. Eagle said we have it broken out separately, we do. It is related but we do have it broken out separately.

Ms. Lyles said let me ask it another way. If we funded $13.5 million dollars to CRVA and didn't do the $150 that would be their decision whether or not to do the $150 within the $13.5?

Mr. Carlee said we'll evaluate the consequences.

Ms. Lyles said I'm just trying to get it clear because if that's the source of dedicated funding move the $150 up to the $13.5 and they can…I don't know who's making the decision.

Mr. Barnes said an in addition to that in light of the disappearance of the state Film Tax Credit how useful is the Film Commission, how successful have they been, is it something that we should even continue to pursue? I hope we can because I hope things will change in Raleigh but I'd like to know just how successful it's been.

Ms. Eagle said we can take a look at that. Currently the $150 for the Film Commission comes from the General Fund and the CRVA is proceeds from prepared food and beverage and then the Occupancy Tax but we can get you more information.

Ms. Lyles said I probably would have put the Film Commission up with the other discretionary fund amounts.

Mr. Barnes said I would.

Mr. Carlee said good point.

Ms. Eagle said we could do that.

Mr. Barnes said that would help and that way my question is even more …

Ms. Eagle said here's the summary for Neighborhood and Business Services Housing and Community Development and you can see that we do have one new request in this section and that's the Third Grade Reading Initiative that's associated with the Foundation for the Carolinas. That's a brand new request this year.

Mr. Barnes said the Third Grade Reading Initiative was at the EDGC Committee and it was paused at the Committee level and it has bubbled back up in our budget. Has the Budget Committee looked at it?

Mr. Phipps said this is the first I've seen it. I'm interested in your selection of the word paused. What does that mean?

Mr. Barnes said meaning that there wasn't a lot of energy around it at the Committee level.

Ms. Lyles said well I would not necessarily characterize that that way.

Mr. Barnes said there was not overwhelming enthusiasm but there was some passion. Does that person wish to speak?

Ms. Lyles said well I'm not so sure passion is the right word but I think it was a part of the discussion around that with Out of School Time and it was a philosophical discussion. If I recall the discussion was this is money to develop a strategy and why wouldn't we use it for direct services and I don't think we were able to answer that question so I don't know that it was about the Foundations programs specifically. I remember the discussion being specifically around the debate around do you spend money doing more or do you spend money on planning to do more so I just want to make sure that…

Mr. Barnes said or is that something CMS should do and that the Foundation should raise money to do it itself?

Ms. Lyles said well I think that again it it's a public/private partnerships that we do and that we tout and all of our Business Investment Grants we do it with everyone else and I thought that this was a request that was made as a part of the public partnership and a strategic plan around literacy for our children that led to them being able to get past third grade so they can read and get a job at some point in high school.

Mr. Barnes said if you play it out yes, you get to that point. The question is what they're going to do with the money and the program; that's where we got stuck.

Ms. Mayfield said I agree that in Committee we paused it and I agree in Budget Committee we did not discuss it but I still go back to what I had mentioned I believe two years ago regarding what really is our role as Charlotte City Council versus the role of County Commission versus the role of School Board when we're looking at programs that we fund and I do recall the robust discussion that we had around actually implementing versus funding for you to do another study to study how to implement. What I'm concerned about is as was said between two different committees this is now on paper in front of us when one committee never fully got the answers back to the questions that were asked and the other committee had no discussion on it whatsoever so for it to now show up in front of us when it basically bypassed two committees I have concerns about.

Mr. Barnes said so it avoided the scrutiny of Committee. It avoided the scrutiny of his Committee and it bubbled up in this presentation today; that's the problem.

Ms. Lyles said much like the Arts and Science Council request has not gone to Committee. It is a result of a community effort that's a partnership and it's on the slide before that.

Mr. Barnes said and it's not new either.

Ms. Lyles said well this isn't new in that it's not a new in respect to different….

Ms. Kinsey said it's a new budget item. I'm not in favor of it unless we have…I'm not even sure I'd be in favor of it if we were flush but I just don't think we need to add something right now.

Mr. Carlee said I'm going to have to excuse myself in a moment unfortunately. Randy is going to cover for me. The thing I want to emphasize is we're giving you the raw numbers at this point of what people have asked for and the reason I'm doing this is so that you have the information upstream. I've not reviewed all of these. I have no recommendations on any of them but it's the opportunity to hear the kinds of things that you're saying today that will provide some feedback to help guide and so one recommendation is that we don't fund anything this year but we send it to committee for review or it maybe that's it's not part of our prevue or maybe there's a compelling case to be made. I'm not presuming at this point. What I am trying to do because it does tend to be a lot of Councilmember interest around these as I would expect anything you can share in terms of your predispositions on it or the information that you need is really what I'm looking for. That this shows up here should not presume anything about proposed funding levels.

Mr. Barnes said I understand and I appreciate that.

Mr. Phipps said I want to ask the Manager were there any requests that you received that were sort of in your conversation sort of had a dissuading impact as to upon discussion they decided not to go forward with a request?

Mr. Carlee said I didn't have pre-discussions with people. We open up when people can submit their requests, they submit them and then we evaluate them.

Ms. Eagle said that's correct. We're showing you everything that came in in its raw state. The final category for Neighborhood and Business Services Financial Partners is the Crisis Assistance and we have one partner that did not a make a request for FY16. You can see that listed there.

Ms. Kinsey said I need to go back; the Housing Partnership on page 24. The amount that we give every year or approve every year is that fully the Community Development Block Grant in PAYGO or does any of that come out of the General Fund?

Councilmember Howard said yes there's part that's innovative but I should let Pam or Pat answer that.

Director of Neighborhood & Business Services Pat Mumford said it's a split between those two; the Community Development Block Grant funding and Innovative Housing which includes PAYGO, General Fund.

Ms. Kinsey said General Fund. It's 50/50?

Mr. Mumford said no it's not. It's 500,000 out of the PAYGO and the rest out of the General Fund.

Ms. Kinsey said I just didn't remember and it wasn't clear.

Ms. Mayfield said this is just for clarification and transparency's sake. I do want to thank staff because even though we're asking questions, me asking the questions regarding the numbers you're doing exactly what I and some of my colleagues asked for and that was don't determine prior to it coming to us. Give us all the requests that came in so after asking for that now seeing it it triggers more questions but I don't want anyone to walk out thinking that so what is this? Is this something brand new? I know I personally asked for this information and I believe one or two of my colleagues did also to say tell us everything that comes in so that we're aware opposed to determining ahead of time what bubbles up to us. I wanted to make sure that I threw that out that it wasn't anything that staff just created something new. It's based on the request that we had and again we being speaking for me on how does the process look when there are any requests that come in.

Ms. Eagle said it does help staff as well because it's making for a richer process and that feedback is very helpful. Any additional questions on Crisis Assistance before I move on to Out of School Time? Here's the summary listing for the request for Out of School Time. The details on page 31 in your book and you can see there all of the requestors for FY16 and the dollar amounts.

Mr. Howard said there are no recommendations yet?

Ms. Eagle said no recommendations, that's correct. We will be back at the April Workshop with recommendations from the City Manager on funding levels; any feedback that you have before then please don't hesitate to reach out to myself if other thoughts come to mind or feedback.

Ms. Kinsey said this does seem easier than it has been in past years so maybe…is it different information?

Ms. Eagle said it's the same basic information, format of information. I think getting it to you sooner that's an opportunity. We did share it with that in mind.

Ms. Kinsey said maybe that's it then.

Chief Financial Officer Randy Harrington said this may be the first time in two or three years that we've not run out of time on the topic so maybe it's helpful because we've had a little bit of time to discuss it.

Ms. Kinsey said I'm glad we were able to get it in this afternoon. That's good.

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V. REVIEW OF BUDGET QUESTIONS & ANSWERS FROM MAYOR AND COUNCIL RETREAT

Councilmember Driggs said I was looking at the questions and the answers from the Retreat and one item I have raised was I wanted to see what the historical financial ratios were that appear in the graph projections that we have because I pointed out that the coverage ratios go down and it was pointed out to me that's a … normal occurrence so I'd like to see what the history of that looks like and I can show you the graph if you want to see it again.

Interim Strategy and Budget Director Kim Eagle said okay, very good we can provide that. My only other comment Mayor Pro Tem is that the responses to the questions from the Retreat at the end of January are on page 32 so if additional follow-up is needed just let us know and then we covered the last item. We hit that at the beginning so I believe that's all we have.

Councilmember Kinsey said I want to thank Kim. You've done a great job. I think you should stay in Budget. We don't want you to go back.

Ms. Eagle said I'm enjoying it very much.

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ADJOURNMENT

The meeting was adjourned at 4:49 p.m.

Emily A. Kunze

Emily A. Kunze, Deputy City Clerk

Length of Meeting: 2 Hours, 49 Minutes
Minutes Completed: April 7, 2015

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