

The City Council of the City of Charlotte, North Carolina convened for a Budget Workshop on Friday, April 17, 2015 at 1:39 p.m. in Room CH-14 of the Charlotte Mecklenburg Government Center with Mayor Dan Clodfelter presiding. Councilmembers present were Al Austin, John Autry, Michael Barnes, Ed Driggs, Claire Fallon, Vi Lyles, LaWana Mayfield, Greg Phipps and Kenny Smith.

ABSENT UNTIL NOTED: Councilmembers David Howard and Patsy Kinsey.

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ITEM NO. I: BUDGET COMMITTEE REPORT

Councilmember Phipps said welcome to this fourth and hopefully final Budget Workshop. We had a substantial budget gap we wanted to fill up and I think it started out close to \$32 million and at the last meeting we talked about \$27.1 million and now I think it is in a range of maybe about \$10 million and hopefully with the news that we will get at this meeting we will have some other movement in a positive direction to get us closer to what we want to do.

I come, and I think some of the other members have come, directly from out in the field from Realtor Care Day today so this wasn't my intended attire for this meeting but the community called and I have been so excited this morning; I'm in a good mood so hopefully there would not be nothing said at this meeting that would dampen my spirits. I'm hopeful that we will have some positive news coming out of this meeting today and we will work toward; I know we have some challenges to work through before we come closer to the Manager's recommended budget before us next month. With that said I will introduce the members of the Budget Committee along with myself Vice Chair Ed Driggs, Councilmember Lyles, Councilmember Mayfield and Councilmember Kinsey makes up the Budget Committee today and I was with Ms. Kinsey earlier today at Realtor Day and she said she was going to be here. She might be a little bit late.

Councilmember Driggs said I was in Raleigh on Wednesday and had a chance to talk to a number of members of the Mecklenburg Delegation so the latest update I can provide on the sales tax issue, which of course is of great interest to us, is for one the outlook for passage of either of the two Bills is still hard to define. There is a disparity opinion about how likely it is. Senator Rucho shared numbers with me that showed that Charlotte would actually be in roughly the same position over a five-year period as we would be under the current regime if his bill passed; I didn't get exact information however, on the coming year and what it might do then; that is a pending issue. We also have the builder's inventory question which is being considered in the General Assembly which would exclude builder's inventory from property tax and might have a \$5.8 million adverse effect on us. So those issues are pending and are not yet being incorporated into the talks that we are having today.

Mr. Phipps said we have an aggressive agenda today so I will turn it over to the Manager for his introduction and overview.

Councilmember Howard arrived at 1:42 p.m.

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ITEM NO. II: INTRODUCTION – OVERVIEW

City Manager Ron Carlee said I might follow up Councilmember Driggs' report from General Assembly; I also had an opportunity to meet with Paul Mayer of North Carolina League of Municipalities. He came and attended a meeting with me and the Mecklenburg Town Managers and gave us a legislative update. He made a point to me that I heard from the Mayor and other people previously that had not sunk into me until this week; that is regarding the various sales tax bills. Every time I've gotten a new analysis on one of those bills I've looked at it and I've immediately gone to see how much we win or lose in the bill, but what finally dawned on me today is that is not the real issue in the proposals that are before us now. It is actually the transfer of sales tax from a local tax to a state tax and I guess the first six times I heard that it just sounded like a technicality to me, but in fact as I've learned the history of what is happening in

other transfers of funds I now understand that what that really means is that whatever is put on a sheet in front of you today can change at any legislative session because it then becomes a State revenue that can be used however the State deems appropriate to use it; and the allocations initially are only the allocations initially; and of even greater concern, as I've learned, and has happened apparently before, is as a State revenue it becomes subject to sequestration by the Governor if there are financial challenges in front of the State. I think there are certainly some ways that we could work with Senator Rucho on a redistribution that broaden the base that could come out as a break even or even in our favor as a win/win solution, but transitioning it from a local to state tax is now a much more – it is not just a technicality as I understand it and I think it should raise concerns not only for urban communities that might lose in some of the distributions but also for the rural communities as to whether or not they really could count on those funds for the long term.

Councilmember Driggs said I did speak to Senator Rucho this morning and I mentioned to him that we had an apprehension about the separation and certainly from what he said, and I want to be careful not to misquote him, but from what he said there was no thought about changing the way the funds are allocated; that was not an intent. I think we could reasonably ask for better assurances that the separation along the four and three-quarters, two percent lines will be preserved. He acted like if that was happening that was a side effect of what he really wanted to do.

Mayor Clodfelter said I don't think most of them are even aware that it is structured in the bill that way. I have met with him privately on that very subject within the last week and the same as you say he was not aware that the structure of the bill would permit that.

Mr. Driggs said that is not the purpose.

Mayor Clodfelter said I'm not sure what the purpose is because someone had to have understood that. They are very good; the people who put bills together are very good, they know the difference between state revenue and local revenue and what constitutionally the difference is. They do know that.

Mr. Driggs said anyway I think there is an opening there for us to pass –

Mayor Clodfelter said I asked and I'm glad you reinforced it.

Mr. Carlee said that is what Paul Mayer was saying that we need to become more conscious of it and we need to represent that back to the General Assembly and not assume everybody understands it or intends for that to actually be the case.

Mayor Clodfelter said in 2002 we had a similar situation and Governor Easley impounded \$250 million of so called local revenue that year and local governments said you can't take our money and they learned for the first time that it wasn't their money after all; it was only State money being shared with them and that is exactly what we are facing here.

Mr. Carlee said so hopefully nothing will happen on that front that would disadvantage us in FY16. We have not factored in any speculative changes on sales tax at this point so we are still working from the same general estimate of trying to close a \$21.7 million gap. There have been a lot of moving parts this week; honestly we need about another 24 or 48 hours to prepare for this meeting so we may be just a little bit ragged but I do want to thank staff for the really, really long days that they have been putting in and unfortunately there are only two working days left this week. People are really running full throttle and I especially appreciate Council coming back on a Friday with extra Workshop.

We have a couple of really significant ideas to put on the table for you today; one that diverts the fee to a tax and what that could do and also an update on PAYGO as well as some other items. I will turn it over to Kim to take you through a few more of the preliminaries.

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ITEM NO. III: BUDGET UPDATE

Interim Director of Strategy and Budget Kim Eagle said just as a reminder from my conversations from last week, we were challenged with a \$21.7 million gap when we were together last, which is almost 4% of the general fund budget and just as a reminder we are working toward a fully balanced budget for 2016 which means there will be no short-term fixes, no use of one time funds for ongoing expenses and no accounting tricks. These are best practice principals; this is how we always approach the budget and just want to reinforce that.

As far as options for Mayor and Council we've talked a lot about our desire to comply with your principals and your priorities. That is the filter that we are using to consider all of the options that we put on the table for you to consider. In addition there is much research going on; we are quantifying everything that we evaluate, we are being very strategic and we are focusing on options that are sustainable for the long-term. Best practice oriented again; we are being forced to be creative in a way that is actually a good thing. It has been a catalyst for creativity being faced with this situation so that is a positive and it is yielding some results that are good. As a part of this as well we are trying very hard to respect City employees; we do not want to approach balancing this budget on the backs of City employees so that is important too and we've talked much about that. That is just a summary of some of our guiding principles.

To reiterate the numbers today are estimates. We are continuing to refine those estimates but they are not recommendations, they are not final; it is a menu of options for you to consider. We are moving in the direction of recommendations because May 4th will be here very, very quickly, but today is not recommendations. Everything remains a work in progress; we will talk about the different pieces today. There are many pieces to this puzzle so we will talk about how those pieces connect, but it needs to be looked at in its entirety.

The purpose for today, we still need your feedback and we are getting great feedback individually and in these group settings. We have some very big new ideas to talk about today as the Manager mentioned but we are looking at a range of options so you will have choices when we come to you on May 4th with a recommendation and we need your feedback very much to develop that recommendation. A lot of hard work has gone on since we were together last week. We had asked a tremendous amount of work from our Departments and they have really stepped up and I can't say thank you enough to the Budget staff and to the departmental staff for all they have done in helping us get to the point we are today. We are continuing to refine fee options and estimates; we have detail for you today on that. We have confirmed and expanded the expenditure reductions and will have more detail for you about that a little later on. We have updated revenue estimates and options; we'll talk more about that on continuing research as I mentioned earlier based on your feedback. Probably the biggest piece of the puzzle that is still ongoing is the work around the service and program reduction options.

This is familiar; this is the framework that we used at our last conversation to divide the various categories of the budget balancing exercise so we will go back through and update you on work that has occurred since the last time we were together. We have an update on expenses and we will talk some about the program and service reduction effort that is ongoing, information on fees and the conversion that the Manager mentioned and some information on PAYGO. That is our framework for the discussion today.

City Manager Ron Carlee said here is the first big idea. The biggest hole in our budget obviously was created by the loss of Business Privilege License Tax. If we had that \$18 million with the work that we've done we would be more than balanced at this point and would be looking at meeting some of the unmet needs. Previously we provided you calculations on what a property tax increase would be to replace the Business Privilege License Tax and I can't remember the exact number but part of the problem in making up the Business Privilege License Tax with property tax is that the Business Privilege License Tax was paid for 100% by commercial entities. When you transition it to property tax 60% of it is paid by residential in round numbers so there is that public policy challenge of the shift from commercial to residential. We've been looking at how can we deal with that dilemma that we are facing given that we don't have authority to do differential tax rates and at the same time we are looking at other ways to raise funds such as raising fees and looking at where the incident of those fees

occur. You will see a major handout later today on fee increases that are targeted to the commercial sector. In these deliberations and looking at all the options, the creativity born out of crises, we've identified an option we want to put on the table today where there is a fee that is only paid by residential that could be converted to tax and actually lower the amount of money that most residential people pay as well as generate significantly more revenue. It obviously is a little bit complicated and there are a number of variations at which it could be considered, but specifically we are talking about the \$47 annual Solid Waste Disposal Fee. This is interesting from a public policy standpoint in that most of our Solid Waste program, which I believe if I'm remembering the number accurately, is about \$36 million per year is paid through general tax money. We don't charge fees; a lot of cities, less in large urban center cities although I have not really run a survey lately, but based on observation and research in the past, actually do Solid Waste as a full enterprise fund. We don't do that and the history in Charlotte has been to do Solid Waste through general tax dollars because obviously there is a public good. There is public value to having our streets kept clean, solid waste collected, sanitation issues especially in a southern city. But for historical reasons which I can't fully explain some time back in the past and I believe it was in the 90s the City quit running its own landfills and went into a collaborative arrangement with the County to take our solid waste to the County Landfill and to begin paying the County a tipping fee for taking our solid waste there. Again in the past as I understand it, it was just City Landfill, we took it there, we ran it, it was supported with general tax dollars. At that point a Solid Waste Disposal Fee was implemented and that was to offset the cost to the County so that fee generates roughly \$9 million today. What we looked at is if we took this fee, which is charged annually and actually literally comes on your tax bill, if we converted that to a tax rate and then spread that costs over all of the taxpayers how much revenue could we actually generate to help make up for some of the losses in the business tax reduction. You can see some of the bullets that would substitute what is a regressive consumer tax for the flat tax which is the property tax, at what level you set the rate and for whom it would be revenue neutral is one of the policy questions.

But here is one of the other issues that help bring this to floor for us and this is where I have to thank the General Assembly for all of their sales tax bills. In studying all of those we begin to develop a greater awareness for how sales tax are actually distributed and as I think all of you know, the way the sales tax comes to us from the County can be distributed in two different ways and the County gets to decide which way to distribute it. It will come as no surprise that the County exercises a rational economic behavior and selects the method that maximizes sales tax to the County and that is on a basis that is really hard to understand but it is essentially tied to the County, City and Towns ratio of property tax collection. The more property tax you collect the higher your distribution of sales tax. If you lower your property tax you lower your distribution of sales tax and that is the method under which Mecklenburg has I assume operated always; I don't know that it ever operated on per capita basis. By converting this consumer fee to a general property tax we would actually increase our share of sales tax so you have the opportunity to both increase property tax receipts and increase sales tax receipts.

What would that actually look like? We can run any scenario you want to look at and we are still refining these but we basically pose the question this way; at what threshold of property, and this is the policy question ultimately that you would be faced with if you were agreeable ultimately to go in this direction, at what level of property value would there be a breakeven to the taxpayer? Of course where you set that affects how much income you would generate and so we looked at median home values as an anchor for us because median lets you know where 50% of the properties fall, 50% are higher and 50% are lower and we found that the breakeven point is about 300% of the median home value for the scenario that we have run. Again you can set the rate at a lot of different places so I don't want to pretend this is the only place you can do it; you can do it at a lot of different places, but that is our scenario. For a home value of \$302,600 their Solid Waste Fee is \$47 and that would convert to a 1.55 cent property tax and all property owners below that value would pay the same or less. Obviously those above it would pay more, so what does that translate into?

If we did the 1.5 cent and you were at the median home value; we've done some different quintals that we were using previously, but if you look at the median \$151,300 they would see a \$24 decrease. Right now they are paying \$47 for the fee and if you converted it to 1.5 cents they would be actually pay \$24 less. As the values of properties go down the amount of savings goes

up so you are actually getting and again it is not progressive; this is really a flat tax but you be beginning to see the difference that you get from an equity standpoint going from a flat amount to a flat rate. Again the breakeven point would be at \$313,350 and then above that property owners would see slight increases in their bills above the \$47. We can model that on out and show you what it would be at different rates and different values of property. At this scenario of 1.5 cents that would generate roughly \$9 million that we need to make up for solid waste plus an additional \$4.5 million to help close the gap. Then in FY17 we estimate that we would get \$1.9, almost \$2 million more in increased sales tax distribution. We can give you some really complicated tables and things but what I wanted to do today, and this is sort of the theme that we've used in this presentation is to get the high level concepts out so that you can understand them. We will provide you with as many detailed tables as you want or all of the things we are presenting today and we are happy to provide additional briefings individually or in small groups. The high level concept is converting the Solid Waste fee to property tax and doing it in a way that would provide a reduction for a substantial number of our taxpayers. I'm waiting to get some new data, but I believe at \$313 we are getting close to the 80th percentile so about 80% of the residents or taxpayers would be same or less, but I still need to confirm that with the new data set.

Mayor Clodfelter said the \$47 current fee; is that paid only by residential property taxpayers or is paid by any property taxpayer for whom we provide Solid Waste Collection Services?

Ms. Carlee said there are different fees for multi-family.

Councilmember Kinsey arrived at 2:05 p.m.

Mayor Clodfelter said I think we will want in a supplement to see how that would work for multi-family properties; how the fee would work, but it is not paid by any commercial properties for whom we do not provide services, right? How did it come to be set at \$47?

Mr. Carlee said I assume that it was tied to the tipping fee.

Councilmember Kinsey said it is.

Mayor Clodfelter said as the County increases the tipping fee did our fee go up automatically?

Eric Hershberger, Strategy and Budget said it would be increase the baseline.

Ms. Eagle said so it does increase on the County's tipping fee.

Mayor Clodfelter said as the County tipping fee goes up it goes up?

Mr. Hershberger said correct.

Mayor Clodfelter said in the future it calls more for the County to dispose our fee would be going up in the future.

Ms. Eagle that is correct.

Councilmember Mayfield said I want to thank staff for doing exactly what they said would be creative and thinking outside the box, but I do have a couple of questions. With us still looking at the impact of the re-evaluations and not looking at another evaluation until 2017, 2018 and possibly 2019, it would be helpful if we can get as much as possible some projections because we already know that there are homes that due to the evaluations were over appraised and they are going through the process; some people know how to challenge their appraisals and some people don't. If you fall in that category where your home was in that \$70,000 range and now because of new development they are tapping in your community your home now been classified in that \$300,000 range that impact of how this would break out; what would that look like and what would it look like for that individual that is going through trying to have their homes appraised accurately?

Mr. Carlee said in terms of the tax assessment as supposed to any individual appraisal it will be highly variable, almost every neighborhood and house the market conditions are different. With the re-val the numbers of those that are over assessed should be modest because they are looking to home values that were pre 2011 and that was one of the key takeaways I think in the Charlotte Observer article is that part of the reason, especially commercial property went down, is because it is looking at a lot point in the market which is a low point in the residential market as well. The bigger concern I think would be prospectively when re-evaluation finally does occur; if it does not occur until 2018 or 2019 obviously people are paying on property that is assessed substantially lower than what the value is and what was suggested in that article by the time re-assessment comes around we could be seeing 25% increases in value.

Ms. Mayfield said I no longer read the Observer so thank you for that.

Mr. Carlee said actually that was a fascinating article this week regarding the re-evaluation.

Ms. Mayfield said it is to know they have something.

Councilmember Lyles said I should remember this of all people, but I'm trying to figure out what the rational was for that flat disposal fee when in the General Fund Solid Waste costs have always been a part of Police, Fire, Transportation and garbage services or Solid Waste Services so I don't recall that. What I remember and think about this is that we had annexation opportunities when these fees were going on so in some ways I'm wondering if it was a fee because we were always able to annex, we were always able to grow the tax base and at the same time the fee was considered, a fair fee, because it was a flat feet because it wasn't a part of the tax rate and now I think our circumstances are changed and probably started in 2008 where we don't have the annexation, we don't have the growth and so the fee has become the opposite of what its intent was which was that it would be a flat fee so that people wouldn't have to absorb this cost in the tax, but now it has become actually an aggressive fee. I think that is the answer but I think I would be good to look at that and say confirm if the idea was fairness at the beginning how do we define that fairness now.

Ms. Eagle said we can provide an explanation of the rational in the follow-up.

Councilmember Smith said if it is converted to an equivalent property tax rate in lieu of the Solid Waste Disposal Fee is it a protected income source and will it stay solely within trash service? Was this going to be another way for us to push money into some other areas instead of making sure what we are doing on the trash side?

Mr. Carlee said it would not be a dedicated fee; it would be a part of our general tax levy which is the same way we pay for all of rest of Solid Waste and it would generate funds in excess of what is needed to replace the disposal fee, but at the same time would not generate enough money to actually cover the full costs of Solid Waste. There would still be from the existing tax rate a significant subsidy for Solid Waste.

Mayor Clodfelter said I'm going to piggy back on some information Ms. Lyles asked for and at the same time you are giving that information, I think the actual charge to the County for dumping a ton at the landfill is less than \$47. If you cost it out it is like \$30 plus or minus so what do with the difference and why do have a difference?

Ms. Eagle said so an explanation of what else is included in the \$47?

Mayor Clodfelter said what else is included in that or is my information wrong, is that fee set at exactly the cost that the County incurs to dump and if it not then why is there a different?

Ms. Eagle said we can provide that.

Ms. Lyles said I do believe there are administrative fees tacked on everything that the County collects for us.

Mayor Clodfelter said that can be included as part of the information support.

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Councilmember Barnes said Mr. Manager perhaps you are going to get to it; but I wanted to see just for the sake of having the information is the analysis that shows us cutting our way out of this problem. I know we are not in Greece but just to talk about ... for a second; what scenario could we look at that would see us cutting the \$21.7 million. I have no intentions of supporting a tax increase so I was hoping to see some combination of cuts and maybe some trueing up of costs like the Planning costs, development costs we talked about last night. That would help me because this sort of option is less appealing to me, but I have a hard time believing that out of a \$500 plus million general fund we can't find more than \$4 million to cut. Is that in here some place?

Mr. Carlee said what we are trying to get to is what is the range of potentially acceptable options to Council to drive down to the gap that has to be closed by service and program reductions. That is the last piece of the puzzle that we turn to next; that is the piece of the puzzle that affects employees and their livelihood. Before I start seriously looking at cutting programs and potential of disrupting employment I'm trying to arrive at what that number is so that we know how many workers would be affected and we can provide the wrap around support services for them as they would need to transition to another City job or potentially be laid off. What we are trying to avoid is the situation where we would have involuntary layoffs and only until we can understand what the range of other options are would we want to do that. If that is where the City ultimately lands we are developing those options and you will have them before you. As you will see on the final slide today I think the amount of gap that we would need to close if some of the other options were accepted and if this one were considered, which it may not be by a majority of Council, I think we are somewhere in the \$5 million to \$7 million in program reductions that actually would affect staffing. But for anything on the other options we show you that you don't take then it has to be made up somewhere else.

Mr. Barnes said let me ask you this way then; just for the sake of the analogy, if my wife called me and said the furnaces are out at the house and we need to replace them and it is going to cost \$10,000 we at that point have to figure out what we are not going to spend money on. It may be, and I don't do anything extravagant, but it may be that the lunches at the Capitol Grill go or something has to go other than necessarily, and I'm sure you guys do that kind of thing. I don't have that luxury, but if that luxury is Capitol Grill I'm sure you would do that. The point is that there are creative ways to deal with even HR issues and people costs and I know our biggest expense is people. Remember a few weeks ago we talked about the vehicles that we were about to replace and I think you deferred some of that stuff. We were replacing computers and technology stuff all the time and there is some monitors that I rarely use mine, but it gets replaced so there are things that we spend money on and it may not amount to a lot, I don't know, but it would be useful to know if keeping those vehicles that are five-years old for three or four years and keeping those computers that are three years old for two or three more years would generate anything significant, even it is a million bucks it would generate something and if that is already baked into what you have shown us I can appreciate that. I think it needs to be clear based upon a lot of what I heard last night at the meeting that we've actually gone through everything that we could reasonable cut and adjust, reduce or whatever, and made that effort before we say to the public here folks, here is a tax increase, that is what I'm trying to appreciate.

Mr. Carlee said I think that is right and if I may take your analogy what we are trying to do are two things before we get to our last step. One, and that is trying to increase our income to find ways to actually bring more money into the household and at the same time we are looking at ways to reduce our expenses and we have details of that that we will show you today. We are trying to do those two things before we give up our children. That is the next step that you start having to give up your staff and that is what we are trying to minimize.

Mr. Barnes said so help us; I know it is coming so I look forward to seeing it.

Councilmember Driggs said I think we are co-mingling a couple of issues here where we are taking up the question of whether our funding for Solid Waste is the appropriate model and we are also talking about a revenue issue. The solution you are proposing basically has the effect of holding public service costs level or actually lower for 80% of homeowners and increasing them for the 20% of owners of higher values homes and also placing a new cost burden on the 40% of the property tax base that currently doesn't pay the fee at all. As you explained the net effect is a
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decline in collections of the actual tipping fee of about \$9 million, an increase in property tax collections from those people who are paying that in a similar amount so what you end up with is basically the people who own the 40% of the property that were not paying the fee before shouldering the increase. My concern about all of this is, and I think it is creative, I recognize the benefit of sheltering those homeowners. I'm afraid that everybody's take away from this is going to be tax increase; they just see the penny and a half or whatever it is and they say okay they did a tax increase and I'm not prepared to go there. I just think that we ought to demonstrate an ability under these circumstances to adjust our spending in such a way that we do not resort immediately the tax increase when we experience a setback. As I commented earlier we have the benefit of rising revenues from sales taxes, the economy is recovering, nobody talks as those monies come in about the idea of cutting the tax rate and yet when we get this disappointment on the revenue side then we feel that we have to change the tax rate in order to replace it. That is an attitude that I can't accept.

Mr. Carlee said the one challenge in that logic for us as we are looking to create a balanced approach is how do we deal with the involuntary tax cut of \$18 million to those 40% of the taxpayers that you are referring to that aren't paying any of this now. That becomes part of the equation as well as we try to create a way and I'm not pretending that we have figured out how to put that puzzle together, but figure out a way where there is some sharing of meeting the challenge that is in front of us.

Mayor Clodfelter said if I translate what you just said this is a partial local substitute for the loss of the Business Privilege License Tax?

Mr. Carlee said it is exactly is but in a way that does not take that full \$18 million and convert that business reduction to a general tax increase for homeowners.

Councilmember Howard said this is the hardest part sometimes of what we do down here and that is getting caught and worrying about the public not understanding perception of things because we don't want to go out and explain what it is. Clearly what the Manager is doing is trying to be creative in a situation. When you use the word tax increase, but you don't play into the fact that he is talking about a few decrease you are not being fair that it is a process and that part bothers me when we get into these budget conversations because the first time we get anything about tax anything we go running for the doors. I think this is one of those situations where the Manager is being creative by trying to find ways to go get some money from a sector of our community that didn't ask for a tax decrease and that being the commercial sector. They didn't ask for what just happened with the re-evaluation; that is not what they asked for but I'm sure they will take it, but we have to plug the hole in a way that is creative. This is creative. Before we just stop at we've heard tax increase and we don't even hear fee decrease, we are not being fair to the process. I'll be honest with you guys, that frustrates me when we start talking about budgets because we ought to be creative on both sides of the penny. We can't be just creative on cut, cut, cut; actually what I heard was almost a wash which is what the goal is in this one because you are talking about a fee going away and being replaced with something, not in addition to something. Did I hear something wrong?

Mr. Carlee said to be very clear and transparent, to what extent it is a wash is where you actually calculate the fee and so at the scenario that I've done my estimate is that 20% of residential taxpayers would have a slight increase and we would actually model for you what that increase would be. Whereas if we replaced any of the Business Privilege License Tax with a general property tax increase everybody would have an increase.

Mr. Howard said let me go on the record where I am; I'm saying that the creative nature of what you are trying to do is where we should be at first. When we start talking about cuts I'm with you on that, the whole scenario of looking at how we adjust incomes and look for additional ways to generate money that would maybe have a counter balance somewhere else is the exact kind of creativity that I would like to see. What I think I heard you say is by doing this we actually deal with the formula with the sales tax in a way that is advantageous to the City to do.

Mr. Carlee said that is exactly right.

Mr. Howard said that is smart.

Mayor Clodfelter said let me make a friendly suggestion before anybody goes on record around here; hear the whole package first. It might not be a bad idea to hear the hold darn package before you go on record about any one piece of the package.

Mr. Howard said the creativity is part is what I'm talking about.

Ms. Mayfield said that was my only point.

Mayor Clodfelter said was that your point too; well I'm sorry, I'm channeling today.

Mr. Driggs said I guess a couple of points, but one we are talking about net new revenue generation of \$4.5 million which is driven by an increase in the property tax rate. It is a total of \$13.5 million of new property tax revenue offset by abandoning the \$47 fee which resulted in a \$9 million revenue loss, but we are talking about new revenues from an increase in the property tax rate so I think it is fair to characterize it that way. I do agree that we should acknowledge the efforts that the Manager is making to be creative, but when I look through this, I think in the interest of transparency we can't disguise a property tax increase by co-mingling it with the rationalization of how we deal with Solid Waste. The other quick question I wanted to address was if we say that the people who got the benefit of the elimination of the Privilege License Tax should share in the cost of replacing that revenue that presumes that that revenue was not inappropriate in the first place. I think the position the General Assembly in eliminating that tax was to say this is something for which that group of people should have never been liable. So whether it is reasonable to specifically go to them and tell them to make up for the impact on us losing the revenue is a debatable point.

Mr. Smith said I was just going to note as we head to the next slide that a lot of the 20% that will face an increase reside in District 6 and 7. They are going to pay the fee increase, the tax increase however we want to characterize the increase for trash service live in District 6.

Ms. Mayfield said keep in mind that we have diverse housing stock throughout the entire City even though I know you love the idea of thinking that it is just in your two areas there is quite a few also out in the Steele Creek area, out in Moore's Chapel. There is an impact that is going to be felt but here is a conversation where we haven't even gotten past the first page where the entire City is going to feel the impact one way or another. I think it is great and as District Reps we have to fight for our areas, but also recognize there will be quite a few people that live throughout District 3 and live in part of District 2 and live throughout the City that is going to feel a financial impact; they are going to feel that increase just like we are going to have people that feel that decrease.

Mr. Carlee said we will go from big idea to what was an existing idea that has been refined and that is on fees so Kim tell us where the unabridged version is and then talk them through the overview.

Ms. Eagle said details begin on Page 18 of your handout but we wanted to talk through the larger decision points first. We can surely dig into those details today if you like, but as the Manager mentioned earlier we are willing to have individual briefings or small group briefings to get into more of those specific details.

Mr. Carlee said let me make one other introductory comment before you go into the details; the other thing that we are doing by giving you these mind numbing charts that are in the back is we want to make them available to the potential people who would be paying the fees. This is an intentional effort to disclose early on what we are talking about in terms of moving fees to that the industries affected can actually see it and give us impact and I don't want to suggest for a moment that there won't be some controversy around some of these fees but this gives us an opportunity to begin collecting that fee back in an open and public way.

Ms. Eagle said as we mentioned earlier things are moving very, very quickly the numbers continue to evolve so we have two updates since your packet was printed on the detailed
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worksheets. So if we go there we can address that with the revised copy if need be. At the last Workshop last week we had some conversation around the fact that we had several user fees that do not currently recover 100% of the cost of providing the service so we had some conversation around the fact that that is indeed a subsidy being provided for that service from the General Fund. We've gone back and done additional analysis on opportunities to increase those fees so Eric Hershberger, our Budget Manager is going to walk you through some of that analysis. He has been leading that effort and then we can have some conversation.

Mr. Hershberger said we have approximately 327 fees in the General Fund currently. We took a significant look at 66 of those because the remainder of them are within the scope of getting to 100% of cost recovery. Of the 67, 25 of those we are going to recommend at 100% cost recovery currently. As the Manager mentioned we are still working through the system and are going to get some feedback on that. For those not at 100% we are looking at 27 of those increasing to get closer to the 100%. Maybe a few years to get there or we may not get there at all, but we are currently addressing that right now. The one significant additional fee you saw last week, this is the State mandated Fire Inspection Fees. That has been generated by 83% of the total new fee revenue with the revenue that can be attributed to new fees. As we've already mentioned there is a detailed handout in your packet if you have further questions we will be happy to talk to you about any of them.

Mr. Driggs said I'm just interested to know how do we decide who is 100% and who is some other percentage? I assume there is some component of public benefit that we would maybe leave in the domain of the General Fund but can you say anything about how you are arriving at those recommendations?

Mr. Hershberger said our goal is to recover the costs so we are trying to recover the full costs of the user fees themselves. If the fees are not generating that amount of money then we are taking a look at that.

Mr. Carlee said I would say that the public policy rationale for subsidizing the service is not consistently and well-articulated and that is part of the exercise that we are going through in this review. We would expect when we bring back to you final recommendations for fees that are subsidized we would provide a rationale in terms of either the public benefit of the fee or the inability to achieve full cost recovery. We are trying to work through those in each individual case so that if it is subsidized by the General Fund taxpayer there is a good explanation as to why that is.

Mr. Driggs said I think is a valid area inquiry; some people have pointed out to me already that they might see a 300% increase in their fees and certainly I think we need to be prepared to justify where we leave a public component and where we don't.

Mr. Carlee said I would expect the public review of the fees and their feedback to result in some adjustments.

Mr. Smith said regarding the fees and the discussion we had last night around the development community, I want to make sure at least we are on record in requesting that the gap between what they pay and what we cost allocate that we truly make sure that cost allocation is the right number. There was a little bit of debate at my Town Hall last night that what we allocate the costs at may not be quite as big of a gap as it is listed today so I just want to make sure we get that on record and would love to see that breakdown and how the components vary and what counts up for all of that.

Ms. Eagle said we can provide all of that in the follow-up. Part of the scrubbing of those numbers and confirming those numbers is a part of the overall exercise.

Mr. Carlee said I also expect that will be part of the ongoing dialogue. When you eliminate the subsidy and people are paying 100% I think they as customers, this becomes more of a customer relationship issue, they are going to put more pressure on what they are getting for their money and we will be having ongoing dialogue are we providing the service as efficiently and as low a cost as we can.

Mr. Smith said that is part of the issue at hand. Last night and I'm using round numbers from memory, but in the development community we looked at about \$18,000 for certain size developments what they paid roughly \$23,000 what we charged. Where a lot of the feedback I'm getting is what is that net; we kind of have a crappy process as it stands and now we are going to pay more for this bad process and part of it is fine tuning that process and delivering a better product and then actually just making sure that what we are charging. If they are going to pay an increase in their fee maybe it is not as great as what is stated.

Mr. Howard said I would do that thing you did a few minutes ago LaWana, but I don't think I could do it right because I was actually going in the direction both you guys went and that is the fact that since we have the report that is going through Committee right now about how to make the process for permitting and getting approvals better anyway, it would be a great time to figure how to make the process better. We have suggestions right now that we should maybe be looking at to do at the same time. I do agree with you doing one without the other would send a really bad message. That part I'm hoping; it would be nice to get in front of this process and I don't know if we can. I don't know if we can figure this out as part of the budget process; what we can implement out of the Donald Report and what we should wait on, but it would be nice for the narrative to be we've heard you we are doing it now. This is what you get for taking on additional fees. Is it possible to include it in the budget process?

Mr. Carlee said we can certainly do some of that especially for the parts of the system that we control, but in terms of the full integrated system that truly is going to have to be done jointly. We can own our processes and our level of efficiency and the cost of what we are charging.

Mayor Clodfelter said as we look at this it looks like at least a couple places where we are currently collecting a few in excess of costs. I think Mr. Hagemann that is not permitted; we've got to go back and maybe do some downward adjustments as well. There are one or two places on these charts where you've got negative numbers and I think that has to get cleaned up.

Mr. Driggs said I just wanted to comment that a group of large developers I've talked to have said they would be perfectly happy to pay more in fees if the service was better, but at the same time I think the timeline for improving in service delivery into our budget process is completely different so I'm not sure what we can do within the framework of the budget to get them assurances about that.

Ms. Lyles said I wonder if the Council has really thought it is a principal that we have which is 100% cost recovery which means annually we would look at each fee. Hopefully you get these benefits but at the same time I'm not sure that I hear it in the way that you get more service because your fee goes up. To me the question we are subsidizing a service right now and I understand that but I'm wondering why would we say it is okay to subsidize something that is dedicated right now. I don't know that those two things are; I think they are maybe neutral but not necessarily exclusively dependent upon each other. For me the principal ought to be that we ought to recover our costs and that we ought to then improve our customer service and we ought to look at it annually to make sure that we are complying with what we say that we do. It is just a different way of looking at it. I don't know that it is appropriate for the General Fund to completely feel like it is a subsidy and I do think there is an urgency and we've talked about this a lot. The process has got to be improved, we can't wait for the County to necessarily address what they've got to do on our side of the fence; we've got to move on those recommendations so I would hope that it wouldn't be in sync because I don't know that fees have to be implemented effective July 1. We could say this is the date and look at it coordinated; it doesn't have to wait for a full year. We could decide when the service is going to go into place and we could decide the cost change at the time.

Mayor Clodfelter said do we have our cost allocation plans for these fees independently verified by an independent party and how often do we do that?

Mr. Hershberger said the Departments are currently doing it and the Budget Office verifies it.

Mayor Clodfelter said but we don't have a third party outside the City verifying it?

Mr. Hershberger said no.

Mr. Howard said I think it is important to make sure that in addition to verifying that they pay for themselves is that we are being as efficient with coming up with that number as we can. Do we have the right staffing levels, do we have it right so that those fees are set correct because it is important on an annual basis to be. I don't know how you do that; I know how to budget, you stick some people some places and you get them paid for and we don't want to do it that way. I want to make sure that we come up with some way if we start having the kind of conversations Ms. Lyles just mentioned where we are being as efficient as we can in service delivery and we are able to justify that either through third party or some other way.

Councilmember Phipps said I think it is human nature that everyone would agree the average person enjoys a subsidized fee so to the extent that you would want to increase a subsidized fee to where they would have to pay more there is going to be some pushback. The question in my mind is why should we have a subsidized fee and to the extent that the consultants reviewed the fees. Did they ask that question why are you so generous, what is the compelling need for you to have this subsidized fee? I think we've got to look at it both ways. Are we going to reach for cost allocation or an ... That is the question we've got to come up with and if we are not and if we are going to namby pamby okay but we've got to make sure that your fee and are we really getting what we should be getting? It seems like the argument becomes too circular for me.

Mr. Smith said I think it is really important that we know the fee that they are paying that we've allocated it correctly so that we know if we are reducing their subsidy what they are paying, but I would say one thing we need to be cognizant of whether it is a philosophical view or not if we raise the fee and that is what we are doing; and I haven't stated a position as to where I am on that, but if we raise the fee on this community and we provide a crappy service, if you talk to the community it is tough to do business. If we raise the fee and have a bad service our General Fund will be impacted more because they will build outside of Charlotte and the City and it won't happen in every case but it will happen in cases when it is easier to do business somewhere, so that is where the alignment I think of the service we provide and the fee do go hand in hand. Again this isn't saying that somebody has to get subsidized this is just saying we need to make sure we provide a service level that matches up and that is where I think Mr. Driggs was headed. I think he is correct; that alignment to me is incredibly important because what I would hate to see is have folks continue to go south of the border. We lose some of it from statements and there are various reasons we lose it; some of it is demographics and there are different reasons where people choose to develop but I would hate to see us impact the budget more by making it harder to do business in the City of Charlotte. I think if we can narrow that gap and know what the number is is a big component and then if we can make progress on the streamlining services is another.

Councilmember Fallon said what was the original rationalization for only recovering 60% of fees? There has to be a reason why.

Mr. Driggs said there are two points that you have to consider here; for one the code that we are talking about benefits everybody and not just the building. You walk into a building that is safe because of the inspections and other things that were done there that is a benefit to the public so you can argue, and I'm not trying to take any kind of position, I'm just trying to lay this out. You can argue that because of that the idea that there is a public component in how those costs are covered, the other thing is, it is a competitive thing. If people compare us and the costs of development here with the costs of development in other places, it may be if we are way out of line in terms of fees and things that is a deterrent to attracting investment so those are considerations that don't lead me to the conclusion that we shouldn't get the cost recovery but since people were asking I think, unless you want to add more, but those would be two things.

Ms. Fallon said but why was it set at 60%?

Mayor Clodfelter said it came to that I think incrementally over time. Mr. Driggs is exactly right; once upon a time even in this community, the view was that these regulations were imposed for public benefit and public purpose and therefore should be funded 100% by general tax revenue and as pressure came because people didn't want to vote for property tax increases,

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and some people didn't, we just sort of incrementally a bit at a time added a little fee so there was no magic to 60%. Nobody sat down and said 60% was the right number, it just got there bit by bit by bit from a starting point of a different philosophy which is that these fees are for public benefit, they should be paid for by public purpose. I don't think anybody today wants to visit that because as Mr. Driggs says that would be voting for a property tax increase.

Ms. Fallon said one other thing Ron; where in here are consultant fees?

Mr. Carlee said they would be part of our general non-personnel expenses. The only thing I would add to the discussion, my understanding is, generally the philosophy within Charlotte has been to do cost recovery, but there was an intent to hold fees level during the recession and so the costs and the fees were not true to an ongoing basis over the past several years and again given that we are coming out of the recession now and given the other financial challenges this is really an opportunity to true up costs and fees and where it is the Council's policy conclusion to subsidize some fees because of general benefit to be able to do that with intent in your process and to provide you with rational as why you may do that.

Ms. Fallon said would it improve service because that is the biggest complaint I get from businesses; it is so hard to do business in Charlotte. It takes them a year and a half sometimes to get all these permits and stuff. There has got to be a way to cut that out and make it easier for people who want to come here.

Mr. Carlee said that is certainly our goal in this joint effort we have taken with the County and it will need to be collaborative. It is clearly in our best interest to do that, not only because it brings people here but it gets the projects finished faster which means they are on the tax roll quicker and they are paying salaries faster and paying other taxes faster so it is totally our economic disinterest to not make that process as efficient as we possibly can. We will continue to work with the County to try to improve the joint effort and independently we will work to try to make our process as efficient as possible and in releasing this draft fee schedule of providing an opportunity to begin having detailed dialogue as to which of the fees may be too much, too fast or other underlying rational for the ultimate refinement that you would consider in the budget adoption.

Mr. Howard said I will put the first question for follow-up on the table today and that is that staff would take some time to think about what 100% recovery policy looks like. I think that is what we need. We probably need to do more of a policy framework like Ms. Lyles spoke about than just kind of grab at numbers. That way going forward you will have that in place already and it is not something we have to come back to all the time. The second thing had to do with a realistic schedule of when we think we can start to implement the parts of the report that we can do and some thought to a schedule on how we could work with the County on a timetable to deal with that as well. I know that is working through Committee, but I wanted to go ahead and put it down as a question and if the answer is we are going to stay with the Committee process I'm fine, but let's start at least talking about it.

Mr. Carlee said we can give you some updates and give you timelines on the different pieces.

Mr. Phipps said are we going to get something on whether or not we are going to phase in some fees to get the full cost recover or are there some that could be implemented more quickly or is that going to be a part of it?

Mr. Carlee said that will be a part of it, absolutely.

Mr. Howard said in addition to what he just said I would like to see what a policy looks like period. Showing how you implement it would be what Mr. Phipps just spoke about.

Mayor Clodfelter said where do you want to go next?

Ms. Eagle said we will go to expenses because that is the next piece of the framework. At our Workshop last week we had identified an estimated \$2.7 million in line item expense reductions and we have evaluated every departmental budget; we looked at every line item and what we are
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looking for is to reset the base and have the reductions that are sustainable at that reduced level. This will be the new normal as we reset the budget. This is a listing by department and we have a categorical listing to follow but this is a listing by department of where we stand today. These numbers continue to evolve so don't take these away as a recommendation; this is the status as of today.

Mr. Carlee said I will also say to help provide a little bit more context around it, as you can clearly see this was not across the board, one size fits all. Each department is evaluated independently and individual department directors were given flexibility to assess priorities because of the importance of non-personnel expenses relatively speaking vary from one department to another. Likewise when we get to the final piece of the service program reductions they would similarly be differences among the departments as well. Some departments that may appear low in this table may be picking up more of their reductions on the program and service side. This is one piece of the puzzle and I urge caution and over generalizing the percentage differences from one department to another.

Ms. Eagle said a great example of that is the Solid Waste number that is currently up here in terms of the expense reduction. That number has already changed but we are evaluating the balance of Solid Waste between what they reduced for expenses and what they reduced as options on the service reduction side. So that speaks to the balance the Manager just described.

Mr. Howard said what is non-departmental?

Ms. Eagle said non-departmental includes a variety of things; this is the categorical description, so for example Mr. Howard, the Council discretionary where we've identified \$100,000, that is budgeted in non-departmental as one example.

Mr. Carlee said Ms. Fallon asked about contracted services, that is the \$360,000 line.

Mayor Clodfelter said that would be a non-departmental line?

Mr. Carlee said yes sir; all of these are non-departmental expenses.

Ms. Eagle said this is everything with the non-departmental mixed in. This is across all departments just a summary of that category.

Mr. Carlee said there is some personnel stuff that is technically in personnel line items but most of it is straight up non-personnel.

Ms. Eagle said it is, the reason we have the vacant positions listed here, that is an excellent point. Those are vacant positions that have been vacant for a long time that we didn't think were a service reduction; they just needed to go because they've been vacant for a long time so we categorized those as an expense.

Mr. Carlee said they didn't have salaries budgeted but for some anomaly they had fringe benefits budgeted so that is what we've taken out.

Ms. Fallon said you gave me contracted services \$360,000; what was it to begin with? There is no item of how much it was to begin with.

Ms. Eagle said the current year budget for contractual services for the general fund is \$36 million.

Mr. Phipps on this fuel costs, are we hedging the lower fuel prices that we are seeing?

Ms. Eagle said we are and we are continuing to evaluate the fuel numbers and we received some savings in fuel that we are continuing to monitor so there may be additional reductions that we can take there. We are watching that very closely.

Mayor Clodfelter said could we get a break out of the contractual services line item again because that is a 1% reduction and to Ms. Fallon's point it would be great to see what comprises the bulk of the \$36 million contracted services and where it lives.

Ms. Eagle said we can provide that.

Mr. Driggs said I just wanted to make the general observation; I appreciate how hard this is and how hard you guys have worked. For a lot of people in the public the idea that even under duress and even when the alternative is a tax increase or a service cut that there is really no more than this that we can find I think is hard to accept. Again I recognize we've been through some lean years so we probably weren't that fat before, but I don't want to take this out of the conversation at this level as we get to some of the tougher choices we have to make.

Mr. Carlee said it would be hard for me to presume that going through the recession and all the challenges over the past several years that the City is significantly over budgeted in its non-personnel accounts. Why would that actually be the case?

Mr. Driggs said why would it be? I think it is something that can happen when you are in a recovery environment where you've got pretty rapid growth and it is just normal that people are not constantly operating in that mode of crunching down and now we have to do so. I don't think there is necessarily any inference about where we were before but it feels to me like under these conditions and given what has happened there ought to be more.

Mayor Clodfelter said to that point that would only be an inference you could draw if you'd seen rather sharp increases in these kinds of items in the last two of three years. I don't know; have you done that?

Mr. Carlee said we can show you the trend lines on the growth.

Mayor Clodfelter said they have not been growing in the recovery.

Mr. Driggs said we have certainly seen a positive trend, particularly in our sales tax collections and in the hospitality funds which I recognize are a separate account, but I'm just saying the anomaly here is we are in relatively prosperous times unlike other situations where we had to cut under duress so reconciling what is available in the way of cuts before we get to service cuts and tax increases is going to be a challenge.

Ms. Eagle said we went back and looked at the history of what the reductions had been since 2009 in particular so we can include that when we give you the trend line of historical spending in these areas. We have those lists of cuts that have been made almost every year leading up to this year since 2009.

Ms. Fallon said I would appreciate it if you would give us under the expenses and the line items the original because you have given us what the cut is, but I would really like to see what it was before the cut.

Ms. Eagle said so the total budget for that line item?

Ms. Fallon said right.

Mr. Carlee said this is one where we literally ran out of time.

Ms. Eagle said we talked about that this morning.

Ms. Fallon said it is easier when you have an idea of how much whether it is 1% or 10% or who is getting the basic cuts and what can we modify or move.

Mayor Clodfelter said this number already this week is about \$1.2 million higher than it was last week?

Ms. Eagle said that is correct.

Mayor Clodfelter said so it is still a work in progress.

Ms. Eagle said yes, we are continuing to refine.

Ms. Mayfield said I think and I'm going to speak for what I'm hearing, the interpretation. At one point we were looking at a surplus so these conversations that we're having right now are conversations that we weren't necessarily anticipating having so again everything is preliminary at this point, nothing has been decided. We are going to have to make some really hard decisions; one of those decisions possibly is going to be a tax increase. When you look at the last time the City of Charlotte has had a tax increase, looking at the impact coming from the State, the impact coming from Mecklenburg County we are going to have to have some real conversations but I'm concerned that I'm hearing from some of my colleagues where it seems the suggestions that are being made on how we make this adjustment that we did not prepare for it, that we were not asking for, that our representatives that are also an elected body, you would think they would have been having some of these same conversations and it would have been a little more difficult to create legislations that would put municipalities in the position that we are in. I don't know what their conversations went like considering the conversation that we are having, I think we need to give the opportunity to get through as much of this as possible because this is all just, to my understanding Mr. Manager we are throwing spaghetti against the wall to see what a fit to the best of our ability knowing that in another three to five days all this can change again because we are still up in the air and don't really know what our true financial impact is going to be. It just seems like as we are going through each segment of this we are saying oh no, we are not going to do that, oh no, we shouldn't do that. We don't know what the reality of what we should do is yet until we get through all of this and have as much understanding as possible or what limitations we are now facing that we should not be facing considering this is the time where now that we are finally on the incline and we are starting to develop and the City is growing again, we are now being stifled and why powers that be don't recognize that by stifling us you are stifling those around us as well. Why that light is not kicking I'm not really sure but as we are going through this I just want all of us to remember, and I'm saying this for me mainly as we are going through it, these are just the ideas that we are putting out there for right now and what you are looking from us is additional suggestions, not necessarily oh no we can't do that.

Ms. Eagle said now we will talk about program and service reductions. We are very carefully reviewing a variety of service and program reduction opportunities. We are looking at cost the departments and we are very being very deliberate about considering the impacts of those and their sensitivity there concerning employees that are impacted as the Manager mentioned. We are looking for a menu for you all to consider on those service reductions but we do not have those to share today.

Mr. Carlee said that will be priority one for the coming week; that is the next phase as we bring that together. The other point that I feel compelled to make to Council; we shared salary compensation material with you in previous Workshop and this is not unlike the challenge you face in having to explain to people either getting fee increases or to residential taxpayers that may be facing a tax increase. The question that I have to confront is why aren't we getting a pay raise. We have not kept up with the market during the recession based on market analysis without making up anything. We probably should be around 3%; that seems very difficult to achieve, but the question is can we achieve anything. This is not an issue that the employees created and how do we maintain a market competitive compensation system that enables us to retain and attract people and not feel like the budget is balanced on their backs as they incur additional expenses in inflation and actually pay higher taxes and fees themselves, especially when you are in an up economy and other people are being compensated. We've not been able to solve for this yet. I've shown you what the costs are at some different levels based on the public safety pay plan that was previously adopted and as you can see in each case the bulk of any compensation based on the system that we have in place now goes to uniform police and fire, very basic services, a fairly modest amount that goes to the broadband general employees. My only point is to get this on the table so that it does not fall between the cracks; I don't know

how we will balance in the end but I would respectfully ask of Council to keep an open mind if there is any possible way for us to provide some compensation for our employees.

Mr. Phipps said I would just like to say I was in a meeting yesterday with a Deputy Director of a major department in the City and a 33-year employee that is like the third generation in his family to work for the City of Charlotte. You could tell in the person's demeanor and atmosphere that they consider working for the City, I don't think he even considers it as a job, it is like it is his own corporation as how proud he feels to be able to work for the City of Charlotte that he has the passion of that history and I could just tell by the way he was approaching and talking to constituents in my district and how protective he was of the City's resources and it was really uplifting to me to have that firsthand experience in talking to that employee and just to know that we are in this budget cycle and we are likely having to make some decisions that would not be favorable from a salary increase standpoint, but even so I think you have employees like that, that while they may be disappointed they recognize where we are, but they just have such a passion and a history with family lineage from going over for generations for working for the City that that might be a rare instance I would think. It was just refreshing to see that kind of attitude so I would hope miracles can happen but it is just regrettable that we are in this situation that we find ourselves in that we cannot reward our employees in a way that they should be rewarded.

Mr. Smith said I sure don't want to balance this on the backs of the City employees and I can think of many things I would love to cut; everybody in the rooms know one that I would love to cut to help eliminate some of this but the private sector deals with these type decisions on a routine basis. My wife works for a group in town and there are plenty of things that have been outside of her control that have resulted in us making less money and it is an unfortunate consequence and we have a great staff and some of you guys worked hard and late last night out there with me with the constituents, but the private sector deals with things outside their control on a routine basis. I didn't want the conversation to go without that being noted.

Ms. Eagle said this is just a summary slide; we've taken what we showed you last week and we've marked through that and given an update of what we've presented today. The bottom line is depending on the assumptions made and the decisions forthcoming. We have closed the gap to between 68% and 76% so we are making progress in terms of the options we are putting on the table and the information that we are putting out for choices for later, but that is just an update.

Mr. Carlee said most of that is on the disposal fee conversion and if that ends up not being a tolerable change for the Council then that is going to have to be made up somewhere else.

Mr. Howard said all of this is not one time money; this is reduction in programs because this money never comes back.

Mr. Carlee said that is exactly right. We are trying to get a structurally sustainable budget, not just for 2016, but 2017 and out.

Mr. Howard said just for my colleagues and all of us to remember, we are not talking about a onetime fix, we are talking about a new normal, and not only that but we have issues that come next year. All the reductions, all the cuts is just a way that we are going to operate going forward. Let's remember that and not think of it in a vacuum as just being this year because this has everything to do with the way that we deliver services to the public at large. Let's be willing to live with it beyond this year is my point.

Mayor Clodfelter said you are absolutely right, but to the Manager's point I think you are doing the right thing because the revenue loss that is occasion to this is permanent, it is not just a one-year thing.

Mr. Carlee said what should happen in a growth environment without having to do significant fee or any tax changes, although it would be much easier if we maintained a current assessment system, and I think that is a really an important longer term policy issue for us. I think it is really a serious policy issue for us but normal growth should be 2% to 4%; that would be a normal

healthy city like ours that is moving in a good direction and we should be able to maintain our growth and expenses within that 2% to 4% and should not have to be making significant differences so the idea is that if we do the reset and bring expenses back on a permanent basis to align with the losses that we have faced then we should be able to grow with the economy if we don't get any external assistance like we've had more recently.

Ms. Eagle said this takes us to the next section in the framework which is capital and we will spend some time talking about PAYGO and Bill Parks, our Capital Manager has joined us at the table to help provide some expertise there.

Mr. Carlee said at our last Workshop the issue of City LYNX Gold Line came up and I said that we would address that in PAYGO, the Gold Line operations had been pegged to be in PAYGO and so what we have done is put together a scenario for you that will show you for the long-term how we would fund Gold Line Phase I and we are showing how we would fund Gold Line Phase II. This becomes an important FY16 budget issue because we expect this fall to receive a determination from the Federal Government as to whether or not we will get our \$75 million matching funds from Federal Transit Administration and so if you face as we expect and hope will be the case, the decision on whether or not to accept those federal funds it then begs the question how are we going to operate the system if we take the federal funds and build it. What we have put forward to you is a proposal to do that and if you go to the next slide you can see, again we are doing this for the reasons I've just described. Phase I next year has a \$1.5 million price tag on it; Phase II, if we get our federal funding match this year we expect to come on line in 2019 costing at an operational basis of \$4.7 per year which puts out total annual operating cost for City LYNX Gold Line at \$6.2 when built out at Phase II. We also need to begin creating a capital reserve so that not only we are doing operating but we are keeping the system up to date and you can see the proposed schedule there.

Mr. Driggs said are those expenses prior to fare box collections?

Mr. Carlee said Phase II would be with fare box and these are expenses excluding fare box and we are counting fare box as a revenue on the other side.

Mr. Driggs said it is gross expenses not netting out the fare box.

Mr. Carlee said correct and you will see the other side of that momentarily. One of the policy questions that has been so controversial around the Gold Line is not using property tax to pay for the construction or operation of it and when the City Council previously approved the capital funding the plan that we brought forward did an analysis that showed the funds that were being reallocated had enough non-property tax in it to offset what we were proposing to reallocate. There was still some criticism because there were two larger funds where a lot of different revenue sources were co-mingled and as we go forward we think that it is important based on previous policy conversation to be able to demonstrate unambiguously that the Gold Line is not being funded with property tax and it is not being funded with general operating revenue and therefore we are proposing that we would create a new transit investment fund. Currently all of this is funded in PAYGO which has a lot of different co-mingled sources we would pull our transit expenses out of PAYGO and that would include not only Gold Line Phase I and II, but we have about \$20 million per year we pay out of PAYGO to CATS as part of our maintenance of effort agreement when the CATS special fund was created. We would segregate expenses and revenues for transit, incorporating all of them, making those re-allegations from PAYGO and in doing so there is no allocation to a specifically committed project that would be reallocated. There are some funds reallocated but not for any specifically identified literal project that we told someone we were going to do. There are no new revenues, no new fees or taxes other than fare revenue, so if we go to the table, this is what it would look like and Bill is here to explain to you what these different sources are, so I will hand this slide off to him if I may.

Bill Parks, Strategy and Budget said what we want to go through and share with you on this is the various individual revenue sources that make up transit dedicated revenues that support transit operations. All of these revenues, as the Manager mentioned, go under the revenue line; all of them except for the future fare revenue are currently in the general Pay As you Go Fund and the expenditures that they support are in the general Pay As You Go Fund. What this
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consideration is to create a separate transit investment fund so we can segregate those transit supported revenues to show how that ties to what we are spending the money on transit. I will go through this really quickly; \$11 million and some of these numbers start out in the FY16 estimated projected revenues; \$11 million from vehicle rental tax. That vehicle rental tax is by law required to be used for transit operations and it currently is in the PAYGO, it is dedicated to the transit program. \$12.8 million for motor vehicle license, again most of that is to be dedicated to transit support and again is currently in PAYGO dedicated for the transit. Then \$1.5 million which would begin in FY19 from the Gold Line fare revenue and essentially at the time Phase II comes on line and we initiate fare revenue the fare revenue will be collected for all four models. Moving down the list \$3.6 million, the bulk of which would be beginning in FY2019 from a partial transfer of sales tax from the existing PAYGO; sales tax that is currently programmed in the five-year PAYGO partially transferred over to support this program. That constitute the revenues, all of these again are transit dedicated to support the transit operations that we are going to talk about next.

Currently in the PAYGO program in FY16 \$20.1 million for the CATS Maintenance of Effort transfer from general Pay as You Go will be also segregated into this fund. About \$700,000 per year is allocated from the vehicle rental tax revenues to county and towns for the contribution to them for transit. \$1.5 million in Phase I operating; the Phase I operating fund budget started this year at \$750,000 as it was a partial year. Phase I opens up in the spring this year so we appropriated half a year. Beginning in FY16 that goes to the full funding needs of Phase I of the Gold Line to \$1.5 million.

Mr. Barnes said let me ask you a question about the first two bullet points, the \$23.8 million for the vehicle rental and the motor vehicle license tax and fee; what did we do with that money last year?

Mr. Parks said it supports the CATS MOE. All of the vehicle rental tax supports the CATS MOE; what is left needed to support that \$20 million comes motor vehicle license. That leaves some motor vehicle licenses to be used for other purposes.

Mr. Barnes said so roughly \$3 million or so, almost \$4 million that would be left over and what did we do with that last year?

Mr. Parks said I believe it supports the general Pay As You Go Program.

Mr. Barnes said you said it has to be spent on transit.

Mr. Parks said most of it has to be spent on transit; I'm not entirely sure what the exact percentage breakout is, but some of the motor vehicle license fee as opposed to the vehicle rental car tax, some of the motor vehicle license fee can be used for other general purposes.

Mr. Carlee said all of these fees were not segregated; they are all in your PAYGO budget along with some other revenue sources. If you go to page 26 in your book this is proposed revision of the five-year PAYGO plan and you can see that the PAYGO budget includes 1.2 cents in property tax as well as all of the other components that are down there. What is pulled out under this revision, this is our preliminary 2016 are these two items here plus a portion of the sales tax so all of that would have been together in one co-mingled revenue source in your current PAYGO.

Mr. Barnes said which row are you talking about Mr. Manager?

Mr. Carlee said at the very beginning, rows one through 11, those are all of the other revenue sources that are in PAYGO and if we did not take these revenue sources, the 11 and 12 in particular 12.8 they would have been just additional rows in here and what was originally envisioned was that they would just stay in here and the Gold Line would be funded as part of regular PAYGO, but what we are proposing is that we create a separate fund so that these non-property taxes are not co-mingled with property taxes so there is no confusion about whether or not property taxes are being used for transit.

Mr. Barnes said what I'm trying to understand is, we just heard that the \$23.8 million has to be used for some transit purpose and there is obviously a difference left over once you subtract the \$20.1 million for the Maintenance of Effort. I want to understand and know what we do or have done with that \$3 million to \$4 million that is left over. You said it is co-mingled, but how is it spend and if it is as fungible as it may or may not be could we be using that money to plug this hole we are dealing with it?

Mr. Carlee said you can't use it to plug the hole because unless you wanted to make a formal transfer from PAYGO into operating which you could do, I would recommend that if you do that you would do it from the property tax allocation, but I would not recommend reducing your PAYGO budget. If you are going to transfer property tax money from a capital program I would recommend that you take it from the long-range debt program as opposed to your PAYGO and the operations that it funds. I think where you are driving and I expect Mr. Smith would come on line with this momentarily is can you use some of this money for something else, yeah, you really can. Can you take the \$75 million and defund it and use it on something else, yes you can and so the \$3.6 million a year operating that comes in 2019, could you spend that on other PAYGO items other than transit, yes you can. There is absolutely no question about it, but at this point we have not proposed and do not intend to propose defunding any committed capital project.

Mr. Barnes said you are answering a question I didn't ask; I think you are answering something you anticipated Mr. Smith raising. If I was going to raise it I would have raised it but I wanted to understand what could happen with those two fees the vehicle rental tax and the motor vehicle license fee and whether that could help us plug up some of the hole.

Mr. Carlee said it could be reallocated, yes.

Councilmember Austin said thank you for your innovation and I think staff has done a great job in coming up with great ideas. A question on the fares of \$1.5 million, what about advertising, sponsorships and other things; does that come into play or is that factored into this?

Mr. Parks said it is not factored into that; there are separate projections for advertising that CATS staff is still working on.

Mr. Austin said will we be factoring that into this?

Mr. Parks said at some point I expect we would factor it into it.

Mr. Austin said do we have any idea at this point what that might be or are you still kind playing with the numbers?

Mr. Carlee said they are going to be gross estimates because again we are not talking operational service until 2019, but those would be revenues into this fund. Any revenues generated by the operation would flow into this fund to offset expenses in this fund.

Mr. Austin said I'm sure my colleague is waiting at the bit with his questions so we will follow-up.

Mr. Smith said not so much a question, more of a statement and this is how I end up getting into trouble, but it sounds like we are looking to have tax increases, service cuts and present staff salaries to protect the streetcar.

Ms. Lyles said this is a serious question I would like to understand the viewpoint.

Mr. Smith said one of the questions I had asked was how does our budget look if we didn't have the streetcar involved so I don't fully know what obligations we have chosen to pass on with the \$75 million, but we are clearly passing on other projects. We have clearly had a discussion thrown out there about tax increases; we have clearly had a discussion about service cuts and we've had them today and we have clearly had a discussion on the possibility that staff salaries are frozen. I don't have the data that I had asked for coming into this meeting; I wanted to see
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what our budget would look like without the streetcar so we could know what decisions we are making. The only decisions I have to go on are the end full that has led up to this.

Mayor Clodfelter said I follow what you are saying and I hear you and I understand what you are saying. You had a number of \$75 million and I'm having trouble.

Mr. Smith said the total cost of Phase II of the streetcar; the City's share.

Mayor Clodfelter said the capital costs for Phase II, I follow you now.

Mr. Carlee said the answer to that question is on slide number 25.

Mayor Clodfelter said do you want to talk through slide number 25 so we will know the answer.

Mr. Carlee said the short answer is this; \$75 million less the \$16 million that we've spent I believe or in process. Those are one-time capital funds and they can be reallocated to anything else you wanted to spend one-time capital funds on. They do not provide an ongoing source of revenues to balance the general fund. The ongoing source of revenues that in the context of what we are talking about right now that are immediately available are the \$1.5 million that we would be spending next year on the operation of Phase I. If we went ahead and shut down Phase I and mothballed it, did not accept the \$75 million then there would be \$1.5 million in PAYGO that could either be reallocated to other PAYGO needs or you could do a transfer from PAYGO, reduce your PAYGO on an ongoing basis and transfer that to general fund.

Mr. Smith said point of clarification; I am talking about Phase II, not Phase I.

Mr. Carlee said the ongoing costs for Phase II would plug in at 2019 and so what we are showing is essentially a pro forma that would show you how you get to 2019. The only part from the Phase II that we have plugged in at this point is \$1.5 million and we are beginning to build a capital reserve.

Mr. Smith said as of January 30th we discussed FY 2019 we are approaching the \$28 million budget gap and that was before the reval came into play.

Mayor Clodfelter said I understand but if I hear what the Manager said that \$4.7 million doesn't help us this year in any way. It doesn't hurt us either; it is just an out year that neither helps us.

Mr. Smith said it is in an out year that we were already going to experience some significant budget issues as of the data we were presented on January 30th.

Mayor Clodfelter said as we see it today four years earlier who would have known where we would be four years ago from today. I confess to you I have a little trouble putting a great deal of confidence in the four-year numbers; I'm worried more about how to get the current numbers to be right.

Mr. Howard said the only thing my friend Mr. Smith is we continue to find convenient ways so we started out we had \$63 million and it seemed we were doing on the backs of and then it came down to what is really just \$1.5 and at some point let's just be clear, if you are not supportive of the streetcar let's just say that and not find creative ways every time we have issues to say blame it on the streetcar.

Mr. Smith said I thought I had.

Mr. Howard said I just wanted to point out every time something comes up we are going to blame it on the streetcar, even in this situation where we went from the Manager doing a fantastic job of explaining how it is not. We are still going to find a way where it is not a problem this year, it is in 2019. If it is just not the streetcar let's just leave it there and not blame every problem we have on it.

Mayor Clodfelter said whatever Council decides to do I hope you will all agree that the Manager should be commended for making this whole thing more transparent by what he is proposing to do because when all the revenues of all kinds are glopped into a single fund then arguments about who is using what revenue for what purpose are much more difficult for people to follow and what the Manager is offering you right now is, whether you like it or not, however you finally vote on it, at least what he has done is bring you something in which he says here is transit money, it is going for transit purposes and it is not including property tax or other monies. If you like it fine, if you don't like it fine, but at least I hope you all agree that he has done something good about making the budget more transparent.

Mr. Driggs said I wanted to say further to my colleagues point, the creation of the transit investment fund is a means of demonstrating how the Gold Line could be funded and that is viable and I take that point. It doesn't in fact have any impact on our conversation about how to close the gap for the coming year and I would submit that it has the effect of moving some of the money we could be looking at to address our gap problem into a sort of protected environment where it has a transit fund designation and is off limits. I think that gets back to Mr. Barnes' point, let's be clear we are taking some money and we are putting it into this designated protected status and thereby reducing our options which then could have the effect of what Mr. Smith said of exacerbating the choices that we have to make. The other thing is if we free up the debt, we had another slide that talked about how you could create \$900,000 in additional current fund availability for each \$10 million effectively at a tenth of a cent. Doesn't that mean that potentially you've got \$4 million or \$5 million that you could gain by simply redirecting a certain amount of money from debt to operating?

Mr. Carlee said for any of the debt supported program that is true.

Mr. Driggs said I would just like the conversation to kind of include an awareness of those choices that we are making and the options that we have.

Ms. Lyles said I think this is fundamentally a question of; and I think Mr. Smith has been really clear on if this is something that you really don't support it is kind of hard to start talking about how to pay for it. It is a very simple things and I get that and I know that we've had multiple votes on how to move forward on this and one of the things that I've worked with a Board where there is always kind of the idea well we weren't successful at voting something down so let's just kind of pick at it until it works and it does lend a certain amount of lack of transparency to the system instead of kind of saying well the majority voted for this and we ought to own it and say that and that is how we are moving forward. I actually think that it is important to have this fund put together in a way that assures that transparency and a direct discussion around it. That has been a good part of this in terms of recognition because at the same time we could actually say well let's now do the Blue Line or let's not do any of this because we could actually say all of that motor vehicle license tax or a portion of it is always up for discussion. Actually anything inside the Pay As You Go Fund is up for discussion of how do we do it and how do we spent it so I think it is a good point to have a guideline or a guide for the citizens of this community to know that as we are doing the Gold Line that we are going to have a plan for it and that transparency I think adds a lot of value. It is about a choice; this is the opportunity to have that discussion and we vote on it and we will move forward and we could talk about the new ... of financing and all that for a very long time but the Council is going to proceed with a policy decision. We've got to figure out how to do it in a way that the community can understand it and I think this actually works very well to do that.

Mr. Austin said as I said earlier I know that my colleagues were just waiting at the bit to jump on this project and I know they haven't been supportive of it in the past, but you know for those residents and neighborhoods in the east and west this project means significant economic development and transformation for many communities that are not enjoying all of the prosperity that we are experiencing here in Charlotte. We are talking about more retail, more residential, more shopping centers; all those types of things are going to be adding to our tax base so in the long run we are going to be reaping some rewards for having this infrastructure, a \$150 million infrastructure that we are only going to pay \$75 million for it. I think there are also some consequences that maybe members of Council are not thinking about in terms of pulling out of this project. We've already invested about \$10 million to \$12 million to get to this point; I'm not
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quite sure what happens to that. What happens to that Mr. Manager if we were to pull out, it just goes bye bye, so we've wasted dollars of taxpayer's money in pulling out as well as we may not have another opportunity to get to the level that we are now with being in this present budget. Then factor in the fact that if we look to the future and try to fund this particular project it would be much more expensive than we are today. I think the Manager has done a great job in figuring out a way to pay for it, thank you and thank you to staff, but we knew going in that this was a project that many of our colleagues wouldn't support, but I would always keep in mind that we always need to count to six.

Mr. Carlee said the one thing I would request this afternoon because I don't expect this to be the last conversation, however if it could be I would defer the other item.

Mayor Clodfelter said we do need to get Aviation up and if I can, Mr. Autry and Mr. Barnes if won't be the last conversation and we do need to get Aviation. I know you are dying to talk, both of you. I'm going to take Mr. Autry because he hasn't talked today, but before he does that I want a number if it is not in the package already. I want you to take the investment that is attributable to the station locations on the Blue Lin, calculate the property tax revenue we are currently deriving from that and tell me what would happen to the general fund if we didn't have that property tax revenue. How much would we lose out of the general fund?

Councilmember Autry said I just wanted to know if we could get some projections on what the anticipated return on the Gold Line investment might be.

Mayor Clodfelter said I think you and I are thinking exactly the same way.

Mr. Autry said just get some understand about what we can anticipate would be the return to these revenue sources based on the \$75 million investment that we've got programmed at this point.

Mr. Carlee said we will be happy to do that. Slide #25 answers some of that; slide #26 has the information you were looking for.

Mayor Clodfelter said let's do Aviation; can you do it in 20 minutes?

Mr. Carlee said yes sir I think we can.

Mr. Barnes said I still want to ask my question.

Mayor Clodfelter said I'm going to let Mr. Barnes ask his question but we are not going to have any more debate.

Mr. Barnes said maybe it is the lawyer in me but I like observations and asking questions sometimes. The transit investment fund only helps us with one part of the 2030 Transit Plan and that being the Gold Line. It doesn't help with the Silver, doesn't help with the Red Line number one. Number two, according to slide #25 there would be \$3 billion of development and I think this is the question Mr. Autry was talking about; \$3 billion in development along the four miles of the Gold Line corridor. At some point in responding to our questions explain to us where that comes from in light of what was projected to be development which doesn't come anywhere close to \$3 billion unless it is made out of gold.

Mr. Carlee said there is more information in your packet about other PAYGO amendments both in the slides and detailed tables and again we are happy to talk with you individually about that, but if I may as the packets are going around let me turn it over to Mr. Cagle who participated on a panel this morning with the Chamber's Transportation Summit and a really good discussion there today about how pitiful Charlotte Douglas International Airport is to this region and he was joined among others onto the panel with Mike Minerva from American Airlines so a good strong partnership showing.

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ITEM NO. IV: AVIATION BUDGET OVERVIEW

Interim Aviation Director Brent Cagle said one question I was asked this morning was ‘what are the differences that I see today between the new American and US Airways?’ You know it dawned on me as Mike Minerva and I were talking about the importance of Charlotte; one difference is I think our relationship with our hub carrier and with all of our signatory carriers is stronger than ever. We have a very good relationship with American Airlines and all of our carriers. I could talk for hours about the Airport; I won’t do that, I will move through the slides very quickly and will try to hit on the major points.

First of all our values; you’ve seen these before, cost competitive, focus on value, but I will say the budget I’m going to present to you today focuses on our overarching goal of protecting the asset, mitigating risk and I will say that this budget has been presented to the airlines and they are comfortable with the budget priorities and goals and the budgeted levels to be presented.

Councilmember Driggs said could you comment on whether the priorities of the airline are different now as the new American from maybe the conversation we were having with US Air in the past, from tradeoff, for example, on costs and fees for landing versus facilities?

Mr. Cagle said this is my opinion, but I think everything we’ve heard, and in fact Mike Minerva said it, I felt very succinctly this morning. The new American, and Doug Parker has said this, the New American wants to be the best airline in the world and they are reinvesting in their product and they are asking their primary hubs to do the same. So I think the difference is they are focusing on customer experience and quality of product and they have been very blunt about that over the last year or year and a half.

I will skip to the second bullet which I think is the most important here. We have an aging building; it was built in 1982. Our economic benefits, you are all very aware of these. We are a huge job creator for the community, 20,000 daily inside the fence generating \$10 billion to \$12 billion annually as an economic engine and \$32 million in sales tax generated last calendar year from rental car, food and beverage and our retail concession. Those are the terminal sales tax basically. A couple other ways to look at the Airport and to look at how efficient we are because we know our cost competitive edge is very important and we must maintain it. Looking at our operating and maintenance expenses per enplanement and we’ve shown you here other American hubs; we are at \$6.43. This number is a little different than our cost for enplaned passenger because that is the amount of the \$6.43 that goes directly to airlines, not the total cost of maintenance. This is the total cost of maintenance and you can see we are well below average. Now I will point out that both of these charts assume the proposed budget numbers that we will get to later.

Mayor Clodfelter said you will bake your proposed budget into those dollars right there?

Mr. Cagle said correct, this is based on FY16 proposed budget with it included in that and you can see we continue to remain incredibly cost competitive; FTEs or full time employees per one million enplanements, 22 with an average of 48.

Councilmember Howard said what is the difference in the \$6.43 and the \$1.50 that we heard before?

Mr. Cagle said there is a key difference; the \$6.43 represents all of our operating costs divided by passengers. The \$1.56 which you will see in a few slides represents the cost directly attributed to the airlines divided by passengers, not all of the costs of the terminals are born by the airlines. This is just a second way to look at it when you think about our overall operating budget. The green box is FAA Advisory Circular 150; what that basically says is the ideal enplanement per square foot of a terminal in the FAA’s view is somewhere in the range of eight and a half to 12 ½ people per square foot. Charlotte currently operates at 15 and you can see where the other hubs based on public information operate. What that means it looks like Bourbon Street during Mardi Gras. That is the secret to our lost costs; that is the magic sauce, that is how we keep those costs low, but it also creates to unintended consequences. High volume means increased wear and tear and less downtime to maintain the facility so we have to

spend more money for that increased wear and tear and we have to do it between basically the hours of midnight and 5:00 a.m. That is when there are less people in the terminal. There is never no one in the terminal; that just doesn't happen.

Our operating budget priorities focuses on value and the first bullet shows you the six areas; Growth and Inflation, Safety and Security, Asset Preservation and Risk Mitigation, Programs and Initiatives, Airline Requests and Capital Program Support and I will move through those six areas very quickly. Before I do that I will talk a little bit about our total budget. You can see on this slide our total budget for FY16 is proposed to be \$147.6 million less \$2.9 million that is charged back to the capital program for a net operating cost of \$144.7 million. What that means in new money is an increase of 12.4% from the current fiscal year, a request for 49 new positions or \$15.9 million of new expenditures in those six areas.

Growth and Inflation is simply if we want to maintain the level of service today we have to spend more money on certain services. It represents about 1.7% of the total increase or \$2.1 million. Safety and Security, we are implementing our corporate security model in our partnership with Police. We are also looking at better staffing for Fire for a 24/7 operation. Primarily we have maintenance of the new \$50 million Inline baggage system which comes online this year and that system is basically the outbound baggage system. It must be maintained or operations cease at the airport that day. Bags must go out to the airplanes and that system will be 300% faster than the old system. Asset Preservation; it really comes down to Risk Mitigation in this. The airlines, using Bureau of Transportation Statistics this is the last sub-bullet there, so the average airline revenue per passenger is about \$249 per passenger. Translating that out into a daily revenue number is \$30 million. What that really means is the stakes are high, if the airport fails to provide a stable reliable platform for the airlines to operate from the losses in revenue start to stack up very, very quickly. That is where we can see anecdotally over the last 18 months where we have seen things like fires on moving walkways. Those are safety concerns, but they also have rippling affects into delays and cancellations for the airline and that is where it starts to turn into an economic argument to mitigate those risks. New Programs and Initiatives, this is about \$928,000 and I will say this is where our sustainability program comes in and this \$928,000 is going to produce for us a return on investment of \$200,000 per year. That seems like a very good investment. Airline Requests, as time has changed, as we have gone into lease negotiations we have come to understand that the airlines, as I said before, expect more from the Airport, more from the level of service and the services we provide. So some of these increases, actually a large part of them, \$4.8 million is associated with services that are previously being provided directly by the airlines. These aren't necessarily new costs, these are costs coming from the airlines books onto the Airport's and those are very appropriate because they deal with things like jet bridge maintenance, lobby management, those kinds of things that previously were not handled by the Airport but were being done.

Councilmember Mayfield said what I'm trying to understand is in comparison to our competitive Airport are they paying these costs? Because we are already giving the Airlines a lot of concessions so now we are having the discussion of taking on fees that they previously were at the table paying for. I'm just trying to make sure that we are staying competitive, but we are beyond competitive when you go back to the previous slides and you look at what our costs are compared to Miami and others, it seems like we have a lot more wiggle room in there even around the costs but no one is going to have that conversation. So why are we having this one with taking on these additional costs now opposed to postponing this?

Mr. Cagle said one of the major drivers is the lease. Twenty-five years ago what was common business practice is not common business practice today and as we modernize the lease we start to bring back into alignment the services we do or don't provide and those services have changed as we've worked through the lease. We began negotiating our lease in January and we are well along in that process but we are seeing for Airport reasons it is beneficial. Let's say the jet bridges for example, it is beneficial for the Airport to maintain all of its jet bridges and it is beneficial for the airlines to have us do that for them; so that is a good example of a service that we are taking on, but it really aligns with the business expectations and the business practices of airports today.

Ms. Mayfield said it would just be nice as we are reviewing the lease we look at cost savings on our end as well.

City Manager Ron Carlee said the piece I wanted to follow up on if I was hearing your questions, how much of these costs that we are taking on get charged back to the airlines?

Mr. Cagle said all of them. All of these 100% are being charged to the airlines because they are services that they use.

Mayor Clodfelter said so we are doing the work now; we are responsible for controlling the work but they are still paying the costs. They are just not doing the work.

Mr. Cagle said correct; I'm sorry and I apologize; we are not subsidizing; we believe in costs recovery. Our rates are always costs recovery.

Mr. Driggs said 12.4% growth in your operating budget; I think your passenger growth was about 2.2% is that right?

Mr. Cagle said this year, yes.

Mr. Driggs said so obviously we are investing here; this is not an apples with apples and I think you have described that a little bit. It comes down to our relationship with the airlines and their willingness to pay. What percentage of our total is our hub carrier?

Mr. Cagle said 92% and I also want to add another good point that you have just hit on. Last year was an 8%; this year we are requesting or recommending a 12%. Those are not sustainable levels long-term. Our commitment to the airlines and my commitment to you is that next year you will see a sustainable budget. That translates to a 3% to a 5% increase. What is happening is a resetting of the base level of service and a reinvestment in the facility and you've seen that over two years. Now we went into that having discussions with the airlines and they are comfortable with that. If the discussion was 8% to 12% long running they would not be comfortable with that. This is a resetting of the level of service to resume to a sustainable to growth rate which is inflation.

Mayor Clodfelter said you call it resetting, it looks more like catching up on deferred maintenance that had been neglected.

Mr. Driggs said we had a very budget conscious airline before and that was kind of the point of my question before about the difference between the current airline and its predecessor. Are the other airlines okay; minority airlines, participants in all of this?

Mr. Cagle said yes, we present our rates and charges, our budget to the airlines at what is called an Airlines Affairs Committee; all signatory carriers participate, all participated; it was about three weeks ago, and yes all are in agreement that we need a resetting of our level of service.

Mr. Driggs said the \$1.3 billion in capital expenditures, I assume we are projecting what that implies in terms of the future cost per passenger and once again is everybody on side with that because that is quite a substantial step up.

Mr. Cagle said correct, we are; as we pull together the plan of finance we start to run those scenarios out ten years running and we are starting to do that. Part of the issue with the \$1.3 billion is it is all dependent on demand so we have a smaller window that we really look at CPE on, but we do run just to see what the outside edges of that would be out for ten years.

Mr. Howard said the CPE goes up to what with your new budget?

Mr. Cagle said that is the last slide; \$1.56. Right now it is projected to settle out at about \$1.35.

Mr. Howard said I would love to see your ten year projections for your total all to end, that \$6.00 number, maybe five years out if you have it and where you are projecting that will go, especially
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if you are looking at it to settle down. I would like to see how far it needs to go out to where it starts to level out and I would like to see that on the CPE as well.

Councilmember Smith said earlier you mentioned over the length of this last lease a lot of things have changed and I recognize that; we see that in my industry as well. As we are going into lease negotiations have the terms of leases changed now; will the airlines make equally as long a commitment to us or is that shrinking?

Mr. Cagle said no and I would not; so the term would not be as long and there are a couple reasons for that. The industry in more dynamic, airlines and airports, but the Department of Transportation is not. None of the parties are really favorable with 25 or 30 years leases anymore. Outside window is ten and that is a very long lease by today's standards, ten years and you see them all the way down to airports like Phoenix that literally have 30 day lease cancelable by either, which is effectively no lease.

Mr. Smith said so in this next round we are unlikely to get as far behind on some of the necessary resets, we will be more up to date as our preferred carrier comes back up?

Mr. Cagle said correct. Capital program support, all of the costs associated with this are charged ultimately back to the capital program, or most of the cost, and this is in support of that \$1.3 billion program.

Councilmember Phipps said I'm still struck by the fact that as much as the Airport is expanding and growing that the only safety and security components that we are looking at are the baggage claim handling area. Nothing about the physical security around the Airport, the perimeters?

Mr. Cagle said I'm sorry that is one of the primary drivers, the other two drivers are additional Fire personnel and Police personnel and Airport personnel. With Police it is basically partnering with them for what we call a corporate security model where we take on security functions post-security and they take on security functions pre-security; curbside, checkpoints, it is a very traditional model today in airports but it does involve inherent in the request, additional resources in dollars to do the final implementation of that transition. Again, I won't waste time on the budget priorities; I know you've seen those. Our CPE, we've shown to be consistent against American hubs, our CPE is the lowest in the industry, certainly among large hub airports. Atlanta, while it is not an American hub is our closest competitor at around \$4; Phoenix is our closest competitor amongst American hubs at just under \$5.80; \$5.79. The \$1.56 reflects the request included in this proposal. I will also say for those of you who like the details, or just want to read more about the Airport, we have included a summary of more detail of each of the specific items after the presentation in your packet.

Mr. Howard said the express to the airport that was in one of the airline requests; what does that look like? I know we have the sprinter bus that goes now but the request from the airline is a direct bus from downtown to the airport without stops?

Mr. Cagle said no, it is actually already in service and has been for six months. There are two express buses, one running from the Archdale Station in the southern end of the City and one running from Northlake Mall up north and they are one stop; Northlake Mall to the airport and Archdale to the airport.

Mr. Howard said that is for employees right?

Mr. Cagle said for employees with an employee badge it is free; passengers can use it at the regular stated CATS express rates.

Mr. Howard said how do you advertise that to customers to let them know that it's there?

Mr. Cagle said we have been working with CATS to advertise it and now that we are making it permanent we will start to advertise it more. We have heard from employees who are very excited about the permanency of this; it has been in a pilot and now it is going permanent and the employees love it.

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ITEM NO. V: ADDITIONAL INFORMATION

Interim Director of Strategy and Budget Kim Eagle said the only other thing on the agenda was additional information. We have the follow-up question responses from the April 8th Workshop. Those are in the back of your packet beginning on page 32. I don't believe there are any clarifications today but let us know if those come up. In addition to that if there are follow-up questions from the CATS presentation that was distributed on April 8th we are happy to talk with you about those as well. I'm not sure if there will be any of those today, but we did remove that from the agenda because of time constraints, so the next time we will be together for budget purposes is the recommendation on May 4th when the Manager brings forward the recommendation. I know there will be lots of work in between now and then with you all, but we don't have another Workshop formerly scheduled.

Councilmember Mayfield said a concern that we have these and unfortunately we do not make it through a third of the conversation that we need to have and we are saying the next time we are going to have this discussion is going to be time for recommendations and we keep trying to figure out adding an extra date in to try to go through this actual budget. I personally am not comfortable with even hearing recommendations on May 4th because we have yet to actually get through the proposals so far. We are still at a very preliminary stage with trying to go through this budget and because of the questions that we keep asking multiple times in multiple ways we have yet to actually get through the full packet. I think there are some challenges around the idea of a proposal coming before us in a couple weeks when we still haven't fully gone through this and vetted it to really have any real conversations outside of two or three people, one or two people, individuals looking through it and deciding everything they say no to, but not having a clear understanding of the implications if we don't move forward, but also what are you saying that you support because the majority of the time is spent on what I don't like or what I don't want. I don't know how we are going to figure out, but we need to get another meeting in that is actually going to be moved along to get through this packet.

Mayor Clodfelter said I think to Ms. Mayfield's point when you present, if you do present on May 4th Council will not have had a chance to have seen what your options were that you consider on program and service changes. We've seen your other options, had some chance to see the other options, but will not have had a chance on that date to have seen those options. I don't think that captured her full point but certainly a piece of it.

Councilmember Phipps said that really does dovetail to what I was going to ask, if there was an appetite for another Workshop. We've exceeded our normal number of Workshops by one and to have another one would be by two, but it is a legitimate question, how do you work through as much complex material that we have before the recommendations? The only way you can do it is either through a Workshop or individual one on one meeting with staff. Does anyone have any ideas?

City Manager Ron Carlee said I'm happy to offer a couple of ideas. This is probably my 39th budget and one as we bring all of this together now which is what we begin doing probably when we finish the Workshop and the actual recommendations begin to take shape we will be communicating with you individually or in small groups as to what that is looking like as it all comes together. In the end the recommended budget is just a recommended budget and while this is not the norm in the way Managers typically present their budgets, this is not a normal year and it is my intent as a part of my recommended budget to provide you with a menu of alternatives that I did not incorporate so that you have a longer menu to select from. I will give you what our best professional judgment is, but I think we will be able to show you some other things if your policy judgment is different. We will have some of that laid out but we won't get every idea that you may have, you will come up with some other ones as will the public once the recommended budget comes out. What you may want to think about is whether or not you want to try to get another work session in budget deliberation after the recommendations.

Mayor Clodfelter said Ms. Mayfield I think that might be the more appropriate place because you will then know what the Manager's full range of alternatives were but I think to your point at
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that time we don't have a lot of time to continue to go around the same issues over and over again. At that point we will need to start crystalizing some options.

Councilmember Lyles said I think when you look at the schedule that we've got one of the most important parts is having the May 11th public hearing so that we can hear back from the public as well so I wondered if we could, there is a Monday in June, I don't know if we are going to have a Workshop or not for the first Monday in June, I'm assuming that we are, but we've got May 11th the public hearing. My suggestion would be that we actually incorporate any additional Workshops after the public hearing. Because the public will also have a chance to weigh in on what the Manager's recommendation would be.

Mayor Clodfelter said that is a good suggestion but I want to be sure what is available at public hearing does include your rejected options. Will the public have access to see what you considered and did not do so they can comment on that?

Mr. Carlee said going back to my earlier comment, I would expect to provide those other alternatives within the actual budget itself; they would be disclosed up front.

Councilmember Driggs said we never did reach a conclusion about financial partners; we have no number in there for them. There are a couple capital account items that we haven't put a number on. I think the ideas that have been put there collectively do present a possibility of a solution so I'm looking forward to hearing your suggestion as to how those parts all fit.

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ADJOURNMENT

The meeting was adjourned at 4:11 p.m.



Emily A. Kunze, Deputy City Clerk

Length of Meeting: 2 hours, 41 minutes
Minutes Completed: May 13, 2015