OCTOBER 14, 2008

MINUTES OF MECKLENBURG COUNTY BOARD OF COMMISSIONERS

N O R T H   C A R O L I N A
MECKLENBURG COUNTY

The Board of Commissioners of Mecklenburg County, North Carolina, met in Budget/Public Policy Session in Conference Center Room 267 on the 2nd floor of the Charlotte-Mecklenburg Government Center located at 600 East Fourth Street on Tuesday, October 14, 2008 at 3:00 p.m.

ATTENDANCE

Present: Chairman Jennifer Roberts and Commissioners
Karen Bentley, J. Daniel Bishop, Dumont Clarke
H. Parks Helms, Bill James, Norman A. Mitchell, Sr.
and Dan Ramirez
County Manager Harry L. Jones, Sr.
County Attorney Marvin A. Bethune
Clerk to the Board Janice S. Paige

Absent: None

The meeting was called to order by Chairman Roberts.

Tax Assessor, Garret Alexander and Finance Director Dena Diorio presented the meeting's topics Revaluation Update and Capital Budget Update.

(1) REVALUATION UPDATE

Tax Assessor Garrett Alexander addressed revaluation. The following was covered:

- The Purpose of Revaluation
- Revaluation Timing (It was noted that the last revaluation was in 2003.)
- Revaluation Impacts
- Commercial and Residential Values as of 10-14-08
- Status of 2009 Revaluation
    - Neighborhood Delineation
    - Cost Study
    - Acre Bases/Site Values
    - Regression Modeling
    - Commercial Income/Cap Rate Studies
    - Market Trends/Sectors
    - Office Market
    - Retail Market
    - Industrial Market
    - Geographic Areas

- It was noted that
    - Currently about 68% of all real property value is residential, 32% is commercial.
    - If commercial declines, then it will shift that real burden over to the residential segment.
    - The impact operationally if revaluation is delayed is that staff would have to reexamine all of the property values and there are roughly 360,000 parcels.

- o Also, the County would have to pay for a new CAP rate study, which is done by a MIA firm.
- o Currently the tax rate is not the amount that it's set at, in terms of its effectiveness.
- o The current sales ratio, that comparison of sales value to selling price, is 82.9 percent for Mecklenburg County as of January 1, 2007, which was the last time it was captured by the state. Using the state's standard, Mecklenburg County's effective tax rate is 69. 53 cents roughly is what that effective rate is against that value. So equalization helps to bring the effective tax up if nothing else is done.

Comments

Commissioner Bishop asked for clarification of the statement "If current market trends in several key sectors of commercial real property continue, a larger portion of the tax burden will be placed on residential owners;" and does this mean staff expects commercial values to decline relative to residential property values. *The response was yes and if the trends that the Citizens Revaluation Advisory Committee saw come true.*

Commissioner Bishop went on to ask if revaluation was delayed does that mean commercial properties would proportionately bare a higher tax burden until the revaluation should occur. *The response was no and that the difference is that staff knows what market value is now and that is the value that would be placed on commercial property. It was noted that it may be 18 -24 months before staff can inform the Board about what those trends will do. So to delay potentially, depending on how severe or fast they occur, could or may impact it. It was noted that there's a relative relationship, a ratio between where commercial properties and residential properties are valued and what proportion each carries as a burden for the total taxes.*

Commissioner Bishop asked was staff saying that trend, if allowed to continue longer before staff next set the values, might result in heavier tax burden being placed on residential. *The response was yes.*

Commissioner Helms and Commissioner James asked for clarification on the information provided regarding Commercial and Residential Values as of 10-14-08, which was addressed.

Commissioner Clarke asked how long has the County deferred revaluation. *The response was two years.*

Director Alexander recommended that the Board move forward with revaluation.

A copy of the presentation is on file with the Clerk to the Board.

(2) CAPITAL BUDGET UPDATE

Finance Director Diorio gave a Capital Budget Update. The following was covered:

- Interest Rate Environment
- Remarketing of Bonds
- Financial Exposure
- Update on Bond Sale (It was noted that departments have been informed that no new contracts requiring capital dollars should be executed. Also, that immediate cash needs are being identified.)
- Projected Sale Amount
- Possible Deferred Projects
- Timeline

A copy of the presentation is on file with the Clerk to the Board.

Comments

Commissioner James asked to see the list from Charlotte-Mecklenburg Schools regarding the construction activity on 20 school projects that may possibly be deferred because of a reduced sale amount.

Commissioner James asked that a letter from the N.C. Department of State Treasurer, Deputy Treasure, Vance Holloman dated October 9, 2008, concerning Current Conditions in the Debt Market addressed to Officials of Local Governments and Public Authorities and letter dated October 9, 2008 from First Southwest Company to Mr. Richard Moore, State Treasurer be included in the minutes. *Note: Letters are at the end of the minutes.*

Commissioner Bentley asked had any thought been given to increasing fund balance. *The response was that the County is in compliance with its fund balance policy and that it would be the decision of the Board to change it.*

Kathy Drumm with Central Piedmont Community College addressed the school's 18 percent enrollment increase. Ms. Drumm asked the Board not delay CPCC's capital projects. Ms. Drumm said if projects are delayed, CPCC will miss an opportunity to save dollars because the market has gone down and they're getting better prices.

Commissioner Ramirez left the meeting and was absent for the remainder of the meeting.

Guy Chamberlain with CMS addressed schools under construction and the impact of delays. He noted also that CMS is getting good pricing from contractors because of the economy. He said he's afraid that when the economy resurges prices will start to go back up.

Note: The above is not inclusive of every comment and/or question asked but reflects key points and requested follow-up.

Insertion of letters as requested by Commissioner James. See below. Letters are also on file with the Clerk to the Board.

OCTOBER 14, 2008

North Carolina
Department of State Treasurer

RICHARD H. MOORE
TREASURER

State and Local Government Finance Division
and the Local Government Commission

T. VANCE HOLLOMAN
DEPUTY TREASURER

October 9, 2008

TO: Officials of Local Governments and Public Authorities

FROM: Vance Holloman, Deputy Treasurer TVH

SUBJECT: Current Conditions in the Debt Market

There have been a series of unprecedented events in the national and international financial markets which have greatly impacted the market for municipal debt. We have received a recent update on the municipal debt market which we wish to share with all of you. We share the concerns sited in this report and encourage local governments and public authorities to be very cautious in their debt management practices.

There is very limited liquidity in the current debt market and this has resulted in limited demand for new money issues and increased rates on variable debt outstanding. Although some units have continued to finance smaller projects through private placements with financial institutions, these financings have carried higher rates.

Local units should carefully evaluate their ability to service their current and any new debt issues in light higher rates of proposed debt issues, of increased variable debt rates and the potential loss of revenues due to the current economic downturn. Until market conditions become more settled units should limit their debt issues at this time to essential projects that can not be delayed.

Members of our staff are available to discuss specific projects of your unit and answer any questions that you may have. You may contact me at vance.holloman@nctreasurer.com or 919-807-2351. You may reach Tim Romocki at tim.romocki@nctreasurer.com 919-807-2360.

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October 9, 2008

Mr. Richard H. Moore, State Treasurer
North Carolina Department of State Treasurer
325 North Salisbury Street
Raleigh, North Carolina 27603-1385

Dear Treasurer Moore:

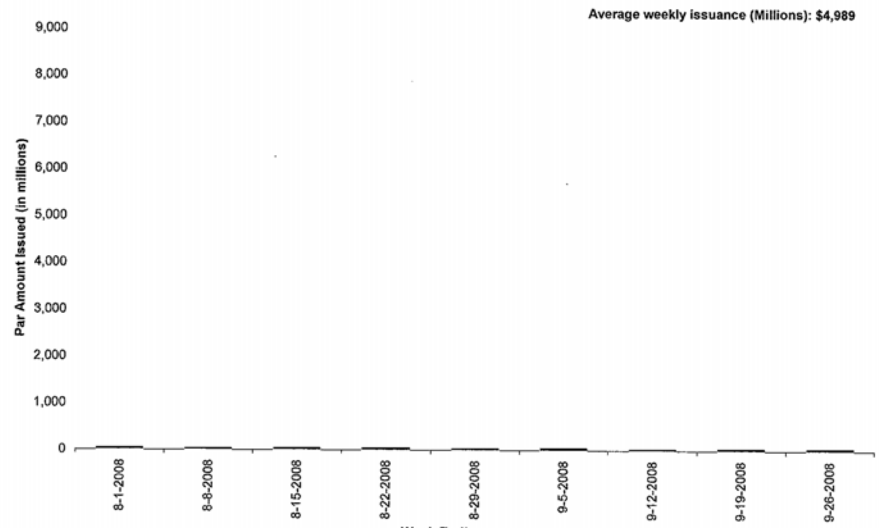
Per your request, we are sending you this letter to provide an update on current market conditions and offer recommendations for North Carolina local governments with borrowing needs. Market events are happening at unprecedented speed and local governments should continue to exercise prudent and conservative debt management practices. The events of September and October alone are staggering; below is a partial list:

- Fannie Mae and Freddie Mac are put into conservatorship;
- Lehman Brothers becomes largest bankruptcy in U.S. history;
- Merrill Lynch is taken over by Bank of America;
- AIG effectively placed under government control in exchange for $85 billion loan;
- Morgan Stanley and Goldman Sachs become bank holding companies and give up large equity stakes in return for capital investments;
- Washington Mutual becomes largest U.S. bank failure in history and is taken over by JPMorgan;
- Citigroup makes offer to acquire Wachovia Bank. Wells Fargo submits competing acquisition proposal.

The above conditions, and the related market implications spawned by them, have virtually eliminated new issue volume resulting in extremely limited market access for local governments. Many of those issuers that had to sell debt during the past three weeks experienced significantly higher interest rates. Banks and other institutional investors which have historically been among the largest purchasers of municipal bonds have instead been investing in US Treasury obligations, in what is commonly referred to as a "flight-to-quality". In addition, in both the primary and the secondary market variable rate debt has been difficult to place with investors. Outstanding variable rate debt is pricing at levels significantly above previous historical highs and in many cases, investors are exercising their option to put the bonds back. In some cases this increased put activity adds stress to remarketing agents' inventory levels and in other cases results in failed remarketings (with draws on letters of credit or liquidity facilities) which adds to the liquidity issues already facing the letter of credit banks.

Issuers who expect to issue debt in the next 30 days should consult with their finance team (LGC staff, financial advisor, bond counsel and underwriter) to determine the most appropriate course of action in the current market. Many issuers nationwide are delaying their bond sales, at least temporarily. The total new municipal bond issuance nationwide for the month of September dropped to $19.9 billion versus $32.8 billion for last year (source: Thomson Reuters data). The chart below shows the weekly issuance volume of tax-exempt debt nationwide since August 1, 2008.

Historical Municipal Bond Issuance



Source: Municipal Market Advisors

If issuers' borrowing needs are urgent, and should they decide to move forward with their borrowing, it will be important to quantify the potential increased debt service costs and verify that projected revenue sources will be sufficient to meet those increased costs. For issuers who have more flexibility in scheduling debt issues, they may want to consider delaying projects, or at least delaying the financing.

In planning debt structures, the majority of issuers should continue to use a fixed rate structure. For those considering variable rates, they should be extremely cautious in drafting reimbursement agreements and understand the financial burden that a bank bond rate and penalty rates could place on their entity. Having bonds tendered to a letter of credit or liquidity provider was historically considered to be only a remote possibility, but it has become very common over the past several weeks and many issuers are experiencing increased debt service costs as a result. Additionally, the fees charged for letters of credit and liquidity facilities have risen dramatically (in some cases doubling) and many issuers are finding it more difficult to find banks willing to provide these services.

For issuers considering interest rate swap agreements, it is extremely important that they consider counterparty risk and that they quantify the potential termination payments that could be owed if a termination should occur.

With the considerable economic pressure and budget uncertainty, we urge caution in planning for future debt service payments. Revenues may not continue to grow at the rate they have in the past and issuers should have alternatives in place and build in a cushion for a worsening economic downturn. In scheduling bond issues, it is important to build flexibility in the timeline in case the issuers need to postpone their bond issue at the last minute.

We are hopeful that the current market situation is temporary and the markets will return to some level of normalcy soon; no one can predict when that will occur; however, we do know that the dislocation in the broader credit markets must resolve prior to the municipal market doing so. That will take time and in the meantime an extra measure of caution is wise.

Sincerely yours,

Janice T. Burke

Janice T. Burke
Senior Vice President

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ADJOURNMENT

Motion was made by Commissioner James, seconded by Commissioner Bentley, and carried 7-0, with Commissioners Bentley, Bishop, Clarke, Helms, James, Mitchell, and Roberts voting yes, that there being no further business to come before the Board that the meeting be adjourned at 5:21 p.m.

Janice S. Paige, Clerk | Jennifer Roberts, Chairman