The City Council of the City of Charlotte, North Carolina convened for a Budget Retreat on Wednesday, April 14th at 3:15 p.m. in Room 267 of the Charlotte-Mecklenburg Government Center with Mayor Anthony Foxx presiding. Council members present were Nancy Carter, Warren Cooksey, Andy Dulin and Patsy Kinsey.

ABSENT: Council members Susan Burgess, Patrick Cannon, David Howard, James Mitchell, and Warren Turner.
ABSENT UNTIL NOTED: Council members Michael Barnes and Edwin Peacock.

Mayor Foxx called the meeting to order at 3:15 p.m. and said we are going to have some significant absences today from Council members who have other things that are occupying their time this afternoon. We have a couple of Council members who are coming and will be a little late. Mr. Peacock is coming as well as Mr. Barnes so we will have a corium. This is really information so there is no point in waiting to get started, so Mr. City Manager I will turn it over to you for introduction.

City Manager, Curt Walton, said I wanted to give you a little bit of context of where we are in the process because this is a little different type of year. At the Retreat in February we told you that for this current fiscal year that ends June 30th, that we were looking at an $8.5 million deficit due to sales taxes. Since then the property taxes have improved by about $1 million. You have appropriated the $7.4 million reserve that we had held back in case something like this happened and we have also identified at least $4.5 million of savings in the operating departments for this year. We are well to the good of $8.5 million that we had identified as a deficit for this year. This year is handled so I just wanted to make sure you understood that for June 30th this year, unless something extreme happens with revenues in the next 10 weeks, we are just fine this year and no more action would need to be taken. We also mentioned at the February Retreat that the year beginning July 1st, FY11 would be $9 million to $11 million short of where we were in the current year. When we actually put the numbers together and started working through the process the number was $10.3 million so we were in that range of about mid-point in that range of $10.3 million. At the last budget retreat we worked through those 48 items, the legal size sheet, that got us down to $2 million of reductions if you agree ultimately in May and June with our recommendations. What we wanted to do today was to carry you from the $2 million towards balancing which we will show you how we are recommending to do that.

Because this year is different basically between last meeting and this meeting I will have made my recommendations to you that we will formerly make on May 3rd, but because we are in a different position, I thought it merited getting the information out there sooner. In past years we have talked about how to spend new revenue. We don't have that problem this year so we have never been in apposition of reducing the budget in order to have it balanced. We wanted to get particularly the reductions from last month out on the table earlier and to make the recommendations to you today. There are two areas that we are not ready to make a recommendation on. One is the next item, Utilities rates. We wanted to hear this discussion today before we made a recommendation to you in a couple of weeks. Also in Storm Water we are looking at a couple of options that would help us increase the speed of the program. We have recommendations for you today, but we are also continuing to look at that so that could evolve a little bit more over the next several weeks. The goal of the budget retreats is always to avoid surprises, but this year, with the exception of the Utilities rate and the Storm Water Program you will essentially know by the end of today where we are and what my recommendations would be assuming nothing significant changes in the next three weeks. Do you have any questions on the current year or the process for next year?

Mayor Foxx said hearing none, I just want to say again that in a very, very complex fluid kind of revenue environment that I think you and the staff have done a remarkably good job at helping us manage it but also helping us stay informed. I think we started this process at an earlier stage than in years past and it has served us well.

Mr. Walton said thank you Mayor, it takes a village, and I appreciate that.

Mayor Foxx said we want to talk about Utilities and by way of introduction, Council member Cooksey is Chair of our Restructuring Government Committee and at an earlier point this year we asked the Restructuring Government Committee to look at Utilities from a very broad perspective, particularly looking at the rate structure and other things. Mr. Cooksey, I want to thank you for your work, you are one of the most diligent folks I know, even outside of politics and I appreciate the work you are doing on this.

Council member Cooksey said thank you Mayor, and also Council member Kinsey is a Committee member and also Council members Mitchell and Cannon. By way of introduction, we have been going through this rather painful exercise each year budget cycle for a while now. We are still feeling the after affects of drought where we had to raise rates considerably more than we had anticipated and were kind of caught by the fact that we need the revenue for our infrastructure. The City may charge people for water but we don't really pay much for the water itself on our own. We are paying for the pipes, the plants, the mains and the treatment. That is what we have to keep up with our growing population. By way of introduction to Barry Gullet's presentation today, I would like to keep in mind for Council the task is really three elements. One, we do have to pick a rate level for this year. The presentation you will see will remind everyone how we get to a rate structure. It all driven by established policies and there will be options. Within the established policy we have a few options on an actual rate structure where the burden gets shifted around in a variety of ways. I think the second question before Council is one we should be dealing with always at this time, are we content with our existing policy structure that leads to the rates that we charge. Do we want to consider, and this can be something you can throw back to Restructuring Government, do we stay with the continuing policies we have that lead to the rates that we are changing or do we look at changing those around a little bit, perhaps tweaking them or looking at the more wholesale for next year. The third category of decision to be thinking about is the capital program. We touched on this some last year and Mayor Foxx in particular, I remember you were talking about the implications of the capital program, but the Restructuring Government's review really again brought home how much the capital decisions that we agree to currently affect the rate structure two and three years down the road. As a third item I think the Council should consider during this time period is what decisions do we want to make about the capital program that won't have a thing to do with the rate structure this year, but will change the way future Councils need to address incoming revenue for Utilities, but also keeping in mind that it is not purely about the revenue needs, it is also about how we keep up with our growth and how we need the obligations that we as a city have for providing clean water and treating unclean water for the hundreds of thousands of residents of the municipalities of Mecklenburg County.

Mr. Cooksey said you have in your packet a copy of the slides for this presentation plus, if you are really interested, you have the more detailed slides Restructuring Government was presented including some of the most complex charts I have ever seen anyone create, but they were well worth it.

Barry Gullet, Utilities Department, said I will try to boil down three or four solid hours of presentations that we went through with the Restructuring Government Committee into about a 30 minute presentation, so realize that we went into the painful levels of detail with Restructuring Government, more detail than we have ever gone into with water and sewer rates with Council that I can ever remember. If you have questions as we go through, please ask, but this is the highlight version of several different committee meetings.

Mr. Gullet used PowerPoint for his presentation and said we started the discussions with Restructuring Government Committee by talking about the parts of the rate setting process and how we get to a final water and sewer rate. The first part of that is we have to determine what our revenue requirements are and there is a direct relationship between our revenue requirements and the level of service that we provide to our customers and out community. The second step is we have to predict or project the amount of water that we are going to sell during the next year. We are selling a commodity, so if we are selling a commodity we have to know how much we are going to sell, we know what our fixed costs are and that gives us a rate, a dollars per gallon rate. The third part of is we have the existing policies and guidelines that Mr. Cooksey talked about that we apply then to that information and that results in a chart of rates and fees. That is the process in a nutshell. There is a lot of complexity to each of those steps. Mr. Cooksey talked about the three things and these are the three things so I won't dwell on these, but I want to reemphasize that what we are presenting today is within the existing policies and existing guidelines that we've heard from Council in the past and have been established through City Code and through direction in meetings like this. What is driving our operating costs in

Utilities? There are a lot of external drivers and for next fiscal year there are about $4 million of increases that are expected. (Last slide on Page 6) You can see what they are and there is only one of these that we have any control over at all, and that is the customer service improvements. I will talk about that in a little more detail in a minutes, but again keep in mind that we are looking at a $4.3 million increase in operating costs driven primarily by external factors.

Mr. Cooksey said before you leave that slide and because it is the largest one there and we ask for it, could you make sure you clarify what cost allocation means?

Council member Peacock and Barnes arrive at 3:27 p.m.

Mr. Gullet said Utilities is an enterprise fund, but we pay for services that we receive from the City. Cost allocation is the amount of money that we pay to the City for services, legal, payroll, all those things that go into supporting the Utility Department. In this upcoming year there is a very significant increase in the cost allocation and it is being driven by two things. One is that more of the work from utilities call center has been shifted to the 311 call center so since we pay for those services that we get that is a cost that we have to pay for. The other part is a change in the say that the City allocates costs. Those two factors have driven the cost allocation from the Utility fund back to the general fund up about $1 million for next year. If I were sitting in your chair and I would ask, okay so that is why costs are going up, so what are you doing to control costs? I want to tell you that we have been doing a lot to control costs and we've been doing it for a long time. Some of you were around in the '90's when we were doing managed competition and I will tell you that managed competition changed the way we do business and it changed the way we staff utilities. We have cut positions consistently. We have cut budgets consistently. We have absorbed costs and where we are today is that we actually have 60 fewer positions in utilities than we did 10 years ago. This has had some impacts on service levels that you will see in a few minutes. You have seen some of them already but last year we froze the funding or eliminated the funding actually for 97 positions in utilities. That is the equivalent of laying off 97 people, but we've managed our vacancies. We have an additional vacancy level above the 97 that aren't funded of about 30 and we've held those vacant as much as we possibly can. The only positions we've filled in almost three years are positions that we absolutely had to fill to meet regulatory requirements, to be able to keep a single person in a lot of cases at a treatment plant as we are required to do. If you look at the growth of our system and the number of positions that we have you can see that our number of positions per account has gone down. (Last slide on Page 7). The industry norm is closer to two back where we were 10 years ago or so. We are in the 1.5 range right now. There are several affects of this on our service level. Three of the biggest ones are on the screen (First slide on Page 8). The biggest one in my opinion is our Customer Service Level and quite simply our Customer Service Division is under funded and has been for a long time. What that means is that within Utilities we are taking money from other operating areas and covering those cost overruns in Customer Service. We are proposing this year to correct that and would like to completely fund the Customer Service Division and the positions that it would pay for are positions that we have today. They are called over hires or temporaries, people that are here, but they are being paid from some other source. It is causing a problem throughout the area and the areas they are working in, there are two places that we touch bills that can cause Customer Service issues and generate customer complaints. When we go out and read meters we generate this large data base and when we process that data base it kicks out exceptions so we have an opportunity before we send bills out to review and make corrections if there are any that need to be made, then we mail the bills out. If we have missed any and the customer recognized that, which they usually do, then they call and we have another opportunity to deal with that, but it is a lot more work on the back end than it is on the front end. Most of the positions we are talking about here are on that front end. They are trying to make those corrections and adjustments and deal with the exceptions that are kicked out of the meter reading process before the bills go out. Our response to water main leaks is long. We are estimating now that it will take 12 weeks from the time a customer calls in and says there is water running down the street in front of my house, before we will have a crew out there to actually make that repair. That is way too long. We have 19 crews that are vacant, 19 crews in our field operations area that there are no people in and that is one of the reasons it is taking us so long to get to repairing the water leaks.

Council member Barnes said to that issue have we considered using private contractors to respond to those leaks on a more timely basis? I can envision some of the challenges that might arise. Has that been something we have explored?

Mr. Gullet said we've not only explored it, we have done it. The problem is that just as there is no money to pay for the people, there is no money to pay the contractors.

Mr. Barnes said wouldn't it be cheaper to hire the contractor to make the repair than to pay a full-time employer with benefits and taxes.

Mr. Gullet said actually it is not. Actually it is the other way around.

Mr. Barnes said for one repair?

Mr. Gullet said the issue is we don't have one repair, we have hundreds of repairs.

Mr. Barnes said I hear you, but what I'm saying to you is that I would like to see why that is the case. What I'm asking you is if you've got hundreds of repairs, that is why it is taking two weeks to get to them, but would it not be possible to have one of these crews who we spend millions of dollars on in the consent items doing some of this work for us at a preferred rate for example. Some of us have been a little exercised for five years at the amount of work that is done for the Utilities Department by companies outside of Mecklenburg County. What I'm asking you is whether we've tried to establish a relationship with any of those companies that would provide us with some preferred rates to do that work?

Mr. Gullet said we will get you that information. We've used them for routine repairs, particularly during the drought. We have quite a bit of experience and data from that during the drought when we were using contractors to help us keep caught up, particularly on emergency repairs. We have working relationships with contractors that we can call in to get those emergencies done. We can get you that data.

Council member Carter said Mr. Gullet you and I just had a conversation about manning these crews and I expressed to you my concern for the safety of the crews and you I think endorsed that concern and expressed a concern for the single person at a water treatment plant or whatever plant it is being perhaps a threat to that person and that individual's safety. I do want my colleagues to realize that we are dealing with safety of people, the number of personnel involved in repair, etc. There is a safety element here which we need to respect.

Mr. Gullet said there is a safety element for the employees and there is a safety element for the public as well in that sometimes utility issues can create unsafe conditions. We try to be as responsive to that need as well as we can. The third area where our service level is suffering is our maintenance of plants and equipment. We are deferring a lot of maintenance of plants and equipment, for example we have accrued a backlog of almost $8 million in deferred equipment purchase. This is equipment that is evaluated periodically and once it reaches a certain point is recommended to be replaced. We put those replacements off for several years so we have accrued a large backlog of equipment that needs to be replaced. There is nothing proposed in this budget to increase funding for either of those last two items on the service level. What makes up our operating budget? (Last slide on Page 8). If you look at it our personnel costs and other operating, billing collections, cost allocation, chemicals and power, those are the main categories of our operating budget. You can see that for the last three years our operating budget has been pretty well flat and has actually gone down. It hit a high in 2008 of $102 million and in 2010 it is $3 million less than that. We have been working hard to control costs. We have absorbed a lot of inflationary costs in construction materials and supplies and fuel costs and energy costs. We are proud of what we have achieved in those areas.

Mr. Barnes said at the end of the slide before that you mentioned not bringing to us a budget that contains a request for the equipment and such that you need. I want to make a statement to you about your department. If you guys need to ask us for money in order to make that department more efficient, we will hear it. What concerns me is that the general public believes that you are pulling one over on us and them. During our last budget committee meeting we talked about this whole idea of explaining to the public what it is that Utilities does and how it does it. If not asking for that $8 million in equipment is costing us $20 million in good will and other associated hard costs, we need to know that because we spend a lot of money on police. We spend a lot of money on firemen and if need to look at something in CMU differently and help you guys do your job better so you are serving the public better so they will feel better about the city and your department, I want to hear it. I'm saying that to say if there is something you need that you haven't asked for, but you really need, we need to know.

Mr. Gullet said thank you and I understand. We would not be responsible if we were not balancing our needs and our cost savings measures also. We are trying to be as sensitive as we can to the economy and to the pain that everyone is feeling throughout the community. We have an obligation to serve our customers, protect the environment and to keep the equipment and infrastructure up. We are not doing it as well as we would like to do and we do have some needs. I appreciate your comments. If you look at our utilities total revenue requirement (First slide on Page 9) it is really made up of three parts. The operating budget which is the breakdown you just saw. The $103 million is the same $103 million that was the total bar on the chart before, a debt service component and then that top part that shows up in green on the screen, is the amount of money that we would use for pay as you go capital and for addition to our fund balance and to cover our bond debt service ratio coverage. We need to generate in Utilities $275 million in FY11 to meet all those requirements. You can see that the increases here are in the debt service. It is almost an $8 million increase actually in debt service. That is debt service on bonds that have already been sold. That is debt service that we can't change so that is a commitment that the City made a couple of years ago. The $33 million on top of that, we will talk in a minute about financial policies and financial goals and maintaining a AAA bond rating is one of those. Moving to a position of using less debt and more pay as you go financing is another and that $33 million is there moving us toward that goal. Also to maintain our AAA bond rating we have to maintain a debt coverage ratio and the way I can understand this, and I'm not really a finance person, so I had to simplify this a lot to understand it. The way I understand it is when you go to qualify for a mortgage, you look at your salary, deduct all your expenses and you have to have more than just your mortgage payment left out of that. You've got to have your mortgage payment as a certain percentage. It works the same way here so after we deduct our existing debt service and our operating costs we've got to have more than just that debt service payment. We've got to have 1.8 times that debt service payment. That is the coverage ratio and that is what that $33 million is about. We have to generate that money and once we generate it we can use that contributing to our PAGO contribution and building our fund balance up to the levels we need it to be. That is what is driving the total revenue requirement. It is not so much operating, it is really debt service and maintaining that coverage ratio. If you look at the capital piece of that on its own it is pretty much the same information that you saw before, but just the capital revenue part of it is the $139 million in debt service plus the $28 million in PAGO. The difference between the $28 million and the $33 million would be the contribution to reserves. The Capital Program, one of the points that we worked really hard on with the Restructuring Government Committee is the long-term view of Utilities revenue requirements. When the City approves the capital program it has a lot of projects in it. We start work on those projects and we award the contracts sometimes a year or two after the capital program was actually approved, the construction contract, and then sometimes we don't even sell the bonds to finish that project until we are half or two-thirds of the way through that project. We are actually selling bonds two or three years, in some cases, after a project was initiated and then the debt service for that bond issue kicks in a year or two after that. That is what I have sensed as part of the frustration in the past when we've stood up here and said there is really not anything you can do about capital costs next year. It is because of that reason that we've already committed. You really need to take a longer term view of the capital program and the impact that it is having on the rates. We've laid out three scenarios here just for discussion purposes about the capital program. (First slide on Page 10) The first is the proposed CIP, the way it is laid out today and proposed today is about $950 million over a five-year period. Even within that we've pushed some projects out a little bit. We've delayed some projects, part of that is because of the state of the economy. The second scenario that we've laid out is a more moderate growth scenario and it would reduce that $950 million by about $270 million over that five-year period. This carries some risk with it. It probably doesn't provide the capacity that we are going to need to serve the whole county. There might be some areas of the county that would come up short. There might be some areas of the county where new connections could be restricted during that time period. The third scenario that we've laid out is an absolute no growth scenario and this one would have us not providing any additional wastewater capacity or any additional water treatment capacity. We would almost immediately go into a moratorium on new connections in parts of the county and very shortly would be a moratorium in the full county. The point is that even in that no growth scenario our debt service will continue to increase for a couple of years because of the commitments that we've already made, because of the bonds that we've already sold, the projects that we already have underway. This cart (last slide on Page 10) shows the comparison between the debt service of those three scenarios. You can see where we are this year, FY10, and then the bars represent those three scenarios, the as proposed, the moderate and the no growth CIP. You can see the relative impacts of those decisions, but I would suggest that you need to compare those relative impacts on the finances with the relative impacts on the community and the ability to continue to build the infrastructure that supported the economic development of Charlotte. I believe that Charlotte's growth isn't over. We are going to grow some more. We are in a transition period right now where the growth has slowed and it is causing a little bit of pain, but I think it is going to come back.

Council member Peacock said on that previous slide it seems like we are going to constantly be chasing the debt always and you mentioned earlier, and I know that it was mentioned before from Doug Bean about moving to more of a PAGO type model as we go forward. How is this going to change going out to 2024? What are the rating agencies now looking for? It seems like they have changed their tone as much as anything.

Mr. Gullet said we are shooting for a 60/40 split. Sixty percent debt service and 40% PAGO for long-term. We are not there yet, but if things go according to plan, we will hit that point in about 5 or 6 years and at that point the PAGO contributions will be significant enough that it will bring the debt service under control and things should be a lot more stable. It also provides a lot more operating cushion than we have today. Part of that strategy is increasing our reserves. Our target has been 35% of our annual budget. We are trying to increase that to 50% of our annual budget. That gives us some wiggle room in terms of the sensitivity of our projects on sales. If we have an interruption to our revenue stream like a very wet year or a very dry year, because our sales are very dependent on weather. Where we are now is that things are budgeted so tightly that a variation a little bit one way or the other has a big impact on our rate structure. We are trying to get away from that and that is a very important decision this year because as tough as times are we really need to stick to the plan. The plan is getting us out of that heavy debt situation that we are in now. Where we've been is about 90/10, 90% debt and 10% PAGO and just a few years ago it was even more lopsided than that. Did that answer your question?

Mr. Peacock said it does, but what will that look like going out the next ten years if you get to the 60/40? I know you don't have that slide and maybe you can send it back in a separate memo.

Mr. Gullet said we actually do rate modeling ten years out. We have that information and will be glad to share it. What it shows is that the rates stabilize. The further out you get the harder it is to make those projections and realize what all goes into those projections. We have to predict how much water we are going to sell, how much the community is going to grow, what our capital program is going to cost, so there are a lot of variables in there and they change. The further out you get the less reliable it is, obviously. We feel pretty good about a 4 or 5 year window and then that next 5 years is our best estimates. Things stabilize pretty well after about 4 or 5 years.

Mr. Peacock said I guess what I'm hoping to see is that I'm going to see a big gap between that first bar and the others, meaning you have a lot less debt to chase at that point. One other quick comment, how did we get to a scenario where it was 90/10? I guess that was the market driving it, it was just common for us to be that highly leveraged on these types of projects.

Mr. Gullet said I've got to go back to simplified again. We have been a growing utility. We've one of the fastest growing utilities in the country for a long, long time. If you think about it, we couldn't afford to pay cash for all that growth. It is kind of like when you get out of school and get married and you start buying a house, having kids and you've got to buy a refrigerator, a washing machine, you can't go out and pay cash for all of that so you finance it and you are in debt for a while. Then as you get older and your kids move out and things kind of slow down a little bit, things start to stabilize. As a utility that is kind of where we are. We've bought the washing machine, the house and the car and we've financed it and now things have stabilized a little bit and we need to be getting out of that we need to be paying cash for more of our purchases. That is the stage we are in right now, but as we move forward and mature as a utility and aren't so growth driven, we will be in a position to be more stable and have less variation in our revenue requirements.

Mr. Peacock said one small counter to that because this was the stick that was held out to us at the time we had the increase in 2008, right around the time we had kicked off a Let's Save Water Campaign. It was this double whammy, save water, things are getting tight, here is your rate increase, thank you very much. The rating agencies were a part of all of this allowing us in a high growth area to get to that type of debt scenario. I'm somewhat skeptical of us acting like a family that needs to buy a lot of appliances here during a really high growth period when we are also at the same time saying we need to be careful about what the rating agencies think about us. Are they changing their tune because I'm curious if they are a part of the problem that we got ourselves in as we were growing so much.

Mr. Gullet said I don't think they are so much a part of the problem, but the rating agencies are looking to us to maintain the plan. One of the reasons we are a AAA rated utility is because of the decisions that Council has made in the past and the support that Council has given to building the things that needed to be built to maintain the economy, the viability and the growth of the general economy in Charlotte –Mecklenburg. That has probably been more of a factor in our maintaining a AAA rating than utilities finances are because if you compare our financial situation to other AAA utilities across the country, we are a lot weaker, but where we are strong is in the management of the city, the economy, the growth and the environment of Charlotte. The rating agencies are fully on board with where we are, but the rating agencies want to see us start transitioning into more of a Pay as You Go structure and less reliance on debt. They told us that and there a lot of other cities across the country that even trying to maintain ratings that are lower than AAA, that are in the same situation. Yes, that is where we are.

Mayor Foxx said I have a related question to that because we are trying to make an assessment from a policy perspective about how aggressive to go on this capital plan. While I understand intellectually that you put the pipes in and development can follow them, what I don't have as good of a feel for as I would like to is what analysis has been done to suggest to us that if we do continue aggressively putting this infrastructure in there that the environment today is going to yield some return on that investment. It is in someway a philosophical question but what we are struggling with right now is in this new normal environment is the old normal way in which we lay out utility infrastructure. Is that adequate or is it more than adequate to what a new normal environment looks like?

Mr. Gullet said that is a very difficult question and let me tell you how we are trying to address that. The thing that makes it a lot more difficult is the time it takes to make those changes. For us to begin planning a wastewater treatment plant expansion, for example, from the time we recognize there is going to be a need until the time that plant gets activated can be anywhere between five and ten years. The whole world has changed in the last five years so how do we do that? We try to do planning as well as we can and then we try to keep tabs on the economy and what is going on and we try to delay building those things until we really need to. We get things ready, we get the projects approved in the CIP, we get funding mechanisms in place, if not the funds themselves, we get the plans drawn, we get the permits, we do all the environmental documentation, but we don't pull the trigger on actually building it until we get to a point where we see that it has to be done. Quite honestly, that is where we are today. Even though the economy has been slow for the last year or two it wasn't slow before that and it was actually going faster, development was happening faster than it had been projected. If you look at McAlpine Creek Wastewater Treatment Plan the month of February it was more than 90% of its capacity. That is way closer than you want to be with a wastewater treatment plant. Those are the kinds of things that we are dealing with, but you still have that long lead time to put it out there. We are still trying to figure out what the new normal looks like.

The Mayor said the other side of that question is what have we looked at on the user side to try to encourage conservation. I know the rate structure is part of that effort, but in our codes, are we looking to decrease the amount of water that we utilize as consumers so that as growth comes on line if you reduce the individual unit usage and expand the number of units in the area, assuming that there is growth, you would predict that you would be able to create more capacity simply by that. Are we looking at things in our regulatory environment to try to address usage?

Mr. Gullet said yes we are. If you look over the last five to eight years, our per capita consumption, the amount of water that each household uses has dropped significantly. Part of that was caused by the restrictions of the drought, but that is lingering and people learned a lot during the drought. When we are talking about conserving water and changing those long-term patterns, you are talking about changing people's behavior, and we've said that before. It is hard to change people's behavior. Regulations can help and some of those have been put in place. A lot of those are building code driven. We've followed that and we advocate for conservation. The other fact to keep in mind is that if we keep using water the way we've used water for the last 10 or 15 years, those increasing patterns, we are going to run out and we don't want that to happen. It is not going to be as long as a lot of people think before it starts to become an issue. We call it demand management like the power company used to man management. Working with our customers, regulatory changes, more efficient use of water, all of those programs we have in place to some extent and that need to be continually reviewed and followed and reinforced.

The Mayor said it just feels like to me that we are running full steam ahead and I'm struggling with understanding how our thinking is evolving as the economy changes.

Mr. Gullet said I can give you a more concrete example of that. If you look back a year or so in our CIP I think you will find that there was a project in there to expand our Lee Duke's Water Treatment Plant up in Huntersville. That project has been rethought. The master planning that we did, we went back and re looked at the population and the demand forecast. That project has been pushed out into the future a lot further. We had some capacity that was not being fully utilized at another treatment plant so we decided that it made more sense to build a new pipeline instead of expanding the treatment plant to serve that area. We are doing those kinds of adjustments on the fly. A lot of that is done at a level that you don't get to see. Maybe we need to share more of that with you all, but that type of thing is happening and it is going on, on a very frequent basis.

Mr. Barnes said a couple slides back you talked about the almost billion dollar proposed CIP over five years and then on the next slide you showed us the debt service requirements and described those. What concerns me is that there may be a ticking time bomb in your department and that either this Council or some future Council will be approached and asked to bump rates by some unbelievable amount of money. I don't feel comfortable that that is not going to happen. When we talk about things that are happening in other city departments I generally feel comfortable that I have a decent feel for what is happening within those departments. In your department, again I have this fear of a bomb and I don't when it might detonate. I hope there isn't one, but I don't know and a lot of this has to do with that issue that we've dealt with regarding those meters. People said there is no way I used 3,000 gallons of water last month because I either live alone or I'm only at the place part time. We sent folks $800 water bills or $2,000 water bills and I had to actually try to defend you and say as far as we are aware, and I actually met with Doug and Denise and looked at the meter and we talked about the electronics and how the mechanical aspects of the meter functioned. It became my job to explain to people that I believed what we, the City, were saying to them, that we weren't trying to take advantage of the general public and I have been asked recently what happened with the meter issue. The dust has settled, but I don't know what we've really come up with in terms of why that was happening. You all have done a fantastic job of working with the public in terms of adjusting bills and trying to diagnose the problem, but in terms of us being able to explain what happened and why it happened, I haven't felt comfortable with that yet. Also since I've been on Council, I have talked with other members of Council about the nature of the contracts that CMU enters into and the sub-contracting and some of the cost built into those contracts and it has always made me a little uncomfortable and this debt model really makes me uncomfortable because again we see the debt service piece going up. Going back to the slide where you talked about the $139 million being necessary to cover debt, again I understand what you are saying, we grew quicker than we thought and we needed the infrastructure to grow, I get that piece. Now it is like we are having to pay the piper. The debt has got to be paid off and we've got to figure out how to pay it and the public is saying, I moved here five years ago, why am I paying a higher rate now, why didn't I pay it back then. We are having to explain what you just said. You bought the house, you had the kids, you needed the fridge, you needed the car, you needed the washer and drier and people in the current economy frequently struggle to understand things like that, as I'm sure you can understand. If there is something that you can do help me feel like there is not a bomb in that department some place I would appreciate it. A few weeks ago we got a presentation from you guys about the new treatment facility proposed on the Catawba River that would serve Mount Holly as well as Mecklenburg County. We hear these proposed projects and we can appreciate what it is that you are trying to do, but I'm not always comfortable that the costs are necessary, the way we are planning it is necessary or that it couldn't be changed in some fashion to make it cheaper. It would help me as a policy maker to know that we are doing the best we can, but also doing it in the most efficient way, saving money where we can. I heard what you said about cutting people and not hiring people and having these skeleton crews, I get all of that, the public doesn't and it is our job to let them know what the deal is. When they see the water bubbling up out of the street some place, I get e-mails, I get phone calls. Why aren't you out there plugging up this hole. You are raising rates and we are in this drought and all this business, why aren't you doing something. What I have to say is we don't have any crews. Why not? You are raising rates, why don't you have a crew? Do you see the world the elected officials are living in?

Mr. Gullet said I do understand. It sounds like the dilemma is how do we communicate more clearly or better and that is an issue that we are certainly willing to tackle. Mr. Gullet continued with his presentation with slides on Page 11, Impact of Major Change to CIP. Again sticking to the plan is an important part. We talked about the AAA bond rating and our Finance Director is here and if you more questions about the impacts of losing AAA, going to a lower rating, Greg is prepared to talk about that. There are really two impacts, the ability to finance projects over all and there is a financial impact that would be on going. The second part of the rate setting is determining how much water we are going to sell. This is as much art as it is science, but the bottom line is that the forecast for next year is for growth of about 1.9%.

Council member Kinsey said I wanted to piggyback on what Mr. Barnes said because I've had contractors who have worked for CMUD say that we waste money. That has bothered me all along. What I have actually been told by a contractor who has worked for CMUD that CMUD does a great job in delivering water and treating sewer but waste a pot of money on construction. That concerns me because that is what drives the rates up. That is what I have been told so I need some level of comfort and I don't know who oversees all the projects, I don't know if Engineering gets involved or if it is just CMUD, but that concerns me.

Mr. Gullet said it concerns me also and I would like to talk with you later about some of the specifics and deal with it at that level.

Ms. Kinsey said I've said that individually sometimes but I felt like it needed to be said on the record, particularly since Mr. Barnes had expressed some similar concern.

Mr. Cooksey said when I hear that I'm curious to know how much of the construction issue is outside of the low bid process. I'm hoping that for construction we are operating on a low bid process. I don't know enough about the construction process to know how a winning low bid would still translate into waste. I guess that might come from change orders that we have to deal with, but I'm addressing the same sort of questions that Mr. Barnes is and we all are. I appreciate your concern, but as you can see your leaks started three months ago and I can show you how that leak began and I understand you moved out of the town home on December 15th, got the bill on January 10th, but the bill says the last … was December 15th. The fact that you haven't been there in three weeks doesn't affect the worry. We've all had to do that kind of explanation. It is worth remembering that this is the one service that we provide that touches every citizen in Charlotte, Cornelius, Davidson, Huntersville, Mint Hill, Matthews and Pineville every day. It is naturally going to have the highest number of questions and concerns raised to us because (a) they have no alternative and (b) it is the one thing they see every day. We have to plow through it and I have said often that no body runs for this office expecting to be on the Board of Directors of a utility company, but we are. We've got to address that and deal with that and learn the bill analysis and teach our constituents that as best we can.

Mr. Gullet said we've talked a lot about the policy and guidelines. The main point is that there are goals that we haven't gone out into a rate setting process sort of willy nilly. There is an established rating setting methodology. It is referred to in the City Code. It started in the 1977 and that is what we are following to determine our rate structure. In addition to that there are financial goals that we talked about the debt service issue increasing our PAGO contribution, maintain the bond rating, but then we get to the rate structure. The rate structure probably deserves a little bit of explanation. There are several parts. We have a fixed component of our rates and the City Code and our rate methodology say that the fixed component is supposed to recover the cost of providing billing and administrative services and managing the accounts. They we have a residential structure, four tiers, and we have capacity and connection fees. As we move into those keep that structure in mind. I know there is a lot of interest in a zero rate increase. Here are the issues with a zero rate increase. If you take our current rates and our projected sales for next year you wind up with a $13 million gap. You can tie that $13 million back to that increase in debt service, the contributions, the PAGO and the contribution to fund balance. There is really a couple of possibilities for addressing that. One is to further reduce the operating cost. We've talked a lot in the last few minutes about service level impacts. We've cut so far now that service level is really suffering. I don't think it is advisable to continue cutting that service level. The other option is reducing capital costs. That is a long-term process. There really isn't anything you can do to stop that $7.7 million increase in debt service from happening next year. The bonds have already been sold and the papers signed so that is going to happen. The only options for reducing capital costs are at least 2 yeas down the road. Jumping back to our rate methodology, there is some rhyme or reason as to how we assign the tiers and how much revenue we are trying to capture in each tier. The first tier is supposed to be pretty much a lifeline rate. It is for low users and recovers the base cost for providing normal water and sewer service. We move to tier two, that adds the costs of a higher use day, a hot summer day but not the cost that people are causing by going out and watering their yard extensively. The third tier starts to add more of those costs. When people water their grass a lot and use a lot water, we have to build a bigger pipe, we have to build more capacity in the treatment plant. Some people have talked about the fact that our water treatment plants seem to be over built, but you don't have a choice. You have to able to meet that highest demand that your customers hit you with. We don't have a knob that we turn every morning that says we are going to sell 100 million gallons of water today. It depends on the people on the other end. They are turning the valve, not us. We have to keep the pipes full and the water getting there and there is a cost of doing that. This rate methodology is based on assigning the cost of providing the service to the people who are incurring the costs.

Mayor Foxx said isn't there an economic disincentive for us to peel back demand? I think that is really the nub of the problem. We all want to see demand go down, but our capital program is driving us toward consumption. What I'm trying to figure out is, is there a game changer in this equation because I just see us going down the same road.

Mr. Gullet said part of the game changer is getting back to less debt financing and more Pay As You go and getting a handle on that demand. We have to get a handle on the water usage and we've got to lower that ratio between those peek days and those average days. If we can use the capacity that we have in the water plants for some time then we don't have to expand them, but as long as that peek keeps going up and up and up then we have to keep expanding. Then in only gets used a handful of days and then that drives those higher tiers even higher. There are conflicting goals.

Mr. Cooksey said I think one way to think about that is to use that per capita usage and growth. It is not that we necessarily have the disincentive to encourage people to use less water. What we have to keep in mind it is the balance between we want the typical user to use less to free up the capacity for the additional population growth that we have. We all know we are currently in a slow down but it is all our hopes that our growth will return to somewhere near previous levels. If I'm using 30 ccf a month and I get my usage down to 20 then when John Doe moves in and starts using 20, then combined we are using 40 we are still using more than I was alone, but I'm using less and my neighbor is using less so overall it is smoothed out what the capacity requirement is for, but we still will need to grow to provide the 40 ccf per month for the two of us whereas before it was just 30 for me. I don't know that we should over emphasize this notion that we have a conflict between wanting consumers to use less, and yet needing consumption to fund things. There is a different way to getting the revenue than just relying on the existing customers to use more.

Mayor Foxx said although we are taking longer than 30 minutes to do this, it is a huge deal and I think it is one of the higher level conversations we've had on this topic. The old thinking was pipes equal growth but I'm not so sure that is the only formula right now. Revitalization activity vertical development using existing infrastructure could be part of the solution here. I understand there is still some consumption issues with adding people onto a system so you still have some infrastructure issues, but I think the information is too defused for me right now to feel comfortable that we are assessing it all. Maybe we should have a meeting and you can convince me that that is not the case.

Mr. Gullet said if you look back at our capital program through the years, you don't have to go back too many years, and we could illustrate our capital program very well on a map because it amounted to expanding our service area. If you look at our capital improvement program map today you won't see much on there because a lot of our work is not extending service area, it is replacing old pipes, it is building pipes to move more water from this side of town to that side of town, but it doesn't expand the service area. That is one of the other conflicting issues with our capital program. It used to be that every project we built in the capital program almost instantly started generating new revenue from those new customers. That is not the case anymore. We are building more and more projects that don't generate any new revenue. If you are ready we will move into the rate scenarios. We've looked at a lot of different rate scenarios and there are three that we are putting on the table today for discussion. Here is the current rate structure this year. (Last slide on Page 15). You can see how it lays out with a fixed charge if you don't use any water at all, you get charged $1.80 per month. If you have a sewer account you get charged another $1.80 and then for every 100 cubic feel of water that you use, which is 748 gallons, you get charged per ccf. I will show you three options and will tell you that all three of these options are designed to generate exactly the same amount of revenue. There are variations of how you would distribute the collection or the charge of that fee. All three of the options I will present include an increase in the fixed charge. That increase is 2 cents per day for water and 2 cents per day for sewer and we actually build these on a per day basis. We say it is $1.80 per month, but it is 6 cents per day. It would increase those 2 cents and the purpose of that is to fund that customer service division. Remember we talked about that earlier as being a problem. That additional 2 cents per day would fund our customer division to a level that it needs to be funded for today's operations. It would leave the water rates alone. It would not change any of the tier rates, would not change the commercial water rate, but it would have an increase in the sewer charge. The logic behind this scenario is, if you remember our rate methodology is based on cost of service. Our water rates are generating almost exactly the right amount of revenue to support the water system. Where the shortage is, is in the sewer system. That is where we've made larger investments in the past and that is where we are proposing making a lot of them in the future. That is one scenario. We do have a little bit of flexibility in how we assign cost, so that gives us some room to make minor adjustments. The second option would amount to an across the board increase. It would still increase those fixed monthly charges, but it would also increase each of the tiers, the commercial rate and the sewer rate. The third scenario would increase the fixed charge and it would increase the unit charges in tier one and tier two for water consumption. It would leave tier three and four alone. It would increase the commercial, the nonresidential rate a little bit and it would increase the sewer charge. To help put this in perspective, we have compared what the impacts that this would have for different types of customers, different usages, people who use different amounts of water. In their current year, people who use these different amounts of water would pay the rates you see on the screen. (Last slide on Page 15). In option one that 4 ccf customer, and 40% of our customers use 4 ccf or less each month and these numbers are combined for water and sewer total. (First slide on Page 16). So 40% of our customers would see a $2.44 increase in their water and sewer bill. An 8 ccf customer, and 75% of our customers use 8 ccf or less of water, so the majority of our customers would see a $3.68 per month increase. A 16 ccf customer, only about 5% of our customers reach this level, so 95% of our customers are under this amount, would see a $6.16 increase. A 32 ccf customer, this is the top 1% of our residential customers would see an $8.64 increase in their total water and sewer bill. Options two and three you can see how they compare. Again, all these options generate the same amount of revenue, it is just the matter of how it is distributed through the billing system.

Mr. Peacock said can you explain the no water increase across the board and increase tier one and tier two and what those sub-headings mean?

Mr. Gullet said no water increase means that we would leave the tier rates alone. Under the no water increase the current rates are here and they stay the same for water and the only increase is in the monthly fee and in the sewer charge. In the across the board, we have adjusted every rate on the chart. In the option three, increase tier one and two, again we increase the monthly fee and we've raised tier one a nickel and we've raised tier two from $1.64 to $1.75, but we've left tier three and tier four alone. We've increased the non residential which is commercial by 6 cents and we've increased the sewer charge. That is the three scenarios.

Mr. Peacock said this comes off the back of Ms. Kinsey and Mr. Barnes' comments, you said it very accurately, we have a very sensitive public right now where what you communicate and what we communicate is absolutely critical to how successful this message you are talking about is getting across. I think if you put it in simple terms of you are now going to have to pay a nickel more a month, that would be much more digestible to somebody who believes that you (a) were accurately reading my water and (b) when I made the phone call to you, you weren't telling me that I was the problem and I needed to solve it and I needed to get a plumber in this defensive tone that we saw prior to this. I think that is the phase that we are in as we approach this and we've got to have a real clear communication plan out of your department and be working lock step with Kim McMillan to help us make sure that they understand that this is not just another game we are playing with them.

Mr. Gullet said right.

Mr. Barnes said I want to ask a question a couple slides back, under option two if you have the fixed charge at $2.40 leave tiers one and two at $1.45 and $1.64 and adjust tiers three and four as you have at $2.82 and $5.56 and again leave the others where they are as well, what does the revenue picture look like. I think you indicated that the revenue picture was the same under each option. I'm asking you that because you indicate that essentially 94% of our customers fall within tiers one or two.

Mr. Gullet said 75% of our customers are in tiers one and two.

Mr. Barnes said 40% use 4 ccf or fewer and 5% use 16 and 1% uses 32.

Mr. Gullet said 40% for 0-4, 75% use 8 or less, 95 % use 16 or less and 99% use 32 or less.

Mr. Barnes said I'm looking at it the other way. If 95% are using 16 or less and you gave us the break down for 4 and 8 I'm trying to figure out what each one of those look like the other way, not top down, but bottom up.

Mr. Gullet said I've tried to do that also and it is confusing. I think what you are getting is what would a scenario look like that left tiers one and two alone and adjusted three and four. I don't think we have run that scenario, but we certainly can. The question would be what would we have to set the rate at for tiers three and four to generate the same amount of revenue if tiers one and two were left alone. The thing to keep in mind is that tiers three and four are the most variable, they are the most weather dependent. The more dependence you put on tiers three and four the more risk there is of not generating or over generating revenue. That is why we try to balance that and base it on cost of service as much as we can. The intent of tiers and three and four is not to be punitive. There is a water conversation message built into that. There is an incentive there to not get into tiers three and four.

Mr. Barnes said consider under the fixed charge making an adjustment there that might accomplish what we are talking about, for example, we pay $10 per month to Piedmont Natural Gas regardless of what our bill is and I'm not suggesting you go to $10, but if you added a few more pennies to that as a part of your thinking and bring it back to us, would that sort of adjustment help balance out?

Mr. Gullet said actually we have looked at something similar to that, but the scenarios that we have here are based on the current methodology and the current policies and what you are proposing is outside of that. That doesn't mean we can do it, you all can change the policy for sure, but those scenarios we are presenting are that the fixed fee collects that customer service costs and that is all. We have looked at scenarios where the fixed fee could recover a percentage of debt service. It does have an impact. It is not as significant as you might think, but we can look at those scenarios and share that with you.

Mr. Barnes said we can change that policy if we want to and if you can show us a scenario under which adjusting that fixed charge would help us get that $139 plus million down, that we would agree to sunset that fee literally, really do it, people would get that I think. If they know we are trying to pay off the fridge, the dryer, the washer and the house and there is going to be this ten year mortgage or five year mortgage and we can present them with the $2.45 per month fixed charge that would help us accomplish that, it moves us in the right direction. I don't like the uncertainty of where we are now because you've got a lot of debt and you are going to say to us at some point, you got to option 3 or some other option may come up and I think if people know we are trying to pay off financed debt and this is how we are doing it, they may appreciate it a little differently. The Mayor made a good point. We are telling folks don't use as much water, yet we are jacking up their rates and the public doesn't get that and they don't like it. Give some thought to that if you would.

Mr. Gullet said we will do that.

Council member Carter said Mr. Barnes I appreciate what you are trying to do. My concern is that the department has deferred costs and by having those deferred costs I see that there will still be bubbles along the way that we need to pay for so I'm not sure that we can assure people that we are going to reduce whatever rate comes through. Trust to me is an important component. I don't want to promise anything that we cannot perform and I don't want to put people on a bubble in essence.

Mr. Barnes said I agree with you, but what I'm suggesting to you is that if we could show that a nickel accomplishes X and pays down the debt by Y and we are committed to it as elected officials and staff is committed to it, and we can really accomplish it. We do this stuff a lot. Some of the stuff that Run Kimble talks about and the stuff that Greg Gaskins talks about is fairly complicated stuff, but you guys figure out how to make these numbers work and you make this stuff happen. What I'm saying is that I'm not shaking my head as much because if there is that scenario where a nickel or 6 cents or whatever it is can help us get that $139 million down to $40 million, I want to hear it. I'm telling you, that debt is going to be a problem.

Ms. Carter said I thoroughly agree with you, but there is X one and X two and on down the line if we allow it. We are hearing that there are deferred costs, maintenance, repairs, equipment that is needed. It is a larger bucket.

Mr. Barnes said that is not a part of what I'm talking about.

Ms. Carter said it has to be because that is the future and we cannot promise into the future without taking that into account. That is my only concern with what you are saying.

Mr. Barnes said what would be interesting to Ms. Carter's point, if you could add in the scenario regarding deferred costs, that would be helpful as well. I thought that in the way you finance your operations that we kind of take that into account.

Mr. Gullet said we are looking at this over a ten-year window so we are trying to take those things into account. I think when we go back and look at that increase in fixed fee I think we will be talking about a lot more than a nickel or dime.

Mr. Barnes said that is fine, I want to hear it.

Mr. Gullet said we will be glad to show you that. We will run that analysis.

Ms. Carter said the other objection I have to that is that it not a tiered approach, so you are impacting all four tiers and hitting some people who are…

Mr. Barnes said if it is the case Ms. Carter that we can accomplish the reduction in the debt for all the people who live in this County. We are all in this boat together whether you got here a year ago or 25 years ago. If you have a scenario where the cost for that debt service is spread out over everybody, it is a fixed charge, not a usage charge and I think that could be more palatable.

Ms. Carter said we have not communicated self financing enterprises and that is a surprise to some citizens. They don't know that these enterprises are self-financing, that they are contained within our government. That is an important message that we need to get across. People are still talking to me about not being able to deduct these costs from their income tax. They are saying an increased tax is preferable to raising rates and fixed costs. This is another thing that has to be added into our discussion.

Mr. Barnes said they want to deduct their water bill from their taxes?

Mayor Foxx said that is placed on the record so we will have a chance to get back to this. We have to wrap this up.

Mr. Gullet said in your packet you will also see these other impacts and different types of customers, irrigation customers. I will point out that irrigation customers are folks who have a separate irrigation meter. Right now we have more than 250,000 water meters in our system. Of that number there only about 7,300 irrigation meters. Most of those are commercial irrigation meters for business parks, common areas, and that type of thing.

Mr. Cooksey said this is the favorite set of pie charts I have ever seen in City government.

Mr. Peacock said is this not the map that you liked that showed impervious surface in your district.

Mr. Cooksey said that is a map, this is a chart.

Mr. Gullet said this is comparing where the consumption occurs to where the revenue is generated on the residential level. The part that I think Mr. Cooksey likes to point out in here is that if you look at this the 8% of consumption that takes place in the fourth tier of our rate structure generate 21% of the revenue. That is the point Mr. Cooksey would like to be made with that.

Council member Dulin said that is a big point that needs not to be waxed over pretty quick. Use as much water as you want but we are going to charge you for it, but 8% of the people are paying 21% of the bill. That is out of proportion to the folks that we hit pretty hard last year.

Mr. Cooksey said one of the things that leads to from a policy perspective, the Council could give guidance to Utilities. I offered it to the Committee for consideration and I will throw it out here as well, in addition to our existing policies that create a rate structure that I think we generally support, you could add one that says that no tier would contribute more than twice its usage to revenue. As you guide Utilities from a policy perspective to create a rate structure, that addition of a policy statement by this Council would mean that if 8% of our customers are tier four you would set a rate such that estimated they would contribute no more than 16% of the revenue. Likewise tier three 10% would be 20 and so on. That would still protect the low user, the 37% that are in tier one that currently are only paying a quarter of the costs. It would provide a tiered rate structure that would be, I think, perceived as more fair with a cap to it rather than looking at how can we go after the tier three and four because that is where we may perceive where some of the money is. As Mr. Dulin said, if you look at the percentages last year we really, really hit in terms of percentage increase of bill, the tier three and four users.

Mr. Gullet said there has been a lot of discussion today about changing the rate methodology and changing the policy and the philosophy. I would caution you that there are a lot of complexities involved in that. If we aren't very careful we will make changes that will have unintended consequences so I would suggest that a methodology change really needs to have more thought and more input and more consideration than there is time to give it between now and budget approval time. That is one point. The other point I want to make is that the next thing in your handout is a comparison of Charlotte's water rates to other cities. (Slides on Page 18-20). You are going to see that we are the bottom. We are the third or fourth from the bottom in every one of these charts. You can compare us to different cities across the country. We have done that and I used this set of comparisons because they are done by a consultant. We didn't do them and they present very good data and the cities are comparable to us. If you look at other groups of cities you will see that we are in the same place. We are in the lower half or lower quarter in any group of cities you put us with in the country for all classes of customers. For small users, medium users and big users. That is really the point I wanted to make with this. If you look at the cities that are at the top of the chart, the folks that are paying the highest bill, you will consistently see Atlanta, Birmingham and Chapel Hill. There is different reasons for each of those being at the top. Some good reasons and some not so good reasons. We don't want to be there. We want to be down low, but we don't want to be so low that we have those problems that several of you have mentioned, those time bombs that you mentioned where the courts come in like they have done in some of these cities that have higher rates now and mandate huge capital programs to fix problems. We don't want to get there so we are trying to maintain the system, provide the level of funding that is needed along the way so we don't have those ticking time bombs that Mr. Barnes mentioned.

Mr. Barnes said in response to what Mr. Gullet said a few moments ago about not making dramatic changes that have unintended consequences. I understand what you are saying, but from my perspective we are running on seven cylinders so something is wrong and we've got to fix it. I want to be on eight cylinders. I agree with you and we don't want to rush you guys into doing something crazy because we are not going to support it, but what I'm saying is, if you have to go outside the box a little bit on this, do it. Just bring it back to us and we will make a decision.

Mr. Gullet said I'm not implying that we weren't going outside the box, but to make sweeping changes, we really need to think about that.

Mr. Barnes said we are fairly conservative folks. We are not going to do anything dramatic or crazy as a Council.

Mr. Cooksey said to that point, and one of the things we get to notice about ourselves as Council members is there are things we can say that staff members can't. I tried to set this up in the beginning. I think we are pretty locked into our choice this year for this rate structure basing it on our existing policies. What I hope we don't, and with Mr. Barnes' reinforcement, I hope we don't wait until January of next year to go through the same exercise. What we as a Council have to do, once we get through this budget cycle, commit to finding a committee that will spend the time before it is time to start doing next year's budget cycle, analyzing these policies and doing exactly what has been said around this table. Look at it and then be able to make that change in conjunction with the FY12 budget cycle.

Mayor Foxx said Mr. Cooksey, I think we know what committee I'm thinking about.

Mr. Cooksey said I was just fishing for it.

The Mayor said is there any problem with putting that in the lap of Restructuring Government Committee right now?

Mr. Peacock said indefinitely.

DRAFT GENERAL CAPITAL INVESTMENT PLAN

Budget Director, Ruffin Hall, said in terms of maybe a little bit of a time check, we are over and I'm going to go through the CIP and then your third topic was an update related to where we are on the General Fund. I will suggest to you that the topics are going to be more of interest with more information on the General Fund update than the CIP. The CIP is pretty straightforward and I will be happy to go through that but just keep in mind that I do have some pretty significant talking points to go through on the General Fund. I'm going to talk about the general CIP, forget about the enterprise fund, CATS, Storm Water, Utilities. General CIP, this is projects related to General Obligation Bonds as well as Pay as You Go. Mention a little bit about debt capacity, the upcoming proposed November 2010 bond referendum, some facility investments, Pay-As-You-Go and I need to update you on public art.

This is just a reminder as you may recall Mr. Gaskins mentioned in the February Retreat and also in March that we have $50 million in available debt capacity. The proposed five-year draft general CIP that you have in front of you allocates $45 million of that $50 million, $17.5 million for the bonds and $27.5 for public safety facilities. (Slide on Page 78) This is just quick snapshot comparing the current 2010 bonds planned. Every year we give you a five-year look at your capital programs so we can plan over time. You already had in the plan a November 2010 bond referendum of $181.1 million. What we are proposing is to modify that to $198.6 million, all of it going into one form or another related to Transportation. Keep in mind that the proposed draft CIP that we put on the table for you over the five years does not have a November 2012 bond referendum in it. There is currently is not funding available for that, both because of the decline in revenues as well as the other factors related to the economy. At this point over your five-year look, you are just looking at a bond referendum in November 2010. (Slides on Page 79) I am going to focus on the changes and there is a lot of more detail in your book and on Page 91 there is a list of all the projects that would be on the bond referendum. I am going to highlight for you the things that are different and what was already in the bond referendum that you've seen in prior years. First of all the current CIP had two projects, Robinson Church Road and Tyvola Road improvements for planning and design. Since we don't have a bond referendum for November of 2012 it doesn't make a lot of sense to do the planning and design on roads that we have no way to fund the construction once it comes off. A lot of times those planning and design projects have a half life so to speak, they decline over time and we are proposing to eliminate those two projects and instead, as well as use some additional capacity, add some intersection improvements that are the next highest on the list related to congestion at those two intersections, McKee Road/Providence, and Arrowood Road/Nations Ford Road.

Mr. Dulin said I have a question about the Tyvola improvements that is proposed to be eliminated. What section of Tyvola Road is that?

Mr. Hall said that is in your book on Page 115, West Boulevard and South Tryon Street.

Ms. Carter said I'm looking at the cost of planning and design for Robinson Church. It is an extraordinarily narrow curvy road and we are delaying it. What would be the ultimate cost for constructing that road?

Mr. Hall said I can't recall from the top of my head. Danny do you know? It is in the $10 million range isn't it?

Danny Pleasant, Interim Director of Transportation, said it is $10.4 million.

Mr. Hall continued his presentation with the last slide on Page 79 and said we are recommending to decrease the public/private participation by $3 million. C-DOT put that on the table and that is related to the level of decline of activity out where we match our money against private sector money to making improvements and that activity has declined and leaves a project balance. We are recommending a significant increase related to Northeast Corridor Access Improvements going from $6.5 million to $20 million. This is the types of pedestrian and neighborhood connection improvements related to the Northeast Transit Line, although it is not transit projects, they are projects to connect the neighborhoods. It is basically the same as your SKIP Program, but in this case for the Northeast. If you take the $20 million and add it to the $10.5 million, which was approved in the last bond referendum, you get a total of $30.5 million. For comparison purposes the SKIP project was around $50 million, so we are not quite there if you use that as a comparison benchmark, but we are getting closer. Non-System Residential Streets Program, that $2 million is related to the policy change that the Council adopted related to moving to more of an assessment approach, decoupling your water/sewer policy with your non-system streets, basically turning gravel roads into paved roads. You need to be able to match funds against that in order to support that policy so that is $2 million for that program. That is $17.5 million net using a portion of the $50 million in debt capacity which leads you to $198.6 million bond referendum with almost 80% going towards transportation. Neighborhood improvements and affordable housing would stay the same. For comparison purposes, you can see that the proposed 2010 referendum would be less than 2008 referendum, but still at a higher level than over the last 10 to 12 years. To put a value statement on that, I think there is still an investment in your capital infrastructure piece which gives a great comfort to the bond rating agencies. We are still contributing funds to infrastructure, however you do have the issue of not having a referendum programmed in 2012. So that is the bond referendum.
If you go to changes as it relates to Facility Investments (Page 81) and this slide is focused on Police and Fire. As you may recall we have put in $10 million over the five years for the

consolidated Fire Headquarters, but we didn't know what it would cost. That was a placeholder associated with identifying land and the facility. We have now done that programming related work so the final amount is going to be $16 million and that includes an emergency operations center which can leverage some federal grant money that we hope will help mitigate some of those expenses. The Providence Police Station has an increase of about $700,000 as they continue to refine the program. A portion of that has to do with the City's green building policy. We are adding two Police Stations, Eastway Police Station and Steel Creek. The Police Chief has indicated an interest associated with using highly visible fixed locations in the various districts to increase visibility as one of his key policing strategies. These are the two that have the highest priority related to the lease coming up and that the facilities are not in a highly visible location. You have several of these district police stations that are in shopping centers or they are off the street. They would abandon those particular leases and go to the full facility. I believe Eastway's lease is up in 2012. Those lease payment will help offset some of the costs.

Mr. Dulin said I made a note about the Eastway Station and of course we know where the Providence Station is. I haven't seen anything about a proposed Eastway site.

Mr. Walton said I don't think we started looking for a site yet because the project hasn't been approved.

Mr. Hall said it would have to be geographically sensitive to the Police District.

Mr. Dulin said one of the things that is a little bit inefficient is that the Providence Station and the Eastway Division are located very close to each other. Providence is moving very close to Latrobe Drive and if Eastway can centralize itself more over that way I think it would be helpful and Independence isn't very far.

Mr. Hall said Engineering and Property Management and Real Estate has been working with Police. Actually Police has put together a very well done facilities proposed plan. It is about a 25 page document which outlines all of their facilities as well as their long-term perspective. Obviously, when you build permanent buildings, you need to put them in the right spot.

Mr. Dulin said when we find the real estate is the time to fix that problem and we get one shot at it.

Ms. Carter said one of the most effective policies we've had in the past is efficiency and co-locating entities with their police stations. I think that is something we should be considering so we can blend funding sources as well.

Mr. Hall said that is something that we have certainly discussed. These particular buildings are programmed just for police, but that is something we have discussed in the past.

Mr. Hall continued his presentation, Land for Joint Communication Center, the $6 million for land is a placeholder put in a future year. When we say joint communication we are talking about 911 Center, 311 Center and the co-location of Fire, Police and Medic as a possibility. We are not there yet and there is still a lot of discussion that needs to be had, but there may be a really good opportunity to get some efficiencies from co-locating. They are all in separate locations now and by putting a placeholder of land that also makes us eligible for possible federal grant money by demonstrating a commitment that we would like to look at it. It is a very preliminary idea.

Mr. Dulin said for the purposes of Mr. Barnes, Mr. Peacock, Mr. Cooksey, the Mayor, Ms. Carter Mr. Dulin and Kinsey, this was on our legislative speeches that we did with the Delegation in Washington. It is really a $40 million ask, but Washington is aware that we are trying to co-locate these services.

Mr. Hall said when you put the $6 million in the CIP this is programmed in 2012, a year out, you are demonstrating a commitment and interest to look at the facility.

Mayor Foxx said that is $6 million we have in our 2012 bond. We are demonstrating commitment in the future years.

Mr. Hall said you could have a $6 million referendum. Mr. Hall continued with the last slide on Page 81. These are projects that are using reprogrammed savings as well as some Pay-As-You-Go funding. They are a little bit less in terms of dollar amount. We had programmed $3 million for the Northeast Equipment Maintenance Facility. We are suggesting that we delete that particular project and move the funding toward the Sweden Road Equipment Maintenance Facility Renovation. Northeast Equipment Maintenance Facility was intended to try to find a location where we could place our fleet maintenance further out in the field. That project had a joint relationship with Utilities and frankly it has become too expensive for us to be able to do it at the present time. At the same time we have higher priorities related to our existing facilities which is one of your CIP priorities, to maintain existing facilities. We have some not so good employee conditions and some safety issues at a couple of our other existing facilities. Sweden Road is one location, Louise Avenue is the other. Those renovations would bring the facility up to a code compliance situation and make the conditions more appropriate for our employees. The C-DOT Salt Shed, that is a building where we house the material related to sand and salt for when there is ice storms. Because of the salt in the back it corroded some of the metal and the building fell over so we need to replace it. Other PAGO highlights, this is connected to something I'm going to mention in a minute. You may recall from the March 24th Budget Retreat we described some of the 48 reductions were in other funds. Those were some of the programs that were contained within Innovative Housing and within Business grants. We left those in the other funds category for the purpose of presenting to you on March 24th. Looking forward we think that transferring the value of those cuts from PAGO to the general fund is a way that helps us drill down on filling the gap. This is just showing that if you transfer .15 cents from PAGO to the general fund, you are able to use the cut that you have identified in PAGO to help close the gap in the general fund. I will mention more about that when I do the general fund presentation. This is just a chart that shows the shift in the PAGO. (Last slide on Page 82) It is not a lot of money, about $1.1 million, the .15 transfer, but that transfer helps you to balance the general fund.

Mr. Hall continued with slides on Page 83. Enterprise Resource Planning (ERP) is $15.8 million set aside for ERP from capital reserve. I believe the Manager has mentioned that both at your February Retreat and as well as the presentation you heard from Jeff Stovall, Chief Information Officer for the City, to set aside for the purchase of finance procurement and project accounting system. There is still a lot of work that needs to be done on that, but this allows you to set aside those particular resources. One of the good things about this is it is within your PAGO account and the money is programmed in the out years. If something occurs where we have some other economic conditions or for whatever reason this project doesn't work, you are not committing it to a situation where you can't get it back. This is reserving the resources so that we can proceed with the work to identify and acquire the system. We've heard a lot of discussion about trees, not just recently in terms of your Council meetings, but we've had a lot of discussion over the last several years about trees and the associated importance of its asset to the community in a lot of different conditions. You've heard tree trimming and removal issues related to liability issues. You have heard about tree canopy as related to an asset. You remember the discussion on many occasions related to canker worms so trees is a functional piece of the community fabric which we've got some resources to. We are proposing to add resources related to trees. To keep track of this what I'm going to talk about is existing funding as well as additional funding. Right now there is about $677,000 of operating expense in Engineering and Property Management's operating budget for contract tree removal and trimming. We are proposing to transfer that expense to PAGO which frees up savings in the general fund.

Mr. Dulin said I'm sorry, I let something get past me. I missed a note that I had made. You may have touched on this and I missed it, that projects include for the software. We did something for budget for about $843,000 recently. Where is that money?

Mr. Hall said the two pieces, what we've gotten to at this particular point, at that HR and Budget are not part of the a project. It is one of the reasons the cost is hopefully not going to be quite as high for really two reasons. One is our budget needs systems were so immediate we had to do something now and the reason that HR isn't in there is because it has already got an established payroll system associated with People Soft. There is nothing that precludes this particular proposal of connecting to either one of the systems that we already have, but those systems are already in place and Budget is getting ready to go live for next year. HR is already in place. Those systems are going to have a relationship with this particular system, whatever it is. We are going to integrate the systems. If you like Jeff Stovall can talk to you more about how that platform will work. I guess another way to look at it is we are trying to pay very close attention to cost associated with the system as well. When you start talking about full blown enterprise systems it can get extremely expensive. We think there are some solutions of acquiring some less expensive systems and tying them together without having as much expense.

Mr. Dulin said I think $3 million per year is pretty expensive.

Mr. Hall said this is all one time. This is just setting aside money to acquire and implement the software. This is the one time expense and it doesn't include what we will have to grapple with in terms of ongoing maintenance expenses. We will have opportunity to talk about that later. This is simply just setting aside the money.

Mr. Hall said with regards to trees, you have $420,000 in your existing PAGO program. We are suggesting to add $302,000 to get to a total of $1.4 million in tree trimming and removal and to place all of that within PAGO. What would do is two things, it would consolidate your tree removal and tree trimming program into one place in the capital budget and secondly it would increase the amount of funding by just a little over $300,000. It is a critical need and something we believe needs to be addressed both from the standpoint of protecting our assets as well as some associated liability issues. Tree replacement is your other tree program. You have $216,000 in the general fund for replanting of trees, includes also the neighborhood co-op and the canker worm program administration. We are proposing an additional $483,000 to increase tree replacement. The details of that program are not flushed out yet. We are simply reserving the money, but not only have you had requests from citizens recently, you've also had similar issues come up when we look at the results of the Tree Canopy Study and the overall amount of trees. There is also relationship here with your Tree Ordinance. We are setting aside an additional $483,000 that would be able to be applied to a program that Engineering would bring to you later in the process for Council approval. In other words, we don't have the program details. We know we're going to need more, they are going to bring forward to you a specific program. That means you would have $700,000 annual tree replacement program.

Mr. Hall said that concludes the General CIP and I will be happy to answer any questions before the next subject.

Mr. Cooksey said I don't know if I am over reacting or not, but I think it should be of grave concern to us that there is no debt capacity after this particular bond cycle for a five-year CIP because that is how we paid for them. I'm hoping we have more conversation about that when we have more time at a later meeting.

Mayor Foxx said it is a grave concern to me.

Mr. Cooksey said unfortunately in politics sometimes we have to verbalize it rather than just nod on it. I think we ought to verbalize it.

Mr. Foxx said I hear you and honestly that is a discussion that is going to be front and center for us this time next year because there is only two ways to generate more capacity. One of them is ugly and one of them is uglier.

Mr. Barnes said in the last slide you were discussing the $700,000 for adding trees and what you essentially said was we are going to set aside the money and we will give you a program process later.

Mr. Hall said my guess is this summer.

Mr. Barnes said I believe you but it just sounds like what people typically hear from government. Give us the money and we will give you some way to spend it later. I know that is not what you intended.

Mr. Hall said perhaps I should rephrase. We are going to plant more trees. It is just the question of is the program a matching program, what are the types, heights, caliber of trees, where are they primarily going to go, but there will be more trees.

Mr. Walton said we could go our traditional way and plant $700,000 more of trees, but what Mr. Hall is saying is that we've been approached about partnering with neighborhoods and maybe going through neighborhood matching grants, doing more co-op, working with different service organizations so we've got to figure out the parameters of that. Another option that some cities use is a two for one match – two public trees for one private tree. It could be a number of different ways so really I think it would be something where we would set the money aside and you would consider the program options.

Mayor Foxx said one of the things that I've been trying to figure out with the Youth Employment Program is how to get more kids involved in improving the environment and one idea is maybe involving youth energy in a program. I haven't had a change to flush that out myself either, but I was thinking about that before I saw this so that is another idea.

Ms. Carter said I think we need to be very sensitive about some of our neighborhoods that cannot afford match. I think dispersions throughout the City is going to be a very important issue if we get into that discussion.

Mayor Foxx said for two bond cycles in a row we've put $10 million at a time in the affordable housing area and there is not a whole lot of capacity in the capital budget if we were to stick to what would be proposed. What ends up happening is that over two years you end up with $5 million each year before the next bond cycle comes up. Given Mr. Cooksey's point about the fact that we do lack a bond capacity in 2012, I feel pretty strongly that we need to increase our effort on affordable house. I'm going to be talking to you all about trying to shift that remaining capacity over to affordable housing. At the time we are talking about this right now, we will have a presentation on May 3rd I think on some efforts to improve the framework by which we deliver affordable housing. There is also a conversation in the HAND Committee right now on locational policy, all of which I think has been concerns that we've had. We are stuck with this decision, once we make it this summer, for the next two years and I'm just going to appeal to you to add some support to that fund balance.

PUBLIC ART UPDATE

Mr. Hall said there are not a lot of changes in Public Art. As you may recall by rule the Public Art Policy says that I need to tell you what the implications are for your draft CIP related to the Public Art Program. The ordinance was revised in 2003 to have that requirement and then we changed the guidelines. The Public Art Work Plan will be presented May 24th when they will come forward and present their Public Art Work Plan. In November they provide a status update which is the Arts and Science Council. There are some guidelines associated with choosing the sites. They need to be on City property, on property restricted by funding source. They need to be highly visible, association with specific facility corridor. The Council has given us direction to try to pool those funds as much as possible in order to get the bang for the buck. There is a geographic distribution component also included. Those are the guidelines that we use and the Arts and Science Council uses to try to have the public art program reflect our goals. The draft CIP that I just gave you has this particular result. (Last slide on Page 86). That first column where it says Public Art Allocation, that is the amount associated with the 1% for public art for construction for the various projects, streetscapes, area plans, pedestrian traffic safety, business corridor/pedscape, North Tryon Redevelopment and then the facilities, Fire Headquarters and the Providence Police Station. What we are suggesting is that you pool those eligible costs into four categories, more for business corridors, North Tryon, Fire Headquarters and Providence Police Station. You have in effect four categories that then the Public Art Commission and the Arts and Science Council, through their contract, will go forward and identify public art and bring that forward.

Enterprise Funds – Aviation actually, around $307,000 is a little bit more than last year for your general CIP. Aviation is the one that has the most significant dollars relater to City projects. This past year they were at $436,000 and they've got two more eligible projects getting ready to come on line. Those facilities are eligible for expenses. There is going to be a lot of public art dollars related to Aviation particularly as it relates to the rest of the CIP. Utilities anticipates no eligible public art projects at this particular time. There is some possibility that Long Creek and the field operations will be eligible later.

Mr. Barnes said as I was reviewing that slide a couple questions occurred to me and I want some feedback from staff about the spending. The $25,000 for area plans and public art associated with area plans, I would like some explanation for that. The same for pedestrian and traffic safety public art.

Mr. Hall said do you mean how it is calculated?

Mr. Barnes said what is public art associated with an area plan?

Mr. Hall said you have to go back to the way the ordinance works. The 1% for public art associated with those facilities is related to 1% of construction costs, land and planning design is not eligible, for projects to which the public is generally invited. That is the term so that definition is then applied to the projects in the CIP so it doesn't include roads, it doesn't include pipes, sewers and things of that nature. It is intended, and there are examples within the ordinance such as pedestrian facilities or places that the public would use and appreciate. Back in 2003 and then again in 2007 we established public art guidelines about what is eligible and what is not and the Council voted to approve that. Area Plans were included in the approved policy.

Mr. Barnes said what would help me would be to get an example of what public art is associated with an area plan.

Mr. Walton said one of the last ones we did was the bridge treatment Central Avenue at Briar Creek. We can give you an example. All four of those are pooled so they could go into any of your business corridors for a larger project than individuals.

Mr. Barnes said how much money did we spend on the land for the Providence Station?

Mr. Hall said I don't remember.

Mr. Barnes said you are proposing that we set aside $7 million for the construction, right?

Mr. Hall said $6.7 million for Providence, but all of that $6.7 is not eligible for public art. It is just the construction portion.

Mr. Barnes said what I'm saying is, we've already bought the land, what makes up the difference.

Mr. Hall said Planning and design is not eligible so it is really just the construction cost associated with the building, so $3.7 million.

Mr. Walton said is it a $10 million project?

Mr. Barnes said the $4 million that is left, what is that?

Mr. Hall said it is land, planning and design and demolition.

Mr. Barnes said we've already bought the land, right?

Mr. Walton said yes, Wendover at Ellington.

Mr. Barnes said so there is $4 million there because we've already bought the dirt and $3.7 is the construction. The $4 million left is for what?

Mr. Hall said the total project is $6.7 million so $4 million would cover the land too and $3.7 is for construction.

Mr. Barnes said you are asking us to set aside $6.7 million in the CIP for the project. That leaves $3 million that is used for demolition and what else?

Mr. Hall said planning and design, land.

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Mr. Barnes said we've already bought the land.

Mr. Hall said we will send you a breakdown of the project.

Mr. Barnes said the consolidated fire headquarters and the $100,000 there. I don't mind public art, it is fine. I guess the construction is $10 million on that.

Mr. Hall said that is correct.

Mr. Barnes said okay, thank you.

GENERAL FUND BUDGET UPDATE

Mr. Hall said we have handed out to you the PowerPoint related to the General Fund Budget Update and I want to update you with where we are in the general fund. As Mr. Walton mentioned at the beginning of the meeting, we did do things a little bit differently this time associated with talking about our recommendations early. Before I begin, I want to give you a couple caveats. One is that putting this particular budget together has been perhaps the most intense that we've gone through in a long time. It reminds me back to the 2003 that occurred right after September 11 when we were working on it in 2002. Our folks and the folks within the Key Business Units have worked really hard on this one. We work hard on all of this, but this one has been particularly tough. There has been a lot of hours put into it trying to get us to this point. What also makes this interesting is we are to this point really about two weeks earlier than we normally are. We've sped up our process in order to give you the budget recommendations in advance of when we normally do. A lot of the material that I'm going to talk about today is stuff that we are normally finishing up in time for your May 3rd presentation. Hopefully by the time we get to the end, between this meeting as well as last meeting, you will have all of the recommendations associated with the general fund. The other caveat is that I apologize on several of the slides there is going to be a whole lot of words because I violated the PowerPoint narrative rules, but I rather did that than try to give you another piece of narrative in the PowerPoint and have to explain it all because I imagine this is going to be a take away for you to use later.

The gap at February Council Retreat was $10.3 million and then on March 24th we showed you several ways that we were able to bring it down to $7.7 million. Health insurance got better, some additional savings associated with the Solid Waste. Sales tax and property tax got a little bit better than what we had originally anticipated in February. Then we laid our $5.7 million of additional cuts, the 48 cuts, that was in long detail given to you on the 24th and that got us to about a $2 million gap at the end of that particular meeting. I already mentioned some of this, but this has been a different process internally than in the past several years. We had earlier engagements in the Key Business Units to identify those budget reduction opportunities. The Manager mentioned that we met with each of them individually and asked them to put things on the table related to items they could cut, suspend or reduce associated with the budget. We ran salaries more times than we normally do and later in the process to maximize accuracy, to capture as much as we could how of there related to turnover and retirements. We reduced operating budgets more than we normally do. We normally reduce growth to flat in our operating budgets when we try to balance. One piece that we did that was different was we went to a zero growth operating budget and didn't give any credits associated with mandatory contract inflation clauses in the general fund. That means if you have a multi-year contract in place normally, since it is built in we leave that in place. We cut you back to zero, but we don't hurt you for that. In this particular case we went to zero percent growth and the only thing we excluded was the increase associated with the risk fund. That is a very strict operating budget interpretation. We have earlier communication on budget recommendations, as I have already mentioned. Since March 24th, what are the items we have looked at in order to balance? There is three categories, revenues, transfers and budget reductions. I'm going to take a moment to mention each one of them. First is the cost allocation plan revenue. You already heard mention of this in the presentation related to Utilities. Cost allocation plan is use to charge for services between funds and those are based on the number of units. We've re-run that. It is a very elaborate calculation that is done every year and this year the revenue increased about $1.6 million and of that a million was for Utilities, which Mr. Gullet mentioned in his presentation. We have the transfer associated which is revenue to the general fund related to PAGO for innovative housing and business grant reductions that were identified in the draft CIP as well as explained to you in detail at the March 24th Retreat. That was about $1.1 million and that is .15 cents of transfer from PAGO. The third category of revenues was increased revenues associated with video programming fees. This is the old cable franchise program where Time Warner Cable paid for the City to be in our right-of-way. The rules changed year before last so that now the State collects that money related to all video types of programming and distributes it to the local government. That is why the label is not Cable Franchise anymore because we don't have a franchise, it is statewide, but we do get a distribution associated with video programming from all video providers, cable, satellite and things like that. We got another quarter worth of data and it got better by about $800,000 from what we had originally budgeted. Three categories of revenues got better.

Council member Barnes left the meeting at 5:24 p.m.

Mr. Hall said the second category are transfers and I will try to make this as simple as possible, but it does get a little complicated so hang with me. At the February Retreat we had a plug increase related to the Risk Fund. You may recall we mentioned that we had significant issues associated with the Risk Fund, and it is not just one year, it is long-term. We've put into place several things to try to address that. Those increased risk costs which is a self funded risk fund is Worker's Comp, adverse court judgments and increase in catastrophic events. On March 24th we introduced two things that were both in the other funds category to try to help address some of those costs rather than just putting more money in it. One was eliminate the Worker's Comp wage charge back and the other was eliminate the Worker's Comp supplemental wage replacement. In effect that means savings to the Risk Fund. Also at the same time we have Manager's Executive Level Risk Management Task Force is looking comprehensively at the risk program to see what other things we can do citywide to reduce costs and lower our liability. That really gets to Key Business Unit behavior. How can we increase safety, increase our behavior and therefore avoid the kinds of both catastrophic events or accidents that cause a problem as well as just the regular Worker's Comp. Worker's Comp is a big driver of that. Instead of putting in $2 million into the Risk Fund as an increase in the general fund, we are going to put in $1 million. We are not certain that that solves the problem, but we are hoping that these changes, along with other initiatives that is going to go forward will help mitigate that risk. The second transfer I mentioned to you in the Draft CIP, if you take the existing program cost within the general fund, both for tree replacement as well as tree trimming and removal, that totals to $893,000. If you transfer that expense from general fund to PAGO it represents savings of almost $900,000. Finally the third category of transfer is related to storm water and this one is a bit complicated. Since your March 3rd Budget Retreat, we've worked hard on the storm water proposals to see what things we could do to address some of the comments you made as well as try to get some savings associated with the general fund. As you may recall for last year the staff proposed a change in the tier structure for storm water and that was deferred by Council and that is something that as we talk to you about on May 3rd, we are going to consider in next year's budget process, looking at the tier structure. If we hadn't done the tier structure change last year the increase would have been 7%. Instead we've approved a 5% increase to storm water, so that was one of the things that shifted around as a part of the policy discussion. For FY11, on March 3rd, storm water staff proposed 6.5% increase related to the storm water program. That is where that sort of left when we were on March 3rd. One thing to keep in mind is that the general fund contributes to the storm water fund about $4.5 million for impervious surface area that is public, roads, sidewalks, etc. After additional review we've come up with a new proposal and it is really in three pieces. The first is if you reduce the general fund contribution to storm water by 10% for FY11. In other words, reduce the amount that the general fund is going to send to the storm water fund. Secondly, phase that back in over three years, starting in FY12 so that by the third year of phasing you are back to where you left it in the current year, but you also increased the storm water fee increase from 6.5% to 7%. What does that do? Hopefully these impacts are close to have your cake and eat it too. It saves $453,000 to the general fund, it expands the storm water CIP by $30 million and that reduces flood control projects from 19 to 14 years and doubles the number of projects that can start in 2011 from three to six. What does it mean to go from 6.5% to 7%, it means a 43 cents per month instead of 40cents or 3 cents per month from tier two. That was the second category of transfers. The third category is additional budget reductions. The first is to decrease 401-K contribution by 1%. State law requires a 5% 401-K contribution to sworn law enforcement so you can't change that contribution. The City currently provides 3% to all the employees but sworn law enforcement. For the general fund that is a total of about $10.5

million, although you can see that the largest portion of that money goes to Police and Fire. For each 1% it equals $1.8 million for 2011. The staff recommends reducing that from 3% to 2% contribution for 2011 with a goal to restore next fiscal year.

The second level of budget reductions is a grouped category of additional cuts to the line items. I mentioned this to you earlier about putting the operating budget to a strict zero % growth. We looked at almost 20,000 budget line items, which is a lot, but that is one of the things our folks do as well as some help from the Key Business Units and we ran salary projections, as I mentioned, several times. When you do all of those calculations and we look at it and we did more reductions as it relates to the operating budget, we were able to generate an additional $1.1 million of savings within the general fund just by going through the line items in great detail. Finally, the third category of budget reductions is related to Synthetic Tax Increment Financing (TIF) You have Synthetic Tax Increment Financing projects that have a payment schedule that is outlined by contract. We review that payment model annually and it is related to the amount of property tax increment thrown off associated with those developments. Because of the slow down in the economy, and you will recognize that on several of these projects, the project has not moved along as fast as originally projected. You have to re-project it every year, based on that project schedule but as the projects slide out that payment for that particular amount decreases. In other words, if the projects had all occurred as originally intended we would have paid out a certain number, but because they have slowed down because they have been deferred they haven't thrown off as much property tax increment, we don't have to pay as much so that saved about $440,000. When you take all those in combination, we started at $2 million down, and I won't read through them all again, but you have the nine items that I listed in three separate categories (first slide on Page 8) and the bottom line is that we are $7.2 million to the good for the general fund. What to do with that $7.2 million – let's look at compensation and benefits. First is a reminder that there was no merit or step increases in FY2010, step for public safety and merit for anybody. The market has shown some sign of movement. As Mr. Mayes indicated on March 24th there is some data that demonstrates that there has been some movement within the marketplace. You also have at the present time a health insurance increase at 5%. Last year the health increase was 4% that the employees received, but with no corresponding adjustment related to their pay. What are the consequences of health insurance as well as no compensation adjustment. I just wanted to pull out a few examples. There is about 270 Police and Fire recruits that are graduating from the Training Academy in 2010 and 2011. The average salary for those recruits is about $38,000. They've had no compensation adjustment since entering the Academy and they are normally eligible to receive a step increase when they come off their field training which is about 8 months after they enter. At this point with no compensation adjustment they would receive no step. For a lot of those folks that have been added associated with the Council's initiative as well as replacement of turnover, the 125 so to speak. Another way to look at it for broad banding pay plan with no pay adjustment for 2011 there is about 604 service maintenance folks who have an average salary of around $30,000 without a compensation adjustment and having the impact of health insurance they would have a net pay decrease of about 1.2% of their overall salary. Labor and trades would have about 1.1%. Obviously, if you go into other classifications and pay structures that percentage is going to decline. The health insurance adjustments most directly impact the lowest paid workers within the organization.

Staff is recommending a compensation adjustment for 2011. We are recommending a 2.5% step for public safety. You may recall that a normal step is 5% so this is a half step instead of the regular 5%. We are recommending a market adjustment for public safety of 2% and a broadband merit budget of 2%. The cost of that pay plan is $6.1 million. You may recall that a normal pay plan, and I define normal as what we were doing for 3 or 4 years before the downturn, that would cost about $10.3 million so this is a reduced pay proposal from what we would normally do because the market conditions have changed. This also assumes that the Broadbanding and the public safety market adjustment would occur no earlier than September 4th. If you are in July and August you are going to get pushed out to September 4th as a way of making the plan more affordable. That means that of the $6.1 million pay plan for the general fund, $4.9 million of that goes to Police and Fire. Another way to look at it, 80% of the compensation adjustment we are proposing in the general fund is for Police and Fire.

Ms. Carter said I'm just looking at parley Mr. Hall. The Police do not receive a cut in their retirement, the firefighters do, so if they have a broadband increase it seems like there should be some balance in there to make up for the loss of the 401-K contribution. The Firefighters should receive some sort of compensation for that because if you are looking at public safety as a whole, that includes firefighters.

Mr. Hall said fairness is often difficult in these circumstances. Police has the mandated 5% so there isn't anything we can do to address that particular percentage. The only part where we have any discretion is the 3% for all others and that does include fire.

Mr. Hall continued with his presentation (first slide on Page 10) and said this is a proposal for $1 million of a general fund operating budget reserve to set aside for unanticipated budget issues that may arise next fiscal year. One of the questions we have discussed as a group is what is the state going to do, what about the economy, etc. We never know exactly what the state is going to do and there is some venerability out there. Setting aside $1 million helps us address some of those things that might occur. If it is significant enough, it won't be enough but it is something that we can put aside in case something might happen. Related to the economy, I think Mr. Gaskins presentation is related to the economist or at least coalescing, mostly around the concept that we are hitting bottom and that we are going through a period of slow growth. It could be very slow growth, I'm not sure how long, but the threat level of the economy getting really dramatically worse than where we are today seems like not as great a risk. Their risk is the sustainability of our operating budget going forward. Those things could always happen, but we don't believe that treat level is the same as it was last year when we instituted a lot more backstops against the possibility of the economy. There are also some things that we can do in your general fund or PAGO as trade offs to help mitigate that should something occur. The only general fund revenue add in the budget is for Public Records Attorney. As you all well know there has been a dramatic increase in the number and amount of request for e-mail and public records and it has gotten to the point where it is unsustainable to try to continue to manage those requests with existing staff. Those public records requests require legal oversight and we were able to pull some data related to recent examples and I'm sure you are familiar with all of them. Wallace Farms, there was 21,000 pages of e-mails and I'm not going to speak for Legal, but there are legal oversight requirements that you can't just hand them over. You've got to have somebody look through them and make sure that it fits the statutory limitations that go with that or the statutory issues and somebody has got to do that. You can't just print a whole bunch of them and hand them over. There is a massive discovery related to the South Carolina/North Carolina Water Rights legal issues. Eastway Wrecker lawsuit, you are familiar with that – 40,000 pages of documents. The Charlotte Observer has asked for a lot of public records over the past several years, e-mails including Eastland Mall as well as elected officials. It takes time for staff to pull that together and what we've been doing is pulling existing staff away from other projects to help respond to those requests. It is has gotten to the point where it is unsustainable. The other thing this particular position will do is serve as advisor to some quasi-judicial boards and hearing officers.

Revised General Fund Position – we started with a $2 million gap. We identified $9.2 million of increased revenue and budget reductions. We added an employee payment adjustment of $6.1 million. We added an operating budget reserve in the general fund of $1 million and a Public Records Attorney and the general fund is balanced. Two other changes to mention that don't impact the bottom line. You may recall that we are going to delete eight positions associated with CMPD resulting from CATS use of more private security. That is offset by CATS not paying the general fund for those 8 officers and we are adding 21 positions in Fire to staff a new Airport Fire Station associated with the 3rd parallel runway that is completely paid for Aviation. We are adding the positions but it is paid for by Aviation.

General Fund Positions All Changes – This is revised to include everything I just said as an update. We have about 161 positions or employees that are impacted in the proposed the 2011 budget, freezing 5, deleting 32 positions and laying off 4 folks. At the bottom we are adding a City Attorney for Public Records and adding 21 associated with the fire station.

Ms. Carter said the discussion about the 311 personnel, as I recall those 12 positions were added back into the other shifts.

Mr. Hall said the positions are going away, but the people are going to other vacant positions that were held frozen on the day shift.

Mr. Hall continued with Outside Agencies and Financial Partners, the Community Catalyst Fund had requested \$500,000. If you look on the last two pages of your handout there is a letter from Michael Marsicano and a list of the Community Catalyst Fund members where they modified their request for \$250,000 to focus on after school and summer programs for children and youth. At this particular point the staff isn't recommending additional funding for that proposal, but they have revised their request and I wanted to make sure that everybody got a copy of that. As we mentioned before, no funding for POST and all the other outside agencies and partners are held flat except for a couple that have some specific contract provisions associated with salaries.

Conclusions – the economy continues to impact the revenues for the third budget year in a row. Since the February Retreat we have worked hard to identify the reductions to balance the budget and fund the reduced pay plan. Even with the pay plan that I mentioned, the general fund is going to drop 1.25% from FY10 to FY11 so another way to look at this is that each of the Key Business Units were able to identify reductions within their budget to fund a pay plan. Through the three budget retreats we've communicated our recommendations earlier than we normally do. Normally we release all of our recommendations in May. This time we've done it in March and April and we do remain, we believe in a solid financial position meeting the Council's policies with a minimal expansion.

Next Steps – Recommended Budget Presentation on May 3rd, the Budget Adjustments are on May 12th, with the Public Hearing on the 24th and Budget Adjustments and Straw Votes on May 26th with proposed adoption on June 7th.

Mayor Foxx said what remains in the Council's discretionary account for the current year?

Mr. Hall said for the current year I want to say about \$30,000.

The Mayor said you would hold it flat at \$200,000?

Mr. Hall said the number we have in the budget for 2011 is \$150,000 which is the standard amount over the last several years.

The Mayor said we covered a lot of territory this afternoon, and you have done a great job in your presentation. Very soon it is going to be up to us folks to figure out what we are going to do. One thing I want to mention, when we talked about the safelight cameras last Monday and referred it, I think in the interim step that might be helpful is to ask our City Attorney, school system and county to get together and discuss the legal parameters that we are operating within as well as what options we see based on being consistent with the way the program ran in the past and get a feel for their support level for doing that before it gets to Public Safety because it could end up being a lot of brain damage in terms of trying to work something out without having the support of the other bodies at the end of the day. I would encourage that and think all of that ought to happen after we get through the budget cycle so you guys can focus on what we've got on the plate right now. I would suggest that as an interim step and it may save us time if the support level isn't high for the parameters we are working in. If we could do that without any objection I think that would be a good idea.

The meeting was adjourned at 5:47 p.m.

Melissa T. Johnson, Deputy City Clerk

Length of Meeting: 2 Hours, 32 Minutes
Minutes Completed: April 22, 2010

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