

The City Council of the City of Charlotte, North Carolina convened for a Budget Retreat on Wednesday, March 2, 2011 at 3:11 p.m. in Room 267 of the Charlotte Mecklenburg Government Center with Mayor Anthony Fox presiding. Council members present were Michael Barnes, Andy Dulin, Nancy Carter, Warren Cooksey, Patsy Kinsey and Edwin Peacock.

**ABSENT UNTIL NOTED:** Council members Burgess, Cannon, Howard, Mitchell and Turner.

Mayor Foxx called the meeting to order at 3:11 p.m. and said It Is Budget Time. Every year there is a season, there is a time to reap and a time to sew, a time to compete and a time cooperate, there is a time to examine budgets and there is a time to not examine our budget and we are now in a time to examine our budget. There is a very full agenda in front of us so I'm going to turn it over to our City Manager who will walk through the introduction.

**Curt Walton, City Manager,** said I will combine the first two items, the Introduction and the City Budget Retreat. It seems like budget season comes more frequently than any other season of the year, so here we are indeed again.

Councilmember Dulin said that and time to aerate.

### **Introduction/City Budget Update**

Mr. Walton said that is true, Mr. Dulin. We have been doing Budget Retreats in this form since Mayor McCrory was elected and started in 1996. The main focus for us is to share information for you and by the time we get to budget presentation in early May that there are no surprises. With that in mind, that is how we will structure the three retreats before budget presentation and anything you need us to know or need us to consider please feel free to tell us along the way. I wanted to start out with a few points that are really the framework for how we approaching as a staff, this budget. These are not by any means all the decisions that we will be making, but they are the big ones so I wanted to address those. Some of them we talked about at the Retreat, but Item No. 1, just where we were at the Retreat and where we still are since we haven't gotten too far into the process. We had identified a General Fund deficit of about \$5.5 million going into the Retreat, which is about 1% of budget so \$5.4 is certainly significant money, but it is manageable within the overall General Fund. That increases to \$8.6 million in FY15. We did a four-year projection this time which is a 1.5% of General Fund. We are recommending returning to the two-year budgeting cycle which we have had to abandon for the last several years because particularly the volatility on the revenue side. That is stabilizing somewhat now so we will be recommending in May to you for both in FY12 and FY13. The \$5.4 million deficit includes only the changes that you adopted as part of the budget adoption last year. Included in those are the restoration of the 1% 401K, and I will talk about that a little later, restoration of the City's contribution to the storm water fund and the steps taken to fully fund stimulus Police Officers, which really began in full force in the second year of the two-year budget with \$1.9 million. That is a number that we have to remain vigilant about because we will not be able to reduce those costs by the agreement of the grant when we get to 2013 and 2014 so we just need to keep our eye on that as something that is coming.

Number two, I think is by far the biggest item and the one that we can help with the least at this point and that is The State of North Carolina. Depending on who you ask, the budget is between \$2.7 billion and \$3.7 billion. The Governor's budget is assumed at \$2.7 billion so it is probably somewhere in between those numbers. The Governor's recommended budget did not include the loss of any of our state collected local revenues, however if did assume continuation of three quarters of the 1% sales tax that is supposed to expire in August. I think that was one \$1.6 million so if that doesn't happen then her budget is particularly out of balance. As you know the General Assembly has not done their budget proposal yet. We have done some preliminary thinking about what we do, so I wanted to walk through those items. We really don't have any sense of what the Legislature might do and we talked at the Retreat, our budget adoption is early June and I think it is very, very unlikely that the State will have a budget by then. By state law we have to have our budget by July 1<sup>st</sup> and I think it is unlikely that the State will have a budget then. We have the option of doing a continuing resolution or a temporary budget. That is one of the things that the rating agencies like the very least so it is generally not a good option for us to consider. The first thing we talked about before, we have \$18.4 million in excess of our 16% fund balance and that has been set aside and my recommendation would be that we continue to

set that aside as the first ... of money if the State does do something. If they don't or don't need the full \$18.4 million I would recommend that it go into technology. The Mayor's Budget Task Force that Cyndee Patterson chaired, recommended \$8 million of what they found as critical needs for technology and I completely agree. They had recommended taking \$8 million out of fund balance. I think it is just something that we don't know that we have right now so while I think the needs are real and we need to address those technology needs, I don't think we can to go \$8 million into fund balance without knowing what the State is going to do. The second piece is the balance of the Criminal Justice Reserve which there is not a great deal left, \$445,000. We have spent that down for other purposes and in the technology context, \$445,000 isn't all of that much money and I don't know that we've made a lot of progress with the State and what they are going to allow Mecklenburg County to do. I would recommend that we keep that in reserve to offset State losses and if we don't need it for that purpose that we allocate it to Police at the appropriate time for a onetime expense since that is not recurring money.

**Councilmember Burgess arrived at 3:15 p.m.**

Council Carter said we've had a request from Mr. ... for \$124,000. Have we considered that at all?

Mr. Walton said we've had a lot of request from the Trial Court Administrator and some are beginning to come out from the District Attorney's Office. I think they probably have some merit, but I don't know that we are going to have the flexibility financially to let go of that money, at least not now. That really ties into the next point and I should have started out that all of these are bad options so it is not like we are trying to put lipstick on this pig, they are not good options. We have reduced most of the State's responsibility like mowing and where we have money left for State responsibility is primarily in the District Attorney's Office. If we did not do this it would significantly impact the productivity of the Police Department, however, if we are having to reduce our budget because of the State we at least need to look at these things again. It doesn't mean that we automatically stop doing them or that we eliminate them as opposed to reduce them but it is something that if the problem is caused by the State I think we need to at least re-examine what we are doing on behalf of the State.

The next category is Suspending the General Capital Investment Plan, which is truly a bad idea. Again, if we are forced to come up with significant amounts of money, if we are having to deal with tens of millions of dollars of losses without any warning then this may be an area we have to go. A third of our budget, I would say is not in ... funds so the General Fund and General CIP is capital and that is primarily roads, neighborhood improvements and affordable housing. Those are things that if we saw on July 1<sup>st</sup> we could not continue to go forward with our debt program, that would save us about \$8 million plus \$10 million in pay-as-you-go. This list is attached and if you look at the list there may be different priorities among different philosophies here but I think all of these things are things that we over time have determined to be important for the city to invest in. They are very core, like sidewalks, the Northeast Corridor Access Improvements, that is what we talked about being able to put into the Blue Line Extension in order to not make North Tryon Street a Jersey wall road. There are a lot of things here that we absolutely need to continue to do but it just depends on how big of a problem we are trying to solve.

Ms. Carter said is there a penalty for not doing what we promised to do with the suspended bond projects? Is there some allocation for the State and the Justice System, the voters decision?

Mr. Walton said I think probably the only ramification is that we said we were going to do something and then we don't do it. From the public opinion perspective probably, but there is no recourse financially or legally for us not to move forward.

Ms. Carter said so we are not borrowing that money?

Mr. Walton said we just wouldn't borrow it and we wouldn't issue any more debt.

Ms. Carter said no repercussions as you see it, to which Mr. Walton said right.

Councilmember Peacock said Curt, you said our debt program and I wonder if you would repeat that phrase. That would be payment back to paying off our debt, is that correct?

Mr. Walton said we would not issue any more debt. We haven't issued any of the debt that was approved by the voters in November, for example, and we probably won't between now and July 1<sup>st</sup>. We just wouldn't issue that debt so that would either delay how long we had to pay it back or it would permanently derail, depending on what we decide to do later in the year when we have more time.

Mayor Foxx said let me make sure I understand what you are saying. This \$18 million we would ordinarily spend in the upcoming year for capital improvements, but it is money that has been borrowed already but hasn't been spent yet.

Mr. Walton said it has not been borrowed and that \$8 million and the bond piece supports the \$200 million for example, that were on the November ballot from last year. It gets that capacity and without the \$8 million we wouldn't have the capacity. The pay-as-you-go is a little bit cleaner, you can stop and start that at any point. But that has some of our bedrock programs in it too like innovative housing. Truly a bad option, but if we are looking at it at a stop gap year for something that we can anticipate at this point, it is an option.

Mayor Foxx said you can move that from capital to operating and the operating would be \$8 million as opposed to \$200 million in capital.

**Councilmember Howard arrived at 3:21 p.m.**

**Ruffin Hall, Budget Director,** said is a what if scenario and say it is basically taking the projects that are currently in motion and many of those projects are from prior bond referendums, taking it to its stopping point, mostly not issuing construction contracts. That \$8 million supports about \$164 million worth of general capital.

Mr. Walton said the last area in this Category, General Fund Reserves – We have the 16% which is your policy in reserve and that is about \$82 million and going back to an earlier point, we still have \$14.4 million over that so we have about \$100 million total. That is there as you know to protect us from disaster, both natural and manmade. Our two largest one have been one of each. Hugo was one that we appropriated a sizeable chunk a day or two after Hugo and another one was when Governor Easley withheld Utility Franchise Taxes without warning, I think it was \$16 million or \$17 million. One of each and those things happen. They only happen every ten years or so, but something will happen in the future that we would need a chunk of money.

Mayor Foxx said going back to the capital, voters approved the bonds this past year and if we were to go back out of necessity have to not issue that debt, what happens to that voter referendum? Does another referendum have to happen before we would go back and do that exact campaign?

Mr. Walton said it stays in place for seven years and you can get an extension for three more. For example, the State road package that we had in 1998, we have now just finished those so there is a length of time or shelf life for bond authorization.

Mayor Foxx said is there any downside or penalty to us other than what you talked to Ms. Carter about in terms of bond rating agencies for having referendum that are outstanding that we haven't serviced?

Mr. Walton said this in general would freak the rating agencies out because the lack of a capital program would be the thing that we would have to talk to them the most about when we make that visit this year. If we were to not do what the voters approved in 2010 it wouldn't be so much the voter aspect of it as we weren't doing the investment in the community.

Mr. Walton said the third topic is Property Revaluation and this one is fairly simple in principle and what I would recommend to you would be a revenue neutral tax rate. As you know we are still working through that process and residential notices for the most part have gone out and commercial have not, so we have a piece of the picture but we don't have the whole picture. We

will talk to you at each Budget Retreat between now and budget recommendation so we don't have a feel for that but it will be a revenue neutral tax rate.

Councilmember Howard said if for some reason you left the rate the same would you tell us what that increase would have been?

Mr. Walton said you mean what revenue it would generate? Yes sir. Right now a penny is about \$8 million, but yes we will tell you that.

Councilmember Dulin said before we get too far away from Mr. Howard's question, Ms. Kinsey and Ms. Carter were on Council in 2003 at the last revaluation and the rest of us, or maybe Mr. Howard and Mr. Cooksey were on the Committee but I wasn't involved in 2003 at all. In 2003 and the previous we've gone revenue neutral as a historic marker haven't we over the bumps, how many years or revaluations back?

Mr. Walton said I've been here since 1986 and we've never done something other than revenue neutral.

Item No. Four, Employee Compensation – the unknown with the State is really something that is hanging over this budget and it is not going to get clear in time.

Mr. Peacock said when you say unknowns from the State of North Carolina, how does that tie in with employee compensation? Do you mean employee compensation for us?

Mr. Walton said we don't know the impact on our revenue stream so I don't believe we could make the expenditures greater without knowing what that State problem is or that there is not a problem. We may make it and there is not a problem, but it is probably not likely. Our own revenue growth will probably insufficient for any kind of meaningful adjustment so at this point I cannot foresee recommending a compensation adjustment in the two-year budget. However, in the second year of the two-year budget, next year when we are looking at the second year we may want to revisit that. We have talked about at the staff level possibly a small lump sum adjustment next year from this year's savings if we can meet and exceed savings targets. That is something that I can tell you is a concept right now. I don't know whether we will recommend that or not, but we are doing well expenditure wise this year so it is an option I would like to leave open. Health Insurance we are working on and as you know we are proud of our health insurance experience. This year particularly we will try to minimize that increase to minimize the loss of take-home pay since it is unlikely to be a base adjustment. We have started work with Budget and Human Resource and Police and Fire on the Public Safety Pay Plan recommendations that came out of Cyndee Patterson's committee and we will have recommendations to you in plenty of time for next year's budget process. I mentioned the 401K, we cut last year from 3% to 2% and that was one of those that I had stated was a goal to add it back in the upcoming budget and that city-wide has a cost of \$2.8 million. It is included in projection that shows a deficit so if we can't do that we won't, but that is a goal to be able to do that.

Mr. Dulin said we are talking about just a 1% bump is \$2.8 million.

Mr. Walton said yes sir.

Mr. Hall said that is all funds. For the General Fund it is \$1.8 million. For all the funds, CATS, Utilities, all the enterprise funds included in that. It is just \$1.8 million for the General Fund.

Mr. Dulin said including Fire and Police.

Mr. Hall said just Fire because Police was unchanged because of the 5% mandatory.

Mr. Walton said we are required to do 5% by State law for Police so that didn't change.

Mr. Peacock said when you say lump sum adjustment, I'm trying to understand what that means. Do you mean some lump sum adjustment back into the employee fund?

Mr. Walton said it wouldn't be tied to health insurance but back to employees, maybe a 1% lump sum adjustment next year if when we close the books June 30<sup>th</sup> of this year, if there is sufficient savings there to do that. I don't know that there will be. That is something we will work on as we get to that point.

Mr. Peacock said when you say lump sum adjustment does that mean you would return that back to the employees in the form of a pay increase or would it be. I'm just trying to understand what that means.

Mr. Walton said it wouldn't go into base and it wouldn't drive up next year's costs and the savings would have to come from this year because the finances wouldn't be there for next year, but it would be 1% of salary as a lump sum payment one time.

Mr. Peacock said Ruffin, you had answered this question for me before and maybe you could repeat it. Curt's complete Public Safety Pay Plan recommendations and next year's budget process, explain again, I guess you all need more time to take action on the Task Force recommendation, and why does it take so long and explain to me why again.

Mr. Hall said I think there are really two factors in play, one is the current state of the economics associated with the pay adjustment next year. A regular pay adjust is somewhere in the range of \$12 million to \$15 million of growth revenue and we are not going to have that. There is not much point in rushing through a recommendation that has no money attached to it anyway. That is one fact. The more important factor is that ultimately the Public Safety Pay Plan is incredible complicated and has a lot of intended and unintended consequences in terms of the compensation structure for over 3,000 employees, which is half your workforce. The process that we would use would involve working with Police, Fire, Human Resources and Budget for something thoughtful and comprehensive that can also work through representation from employee groups so when it is brought before the Council it is something that can work as opposed to doing something very quickly. A lot of the detail associated with how the Public Safety Pay Plan mechanically works is not something that we go through a lot and I think we will end up with a much better recommendation if we basically take the time to work that process for next year.

Mr. Peacock said so about this time next year we may be having some dinner meetings about this or petty close to it, to which Mr. Hall said yes.

**Councilmember Cannon arrived at 3:35 p.m.**

Mr. Walton said hopefully January.

Mr. Walton said the last Point No. 5 – No Funding for Future General Obligation Bond Referendum, and that also is for Certificates of Participation (COPS) which we use to build fire stations and police stations and things like that. As you remember, November of 2010 as the last one for which we have funding. This is a significant issue, but it does not have to be a significant issue right now. I won't recommend a change right now. I think we need to spend the next year identifying what the next five-year program looks like, and what is in it and we can address it next year if we choose to. It is something that through the long-term in the future as a city we need to address but I think to address it this year is not that important.

Mr. Howard said going out five-years from now is it looking better and I remember hearing from Greg it is probably some capacity, very little and not enough to go to the voters with so maybe three years from now will we be back around projections that make sense about giving us any kind of capacity?

**Greg Gaskins, Finance Director**, said it is looking better and I think the question and what Curt is addressing is that it may not be looking good enough to do what our designated needs are and that is the reason we would need to look at it in much more depth than just depend on the revenue to come back. I think it will come back, but I don't know if it will come back enough to meet where our needs are going to be.

Mr. Howard said that makes since and I got that part. I just know if we were going in the right direction from what the projection are right now.

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Mr. Walton said I think we did about \$550 million over the last five years in debt financing and probably right now we have \$5 million to \$7 million and that might grow to \$40 million or \$50 million, but nowhere near these figures.

Mr. Peacock said Curt go back to Page 1, I'm trying to understand the correlation between your bullet number one where you are saying restoration of 1% of the 401K and then tie that with what you said under employee compensation.

Mr. Walton said relative to the lump sum? The 1% 401K we reduced from 3% to 2% and assume that in the coming year we would bump that back to 3% so that is on the retirement side and on the compensation side that is point over in the employee compensation. I guess the employees could choose to put it in their 401K, but that is just pure compensation, lump sum, one time, not building it into the base.

Mr. Peacock said so we know that we've got \$5.4 million that we need to fill that includes or excludes the 1% 401K being factored into next year.

Mr. Walton said the 1% was factored in.

Mr. Peacock said if we did not restore the 401K to the employees this would be excluding Public Safety employees. Is that correct?

Mr. Walton said just Police, then the \$5.4 million goes down by \$1.8 million in the General Fund.

Mr. Peacock said it is \$5.4 million minus \$1.8 million. My next question, your second bullet when you said capital reserve, you mean that we are \$18.4 million in excess of the 16% which is the \$82 million that we have so if the State comes back to us that could be something that we could take off the top and that could be revenue that we would lose there and we couldn't invest in technology as the Task Force has recommended.

Mr. Walton said that is right.

Mr. Peacock said the next question is under Balance of Criminal Justice Reserve – the \$1.4 million that we have allocated to libraries, I know that when we passed that last year there were a lot of strings attached to that. I know the Task Force is just finishing up their information so is that something that will come back before Council before that is released because I remember that being a part of it and where are we with the library monitoring of how their situation is?

Mr. Hall said there is a contract associated with that \$1.4 million and we have made either one or two payments already based on the criteria that was attached within those conditions. The County as the agency for the library makes sure that those criteria are met, if they have they send us an invoice and we make four payments based on how the contract is established. That was approved as a part of the budget process with the contract. If your question is about the impacts for 2012 I'm not aware of any requests related to next year's budget at all. I'm just speaking to the current year.

Mr. Peacock said I guess where my confusion was is that's I didn't realize we had already made two payments out to them. I knew that we approved the action and I'm just trying to understand if those things have been met and it sounds like they have been. That was clearly a one-time scenario for us.

Mr. Hall said it was within the context of the Council approval.

Mayor Foxx asked Mr. Walton if he was asking for any feedback on any of this at this point or is this your early thoughts on how you are going to frame your recommendations to us?

Mr. Walton said these are early thoughts but I will be glad to take feedback and additions or deletions.

Ms. Carter said if the State Legislature enacts a moratorium on annexation and does not exclude Charlotte/Mecklenburg what impact does that have on our capital investment plan and would we continue with the projects, would we halt the projects, would we hold in reserve those funds? What would we do?

Mr. Walton said for the most part we would halt those projects. I say for the most part because there may be some utility projects that are tied in like the one you approved Monday night that had 2009 in it as well. Some things we may not can pull apart, particularly the streets would not be done. We wouldn't expend money in those unless it was required for some larger service delivery reason. That is probably only water/sewer.

Mayor Foxx said I think we will have ample time to give the Manager feedback in the course of the next couple sessions on this so you don't have to all jump up at once, but I will say one thing and it is sort of in the context of what if this parade of horrible don't happen. Assuming that the worse does not happen one area that I would really like to see us discuss is the School Resource Officers and the Crossing Guards for the School System. I have through over the last several months about topics that might cause me to exercise veto and that is one of them for me. I'm going to be very clear about that very early that I think that is an area where if we don't figure out a way to reconnect with the School System on that I'm going to veto the budget and maybe you all will overrule me but I just believe in telling you early where I stand on these things and that is where I am with that. I don't know if we can patch it together for a couple years, but even if we could do a two-year patch job on that I think it would be helpful. As we go through the budget process that is something that I will continue talking about.

Mr. Howard said just so I'm clear, the instruction that Council gave Curt last year was to start phasing it out so that is what Curt's budget will say. The only way to change that ahead of Curt's budget is for us to do what, if anything? Is that a conversation we should have so it doesn't turn contentious later, as it will be an add to your budget? What is the most comfortable way to do that? Maybe we should at least have the conversation and give Curt some direction beforehand.

Mr. Walton said if you don't do that, there are two ways. You can do it that way or it comes in the add/delete process which makes it more time compressed but that is your choice. I appreciate what you said Mr. Howard. The direction we have right now is to phase it out so that is what you will see in May from me unless you go a different route beforehand.

Mr. Howard said I just wondered if it was worth trying that ahead of time so you could have had a conversation about it as opposed to trying to have it over a two or three weeks period while we are talking about everything else.

Mayor Foxx said I think it is a little fluid because again my feeling about it is subject to what the State does or doesn't do. If the State starts pulling money away it is completely a different ball game for all of us. I think we are going to have to be kind of fluid about this.

Councilmember Cannon said I think it is going to be important to have a real compelling argument as to why we should do something different than what the Council has given a directive to sort of move toward. I would just patiently await because I want to see what level of sense they might make and also to consider the other budgetary items that need to be addressed or should be addressed or could be addressed along the way also because I think I'm looking a little bit more out into the future as we continue to fund other things like our Police, specifically 75 officers and where we find the monies to continue to support that. Understanding that the Federal Government will not be assisting us with that any further. It is real important to me that we are saving up all of Charlotte as best we can. That is just one example of a few others I want to have some discussion about later on.

**Councilmember Mitchell arrived at 3:47 p. m.**

Mr. Peacock said Ruffin, you and I had spoken back in September when we all got a series of e-mails from School Board Member Trent Merchant about this and it sort of brought it to our attention and all of a sudden started to play out in the media to a certain degree on that. I think the tone of that was why don't you tell us about this earlier and the message I got was we did tell

them about this quite early. I don't know if it was necessarily communicated to or through their body so I'd like to have a timeline if I could, when information was told to them, when reactions began to occur. I think we were at a Business Meeting and I know you probably feel the same way too, but I said shouldn't this be something that we think about referring to the Budget Committee and I don't remember us really spending a lot of time on this and I think you had already pulled the record on it and I got the feeling from the Council that we don't want to refer this to the Committee. Things have changed now and I'm wondering are we reacting to the School Board saying something or are we reacting to pressures from the State. What has changed and it is good that they are letting this be known early so we can have a dialogue on it. Two things, one was to get some timeline information from Curt and Ruffin so I can better understand it and secondly, if we've changed our tone on this body, why and what has made us change. I guess we will debate that openly as we get to it because this does go exactly against what the Manager was recommending last year and it seems we had appropriately communicated it to him, but I guess we've changed.

Councilmember Barnes said Mr. Peacock I would say this I recall resisting the referral. We did in fact have an exhaustive analysis of that effort in budget cycles past and my position has not changed on it and likely will not. I feel the same way I felt last year.

Mr. Dulin said I was in favor of the Manager's recommendation last year to get out of that business. I had a little misunderstanding on my part, not communication part from staff and from our discussions last year that the Resource Officers were actually staying in there and we were just going to get the books right. I thought we were actually going to put those officers on the street which I was really in favor of. I am a consumer of School Resource Officers with children in the public school and a consumer of another subject I'm going to bring up and talk about a little bit more in a second, the School Crossing Guards. My children walk across the street at a very dangerous intersection with Barkley Downs Road and Runnymede which is an off counter turn there so I'm getting hammered in my neighborhood meetings a couple times a week because folks know that this is coming. I'm staying strong with the decisions we made last year to get the books straight and to get the monies that we spend on these non-city functions to where we can start spending them on additional officers or fixing potholes or whatever we want to spend it on. Every year it is one-time money and we can't go hire more Cops I don't think with the cash, but we can do things to service our greater community. Our elderly people or people where kids are gone or kids at least out of school are saying good, you all go take care of what you are supposed to take care of and use my tax dollars to fix roads and to fix sidewalks and do whatever else you need to do. It is a very charged up issue and one of the really good things that we did last year that I'm proud of its work is that we did give them a one-year look at it and a four-year step down. We are not going cold turkey with pulling the cash. We are giving them four years to know that it is coming. The Mayor is right, it is a fluid deal and we've got to find out what is coming from the State and what the State gives the County, the Schools, etc. but I'm still in favor of, even though I know how, and I'm good friends with the School Resource Officers at AG and I'm good friends with the Officers at Myers Park and I see them all the time because I'm on those campuses. I think I have told you this before, but I bought Mr. Green who is our School Crossing Guard, a new folding chair at Wal-Mart a couple years ago because he was sitting in one like 1949. Mr. Green is part of our community of people that walk to our neighborhood school so I'm telling folks, telling neighbors, and I've got next-door neighbors on me about this, that we're in charge of running the City of Charlotte and it's the City of Charlotte's money and it my responsibility as your District Rep to try to get the money right and try to get money that we can spend. For that reason and I don't mind talking about it, but I'm where we were last year still and I'm more interested in bringing up the School Crossing Guard.

Mayor Foxx said I didn't bring it up to dominate the discussion only to get my thoughts out there and that is consistent with where my comments were last year and actually when we talked about it back in the fall. We will see where it goes, but I wanted you to have that feedback.

### **State of North Carolina Budget Update**

Mr. Hall said this is very brief, just continuing to communicate that we are paying attention to what is going on with the State. Attached is a brief PowerPoint Presentation of the Governor's presentation from the Budget Office when she released her budget. I'm not going to read through it as you have probably heard most of the important parts through the medial. That is

part of what was derived from the Manager's statement that there was no proposal in there to take State collected local revenue. That is the good news. The uncertain news that goes with that is obviously this is not the end of the process and the North Carolina General Assembly, House and Senate has to still put their proposals on the table and that has not yet occurred. They could choose to take some of the elements of the Governor's proposed budget or not so I don't have much more to add other than we continue to watch the process as it unfolds and we are specifically looking at which elements of the budget will impact the City's budget, either in the form of a cost transfer or state collected local revenues. Those are my only comments unless you have any questions.

Ms. Carter said on Page 12 of the slide numbered 95 indicates that the State supports in-state construction and repair companies. If the State can do so why can we not mandate to support local industries?

Mr. Walton said I actually know the answer to that. At the Camber Retreat in Pinehurst last fall the Governor addressed this and she said she had done by administrative order that any out of state company that gets a bid, there will be an automatic opportunity for an in-state company to match that price. She does not have the legal authority to do that, it is an administrative order. I don't know if that ever happened, considering November happened a month after that retreat, whether that happened or not, but she doesn't actually have that authority, but was putting in place and that is what is meant by that. We would have to have state-wide legislation as she would, to actually do that.

Mr. Cooksey said that is exactly as I remember it too. There was much eye-rolling in the room as I recall.

Mayor Foxx said so we don't see any direct threats to us at the moment based on the proposal that the Governor has made. We also don't see any non-threats either.

Mr. Hall said there still a lot of steps in the process but at least from the Governor's proposed budget there wasn't anything that impacted the City budget that we can see. I'm not really speaking to the State transportation funding, the TIP and that sort of thing, I'm just speaking to the operating budget issues.

Mr. Peacock said Ruffin, I don't know if this is under your section or if it is under Greg's, and this won't be the first time I've brought this subject up, either to you off line or here in this body, but I continue to ask questions about the pension and there have been several articles, one in the Carolina Journal and another in the National League of Cities about pensions and the way that we account for them. Is there any possibility of a surprise from the State on asking for a larger contribution from us. I remember last year we were talking about pushing back some and then they were asking for too much. I've gotten the feeling that they are asking for too little and there could be some type of trap door here that we are not paying attention to.

Mr. Gaskins said I actually attended the last meeting of the joint board, both the local and State Boards and we in your retreat, there are some materials in there that covered some of the information. I think Curt has sent out the more recent information. What we projected last year, we met with the State Treasurer about it, was that the growth in terms of the growth in revenue, and as you know the primary support for any pension fund is not really the amount of money we put in, it is the earnings. Those earnings were coming back strong and the actuarial study, which projected out from a low point first results were not accurate and actually the results were going to be better. The return at the State Treasurer's office well exceeded their bogy of 7.75. It was over 11.86 so that is two years in a row that it has exceeded the bogy. As a result of that the unfunded liability for that has not increased as was originally projected. That is what we said was going to happen.

Mr. Peacock said I've heard figures that our bogy is 7.25. It is 75 bases points above the national average as far as were we are setting our investment returns.

Mr. Gaskins said 7.25 is correct but in the last two periods they have exceeded that by a far amount so actuarially that means the results are not where they were when they first proposed that increase. We've actually worked better than that. I predict that that is going to continue and

that the results are going to be even better. We are fortunate that we have not had some of the issues that many states have had related to the benefits and cost of those benefits. That alone with proper funding is a result of the fact that we are one of the highest funded funds, I think number two in the United States and are not really threatened by most of the conditions that are there in the other states, just through better management, so we do not have the problem they have and what the Board did the last two years, I don't think hurt and it doesn't make the fund any weaker. So we are fortunate to be in a better position than those states that are struggling with it. The other thing is, the actual reports were worse than some of the detail work that has been done for the same reason. The reports are based on actuarial studies that lag. You have the worse drop in terms of earnings that you've had since the great depression. They are based off those low projections. More current studies, looking at recent performance, are actually much more encouraging than the information that is generally out in the public. Even though there are some places that do have problems, it is probably not as bad as the national media wants to be for their purposes, but for us we are at the very top end of the scale in terms of how strong our funds are and how low the unfunded liabilities are in North Carolina. We do track that and follow their meetings and meet with them. We actually look at the actuarial report and track it. I don't know if everyone does that but we do that on a regular basis. The Manager has had me go to the last three meetings of the Board and if we detect anything we will certainly report it to you, but we are very comfortable with where they are.

Mr. Peacock said what I've read was the treatment and how they are going to begin accounting for this, especially in non-governmental entities for pensions so for a public company in the United States, the treatment of that defined benefit pension plan and how they account for it, is much more ridged accounting as opposed to the way in government accounting. The refreshing point there was that we are not short by 10%, we are short by a lot more if they change those rules.

Mr. Gaskins said there are two things, two different points related to that. One of them is the government side has changed and that was one of the requirements that came in Gatsby changed the rules. We have changed one of the requirements. That base requirement had to do with the rules about presentation and that presentation dealt specifically with unfunded liability. That has actually changed for local government. That is the reason why you are seeing so much activity in looking at this because when you did that change it did impact that unfunded liability. If you would look at what the information has been since that change in the last few years, versus before that, you wouldn't have even seen that this was an issue. That change has already happened. There was another change being considered which would also change some of the information about what you would do with that bogy which is the 7.25 you mentioned and how that would be impacted. That has not changed, and in fact it probably is not going to change is the most recent thing that I hear in terms of doing that. I will be happy to sit down with you and go over it in more detail, but the point of the fact is, we believe and we think that we are in a very fortunate position here in our local government in terms of being at the very top end of the scale and in terms of not having the problem that has plagued some of the other states that you are reading about in the paper.

Mr. Hall said we've gotten the rate adjustment from the State Treasurer's Office earlier, back in January and that increase is loaded into the \$5.4 million gap and that increase was much smaller than the original projection they had last year. The increase is only going up from about .53 so just about a half percent on a about a 6% number so that rate of change is much more moderate than the discussion we were having last year and we've already loaded that into the budget projection.

Mayor Foxx said I think that is a great question Mr. Peacock. On a separate subject, I was in a meeting this week and there are some people out there who think our budget is loaded with people who don't work for the City anymore. I actually got quoted a 48% number in our budget and I would love, at some point, to get what the actual number is so we all have it. Some people thing that 48% of our budget is going to people who are retired and that is not true.

Mr. Dulin said if we were number 2, what city is in front of us?

Mr. Gaskins said actually it is the State. North Carolina's combined fund and I think we were number 2. I'll get that information for you. The Pension Magazine that comes out actually does an annual rating and for the last 20 years we've never been lower than four in North Carolina.

Mayor Foxx said let's got the CAT's Budget and get that knocked out.

Mr. Walton said this has been to MTC twice so it travels ahead of the rest of the budget process. MTC is probably voting in March.

**Carolyn Flowers, Director of CAT'S,** said we will be presenting the Capital Budget in March and ask for approval in April, then we will bring it to Council. At the City Council Retreat one of the Economist mentioned that we need to get through the short-term, but the real job is managing for the long-term. Ms. Flowers used PowerPoint for her presentation to Council. (A hard copy is attached). You see our short-term issues and our long-term issues represented in this chart. Sales taxes are below the 2005 levels and our gap has continued to grow. We are now about \$476 million below what we had in our 2030 Plan and this gap is equivalent to the local share for two major projects. We've had to focus on the financial reality and look at what our core responsibility is and that is to provide mass transit and that we need to maintain our assets in a state of good repair. We went back to the MTC in a Workshop in October and we talked about what we need to do in terms of adjusting the 2030 Plan and delivering projects for expansion of the transit system in the future. We have limited resources so we will be only looking at the advancement of an affordable Blue Line alternative and exploring options for public/private partnerships for the Red Line to see what we can do in the future. Our main criteria for our budget is sustaining operations and living within our means. As we present our budget to you, those are going to be the factors that we outline as we go through this process and what we've done to insure that we can sustain operations in the future.

This is our mid-year update and what we are facing in the mid-year is that we have experienced a short-fall in our operating revenues during this period of about \$5.6 million. About \$2.9 million of that is due to a lower projection in sales taxes and some of it is exactly what you were discussing earlier. The impact of not getting the level of State support that we had anticipated and also the Federal Government has continued to implement continuing resolutions over the last year and we had anticipated some grant funding that they have not actually released. On the Capital side we took some action and went back and looked at all of our previously designated Capital projects and we were able to de-obligate some unused funds for Capital projects that have been completed so we were able to call about \$8 million from Capital projects that were completed and bring those funds back into our Capital budget. We had some expenses that exceeded what we had anticipated so the net increase is about \$6 million that we were able to bring back into our Capital fund.

Mr. Dulin said I like it when we have extra cash that we don't spend. Where did that money come from?

Ms. Flowers said over the years there was a number of Capital projects on the technology side and construction side that we had originally budgeted and then you encumbered the funds for the amount that you anticipate the project is going to cost, but when you complete the project under budget those funds that have been encumbered, you can go back and un-encumber and take those dollars back and use them for some other project in the future.

Mr. Dulin said where we use them will we deduct those amounts from the construction costs from the budget rather than add to the budget?

Mr. Walton said we would reprogram that.

Mr. Dulin said we are already paying debt service on that \$8 million while we've had it in the accounts, wherever it is?

Ms. Flowers said no. This is all cash. I think this is a fiscally prudent direction to take, to go back out there and look at projects that have been completed.

Ms. Carter said this is a really good message and it needs to be publicized that CATS has come in under budget on some things. I think that is well worth the story and I hope it is at least put on the website.

Ms. Flowers continued her presentation with the PowerPoint and said this slide talks about some of the mitigations we are taking in the mid-year to insure that we can make our budget for FY11. We have taken actions in terms of reducing expenses and trying to increase productivity and also we did get MTC to approve advertising. We just put out an RFP that has come back in so we expect to generate some advertising revenue and start that trend for the future. We also looked at ways that we could mitigate the reduction from the Federal side, so we did look at ways that we can reduce our expenses and maintain our budget for this fiscal year without impacting our service delivery level on the street. This is the priorities for FY11 as we mentioned, there was the \$6 million that we took out of the Capital Fund de-obligation but we have an impact on our Capital Plan due to the continuing resolutions from the Federal Government, but we are still focused on maintaining our assets. Those are our priorities. Safety and Security is a very high priority for CATS to be able to operate the system in a safe and secure manner. These improvements that we've been able to get have been largely funded by the Department of Homeland Security. We have a focus on economic development and so our work plans for both the Blue Line Extension and the Red Line focus on that aspect. However, we are still facing a lot of volatility in the current economic climate. I think the biggest risks for us right now is the fuel costs. We have definitely been trying to monitor the fuel costs and there has been a lot of discussion in the media about the impact of fuel. We experience kind of a double edge sword from fuel cost increases. It tends to increase our ridership, but it also has an adverse impact on our costs. We are continuing to monitor our fuel purchases. We have entered into forward fuel purchasing. Budget certainty is something that we try to maintain as we look at fuel costs so we will continue to monitor those costs because every ten cents increase in the costs of fuel has a \$300,000 impact on our costs. What we want to do is try to maintain the service levels while we have increases in fuel prices. On the revenue side we have a significant impact continuing with sales tax revenues. That gap, as we had shown in the first chart, is increasing so we have to insure that we can continue to provide ways to maintain our costs and contain our costs as we move into the next fiscal year. What I don't have up there is that we are in the midst of our labor negotiations with the transit operators and next year we will be negotiating with the mechanics. We don't have any impacts yet because those labor agreements have not been settled.

Mr. Dulin said can you tell us how they are negotiating with us in what fashion?

Ms. Flowers said McDonald Transit, who is the contractor for our services is directly negotiating at the table with them. What we've done in the past is recommend that whatever increases the City of Charlotte employees are getting that we would want that to be the same for our contract employees.

Mr. Dulin said or no increases?

Ms. Flowers said that is right. We try tie it to what the City of Charlotte is getting so the City of Charlotte budget has said no increase.

Mr. Dulin said I don't know what that labor pool looks like, but if they get outrageous with their negotiating are we able to replace that labor pool?

Ms. Flowers said they have not been outrageous in the past two years and have taken increases that are equivalent to what the City has been doing. I think there is a high degree of pride in their work and even though there has been a lot of noise recently from taxi operators about trying to get into the Teamsters, our local has not engaged in any discussions about any adverse impact upon service delivery here. I don't think we are going to encounter any issues.

Mr. Dulin said that is a hot topic right now and for the record I ride the bus a lot and have yet to see an unprofessional bus driver.

Ms. Flowers said I'm sure you would report it.

Mr. Walton said we couldn't replace them with non-unionized labor if that was the root of your question. We have to use unionized labor but they have not been unreasonable.

Mr. Dulin said replacing them was the root, not with whom.

Ms. Flowers said the other challenges we have is that we had talked about making sure that we could retain the level of service that we are delivering now in this economic environment. A lot of pressure is on the cost structure and the revenue structure at this time so we are looking at ways to continue to improve our productivity. The other challenge is the local share for the Blue Line Extension as we are trying to move into the full funding grant agreement, the impact of sales taxes and being able to mitigate the issues so that we can be sure that we have our share ready for construction is also a future challenge for us. This is a summary of what I would call The State of CATS. You can see that we are operating at 2005 revenue levels, but we are operating more service than we did in 2005. We are now having 44,000 hours of light rail, fuel costs have gone up 62% and ridership is 38% higher. I think it demonstrates the steps we have taken to increase productivity and efficiency in a constrained financial environment because we are operating more with less.

Ms. Flowers continued her presentation with Page 22 of the PowerPoint, FY2012-13 Operating Budget. These are our general assumptions on the revenue side we are basically following the City's escalation trends and we are looking where we are going in the future. Our fuel prices are a risk and the dollars may look a lot lower to you than what you are seeing in the market right now, but remember we do not pay the excise taxes and that our mix of fuel is general ultra low diesel so we do have a difference of what you are actually seeing out there in the market. However, the volatility affects us also and there are a lot of risks in our number right at this moment until the political mess calms down.

Councilmember Mitchell said I know you might now have the answer so this might be good just for discussion, but the fare increase always comes back to us as local elected officials. When the citizens hear about it they complain and say why did you all vote for it. I think that is part of the MTC.

Ms. Flowers said the MTC has a fare policy. The fare is increased every two years and we have just obtained approval by MTC for a 25 cent increase on an every other year basis into the future. I think that the answer is look at the cost escalations that we are absorbing, the increased service that we are putting out there. Those are the things that drive us being able to keep the service on the street so part of our financial projections have this fare increase in there so that we can still retain the level of service on the street.

Mr. Mitchell said from a policy discussion, if we enter into discussion with MTC of not giving the authority to increase our fare is that a show stop with the MTC?

Mr. Walton said you would have to open up the whole inter-local agreement and I think bad things would squiggle out.

Mr. Cannon said we've been getting feedback already from entities who are part of nonprofits and some that represent a segment of those the least of those who could afford to pay for an increase, our homeless population, etc. so what is happening, to Mr. Mitchell's point, is that they have already started to enquire among members of Council not knowing exactly where to go or who to have that local discussion with.

Ms. Flowers said that is one of our budget assumptions is a reduction in the discounts that we've been giving and there would be a public hearing held at the end of March. MTC will hold a public hearing regarding that issue and the members of the public who have an issue with that can come in and provide their feedback and MTC will vote on whether or not they will approve that change in our budget.

Mr. Cannon said and you've already gotten those notifications out?

Ms. Flowers said yes, you have to give a 90-day notification of a public hearing.

Mr. Cannon said is there any follow-up after the 90-day when you sent those notifications out. Do you have any other follow-up other than the 90-day. Once it goes out is that it to follow up with the general public to give them a reminder, per se.

Ms. Flowers said I'm not sure. I will have to check with Olaf.

Mr. Walton said before Carolyn leaves that slide I just want to point out on insurance, the \$3.65 million, the non-CATS portion of the City has always subsidized the bus system and now CATS. We had a plan that would have made them fully fund their portion about the time the recession hit, so that is something that has been historically been there. We hope that sometime in the future it can be different. It can't be different now without really increasing the impact of service hours. The main reason I bring that up is when other jurisdictions think that the rest of the City takes too much out of CATS, there are a lot of things like the insurance, like the AAA that the City brings to CATS that but for those things the cost would be much, much higher.

Mr. Barnes said Mr. Burgess and I were talking about the employee retirement percentages.

Ms. Flowers said did you see FY11, the 32.3%? That was when the State changed the contribution level, that 4.8% to 6.35% contribution.

Mr. Hall said that is the question Mr. Peacock was asking earlier about the State Pension contribution and last year it went up a lot and in their model they had it going up again, but it dropped back down to a much lower increase. It went up from 6.35% to 6.88%.

Ms. Flowers said that was the hit that we took to basically come up to the level that they wanted to cover in the pension fund. I think that is basically it. You can see that we have some slight growth bus operation division revenue hours and that has been primarily by adding a little bit of an extension on the Gold Rush services and we do have a public/private partnership with Center City Partners and they have pledges from educational institutions for additional services. We are also increasing our STS hours. We have been taking on more of the ADA responsibility from the county through reductions in the some of their programs and there has been a migration of ridership that are eligible for the ADA program over to CATS. We are static on rail revenue hours and our positions have gone down by 3. Last year we came down by 29 positions and these three are transferred to other departments for a more functional alignment in the city.

Mr. Dulin said I'm excited about the new extended Gold Rush and getting it out to Johnson C. Smith and over to CPCC. I think that is a good deal. Have we gotten some preliminary ridership numbers that we can either have tonight or tomorrow. My fingers are crossed that it is packed.

Ms. Flowers said it is packed. The times that I have ridden in the last three weeks, it is standing room only. I've had to stand behind and chat to the operator because there are no seats on the Gold Rush. I will check with Mary Cox to see if we have actually done one of our ridership counts, but they actually have automatic passenger counters on there so I will see if I can get you some data. I've been there when the operator is clicking the passengers as they came on.

Ms. Flowers continued presentation and said one of our key budget assumptions is what we are doing with the county. The reduction of the DSS Subscription Services, we cut half of it last year and we have notified that we are going to cut the additional funding for it this year. Most of those riders migrated over to the STS services. We can offer those services at a higher efficiency level and use that funding to expand ADA services which are federally required. We are also looking at making sure that we are aligning our ADA services with the federal requirement and being able to basically stretch the dollars that we have in a more efficient manner. We had talked about the reduction in the past sales discount to corporate and non-profits and that will be part of a public hearing and we will get back to you in regards to advertisements.

Continuing with the last slide on Page 23 Ms. Flowers said these are our primary cost drivers for our budget. After labor, fuel costs, insurance and inventory are three of our major cost drivers. As I explained fuel cost has been extremely volatile since we started planning for the budget. It represents 8% of our budget. Risk Insurance costs are increasing. We have taken some slight increases over the past few years and this represents 3.4% of our operating budget. As I indicated we have been working on efforts to improve our safety record and our light rail has a

very good safety record and on the bus side we are trying to make improvements. The organizational exposure affects us and on the inventory, that is about 5.5% of our budget and we've been looking at our fleet composition to try to keep it as simple as possible. As we brought on the light rail line there is less opportunity to capitalize those costs because we are now in a total operating environment so that does have an impact upon us. That is a summary of our costs drivers, labor and equipment to deliver those services, are our primary focus in terms of cost drivers and you can see how our costs are broken down. You can see that labor, wages and benefits are a primary component of our costs, followed by fuel, insurance, inventory and other expenses. We have several major areas that drive our costs. On the revenue side, sales taxes, fare box and operating assistance from the State and federal government are our primary revenue sources. All of those are volatile right now too.

Our Capital Improvement Plan, as we look out over the five-year horizon, we actually have very limited scope for our Capital Plan. We place our revenue vehicles, generally federal guidelines on the bus side that you need to replace your vehicles every 12 years, rail cars every 30 years but we are operating a rail system and want to make sure that we maintain it in a state of good repair so we have to start planning for our mid-life overhaul on our cars and also with our Rapid Transit Plan in terms of the Blue Line Extension and also looking at what we can do in terms of a public/private partnership on the Red Line.

This is our Debt Profile and we want to demonstrate that if we are able to move into a full funding grant agreement that you see that we have been paying off our debt and we do have debt capacity. This is City debt and I want to make sure you all know this is City debt and we want to make sure that we do everything to protect the strong debt service ratios that we have to insure that we can keep the City's debt profile, its AAA bond rating and that we have the capacity for the future for any debt needs that we need if we are in a construction scenario. This is the summary of our budget. What we expect, we are having a budget of \$125 million for operating revenues and expenses of \$105 million. We can retain a balance of \$19.4 million and on the capital side in the FY13 you see the increase debt because that is when we actually expect to start entering into a full funding grant agreement and need to start borrowing for cash flow purposes until we can get our funding from the federal government reimbursed to us.

The last slide on Page 26 are the financial policies of MTC. We need to adhere to these and these are the financial objectives that have been approved by them and we comply with those to insure that we have the operating and debt capacity to provide the service. I thank you for support of the CATS Program and Public Transit in the City of Charlotte and Mecklenburg County.

Ms. Carter said this last slide showing your administrative overhead is absolutely astonishing and thank you so much. The administrative overhead under 7% is incredible.

Ms. Flowers said we are trying to insure that we continue to work on that number in this fiscal year. We've taken some actions, hiring freezes and we are trying to insure that we can put our dollars on the street.

Mr. Dulin I just got to thinking about it, do we have any debt because it seems like a brand new building to me, and I remember when they built it. Do we have any large expenditures coming in the next year or two that we need to go ahead and start looking for funds? Everything needs a coat of paint every now and then. It would be very expensive to paint that building because it is all exposed beams, but it could use a coat of paint.

Ms. Flowers said that is operated kind of as a separate entity between ourselves and Bank of America and there is a Transit Board on which CATS has membership. They have a separate budget and we work with them on the security as well as the capital needs for maintaining the facilities in the future. They have budgeted I think upgrades to the HVAC for \$100,000 and I don't think we have budgeted anything yet for painting the roof. That may happen soon, but the initial capital plan has some upgrades to the HVAC and I think some of the minor things are improvements to the restroom facilities and sidewalks.

Mr. Dulin said the restrooms could use it so I vote for the restrooms.

Mr. Peacock said Carolyn on the last slide, Financial Policy Objectives, did you say that is the MTC's financial policy objectives or did you say CATS?

Ms. Flowers said MTC. We have financial policies that are approved by MTC and they set ratios that we have to achieve as part of our budget and so as we develop our budget we have to test what we have as a final budget against all those ratios to insure that we obtain them.

Mr. Cooksey said are these all or does the MTC set an expectation of what percentage of revenue should be recovered from the fare box?

Ms. Flowers said yes. Fare box recovery is right now at 21%.

Mr. Cooksey said is that by policy or by happenstance?

Ms. Flowers said it is by policy I believe. It is about average of what most transit properties are recovering.

Mr. Cooksey said I recall in the past it used to be about 25% and I can understand why it might be a little different now. I wanted to double check that that was a policy objective, that you set fares based on trying to capture a certain percentage of that operating revenue from users.

Ms. Flowers said the service levels vary and those are the factors that go into the ratio.

Mayor Foxx said I've said this before but I think you've had one of the toughest jobs in the community because you kind of walked into a buzz saw with sales tax revenue declining and you've done a great job of balancing those things.

Ms. Flowers said I would also like to thank my team because I can't do it without them.

### **Financial Partner and Outside Agency Funding Requests**

Mr. Barnes said I wanted to provide the full Council with an update on the work that the committee has done regarding our Financial Partners. I want to thank the members of the Committee, Vice Chair Dulin, members Carter, Howard and Peacock for their service as well as Mr. Hall and the people who work with him because this has taken quite a bit of time on the part of the Committee and on the part of staff support and we appreciate them. We spent at least two hours in each one of the meetings and we've had two. We did CRVA and Charlotte Regional Partnership most recently. The first meeting was Center City Partners and Arts and Science Council. I will share with you all that I believe both the elected officials of the City of Charlotte and the Partners found the exercise to be very useful. In my opinion we are not yet done with it because there are some things that I want to talk to the Committee about regarding some deliverables that we have requested from the Partners. For example, we ask each of the Partners to provide with us at least three measures that they would pursue to either save money or increase efficiency and they've all done that. We are awaiting a response from the Charlotte Regional Partnership but they were part of the last review that we conducted so they have a few more days before they are expected to respond. You will notice for example, Center City Partners has listed four items that they have implemented or will implement to save money and you will notice on page 2 Arts and Science Council has proposed three. In fact the Arts and Science Council has actually been rather proactive in addressing some of the cost issues that have impacted them. The same thing is true for Charlotte Regional Partnership, it is not listed here but they have already made some adjustments and there are probably additional adjustments to be made. We also received a report from each Partner's Board Chair regarding the compensation issues and they explained essentially how they go about deriving compensation data for their executives and how they determine the compensation. Some of that I'm still uncomfortable with and I'll talk about that at another time, but they at least have provided some information and Mr. Peacock had requested from them additional information regarding the methodology they use to determine compensation and we are awaiting some additional information on that item. Among the things that are left to be explored, with respect to Center City partners, for example, are some concerns we had regarding the SouthEnd and whether that part of the MSD is getting the bang for its buck and whether there needs to be some further review regarding how the services can be delivered to that part of the MSD, I believe it is MSD

four. SouthEnd generates \$560,000 in revenue for Center City Partners and we want to make sure that the folks who are paying that tax are actually getting what they deserve. As I told Michael Smith, one of the concerns I had is that it seems that the private sector by way of development that has occurred along the South Corridor or local, state and federal government by way of the light rail line itself has done a lot of the work and we've made a lot of the progress that we've seen there and he provided some additional information which I believe we can get the full Council to talk about more of the details regarding what Center City Partners has done. Another outstanding issue regarding Charlotte Regional Partnership, I had a follow-up conversation with staff and there is some question about how we can go about identifying what actually happens with the money that we give them so we need to start more appropriately identify whether in fact we are able to essentially track our money to make sure we are getting something for our money. You all know that of the four partners we write checks to ASC, we send a check to Charlotte Regional Partnership. CRVA's money comes through us by way of the Hotel/Motel Tax and the money that funds most of Center City Partners budget comes by way of the tax that we levy on the properties in the MSD, so each of them get their money in different ways. I would encourage you all to review information towards the back of our notebook today regarding the request from our partners. You will notice that most of them are increasing, and in fact they are all increasing their request and we will talk about that in full Council. Be aware of that and I think Page 51 is a quick look at that and there are some details and information.

Mayor Foxx said what are the outcomes or take home from this?

Mr. Barnes said I think that the major take aways are, one is that we got all of their attention. They are all aware of the fact that we are serious about the way they spend our money, our money being the people's money. Number two, they are providing us with additional information, which we have yet to receive from some of them regarding some of the things they are doing to increase efficiency. They are aware of the concerns that I and others expressed regarding compensation issues and questions what happens about that. That is still an open question but there were deliverables given by me and by members of the Committee that we are waiting responses for that I think will provide additional information regarding the operation. Going into the exercise I had said, and others on the Committee agreed that we had no particular outcome in mind. It was to determine whether or not there are efficiencies that they should take advantage of and whether money is being wasted for example. There are things that you don't have on this one piece of paper, but there are things that some of them have done to save money and we anticipate other things, for example, CRVA actually has furloughed a couple of folks and all of them are trying to find ways to furlough people. ASC has also adjusted the pay of their director and that started a couple years ago before this exercise was undertaken. To be very blunt about it, without having any particular goal in mind we wanted to see if there was anything that this body should be doing that we are not doing and I think the exercise itself has been instructive and very helpful in terms of helping those bodies take a look at themselves, helping them understand the accountability they have to us and as I said earlier, there may be things that I want to talk about to the full Council once we wrap all of this up.

Mr. Cannon said Mr. Barnes, you've made some reference to this MSD in the southern tier. I would like to know if any feedback you may have gotten or received from those persons affected in that district to get some level or feel about whether they are okay with it, whether that is some angst about it or what. I think it would be good for us to get some of that feedback. I don't know if you have any feedback right now.

Mr. Barnes said I assure you Mr. Cannon that I have and others have gotten a lot of feedback from property owners and business owners in that portion of the MSD who are concerned about whether they are getting value for the money they are spending. I have yet to receive feedback from people who are happy with things. I'm sure there are people there who are happy with things. I have talked to Michael Smith in some detail about that portion of the MSD and he is aware of the need for Center City Partners to demonstrate for us and for the property owners down there the level and type of value they are betting because a lot of the folks down there are running small businesses and they are concerned about the costs they are experiencing as a result of being in the MSD. Hopefully Mr. Smith will be able to report back to us by way of Mr. Hall's office or me so that we can have a more open discussion about what is happening down there.

Mr. Cannon said I would just like to see a bigger picture of the concern or non-concern of that issue.

Mr. Dulin said concerning the SouthEnd MSD Mr. Cannon and group, I would agree that Mr. Barnes and I are on the same page there. I've been doing some research on this and making calls and in a couple cases making calls to people that Michael Smith suggested I make calls to. I've been calling and checking and I've been calling folks that are business people down there, whether they are in a print shop or they are making banners, or serving hash browns. I've been asking people and what Center City Partners will say is let us have the MSD because nobody is complaining. Well, there are a lot of people that don't know how to complain or can't complain or just don't want to rock the boat. I've told this group before that back when I owned my restaurant on South Boulevard I would have been in this MSD and the last thing I would have wanted was for somebody to come along and lay another tax on top of what Cathy Dulin and I had to pay already. There are small business people all over the nation, but we are talking about the SouthEnd and they are scratching to pay their employees and to pay their rent or lease, to pay the bread supply guy. I am very interested in taking a hard look at the SouthEnd MSD. We've got no evidenced that \$560,000 is flowing back into that community. Michael Smith has told me, well we've helped them with their sign. I said well great you only buy signs one time. It is not like he is buying new signs every year and that is just one example of things. I think it is a legitimate question to ask because his entire budget is an extra tax on extra taxes on extra taxes of business people and property owners. Let's just put it in perspective, Tim Newman's budget is \$48 million and he has 214 employees and his salary is \$300,000. Michael Smith has a budget of \$3.9 million, 14 employees and make \$349,000. Every dime is tax dollars so some of these other guys are tax dollars too when we write these checks, but this is legitimate big time money and those dollars are coming from small business people in the SouthEnd and we've really got to take a hard look as to whether they are getting \$560,000 worth of value.

Mr. Mitchell said Councilmember Turner could not be here because he had a previous engagement but one thing he wanted to share, and I don't know where yours and Warren's line is on the SouthEnd District.

Mr. Dulin said it is South Boulevard and further out from that he borders with Patsy at SouthEnd.

Mr. Mitchell said I think it would be good if we could hear from him because he is getting another side of the story where it has worked and it has been successful so he was pretty protective about before we change it to make sure we get both sides of the story. I just wanted to raise that because he shared that with me last night.

Mr. Dulin said I'm going to leave his name out of the discussion, but one very engaged individual business man in the SouthEnd area has asked me to please take a hard look at it. His term was don't throw the baby out with the bathwater. Fix things, but don't blow it up. I don't mind if we can get it fixed good, but if we can't let's be bold.

Mr. Cooksey said with three Council members already involved in SouthEnd geographically I would tread lightly around it, but one question I would be curious about, I remember when the SouthEnd MSD was created. That was back when I was sitting in the audience for Council meetings and one of the concerns raised at that point was would this truly raise enough money to sustain a development organization, and at that time it was the SouthEnd Development Corporation. In fact it took drawing the District to include what is now the Camden Apartment Building, at that time it was Summit, to be able to generate any significant revenue at all to make it even worth doing. Then over time after a number of years SouthEnd Development Corporation independently couldn't manage it and that is when the District was folded and went with Center City Partners. Looking at revenue now at \$560,000 per year, pretty close to University City Partners which is self-contained at \$670,000, perhaps is one of the options maintaining the MSD, which is the baby I think in the baby with the bathwater cliché, and perhaps the bathwater as Center City Partners and SouthEnd could sustain a separate development corporation. I would be curious for folks who are talking with constituents about this matter, would anyone be interested in considering on the table having a separate development corporation that as the sole receiver of those \$560,000 now. It is just a thought for discussion as everyone talks to folks who elect them directly from that district.

Mr. Barnes said one of the things that Mr. Smith and I talked about was them hosting some focus groups for the SouthEnd portion of the MSD to hear these very issues that Mr. Mitchell and Mr. Dulin have raised and allow the property owners down there, the folks who are paying the tax, to come out and speak their peace to Mr. Turner and Ms. Kinsey, Mr. Dulin and everybody and have an opportunity for all of them to be heard. That may be something that will be done so we get a clear indication of what has happened.

Ms. Carter said as we look at Financial Partners, Page 62 deals with other partners and most of them are requesting an increase in funding. I would be very interested to see figures if the County funds any portion or has funded any portions of their budget to see what the impact of the County's budget on these folks has been.

Mr. Hall said you have to kind of look for it, but we can certainly summarize it for you, but in each one of the summary explanation under summary highlights of agency request, if they have made a request or get county funding that information is listed in that section for each of the partners. For example, under affordable housing, Page 64, the Housing Partnership received \$87,000 from Mecklenburg County.

Ms. Carter said it does not indicate what was decreased from the year before.

Mr. Hall said you mean from 2010 to which Ms. Carter said yes.

Mr. Hall said we can gather that for you if you would like.

Councilmember Kinsey said along those lines, they are asking for an increase this year, and I know we don't know the answer yet, but they are probably expecting a decrease from the County so it is carrying over to the City. From FY10 to FY11 doesn't matter as much to me as what might happen this year and how much they are asking for in the increase because they are not getting anything from the County.

Ms. Carter said my point is if it is year by year what can we expect in the future if we are looking to the future?

Ms. Kinsey said this is just a request for us, it certainly isn't something that we are necessarily going to vote to give them.

Mr. Hall said just for clarification purposes associated with Ms. Kinsey's question, the County has changed their outside agency funding process fairly dramatically this year. A couple days ago they announced that all of the outside agencies with which they have relationships, are going to have to submit an application by March 31<sup>st</sup> and those applications have to be structured around four criteria. I don't remember all of them but one was reducing the high school dropout rate and another was associated with workforce development and jobs. They are starting from a restart zero process so the trend question for the County may be very different because they have started a new process. That information is due to them by the end of March. We can try to gather that for you as part of your process, but I don't know what they are going to ask for yet.

Mayor Foxx said I want to say one thing about the last conversation before we get too far on to this conversation. There were a couple of us at the Arts and Science Council update meeting on Monday. Ms. Kinsey, Mr. Howard and Ms. Carter and I were there and one of the very heated comments came at the end about the relationship between the public sector and our partners like the Arts and Science Council. I got the impression that there was a broader sub-text as to how we relate to these private/governmental entities that are sort of quasi private/quasi public and the basic premise was if there is going to be a fundamental change in the relationship in the way that we operate, let's have that conversation rather than have it in the context of reducing budgets, etc. I think that even going into some of the expiration of these organizations in a deeper way that we've done this year it has created a little bit of a tether raising on that end. We probably ought to be thinking about whether that broad a conversation is one that we feel like we need to have. I say that not only from the City perspective, but I think the County, which was actually a lot more in the line of fire on Monday than we were, and the School System as well. We might need to thinking about having that conversation jointly with these agencies about that because there is, in some cases, 30 years or more of a type of history and a type of understandings that

we've been operating from and if those understandings are different now given the new reality, we probably need to be talking about it at a more ... level. I'm talking a little bit in code, but I think you all know what I'm saying.

Mr. Cooksey said most of the agencies asking for an increase were pretty clear on why they were asking for it. I don't get a sense from the ASC request why they are asking for an increase. Can you fill in more detail from them. There is an implication that it is a change in per capita, but I don't know if that is actually why they are asking, but \$230,000 request, what is the goal for that money? Most every other one has a goal. The second question is the dramatic jump on the Housing Authority relocation services. What are we estimating this rather large jump and need for that service in one year?

Mr. Hall said that is a good question and if you look at Page 45 there was an asterisk under that one. That request is really going to be revised. The Neighborhood and Business Services is in a discussion right now associated with looking at how we do that program holistically and restructuring the contract with the Housing Authority. There is some discussion about not even putting it in as a request, so I would say don't worry about that number. They are under a conversation right now about how to restructure that contract and may do it differently. They submitted a request but they are in a dialogue with us about how to do it differently.

Mr. Cooksey said I can't help but grin broadly at the notion of don't worry about \$600,000, but I'll take your word for it for now.

Mr. Hall said this is just a list of requests.

Mr. Cooksey said understood.

Mr. Walton said I should have included this one in my beginning comments. I think it would be unusual for a financial partner to be better than flat.

Mr. Cooksey said thank you for clarifying that because that was my unspoken third question.

Mr. Walton said the other thing I would like to point out on page 62 where we were earlier, sprinkled within all of those are some CDBG dollars and there are some proposals ranging from not so bad to very cocooning related to CDBG. Probably most of these have some CDBG dollars in them and that is something we just don't know. It is kind of like the State, we don't know how this page is going to turn out. It either means that there would be some significant reductions possibly on this page or do we have to find another funding source.

Mr. Mitchell said to that point I think that is something we need to be very careful of. Can we get our arms around our CDBG funding and take a snapshot of how we use those programs? I think it would help us as we get to the budget process because either we are going to get hit to your point drastically or just a small bump in the road.

Mr. Walton said we overwhelmingly use the majority of it for housing rehab. There is a certain percentage that is required to go into grass roots community organization and that is where these come in, but we will give you that.

Mr. Mitchell said what was our total allocation last year?

Mr. Hall said \$5.2 million.

Mr. Howard said another thing that you don't find out is the federal budget could go through October. That is the real hard part.

Mr. Dulin said did we spend all of the \$5.2 million CDBG money last year?

Mr. Hall said yes sir.

Mayor Foxx said this has been very helpful and I want to thank the committee.

Mr. Peacock said I wanted to pick up on one comment that Mr. Barnes had mentioned regarding the executive compensation. One of the questions I had is that each of these financial partners have demonstrated how they came up with the wage they picked for their executive director. They each had an outside consultant, they each had some type of diagnostic, some called it a 360, but to me the ah ha for us as a Board is primarily responsibility from an employment stand point is the City Manager, City Attorney and City Clerk, I just felt like their's appear to me to be a lot more extensive than the way that we've gone about doing that. I know this is still in Mr. Cooksey's committee and I just think as you look at those coming back they have a defensible way to define how they have gone about paying their executives. I made the point that we have a substantially larger budget than all of these people, we have a lot of very talented people at the top of this organization and want to continue to grow that, but I think we need to be more deliberate about how we are determining that. I think we as a Board need to be much more vigilant and have more than just a survey monkey on Curt, and not to over complicate it, but I don't believe that our compensation to Curt, Mac and Stephanie needs to be based on, well we like them, or what other political winds saying right now what we should be doing. I think we need to be governed by the facts and numbers and spend more time around that and how that person is leading the organization. I realize it is not as easy for us as Board members, but I think as I've viewed them as Boards and how they determine their compensation, they had a very traceable way to tell you exactly how they came up with it and I hope we will try to mimic or at least try to come close to that in the future.

Mayor Foxx said very good point. Where is that issue Mr. Cooksey?

Mr. Cooksey said it is an issue that those on the committee typically aren't very thrilled with moving forward about. I think I'm speaking correctly, based on the last time we talked about it. Not a lot of enthusiasm about change.

Mr. Barnes said following up on Mr. Peacock's comment, it is true that they offer some methodology for how they got to their numbers, but it is also true that there is still a great deal of flexibility in where they ended up. You can be at the lower end, middle or upper end of the various scales that they all use and my concern months ago and still today is how you choose to be at a particular point on the scale. I think Mr. Dulin's example demonstrates that.

Mayor Foxx said I think the issue on this is going to be to what extent does this Council believe that these are in effect public employees versus quasi public employees. We have historically delegated the issue of operating and compensating and everything else to these boards and I'm still trying to figure out what our bottom line is on this topic. I think that is a question that they would be asking and I think it is a question that we ought to be asking as we continue wrapping up this process and figuring out what the outcome is. We'll keep working and thank you all for your time and attention to that subject.

### **Risk Fund**

Mr. Gaskins used PowerPoint for his presentation to the Council and said you have a bunch of slides on Page 37 and I will not cover them. I will be more than happy to provide details about every one of those but Curt really wanted me to make four points. Let me make the four points and if you have questions I will answer those questions. The first thing is what is the driver. It has a little bit of a history lesson and that is in 1986 the situation was so bad in the country related to the provision of municipal insurance that in many cases they wouldn't write insurance for any city. That really wasn't caused by Charlotte, it was caused by Philadelphia, Los Angeles and some of those places, but the key thing is it was so bad that they wouldn't write insurance. That ultimately affected the City of Charlotte. Insurance was not available to them. Prior to that happening we were aware that they was an issue, we had looked at it and were working inside the city, the City Attorney's Office, the Manager's Office, the Finance Department, and the reason the Finance Department was involved was there was an agent, not a part of the city that coordinated the City, County and School Board's purchase of insurance. That separate agency had already started some work in terms of investigating what were going to do about the situation. It was very clear that we were going to have to have some component of self-funding. In other words the insurance market wasn't going to be available to us in the same way. In 1986 when we went out to talk to the insurance companies about what was going to happen we found out that the current program as it was structured was unacceptable. We were turned away in

New York, St. Louis, and Chicago by insurance companies who simply wouldn't underwrite the City of Charlotte's General Liability, Worker's Compensation and Auto at any cost whatsoever. We were not the only people experiencing this, but for us, the Manager's Office made a decision to do something about it. We worked with the School Board, the County Commissioners and City Council and jointly put in a program that did a number of things. It created a new truck ... and also created a safety role in everyone of those governments that was located in the City of Charlotte and created a methodology of gathering data and information that insurance companies felt like they could rely on. A combination of that was we were able to secure insurance again at very favorable rates and we were also able to start reducing the losses and basically we got the situation under control. That basic premise is still in place for the School Board, for the County and for the City and it has worked well. We are not here questioning that portion. The reason we are here is because we have seen a spike in losses. They are not unexpected because these things do move in cycles. We do see them move in cycles and in our case the risk has expanded as the city has gotten bigger, as we take on more Police officers, more fire fighters, more employees doing more things, you actually see your risk profile increase. We have other factors that are contributing to this.

Mr. Peacock said you talked about trends, do you mean trends as far as every 10 years because your trend from 2005 is tripled. That is tripling in five years so are you going to show me a chart that keeps going back where it has shown that before?

Mr. Gaskins said we are going back to 1986. I can show you a chart that will show that with Worker's Compensation losses in particular. You have to factor in the decision of the Industrial Commission. You do see, and this happens across the country that from time to time as the General Assembly passes the law, as the Industrial Commission continues to make interpretations you tend to get larger losses and then ultimately there is generally a cycle where you go back in, you make legislature changes and that comes back down again. We are probably approaching one of those cycles and we already know that there is going to be legislation next year that will be introduced on the private side. The public sector would obviously be involved in supporting that so we are at one of those cycles with Worker's Compensation.

Mr. Peacock said I'm looking at your slide, what is an Industrial Commission?

Mr. Gaskins said the Industrial Commission is actually the Board. Worker's Compensation works in this way. Instead of allowing employees to sue the employer when they are injured, you actually put in a legislative solution to that so that they can't sue, but in order to protect rights and to make an interpretation you appoint a group, the Industrial Commission, who makes the interpretation of whether or not a person was in fact injured in the scope of their job duties, which is what is required in order to get the Worker's Compensation payment. As a result of that, as they make interpretation, they tend to make interpretations on the worse possible cases, but that covers cases that are not near as bad. What happens over time is you get more and more awards and some of those as we go forward become more and more questionable in terms of the original intent of the legislation. Nothing is perfect and it is one of the flaws in the Worker's Compensation system. We are at one of those stages and we are probably going to see Worker's Compensation reform in North Carolina. That is the law, but there is another factor that affects our losses and that is when it comes to juries and what people are willing to award people, we've seen a spike over the years in terms of what kind of awards would happen with the same kind of injury. An example, in 1986 when we were threatened with losing the insurance we had not had a loss of any kind of liability where we had paid as much as a half million dollars. When we lost insurance coverage in 1987 we had a case that happened and the judgment on that case was \$6 million. We ended up settling that for \$4.5 million but still if you've never had one that approached a half million and then you had one for \$6 million, you can understand the value of having insurance. What I'm saying, particularly in Worker's Compensation with these things and we've seen it before with automobile accidents. One of the drivers with creating an actual facility where we would train people was because the losses were in accessible and in fact after that facility went through a process of training our employees that drive, including Police and Fire, we saw that drop, but if you don't stay with it, if you don't stay on top of it there is always new places you could lose coming up and therefore you do see upward pressure in terms of losses. What the Manager has done is to designate a committee which is Executive Level Task Force, Chaired by Eric Campbell, at which Dan Pulaski and Steve Norman from our Risk Management Department are staff to the committee. What they are doing in that committee and

working with the Key Businesses that experience the greatest risk exposure by Police, Utilities, CDOT, Engineering, Solid Waste and CATS and they are actually working to identify where those losses are and what can be done to reduce those losses. Carolyn Flowers just mentioned a minute ago and that is what she was talking about that they are already engaged in the process of identifying and reducing those losses. That process along with measuring where those losses are and identifying the costs and doing something about it is the key focus we have for trying to do something long term. What is important in the short term is the fact that because of the way self-insurance works and the way you estimate from an actuarial standpoint and this also relates to the Gatsby rules that we were talking about, you are going to have a period while you are still getting better, they are still going to project losses going higher. The City is at risk of having to pay out more money in the short-term period to cover these loss causes because we have to follow the rules as determined by the actuaries and by the agencies like the Gatsby. That is where I think we are and I will be more than happy to answer any questions. I think what we are looking at right now is doing something about bringing it down which Eric's Committee is working on a recommendation that will be very specific to those identified agencies and departments and in addition to that it goes to other city-wide people as well that would do the same thing that you are learning from that group. In the short-term we are at risk to pay more money.

Ms. Carter said in the legal profession we have some friends and the comments that they've made that the increase in settlement and litigation costs are substantiated and the cities would probably do well to consider taking that litigation back in house rather than farming it out. It was an interesting statement because I know how frugally the City Attorney manages his office. That was a significant statement from someone I very much respect. It is something that I hope we look into.

Mr. Gaskins said Mac assigned a full-time attorney that supports Dan and his staff in terms of cases. In addition to that I think Mac met with Dan and looked at Worker's Compensation policies and it needed to achieve a certain level of costs before Mac could justify it. I don't think we could yet achieve that.

**Dan Pliszka**, said we are about 75% of the way on that.

Mr. Gaskins said basically we are working with Mac and his staff to do that exact thing and trying to manage that correctly.

Mr. Peacock said so you are saying we've got a legislative remedy that is coming and is obviously being coordinated with our legislative agenda.

Mr. Gaskins said we are in fact tracking the legislation and we've talked to the Chamber here about what is happening with that legislation. I understand that the bill is well underway but it is going to be next session.

Mr. Kimble said we are riding the coattails of the Chamber given that work and conversations with them.

Mr. Peacock said you mentioned that jury rewards have been trending up. Do jury rewards go down? I'm hearing what you are saying but we still tripled in five years. My next question is to Curt and Ruffin, this is Item #5 on this agenda so where does this fit into your all's overall piece. I'm trying to figure out why we are hearing about this. I think it is important and I certainly understand when you say there could be a spike in losses. Curt, I don't remember you mentioning this at the retreat.

Mr. Walton said it was included in that \$5.4 million deficit. It is a 25% increase for Worker's Comp and General Liability.

Mr. Gaskins said the issue related to all of this, as you get bigger risk and more risk exposure you have the possibility of having ... cases. You all see them in terms of when Mac brings you settlements. Dan and his staff has worked on that and as we see those we are identifying things that need to be corrected or changed and we will respond to that. Not to highlight it but we just lost a Police officer in a very tragic situation that happened. Dan and his staff, the City  
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Attorney's Office and Police Department is a party working related to that and the circumstances of that and how we could prevent something like that from ever happening again. That is what we have to do, concentrate on what those are and actually do something to deal with that. I think what Eric and his committee are doing is really trying to make sure it is priority number one for our places that have the big losses.

Mayor Foxx said I have one question and it is not a policy question per se, it is more of an applied question maybe for our Risk Manager. There is a situation with one of our trucks or something, a City employee was driving and had a seizure or something and he hit a parked vehicle and for some reason our policy does not allow for us to compensate for the damage to the vehicle. The owner of the parked car wasn't in the car at the time, but it confused me.

Mr. Gaskins said if you can give us the details and let us do some research.

The Mayor said I sent a letter over and I got some response that that is not something we do but I'll get you the information and you can educate me on it.

Mr. Gaskins said if you will give that to Dan we will make sure that we get you an answer. I am not familiar with that particular case.

Mr. Peacock said I want to bring attention to the back of our agenda, Future Budget Retreats and Possible Topics. Are these things that are in the bullpen that we can choose from?

Mr. Hall said this list is what we proposed and we circulated that with the Budget Committee when we reviewed the agenda and the only suggested change we are going to make is possibly slide employee health insurance down to April 13<sup>th</sup> because the March 23<sup>rd</sup> meeting is an abbreviated meeting because of the MTC and it is only from 3:00 to 5:00 p.m. so we've got some time on April 13<sup>th</sup>. These are topics that we are proposing to bring forward to you as having the materiality or something that we typically go over, but the Council has indicated is important to review in the past. Obviously, you can look at the list and give us any feedback. These Budget Retreats are intended to your process so if there are other topics you had rather us talk about we are happy to do that.

Mr. Peacock said my only other question is, are there any other topics that we've mentioned over the years that we need to consider or be added to this? I'm just curious if there are things that this body or members on the dais right now need to add to it.

Mayor Foxx said I think the answer is if you have something you want to talk about we can.

Mr. Peacock said I'm just curious if there are other things that we need to be thinking about.

Mr. Hall said several of these are standard such as the Financial Partners today and some of them are individualized like this. We hadn't done that in a while so the answer is whatever your pleasure we are happy to provide for you.

Mayor Foxx said it is our process but the staff has kind of given us some suggestions. We have the ability to put on it whatever we want, if not now whenever, just let us know.

Mr. Hall said the City Budget Update and the State Budget are just simply place holders.

Mayor Foxx said this is going to be a bumpy ride for the next couple of months. We are not going to know a lot until the end.

Mr. Cooksey said is there planned any kind of General Fund presentation, Police, Fire Solid Waste Services, when do we see what the status and elements of our General Fund activities are going to be? I see a few enterprise funds. When do we see what we are proposing to spend our General Fund on?

Mr. Walton said traditionally we haven't. I think we are basically modeling at the macro level that things are relatively flat and we've still got to deal with that deficit. I don't expect there is going to be recommendations for new things. If something emerges in the next month or six  
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weeks, we will bring it to you, but I think for the most part it is going to be kind of like year three of new normal.

Mr. Hall said to add to that, one of the reasons the Airport isn't listed is from a budgetary perspective, there are no changes and you went out there, I don't recall how many months ago, and there was a lot of budgetary and financial information in that presentation.

Mr. Cooksey said I had to miss that meeting.

Mr. Walton said we covered everything that night.

Mayor Foxx said this has been helpful and because it is so fluid, I think we have to meet the staff half-way. They have been giving us information on the budget a lot earlier than would normally be the case and if there is feedback that we want to give the City Manager in advance of his recommendation, based on what we've seen and this kind of thinking, I think we ought to try to do that as early as we can. It is better to give it as a group rather than piecemeal. If at the next meeting there are some people who feel strongly about one thing or nothing let's have that conversation then as opposed to waiting until budget adjustments. I think it will be easier on everybody.

Mr. Mitchell said are we planning an annexation this June or July?

Mr. Walton said we were planning to. The State may have other ideas. I don't know how soon we will know, but for right now yes that looks doubtful. You have already handled the financial side of annexation and we have spent \$5 million getting ready for that June 30<sup>th</sup> annexation which may be lost or some cost at another time.

Mr. Dulin said along the annexation lines, we have been lobbying in Raleigh hard and there has been a brick wall really that said you are going to lose that deal. There is a little bit of sway I think and I haven't completely lost hope. Even the folks that are against us being able to annex, when they get up to say they are against annexation they say but Charlotte does it well. Even the Red Coats or whatever they call them, but the most recent local Charlotte stuff, even our annexation this year is going to be pretty small, 7,500 but it still going to be the largest in the State, but those numbers will bend as the census numbers start rolling in the next four weeks.

Mr. Kimble said a moratorium will also destroy any hopes of a 2013 annexation schedule.

Ms. Carter said the other point, there was an exception made for Charlotte in the Bill. The problem is it has been sent back to the Finance Committee to reconsider that exception.

Mr. Kimble said it was extracted yesterday. It is no longer in the exemptions going to the Senate for a vote.

Ms. Carter said so it is unified across the board for all of North Carolina.

Mr. Kimble said we need to fight in the House.

The meeting was adjourned at 5:40 p.m.

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Ashleigh Martin, Deputy City Clerk

Length of Meeting: 2 Hours, 29 Minutes  
Minutes Completed: March 9, 2011