

The City Council of the City of Charlotte, North Carolina convened for a Council Workshop on Monday, January 05, 2015 at 5:13 p.m. in Room 267 of the Charlotte Mecklenburg Government Center with Mayor Dan Clodfelter presiding. Councilmembers present were Al Austin, John Autry, Michael Barnes, Claire Fallon, Patsy Kinsey, Vi Lyles, LaWana Mayfield, Greg Phipps and Kenny Smith.

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ITEM NO. 1: NASCAR HALL OF FAME AGREEMENT AND SPONSORSHIP LOAN AMENDMENTS

Mayor Clodfelter said Good evening and Happy New Year to everybody. I hope everybody had a good enjoyable holiday and Santa brought you everything you asked for on your list. If you didn't well there's always next year. You can ask for it again. Mr. Manager, who's going to start; Mr. Kimble, are you going to make the first presentation to us?

City Manager Ron Carlee said Mr. Kimble will be first.

Mayor Clodfelter said we have two items are for the briefing and then we have three speakers at our Citizen's Hearing and that is our Agenda for this evening.

Deputy City Manager Ron Kimble said we're very pleased to be here tonight to give you a presentation on some very positive news. We hope you agree at the end of the presentation that it is exactly that, but we've been in some great conversations for nearly a year now with Bank of America, Wells Fargo, the City, the Charlotte Regional Visitors Authority and NASCAR and we're here tonight to share what we believe are some very positive results from our conversations and our negotiations over this past year. It's in regards to the NASCAR Hall of Fame. You all have the PowerPoint presentation in front of you. It is a rather complicated subject. We have some good information to share with you tonight, we invite your questions and your comments; many of you were not here when the original structure was put together on March 6, 2006, so some of the early slides and early information is going to be background on how we got to where we are today and then the later parts of the presentation will be covering the results of the discussions and negotiations and where we think we would like to recommend to you that we go for action on next Monday night's Council meeting, January 12th. We have in the room with us folks from NASCAR, folks from the Charlotte Regional Visitors Authority, folks from our Finance Department who have been very instrumental in the negotiations and the conversations and Tom Murray may be asked sometimes to step forward to the microphone and answer questions that might be more specific to the operations of the Hall of Fame.

Why did we go after the NASCAR Hall of Fame back in '05 and '06? We want to just briefly talk about these and then move on to the subject at hand. It was an expansion of the hospitality and tourism industry for the region and the state. It gave Charlotte national and international exposure for our brand, it enhances a \$6 billion dollar motorsports industry in North Carolina and it's around \$4.3 to \$4.5 billion in the Charlotte region but \$6 billion in the entire State of North Carolina. At the time it also was a significant expansion of our Convention Center and little known was the fact that there was a provision put into legislation in 2001 that said the City of Charlotte would need to do a 100,000 square foot or greater expansion of the Convention Center within ten years otherwise there would be some funding of the 3%, 1% taken away from the city if we were not able to accomplish an expansion. This was an expansion that met the criteria in the legislation and allowed us to preserve the 3% hotel/motel tax and the 1% food and beverage tax that was devoted to the Convention Center. This NASCAR Hall of Fame is great exposure and we have great access to the interstate system because as part of the Hall of Fame project we redid the interchanges at Caldwell and I-277. There's been substantial economic development opportunities for the adjacent vacant land that was created by the interchange modifications and the Second Ward now can be jump started as a result of some of these things that are occurring in and around the NASCAR Hall of Fame. There was an office tower that was brought into the deal on the last three months of the negotiations and that office tower is on land that was leased in that process and was a \$400 million dollar office tower construction at the time and it represents additional tax base and job growth on existing Hall of Fame land.

Councilmember Fallon said question Ron, go back, who required us to add money into it and build more?

Mr. Kimble said there was a requirement in the legislation in '01 that was included by Senator Fountain Odom at the time and it entered the legislation, it was approved in the...

Ms. Fallon said do you know why?

Mr. Kimble said because they wanted to make sure that we were using the money for expansion of the hospitality and tourism industry which we were and we were intended to do and this met the criteria for that hundred square foot expansion.

Ms. Fallon said in other words it was a grant that we got from the state?

Mr. Kimble said not a grant, it was a requirement and we would continue to get the flow of funds in the legislation from the 3% occupancy tax and 1% food and beverage tax.

Ms. Fallon said in other words it's a tradeoff for the 3%.

Mr. Kimble said the tax would sunset by 2011 if we did not do the 100,000 square foot expansion. Also, with this NASCAR Hall of Fame complex and the office tower we were able to partner with a local developer and we have some low cost additional parking for our Center City that's been created by this NASCAR Hall of Fame complex. These were the reasons that were stated back in 2006, reaffirmed in 2008 and in 2010 and they still resonate today and have meaning today as why we went after the NASCAR Hall of Fame and we were successful in our quest. As the Council approved the agreement on March 6th, 2006, and it was amended once on September 22, 2008, to allow for an additional \$32 million in additional improvements to the original Hall of Fame construction budget. The Hall of Fame opened on May 10th, 2010, and the construction of the Hall of Fame complex was funded by several different sources and we're going to talk about one of those for sure tonight which is the Sponsorship Loan A from Bank of America and Wells Fargo.

The construction was a \$192.6 million construction, all in of the NASCAR Hall of Fame Complex; that was the Hall of Fame, that was the new Crown Ballroom; that was the connection over Brevard Street connecting the existing Convention Center over to this new complex. It was 400 parking spaces underneath the Crown Ballroom and it was additional money that partnered with the private sector to build 660 more private parking spaces in the NASCAR Hall of Fame complex. It was funded through \$134.5 million of debt capacity created by the 2% hotel/motel NASCAR occupancy tax, it was also layered in some existing convention center funding that was represented by the 4% hotel/motel occupancy tax and the 1% food and beverage tax to the tune of \$24 million and then two specific loans that were made jointly by Bank of America and Wells Fargo, a sponsorship loan and I'll talk about the collateral that backstopped that sponsorship loan from Bank of America and Wells and then a state land loan from Bank of America and Wells. Those two loans were \$14.1 million and \$20 million respectively bringing us to the total of \$192.6 million for the construction of the NASCAR Hall of Fame.

There was also in addition to the \$14.1 million construction dollars from Sponsorship Loan A there was also an additional \$5 million of pre-opening expenses for the Hall of Fame that were also funded from Sponsorship Loan A making in the end Sponsorship Loan A a value of \$19.1 million. \$14.1 million went into construction, \$5 million went to fund pre-opening expenses from '06 till '10 when it opened for the NASCAR Hall of Fame because it needed to ramp up with staff, needed to ramp up with operations and get ready for the opening and the banks prefunded those pre-opening expenses to the tune of \$5 million dollars. The land loan that was referenced on the previous page was a \$20 million dollar land loan. It was backstopped by collateral from five different pieces of land. This is the Hall of Fame here, this is the Convention Center, the Weston Hotel, this is Parcel 1, Parcel 2, Parcel 3, Parcel 4 across I-277 and Parcel 5. Those five parcels were lands that were created by the interchange modifications at this location and we have sold parcel 5. It was sold for \$3.8 million, a little more than that and that money then went to write down part of that \$20 million bank loan from the state land loan. That land loan now exists at \$16.2 million. We have a contract existing with the Crescent Resources on

parcel 1 for \$10.3 million dollars and we are actively still marketing parcels 2, 3 and 4 at this time for sale to the general public. Those funds will be and should be sufficient to take down the \$20 million dollar state land loan, the bank loan and the accumulated and accrued interest to date on that state land loan.

Councilmember Howard said if there is a profit realized do you have plans for that?

Mr. Kimble said say that again.

Mr. Howard said if there's a profit realized after you cover the \$20 million.

Mr. Kimble said after the \$20 million principal and accrued interest is covered any excess sale proceeds reside with the City who must share those proceeds in the same percentage as the City and the state contributed to the interchange constructions costs. We put in about \$19 million; the state put in \$5 so whatever that ratio is, any excess sale proceeds must be shared back with the City and the state in that same prorated formula. There's still should be excess land sale proceeds however interest continues to accrue so the longer it takes to sell the property the less money will be available to pay off the existing principle and the accrued interest on the loan.

Mr. Howard said just to be clear I heard you say \$3 million to \$10 million so we have how much left?

Mr. Kimble said well the \$10 million is not closed yet, but if it were to close that would drop the balance on the principle to \$6 million and then we'd sell Parcels 2, 3 and 4 and they would take down the loan plus the accrued interest to date.

Mr. Howard said so you can kind of make assumption that Parcel 1 sold for \$10.3 million and Parcel 2 is about the same size.

Councilmember Smith said is the money we contributed to the interchange reflective in the \$192 or is that in addition to the \$192?

Mr. Kimble said it is not. It is in addition to; that was not part of the NASCAR Hall of Fame Complex and that was appropriated separately by the City Council back in 2006 so any excess proceeds come back to you as additional money because you already appropriated the funds before. Now I will add that tonight's discussion this state land loan and this process remains unchanged with one small exception, I'll note the exception but we wanted to make sure you understood the whole financing of the Hall of Fame to know how it works but this predominantly remains unchanged in all the discussions and the negotiations that have occurred over the last year. We are here tonight to share a staff recommendation comprised of the following and I'll give you what the bottom line is and then we'll walk through the meaning and the impact of several of these. The whole goal is to bring the Hall of Fame into a break even position so that it can cash flow itself and we've had great participation in partners of Bank of America and Wells Fargo and NASCAR, the City and the Charlotte Regional Visitor's Authority in this last year negotiation to I think achieve that break even position for the NASCAR Hall of Fame. That has been the goal of the negotiations and the discussion so we're here tonight to share a staff recommendation comprised of the following and it consists of these two plus two more on the next page so each party has a responsibility in this negotiation and this solving of this equation.

The City proposes to make a \$5 million payment from the 2% NASCAR occupancy tax gund to the two banks on Sponsorship Loan A and there is sufficient capacity in the 2% NASCAR tax fund to make this payment and there also was a requirement or a discussion that we forego the fifth of five successive years redirection of sponsorship and royalties into the City's NASCAR tax fund. That last piece arises from the fact that when we did the additional \$32 million of construction of the Hall of Fame in 2008 that was to replenish the contingency, the extra money in the exhibit fund, the extra money for the ribbon lights and the extra money for energy efficiency. There was a redirection for five years of sponsorship dollars and royalties by NASCAR into the City's tax fund to help pay for that \$32 million and that requirement would carry on for five years. We are now in the fourth year of five years and with this negotiation we would not have the fifth year deposit of the royalties and the sponsorships into our tax fund, they

would not happen as a result of the negotiation and the discussions that we have had with the banks, with NASCAR, with the City and CRVA. We have sufficient capacity in our tax fund; we've done a complete debt modeling of the 2% tax. We have some sufficient monies because of the latest uptick and upturn in the economy as it relates to hospitality and tourism to keep the Hall of Fame fresh, to do some rather major upgrades in eight to ten year increments in the next 20 years. We have sufficient capacity in the tax fund to make this \$5 million payment and still keep the Hall of Fame up to date, modern, fresh and ready to go as a great sustainable facility for the coming decades. In return for the city making this \$5 million payment to the two banks upon receipt of this \$5 million payment the two banks would extinguish the remaining \$14.1 million in principal and the estimated \$3.7 million in accrued interest in Sponsorship Loan A and release all of the ... on Sponsorship Loan A collateral including the piece which affects Land Loan B. The process here is that the banks are willing to write off a large portion of the \$.22.7 million principal and accrued interest by virtue of the \$5 million one-time payment that the City would make out of the 2% tax fund and eliminate the remaining amount of obligations that is carried by the two banks on behalf of sponsorships, brick sales and corporate contributions to the Hall of Fame.

Councilmember Barnes said so Mr. Kimble just to make sure that I'm understanding what we're doing regarding the first piece and the payment by the City, the \$5 million, what amount of money will be left in the NASCAR Tax Fund and then what's projected to be in that fund over the next say ten years?

Mr. Kimble said significant amounts are left. There's a huge reserve, we have debt modeled what it would take over the next 20 years to carry the Hall of Fame from an annual amount of upgrade and refresh from eight years from now doing a major upgrade to the Hall of Fame, carrying it for the next ten years and making sure that we've got sufficient capacity and carry in that fund in order to carry the Hall of Fame for 20 years.

Mr. Barnes said give me a range on the dollar value.

Mr. Kimble said he's looking it up but we have done the full debt modeling on this for 20 years.

Mr. Barnes said and so I know you have not finished your presentation so if I'm jumping ahead let me know, but as a part of this arrangement are we doing new things to market the facility itself? It's obviously become a very popular spot for events but we want people go through there and to it for the Hall of Fame itself and the exhibits and the focus of the whole facility is racing so we want people to be there for that as well. Is there a plan either by Tom and Winston to keep the place exciting in addition to filling this fund and bringing in new exhibits and fresh exhibits? In other words talk about the future of the Hall itself.

Mr. Kimble said the answer is yes and that's part of their responsibility in this five pedestal solution to making the NASCAR Hall of Fame viable. You've got Wells Fargo, Bank of America, City, CRVA and NASCAR and yes they do have plans to pick up the pace.

Mr. Barnes said and are they going to talk to us about what that will look like?

Mr. Kimble said I'll be glad to have them come up tonight and talk about that either now or at a appropriate time in the presentation.

Mayor Clodfelter said let's get through Ron's piece of it and then we'll see if Tom or Winston want to supplement.

Mr. Barnes said they do, their smiling.

Mr. Howard said I think what I heard you say Mr. Barnes, if I'm wrong correct me, was whether or not this deal affects funds to do that.

Mr. Barnes said right, that was the question and I think he's said yes in a positive way.

Mr. Howard said and I guess that makes me ask the question is that fund used for marketing or are there other funds set aside for marketing?

Mr. Kimble said 2% tax is limited to the following five things; construction, acquisition, financing, maintenance and repair of the Hall of Fame. It's not available for operations. They will have to be doing that through the operations of the Hall of Fame because the only five things that qualify for the 2% tax are those five things.

Mr. Howard said that's what I was asking.

Mr. Kimble said thanks for the clarification.

Mr. Barnes said so would maintenance fall within that someplace?

Mr. Kimble said we are contributing today funds to the NASCAR Hall of Fame through the tax for maintenance and repair.

Mr. Howard said the only thing I wanted to point out is that I didn't think it came out of that fund but by reducing what's needed to pay this fund.

Mr. Barnes said there should be more money available for that.

Mr. Kimble said what will happen is as you see the sponsorship dollars in the future will go to the bottom line operations of the Hall of Fame. The royalties that will be less in the future, that savings will go to the bottom line of the NASCAR Hall of Fame operations. This is a holistic approach to try and find ways to make the operations stand on its own in the NASCAR Hall of Fame by all of these things working together.

Mayor Clodfelter said you gave us two of the pieces and I think our questions are getting at the other three pieces. Why don't you give us the other three pieces?

Mr. Kimble said also the Charlotte Regional Visitors Authority would need to grant a five year continuation of sponsorship to Bank of America and Wells Fargo in this negotiation and in this discussion that's a value of \$250,000 per year, per bank so for five years that would be a \$2.5 million in kind value that is also being given to the banks by virtue of them writing off the remaining \$14.1 million and the \$3.7 million in interest. The total for the banks would be that payment of \$5 million, \$2.5 million to each bank and then \$250,000 in kind value sponsorship each year for five years per bank, total \$7.5 million of cash and in kind value for the banks for them writing off \$17.8 million dollars in principal and accrued interest.

Mr. Howard said you want us to wait don't you?

Mayor Clodfelter said I want him to get through the whole package and then you guys can come back and talk about it.

Mr. Howard said I have a question about that when that time comes.

Mr. Kimble said and I told you it's complicated and it is and it involves a lot of conversations and these are all inter related and tied together. NASCAR would propose to waive all past deferred royalties because there have been royalties that have been accruing each year for the last four years. They haven't been paid. They've been paid over to the NASCAR Tax Fund because they were supporting that \$32 million in additional construction but they were booked as deferred royalties to be paid sometime in the future. NASCAR would agree to waive all past deferred royalties. They will reduce the amount of future royalties to be paid and I've got a chart in the PowerPoint presentation that shows current amount of royalties that are paid and proposed amount of royalties that would be paid in the future. NASCAR would also eliminate the annual \$100,000 contribution that is mandated to the NASCAR foundation and NASCAR would also support a reduction in the agreement that says a \$10 million dollar reserve has to be held at all times in a separate account. They would be willing to reduce that to \$2.5 million by depositing \$500,000 a year into this reserve account until it reaches \$2.5 million. What that allows the City

to do is keep the rest of that money in the NASCAR 2% tax fund and allow it to build capacity for other things that we want to do and not tie it up specifically in a mandated reserve fund. The bottom line is that all of these discussions and negotiations and commitments of the parties to this transaction, the impact of these changes will be a significant improvement to the financial position, the bottom line of the NASCAR Hall of Fame bringing it close to break even on an annual basis. It may be somewhere in the \$200,000 or \$500,000 still out of balance but CRVA will then constrain expenses and enhance revenues to cause break even or better to occur each and every year for the NASCAR Hall of Fame. That's the goal that we've been trying to achieve for the last year in the partnership discussions that have been occurring between Bank of America, Wells Fargo, NASCAR, City and Charlotte Regional Visitors Authority.

Mayor Clodfelter said okay, I'm going to open it up and let folks shoot at you.

Mr. Barnes said can we get back and answer my original question?

Mayor Clodfelter said we're going to get Tom to present your original questions.

Mr. Barnes said I'm still waiting for the number?

Mayor Clodfelter said oh the number.

City Treasurer Scott Greer said well the number is currently there is about \$23 million in there and at the bare minimum over the years as the model goes and we do capital improvements and so forth it gets down to the minimum of \$10 million which is what our goal is for the fund.

Mayor Clodfelter said that's to maintain it at no less than \$10 million.

Mr. Greer said which is what would be our policy level at our ...it went up by \$3 million this past year because of the strong ...how we are affording this.

Mr. Smith said could you go back over, I caught three of the five of where the 2% NASCAR occupancy tax can be spent but I did not catch all five.

Mr. Kimble said construction, acquisition, financing, maintenance and repair. Those are the defined categories of expenses in the legislation for the NASCAR Hall of Fame.

Ms. Fallon said \$200,000 to \$500,000 a year and you're going to constrain. What happens with inflation?

Mr. Kimble said you've got inflation on both sides of the equation on revenues that are produced in the Hall and on expenses that are spent in supporting the Hall.

Ms. Fallon said to be clear it will cover maintenance, repair and upgrading and you won't have to come back to us for more money.

Mr. Kimble said that is correct. The 2% NASCAR tax has the sufficient capacity and we have debt modeled the ability to cover maintenance, repair, improvements and major upgrades to the NASCAR Hall of Fame for the next 20 years.

Ms. Fallon said have you built in a overrun because we overrun on everything here?

Mr. Kimble said we've built in significant dollars for each of those categories and the fund can carry it in the debt model.

Mayor Clodfelter said Tom, I think folks are going to want to hear from you about your operating plan going forward but let's see if Ed's question goes back to what Ron's presented.

Councilmember Driggs said I have a different question.

Mayor Clodfelter said do you want to go ahead with it now or do you want to hold it.

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Mr. Driggs said maybe we should hear from Tom if I could come back.

Mr. Howard said I have two just small questions; the 2%, in the future can we use for acquisitions and all those things we just talked about. Does the geography define where that money can be spent?

Mr. Kimble said yes. It's the NASCAR Hall of Fame Complex and that's defined to be the Hall of Fame, the concourses, the Crown Ballroom, the parking underneath it, all of that is defined as the Hall of Fame Complex.

Mr. Howard said defined Brevard Street, Caldwell, Stonewall and so in that block.

Mr. Kimble said and it counts the tube that goes across the street because that was part of the NASCAR Hall of Fame Complex but it is predominantly everything beyond the Convention Center on Brevard Street.

Mr. Howard said I don't think this is exactly the same thing but the Time Warner sponsorship at the Arena comes to mind when you say that Bank of America and Wells will be granted for a certain amount of time. There was a time in that process when we needed to do something different with Time Warner and it became difficult, it became Time Warner Cable. Do we have any constraints that concern you about maybe not having other sponsors to be included in the bottom line because of the planning? Now mind you we got a great deal here with the banks; I'm not saying we shouldn't do it, it's just a question.

Mr. Kimble said I think that the fact that we were able to negotiate five years instead of a larger, longer, request at the banks initially had is beneficial to the Hall of Fame because it's only going to run five years. That was another way that the banks came to the table in a partnership spirit in order to help us close the gap on the bottom line. I can't stress enough that this was not adversarial in nature, this was partnership driven, trying to get everybody to participate in the ways in which we could make the Hall of Fame be a sustainable, long-term, great facility for this community and the banks came with a willingness to support the Hall of Fame, NASCAR did, the City did and CRVA did.

Mr. Howard said I just want to make sure we learned the lessons from Time Warner that's all; if there were lessons to be learned.

Mr. Kimble said and they could only activate inside the Hall of Fame, they can't activate outside the Hall of Fame.

Councilmember Phipps said I had question about the debt model. I don't know if you were saving those?

Mayor Clodfelter said go ahead and ask that of Ron. I think he can answer it.

Mr. Phipps said I just wanted to know so the period of time that you ran at the model was what 20 years?

Mr. Kimble said I believe we ran it for 20 years? We ran it for 30.

Mr. Phipps said so as a part of that debt modeling did you factor in the possibility of another economic downturn or was that kind of information factored in?

Mr. Kimble said they're all factored in because our growth factors are conservatively set in order to account for the significant upswings and the significant downturns so we're very conservative in the growth models that we use in the tax and they were the same growth modeling that we've used for the 30 to 40 years which has allowed this City with its conservative approach to be able to withstand all of those peaks and valleys in the economy so it is conservatively modeled in order to get to that bottom line.

Mr. Smith said are we able to figure out, and I think the answer to this is probably yes, what the monetary value of the deferred royalties is? I'm trying to figure out what NASCAR is actually kicking into this.

Mr. Kimble said I think the past deferred royalties are in the \$3 million to \$3.2 million range that they would be waiving as past and the amount that they will, I wanted to bring this chart up because it helps address that question. In the past the royalties were assessed on this basis in these specific categories on the left, 10% royalties on gross revenues on those in that category, 7.5% in those second categories and 5% on gross restaurant revenue. The new proposed royalties in this negotiation and discussions is 3% on gross revenues on the NASCAR Hall of Fame, revenue amounts in excess of \$10 million a year and we're in the \$8.2 million to \$8.5 million revenues today and it will take us a few years to get to \$10 million in revenue and so NASCAR won't be pulling royalties until we hit \$10 million in aggregate revenue and they'll take then 3% of those gross revenues so it's a much more favorable to the Hall of Fame, to the City, to the CRVA and we can't compliment NASCAR enough for being a willing participant in solving this equation with us.

Mr. Barnes said Mr. Kimble would their royalty be 3% of everything above \$10 million? In others words \$10 million plus a penny or everything including the \$10 million?

Mr. Kimble said that's correct, everything above \$10 million, very favorable participation with us in the Hall of Fame.

Mr. Barnes said and by the way we appreciate your work. I know you put a lot of time into this, we've talked about it so thanks for your work. Can we talk to Mr. Murray now?

Mayor Clodfelter said I want to get all the questions for Mr. Kimble before we go to Mr. Murray and then we're going to have at it.

Councilmember Lyles said I think this is absolutely one of those; it's difficult to see the pony but it's in there so for me I would like to see the actual pony. This is how I look at this, if you can show us what we would be doing the current year or the prior year and what the new proposal looks like I think that's a lot easier to explain to people why we're in this and what we're trying to accomplish and how it gets towards the goal so if we can just kind of look at some actual numbers comparing what we've done under current and what we're proposed under this I think the picture will be a little bit more clear, the pony will be actually standing.

Mayor Clodfelter said you have pro-formas I'm sure.

Mr. Kimble said we do.

Ms. Lyles said that would be helpful.

Mayor Clodfelter said the request is to share those pro-formas.

Mr. Kimble said we can do that.

Mr. Driggs said I think given the discussion that we've had maybe I'll ask my question before we go ahead to the next presentation. I wanted for one to clarify from my conversation with Mr. Kimble that the only obligation to repay the loan that is being waived by the banks at this point is by the NASCAR Hall of Fame specifically from the proceeds of brick sales, sponsorship and civic. There is no recourse to otherwise to the Hall of Fame, the City of Charlotte or anybody else so the bank is basically looking at a bad loan at this point and similarly NASCAR itself has got some probably uncollectable past royalties. I point that out, not because I don't like the deal; I think in fact you guys have done a great job of restructuring and putting this thing on footing but if for our purposes the comparison we have to make is the situation where going forward we simply allow the banks to collect whatever they can from the only source of repayment to which they are entitled and that's those three things which I believe is estimated to be about a half a millions a year or so and we could say it's not our problem and so could CRVA. It's actually a loan that the banks made entirely on the basis of the prospect of those receipts. The way I look at

this we're talking about paying out \$5 million in cash, \$2.5 million in sponsorship benefits in order to have that prospect go away and in order to put us and the banks and NASCAR on a current footing. I think there's merit to that but I just want people to understand this is not a \$14 million gift from the banks; it's a valuable accommodation and we appreciate their role in discussion but they were looking at what was probably uncollectable otherwise. I think their judgment had to have been okay it's a bad loan what's our likely recovery on the loan and let's use that as a basis for the conversation with the City. The questions I had and therefore again it's a bit of this and a bit of that, we pay out \$5 million in cash and \$2.5 million and they get rid of a bad loan. My question was for one you said you have modeled in the future upgrades. Is there any commitment to make those? Do we have an arena type situation or do we have a contractual obligation to make those?

Mr. Kimble said there's no contractual obligation. It would be based on need and based on presentation to the Council in terms of capital expenditures on City-owned assets.

Mr. Driggs said in looking at the attendance figures for the Hall of Fame which needless to say have been disappointing compared to what was hoped for initially. What assumptions are we making about attendance to support the cash flows that you described?

Tom Murray, Charlotte Regional Visitors Authority said well the attendance has fortunately now stabilized. We had predicted a continued decline in attendance but we've had a favorable year but we don't focus just on attendance. We focus on revenues and the good news on the revenue side for instance in this year that started in July we are currently 18% ahead of budget on revenues and 12% ahead of last year so we are seeing some growth both in the attendee that comes to see the museum but also in ancillary revenues and also in event and catering functions that we have in that facility. It should be noted we have over 300 events a year after closing within that facility and those have become very valuable to the NASCAR Hall of Fame.

Mr. Driggs said just on the question of attendance are we assuming that that number stays flat at the 175,000 level?

Mr. Murray said we feel like we had stabilized it and we are continuing to try and grow it through the continued marketing and our efforts in sales to try and grow that number and we haven't done the budget for next year but we will certainly I'm sure be budgeting an increase in attendance.

Mr. Driggs said the \$5 million that we would pay is that actually a borrowing? Do we borrow that?

Mr. Kimble said I'll defer to Scott Greer.

Mr. Greer said it would be a cash payment.

Mr. Driggs said so that's from the funds on hand, the fund balance?

Mr. Greer said correct.

Mr. Kimble said and that cash payment also is calculated in the debt modeling as a reduction now for the future debt modeling and funds available.

Mr. Driggs said last question, does the failure of a loan like this have any impact on the way we're regarded by the rating agencies?

Mr. Kimble said we do not believe so.

Councilmember Mayfield said really is going to tie in more for Mr. Murray just when you get ready to speak but I don't have a lot of questions tonight mainly because for full disclosure I sat on the Board for NASCAR Hall of Fame so some of this information I'm already aware of so no need to ask a redundant question but when the times comes I think it would be helpful to share some of the things that have been happening around music and racing and that there are a lot of

great things that are happening that is actually boosting the attendance not only for the ballroom but specifically for the NASCAR Hall of Fame.

Mayor Clodfelter said and with that setup Mr. Murray do you want to take it?

Mr. Barnes said can I give context to my questions?

Mayor Clodfelter said you can give context to your questions. This is the question that you previously asked.

Mr. Barnes said that I was trying to ask 35 minutes ago; so Mr. Murray, nine years ago when we were contemplating this Hall of Fame and the competition with Atlanta, we talked about how to keep this place active and occupied in light of some of the trends going on with NASCAR itself and race attendance. They just cut, tore out seats at the track here in Concord and other tracks are losing seats and we were talking about how to maintain the long term viability of the facility. What I was asking a few moments ago of you and Mr. Kelly is what sorts of ideas do you have about how we're going to continue to grow the Hall of Fame in light of what appeared to be long-term changes with respect to NASCAR's fan base? I'd like to hear that. You remember you weren't here, Mr. Kimble remembers that one of the things we discussed was this whole idea in terms of Atlanta's approach to the competition that people would come down there and the place would be full and we had to hire a fairly high set of attendance projections for Charlotte and it didn't happen but still are there ways to bump the numbers up and get bodies into the facility for things other than events to the point that Ms. Mayfield was making, what is it going to look like in five years?

Mr. Murray said we have been working extremely hard over the last three years to restructure the way that we run the Hall of Fame first of all. We created a concept we have put before you before called One CRVA where the whole organization is working hard to make sure that the Hall of Fame is successful so our expert marketing and sales team support the Hall of Fame, our facilities folks that support the Convention Center and Time Warner Cable Arena and Bojangles and Ovens all support the Hall of Fame so we've taken the whole organization and worked collectively and collaboratively to help the Hall of Fame be successful and reduction of cost and efficiencies and better marketing and professionalism. I think what you're seeing the results of by those numbers that I talked about earlier, an 18% revenue excess over budget or 12% improvement year over year and the stabilization of the attendance numbers sooner than we thought we are seeing the early signs of that kind of success. We've done rebranding work a couple of years ago, this is our sport, this is our house and that work has worked very well. We've been doing a lot more marketing to what we call VFR, visiting friends and relatives, we understand that our local citizens can have a big impact in directing their friends and relatives to come to our facility and enjoy it as well. I think one of the biggest advantages is that it has become the go to place for the industry, for NASCAR and I'll let Winston talk about that in a minute but any major event, or a lot of major events that happen with NASCAR are often held within our facility and so that's exciting. This year we'll be inducting our sixth class so we now have thirty members of the Hall and as you have more members you have more interest in attendance and we think that helps as well. The other area that we've found a great deal of success is just about every convention or major meeting that comes into our facility wants to have an event at the Hall of Fame and we've really perfected that using our expertise from the Convention Center and through preparation and delivery and efficiency we've had really great success there. A good example is we had the Louisville/Georgia Belk Bowl Game and Louisville had about 2,200 people. I thought it was going to be 3,000, 2,200 people come and have a major event there before the game and that's not unusual for us to fill the facility. Do you want to talk about any of the other things Winston?

Winston Kelley, NASCAR Hall of Fame said I think the thing that Tom's mentioning is that we realized a few years ago it's not one silver bullet, that there are multiple different things and the numbers that Tom mentioned that we're experiencing this year is a culmination of the process. I think going back to having a disciplined marketing approach versus a marketing campaign de jour that quite honestly we had and focusing on that our sport, our house that focuses on that targeted audience so that's the attendance part of it and then we can build on that. The events that Tom's talking about that NASCAR brings here and I could go through a litany of

them with the Xfinity announcement for the new partnership and sponsorship that NASCAR has at what was the Nationwide series, having the chase drivers here every year as a signature part, tying that into our membership program to enhance our membership program, the induction ceremonies and the ancillary events that we do around those to improve the membership, packaging promotions that we have to increase the spin that each guest that comes in so they buy multiple things not just the ticket but they get simulator rides, an audio tour, the additional catering opportunities, the food and beverage that we have there so the multiple things that we have been doing since 2012 is what's gotten us to the point that we're \$400,000 ahead of budget for the first five months of this year and \$280,000 dollars ahead of where we were last year so I can't say that there's here's one thing we're going to do in FY16 but a continuation of those things; partnering with NASCAR, with the folks in the CRVA, the event stuff that Tom mentioned, having our sales team tied in with the group that recruit conventions in then we have that early opportunity to showcase the Hall and the great results that we've had is why we can get a group like Louisville to come in so it's multiple factors and I think we're seeing the results over time.

Mr. Barnes said Mr. Kelley, do you envision a time where those types of events, the Louisville events and the events that were held there during the DNC might generate more revenue than actual individual ticket sales?

Mr. Kelley said I think it will ebb and flow. If you look at any given month, it can be anywhere from 25% to 40%, even pushing 50%, so I think it depends on the time of year and what's going on. In the month of May probably not but in months like December when we would, there's not a lot or as much consumer activity then you will see that so I think over time it could continue to increase but we don't want to lose sight on all aspects of the revenue. To Todd's point we been more revenue focused then attendance focused. Now attendance at events drive the revenue but learning our customers, we're four and half years old and we've learned a lot about what our customers would like and to make sure that we offering that. I think there will be times but it's not an objective that events get to more than 50%. If that's what the customer demands then we'll do that but we don't want to lose sight of what you had brought up earlier the general attendance customer coming in and to your point on the NASCAR demographics we see ourselves as a bridge between that diehard fan that's been around a long time and the newer fan and trying to blend those together in different exhibits or programs or activities.

Mr. Smith said a comment and then a question. I think experts sales and marketing and successful we wouldn't be asking for a \$14 million dollar loan reduction had we been successful and had we use expert sales and marketing techniques. Regarding the attendance and I know that we're revenue focused; regarding the attendance I think the break even has been about 250,000. Is that a correct assumption? I assume we will lower once this is forgiven then the number of folks who need to come through the door will shrink as well.

Mr. Kelley said I don't think there is a break even number related to attendance. We don't measure it that way. We look at revenues, the attendance numbers are, I think we now where they are now stabilized and we know that they we can grow them but we think we can break even at these levels given this proposal that we put before you and so we think we'll break even now at 170,000 attendees.

Mr. Howard said this Council and a lot of past Councils have kind of gotten beat up about this one. I almost think sometimes unfairly because at the same time that you just talked about over the last four and half years the area around the Knights Stadium has been an instant success. The Levine Campus was an instant success and in a lot ways even the Arena became an instant success all public investments. I guess I want to ask more about what else do we do though. I think Knights Stadium is successful because of the other investment in the park. You could say that the Arts Campus is because of the critical mass of all the museums, the same thing about the Arena and the Epic Centre. I think what I'm a bit concerned about is a critical mass is happening in the area around the arena whereas we're talking about actually maybe pressing gas on marketing the building I think what we're missing is pressing gas on marketing the whole area and one of the things that I know we've talked about over the years is actually the Brevard Street plan which is kind of an opportunity to make Brevard more of a destination street between the Arena and the Hall of Fame. We know that development follows development. That's what

every other example I just gave you kind of was. I've been over to the NASCAR Hall of Fame at night where I've seen fans come out and they look lost because there's nothing else to go do unless you walk several blocks to go do something. I'm more concerned about what are we doing about the area either through incentivizing and I'm not talking about public subsidy but marketing the area with some of the things we already have so that there's more traffic around the Hall of Fame.

Mr. Kelley said I would just clarify I think the best partnership of all those that you just named is the Convention Center and the NASCAR Hall of Fame and those two work collaboratively together. As you said that the park and the baseball stadium I would say that the Convention Center is an engine for the Hall of Fame and to a much greater extent than any of the examples that you just put forward so I would say that is true.

Mr. Howard said that means that you have to wait for the traffic to come through the Convention Center to do it.

Mr. Kelley said I agree. I also would say they are starting to be some development there across the street you'll see Embassy Suites Hotel is being built right now and we're talking about these other parcels as well that we've talked about, parcel one on the other side of the Hall of Fame so hopefully there will be some additional growth in that area.

Mr. Howard said the only thing that I'm saying is that there are some other entertainment opportunities. The Brevard Street Plan was supposed to be a lot like the Louisville Street, 4th Street in Louisville. They have some great assets. The same thing we had over in Third Ward, parking lots present opportunities. I would hope that we're looking at developing the whole area and not just the building. That's all I wanted to put on the table because I think that's the part that's missing over in Second Ward, we had the Second Ward Plan as a matter of fact. We have some things we could do to increase circulation and traffic around that building.

Mr. Kimble said to your point Mr. Howard I think the Brevard Street Plan is still a good plan and now it's been stymied by some development there that hasn't changed but now the AT&T building is going to change over. We've had the site where the two railroads, North Carolina Railroad and Norfolk Southern owned a critical piece of land along the Brevard Street Corridor how we can work with them is extremely important. There's a United Way site right there, there's a lot of publicly owned land in the Second Ward with the former CMS Schools headquarters building. There are opportunities and I think we are on the cusp of really looking at the area around NASCAR Hall of Fame.

Mr. Howard said I want us to repackage it though. Right now we're waiting for deals to come to us. I haven't heard kind of the overall plan for Second Ward in a while. I just want to make sure we're still sticking to trying to make sure some of that happens.

Mr. Kimble said the County recently talked about how they could look at marketing some of their properties as well so that's a big plus in order to start to look at the partnerships that occur to make the Second Ward developments happen.

Ms. Lyles said I really wanted to follow up to Mr. Driggs question. He talked about the loan and how the bank views them and I completely understand that. The question I have is on the PowerPoint you have a recommendation, the question I have is do these components stand alone or are they complete package so is the bank contingent upon the NASCAR, is the NASCAR of course I know the CRVA and the city are separate but I wanted to be sure is the section on the banking and the NASCAR contingent upon each other?

Mr. Kimble said they are all tied together. The banks said they would do what they would do if NASCAR would step up to the plate, NASCAR said they would do what they would do if the banks stepped up to the plate and the expected that the city and CRVA would fulfill its obligations in the negotiations that you see in front of you. It is tied together and it's a holistic package.

Mr. Phipps said I'm proud to be a card carrying member of the NASCAR Hall of Fame. I would just encourage my colleagues if they would to do the same. It's only like a \$50 dollar investment; you could have a membership and take a leadership role in promoting the NASCAR Hall of Fame. I wanted to follow-up on Mr. Driggs comment about what kind of negative impact perceptions of the city could accrue as a result of getting this restructured. Is it not true that we did a similar thing or the County did a similar thing with the Whitewater Park a while back?

Mr. Kimble said I don't think the County did that. The Whitewater Center is a non-profit corporation and it had negotiations that it went through with the banks and had some of its obligations relieved by the banks as well but there are simply on land owned by the county but it was the Whitewater Center who negotiated those right downs with the banks.

Ms. Fallon said can we be clear about something. This is to the banks advantage, they get paid off a bad loan so they're not being so magnanimous, they're getting something that they would not have gotten otherwise.

Mr. Kimble said they would under the current arrangement if the average is around \$500,000 dollars a year and these loans run for at least 15 more years if not longer it would take them longer to get their money back but we would have to continue to pay sponsorship dollars, brick sales and corporate contributions to fulfill the loan obligations. We feel that this is a better situation all the way around. The banks have analyzed this and they believe it's a good transaction for them to enter into. We believe it is to because it relieves the Hall of Fame of that obligation and we can now use sponsorships, brick sales and corporate contributions to fund the operations of the Hall of Fame.

Ms. Fallon said alright, fine it funds all those things. If it didn't fund those things and we didn't go through with it what would be the city's obligation?

Mr. Kimble said it's a nonrecourse loan, we have at least three more five year increments of the loan to run and there might be an argument about whether it extends beyond that but we would be obligated for at least 15 more years to flow sponsorships dollars, brick sales and corporate contributions to the banks.

Ms. Fallon said what would be the bottom line on that?

Mr. Kimble said well you'd have to do a present value analysis of \$500,000 dollars a year for 15 years is \$7.5 million dollars net present value over time and if we grew sponsorships, brick sales it would be more than that and we rather that go to the bottom of the Hall of Fame rather than to the banks and fulfillment of the loan.

Mayor Clodfelter said when Ron was doing the initial presentation he indicated that you hoped to come to break even by a combination of revenue enhancements and costs controls and you talked about the revenue side of the picture. Do you want to say anything about the costs side of the picture?

Mr. Kelley said sure I think realistically last year we announced that we had a \$1.4 million dollar loss. This would offset our cost in the upcoming year around \$900,000 dollars if this deal is approved. As we said we are \$400,000 ahead of budget so far this year so we think we have a good chance of hitting it but where most of our efficiencies have come is combining task with the rest of the organization. We have a second organization called the NASCAR Hall of Fame that had all of its independent facilities and skills and we combined that with the rest of the organization and so we've reaped significant savings in doing that and we just made better decisions. We've brought expertise to the Hall that has allowed us to do things more effectively. Even simple things, I think I once said that we saved \$10,000 a year renting a piece of equipment that was over at the Convention Center that the Hall needed occasionally and we just said well since we're on the same team let's find a way to get that piece of equipment over there. It wasn't easy but we got it over there. We're finding savings and just working better together and being more collaborative and we have been under budget and under the previous year on cost and each of the three years since we started this process.

Mayor Clodfelter said you've been under your costs budget the last three years.

Mr. Kelley said yes.

Mayor Clodfelter said so have you realized essentially all the savings you think you can or are you still thinking there's more to come?

Mr. Kelley said I think there's more. We've had some savings CRVA wide that have been helpful, just renegotiated our health care benefits for instance so there have been things that you know we can use the expertise of the whole organization to help the savings throughout and we'll always try to be good stewards of the tax payer funds and make sure that we're being as efficient as we possibly can be in what we do.

Mr. Howard said one last point on the surrounding area and by the way Eric Standburg I didn't say it's hurting it I just said we could take better advantage of it, the area. Just to remind you that if the Hall of Fame had gone to Atlanta it was going to be part of their Centennial Park Campus and they've been smart enough to understand that they again put their foot on the gas because, now they had Coca Cola come in, we don't have Arthur Blank to do the Aquarium but they built the Civil Rights Museum. They've made that into a campus kind of that same critical mass argument that I was trying to make. They even added a Ferris wheel here recently. I'm not advocating for that but I'm saying one of the problems is not focusing on this entire area in an intentional way. Atlanta would have done the exact same thing if they got it it would have been just another piece to the puzzle for that area. We have to do the same thing.

Mr. Driggs said just a final comment, I think this is a good commercial settlement to resolve the situation that benefits all the parties, its not a huge gift from anybody. It's basically we're just fixing something and I appreciate all the effort that went into it on the part of all of the parties. I think it's a constructive solution. I just wanted to mention that in the ongoing debate between conservatives and others about the whether the public has any role in projects like this we get into discussions about economic impact and about the benefits to the city. It's unhelpful if the underlying premise of the whole decision proves to be unreliable. In this case we're in an economic recovery and even though I accept that the visitor number is not the only one it was in fact advanced as one of the sort of critical metrics in terms of how the thing would perform and we're at half now even where we were told and thought it would be so allowing for the recession and everything else I think we were just plain wrong back then and that's a tough thing because we're looking ahead to new projects that we're going to embark on, amateur sports and so on and we need to have confidence that the information we get is at least reliable so that we can then have our arguments about whether it's a good public venture or not. Again, I will support the proposed renegotiation and I do commend them for arriving at the solution but this is not a healthy situation.

Mr. Howard said one of the e-mails that we got, I don't know if everybody on Council got it, was a guy arguing to me that we shouldn't do this because it says that the city is not a good faith partner and I wanted to make sure you guys had an opportunity to respond to that. They thought it would hurt us in the future when we needed to go to the banks to ask for assistance on future projects because of this.

Mr. Kimble said the two banks involved here, Bank of America and Wells Fargo have been our partners in the past, they are currently our partners and I'm sure that they will be our partners in the future and that this will not have one iota of effect on our relationship with the two banks.

Mr. Howard said that is exactly what I typed. I just wanted to give you an opportunity to say that.

Mr. Kimble said and the next steps are on the screen for next Monday night.

Councilmember Autry said could we borrow Mr. Kimble to negotiate mortgages and things like that?

Mayor Clodfelter said thank you all for some really good work on this. I appreciate it.

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ITEM NO. 3: STORM WATER SERVICES PROGRAM AND COMMUNITY INVESTMENT PLAN

Mayor Clodfelter said that takes us to the next big topic and this is one if you remember came out of our budget discussions last year and that is sort of an overview of the Storm Water Services Program with a focus on the financial performance and the financial modeling associated with that. Mr. Manager, do you want to start off?

City Manager Ron Carlee said as the Mayor identified this rose out of our budget discussion. People always get confused Storm Water and Water/Sewer, Charlotte water, though this is the second of two briefings we've had for you. The first one was on Charlotte water and that's the water that intentionally goes into your house and with intent goes out of your house. This is the water that we're talking about tonight that we don't want in your house; this is the storm water piece. Both of them are utilities, both of them are based on a fee model in water/sewer that fee model is based largely on consumption although it has some fixed elements to it and what that looks like in the future is part of the discussion that we are trying to lay a foundation for. By and large we're in reasonably good shape both operationally and from a capital perspective on drinking water and the treatment of waste water coming from our homes and businesses. The fee model for storm water however is different. It is a utility, it is an enterprise fund, there is a fee that people pay, there's both a county fee and a city fee and that fee is based not on usage but the amount of impervious surface that one has on their property. That was one of the questions that was asked on our last briefing and so this enterprise is in a much more challenged position than the other enterprise. In this enterprise we have represented to the public that we will participate in a wide range of storm water projects including projects that are on private property and we are nowhere close to fulfilling the number of requests that we have. In fact in one category we virtually have little hope of fulfilling those requests yet at the same time we're challenged in this utility is with the other one in terms of escalating costs and fees and so the specific guidance from Council during the last budget process was come back to us and talk to us about how we can contain rate of fee growth in these two utilities. As for the one that we did on drinking water and waste water treatment this one tonight is not intended to seek action by the Council tonight it's intended to lay the foundation for that subsequent discussion that we'll have during the budget review to help you begin to understand the full breadth of the problem and to see what some possible alternatives might be. Our staff lead is Jennifer Smith; you've seen her many times talk about these issues with you. We've also employed an outside consultant to help us look at some other models, Keith Readling and he's here with us tonight as well. If I may I'll turn it over to Ms. Smith and have her go through the presentation for you.

Jennifer Smith, Storm Water Services said tonight I'm here to give an overview of Storm Water Services in general, our policies and practices, also talk about the community investment plan and the types of projects we do and what some examples of those projects. Also as the City Manager mentioned Keith Readling is here with us from Raftelis Financial Consultants. He has done a review of the program and will share his findings and recommendations with us and then I'll come back and briefly go over our financial planning efforts and modeling information.

I hope all the information that we share with you this evening will build and provide you with some information to answer some of the policy questions that we had before us. Should the qualification criteria for service change? Should the rate or fee structure change and how long should a citizen wait for services from Storm Water Services? Just to give you a brief overview of storm water services we have over 5,000 miles of storm drainage system. To give you an idea of what 5,000 miles looks like if you put it all end to end it would go from here to L.A. and back and we'd still have some additional storm drainage system that we could go probably to the beach with so that's a lot of system and I call it a system because it all interconnects and works together. Pipes may start in the right of way with catch basins in the street that pick up the rain water that pipe then carries the water down the street, it may then go off onto private property, that pipe may go down the side yard and discharge into a ditch along several back yards, that ditch may go down be intercepted by another pipe, cross under another street and so on and so and that system works collectively together in order to protect our traveling public and our private property investments. You need that system to work together as one that's why I call it a

storm drainage system. The types of projects we do not only protect the traveling public and private property investments but we also have a program that works to improve water quality and the quality of life. We've actually invested over \$475 million dollars to date in improving the storm drainage system and improving water quality. We're currently rated AAA by S&P and AA1 by Moody's.

Of that, 5,000 miles of squandering system we have inventory to date and know that we have over 1,800 miles of pipe system. That pipe system again contextually if you connect it from end to end you could go to Asheville and back over seven times just to give you a sense of the length of that system. That pipe system as you can see from this chart what this is showing is the cumulative miles that we have, that we know about, you could see early on in the 1900's up until about the 50's same amount. Pretty much flat, grows a little bit. In the 50's it started growing and in 1994 it really shot up and we have doubled the amount of height that we have in the ground from 1994 to 2014. That really goes back to the development that had occurred that is an all pipe system that the city has put in with our streets or work that we've done but that includes any development that has occurred within the City of Charlotte. We have a lot of system out there and we maintain that system and replace that system and work on that system on a daily basis. A lot of our pipes are old metal pipes that we're having to replace. Metal pipes tend to rust and we have to replace those so depending on the pipe material we're out there replacing pipes anywhere from 20 years after their installed, 50 years after install, some we can even last or go about 100 years.

Talk a little bit about some of the policies and practices that were included when the program just started. We get a lot of our requests for service through 311 and what we do is investigate each and every one of those requests for service from citizens. In order to qualify for service from the City of Charlotte Storm Water Services you must receive run off from a publicly maintained street and the problem must fall into one of the classification criteria's either an AI, A, B or C. The problems can be within the right of way or outside of the right of way on private property but again they must meet those two criteria, receives run off from public streets and a problem that fits into one of our qualification criteria. I shared with you at your table a copy of a brochure that we pass out to the citizens when we go out and investigate requests for services. It explains the different categories of classifications, there's a picture that shows an example of what those classifications are. The problems typically involve system failures or blockages. It could also be street flooding, house flooding, HVAC, garage, some sort of structure flooding and then also moderate to severe stream and soil erosion. Citizens are left with this brochure when we leave so they understand what qualifies. The brochure not only talks about what qualifies but on the back talks about what does not qualify. We have a lot of requests that are called into us that we have to decline service for because they don't qualify for our service.

A couple of the things I'll just point out that we get a lot calls on is yard flooding. A lot of people call just because their yard gets wet and it's flooding. That doesn't qualify for our service. Another big one that we get is complaints of mosquitoes, snakes, wildlife, beaver dams; that doesn't qualify for our service. We can't control a lot of that stuff. Just to share with you the number of requests for service that we get in have varied greatly over the past 20 plus years that we've been in business. We've had as few as 1,500 a year up to 2,700 requests for service that we're going out and investigation each year.

Councilmember Kinsey said I've had complaints; probably I talked to you about this Jennifer, of mosquitoes. They were on a pond or a catch basin that the city had built so it would have been our fault that they had mosquitoes. How do we, I don't remember, I don't think we did anything to tell you the truth but it seems to me that we would have some responsibility for that.

Ms. Smith said just the mosquitoes alone qualify for service but when we go out and look at it if a catch basin or inlet has a lot of leaves covering it and its holding water and that's really the problem is the fact that the leaves have blocked up the catch basin or the structure that would qualify so there really does have to be that qualifying problem. Just the fact that there are mosquitoes in their yard wouldn't necessarily qualify for service; the same way with a beaver damn.

Ms. Kinsey said this was in the water.

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Ms. Smith said so if that water is standing because of something we did and we created and is truly creating a problem with the system then that would qualify for service but just somebody calling that. If they live near a creek and they have a lot of mosquitoes wouldn't necessarily qualify for services.

Ms. Kinsey said that wasn't the case. It was our pond.

Ms. Smith said so as I mentioned the number of requests for service that we actually investigate every year varies greatly from 1,500 up to 2,700 as one of the highest years we had. The number that qualifies also varies. We've had as low as 800 requests for service qualify and as high as 1,400. In FY14 alone we investigate 2,274 requests for service. We went out to every location looked at it and determined whether it qualified for our service or not. Of those around 994 qualified for service.

Councilmember Lyles said I have a question about in your operations if you said inspection versus dealing with results what is your cost allocation? Is it like 50/50, 25/75, if you know that? I'm just wondering how much we spend investigating and qualifying versus umm....

Ms. Smith said I don't know the exact numbers on the top of my head. We have three staff members that two of them their full time job is to investigate. One is part time and then we have a supervisor that they report to.

Ms. Lyles said so two and half people.

Ms. Smith said yes that are actually investigating requests for service.

Councilmember Fallon said I have a question last week or the week before we got an e-mail about people who had gotten flooded because of broken pipes and the city denies any responsibility. Whose responsibility is it if the pipes corrode and break? Do you inspect them constantly?

Ms. Smith said it depends. If we have an easement or if it's in the right of way then the city has some responsibility with that. If it's on private property and we do not have an easement then it would be the property owner's responsibility.

Ms. Fallon said how do you get an easement?

City Attorney Bob Hagemann said Councilmember Fallon I'm familiar with that situation. A couple things, one as Ron said at the outset we've got the water delivery and receiving stuff through Charlotte Water and then we've got Storm Water. The particular incident that you're referring to was the breakage of a water main so that was water that was intended to go into people's houses but not in that volume or in that particular way. To answer your question about who is liable the city does own liability for our negligence but we are not an absolute insurer against all things going wrong. In that case as with all claims that come into risk management an investigation was done, a determination was made that we didn't cause the break, we didn't have knowledge that it was about to break and we didn't have a reason to believe that it was about to break and those are sort of the legal tests for negligent liability. Since none of those factors were present Risk Management denied the claim and it remains a private matter between the homeowners and their insurance carrier.

Ms. Fallon said maybe I just don't understand. You cause it, what you take an axe and break the pipe that means you cause it and then the person comes to you and you pay. Somebody has got to be responsible. The insurance companies aren't responsible for those breaks when they're the water main.

Mr. Hagemann said my understanding is, I don't know the specifics in all instances but my understanding from Risk Management is they do believe that most if not all of the homeowners insurance carriers are going to assume responsibility but coming back to what I said is that the law is pretty clear that in order for the city to be liable we are not an absolute insurer. In order for

us to be liable we must have done something or failed to do something that rises to the level of negligence and in this case under the legal standard we just did not believe that we had. It is unfortunate but the city's policies aren't to provide insurance protection for the citizens.

Ms. Fallon said what's the legal standard?

Mr. Hagemann said the standard is that we committed an act of commission. We did something that was negligent or...

Ms. Fallon said would it be a timeline on a pipe that was very, very old and never replaced? Would that not negate negligence?

Mr. Hagemann said it could be. In theory it could be but was not the case in this instance. There was no reason to believe, this pipe was not scheduled to be replaced. My understanding is it did not have the age that would warrant replacement. Things happen, the earth moves and pipes break and as I said under the law we are not an absolute insurer for citizen damage in that instance.

Ms. Fallon said is there a listing someplace of what we are responsible for.

Mr. Hagemann said it's not specific in that sense. It's an application of the principals that I just articulated. We did something that was negligent or we failed to act when we knew it was a problem or should have reasonably known and that legal standard is applied to the facts of the given situation when claims come in.

Mayor Clodfelter said I want to come back to overview on the Storm Water if we can.

Mr. Hagemann said again I want to emphasize that instance was a water main not a storm water pipe.

Councilmember Driggs said I just have quick comment that the whole thing turned on the word reasonable and I think when the thing breaks and floods everything you're open to an argument about that.

Mayor Clodfelter said we're trying to get a briefing here on the Storm Water System and we'll let you guys have at it on another session about our responsibility for repairing water main breaks.

Councilmember Phipps said you had talked earlier briefly about proactive type replacement. Is there a plan for all across the city that we're doing such proactive type work because I thought the predominant things were reactive type stuff?

Ms. Smith said yes. The majority of our work is reactive. It's due to the request being called in but when we go out there and investigate there may be pipes that need replaced just on the next property that didn't call in the request for service so that's where we're being proactive. We're not going to leave a pipe that's in bad shape right next to where we're fixing something that needs to be fixed.

Councilmember Austin said when we go out and we find out I guess if the city is not responsible do we try to take at least one step more and try to give the homeowner or person involved some type of solution? The reason I'm asking is I've got a number of seniors who as you know they have water bubbling up from the ground and their like well y'all come out and y'all say it's not our problem but we don't necessarily sometimes provide them with what am I supposed to do now? Do we help them?

Ms. Smith said we are trying to do some of that but that's a fine line of how much information we provide them and tell them to do and then if they do that and it doesn't work and they have problems then they want to come back and tell us we told them wrong so there's a fine line of or again the city's liability on that. We want to provide them at least with some direction that they can hire some folks and provide them with some resources that they can go to and use but to

come up with here's the design or here's the exact thing you should do really is hard for us to say because we don't want to have that liability come back on us.

Mr. Austin said do we have a list of contractors or something that we could assemble.

Ms. Smith said we do try and provide that, an extensive list of either landscapers depending on what we think needs to be done we'll try and point them at least in the right direction. They either need to hire an engineer and here's some options and where you can go to look for that. If you talk to a landscaper they could help you out and you could go this route so we do try and point them at least in the right direction.

I was talking about FY14 we had investigated 2,274 requests for service and of those 994 actually qualified for service so we're running about 40%, 45%, generally in what qualifies for service versus what doesn't. At least the good sign is not everything we get a call in we actually have to work on or qualifies for service. The other thing I'll share is that the number of requests for services as the City Manager had mentioned is continuing to grow. We don't currently have the resources to keep up with the number of requests that are coming in for us and requests are generally handled through two different programs our maintenance and repair program and our flood control program. Our maintenance and repair program generally is working on requests where the solution can be contained to one to ten properties. We want these projects to be done a lot quicker. We aren't trying to have miles of system that we're replacing but we also when we're evaluating these if we see that they're going to be larger or if we do a repair on one property and simply move the flooding to another property we don't want to do that. When we look at these projects for these requests for service it it's going to be a larger endeavor or a larger project it moves over into that flood control program and I'll talk more about those two programs a little bit later but currently we have about 1,200 AI, A and B category request for service and depending on that category AI is our highest kind of liability or feel that we have the highest responsibility there. Those are generally resolved within a year from the time that they're called in. The B's which is the medium category we could be up to five and half years from the time it's called in until we start evaluating it just based on that number of requests and the C's our lowest category is we have about 6,000 of those requests in the back log and currently we really don't have any funding to address those. We've put the funding addressing those higher priority safety problems however I will mention that on the C's if there is a C adjacent to a AI it kind of goes back to Councilmember Phipps question of proactive work if that C is next to a AI, an A or a B we will try and resolve it at the same time we're working on that other request for service so that we aren't back in the same place time and time again.

Mr. Driggs said I'm just wondering how many service request can you actually deal with in a year?

Ms. Smith said it's in one of my next slides.

Councilmember Smith said regarding the 85 A1 through the highest priority in response time or time to start within a year have been there been any sort of catastrophic outcomes for a citizen as a result of us not being able to get to it within a year? Think of a sinkhole under somebody's porch or driveway.

Ms. Smith said not that I am aware of. The highest priority are typically within the right of way and so what has happened to the citizen is a road may be closed and there's a detour because that street is completely shut down because the pipe is washed out.

Councilmember Howard said when I actually got this presentation what was amazing to me is the situation you just spoke of. If it did do something to the structure of the house it moves up, then it gets attention. That's a problem with our system and I know it's what we have is that it has to get worse before it can get immediate attention. That's what we have to figure out either how do we change that dynamic or address it before it gets to that because what you just described when it gets to the foundation of the house then it rises to the top and it can be dealt with. We shouldn't have to for that to happen.

Mayor Clodfelter said that is the policy decision you will be called upon to make. I'm going to try an experiment here. I'm going to ask people to hold their questions so Ms. Smith can actually get through some of the material it may answer some of the questions.

Ms. Smith said that Flood Control Program we currently have 58 projects that are on our backlog that have not been started and our current wait time to start those projects would be anywhere from three years to 15 years. Let me talk about the Community Investment Plan and I'll go into more detail on each of these programs and the number of requests that we can resolve and how many we think are actually coming in. Our Community Investment Plan is based on a rolling five year plan that approved every year. The current 15-19 budget for the Community Investment Plan for Storm Water Services was budgeted at \$260 million dollars and there's the breakdown to the various programs.

To go into a little bit more detail on the maintenance and repair program again these were the smaller projects or requests that were limited to maybe one to 10 properties. The math on the right is showing where those requests for service are and its colored coded by the category their AI, A's or B's. We estimate about 360 AI, A and B coming in a year. I mentioned to you before that the number of requests for service that we get in and investigate is highly variable. This is what the average that we've seen over the past 20 years. Just to share with you we've had a low of 246 in a given year and a high just in FY14 of 434 of these requests for service coming in. That 360, if the trend continues with the number of FY14 its going to go up. We averaged about or evaluating about 235 requests for service so that's what our current staffing and funding levels can generally do. The cost to address one of these requests for service is averaging right around \$70,000 dollars per request.

Mr. Smith just to clarify does evaluate mean you treat the problem; you deal with the problem that's what evaluate means?

Ms. Smith said yes some of the requests for service and the reason why I say evaluate rather than resolve or close that request is once we evaluate it if it moves from that program to the Flood Control Program we don't want to say we closed it because it actually moved from one program to another program because it grew in size. The problem became very big, about six of those move over a given year. Based on the graph below there our backlog projecting will continue to grow unless we get additional funding or make some other changes to the program. The low priority requests for service we estimate about 200 of these come in a year and as I mentioned we are doing some that are adjacent to those AI's, A's or B's and that's about 50 a year so again the number of requests in this C category is also increasing each year. This is just a map showing where those C's are. It's certainly all over the city it doesn't play favorites to anyone in particular.

An example project for our maintenance and repair this is considered an AI request for service that we completed. There was a sink hole forming over the storm drainage pipe that was just behind the curb right next to a power pole. What was happening is pipes come in segments and they bud up against one another and you want to make sure that joint is very tight or not separated or moving apart. In this instance the joint was separating and moving a part which then created the hole on the surface. We went in and fixed or repaired the separated joints for a construction cost around \$14,000 dollars. This is one of the cheaper repairs that we've had. Another example was a metal pipe system. As I mentioned that metal pipe system starts corroding, failing and ultimately you end up with a pipe that has no bottom in it. A storm came through the covert failed and took out the roadway. This is in the 3300 block of San Drenan. The road was closed for many months in order for us to design and repair. We ended up replacing the metal pipe with larger concrete pipes to protect the road and the properties around it. That total construction cost was around \$800,000.

Going on to the flood control project, as I mentioned if the request is too big to handle through that maintenance and repair program it moves into our flood control program and is handled through that. These projects are generally neighborhood wide, many, many acres, miles of storm drainage system that could be evaluated, designed and replaced. I had mention that about six new flood control projects come over from the maintenance and repair program a year. The costs of these projects range anywhere from \$650,000 to \$30 million dollars. That number varies greatly depending on how old the system is if we have to replace all the pipe, if some of the pipe can be

repaired or maintained, lined, if the pipe is undersized or if it needs to be upsized and replaced and so some of the examples I'll show you really do show you the difference in the costs even based on the amount of system. We are not projecting any new project starts until FY18 and the current budget and when we do start new projects we're estimating about five of those will start. I think we have about \$25 million dollars designated for those five projects. If the projects costs is a \$30 million dollar project of course we'd only be able to do one. If they come in more in that \$5 million dollars we'll be able to do all five of them.

Mr. Howard said help me understand the pipes that are under state roads are maintained by who?

Ms. Smith said it depends. If we are working upstream of that pipe under the state maintained road and increasing the water that's coming to the state then we will work on that state road. If it's simply a failure of that pipe system in the state road then it would be the states responsibility.

Mr. Howard said so then the question really is are all of the issues that the state needs to address on this matter? Is this all the flood issues? Or is this just the city's issues?

Ms. Smith said this is just the city's.

Mr. Howard said because that's what happened at Beatties Ford Road. That was state project.

Ms. Smith said a couple of examples of some flood control projects. The Nightingale Lane project, this area is the southeast corner of Highway 51 and Park Road. We had nine roads that we had reports of flooding on, eight homes that had some sort of structural flooding whether it be their living space flooding, their crawl space or an HVAC, some sort of flooding of their structure. We also had stream erosion and deteriorated and failing infrastructure in this area. We went and did a little over 9,000 feet of system improvements that impacted about 88 properties. That construction cost was around \$1.6 million dollars.

Another example is the Eastburn Project area. This project is just finishing up. We're doing some punch list items out there now. It is south of Fairview and east of Park Road. We had 10 roads that flooded in this area, we had 21 homes with either living space, crawl space, some sort of structure footing, we had deteriorated system and also channel erosion in this area as well. This project was only a little over 8,000 feet of system improvements and 74 properties but the cost is almost \$5.4 million dollars. Another project, this is probably the most expensive project that we have to date. It's the Myrtle/Moorehead Project. This is just outside of downtown, the drainage area is kind of the Arlington area going through Dilworth to Moorehead near the Dilworth Neighborhood Grille that then ultimately discharges into Little Sugar Creek. We have six roads that flood out here. We have 20 structures with some sort of flooding including the parking deck of the Arlington and we have a lot of deteriorating and failing of infrastructure. It pictures a metal pipe and I don't know if you can see it very well but the bottom is pretty much completely rusted out.

Ms. Lyles said I thought it was a catch basin.

Ms. Smith said it was a metal pipe. This project because the cost was so great we've had to break it into two phases. The first phase is currently in construction now. There's a lot of equipment and a big, big hole at the corner of Oriel and Moorehead. That hole is going down about 32 feet deep so that we can tunnel underneath Moorehead so we do not disrupt the traffic on Moorehead Street. That tunnel itself will probably be about 12 feet in diameter to get a new pipe underneath Moorehead. The current or existing system is going under the Dilworth Neighborhood Bar and Grille. If you go in the basement there's a manhole down there, you can pop it and see an old stone covert that's currently carrying all the water from the area. Not only are we putting in a new system but we're moving it into the right of way so it's easier to maintain for us in the future. That cost, the construction costs when it came to City Council for approval was right around \$12.2 million dollars. Phase two is around 11,600 feet of system improvements further up into the neighborhood. A lot of that also is system alignment. We have a lot of existing pipes that are underneath buildings or very close to the building that we need to move away from that building before they fail and damage those structures. The estimated costs on phase two is somewhere between \$12 and \$16 million dollars right now.

Mr. Howard said you mentioned the Arlington and I guess in that whole area you're starting to see some density. What are we doing with development to make sure their systems are not making types of issues worse? I would suspect that taller buildings are going to flow more water. That's the other water system but this one it keeps water from going in drains. What responsibility do the developers have to this conversation?

Ms. Smith said they are required to control the water on their site.

Mayor Clodfelter said that's an issue of the Phase 2 Storm Water Regulations and Ordinances which is not something you administer. That's a planning issue right?

Ms. Smith said well we work with land development on the regulations of what is required of development and they are required to do some control of the Storm Water but it's very site specific so it depends on where their located.

Mayor Clodfelter said I know what he's talking about. I know why he's laughing because we're moving away from Storm Water and moving into the Phase 2 Program which is a different program.

Ms. Smith the third program is our water quality enhancement program and this map is showing the red lines are the streams that have been designated as impaired by the Clean Water Acts Standards. As you can see in the pink that's all the land that drains to those red streams so pretty much all of the City of Charlotte is considered impaired based on the clean water act, water quality standards for surface water run-off. This program is really trying to improve our surface water and our goal is to start about a mile of stream restoration and four pollution control projects each year. The project costs in this category range anywhere from \$100,000 to about \$4.5 million dollars and however due to budget constraints we aren't projecting to start any new water quality projects until FY18 as well.

This is a map just showing the active and pending water quality enhancement projects. The pending dots here by no means will improve all the waters. These are just ones that we have identified very quickly. We will continue to have to search for and identify water quality enhancement projects to improve the waters in the City of Charlotte. An example or a couple of examples of the water quality enhancement would be the Enclave Pond Project. This was an area where there was an existing pond when the development went in they renewed the pond however we saw the benefit that that pond would bring to the city in cleaning water. We worked with the homeowners association to rebuild and improve that pond to treat or to actually remove pollutants from 52.5 acres of impervious surface for right around \$300,000 dollars. Another example was Revolution Pond Project this is in the area of the Revolution Golf Course, there was no pond in this area before. The Golf Course was looking to get some sort of irrigation means to irrigate the golf course. We worked with them to construct a new pond that removes pollutants from 201 acres of impervious surface. They also are using it to irrigate the golf course it was a win-win for both of us and this construction costs was right around \$300,000 dollars as well.

Another example is the Nightingale Stream Restoration I had mentioned Nightingale as a flood control project. Any opportunities that we can find that we can do both flood control and water quality improvements in a project we try and take advantage of that. In Nightingale we were able to restore over 1,600 feet of stream for a cost of \$700,000 dollars. The last category is our collaboration projects. These projects are really opportunities to work together with other city departments in order to minimize future costs and disruptions to the citizen. If there's going to be a roadway project that tears up the road it's beneficial for us to get in there and place our pipes so that that road only has to be rebuilt once so it really is beneficial for us to work together. We work with not only CDOT but comprehensive neighborhood improvement Projects, rail projects and other public/private partnerships. An example of this was Prosperity Ridge Connection. Prosperity Ridge Road flooded and the storm drainage system was deteriorating. We worked together in collaboration to do around 333 feet of system improvements for just over \$300,000 dollars. I will now turn it over to Keith to talk to you about the review that he did and his findings and recommendations and then I'll come back.

Mayor Clodfelter said before Keith starts let's get some questions on the presentation that you just concluded.

Councilmember Mayfield said we're getting ready to back track a lot through what you just said since the request was to hold off to the end. Going back to the last piece, the Revolution Pond Project and Enclave Pond Project just to get a clearer understanding so we said for the Revolution Pond Project the construction costs was \$302,998.00 that was total construction costs that the city paid or total construction costs where the private development and city or county paid?

Ms. Smith said that construction cost is what the city paid. The county pretty much donated the land that that pond is sitting on.

Ms. Mayfield said okay so even though we're not getting into the second part of the conversation regarding those fees I'm really struggling with the city and the amount of money that the city is putting towards these repairs when private business is benefitting because even going back further to the flood control project on Myrtle and Moorehead development triggered a lot of that so I'm really trying to get a greater understanding of the citizens covering these costs where business should be at the table with more funding and more dollars even though that's that other conversation around financing but I'm having concerns regarding how much money we're talking about is being spent compared to how much we're bringing in to offset these costs. I'm going to lump everything into that.

Ms. Kinsey said I'm going to assume that you collaborate with the county storm water as well as some of the city departments. Do we have a reply for Clean Water Grants? Are we able to do that?

Ms. Smith said yes we do apply for grants and we have gotten several grants actually Revolution was partially funded by some of the American Recovery the ARRA Grants. I guess it really wasn't a grant but it was a loan of the very low interests loans and other projects we've applied for grants through the state and their water program so we do when we see the opportunity out there and see that we have the appropriate project to apply for it we do apply for grants.

Mr. Smith said just to be clear it looks we at about \$250 million dollars of investment and we're falling behind is that a...

Councilmember Barnes said last year I asked then Budget Director, Mr. Harrington about the impact on the ... rate if we were to try to attack all of 8,000 projects. I don't recall the numbers but it was something that would have grabbed your attention. The question is have you guys every looked at what it would do to our ability to repair A1 through C if we were to access ask the voters maybe through a ballot measure to approve a one-time fee? How much would it cost per property both residential and non-residential to deal with the back log?

Mr. Carlee said that's among the scenarios we'll be bringing back to you in the finance.

Mr. Barnes said is that in the Budget Committee's work now or something you're bringing back during the budget season?

Mr. Carlee said it's something that we would include as part of this discussion. It is something that we would include as part of the different alternatives that you have based on what level of program you want to do and what are the financing options to do it.

Mr. Barnes said and you'll bring that back in the spring?

Mr. Carlee said yes.

Mr. Barnes said not that I would support it necessarily but it would be good to look at.

Mr. Carlee said there's basically two things you can do you can either reduce the program or increase the fees or fund it with general tax dollars or some combination therein.

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Ms. Lyles said I want to say I think that Ms. Mayfield brings up an excellent point and what I'd like to have is coming back with the numbers is great and I know we're going to do that and we're going to hear from Mr. Readling but we've got to remember there's a public purpose in this and so one of the reasons that we do this is our public purpose and our legislative authority is around our street system and what we do to make this happen. The point that I'm really concerned about is what do we do with development because as we do development we don't have a method of either addressing this as a cost or as prevention and so you have these opportunities where people are paying but then the question for us is do we spread that cost across everyone, is this a cost for, what are our principals that meet legislative authority for us to do the work and I just want us to remember that because we get into these business and it's the government, the homeowner, the development and where does the cost lie and where is it appropriate so bringing back just what the number without context of how does the rate methodology and that's one of the other comparisons. We have a rate methodology and an explanation that we went through in great detail with utilities. I don't know if we have that in this area and it's time because we're obviously getting behind. What do we do in a policy way that doesn't just kind of throw something up against the wall because it sticks.

Ms. Fallon said say we did a flat fee once would it sunset or would you have to keep coming back every couple of years with another flat fee?

Mr. Carlee said that's a part of the policy option that you'll have in front of you.

Ms. Fallon said in other words it would be an ongoing fee at intervals. It would have to be in order to cover the initial and then to keep it up because what you fix now will have other things breaking in the future.

Mayor Clodfelter said water has a way of winning out in the end.

Mr. Carlee said and it's a large system that is aging at different rates.

Ms. Fallon said so it would not be a one-time thing.

Mr. Carlee said say if there's a pipe line of projects would be to ...

Ms. Fallon said you would surcharge it and then have it within another few years have to surcharge it again.

Councilmember Autry said I want to remind us that we continue to talk but nature acts.

Mayor Clodfelter said on behalf of the old timers around here will you give your father our very best regards.

Keith Readling, Raftelis Financial Consultants said we had a belated Christmas at my house and my parents just left my house Sunday evening. For those in the room younger or newer my father was City Engineer in Charlotte for a long time and he retired a long time ago so anybody in this room who remembers him is an old timer. I do want to talk about Storm Water management for 15 or 20 minutes maybe. The role that Raftelis Financial Consultants played in this effort is to evaluate this program in terms of the service provision, rules of engagement and the services being provided, the funding level and the rates being used to generate that funding for the program, the level and extent of service provision which relates a lot back to this AI, A, B and C and then everything below C which is sorry and really to compare this program to a number of others across the US. I think I was drawn in to do that because I work across the US on Storm Water programs. The peer programs that we looked at included some in North Carolina and out of that group I would say Raleigh and Greensboro were more similar but a lot more than Charlotte. We looked at some big long standing Storm Water Management Programs like Philadelphia and Nashville and Portland, Oregon. Nashville has a lot of similarities to Charlotte and their Storm Water Program. Philadelphia has a very extensive, very strong Storm Water program but it's a real dense place. In footprint it's a small place compared to Charlotte but there are a lot of humans there and there's a lot impervious area there and so is true in Baltimore

which is a fee funded Storm Water Program, Birmingham, Alabama and Jacksonville, Florida. Jacksonville, Florida is a very big city, its coastal, it has some ways that it is very significantly different from Charlotte and Washington D.C. another dense small place, fee funded, pretty high fees and the fees are projected to go up. Dallas and Fort Worth both are more suburban in character than a lot of these other cities and they were chosen for the reasons I've already enumerated.

Some broad observations about this Storm Water Program, one is this is a pretty mature Storm Water Management Program. Cities are all in the Storm Water Management business and they've all been in the business since they started building roads but a Storm Water Management Program that becomes mostly fee funded gets a lot of visibility from one that's funded with tax money. When I say mature program this has been a fee funded program for more than 20 years now. That's a long time. Here's perhaps one of the more significant observations I can make. This is a less dense city than most of the peer cities. Its dense enough that the natural drainage characteristic of undeveloped land have been altered by our development patterns to a point where the drainage infrastructure has to be worked on and widened and pipes put in but it's not a dense enough place that there's a lot of rate base per square mile. Rate base meaning what do we charge based on here, we charge based on impervious area. In Philadelphia in a square mile there's a lot of impervious area, close to a square mile of it. In Charlotte there's not close to a square mile of impervious area in a square mile of Charlotte but we still have all that drainage infrastructure and that's why Ms. Smith pointed out 5,000 miles of drainage which a lot of that is ditch 1,800 miles of pipe so we've had to work on it.

Historically the problems here have been growth related programs and I say that because if you're from the South and you know I'm from the South from my accent there are other parts of the country where a lot of the drainage system problems relate as much as anything to decline and neglect. Our drainage system problems so far have been mostly about that pipe might not be worn out but it's not big enough anymore. Now the worn out is coming and she talked about that. A very conservative, thoughtfully run program and funding approach so lots of reserve capacity for debt, careful, thoughtful, don't spend more than you have. You saw this graph already but if the first big zinger is our rate base per square mile is less than a lot of our peers, we're kind of suburban not real, real dense overall. The second one is that a lot of our drainage infrastructure got built during this 20 year period and a good bit of that is going to start wearing out kind of in a big chunk. Aging infrastructure is a story that you'll hear about roads or water or waste water or storm water but it's certainly here for storm water. The biggest infrastructure we have in Charlotte underground is all storm drainage, none of its water and sewer. The storm drains is the big stuff and that's why you saw that one project \$12 to \$16 million.

Some findings, the partnership between Charlotte Storm Water Services and Mecklenburg County has been real successful in my view. These are my findings as an independent observer. With the county providing some major system drainage maintenance inside the city limits, the county has its own rate separate from the city rate. The level of service being provided in Charlotte is fact based and when I say that what I mean is if you think about the A's, the A's, B's and C's the first rule for a project to make the list of yes we will put it on the list is street drainage water has to be coming to that spot so it's our water coming to the spot from our public street that is creating or adding to or possibly completely about what's happening here. Drainage problems that are not including any run off from city streets never make the list that's why I say that its fact based in my view appropriate. The bar is set in the right place. Prioritizing projects has historically been hampered by a lack of data and that is to say that with all that infrastructure and ground keeping an inventory of what's there and what kind of shape it's in is a huge effort and the city is about two-thirds of the way through doing a big inventory on the drainage so we're getting better data on that and we're not keeping up especially on the lowest priority projects, you've heard that message already.

On the funding and rates we have an impervious area rate structure. I think that's the right rate structure. The things that cause our cost as public infrastructure service providers in Charlotte on storm water are peak runoff rate, total runoff volume and the amount of pollution in the runoff and all three of those relate to impervious area. It's a good rate structure. General fund also makes a lot of sense as a contributor to funding and the general fund contribution originally was almost 16% of the revenue stream. When this fee first went in place and it roughly correlated to

the amount of impervious area that the city had inside the city right of ways. The city does not charge itself for its on street impervious area. It roughly correlated it now stands at about \$5.6 million dollars a year; it's under 10% of the revenue stream so the General Fund contribution has decreased as a percentage of the overall funding. We've become more fee funded and less ad valorem tax funded so to speak. The rates are about average for the peer group you saw that. We have a fee credits program, this is a detail, not everybody in here is going to know all about the fee credits program but essentially what our program says is if you the rate payer do things on your property that reduce the impact of your impervious surface then your bill goes down. This program is a good bit more generous than average for your peers and a little bit out of step with what causes cost here now. The residential tiers are a little bit out of step with the county's four tier approach and I'm going to talk about that more specifically in a minute. In fact the General Fund contribution and the residential tiers I'll both talk about a little bit more.

On the residential tiers we charge based on an impervious area. A policy decision was made long, long ago not to charge at the square foot level for residential so the residential map into one of four tiers. The tiers are defined solely by how much impervious surface is on the residential detached property. Tier 1 is a property with less than 2,000 square feet of impervious surface on it. That doesn't mean a 2,000 square foot house. That's mean 2,000 square feet of hard surface total on the lot so that's going to be a pretty little roof and not a whole lot of driveway, that's Tier 1. Tier 2 which is the most common, 2,000 to 3,000 square feet of hard surface, 3,000 to 5,000 for Tier 3 and over 5,000 for Tier 4. In our current rate structure for storm water and I do a lot of water and waste water consulting too and storm water rates aren't a whole lot simpler sometimes. We have a major system rate component which is the county's fee component. You can see the others from 77 cents up to about \$3 dollars. We have the minor system component which is the city's component right now although their four tiers, tiers two, three and four charge the same thing on the city's piece. The bill processing fee is the same for everybody and so what we end up with is one of four flat rates if you're a residential, single-family, detached rate fare in Charlotte you pay one of those four flat rates. If you're non-residential you get charged by the square foot and you pay a different rate.

Mr. Smith said with all the tear downs that have occurred especially closer into town is there a lag time between when that is updated within our system and if so is that costing us any money? For example somebody goes and tear down a 1,800 square foot ranch in Myers Park and builds a 6,000 square foot house. I know the tax records aren't always reflective of that right away. Are we catching that on the storm water side and if not are we costing ourselves a few months of funding dollars there?

Ms. Smith said it's probably about a year delay. We do a fly over and get aerials and we go in and scan the entire city to look for changes every year so there might be a year delay on that type of thing.

Mr. Readling said and the piece that I'll add to that is there are ways that you can catch that quicker than a year and that cost a lot more too. In my view that's an appropriate pace. If you look at it solely from the point of view of what's the most financially appropriate way for me to keep my data up to date that's the way.

Mr. Smith said okay, I was just curious.

Mr. Readling said on to my recommendations. The first one is we think that the city should begin to construct the priority C projects. There are 6,000 of them and they average \$14,000 dollars apiece to build. Some of those projects have been on that list since 1993. I'm sure that some of those projects revisited by staff would have just gone away by now so my expectation is that some of those 6,000 would never need to be built. If you figured every one of them did with that average its about \$100 million dollars' worth of construction and it could be done by issuing debt which would be faster by virtue of our physically conservative approach that we've had historically with this program the city can program can do that debt or it could be done with PAYGO funding which would take longer and probably require some increase in revenues in the near term. The \$100 million in debt wouldn't. We think that the city should consider or this body should consider revisiting the General Fund annual contribution. There's good reason for some of this funding to come off the General Fund. That funding is a portion of the hole has steadily

declined for quite a while and period where we know we're going to begin to face chunks of infrastructures that wearing out. It makes good sense. Not a big revenue issue but the credits program that offers reduced fees to rate payers who do things with their property to reduce their impact on the city needs some tweaks. Get water quality in there, water quality is an increasing component of our program here and under included in the credits program. Implement the four tier rate structure as a matter of equity. Right now the effect of charging the flat rate for Tier 2, 3 and 4 is that on per square foot basis the smaller properties are paying more than the big ones. Also maintain a pace to collaborate projects with other operations. This is just a money saver. A lot of the cost of doing drainage is about rebuilding the road over drainage so when a roadway project is happening it's the moment you look at the drainage and decide that you need to do something. You would rather open the road up once not twice. Similarly this inventory which is gathering important information and helps us prioritize, it helps us understand this capital cost that's coming. It's important and the cost share options are a very detailed, little component of our report that essentially says property owners who would like to work with the city and move their project up in priority perhaps should be given the opportunity to do so in several different ways.

I touched on this already, if the city were to go to a true four tiered rate then these two numbers would change and that is to stay rather than paying the same thing as tier 2 these two numbers would go up. Currently and I know there's an awful lot of numbers on here but the number that might be significant are if you look at medium square footage by tiers. The median means the middle route so if there are 10% of all the parcels how many tier one's are there?

Ms. Kinsey said 20,000

Mr. Readling said 20,000 Tier 1's and if you just put them from tiniest impervious area on the lot to biggest which would be 2,000 square feet. The middle value is 1,673 and that's the value that is used in the ... math. These folks have a good bit less impervious area than tier 2 that's because the rates are different they both end up paying about thirty-three hundredths of a cent per square foot of impervious area; the last column. Tier 1 and Tier 2 pay about the same per square foot and they pay about the same as the non... per square foot, down at the bottom of number 31. It's the Tier 3 and Tier 4 because their ...the same two you see that their effective rate is ... and so our recommendation is the county made this change and you can see on the county's major system rates, seventy-seven cents and then a \$1.20 and then \$1.73 and then \$2.96. Those are reflective of the median impervious areas within each of the four tiers ranges so a series of flat rates for residential rate pairs makes a lot sense. It keeps us from spending needlessly on very detailed data maintenance so that more of our revenues are used to fix drainage problems not measure stuff but we have an inequality here right now that could be resolved.

Ms. Smith said Keith talked a little bit about that General Fund contribution. I just wanted to share with you a little bit of history on that. When the storm water program was initially talked about in front of City Council it was decided that that \$2.5 or some money would be contributed from the General Fund. At that time it was decided that \$2.5 million dollars. In 1994 that General Fund contribution split between General Fund and Powell Bill. They're at \$2 million and \$500,000 dollars respectively and that amount of money ended up rising as fee increases were put in place. That occurred until 2006 when City Council approved a cap of the General Fund and Powell Bill contribution at \$5.67 million dollars or thereabout so the \$5.67 is what was contributed in Fiscal Year 2014 and what's budgeted for Fiscal Year 2015. I can't remember if it's come through already or not but it's been the same amount since 2006.

Talking a little bit about our financial plan, we looked at a ten year model and that model showed impervious area growth, operating costs, debt service and coverage ratios, both the operating and capital fund balances, the project expenses and any rate increases that are required to fund the plan and I handed out a spreadsheet that has a lot of detail and a lot of numbers on it to share with you. What I did was just capture a few of the key numbers on this chart. That handout includes the future tenured 15 and 9 more years. This time only showing 15 through 19 but I'll point out a couple things. The rate increase that we're projecting for here out is 3%. I've also highlighted the line that's bond proceeds as Keith had mentioned we might have some debt capacity. We have not issued bonds since 2006, however Council did approve \$70 million in bonds this past fall and that has been issued and we're projected another issuance of \$60 million

in 18 to support that current program of \$260 million over the next five years. We have had a couple refunding's that have saved us some money. We did a refunding of our 2002 Bonds and 2004 Bonds over the past couple of years. The other section that I will highlight is that debt service coverage is above three currently. As Keith mentioned that is fairly conservative so there is some capacity there to issue some more debt.

Mayor Clodfelter said at existing fee levels?

Ms. Smith said yes.

Ms. Lyles said Mr. Readling one of the things that you suggested in your recommendation was that we look at the General Fund and I was changing that but keeping that a part of the structure when you looked at the comparable other models that you used to compare can you give us some idea about what they do and how that works relatively?

Mr. Readling said yes ma'am. I would say that we have three distinct ways that cities deal with partial funding of Storm Water Management through tax revenue. The first is there are cities who maintain measured impervious data for all of their own public right of way street impervious area and build themselves for that impervious area and then pay that bill out of the General Fund and that's the contribution. That tends to run more than 20% of the revenue stream in a lot of places so it would be higher than we ever were in Charlotte. The second way is to completely ignore it which is the case in many places as well notably Dallas, Texas which is the place where I'm working right now. In Dallas they don't fund major drainage capital projects with the Storm Water Fee. Their funded through GO Bonds so there is some contribution back to the General Fund from the Storm Water Fee but it does not approach what their portion would be were they to Revenue Bond fund it like we do historically here in Charlotte. It's a little bit all of the map. When I first started doing this most communities were charging themselves for their impervious area. Greensboro is an example of that. As the economy got a lot tighter communities who recently have enacted Storm Water Fees have almost never billed themselves for their street impervious area. Mooresville, North Carolina is a lot smaller than here but they just started a Storm Water Fee five days ago. They don't charge anything for their own street impervious area and that's the norm now.

Ms. Lyles said just one other question and I know I should know this but when we approve a sub-division and the streets are built by the developer is there any charge or any relationship between the sub-division streets being donated or provided and the cost of the impervious surface? If that's too difficult a question...

Ms. Smith said no, there's no charge as long as they meet the city standard they approve them the city will accept those.

Ms. Lyles said so it doesn't include an impervious assessment. Once we accept it it's ours.

Ms. Smith said right. I will share that private shares in developments of communities that build private streets and it's not a public street they are charged for that private street impervious service.

Ms. Lyles said just as a follow up is that comparable to other areas that we looked at in comparison?

Mr. Readling said yes ma'am, almost universally.

Mayor Clodfelter said we are supposed to start our Citizens' Hearing at 7:30 but we'll take a few minutes for questions here. I think that's important to do.

Mr. Phipps said is the quality of materials like piping, storm drainage, is that consistently applied in all communities across Charlotte?

Ms. Smith we have standards of what type materials can be used and that should be part of that land development process that they use what's recommended are allowed. The difference may be

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what's on a private street. They may choose to use something different and then petition after the fact for the city to take over that but yes we do have requirements generally to use concrete pipe but there are some provisions for some metal pipe and plastic pipe; that is allowed.

Mr. Smith said this is a question I get from time to time, I'm looking at a photo of the Eastburn Project that we just completed and you look at the road flooding and I think several of my colleagues have touched on this to an extent but we're saying we had inadequate piping for the volume how much of that volume is contributed to the massive growth that has also occurred within that watershed because it seems to me that we on Council will approve a lot of these projects and then we're not keeping up on the infrastructure but when you see a road with 18 inches of water how much of that is old piping deteriorated piping and lets use Eastburn for an example and how much of that is Ashley Park and the Whole Foods and stuff growing at Sharon Quarters. Are we able to ascertain?

Ms. Smith said I don't know each project would probably be different; each road would be different depending on what's draining there, how old the buildings were, it could even be that the system that was in place on the roadway when those house were originally built wasn't even adequate. We first had standards in land development in 1971 but anything that was built before that was not necessarily built to a certain standard so we do have very specific design standards now but they have changed over time as we've learned more, as we know more so it would be hard to say exactly how much is from new development unless we looked at each individual road and each watershed.

Mr. Driggs said I just wanted to understand, the focus here on the single-family home you know \$8.00 a month. There are roughly 200,000 of those in Charlotte?

Ms. Smith said 180,000.

Mr. Driggs said right so I'm looking at something like \$18 million dollars a year. How do we get to a \$60 million dollar revenue number on the financial plan cash flow? What are the other revenues?

Ms. Smith said the other revenue is that attached single family and other non-residential they are charged per square foot of impervious surface they have.

Mr. Driggs said so the single-family residential actually does make up only about a third of our total revenue and the other comment I wanted to make was you've got 3% increases in here. It seems to me we have a big problem and it's going to take some creative engineering I think to get back on level footing and it seems to me that for one we have to right size our revenue for our current needs and then we've got a backlog that needs to be paid for through a one-time measure. I assume that that's a conversation that we're going to have during the budget process.

Mr. Carlee said that's correct. The modeling that you have here is what we used in the current budget year process. This is the current program so this is not model at this point any of the changes that are recommended by our consultant or other scenarios that you may want to consider this is the base from which we are starting that creates a situation as you just described.

Mr. Driggs said this is sort of background for the real conversation about what we do next.

Mayor Clofelter said Mr. Readling do you have any projection of how much additional debt capacity we would have in the existing fee structure before we would have to start taking a second look at our rating?

Mr. Readling said the answer is a qualified yes. If you look at the bottom line on this chart of numbers the debt service coverage for all debt, the adopted 2015 budget is about \$3.95 so as the programming incurs more debt through Revenue Bonds, financing and does not retire any existing debt which no existing debt is going to be retired until 2024 then that coverage ratio tends to go down, down, down and eventually that becomes a problem in terms of you financial liability. It's not a problem at \$3.95 and it's not a problem at \$3.17 and it's probably not a problem at \$2 but the financial policies of the city historically have been pretty conservative

about these things that why I said you could do another \$100 million in debt without a rate increase but you can't do that forever. The answer is more than 100, less than 2.

Mr. Carlee said we will model scenarios on lowering the coverage and show the impacts of that modeled out until the retirement of current and proposed debt.

Mr. Phipps said I know previously around the dais I had offered up to my colleagues that we should Budget Committee should entertain some of the policy questions; a more focused look at it and I don't know given the presentation that we had this evening it's a pretty sobering assessment and I realize that as a group, as a Council that we all would like to have input to the process but I'm wondering how effective that would be on something as complicated as this so I would implore and ask my colleagues again to seriously consider referring this to the Budget Committee for a more intense review even before the actual budget process and workshops get in place so I would just throw that out there for you to mull over to see if that's something that you would be amenable too or if you would still like to go through this formality of everybody at the table...

Mayor Clodfelter said I think it's good for everybody to have the general background that we've had in these two presentations. It may be useful Mr. Manager as you're working up the scenarios to work with the Budget Committee in conjunction with the workup of the different options of scenarios so when the budget cycle does roll around you've gotten the benefit of more questions, in depth questions then we've had here at the briefing. I think this was good to do for everybody, have the baseline, I think it might be appropriate as Councilmember Phipps suggests then to work with the Committee on maybe fleshing out some of the options and scenarios. What's the Council reaction to that suggestion?

Mr. Driggs said I'm on the Committee and I like the idea. I just think it's valuable to have, to crystalize some choices and give people a better decision making environment.

Mayor Clodfelter said I'm suggesting exactly that. I'm seeing some head nods around. I think the same would be true with the water and sewer as well as the Storm Water. Thank you this is very helpful. The consultant's full report is available.

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CITIZENS' FORUM

Pastor Jonathan Stone, 1209 Little Rock Road said thanks for the opportunity to speak. My parishioners would get a kick out of seeing me try to talk in three minutes or less. I'm probably not the most likely person to be up here. I've not even been in Charlotte that long. I pastor a church, a medium size in West Charlotte in the Paw Creek area of about 350 people. I asked a couple of my parishioners to come with me and be with me and stand with me tonight. The reason I'm here is pretty simpler and the I guess the messages I'm wanting to share is pretty simple in regards to all that we might do in passing the ordinance on civil rights pursuing body cameras for CMPD and that sort of thing. I simply just want to ask you to do something. I don't really know what that might be and I'll leave that up to you and those that know how to respond but I want to say this back in August when I began to see some of the things heighten in Ferguson I came to the realization when I was reading an old interview with Dr. King and he talked about how the thing that disappointed him the most and thing that caused him the greatest disillusionment in the Civil Rights Movement was when he assumed that as the truth came out and as people began to see the light of what the message was in the Civil Rights Movement that white ministers in the south would be quick to get off the fence and come and join him by his side and when that didn't happen it caused some of the greatest pain that he experienced in the Civil Rights Movement. Something about hearing that and reading that haunted me and it really made me realize that I had yet to really do anything and that was a white southern minister who was not coming to anyone's side. It was several weeks later when I was preparing a sermon on Leah and you know Leah, maybe and she's the wife that was rejected and she was barren and she had these children and each time she said well maybe now I'll be treated fairly and then with the second child she said well maybe now I'll be loved. Maybe it wasn't just that I was being mistreated maybe the actually hate me, maybe my husband, my family don't love me and then

the third one she said well maybe they'll at least join me. If I'm not going to be loved or if I'm not going to be treated well will they at least join me and that kind of haunted me as I thought about all that was happening at that point in Ferguson things were really beginning to erupt. I said I'll do something, I'll do what I can and I'll join whoever it is in our society that says look I'm out here alone will you please join me and so I'm asking you to do what you can do and join us.

Mayor Clodfelter said thank you. Pastor Stone, we are at work on development on a comprehensive set of new policies and had a Council Workshop about a week or so before the Christmas Holiday to get a briefing from the Chief on various issues and the Chief and the Manager's Staff are hard at work with a community based group that's really working on this issue. We'll have something back before the Council for a discussion next Monday night and I think there's a pretty strong commitment from the whole Council that I've heard to take some action. The exact details are still being worked out by the folks involved but I think we hear you. Thank you for coming. The next speaker and the last speaker that I have on my list is Mr. Edward Eaves. Mr. Eaves if you'll come to the microphone. If Mr. Eaves is here; I guess not. Ladies and gentleman that completes our work for the night; we can therefore adjourn.

The meeting was adjourned at 7:46 p.m.



Emily Kunze, Deputy City Clerk

Length of Meeting: 2 Hours 33 Minutes
Minutes Completed: January 23, 2015