The City Council of the City of Charlotte, North Carolina convened for a Budget Workshop on Tuesday, March 17, 2015 at 2:03 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, Ed Driggs, Patsy Kinsey, LaWana Mayfield, Greg Phipps and Kenny Smith.

ABSENT: Councilmember Claire Fallon

ABSENT UNTIL NOTED: Councilmembers David Howard and Vi Lyles

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ITEM NO. I: BUDGET COMMITTEE REPORT

Mayor Clodfelter called on Councilmember Phipps, Chair of the Budget Committee for the Budget Committee Report.

Councilmember Phipps said I want to welcome everyone to our second Budget Workshop Meeting. The Budget Committee consisting of myself as Chair, Councilmember Driggs as Vice Chair, Councilmembers Lyles, Kinsey and Mayfield met and had some good spirited discussions on some of the items that we will be discussing today. We also had a discussion on another healthcare related item dealing with some facilities that we are going to get some more information on before it comes back to you.

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ITEM NO. II: DRAFT FINANCE AND BUDGET PRINCIPLES

Councilmember Phipps said we look forward to your discussions today, but I wanted to bring to your attention; a recommendation by Ms. Lyles, she wanted to quantify our budget principles and we've got a copy of it and you should see it early on in your booklet, a list of 15 principles and we looked at these principles which were developed primarily using the priority base budgeting and Institute of Government Research on the best practices of such financing and benchmarks. Matter of fact Items No. 1, 4, 12 and 15 came from that body of work. We also, as a Council, added a couple of items based on what we felt were good Council practices and policies. Those are embodied in numbers 8 and 10 of this document. If you haven't ready it all in its entirety go ahead and read it at your leisure; I'm sure in view of the discussion we will have today, it might be instead of 15 items there might be some more added to it. We just wanted to give it to you so you could read it at your leisure. Item No. 4 addresses compensations and benefits area; Item No. 5 maintenance and preservation of existing needs; Item No. 6 ongoing need to evaluate cost effectiveness and No. 7 we addressed the total impact on the public and out citizens to outreach and the opportunity to observe the process in a transparent manner. With that said I will turn it over to Ms. Eagle to see if she has anything she wants to add to it before we jump right into the Budget Workshop because we've got a lot to cover.

Councilmember Lyles arrived at 2:05 p.m.

Interim Strategy and Budget Director Kim Eagle said thank you; I think you covered it very nicely. If you have comments or feedback on the draft principles please feel free to let me know and we will incorporate that. Our plan is to take this back through the Budget Committee one last time and then hopefully have this as a framework for the remainder of the development process; a great work from the Committee.

Mayor Clodfelter said anything else at this time; people may want to be still studying no them, but if you've got some right now we will go with it. If not we will hold that for further consideration at such time as people want to talk about and move to the next item.

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ITEM NO. III: OVERVIEW

City Manager Ron Carlee said we have a package of some material to pass out to Council and I will give you time to get that in front of you. Budget development is routinely somewhat of a moving target; revenue projections get refined incrementally and sometimes they are dealing with a little information and sometimes a lot and they change over time. We are operating in a budget environment that is as uncertain as I think any that you can possibly imagine. Normally budget uncertainty is driven by changing economic conditions that can't be predicted and we all went through the recession and we know the challenge we had creating estimates there. We are all keenly aware that currently we are in a positive economic environment where things are looking really good in Charlotte in virtually every sector, so we would expect as we are doing our revenue projections that we would have some opportunities to actually benefit from a growing economy. A thriving city should be one that has a thriving economy and the city should be growing with the economy. The uncertainties in our budget are really three-fold right now and create an environment where it is impossible to predict today how much revenue we are going to have to balance against FY16. I will illustrate for you today the latest information that we have that shows how complicated and challenging the environment is. The two that we talked with you about in January, one was of course Business Privilege License Tax and so the elimination of that was essentially a 3% reduction in our revenues for FY15 to FY16. We still have some hope that the General Assembly will fulfill its commitment to look at alternatives; at this point nothing has been introduced and I have no intel at his point; Mayor I don't know if you've heard anything more recently so we don't know whether or not the General Assembly is going to come back with an alternative source of that revenue. That started us in a pretty difficult position to start with.

The second one that we also previewed with you at the January Workshop was of course sales tax distribution and in you read in the Charlotte Observer today you are aware that there is discussion in different sectors within the General Assembly with regards to changing sales tax distribution. Whether that would be a change in distribution based on current sales tax as it is with dollar one being distributed on a per capita as opposed to a point of sales basis or (b) would the current distribution be frozen at current levels and future sales tax revenues be distributed on a per capita basis or (c) would there be an expansion of the sales tax which would either freeze with current year or from dollar one redistribute on a per capita basis. We have no idea; that is a completely unpredictable environment right now with each scenario having a different kind of impact on our budget ranging from relatively minor to really significant in multiple millions of dollars.

The third one which we did not anticipate being problematic based on everything we had heard up until literally last week is the ongoing reevaluation of real estate property in Mecklenburg County. We are in the final period of reevaluation and much to our surprise the reevaluations that have occurred literally since our Workshop affecting primarily commercial property are substantially lower than anything that was ever predicted or made known to us. I have passed out to you a memo from the County dated March 17; we have literally just gotten this. As we were made aware of the changes in value I asked the County to please provide us a written confirmation and explanation of what occurred. Literally we have just gotten from them an authorize to distribute to you and as you can see in this memo if you go to the table at the very beginning, the values of real property in the City of Charlotte have based on revalues declined almost $ 2 billion over what we based our FY15 budget on. The narrative below that explains the differences in each of the categories that make up our property tax. The bottom line is that, and we give you more of the detail of the information that the County has provided to us, but if you go to the second package which has a table on front, this is a summary of the changes that the Tax Office has made, based on their contract and the reevaluation. You go to the third page in; we have taken the new numbers from the County and calculated the impacts on Charlotte's budget. They have impacts both in our current fiscal year 2015 and on our budget that we are trying to prepare for 2016. Again getting this kind of reevaluation or property values literally in the third quarter of fiscal year is certainly very challenging. We will see a loss of revenues in our current fiscal year of over $9 million. We were predicting a surplus approaching $10 million, given other revenues that have come in strong, sales tax and given that we've held the lid on spending and so this puts us essentially right on the dollar for the current fiscal year. That is too close for me; this is $100,000 surplus is what it is showing and so we are going to have to implement some cost saving measures to insure that we have a margin of safety and we remain balanced in the current fiscal year, and that we prepare ourselves for FY16. If you go right across to the other side as we calculate based on a new base for FY15 we now believe that we are looking at a gap of around $14 million in FY16.

Councilmember Driggs said I wonder if you could quickly recap the reevaluation history just so everybody understands. We had a County reevaluation in 2011; it was controversial and challenged, a reassessment process started, but I wonder if you could provide a little more background on that so we understand how these issues are arising to the surface now.

Mr. Carlee said I will certainly attempt to although I think it would be helpful either for the Budget Committee or for the Council as a whole if you like, to have someone from the Tax Assessment Office come and actually explain these things to you from their perspective. They are the ones really managing it, but in summary there was reevaluation of all of the property in Mecklenburg that was challenged, there was then Generally Assembly action to require a reevaluation of the reevaluation and we are now in the process of finishing that secondary reevaluation which are to establish the values of calendar year 2011. Here we are in 2015 still trying to get the values right as of 2011.

Mayor Clodfelter said we are half way through the reevaluation cycle.

Mr. Carlee said that is exactly right and the reevaluation of the reevaluation is not yet complete; the properties that they've done in this last quarter have been some larger commercial properties. We were anticipating, if you go to the memo, they said the County was anticipating changes of only about 0.5 of a percent when in fact there was decline in commercial values of 1.5%.

Councilmember Phipps said what paragraph is that?

Mr. Carlee said it is next to the last paragraph; "The last three months" and in the middle of that you see "At the time of the FY15 budget estimate, early appraisal returns and feedback from the independent property appraiser (Pearson) indicated only a 0.5% decline. This was the basis for the FY15 estimate on which we all based our budget. To date, the actual decline has risen to 1.5% ($1.1 billion of reduced value for Charlotte). Again that doesn't mean that is what the property is worth today in 2015; we are still trying to get 2011 values set.

Mayor Clodfelter said talk a little bit about the discovery of property variance there; that is rather dramatic.

Mr. Carlee said it is and this is one that is extraordinarily difficult to actually predict; it changes from year to year and if this were the only factor that we were trying to adjust for we could probably manage it. Unfortunately prior year discoveries were not a good predictor going forward and there was much less that was identified.

Mayor Clodfelter said how do we predict discoveries; do we use conservative model or how to we predict that because it is falling?

Chief Financial Officer Randy Harrington said the County projects this figure and from what we understand from them they projected based of prior year actuals and looking at a trend line and averaging that to determine the future year's estimation.

Mayor Clodfelter said so they are using an average of prior years?

Mr. Harrington said that is our understanding.

Mayor Clodfelter said what then caused the trend average of prior years to be three quarters of a billion dollars?

Mr. Harrington said that is what we are trying to understand; I think to the Manager's point there in terms of having them come and help explain that, we have those same questions.

Councilmember Phipps said I appreciate the Manager's suggestion on recommending an invitation from the Budget Committee that we would have representatives from the County to come speak before us. Do I initiate that invite or is that something that you will handle?

Mr. Carless I'm happy to do that on your behalf if you would like for us to do that.

Mr. Phipps said thank you very much; on behalf of the Committee I think we would want to get an explanation from someone from the County to walk us through that process.

Mayor Clodfelter said there are several explanations.

Councilmember Smith said I'm going back to January and it looks like we were projecting maybe up to $15 million revenue gap in the General Fund and now here it is saying $10 million, but we are being told that we've lost a whole lot of revenue and value. This is information you gave us at the January 30th Budget outlet and I'm not saying there is not an answer I'm just trying to make sure I have an understanding.

Mr. Carlee said we will actually show you some of that in a PowerPoint which we are about to do. The $10 million that I'm showing you for 2016, I used the term gap earlier, it is not our total gap, this is the actual loss in property tax revenue over what we had shown you in January. This is the actual change from the January projections we had given you.

Mr. Driggs said we are about half-way through the re-appraisals and of course getting to this point we've actually seen a couple of pretty dramatic swings and predictions about the outcome of the entire process. How confident are we that we've heard the last of this?

Mr. Carlee said the problem is we are depending on other people; we are not in control of our own estimates here and perhaps even more frustrating is the County is not in control of it either. There is a third party that is doing the reevaluations and that is where the knowledge and expertise lies and we are dependent on what they bring forward to us. I have a fairly low level of confidence generally at this point based on the kinds of swings that I have seen. Could this get worse; it might. Could it get better; that is possible as well. I really just don't know at this point and so at some point as I get prepared to make a budget recommendation to you I'm going to have to put a stake in the ground, but it is going to have a whole lot of footnotes down around the bottom of it.

Mr. Driggs said how long is the current or this round of appraisals expected to take; when will we actually have the final year?

Mr. Carlee said Randy do you know when we will actually have the final; do you know when they will finish the reevaluations?

Mr. Harrington said what we understand I believe at the end of March they will receive one of their last reports so it is probably in the early April timeframe.

Mr. Carlee said but there will still be some appeals I assume following on behind that?

Mr. Driggs said early April like in a couple of weeks or next year?

Mr. Harrington said this year.

Mr. Driggs said so a few weeks from now.

Mr. Harrington said that is what we understand.

Mr. Carlee said but that won't necessarily cover the appeals that follow along behind their reevaluation.

Mr. Driggs said it has taken several years to get to this point and the other half of the project is only going to take –

Mr. Harrington said I think they are well beyond half; does this say half somewhere?

Mr. Driggs said I had heard that.

Mr. Harrington said I think they are well beyond half; I think they are in the final quarter.

Mr. Driggs said so we are expecting to have more certainty in the course of this current budget process than we have today?

Mr. Carlee said I would hope.

Councilmember Barnes said Mr. Manager this first question may be for the Tax Assessor's Office but is there anyone evaluating the work of the Pearson folks?

Mr. Carlee said that actually is the responsibility of the County and the County Tax Assessor's Office and I know the County spent a lot of time with them at the end of last week going back over these figures to try to get confirmation in their own minds that they were right especially as it relates to appeals and refunds. Again that is part of the County's function in terms of the oversight of the Pearson contract.

Mr. Barnes said so we are looking at a $9 million loss in revenue for this year and is it $10 million or $14 million for next year?

Mr. Carlee said it is $14 million; $10 million is general fund but you can see our property tax based on Council policy is split between our operating general fund budget and our capital debt service budget and PAYGO and so the general fund hit for 2015 is the $6.95 million within losses and debt service and PAYGO; then the $10.8 million plus the $2.9 million and the $0.37 million for next year.

Mr. Barnes said so that is a $20 million swing for this year and the $14 million plus whatever we had anticipated for next fiscal year; in other words you said we anticipated about a $10 million to the good for this year, we are looking at losing $9 million so it is roughly $20 million in the swing on top of the $18 million for the Business Privilege License Tax and the redistribution of the sales tax from the County and the City.

Mr. Carlee said that is the total swing from where we were.

Mr. Barnes said we are swinging like crazy so I assume at some point you are going to give us a list of recommendations for where we are going to adjust things?

Mr. Carlee said yes, that was really one of my final points and then I will turn it over to Kim to actually walk you through the full update so you can see all the pieces of it. I will need to take action immediately to insure that we are balanced within the current fiscal year and to prepare for what service options to put in front of you for reductions in 2016. Later this week I will be implementing a hiring freeze and the hiring freeze will extend into the general fund as well as into the enterprise funds in order to create vacancies so if we have to actually reduce services we can have the option to have vacant positions into which we may need to move employees who are in services that we may need to reduce. I always go into budget reduction efforts with a desire to avoid employee layoffs; sometimes you can't do that but if you act early enough or you create a pool of vacancies you have a realistic opportunity to help people keep their jobs and place them in alternative employment. We will make some exceptions to the hiring freeze based on criticality of the job and source of funding, but we want to create a pool of positions to operate from to try to give us flexibility. I'll also ask general fund agencies to eliminate discretionary spending, really scrutinize and put a hold on anything that we don't have to do and then I'll be asking Departments to actually generate service reduction options for FY16. I have a meeting of Department Directors already scheduled on Friday who will begin working through these. The Assistant Managers will be working with Departments individually between now and Friday preparing for a discussion as we look through literally all of our general fund programs on a line of business basis and make some assessment of what programs might we have to consider not doing and what programs might we need to do less of. Given that the bulk of our budget really is made up of Police, Fire, Solid Waste, and Transportation there is no way to cover gaps that we are looking at without looking at those basic service programs. That is what we do in our general fund once you get beyond Police, Fire, Solid Waste and Transportation, Neighborhood and Business Services, Engineering there is relatively little left.

Councilmember Lyles said you've talked about the general fund portion of it, but we've also got debt service and Pay-As-You-Go Capital and I wondered if you plan on taking any measures in our capital program like those you've talked about for the general fund operations.

Mr. Carlee said yes, we will look at priorities that are capital program and there may be some capital initiatives that we defer or there may be some that we even drop off. I think the magnitude of the impact there, given the other sources of funding within our capital program are such that we can work through those. They are not going to be as jarring plus we have a lot of bond money that we have approved and we will be recalculating all of our debt capacity, but I think without dramatic changes in our capital program we will be able to balance that.

Ms. Lyles said I just recall during 2008 the debate when the recession really started the debate over the investment and your infrastructure versus your investment in operating and I think that is a policy discussion worth having. So we can confine ourselves to the existing categories or we can actually say what is really important if you combine those two lists so when you think about it if we are getting into Police and Fire and Solid Waste and then there are projects on the capital side you have to ask yourself what is that balance. I would not necessarily want us to just to assume everything comes from the general fund without looking at the total picture of investments and infrastructure versus what we need to do to maintain services to citizens; that we make sure that thing are safe and operational.

Mr. Driggs said I just wanted to clarify; the current fiscal year situation is that we were going to have a surplus of $10 million and now we've got this news and we are flat. Is that right?

Mr. Carlee said right.

Mr. Driggs said so how is that a $20 million swing; it is a $10 million swing. We are going from plus $10 million to flat. The other thing I'm looking at is the adverse effect entirely additive to the $16 million deficit that we saw ourselves having as a result of the loss of the Privilege License, so what we are really trying to do is address the $29 million to $30 million perspective shortfall in the coming year. This year it looks like we will break even but we are taking action now against that outlook for the coming year of $29 million.

Mr. Carlee said we've already adjusted some of those expense projections downward and Kim will walk you through our current update there as we begin to consider a budget that does not have pay raises and those other normal inflationary things that we would want to do which were folded into the projections that we gave you in January.

Mr. Driggs said from where we were the last time we looked, we are now trying to make up $29 million and I just wanted to echo reflecting a conversation we had, we need to be comprehensive in how we figure that out and recognize that we actually do have some areas of policy discretion between the capital accounts and the operating accounts and obviously there is some operating expense that is eliminated just because you don't initiate a capital project that is associated with operating expense and there is also some possibility of taking money that was going to spent in PAYGO and allocating it to current expense. I think how we do that will depend on what our assumptions are about any recovery of revenue from Raleigh as a result of some of their actions.

Mayor Clodfelter said I would ask the Budget Committee when you do talk to the Tax Assessor, in addition to whatever else you may want to talk about I really would encourage you to focus on the discoveries. The estimate is off almost 80% from what we were given last year. That is a variance that I can't even comprehend an 80% variance in the estimates so something is either seriously wrong in the process of audits, discoveries and settlements or something is really wrong with our budget methodology for translating that into a budget projection. It is one of the two because you can't be off by 80% unless you are just totally wrong on one of those two areas, maybe both so in addition to whatever else you are asking about I really would encourage you to focus on discover property when you talk to the assessor.

Mr. Phipps said I would ask that in as much as the Budget Committee will be entertaining representatives from the County staff on this matter, if there are any items that the rest of the Councilmembers might want us to pursue in terms of questions that maybe you could e-mail them to us so we could make sure that we would have those other areas we want to cover during that time together. What are the major items that we did outside of the budget process; I'm talking specifically about the Police Body Worn Cameras. Do we have reasonable assurance now that that decision will not be revisited and that is something that is passed or do we have any flexibility in looking at that particular transaction in view of what this new revelation has brought to the whole budget picture?

Mr. Carlee said I don't know with certainty what our contract provisions are if we wanted to revisit that question. I am not at the point where I would recommend revisiting the question. I still think the operational needs that were present that drove us to that extraordinary act still exists, but ultimately if the majority of Council wanted to revisit that we would look at the contract and make an assessment as to what our range of options would be.

Councilmember Howard arrived at 2:37 p.m.

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ITEM NO. IV: GENERAL FUND UPDATE

City Manager Ron Carlee said hopefully this will not be repetitive and Kim can go through it fairly quickly, but I want to give you the big picture; we think zeroing in specifically on the property tax and the changes there, given the magnitude of them this is how all the pieces are currently fitting together.

Interim Strategy and Budget Director Kim Eagle said I believe you have copies of the presentation; we were making revisions to this up until this morning because of the late breaking news. Please stop me if you have questions; there is lots of detail here working with several sets of numbers that have been moving as recently as this morning so please stop me if there are questions.

For the outline we will start with FY16 because that has the biggest impact on us and just briefly I will go through the changes that we've seen since the Retreat. We will talk about some of the items in the budget that are "must dos" and we don't have a choice about. Then we will get into options for closing that gap. Then we will follow-up with current year in terms of status for the current year impact we are flat but as the Manager mentioned we do have options on the table for reductions that we are evaluating.

Just as a reminder on the property tax alone, the January estimate that did the projected growth in those revenues of about $6.6 million. If you take the 2015 actual and you compare that to the new estimate that is where the $10.8 million loss comes from for the new projection. You can see the numbers there and I won't read those to you but we are looking at $10.8 million for FY16 property tax only. We have a restatement there as has already been mentioned of the Business Privilege License Tax loss of $18.1 million so those are the two pieces of revenue loss.

This is just a high level summary of the components of the budget and the Manager has already mentioned that the majority of the budget for the general fund is located in Police and Fire followed by Solid Waste Service and C-DOT. We have non-departmental there as well and that is for items such as street lighting, financial partners, business investment grants, those kinds of things. This gives you a sense of where the money sits from a departmental standpoint for the general fund.

Councilmember Barnes said on the previous slide the last bullet point says uncertainty, will state leaders identify a replacement revenue source. Do you have any reason to believe that they are even considering finding a replacement revenue source? Has anyone heard anything that would lead them to believe, either the Chair of the Intergovernmental Relations Committee or Mr. Fenton or anybody Mr. Manager; have you heard anything that makes you think they are even considering finding replacement revenue?

Mr. Carlee said I know that the League of Municipalities has had conversations with leadership within the General Assembly; I know there have been some ideas that have been kicked around but whether or not there will actually be legislation that actually comes forward and supported by a majority in the General Assembly I don't know what the probability is. Again I have to trust that the leadership in both the House and Senate, the Governor said they would consider replacement and so I'm willing to give them the benefit of doubt and hope that they do. It would still be my intent as I shared with you at previous budget work sessions in putting together an FY16 budget, which I have to do prior to the conclusion of the General Assembly session, that I would provide for you a contingency budget in case the Business Privilege License Tax did get restored so that you would have a base budget that takes into account our best estimates, which that is in a different perspective right now, our best estimates for what our revenues will be and what we would do with a budget if the General Assembly did fulfill the commitment to do a replacement.

Mr. Barnes said Mr. Manager; I have not read the Governor's proposed budget from a week or so ago but was there anything in it?

Mayor Clodfelter said no sir, we were told there would be something in it; there was not.

Councilmember Driggs said I've heard in conversations that they recognized the need to take some action; it tends to be tied up with other things they are looking at, the sales tax reform, the per capita notion so my sense would be that it is tied to other eventualities and a very personal assessment is those are looking unlikely and that is why I'm a little skeptical. They are looking unlikely; I'm kind of skeptical about all the things that would have to happen in order for meaningful relief to be available to us and that is just one guys take.

Mayor Clodfelter said there are many, many moving parts that would have to align.

Mr. Driggs said exactly.

Ms. Eagle continued her presentation and said much of this you saw at the retreat conversation. These are the non-discretionary items in the general fund for example the Police separation allowance, Solid Waste contracts escalating; that is for recycling in multifamily as we've discussed before to acknowledge the increases and then the health insurance increases which Cheryl Brown will speak to in more detail later are all built in for you saw at the Retreat and are non-discretionary. There are several that have been added since the Retreat conversation; the first listed there is a better estimate of retirement payouts. The majority of this number is coming from the Fire Department and we are continuing as we work through the process to revise these numbers and we are actually working on a risk analysis of all of our liabilities associated with retirement payouts, so more to come on that later. Then additionally we've identified a debt service on purchase vehicles increase that we are taking into consideration. That had to do with an out of sequence, or lack of purchase I should say on where we are getting back on cycle for some of those payments. We did not make purchases in FY11 to hold costs down so we are re-balancing that payment structure so that is a long way to say we are getting back on track for that expense.

Mayor Clodfelter said I confess I don't remember; do we have any employees who are not in the Local Government Retirement System who have a separate retirement system?

Ms. Eagle said we do; the Fire Department employees.

Mr. Carlee said sworn Firefighters.

Mr. Driggs said I'm assuming the City has a lot of contracts and other obligations that are not actually discretionary in the sense that we would be subject to penalties if we didn't comply with them. Do we have a sense of what that number is? Those amounts presumably have already been agreed to and committed.

Ms. Eagle said we absolutely do; I've highlighted that here and we can get you a more robust number in terms of the total costs of those if you like as a follow-up, but we have included that in the analysis.

Mr. Driggs said I'm trying to get a sense of where we actually have some discretion.

Ms. Eagle said that is a good lead in to this next slide; I'll keep moving if that is alright with the group. Someone mentioned earlier the gap that we were discussing at the January Retreat of $15.7 million which included some assumptions we had built into that an increase for the pay plan for example, and some other increases that we were aware of, but we were working at that point in time with a $15.7 million gap. What I've tried to do here is highlight the changes since that conversation in that point of time. At the top you see the revenue changes since that discussion in January where you can see the $10.8 million loss in property tax; you can see an increase in the sales tax estimate and I do want to point out that that is something we are monitoring monthly. That data comes in roughly two months after the close of the month that you are evaluating, for example we'll have January numbers on sales tax sometime around April 10th. You can see the other changes in the other revenues listed there for you as well to net to a $6.4 million loss.

Mr. Carlee said if I may, the number that Councilmember Driggs was referencing earlier is the $15.7 million plus the $6.4 million and that is $22.1 million, so just on the revenue side is what has happened to us since January. Somebody asked me the question, what is my level of confidence in the … so sales tax is the one that gives me normally the most anxiety because if fluctuates with the economy and the actual receipt lags so that becomes one of the more challenging ones to predict going forward. That is why we are ramping up our monitoring of sales tax so if we see something going in the wrong direction there where it looks like we may be over optimistic we can take corrective action.

Mr. Driggs said just a point of clarification; my reading of this is that our anticipated deficit next year is unchanged as a result of the items enumerated here; is that right?

Mr. Carlee said that is because of what we've done in the reductions on the expenditure side.

Mr. Driggs said right, so you go up to $22 million if you add the $15.7 million and the $6.4 million of revenue loss and then you mitigate that by showing expenses back to the same deficit that we were talking about.

Mr. Carlee said that is exactly right so what you see in this next block are our efforts to begin to bring this down.

Mr. Driggs said right, but that already reflects then a first step in terms of trying to close what was going to be a $29 million loss.

Mr. Carlee said that is right, it does.

Ms. Eagle said we were chipping away after the January Retreat on the Business Privilege Tax loss.

Mr. Carlee said and we were feeling pretty good about it too.

Mr. Driggs said I'm just trying to get a sense of how many different places we have left to go because we are already using up some of the things.

Mr. Carlee said that is why I say that service reductions end up having to come on the agenda.

Ms. Eagle said I will walk very briefly through the expenditures that have changed since the January Retreat and the first there at $6.9 million is the removal of the budget plan of the pay plan increases for Public Safety and general employee pay plan so we have taken that out. We have also put in place a 1% reduction so you see that $6 million listed there as well for the general fund. The health insurance cost estimates are moving down and Cheryl Brown will speak to that more; we are working very closely with the consultant on refining that number, but it has come down by 1% since January. Then there are several increases that we've identified as we've worked through the process and those are listed there for you as well. To you point Mr. Driggs, we have identified additional escalations in contracts that were already committed to and you can see that number $1.8 million and if you are interested in a detailed breakout we can surely provide that. These are the changes that take us down to the net number of $15.6 million when you put it altogether.

We've talked already about closing the gap but we really have two areas to work in; we have the revenues and the expenditures so what is in progress now is some work associated with user fees. We do have the option based on Council policy to move those fee recoveries up to 100% and that is under evaluation currently.

Mr. Carlee said if I may just provide a bit of commentary on that one. Most of our user fees really are related to commercial activities and the tax reductions which we are seeing are mostly to commercial enterprises. The Business Privilege License Tax is of course all commercial and the property tax reductions we have seen have been primarily on the commercial side as well. Therefore I have asked staff to do an analysis of our user fees, especially our land development and related fees. We are not at 100% recovery on a number of those and I'd like to bring you some options to look at what would be involved in bringing those up to 100% recovery. It is sort of hard to justify subsidizing those operations in this environment. This won't come anywhere close to balancing the budget, but I think it does bring in a little bit of equity into the operation. On tax options we will, based on the reevaluation, show you the calculations of what the effective change is in terms of lowering the tax rate; again it is not going to apply to all taxpayers equally. The changes in evaluations range wildly differently from one property to another, but they are based on these downward evaluations and effect of lowering of the rate and we will show you that analysis as well.

Councilmember Phipps said with respect to increasing the existing user fees up to100% or full cost recover, do we have an average of where we are now; are we recouping 50%, 80% and where are we in the spectrum?

Mr. Carlee said it is a range and I can't remember what the lowest one is, probably somewhere in the 40% to 50% or zero percent in some instances. There may be one or two that are up close to 100%; there are some around 80% and 90% so what we will do for you is present an analysis that shows you each of the fees, how much the fee is, what we are recovering and 100% recovery would be.

Ms. Eagle said on the expense side we have targeted expenditure reductions that we are evaluating; eliminated or reduce services or programs. I believe you have at your seat an inventory listing of all of the services and programs divided up by department just as a piece of reference material. This will help guide our conversations around this option.

Mayor Clodfelter said tell us where we will find that. Oh, it is coming around now.

Ms. Eagle said this table provides a summary of where we stand if you look at all of the revenues for FY16 and where we stand currently if you compare the January projection to the most recent projection that we have and you can see the change there and the piece of the gap that we have managed to close since January until today, that is reflect there as well.

Councilmember Lyles said I know I should know this, but where is our Power Bill funding and road maintenance funding in this projection as we go forward?

Ms. Eagle said it is included in Street Maintenance.

Ms. Lyles said we supplement our Power Bill funding with general fund expenditures and I don't know what the ratio is, has there been any talk about what the Power Bill may be and what is the impact of the Power Bill with this gas tax?

Mayor Clodfelter said I think if the Bill passes the way it was originally introduced; wasn't the number about a $385,000 onetime impact on Charlotte's Power Bill allocation? That is the number I had been given.

Ms. Lyles said so around $380,000?

Mayor Clodfelter said about $400,000, but it is a one-time impact because then the tax gets back into…

Ms. Lyles said I don't know whether that is an expenditure change since the January retreat but pot holes and street repairs are long-term savings for maintenance and I don't see us skipping things that would cause us to have greater problems in the future. We've talked a lot about what we are trying to do but to me the most important thing is to maintain what you've got so that we don't have increased costs when we do actually get to a place hopefully where some of our growth will produce additional tax revenues. I just question should we have that on our expenditure change list as a projection since we are including Business Privilege License. My next question would be what are those other little things out there that we don't know about; is there a list of those?

Mayor Clodfelter said this is a fairly high level list so I'm assume we are going to get more granular as we go forward. To Ms. Lyles' point does the $6.4 million reduction in the revenue line, does that incorporate the expected onetime loss of Power Bill money in the next fiscal year?

Ms. Eagle said it does not.

Mayor Clodfelter said so that would be on top of and to her point our expenditures are still projecting normal levels of street repair and street maintenance, but we are not showing the loss of that revenue and that legislation seems likely to pass. That needs to be adjusted.

Mr. Carlee said we have not yet included any adjustments based on anything that has not actually passed the General Assembly.

Mayor Clodfelter said that one is moving.

Ms. Lyles said that is my understanding it is moving pretty quickly.

Mayor Clodfelter said we ought to have a Plan B.

Mr. Carlee said oh absolutely. All of these numbers are going to change so we will definitely include that one on the list.

Ms. Eagle said are we ready for FY2015? This material will look familiar as well; these two columns are from the Retreat materials in January just as a reminder of where we stood with the $9 million surplus that we talked about earlier. Then if you add on to that the current status with the revised projection you can see if you look at the total revenues there that it is all gone away and we have the $100,000 surplus or virtually flat situation that was referenced earlier.

Mayor Clodfelter said at what point does the Utility Franchise Tax convert? When does that convert to sales tax?

Ms. Eagle said this year.

Mayor Clodfelter said at the end of the fiscal year?

Scott Greer, Treasury said no, it started in January.

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Mayor Clodfelter said so why do we still show that as a separate item apart from sales tax?

Mr. Greer said they are sending it to us separately.

Mayor Clodfelter said they are remitting it separately even though it is collected as a sales tax?

Mr. Greer said yes.

Mayor Clodfelter said is that going to continue? They are not going to merge it into general sales tax?

Mr. Greer said right.

Ms. Lyles said they don't have a computer system that would do that.

Mayor Clodfelter said that was the whole idea.

Ms. Lyles said I know it might be, but do they have implementation capacity?

Mayor Clodfelter said it is collected as a sales tax, but they are going to continue to break it up into two streams for distribution.

Mr. Greer said quarterly.

Ms. Eagle said we were projected to be balanced with the surplus for current year in January but that has changed so if you take just the property tax; I've included the numbers here for you to see the decrease from the Retreat estimate and that was based on looking at what we anticipated the growth to be, so I know there are lots of numbers moving around here, but the bottom line is that we are flat. That is attributable in part to the improvement in the sales tax projections and helping us cover part of that gap. Very briefly here you can see the categories where we have our spending and this is current year information, so the majority there or 74% of the budget in the general fund does go for pay and benefits. Then we've taken another look at it based on Department again illustrating the majority of the expenditures occurring in Public Safety, Fire and Police and then Solid Waste Services and you can see from there the progression of what makes up the budget.

Now for some details on where we stand today; as of the end of February we had spent approximately 67% of the general fund budget and we are flat based on new projections. As the Manager has already outlined we have several options for reducing our expenditures to improve that situation. We mentioned discretionary spending; we are looking at supplies and training and other general categories where we can lock that down. As the Manager mentioned we are going to go ahead and reserve the estimated additional fuel savings from gas prices going down, that is $700,000 and then the hiring freeze that we discussed earlier. This just gives you a frame of reference if you were to take the vacancies that are currently sitting in the general fund, the value of those is the $230,000 per week and you see what that equates to for a three month period.

Councilmember Howard said just a quick question on the fuel savings; that is still being conservative I would hope given that it is kind of fluctuating now kind of up and down?

Ms. Eagle said yes sir that is correct. We continue to monitor that on an ongoing basis.

Mr. Driggs said I just wanted to emphasize these are three possible options. I don't think this list is exhausted at all and particularly when I see among the revenue solutions it was referred to earlier a tax line. I want to be very clear that we are looking at all kinds of possibilities before we get to that. Councilmember Lyles and I mentioned before the possibility of looking at capital accounts, including them in our thinking, and I think we need to regard the whole budget as a little more fungible. What I worry about is this thing where you kind of lock in, as the federal government has done with its entitlements, you kind of lock in a whole bunch of protected spending, then you go to more taxes and then you get a growth in revenue in a good time and you find new ways to spend that and somehow we are in this kind of uninterrupted march. I think this is an opportunity for us to be kind of very dynamic in our thinking about how we respond to these things.

Mr. Phipps said was just curious in knowing; in view of the situation we find ourselves are we going to be looking at all categories in the budget including those that may even affect City Councilmembers? I was just wondering about that in terms of travel, different training is that on the table or is that up to us, sort of like Congress where we might set ourselves a part from something like that.

Mr. Carlee said I will not compare Council to Congress so we will look at that with you, ultimately the size of the budget in the Council Office as with some of our other smaller agencies. What you may do is going to be more symbolic than it is going to be of any significance. In the overall order of things there is just not a lot of money in the Council and other smaller offices, but I think it is important symbolically for all of us to try to impose discipline as we are looking at doing reductions of this magnitude.

Mr. Barnes said Mr. Manager I wanted to understand earlier about; maybe 45 minutes ago, you were talking about the freezing of positions and perhaps moving employees to those positions and I wanted to understand how that creates budget savings, and I'm not suggesting that we are going to send a whole bunch of folks out the door, but if you move 100 people from services that are being eliminated to open positions that payroll is still on the City so how does that actually create savings?

M. Carlee said the positions that you would move them from, you would actually eliminate or freeze. You would eliminate or you would freeze them and so let's say you have a position in Program A that is really important, life and death kind of program and you've got a vacancy there and you freeze that vacancy. You've got Program B which is a really nice to do program and all the positions are filled there. If you decide that Program A is really more important and you are going to eliminate Program B what you would do is look at the employees that are in the positions in Program B that are filled and see if any of them qualify for these positions over in Program A that is high priority that you are going to keep. That is especially valuable to us in terms of the enterprise funds; the enterprise funds are not affected by the impacts that we are seeing today so to the extent that we have general fund employees that are in filled positions that may qualify for a vacancy in an enterprise fund then we will want to create the opportunities to make those transitions. In my experience going through budget reductions in the past you don't necessarily get out 100% of being able to place people, but you can get pretty high and avoid layoffs, but the only way you really save money is by actually not then filling the position that you moved the employee out of.

Mr. Barnes said I think I understand but I think as we are contemplating Deathcon 5 we may be thinking about actually really cutting expenses, not just shifting them.

Mr. Carlee said it is not shifting them; what this does is enable you to maintain your priorities. I would not recommend that you just freeze every position permanently that gets created because you end up creating holes in services that are really priorities and you end up having positions filled in programs that are of a lesser priority. The freezing is a temporary strategy to create options for you to help place employees for whose services you may not continue. It is a shorter term strategy to help support your longer range priority setting.

Ms. Eagle said if I might add, when we freeze those vacancies we claim that savings, that is money that is not going out the door in salaries and we are able to set that aside to help cover the gap.

Mr. Barnes said I look forward to hearing how we are going to save $65 million over the next few years.

Mr. Lyles said I think that you can do that but it is not at the $65 million level and that is going to be something I think we are going to have to talk about whether or not we are going to be in a place where we are going to say this entire service, and I actually think the City Manager said layoffs may be an option, but right now it is managing the ten and then when we start getting into it we can decide if it is $65 million, $55 million or $45 million and that is when you will get into different options on how you deal with employees because our costs; we deliver services, we have Police and Fire Fighters on duty all the time and people that go out and collect the garbage. It is just where we are so you are right I don't think we can do $65 million without an impact so maybe one step at a time.

Councilmember Smith said I may be jumping ahead a slide, but I think we are in the general ballpark; you are saying options to reduce expenditures which seem to be somewhat at the Manager's discretion. I know we've had a lot of talk of service reductions, does service reduction fall under Manager discretion or Council policy as opposed to say the streetcar which is a Council policy which eats up a lot of money, but how does that all factor in?

Mr. Carlee said the actual service reductions would be a Council decision that I would present to you as options within the recommended budget that I would bring forward. Those are very much the discretion of Council. The short-term actions that I'm taking are really to insure that we stay within balance in the current year and that we create options in terms of being able to smoothly transition into any service reductions. The hiring freeze will create some service changes in the short-term as they do when people leave jobs anyhow and within the timeframe that we are working, I would hope that we would keep those idiosyncratic disruptions to a minimum and really get to what are the policy decisions that you want to make in terms of what we continue and what we cut back.

Mr. Smith said I think we've been dancing around some issues that I guess the Mayor Pro Tem called Deathcon 5 but I think we are going to have some previous policy decisions in addition to service that we may have to reexamine because it ain't looking rosy.

Ms. Eagle said moving on to Next Steps; we've talked much of this and we will continue our evaluation of revenues, we will prioritize expenditure reductions based on impact to the public and of course with your input around that service reduction element. Then we will implement those reductions in the short-term for the current year. I do want to make sure that you all are aware, and I know we talked about it in the Budget Committee, but I wanted to say that staff is going through a very deliberate exercise to reexamine the base budget for FY16 and the recommendation that the Manager brings forward, not to assume that items included in the base budget should move forward as they've always been so we are going through that exercise as well.

In summary, just some potential future service impacts and considerations; we will make reductions of course that is obvious but that is necessary and there will be needs that will go unmet within the departments. Just to put some context around that if you look back to 2009, 2010, 2011 the City Departments have been through reduction exercises several years in the past so that has created some internal tension and some pent up demand that of course we are living with today. We have this current situation layered on top of that environment so just for sharing in terms of what the Departments are facing relative to the exercise coming at us.

Mr. Driggs said I just wanted to point out that we've also heard in another Budget Workshop about pent up needs in some of the enterprise funds so I think everybody should understand that this applies everywhere. We are talking mainly about general fund revenue sources here but I don't think going out and proposing big annual increases for Storm Water and Charlotte Water is an option because I think we are going to have our hands full and we will have to reconcile it, but I just want to point out that whatever the process is through which we address these issues needs to include the enterprise funds as well.

Mr. Howard said I've heard a couple comments and I'm sitting here being quite, but let's be clear about something. The issues that we are dealing with are coming from the state cuts; they are not coming from the recession. The economy is actually doing better and this idea that we will just kind of freeze everything Ed like you are suggesting, the state is doing this it is not the economy doing bad. We still have to deliver good water and good services so let's not do that. This jump that I even heard Kenny saying messing with projects that we have underway already, we need to keep working with the state and not treat this like we are going through a recession because that is not what it is. Our citizens are doing better than they've been, let's be clear about that. The second thing Mayor is a question for you, so there is a group of you guys going up tomorrow for Town Hall Day which I think is a great opportunity and it is great to have this information because it equips you to have some real conversations and if I understand this right we are not the only City dealing with this. Every city across the state is going to have holes, not as big as ours but big proportionately to their cities, right.

Mr. Carlee said the Business Privilege License for sure and if there are changes to sales tax distribution that affects serving North Carolina universally.

Mr. Howard said I just want to make sure that you guys; I'm not going tomorrow, are equipped with the right arguments so we can join in unison and I'm wondering from you Mayor, having your experience in Raleigh, what do you say to people tomorrow? How do you get this across so that it is clear that there is not a lot of ways to deal with this other than looking at taxes? I'm sure they understand that; is there no sensitivity to that?

Mayor Clodfelter said there are lots and lots of things going and there is no set of single uniform answers anymore because the state is no longer that way. On some issues for example, we are directly adverse to some of the rural counties but on others, for example, the sales tax adjustment factor legislation we are aligned with some of the rural counties that will experience the same problem proportionately that we will. The alliances and your allegiances are really, really difficult to navigate right now and there is not just going to be a magic wand and we are going to say Oh, we get it, all of a sudden we get it. It is not going to happen that way.

Mr. Howard said I'm worried about the message tomorrow; I'm worried about everybody going up there and putting on their green scarfs and green ties and kind of running around and saying nice to meet you and we are not being clear about what we really need. I'm hoping that talking points are prepared Mayor so that everybody knows what to say while they are walking around that building.

Mayor Clodfelter said my main advise is when you are walking around that building is remember you are from North Carolina first and from Charlotte second. If you lead from any other direction you are going to have a turn off. It is how you sow it is how you message and you've got a message it so the solution to this City is a solution for others as well. It's got to be a shared solution; it cannot be this is what we need and you figure out the rest of it. This has to be a shared enterprise; that is why I think so far we have been supporting the efforts of the League which are really trying to integrate the needs of all the communities across the state and I think if there is a winning strategy it is going to have to be that kind of strategy.

Mr. Driggs said I just wanted to clarify for one-half of the problem we have is because of the County got it wrong on property evaluation numbers. We are looking at about $14 million in the coming year that we thought was going to be there and won't because of the critical property evaluation issue. Just so we frame it properly I accept that fact and I also want to point out that just on behalf of the Intergovernmental Relations Committee, I actually already ask today that we get some notes prepared which I think the staff is going to give us so that we can make informing remarks about our situation. I agree that the best communication we can have in Raleigh is to simply point out the situation, not act like we think it is up to them to fix it, but say this is what it is and how do we work on this and hope that they are constructive about wanting to share in the solution because we are all part of the same state.

Mayor Clodfelter said thank you for introducing what you said and for your reply about the County because that is exactly where I feel sitting here is the same. We are talking about pinching pennies here and barely making ends meet in a local economy that is growing rapidly, adding jobs, house prices going up, sales tax collections going up which is the sign of economic activity. This is not because we are in a bad economy, it is not because of financial mismanagement, it is because external factors that are impacting us and that is a very difficult message though to sell. It is a much harder message to explain because we still have to deal with the consequences of how to solve this problem are going to fall on our heads right here. People are going to hold us accountable for what we do about the County's inability to conduct a proper evaluation after five years. What we are going to do about the fact that the state is essentially gutting the revenue system of North Carolina. But we are still going to have to answer for that in this year's budget. You guys, this is sober work you are in and you are up to it.

Mr. Phipps said I hope we are not raising expectations with going up there tomorrow on this Town Hall Day where you've got everybody tripping over each other just to try to meet with representatives. I think it will be a good forum to make introductory remarks, but we really need to get serious conversations in a more serene quiet atmosphere than all of the hoopla around Town Hall Day.

Mr. Howard said that was my point Mr. Mayor about talking points where you can weigh in on that, where we can be clear about some strategy; and I love the green ties if that gets back to the media. It is a great thing, it looks uniform and when you go up there they want you all to dress the same so you will see. Everybody put on the green scarfs and the green ties and everybody knows who it is. We should have a coherent message, I agree with Mr. Phipps.

Mayor Clodfelter said you are right; Town Hall Day is not where the actual negotiations get done. It is done at different times.

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ITEM NO. V: GENERAL COMMUNITY INVESTMENT PLAN UPDATE

City Manager Ron Carlee said the first thing is that the presentation that is in your binder did not include the revised budget figures that we got from the County and the one that is being passed our right now does include those revised numbers. I want to say I heard what some of you were saying earlier in terms of looking at the entire budget and we will do that. There is an allocation of property tax between operating and capital as I said earlier which is a matter of Council policy, so if you want to move some property tax from capital to operating that is within your discretion to do so. At the same time based on that existing policy there are reductions in capital as reductions in operating based on your existing policy. You could also move operating to capital; the point is that is within your discretion. We will look at the impacts on both sides of that ledger. I would enter into that with some caution in that the Council did increase the property tax rate specifically to fund the capital program and it would seem wise to me that we at least try to be faithful to that capital program that was put forward in the context of the property tax increase. That doesn't mean that we shouldn't reevaluate, but one of the things that we have to evaluate very specifically are the operating impacts of our capital program and those cut two ways. One, Councilmember Lyles was raising earlier and that is additional costs that are imposed by not keeping up our infrastructure and the other one is which I think Councilmember Smith was alluding to, additional operating costs that are created by creating new infrastructure. We will look at that carefully and you will be able to see very explicitly what your alternatives are. All we want to do today is give you a snapshot of what our capital resources currently are projected at and what needs we've identified to you previously. We are looking at additional needs that are identified in the context of this year, although obviously anything that we would want to do new would almost set to be a substitute for something else based on relative priority.

Interim Strategy and Budget Director Kim Eagle said last year your received a long list that I'm sure you remember some lively conversation around; you have that again in your packet this year. We talked about that list with the Budget Committee last week and wanted to highlight again for you that list because it is a good way to take a look at total needs. You have that included in your packet on Page 13 and you can see we have added a column this year to update for you what you funded as a part of the FY14 program. You can see those in blue listed on your attachment with all of the detail associated with the projects. The Budget Committee had lots of conversation around the benefits that come from this list and having an exhausted view of what the needs are. In no way a recommendation, just a way to tract needs. You can see 24% of the list was funded in your current year program. We will be working with this list as the Manager said as it evolves to consider FY16 requests from the Departments that we have received since your Retreat so we will keep this in front of you.

Councilmember Driggs said I think this is a great step and much easier to absorb than the conversation we had last year. The next step in a priority based budgeting process would be how to assign these at different levels of urgency. We have some sense of which ones get critical, at what point in time and when we really need to be budgeting for them so they don't operate outside of our CIP and regular capital spending process. I think this is really helpful information. I'm still in a position when I look at $250 million and I'm not sure what is needed when and how much room we have for example within this and using the $83 million in available funding to address the other problems we've been talking about. It would be helpful to prioritize those a bit.

Councilmember Lyles said Councilmember Driggs makes some excellent point on this and I hope the Manager was saying that he is going to look at those factors of deferred maintenance and increased costs of deferred maintenance as well as operating costs. I'm hoping that those of the types of criteria we will look at all the way through and go project by projects saying if we do it what happens, what is the cost, can we afford it. If we can't do it what is the cost if we have to make up for it and then if there is an opportunity to delay the project. I'm hearing that is what we are going to do and I want to confirm that.

Mr. Carlee said yes; to what level of detail we do it across the board is something we have to evaluate but having a relative sense of priority, especially in terms of what we might advance in the current budget will be very much driven by that kind of analysis.

Mr. Driggs said I want to say I agree with Councilmember Lyles; deferring some maintenance creates so much of an increase in costs later on that it is tantamount to very expensive loan so I would identify those as less discretionary or not discretionary. If you are replacing elevators or something like that you may have some latitude and not be faced with much higher expense when you finally get around to it as opposed to the ones that would cost a lot more if you deferred them.

Mayor Clodfelter said once upon a time there were a set of policies and procedures for prioritizing capital projects that the Council had. It was somewhat similar to what we have at the beginning that Councilmember Phipps presented draft financing and budget principles, but it was targeted specifically at the prioritization of capital projects and they were budget prioritization principles for capital projects and they addressed what priority is given to maintenance or repair, what priority is given to new capital projects, what is given to retrofit or renovation. Do those still exist Mr. Manager or have they gone by the wayside?

Mr. Carlee said I have not seen them.

Ms. Lyles said I actually helped create that list.

Mayor Clodfelter said Councilmember Lyles was actually involved in creating those and there was a clear identification of capital requests which is what this laundry list is and then that got transformed according to a set of policies into an actual capital set of priorities. I wonder if that is still around.

Mr. Carlee said Mr. Mayor, you will remember that they are on Page 176 of the budget that the Council adopted last year.

Mayor Clodfelter said I recall that very directly, yes. It would be useful to set them out here in a more succinct fashion.

Mr. Carlee said we will include them in your budget material. They are quite good and Bill Parks is actually the person who shepherds our capital program. The first priority is maintenance of retrofitting of existing structure; second priority is replacement existing; third is expansion, fourth is new and then there are a whole host of other elements that come into them.

Mayor Clodfelter said I'm relieved and encourage but let me just suggest that including in these Workshop materials helps guide the Workshop discussions I think in a more productive and fruitful direction. That high level stuff should be in part of the Workshop.

Mr. Carlee said I will put them in the material if there is no objection to the Chair and to the Budget Committee and opportunity to look at them and see if the may need some tweaking.

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Ms. Eagle said we will bring those back to the April Workshop as well where we have the item to discuss request for FY16 for the capital program. In your revised handout you have a blue page of undesignated resources for the capital program and that is a summary. I wanted to share with you a change since the new revenue projects from the County. If you will recall at the January Retreat we were working with $65 million capacity for new debt and that has gone down based on those revised projections to $55 million. That is the most substantial change from the last conversation we had about available resources for the capital program. We've listed some other details there for you as well that give information on how we derive these numbers and that is spelled out on the attachment as well. I will point out that the general capital reserves are at $5.9 million and you've got detail there relative to the source of those funds, and then the project balances where we've had dollars left over when projects close.

Mayor Clodfelter said I know I asked this last year and I know you answered it but I've forgotten the answer so my apologies; I'll ask it again. With respect to the capital project balances there; at the close out of a project are those swept back into Pay As You Go fund or what happens to the fund balances in closed our projects? Are they swept back and reprogramed?

Mr. Carlee said it depends on what kind of project it was. You can see the first one is prior bond funded transportation and those balances would go back into transportation bonds. They would be limited to their original purpose because they were specifically targeted, whereas the last one is from a variety of Pay As You Go projects so they get swept up into a general balance for PAYGO that would be allocated to anything eligible for PAYGO.

Mayor Clodfelter said as those projects are closed out any portion of that $13 million as Pay As You Go gets folded back into the $5.9 million?

Bill Parks, Strategy and Budget yes sir, essentially that would be the case. It could be in that pot that could be reallocated to other needs.

Mayor Clodfelter said help me understand the $13 million; is that $13 million of availability this year for reprogramming?

Mr. Parks said yes sir and most of it, almost $12 million of it is bonds and COPs debt supported, so you would have to allocate that money to projects that are eligible for that category of projects.

Councilmember Howard said I was wondering about the top one; if we are $2 million down that is money that is just gone and we don't get that ever and that comes out of what we were going to do with overall projects.

Ms. Eagle said it is identified capacity that is reduced based on the modeling that incorporates the new projections from the tax office.

Mr. Carlee said let me say it slightly different; this was actually new capacity above the Community Investment Program you've approved. These were new resources that you could have addressed additional needs with, so yes it is gone, but it doesn't affect your adopted –

Mr. Howard said they were not numbers that you projected our CIP on at all?

Mr. Carlee said that is correct.

Mr. Driggs said my own understanding of this is we are looking at a list of needs which is the $250 million and looking at our current assessment of funds that we have that are not spoken for and are available to meet those needs and that is the whole point of the position of these two things. As I said before in the context of the conversation we've been having today I question whether or not all of this money needs to be taken down or whether it needs to be allocated on this schedule or whether it gives us any relief from the other choices we have to make. It needs to be considered.

Councilmember Smith said we had a $10 million reduction in our debt capacity. I understand that under our project balances and what we saved, monies from possibly previous bond offerings that it would have to subsequently be spent because of transportation bonds, etc. If that is zeroed out could we then go back to increase our debt capacity if we have identified other needs? I understand that you have dedicated savings down there in $13 million. I understand we have a $55 million general debt capacity. If we have had project overruns in which we have unspent allocated bond money and if we find there are other needs can we put that back into the overall debt capacity?

Ms. Lyles said those are one time savings and they have to be used for the approval that they were originally allocated, so if we saved on a road it is not going to be recurring to go into your new capacity but you could use it for another one-time expense to that –

Mr. Smith said is there a mechanism to take that and I don't know the technical term if you close it out. Instead of a one-time road expenditure, say we have saved $6 million on roads and we want that debt capacity to go back into the $55 million so we can take a more comprehensive review of City issues.

Mr. Driggs the problem in the sense that you authorize certain debt issuance, the rating agencies look at that and they basically kind of charge you for that. I think one of the difficulties, if I understand it right, is that you don't get credit, there is no way that you get them to cancel that so once you've created that authorization you are going to incur that debt and the only limitation it imposes is you have to generally spend the money within the categories that you got the authorization for. You are always spending money in those categories so it doesn't cramp your style that much to use those funds that way.

Ms. Eagle said we will move ahead to FY16 and developing the new plan. As I mentioned earlier we now have in the requests from the Departments and we are evaluating those in conjunction with the City Manager's Office and we will have a list that we share with the Budget Committee Thursday of this week as a first step in the development process leading back to you at your Workshop on April 8th; more to come very quickly about the requests for FY16.

This is something you've seen before that we want to keep in front of you and that we've had some conversations about with the Budget Committee. Just as a reminder we are looking into sharing additional background to the full Council on some of the assumptions because that was the conversation at your Retreat on the assumptions that go into this graft. Just as a reminder to keep this in front of you we have updated this graft to include the revised projections from the tax office so it looks a little bit different from when you saw it last at the Retreat. I can walk through an orientation of what this shows; the line at the top represents fund balance, property tax, sales tax and investment income so you can see how that flows. The light purple section is the future debt in the planned referendums. We included for you in your packet as reference the list of projects in the 2014 package so you have that to go back to as a point of reference. Just in terms of showing how the revenue is sufficient to support our program as we move forward and how we are able to smooth based on how we reserve fund balance through this model. Big impacts in the economy for example, we want to keep this front and center as we go through the conversations because we think this is a beneficial way to look at it and we know you are interested in it.

Mr. Driggs said I have been very focused on this just because what the graft shows is that we currently have about four times as much in total revenue and the prior service debt fund balance as we have in debt obligations and that ratio goes down to about one and one-third at a future date. I'm just wanting to watch what the future implications are of debt to incur now and we are still having a conversation about how that works, but I will mention if we have on an annual basis an assessment of what our debt capacity is then it seems to me that it is reasonable to assume that there is some sort of stable relationship in this graft, otherwise we are not just talking about major capital incentive and initiative bond cycle, we are talking about an ongoing process where we top off our borrowing and therefore I would like to see the history of this relationship and understand better how we are preparing for the future.

Ms. Eagle said that is all I have on the capital program.

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ITEM IV: COMPENSATION AND BENEFITS UPDATE

Director of Human Resources Cheryl Brown I want to go through with you the presentation this afternoon and we can spend as much time or as little time on the detail and the slides as you would choose. As a result of what you've heard some of these things are going to take some additional consideration certainly as we move forward. The objectives of the session today as we do each year is to provide you some background on our pay and benefit practices as well as a status report on the FY16 pay and benefits recommendations. We have used a Human Resources philosophy that was initially adopted by Council back in 1993; it was revised in 1995. We followed this very, very closely. We've always had an aggressive cost management strategy for benefits and we continue to do that annually. Our employees are expected to share fairly in the cost of benefits. If we have to have increases we typically have increases on the City side as well as on the employee side so we do spread those costs across both groups. We have a moderate level of benefits and pay; as much as we would love to pay at the top tier 90% to 100% of the top employers, we are more moderate. We typically strike a balance of about 50% above us and 50% below us and we continue to enhance and support wellness in the organization to try to keep our claims cost down, keep our employees healthy and use that as a savings tool.

We've already had a lot of discussion this afternoon about our operating expenses and you know that pay and benefits takes up a large portion of the overall budget. That is just a quick slide to illustrate that. Within the pay and benefits budget as expected regular salaries take up a significant portion of that budget, approximately 72% so that lays out for you the piece that is consumed by the salaries as well as insurances, unemployment, compensation, retirement, 401-K, social security, all of those various pieces to that pie. Stop me if you want to get into more detailed discussion, I just want to go through the overview fairly quickly.

We have two pay plans and we've had two pay plans since probably 1993 when we put our broad banding pay plan in place. This broad banding pay plan covers our employees that are not Police Officers, Police Sergeants, Fire Fighters, Engineers or Captains. Those are the employees that do not fall within the broad banding pay plan so you can see that a large majority of our employees do fall within this pay plan. As I mentioned we gather extensive pay data every year to see where our positions need to fall in relationship to other employers in our market and we base our salaries on the median of actual wages paid in our recruitment area whether that is local, whether that is regional, whether that is national depending on the type of position we are trying to fill. As you know we currently have open and it kind of scares me to say this, but we are searching for a Planning Director and we are searching for a CATS CEO. That is the type of recruitment that we do on a national basis as opposed to say someone who is working on one of our crews, one of our truck drivers, we would not go national to fill one of those types of positions.

Our pay is based on two factors performance and position of the employees relative to the market rate that we set for that position and then when available our employees receive merit increase again if funded and that is on their annual merit date.

Councilmember Driggs said how people are City Employees and how many of them are in the broad band?

Ms. Brown said I would say probably 4,500 out of 7,000.

Mr. Driggs said I think it is 7,000 in total.

Ms. Brown said I think around 1,500 Police Officers, Sergeants and then 1,000 or so on the Fire side.

The Public Safety pay plan is structured a bit differently; this is a traditional pay plan structure and we have a minimum, a maximum, we have steps within the pay plan that our employees move according to their merit dates, according to their performance rating and we also typically include a market adjustment to those steps each year as funding allows. It is consistent with the broad banding adjustment; typically about 50% of the broad banding adjustment is how much we will adjust the steps in the Public Safety Pay Plan. We do have additional incentives for these employees; two and four year degree incentives, our language incentives, hazmat, dive, urban search and rescue type incentives for those employees, particularly in those groups in the Fire Department that have a specialized role and special education and training to perform those duties. Those are really very few people but we do recognize those with additional incentives.

We produce this chart for you every year; the average movement across the various sectors that we survey. We are still waiting and a lot of the national municipalities do not have their data steps so that is why you see "to be determined" in that area, but what we are seeing this year overall is around a 3% movement in pay across the country for the various levels of positions; Charlotte Area Municipalities for FY16 projecting 2.9; Large Charlotte Employers 2.8. National statistics again we look at surveys conducted by World at Work, Hewitt, Mercer, the larger consulting companies to get information on a national perspective as well, so around 3%.

We did go ahead working with the Budget Office and Mr. Hershberger and we went ahead and costed out some scenarios for you so we could see what pay adjustments would add to our budget numbers. Again it would be wonderful if we were able to choose any of these scenarios, but again when we talk about pay we have to use the caveat that these types of things would continue to be under consideration, again considering what we've heard earlier today. Just a quick shot for you within the broad banding pay plan you are going to see just the merit number which is the performance based increase for those employees and in the Public Safety Pay Plan it is broken into the cost of what a market adjustment would be as well as the cost to move employees through the steps within the pay plan.

Pay actions under consideration – one of the tenants for Manager Carlee is that our growth and total compensation for employees cannot exceed our revenue growth so we did go into this work with that overarching umbrella in the work that we are doing. As far as broad banding pay plan, Public Safety Pay Plan we've got under review and at this point I guess that is the best we can do and we will continue to review that and hope if there is any way at all we are able to fund any pay adjustments for employees that would be wonderful. We also did some work in FY15; we looked at our field services group, our non-exempt group and we looked at a different pay plan type for that group. We narrowed the range, we went to a more traditional open range philosophy for that group of employees and again this is one of those changes that we would love to be able to implement. There is a cost associated with this as well, a cost for conversion and then a cost to move employees through the range within this pay plan so again I would add the under review in that area as well.

One thing that is new for us this year; the Fair Labor Standards Act (FLSA) potential impact and let me give you a little more information on potential FLSA changes. President Obama is working to modernize and streamline FLSA regulations; which frankly is a good thing. What that would mean would be to increase the number of employees who would qualify for overtime by raising the minimum salary for overtime exemptions. I don't know if you have much detail about FLSA but this is the law that tells us if you have a non-exempt employee who works more than 40 hours, they have to receive time and a half pay for those hours worked over 40 or time and a half in the way of compensatory time for those hours worked over 40. This would apply to our non-exempt workforce that currently applies to non-exempt workforce. If you have employees that made $455 per week or less they are automatically considered non-exempt and they are automatically eligible for overtime at the time and a half rate. The President's proposal is to raise that limit from $23,660 to somewhere between $40,000 and possibly $60,000. What that means for the City organization, we have approximately four exempt staff members who make less than $40,000 so those four employees would automatically become eligible for overtime pay at time and a half. We have approximately 76 employees who make $50,000 per year of less so those 76 if the change is to $50,000 those 76 would become eligible for overtime. When you get to that $60,000 level we've got about 306 employees who are at $60,000 or less so you see the higher that we raise that minimum rate for overtime, obviously the more of a budgetary impact that we are going to field within the organization. What I have read, it looks like they are looking around $42,000 but there is a push if possible to raise that higher, but we are hoping it will stay between the $40,000 and the $42,000 range and that would be very manageable from a budgetary perspective.

There are different levels of exemption as it relates to FLSA and there are certain tests that have to be applied if you determine if an employee is exempt from overtime regulations or not so those are likely to be tweaked and that would be a push within the organization to make sure that we have all of our jobs classified correctly, the exemption status, non-exempt versus exempt to make sure we continue to be compliant with FLSA.

The good news, if there is good news, is these changes are unlikely before the summer of 2015 and in the readings there are expected to be legal challenges to the change because this could be significant budgetary impact for both private sector and public sector employers so we will wait to see about that and that could delay the implementation of any change until somewhere in the future. Again, we are working with strategy in budget to project those costs if in fact we have to make those changes.

On the benefits side you know we offer a lot of different types of benefits and we've added over the years several voluntary benefits, but obviously we have the medical benefit, the dental benefit, our pharmacy benefit, flexible spending accounts and then from a financial security perspective we really encourage our employees to utilize our 401-K, our 457 Plan to savings tools and then we offer your typical program such as life insurance, we have a short-term disability and then we've added a variety of voluntary benefits which are completely employee paid such as accident, critical illness, whole live, long-term disability type plans. The City does not pay anything towards the coverage of those plans, completely employee paid.

This is a quick reference to the types of costs that we see when we look at our medical spend. Our expenditures, medical and pharmacy claims, admin expenses, premiums, health care reform fees $77.6 million for FY15 and then we also have our total non-medical expenses that you see there so for a gross spend of $89.4 million. The organization pays for that through contributions through the budget process and then the contributions from the premium charges that we apply to our employees and our pre-65 retirees. Every year we work to net that out to a zero expense.

This slide is intended to show you how well the organization has done over the years as it relates to medical and pharmacy expenses and trends. You can see the first bullet addresses the medical trend; our medical trend from 2010 to 2014 was overall 2% which is absolutely fantastic. You can see compared to national numbers the compounded trend for the national numbers was around 60% so the organization has worked very hard to keep trend down; our employees have worked very hard. Again the wellness program, health coaching, health risk assessments; we have just full force trying to keep those numbers down. On the pharmacy side as well, the City's trend was 4% compared to the national trend of 47% so we've done a lot of great work over the years in both of those areas. One area where we do continue to struggle is on the pharmacy side and particularly as it relates to specialty drugs and those specialty drugs are those that treat such things rheumatoid arthritis, MS, hepatitis C. There is now a drug out that will cure hepatitis C I think for the first time within about a six to eight week period of time will cure that disease. That is very significant and it is a very, very expensive medication, but those are the types of things that continue to drive our pharmacy trends and have driven our pharmacy trends higher than our medical trend over the years.

Councilmember Barnes said on the issue of pharmaceuticals are there any opportunities for us to source those medications internationally; say through Canada?

Ms. Brown said we did have discussions several years ago about Canadian medications, but at the time it wasn't something that we were comfortable pursuing but we are working with our consultants from Willis Group to look at ways that we can stem the tide of increase on the specialty drugs. We can certainly check into that.

Mr. Barnes said I raise it because we've heard for years that a lot of people save considerable sums of money buying their medications or going to Canada to get their medications and I don't know if the savings still exists, but if there is some way to bend that curve the other way it might be useful for us.

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Ms. Brown said I haven't heard as much about that as I heard about it several years ago, but we will certainly check into that.

We have hit on most of these as we've discussed our benefit plan, but we do have a strategy for health insurance cost management and you can see it incorporates wellness, our coaching that we talked about employee coaching, particularly for those chronic health conditions such as diabetes, hypertension, high cholesterol. Our cost sharing component, sharing of costs between the City and the employees, prescriptions, plan design and our vendor selection; we push on our vendors a lot to keep contract terms fixed for multiple years, we also push on them a lot to not have significant increases at the end of those contract years. We do vendor assessment quite regularly to make sure that we are getting the best out of our vendors.

Our long-term benefit strategy has been consistent now for the last couple of years. This includes our wellness and our non-wellness premium structure for those employees that do participate in our wellness plans. We have premium incentives for those folks and then we still consider yearly our cost sharing strategy based on tiers, based on the amount born by the City, based on the amount born by the employees. I believe Mr. Phipps mentioned it earlier from our Budget Committee meeting, but we did take to the Committee our initial proposals for an employee health clinic and we are going back to the Budget Committee with additional information, additional analysis of that concept so that may be something that gets back to you in hopefully a fairly quick manner. We want to consider the employee clinic to get our easy access for the employees, easy access for their dependents, easy access for our pre-65 retirees, clinics scattered all around the City so that folks would not have to go far for those services and at a very low costs for our employees. As a plug for the clinics this would be no new money, this would simply be redirecting money within the self-insurance fund that would be expected to be spend on additional claims costs and additional trend increase in medical and pharmaceutical costs, so more to come on that and we've been talking about this for probably a couple of years. Continue to evaluate the healthcare market place exchanges is a viable option for retiree medical. We do look to the pre-65 retiree program to see how we can keep those costs as low as we can and the exchanges once in place for a few years might very well be a good option for that group.

As was mentioned earlier we work on our health insurance increases all throughout the year. When we first met with our Budget Office in July and we said we are expecting potentially a 9% increase in our cost for health insurance for FY15. We've worked with the consultants to bring that down to 8% at this point. I love coming in here; last year in April I came in here and told you we started at 9% and we were down to 3% and I would love to be able to share that same low number with you right now, but we can't right now but we are continuing to work on that very, very hard because we want to do what we can to help with the overall budget picture which is where we will see that impact. If we can reduce that 8% to 5% to 4% to 3% so we are going to work hard on that for you.

Some of the considerations, again we typically do refer to these every year, but to continue aggressively manage our cost, particularly through the wellness programs, continue to evaluate the health clinics, we talked about that, continue to track the financial impact of healthcare reform; we've already seen some increased costs due to some fees related to healthcare reform and then I had a bullet in here, no additional plan design changes for FY16. Hearing the discussion this afternoon I'm going to revisit that bullet; I'm not going to stake myself out right now to say no additional plan changes for FY16. I think that is the right thing for us to do considering the situation that we find ourselves in so let's pretend that one is not up there. Let's say hopefully minimal plan changes for FY16 and then expect minor increases in premium costs for employees. Again we are going to try to keep that as low as possible and we are looking at different options for a potential match feature to our 401-K Plan but I can assure you that if we were to go down that path it would be at a cost neutral. We have been working with Ken in the Budget Office and it would be at a cost neutral for the organization.

Finally our total compensation example, you can see here that while an employee may make $50,000 per year, the organization does contribute to that employees' health insurance costs, dental, life, accident death, disability, EAP, the retirement system, our 3% 401-K contribution as well as FICA so you see the second line from the bottom, total annual benefits for that $50,000 employee with employee only coverage, the cost for that employee during the year is $9,408 but the City absorbs an additional $14,357 so the total compensation for that employees only plus plan is $64.3 thousand where when you move over to the family plan the cost of that coverage is more expensive due to the family members so that cost changes from the $64.3 thousand to $73,958. Just a quick illustration of what an employee's total compensation within the organization looks like.

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ITEM VII: OVERVIEW OF QUESTIONS AND ANSWERS FROM FEBRUARY 25TH BUDGET WORKSHOP

City Manager Ron Carlee said I think we can take it on home with the wrap-up on questions from your last workshop. Ms. Eagle will handle that for us as well.

Interim Director of Strategy and Budget Kim Eagle said you have responses to the questions from the previous Workshop on Page 45 in the back of your packet. We wanted to give you an opportunity for clarification or follow-up questions. We have staff here and available if you have very specific questions associated with Charlotte Water or Storm Water. I will also point out while you are looking, on Page 73 we have included the cataloging of prior questions and answers for easy reference so if you are thinking, oh I remember we talked about that previously, was there a response, there is an easy way for you to go back and find that.

Councilmember Driggs said I have just a general observation; if we could move as quickly as possible from this general conversation about the shortfall to kind of a menu of choices that we are likely to face and get a little more into specific about where the service cuts might occur or what options we are thinking about. So far I personally don't know how we accomplish or where we would feel the pain and I think as soon as we can get down to looking at what choices we have to make the better.

Mr. Carlee said agreed and I'm meeting with Department Directors this Friday and we will begin working that through. I need to give them a little bit of time. It is not coming completely out of the blue to them; when we kicked off the budget I previewed at that point that we could have some problems later in the budget process so I know they have been giving it some thought, but we will need a little bit of time to work through the options and understand the implications. The sooner we begin to build that menu the sooner we can work through what we need to do from a transition standpoint, particularly again taking into account impacts on employees. I just want to say again what I said very early on is that we go into budget reduction process with the intent of doing everything we can to avoid layoffs to employees and we are a large enough organization with flexibility that we have opportunities to do that. By knowing where we are early on and by having some reserves we can develop a plan that is sensitive to our employees and takes into accounts needs and issues that they may have. That is very much what will drive us while at the same time not taking what is often times an easy way out of just doing across the board reductions that affect different priorities in different ways and that are just sort of random, but trying to be very intentional and giving you opportunities to identify what are your relative priorities.

Mr. Driggs said I appreciate your hard work and that of the staff, so obviously some overtime there.

Mayor Clodfelter said I have a question for the next Workshop; we pay to acquire right-of-way or the State pays to acquire right-of-way and we pay to construct, maintain and operate public right-of-way or the State does it, public expense and then we allow others to use that public-right-of-way for commercial enterprises. I'd like a briefing on our current schedules of charges and whether we are recovering costs fully on the use of public right-of-way for commercial businesses.

Mr. Carlee said we will include that in our fee list.

Mayor Clodfelter said especially since there is no longer a Utility Franchise.

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Councilmember Smith said considering the news we have today and I'm not necessarily suggesting and I'm not one that likes to meet and meet but sort of piggy-backing on where Mr. Driggs is headed, do we want to look at possibly amending our schedule to have one more detailed session, maybe not at the length we have but to sort of bore down on our options or do we want to stick at the status quo with just one more meeting?

Mayor Clodfelter said let's place that questions with the Budget Committee and let you sort of give some thought to that.

Councilmember Phipps said I know we just recently revised our schedule. I will have to talk to them to see if you think that we can accomplish that within our current schedule or do we have to look at adding another meeting.

Mr. Carlee said we will do some assessment of that.

Mr. Smith said there may be some weighted discussion on our options; it is just food for thought.

Mayor Clodfelter said I think it is a point well taken, but let's do let our Budget Committee sort of lead on that. Are you okay with that?

Mr. Smith said I'm more than okay with that.

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ADJOURNMENT

The meeting was adjourned at 4:13 p.m.

Emily A. Kunze

Emily A. Kunze, Deputy City Clerk

Length of Meeting: 2 Hours, 10 Minutes
Minutes Completed: March 24, 2015

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