SEPTEMBER 9, 2008

MINUTES OF MECKLENBURG COUNTY BOARD OF COMMISSIONERS

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

The Board of Commissioners of Mecklenburg County, North Carolina, met in Budget/Public Policy Session in Conference Center Room 267 on the 2nd floor of the Charlotte-Mecklenburg Government Center located at 600 East Fourth Street on Tuesday, September 9, 2008 at 3:00 p.m.

ATTENDANCE

Present:	Chairman Jennifer Roberts and Commissioners J. Daniel Bishop, H. Parks Helms, Norman A. Mitchell, Sr. Dan Ramirez and Valerie C. Woodard General Manager Bobbie Shields Clerk to the Board Janice S. Paige
Absent:	Commissioners Karen Bentley, Dumont Clarke, and Bill James

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The meeting was called to order by Chairman Roberts.

Finance Director Dena Diorio presented the meeting's topic, which was Debt Management Guidelines.

(1) Debt Management Guidelines/ County's Debt Policy

Director Diorio addressed proposed changes to the County's Debt Policy. The following was covered:

- Recap of June 24, 2008 presentation regarding a financing model
- Staff actions since that time
- Debt Ratios *(It was noted that at 6/30/08, the County was not in compliance with two of the ratios in the current debt policy. Current and near-term capital needs do not provide an opportunity to bring the County into compliance.)*
- Authorized/ Unissued Debt
- Authorized/Unissued Debt by Purpose
- Near-Term Capital Needs/Projected Authorizations *(It was noted that in addition to the authorized/unissued debt, the County has future capital needs in excess of $1.5 billion from FY2009 through FY2015.)*
- Projected Debt Issuance *(It was noted that to accommodate these capital needs, the County would need to issue an additional $2.6 billion in new debt through FY2015 (net of pay-go). This includes the authorized/unissued debt, as well as, the near-term capital needs.)*
- Projected Debt Service & Outstanding Debt *(It was noted that annual debt service is projected to increase from $255 million in FY2009 to $403.2 million in FY2015. Direct debt outstanding is projected to increase from $2.4 billion in FY2009 to $3.3 billion in FY2015.)*
- Impact on Debt Position & Debt Ratios
- Rating Agencies' Comments (Pros & Cons) (*It was noted that the Rating Agencies are supportive of the changes that staff is recommending.)*
- Recommended Changes to Debt Policy –
  - **Amend Debt Policy to include revised debt ratio targets:**

        - Increase ceiling for overall debt per capita to $4,200.
        - Increase target for debt service as a percentage of the operational budget to 20% with a ceiling of 22%.
        - Will manage to the target of 20%
        - Ceiling of 22% is designed to provide flexibility to manage extraordinary circumstances.
        - The goal is to review the policy over the next five years with an eye toward reducing the target and the ceiling.
    - **Increase pay-go funding for capital projects**
        - **<u>Options for pay-go funding</u>**
        - Appropriate three pennies on the tax rate for capital projects.
          Appropriate all or a portion of 8% excess fund balance for capital projects.
          Appropriate proceeds from all county land sales for capital projects.
          Consider the new ¼ cent sales tax and appropriate proceeds to capital projects.
    - **Incorporate pay-go strategy into the County's Debt Policy**

- Benchmarks and Ratios (Comparison to other "AAA" Counties in N.C.)
- Next Steps (A revised debt policy will be drafted and placed on the Board's agenda for approval.)

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

Comments

<u>Chairman Roberts</u> asked for clarification regarding the 64.0% Payout Ratio, which was addressed.

Director Diorio then addressed questions asked by Commissioner Bishop, per an e-mail received. Those questions were as follows:

1. The identified potential capital requirements through FY 2015 total $2.989 billion, but debt projected to be issued over the same term is $2.5921 billion, a difference of $397 million. The model assumes that annual paygo appropriations of $26 million each will address part of the capital requirements, presumably totaling $182 million ($26 million x 7). Deducting the $182 million from the $397 million difference still leaves $215 million. Is projected debt issuance not understated by that amount, even under the assumptions shown? *The response was the reason all of that debt issuance is not shown is because authorization that you see in later years, gets issued outside of the scope of this analysis. Staff assumed an authorization gets issued over a 5-7 year period.*

2. New school debt authorizations in the amount of $350 million each are projected in FY 2010, 2012 and 2014, suggesting a long-term trend of capital spending for schools at $1.75 billion per decade. Further, annual debt issuance for schools is projected to decline from a peak of $275.8 million in the current fiscal year to a low of $168 million in FY 2014, with an uptick to $182 million in FY 2015. My recollection is that CMS's CIP indicated need in excess of $2.5 billion over 10 years. What is the basis for the assumptions that (1) every-other-year school debt authorizations will not be larger than shown and that (2) annual CMS capital spending will actually decline over the coming seven fiscal years? *The response was when staff initially did the analysis $500 million every other year was put in for schools. That level of authorization pushed the ratios to a level that was higher than what staff was comfortable with. Further, that based on staff's debt analysis and debt projections, staff would probably not come to the Board with a recommendation for CMS higher than $350 million. Further, if the Board were to approve something higher, it would have to come from some place else.*

3. After taking into account the $250 million park bond approved for November's ballot and $36 million of previously approved debt for parks, the presentation assumes no additional

authorization of debt for parks through FY 2014, 5 years away. How does that square with my colleagues' approval of a $1.4 billion park master plan, which many have characterized as a 10-year CIP? To my knowledge, only Bill James has suggested that the pattern of a park bond referendum every five years will continue to hold. Even if it did, a new authorization would be scheduled for FY 2014. Why is that absent, and wouldn't you have to assume that the amount will be $1.15 billion given the board's adoption of the master plan? *The response was in addition to the $36 million authorized and unissued debt for parks, there's also $25 million in park land bonds outstanding. Assuming that the $250 million is approved, staff doesn't anticipate issuing any of that until FY 2010 because of the outstanding authorization Park and Recreation already has. Staff wants to see them spend what they already have before issuing new debt. Further, that based on their prior spending history, staff believes additional authorization may not be necessary until 2013. Director Diorio said it's her view that the $250 million was a seven year authorization.*

4. What is the basis for assuming that NO additional non-school capital projects will be both identified and funded over the next six fiscal years, through FY 2015? *The response was if it means above and beyond what's in the analysis, staff has no idea what additional projects may come up or fall out.*

5. The debt to assessed valuation ratio is projected to be fairly steady, actually somewhat lower over seven fiscal years. What is the underlying assumption concerning growth in assessed valuation? Trying to calculate backwards, there appears to be a particularly aggressive growth rate assumed between FY 2009 and 2010. I would like to see the calculations underlying the projections, preferably by spreadsheet with the formulas included. Have you taken into account declines in single-family residence values projected by various experts, including for example a Fortune magazine article published last November? *The response was the growth rate assumed between FY 09 and FY 10 is 20% and that's because of property revaluation. After 2010 the County intends to undergo revaluation every two years, eliminating large swings in values that have been experienced in the past. Assessed evaluation in this analysis is expected to grow by 3.7% per year there after based on historical trends. It was noted further that the County is well within its policy target for debt as a percentage of assessed evaluation.*

6. Is my understanding correct that the $26 million annual PAYGO funding is incorporated in the existing tax rate? (Given that it appears in your model for FY 2009, I assume that is the figure we appropriated in the budget adopted in June. My memory, though, is that the appropriation adopted was somewhat lower.) *The response was no, the Board approved $26 million.*

7. I would like to have data reflecting Mecklenburg's position relative to other AAA counties, including peer counties in North Carolina, assuming we adopt and comply with the manager's recommended slackening of our debt limitation guidelines. *The response was that a handout was distributed regarding this. (A copy of the handout is on file with the Clerk to the Board.)*

<u>Chairman Roberts</u> noted that when she and staff met with the Rating Agencies, they indicated that many counties do not have a debt policy. They were pleased Mecklenburg County has one and that the County is working on revising it.

8. I also would like to see some sensitivity analysis reflecting less rosy scenarios in terms of the amount of capital needs (i.e., higher) and growth in assessed valuation (i.e., lower). It would appear that even with the best of assumptions, we will have no margin for error complying even with the more liberal limitations proposed. *The response was that staff will work on this.*

<u>Commissioner Helms</u> asked if the authorized and unissued debt information provided takes into account authorized and unissued debt. *The response was yes.*

Commissioner Helms asked was it true that the County isn't paying debt service on the authorized and unissued. *The response was that's correct.*

Commissioner Helms said the dilemma is not how much authorized and unissued the County has, but how much should be sold in January.

Commissioner Helms said what the County is trying to do is come up with a debt policy that reflects reality, which is what the Rating Agencies suggested.

Commissioner Mitchell said he still hopes to see the day when Boards of Education will have taxing authority.

Commissioner Ramirez asked, with respect to the option for pay-go funding, appropriating three pennies on the tax rate for capital projects, would this be over and above the existing tax rate. *The response was that the County already appropriated $26 million, which is less than three pennies on the tax rate, thus it would be the difference between the $26 million and what three pennies on the tax rate would be, which would be about $28.5 million.*

Commissioner Bishop said in light of the effects of the economic changes that "we're seeing in the nation," it turns out that the County does not experience the expected 20% increase in assessed value, per revaluation, then the County would immediately have a potential problem with the guidelines the Board will adopt. Commissioner Bishop said the County could be out of compliance with that overall debt market value ratio immediately if revaluation turns out not to be as expected.

Commissioner Helms said a revised debt policy will give the Board the flexibility it will need to adjust to any changes that may occur.

Director Diorio said a policy isn't meant to be static. It should be reviewed periodically. The proposed policy would be reviewed within a three to five year timeframe to see where the County is and how it's doing. Also, staff would be looking to revise it down all the time and not up. Further, the County is not changing debt to market value. "It's 4%; it's been 4% and will continue to be 4%. It's not one of the issues that the County has had trouble with."

Chairman Roberts asked if Charlotte-Mecklenburg Schools was aware of the County's projections. *The response was no, that staff wanted to share it with the Board first.*

Chairman Roberts asked about the projected debt issuance and whether staff has a breakout for the other areas, like it does for schools. *The response was that staff could provide that information.*

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

Motion was made by Commissioner Helms, seconded by Commissioner Ramirez, and unanimously carried, with Commissioners Bishop, Helms, Mitchell, Ramirez, Roberts, and Woodard voting yes, that there being no further business to come before the Board that the meeting be adjourned at 4:05 p.m.

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Janice S. Paige, Clerk Jennifer Roberts, Chairman