

Council Budget Committee
Monday, January 11, 2016, 1:30 – 2:35 p.m.
Charlotte-Mecklenburg Government Center
Room CH-14

Committee Members: Greg Phipps, Chair
Ed Driggs, Vice Chair
Patsy Kinsey
Vi Lyles
LaWana Mayfield

Staff Resource: Kim Eagle, Management & Financial Services

AGENDA

	<u>Page</u>	<u>Time Frame</u>
I. <u>Budget Committee Work Plan Update</u> <i>Staff: Kim Eagle, Management & Financial Services</i> (Attachment 1 – Fall Budget Committee Work Plan) <i>Action requested: Review</i>	1	10 minutes
II. <u>Budget Process Calendar</u> <i>Staff: Kim Eagle, Management & Financial Services</i> (Attachment 2 – Budget Workshop Planning Calendar) <i>Action requested: Review</i>	5	10 minutes
III. <u>FY2016 Budget Outlook Report Content</u> <i>Staff: Kim Eagle, Management & Financial Services</i> (Attachment 3 – Budget Outlook Report Content) <i>Action requested: Discussion and Feedback</i>	7	15 minutes
IV. <u>FY2017-FY2021 Community Investment Plan Overview</u> <i>Staff: Kim Eagle, Management & Financial Services</i> <i>Bill Parks, Management & Financial Services</i> (Attachment 4 – General Community Investment Plan Overview) <i>Action requested: Discussion and Feedback</i>	9	15 minutes
V. <u>General Fund-Fund Balance Policy</u> <i>Staff: Robert Campbell, Management & Financial Services</i> (Attachment 5 – General Fund-Fund Balance Presentation) <i>Action requested: Discussion and Feedback</i>	11	15 minutes

NEXT MEETING: February 8th, 12:00pm

Distribution:	Mayor and City Council	Randy Harrington
	Ron Carlee, City Manager	Carol Jennings
	Ron Kimble	Robert Hagemann
	Debra Campbell	Robin LoFurno
	Ann Wall	Sandy D'Elosua
	Hyong Yi	Jason Kay

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Budget Committee Work Plan Update

<i>Meeting Date</i>	<i>Item</i>	<i>Description</i>	<i>Discussion/Decision Points Future Action Requested</i>
Monday, September 28; 2:00 – 3:30 pm – Room 280	Storm Water Ordinance (referred on July 28)	Review of funding approaches - General Fund/property tax base for large projects, etc.	Committee voted to recommend Staff's amendment to the Ordinance (passed unanimously)
	Threshold for Agenda Placement (referred on July 28)	Discuss placement of items on Council Business Agenda (Consent vs. Business)	Committee discussed different alternatives and recommended leaving current process in place
	Pay Plan for Non-exempt Employees	Overview of current process and reasons for modification to City pay plan for non-exempt City employees	Committee discussed need for modifications to hourly pay plan and supported concept for changes
	Follow up from FY2016 Budget Process and Committee Work Plan	Discuss items from FY2016 Budget process & provide a list of future Committee topics	Committee discussed project list and determined the following projects would not be revisited by Committee during current Budget cycle: <ul style="list-style-type: none"> • Take home vehicles • Water meter upgrade (include as part of Charlotte Water CIP) • Asset Sales Leaseback (to be reviewed by PCAC)
Monday, January 11; 1:30 – 3:00 pm – Room CH-14	Budget Committee Work Plan Update	Discuss Budget Committee work plan through Council Budget Workshops	Review
	Budget Process Calendar	Review of Budget Process Calendar	Review
	FY2016 Budget Outlook Report Content	Review Budget Outlook Report Content for Annual Council Retreat	Discussion & Feedback

<i>Meeting Date</i>	<i>Item</i>	<i>Description</i>	<i>Discussion/Decision Points Future Action Requested</i>
	FY2017-FY2021 Community Investment Plan Overview	Discuss current outlook of General Community Investment Plan	Discussion & Feedback
	General Fund-Fund Balance Policy	Update on City Fund Balance Policy and impact of potential modifications	Discussion & Feedback
Monday, February 8; 12:00 – 1:30 pm – Room 280	CATS Budget	Preview of CATS Operating & CIP Budget	Discussion & Feedback
	Storm Water Budget	Preview of Storm Water Operating Budget & Overview of current Storm Water Capital Program	Discussion & Feedback
	Solid Waste Services Service Delivery and Cost Model (primary referral is to Environment Committee)	Process status update	Discussion & Feedback
	Pay Plan for non-exempt employees (2) Discuss potential changes associated with revised City pay plan for non-exempt City employees	Discuss proposed modifications to City pay plan for non-exempt City employees	Discussion & Recommendation
	February 24 Council Budget Workshop Agenda	Review and Approve agenda for Council Budget Workshop	Discussion & Recommendation

Meeting Date	Item	Description	Discussion/Decision Points Future Action Requested
Monday, February 29; 1:30 – 3:00 pm – Room 280	General Fund Update	Discuss Preliminary General Fund Revenues and Expenditures	Discussion & Feedback
	Community Safety strategic needs including Fire companies, in-fill Fire stations, Police patrol services and Police stations location planning (joint referral to the Community Safety Committee)	Community Safety Committee to discuss and determine relative priority within each area, not funding recommendation. Budget Committee to discuss funding.	Discussion & Feedback
	Compensation & Benefits	Review Draft Compensation & Benefits Information	Discussion & Feedback
	Community Investment Plan	Review Draft Community Investment Plan	Discussion & Feedback
	March 16 Council Budget Workshop Agenda	Review and Approve agenda for Council Budget Workshop	Discussion & Recommendation
Monday, March 21; 1:30 – 3:00 pm – Room 280	Aviation Budget	Preview of Aviation Operating & CIP Budget	Discussion & Feedback
	Storm Water Budget*	2 nd Review of Storm Water Operating & Capital Program	Discussion & Feedback
	Charlotte Water Budget	Preview of Charlotte Water Operating & CIP Budget	Discussion & Feedback
	Charlotte Water Assessment of Capital Funding Model	Overview of capital funding model used by Charlotte Water	Discussion & Feedback
	Financial Partner Recommendations	Preview of Financial Partner Recommendations	Discussion & Feedback

<i>Meeting Date</i>	<i>Item</i>	<i>Description</i>	<i>Discussion/Decision Points Future Action Requested</i>
	Community Investment Plan*	2 nd of Review Draft Community Investment Plan	Discussion & Feedback
	April 6 Council Budget Workshop Agenda	Review and Approve agenda for Council Budget Workshop	Discussion & Recommendation

* If necessary

FY2017 Council Budget Workshops and Proposed Topics

Budget Workshop Date (1:30-4:30)	Budget Committee Meeting	Proposed Topics for Workshops (subject to change)
	January 11 (1:30 p.m.) (Monday)	
Feb. 24, 2016 (Wednesday)	February 8 (12:00 p.m.) (Monday)	<ul style="list-style-type: none"> • CATS budget • Storm Water budget • Financial Partner requests • Solid Waste Services
March 16, 2016 (Wednesday)	February 29 (1:30 p.m.) (Monday)	<ul style="list-style-type: none"> • General Fund update <ol style="list-style-type: none"> 1. Revenues 2. Expenditures • Draft General Community Investment Plan • Compensation and Benefits
April 6, 2016 (Wednesday)	March 21 (1:30 p.m.) (Monday)	<ul style="list-style-type: none"> • Aviation budget • Storm Water budget II[*] • Charlotte Water budget • Financial Partner Recommendations • Draft General Community Investment Plan II[*]
(Optional) April 20, 2016 (Wednesday)	April 11 (1:30 p.m.) (Monday)	<ul style="list-style-type: none"> • TBD • TBD

^{*} If necessary

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- I. Introduction**
- II. Economic Update**
- III. FY2016 Mid-Year Report**
 - Overview
 - General Fund Revenues
 - General Fund Expenditures
 - General Fund Summary Table.....
 - Enterprise Funds.....
- IV. FY2017 to FY2020 General Fund Projections**
 - Overview
 - General Fund Revenue Projections
 - Four-year General Fund Operating Budget Projection Tables.....
 - General Fund Base Budget Expenditure Projections and Assumptions
 - General Fund Operating Budget Growth History
 - General Fund Operating Budget Issues
 - Summary – General Fund Projected Revenues to Expenditures
- V. Enterprise Funds**
 - Potential Operating Budget Considerations for FY2017.....
- VI. Capital Budget**
 - Overview
 - Debt Capacity.....
 - Capital Project Balances.....
 - Capital Reserves
 - FY2017-FY2021 General Community Investment Plan Biennial Review Criteria and Process for Adjustments
- VII. Appendix**
 - Appendix 1 - City of Charlotte Property Tax Rate History
 - Appendix 2 – Budget and Financial Indicators.....
 - Appendix 3 – Five-Year Historical Trends for Utility Fees

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Attachment 4
**City Council Approved Allocation of Bonds and Certificates of Participation
For General Community Investment Plan**

	2014	2016	2018	2020	Total
PROJECTS FUNDED WITH GENERAL OBLIGATION BONDS (Requires Bond Referendum Vote)					
Airport/West Corridor	\$ -	\$ 31,200,000	\$ 13,520,000	\$ -	\$ 44,720,000
Spine Dixie Berryhill Infrastructure (New Garrison Road)		31,200,000			31,200,000
Southern Dixie Berryhill Infrastructure (Widen Dixie River Road)			13,520,000		13,520,000
East/Southeast Corridor	\$ 12,500,000	\$ 26,580,000	\$ 22,320,000	\$ 6,160,000	\$ 67,560,000
Land Acquisition and Street Connections	12,500,000	12,500,000			25,000,000
Monroe Road Streetscape		2,080,000	8,320,000		10,400,000
Public/Private Redevelopment Opportunities		10,000,000	10,000,000		20,000,000
Idlewild Road/Monroe Road Intersection				4,160,000	4,160,000
Sidewalk and Bikeway Improvements		2,000,000	4,000,000	2,000,000	8,000,000
Northeast Corridor	\$ 47,200,000	\$ 43,080,000	\$ 48,540,000	\$ 27,300,000	\$ 166,120,000
Research Drive - J.W. Clay Connector over I-85 (North Bridge)	3,000,000		12,480,000		15,480,000
University Pointe Connection - IBM Dr. to Ikea Blvd (South Bridge)	15,080,000				15,080,000
Northeast Corridor Infrastructure (NECI)	16,640,000	35,360,000	27,300,000	27,300,000	106,600,000
Applied Innovation Corridor	12,480,000	7,720,000	8,760,000		28,960,000
Road/Infrastructure Projects	\$ 17,264,000	\$ 8,632,000	\$ -	\$ -	\$ 25,896,000
Neighborhood Transportation Programs	5,200,000				5,200,000
Eastern Circumferential	12,064,000				12,064,000
Park South Drive Extension		8,632,000			8,632,000
Cross Charlotte Multi-Use Trail	\$ 5,000,000	\$ 30,000,000			\$ 35,000,000
Sidewalks and Pedestrian Safety	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000	\$ 60,000,000
Traffic Control and Bridges	\$ 14,000,000	\$ 10,000,000	\$ 10,000,000	\$ 14,000,000	\$ 48,000,000
Upgrade Traffic Signal System Coordination	3,000,000	3,000,000	3,000,000	6,000,000	15,000,000
Upgrade Traffic Control devices	7,000,000	4,000,000	4,000,000	4,000,000	19,000,000
Repair and Replace Bridges	4,000,000	3,000,000	3,000,000	4,000,000	14,000,000
Housing Diversity	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000	\$ 60,000,000
Comprehensive Neighborhood Improvement Program (CNIP)	\$ 20,000,000	\$ 40,000,000	\$ 40,000,000	\$ 20,000,000	\$ 120,000,000
Total General Obligation Bonds	\$ 145,964,000	\$ 219,492,000	\$ 164,380,000	\$ 97,460,000	\$ 627,296,000
PROJECTS FUNDED WITH CERTIFICATES OF PARTICIPATION (Does Not Require Voter Approval)					
East/Southeast Corridor	\$ 25,000,000	\$ -	\$ -	\$ -	\$ 25,000,000
Bojangles/Ovens Area Redevelopment	25,000,000				25,000,000
Public Safety Facilities	\$ 78,500,000	\$ 22,750,000	\$ 21,900,000	\$ 9,750,000	\$ 132,900,000
Joint Communications Center	68,000,000				68,000,000
6 Police Division Stations	10,500,000	18,750,000	21,900,000	9,750,000	60,900,000
Land Purchase for Future Fire Stations		4,000,000			4,000,000
Maintenance Facilities/Customer Service	\$ -	\$ 2,080,000	\$ 9,620,000	\$ 19,500,000	\$ 31,200,000
Sweden Road Maintenance Yard Replacement			3,120,000	19,500,000	22,620,000
Northeast Equipment Maintenance Facility		2,080,000	6,500,000		8,580,000
Total Certificates of Participation	\$ 103,500,000	\$ 24,830,000	\$ 31,520,000	\$ 29,250,000	\$ 189,100,000
Total All Projects	\$ 249,464,000	\$ 244,322,000	\$ 195,900,000	\$ 126,710,000	\$ 816,396,000

GENERAL COMMUNITY INVESTMENT PLAN
Biennial Review for FY2017 – FY2021
Criteria & Process Guidelines for Staff-Recommended Adjustments

ADJUSTMENTS TO COMMUNITY INVESTMENT PLAN

It is anticipated that updates to the Community Investment Plan (CIP) will be made on a biennial basis. Example reasons for adjusting the CIP include: 1) adjust the timing of the planned project to better leverage private or other public investments, 2) adjust cost or scope due to new information, 3) delete projects where the priority need has decreased, or 4) add projects based on new priorities. In order for adjustments to be considered, submittals must meet general criteria, be evaluated by the CIP Steering Committee^{*}, and proceed through the established CIP budget process as described below.

General Criteria for Making CIP Adjustments

The following generalized criteria would warrant consideration of adjustments to the existing program:

- a. Economic Development activity in and around a project area that could be encouraged or better leveraged by changing the timing or scope of a CIP project
- b. Opportunity to better coordinate with other public capital projects by changing the timing or scope of a City project (example: Moved \$5M of project funding for Cross Charlotte Trail from 2016 Bond to 2014 Bond)
- c. Unexpected critical needs that arise (example: Funded CMPD Central Division Station in FY2016)
- d. In addition to the above, the CIP Steering Committee, in its professional judgment, can recommend any adjustments the Committee believes would make the General Community Investment Plan more effective

Note:

It is likely that most potential adjustments to the current plan will focus more on changing the timing of projects than consideration of adding funding to a particular project, but it is important that a recommended adjustment be cost neutral:

– if recommending moving a project from the 2020 Bond referendum to the 2016 Bond Referendum for example, a recommendation to delay a project or projects in 2016 for one or two bonds would need to be identified. Moreover, each year it is possible that additional debt capacity could be identified. If adjustments to existing projects can be made without affecting the current debt model, more flexibility will exist to use any additional capacity on new projects.

^{*}The CIP Steering Team provides executive level leadership of the implementation of the Community Investment Plan. Membership of the CIP Steering Committee is comprised of members of the City Manager’s Executive Team, the Director of the Office of Strategy & Budget, and Directors of City departments with significant capital program responsibilities, including Engineering & Property Management, Transportation, Planning, Neighborhood & Business Services, CATS, Charlotte Water, Aviation, Police, and Fire.



General Fund-Fund Balance

January 11, 2016

Budget Committee Meeting



Policy Decision

- **Policy Decision:**
 - Is the City's current 16% target for General Fund-Fund Balance Policy still the appropriate level?
- **Background:**
 - City Council referred question to the Budget Committee during FY2016 budget process.
- **Budget Impact:**
 - A 1% decrease in the City's Fund Balance Policy would result in \$5.8 million for a one time expense and \$100,000 annually for capital expenses.

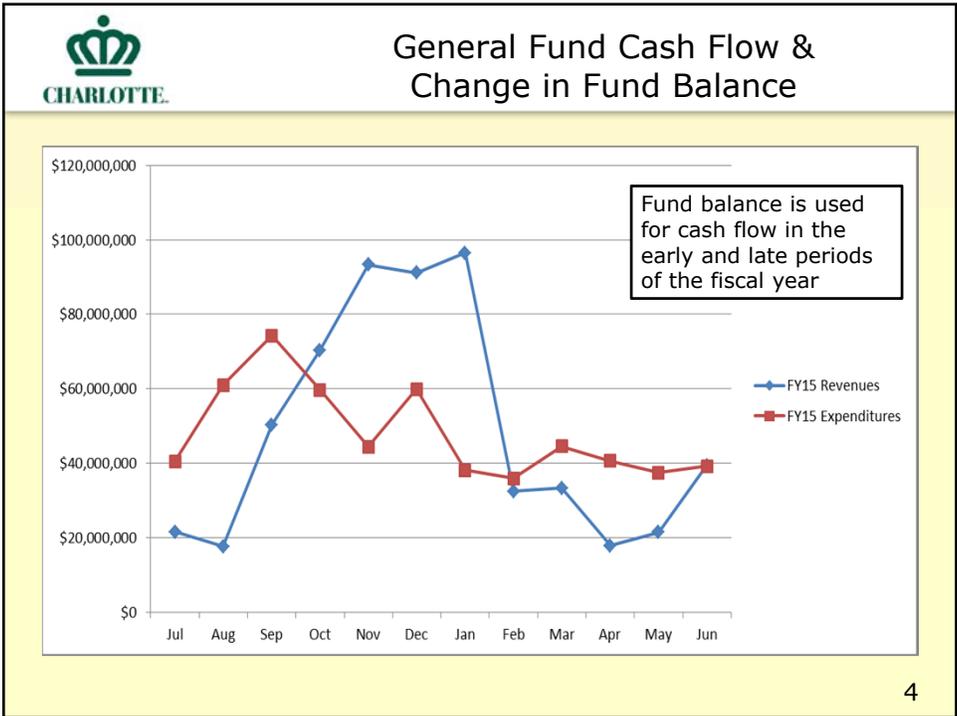
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Fund Balance

- Fund balance = assets - liabilities
- Fund balance represents the amount that revenues has exceed expenditures over time
- Importance of adequate fund balance:
 - Allows the City to manage its cash flows throughout the year
 - Provides the City with short-term flexibility to respond to potential State action and economic shocks
 - Allows the City to respond quickly to unexpected emergencies and opportunities
 - It is a critical factor for rating agencies when rating the City's debt
- Unassigned fund balance is the amount available for appropriation

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City's General Fund- Fund Balance Policy

- Maintain 16% of the following years' operating budget in reserve
 - Unassigned balance at the end of FY2015: \$109.7 million (18.4%)
 - Based on the FY2015 operating budget the required 16% fund balance equated to \$95.3 million

- Fund balance above 16% at the end of the fiscal year can be transferred to PAYGO, or any other one-time use as approved by City Council
 - For 2015, \$14.4 million was above 16% (\$109.7 million – \$95.3 million)
 - \$12.4 million available for PAYGO
 - \$2.0 million reserved for potential additional property tax refunds due to the revaluation

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Fund Balance – State Requirements

- The North Carolina Budget and Fiscal Control Act sets standards for budgeting and finance for local governments
 - Act does not set a minimum fund balance requirement
 - The NC Local Government Commission (LGC), a division of the Department of the State Treasurer, provides oversight and establishes rules and regulations over public finance

- LGC Fund Balance Minimum: 8%
 - The LGC does not allow local governments with fund balance below 8% to issue new debt
 - The 8% requirement has been in place for many years and is below levels maintained by well-rated North Carolina cities

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Rating Agency Guidelines

- Rating agencies consider many different factors to determine a city's credit rating (e.g., economy, debt levels, management, etc.)
- All three major rating agencies now place an increased focus on fund balance and available cash, which is now weighted as the second largest factor in assigning ratings
- Moody's established the following guideline for evaluating fund balance (evaluated in relation to other credit rating factors):
 - Aaa rating - Fund Balance over 30% of operating revenues
 - Aa rating - Fund Balance 16% to 30% of operating revenues

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Credit Risk Areas Expressed by Rating Agencies

Rating Agency	General Obligation & Transit Debt
Moody's	What could change the rating down (or revise the outlook to negative): Declines in liquidity and/or fund balances to levels that exceed [Moody's] current expectations
S&P	The city's sizable capital needs and debt burden , which we believe are managed successfully with officials' detailed capital planning and debt affordability analysis
Fitch	Key debt metrics are moderately high ; however, current issuance plans are manageable and the city's ongoing commitment to pay-as-you-go capital

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Credit Strength Areas Expressed by Rating Agencies

Rating Agency	General Obligation & Transit Debt
Moody's	Charlotte's financial operations are expected to continue to be well-managed, characterized by considerable operating flexibility, a trend of ample reserves and a strong cash position. The city has a formal policy to maintain operating fund balances at 16% of the current year expenditures
S&P	Charlotte's budgetary flexibility is very strong, with available reserves at 17.6% of expenditures, equivalent to \$96 million. The city has a policy to maintain reserves at 16% of expenditures and has done so historically, and projections are in line with this pattern. Therefore, we do not expect reserves to weaken
Fitch	The city has a long history of favorable financial operations and maintenance of high reserves that provide a cushion against unforeseen budgetary challenges or emergencies. The city's diverse revenue base is led by property taxes, and tax rates are regionally competitive and well within the statutory cap
Fitch	The city has a sound unrestricted fund balance policy equal to two months or 16% of spending

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Comparison to Peers and Professional Organizations

- The Government Finance Officers Association (GFOA) recommends governments maintain unrestricted fund balance in their general fund of no less than two months (16.6%)
- Moody's median for Aaa rated cities over 400,000 is 15.2%
- The average fund balance maintained by the five largest North Carolina Aaa cities for 2014 was 15.4% (per Moody's calculation)

City	Fund Balance %
Charlotte	16.3
Raleigh	19.0
Greensboro	9.3
Winston-Salem	15.2
Durham	17.1

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Policy Considerations

- **Considerations for Potential Change to Fund Balance Policy:**
 - Ability to manage cash flow during the year
 - Rating agency criteria and potential impact to the City's credit rating
 - Flexibility for legislative changes that impact local revenues
 - Ability to respond to unanticipated opportunities and challenges
 - Consistency with recommendations of professional organizations
 - Comparability to fund balance levels of other highly rated local governments

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Policy Questions

- **Policy Questions:**
 - Is the City's current 16% target for General Fund-Fund Balance Policy still the appropriate level?
 - Does lowering the City's Fund Balance Policy by 1% to create \$5.8 million for one-time expenses and \$100,000 provide a sufficient business case to continue evaluation?
 - If the City Council is interested in considering a different policy, what should be the parameters for a new policy?

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General Fund-Fund Balance

January 11, 2016
Budget Committee Meeting