

**Council Budget Committee**  
Monday, February 9, 2015, 2:00 – 3:30 p.m.  
Charlotte-Mecklenburg Government Center  
Room 280

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

Staff Resource:             Kim Eagle, Interim Strategy & Budget Director

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**AGENDA**

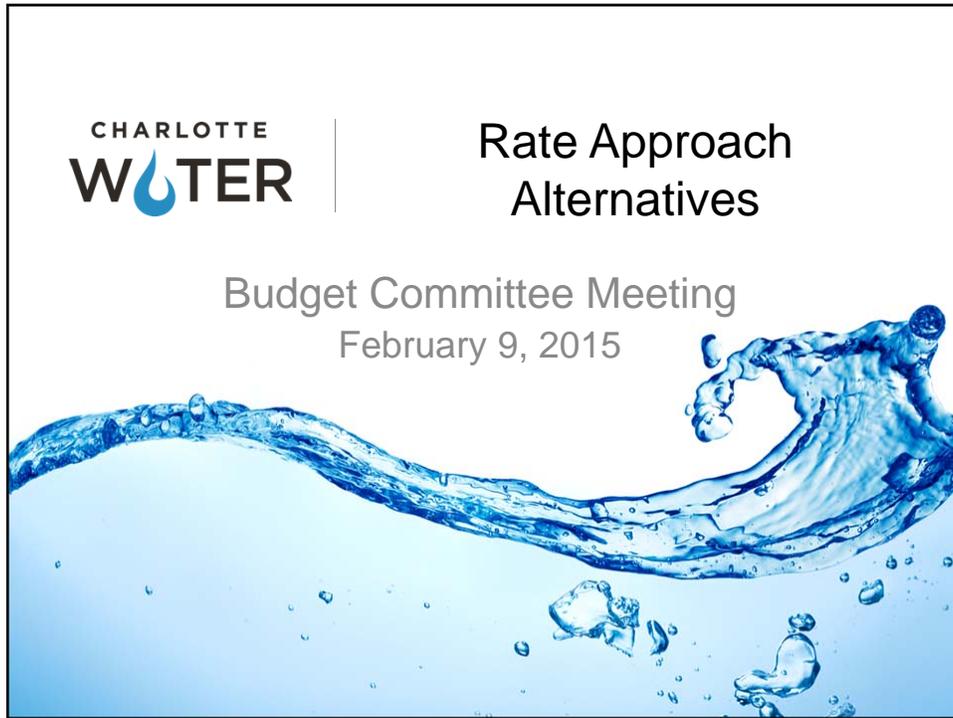
- I.     **Charlotte Water Rate Approach Alternatives**  
       *Staff: Barry Gullet, Charlotte Water*  
       **(Attachment 1)**  
       *Action requested: Discussion and Feedback*
  
- II.    **Storm Water Services Capital and Financial Planning**  
       *Staff: Jennifer Smith, Storm Water*  
       **(Attachment 2)**  
       *Action requested: Discussion and Feedback*
  
- III.   **Financial Partner Summary and Process**  
       *Staff: Kim Eagle, Strategy & Budget*  
       **(Attachment 3)**  
       *Action requested: Discussion and Feedback*
  
- IV.    **Draft Finance & Budget Principles**  
       *Staff: Kim Eagle, Strategy & Budget*  
       **(Attachment 4)**  
       *Action requested: Discussion and Feedback*
  
- V.     **State Budget Update (if any)**  
       *Staff: Kim Eagle, Strategy & Budget*  
       *Action requested: Discussion*

**NEXT MEETING: March 5<sup>th</sup>, 2:00pm**

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

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**Policy Question**

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- Is the current rate setting methodology and frequency appropriate?

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**Today's Goals**

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- Discuss goals and limitations of the rate methodology
- Receive feedback on six alternatives identified at the January 26<sup>th</sup> City Council Dinner Briefing

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**CHARLOTTE WATER** | Rate Methodology Goals and Limitations



## Key Goals of Rate Structure

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- Recover full cost of providing and sustaining services
- Equitable – Customers should pay for services received
- Affordable and understandable
- Encourage efficient water use
- Predictable and stable revenue stream
- Consistency over time

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## Rate and Fee Structure Limitations

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- Statutory limitations apply to user fees and connection fees
- Apply to all customers within Mecklenburg County by agreement
- Bond covenants
- Rate methodology change requires joint public hearing with Charlotte Water Advisory Committee

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**Alternate Approaches for Further Discussion**

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- Isolate revenue streams required for capital from operating and maintenance (O&M) costs
- Consider a sinking or other type of dedicated capital fund
- Consider elimination of Tier 1 subsidy
- Consider consolidating and increasing fixed component of rate
- Consider two-year rate increase interval
- Consider increasing Capacity Fee

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## Potential Benefits of Alternative Approaches

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- Stabilize revenue stream
- Clarify purpose, use of rate increase requests
- Improve predictability of rate needs
- Set expectation around rate adjustment frequency

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## Isolate Revenue Streams Required for Capital and O&M Costs

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- Clarifies where / how rate increases are used
- Potential loss of flexibility to direct funds where needed
- Other?

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## Consider Sinking Fund or other Capital Fund

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- Sinking fund sets aside current revenue for future debt service
- Currently used to create General Fund CIP debt capacity
- Not commonly used by water/sewer utilities
- Major change to long-term financial strategy
- Other?

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## Consider Elimination of Tier 1 Subsidy

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- Subsidy not related to financial need
- Relationship of household income to water consumption
- Eliminating subsidy would lower Tier 2 and 3 rates
- Would raise rates for low use customers, little to no change for typical users
- Improves revenue stability by moving revenue to more predictable portion of rate structure, applying rate to more sales units
- Other?

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## Needs Based Relief

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- Current Charlotte Water Programs
  - Payment arrangements
    - 1, 4, or 8 month terms
    - 4 defaults are allowed
  - Referred to Crisis Assistance Ministries or other community partner
- Some FY 2014 delinquency statistics
  - Payment arrangements created: 75,595
  - Payment arrangement amount: \$24M

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## Consider Consolidating and Increasing Fixed Component of Rate

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- Same dollar impact on all customers
- Very predictable, stable revenue source
- Relationship between fixed costs and fixed revenues
- Other?

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## Consider Two-Year Rate Increase Interval

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- Need to satisfy financial metrics every year
- Difficult to forecast sales approx. 30 months in advance
- Higher risk/vulnerability to impacts from external factors
- Rate increases higher than annual increases
- Other?

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## Consider Increasing Capacity Fee

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- Helps growth pay for growth
- Revenue subject to development cycles / risk
- Elasticity of the local market
- Other?

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**Next Steps**

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- Modeling / evaluation of alternative approaches
- Present options at February 25th Council Budget Workshop
- If rate methodology change is recommended, joint public hearing with Charlotte Water Advisory Committee is required

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**Discussion**

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## Storm Water Services Capital and Financial Planning

February 9, 2015



### Storm Water Services Policy Questions

- How long should a citizen wait for service?
  - Options to reduce the wait time/backlogs and associated costs
- Should the fee structure or rates change?
  - Options that are more equitable
  - Options that generate additional revenue
- Should the qualification criteria for service be modified?
  - Possible criteria that would no longer qualify



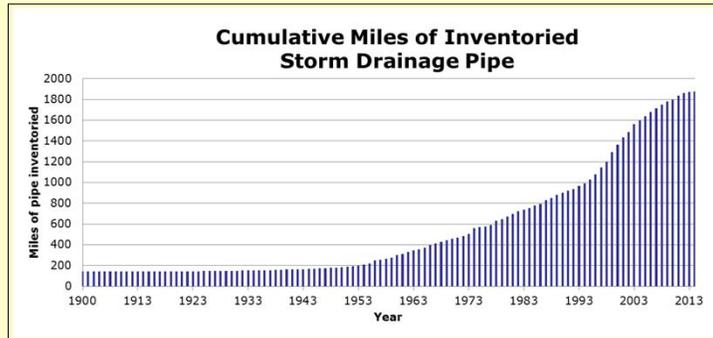
Sinkhole at 6611 Windyrush Road

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### How long should a citizen wait for service?

- Majority of requests for service are for failing infrastructure
- Ongoing need to maintain and replace system
- Storm drainage pipe installed in 70-90's will require replacement in next few years
- Amount of pipe more than doubled from 1994-2014 and number of requests will go up



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### How long should a citizen wait for service?

Maintenance & Repairs - AI, A & B requests for service

FY16-FY28	Current Program 9 Year Backlog Projected	4 Year Backlog Projected	1 Year Backlog Projected
<b>Current Projected Funding</b>	\$267 M	\$267 M	\$267 M
<b>Additional Funding Needed</b>	\$0 M	\$198 M	\$286 M
<b>Number of Requests at Start of FY16</b>	1,277	1,277	1,277
<b>Number of Requests at End of FY28</b>	3,243	1,858	409
<b>Backlog Projection at end of FY28</b>	9 year wait and growing	4 year wait and growing	1 year wait
<b>Total number of requests evaluated</b>	4,538	5,923	7,372

*Note: Dollar amounts are in millions*

- Dependent on hiring staff and contractors
- Additional staffing will be needed over multiple years
- Assumes number of new requests will increase each year as miles of pipe increase

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### How long should a citizen wait for service?

#### Low Priority - C requests for service

FY16-FY28	Current Program	21 Year Backlog Projected	4 Year Backlog Projected
<b>Additional Funding Needed</b>	\$0 M	\$50 M	\$149 M
<b>Number of Requests at Start of FY16</b>	6,225	6,225	6,225
<b>Number of Requests at End of FY28</b>	9,845	7,145	2,717
<b>Backlog Projection at end of FY28</b>	89 year wait and growing	21 year wait and growing	4 year wait and growing
<b>Total number of requests evaluated</b>	1,275 Requests adjacent to other higher priority requests	3,906	6,777

*Note: Dollar amounts are in millions*

- Estimates based on early 2000 data
- Dependent on hiring staff and contractors
- Additional staffing spread over multiple years
- Assumes number of new requests will increase each year

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### How long should a citizen wait for service?

#### Flood Control Projects

FY16-FY28	Current Budget Average 4 projects started each year	Average 6 projects started each year	Average 8 projects started each year
<b>Current Projected Funding</b>	\$506 M	\$506 M	\$506 M
<b>Additional Funding Needed</b>	\$0 M	\$244 M	\$417 M
<b>Number of project at Start of FY16</b>	64	64	64
<b>Number of projects at End of FY28</b>	123	96	68
<b>Backlog Projection at end of FY28</b>	31 years and growing	16 years and growing	9 years and growing
<b>Total number of projects started</b>	54	81	109

*Note: Dollar amounts are in millions*

- Dependent on hiring staff, consultants and contractors
- Additional staffing spread over multiple years
- Assumes number of new projects will increase each year

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### How long should a citizen wait for service?

FY16 – FY28	Maintenance & Repairs (A1,A,B)	Low Priority (C)	Flood Control
<b>Current Projected Funding and Wait</b>	\$267 M 9 year wait and growing	\$0 M 89 year wait and growing	\$506 M 31 year wait and growing
<b>Moderate Approach Additional Funding and Wait</b>	\$198 M 4 year wait and growing	\$50 M 21 year wait and growing	\$244 M 16 year wait and growing
<b>Aggressive Approach Additional Funding and Wait</b>	\$286 M 1 year wait	\$149 M 4 year wait and growing	\$417 M 9 year wait and growing

*Note: Dollar amounts are in millions*

- Dependent on hiring staff, consultants and contractors
- Additional staffing spread over multiple years
- Assumes number of new projects will increase each year

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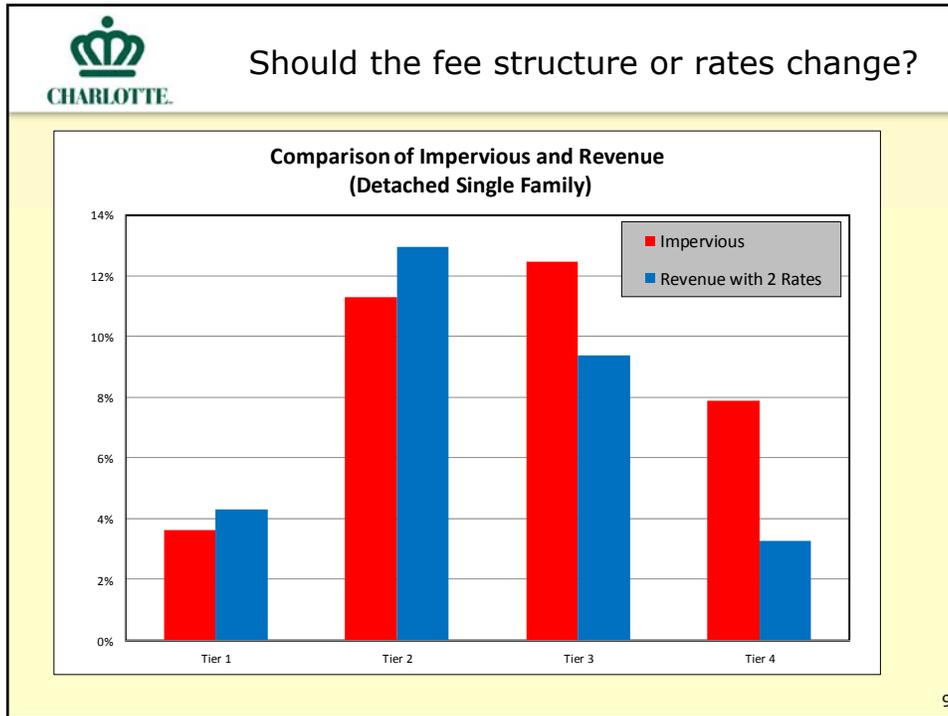


### Should the fee structure or rates change?

Current Fee Structure	% Parcels per Tier*	Median Square Footage*	FY15 Monthly Rate	Monthly per sq ft charge at median
<b>Detached Single-Family Residential</b>				
Tier I < 2,000 sq ft	10%	1,673	\$5.52	33/100 penny
Tier II 2,000 to <3,000 sq ft	58%	2,467	\$8.13	33/100 penny
Tier III 3,000 to <5,000 sq ft	26%	3,648	\$8.13	22/100 penny
Tier IV 5,000 sq ft & up	6%	6,034	\$8.13	13/100 penny
<b>All Other</b>				
Per Impervious Acre		Billed for actual impervious	\$135.56	31/100 penny

*\* Calculations based on single family impervious data that has been collected and QA/QC to this point.  
\* Percentages and median will change slightly.*

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**Should the fee structure or rates change?**

Current Fee Structure	Median Square Footage	FY15 2 Rates	3 Rates	4 Rates
<b>Detached Single-Family Residential</b>				
Tier I < 2,000 sq ft	1,673	\$5.52 (33/100 penny)	\$5.52 (33/100 penny)	\$5.52 (33/100 penny)
Tier II 2,000 to <3,000 sq ft	2,467	\$8.13 (33/100 penny)	\$8.13 (33/100 penny)	\$8.13 (33/100 penny)
Tier III 3,000 to <5,000 sq ft	3,648	\$8.13 (22/100 penny)	\$13.18 (36/100 penny)	\$12.04 (33/100 penny)
Tier IV 5,000 sq ft & up	6,034	\$8.13 (13/100 penny)	\$13.18 (22/100 penny)	\$19.91 (33/100 penny)
<b>All Other</b>				
Per Impervious Acre	Billed for actual impervious	\$135.56 (31/100 penny)	\$143.73 (33/100 penny)	\$143.73 (33/100 penny)

*Note: This chart is for illustration purposes only. The cost per square foot could be set at any rate.*

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### Should the fee structure or rates change?

- Possible options to create additional funding capacity
  - Issue additional debt
  - Increase revenue by expanding number of rates and/or increasing rates
  
- Consideration in creating additional funding capacity
  - Maintain fund balance set by City Council
  - Maintain debt coverage to retain desired bond ratings
  - Maintain ability to fund emergency projects

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### Should the fee structure or rates change?

Program Funding Capacity FY16-FY28												
Number of Rates	2	3	4	2	3	4	2	3	4	2	3	4
Fee Increase	0% Annual			3% Annual			6% Declining			6% Annual		
Capital Projected Expenditure	\$703	\$703	\$703	\$703	\$703	\$703	\$703	\$703	\$703	\$703	\$703	\$703
Available Funding Capacity	(\$80)	\$26	\$67	\$226	\$304	\$318	\$315	\$409	\$461	\$592	\$656	\$718
<small>Note: Dollar amounts are in millions</small>												

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### Should the fee structure or rates change?

<b>Program Funding Capacity FY16-FY28</b>												
Number of Rates	2	3	4	2	3	4	2	3	4	2	3	4
Fee Increase	0% Annual			3% Annual			6% Declining			6% Annual		
Capital Projected Expenditure	\$703	\$703	\$703	\$703	\$703	\$703	\$703	\$703	\$703	\$703	\$703	\$703
Funding Capacity Available	(\$80)	\$26	\$67	\$226	\$304	\$318	\$315	\$409	\$461	\$592	\$656	\$718

Programs	Current Project Funding	Moderate Approach Additional Funding	Aggressive Approach Additional Funding
Maintenance & Repairs (A1, A, B)	\$267	\$198	\$286
Low Priority (C)	\$0	\$50	\$149
Flood Control	\$506	\$244	\$417

Note: Dollar amounts are in millions

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### Should the fee structure or rates change?

Other options that could save money:

- **Revise maximum fee credit**
  - Fee credits should be based on the degree that program need is reduced by land owner actions
  - Current approach is 100% credit for those that qualify and results in a total revenue reduction of \$2.0M/year
- **Revise cost sharing policy**
  - Currently requests are elevated in priority if the property owner agrees to fund 50% of the repair cost
  - Policy has been rarely utilized and is ineffective
- **Begin preemptive measures**
  - Determine condition of existing pipe systems
  - Fix problems before they become more expensive

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## Should the qualification criteria for service be modified?

- Past Changes to Qualifying Criteria
  - Yard flooding no longer qualifies
  - Minor erosion no longer qualifies
- Possible requests to no longer qualify
  - Flooding of a crawl space that does not cause documented electrical, mechanical, or structural damages
  - Flooding of mechanical systems that can reasonably be relocated by a homeowner
  - Moderate stream bank or ditch erosion or sedimentation (only severe soil erosion would qualify)

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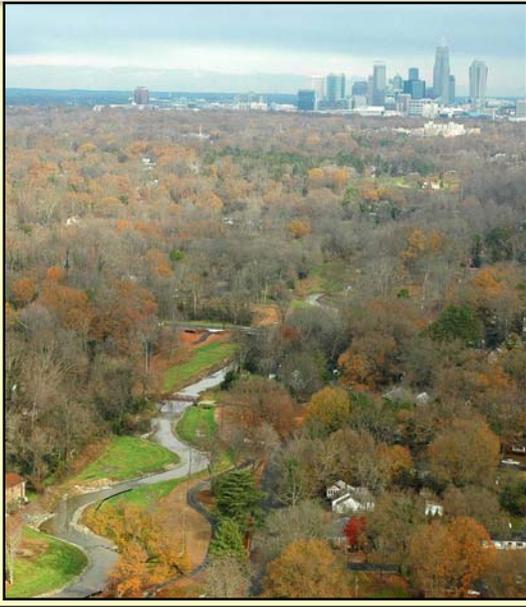


## Storm Water Services Policy Questions

- How long should a citizen wait for service?
- Should the fee/rate structure change?
- Should the qualification criteria for service be modified?



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<p>Discussion</p>	 <p>17</p>

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## FINANCIAL PARTNERS

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### Types of Financial Partners

Financial Partners are agencies with which the City of Charlotte contracts on an annual basis to provide specific services. These partnerships extend the City's capacity to address strategic priorities and concerns of the community, such as:

- ♦ Partnerships due to special legislation (such as tax allocations),
- ♦ Partnerships that support the Council's five strategic Focus Areas for the City (Community Safety, Economic Development & Global Competitiveness, Environment, Housing and Neighborhood Development, and Transportation and Planning)
- ♦ Partnerships that contribute to community enrichment

There are two primary categories of Financial Partners – General Fund and Neighborhood & Business Services

- ♦ General Fund – this includes direct discretionary allocations from the General Fund as well as formula-driven, dedicated revenue sources, such as Municipal Service District tax revenue
- ♦ Neighborhood & Business Services – funded by Innovated Housing funding in Pay-As-You-Go capital as well as federal CDBG and HOME Investment Partnership Program grants for services such as: 1) Housing and Community Development, 2) Crisis Assistance, and 3) Out-of-School Time Partners.

The Financial Partner funding requests for the FY2016 & FY2017 budget process, as well as that of any new agencies requesting Financial Partner funds will be presented at Council's February 25<sup>th</sup> Budget Workshop Meeting.

### February 25<sup>th</sup> Budget Workshop Meeting

At the February 25, 2015 Council Budget Workshop, Council will receive the list of agencies that have requested funding, along with their requested funding amount, for the FY2016 & FY2017 budget process. Additionally, a one-page summary will be provided for each agency that will include:

- ♦ Scope of Services – summarizes the services provided by each agency
- ♦ Performance – a few key indicators from the Financial Partner's funding application to evaluate success as it relates to the program goals and the requested funding (this does not include all measures included in the Financial Partner applications)
- ♦ Financial Information
  - FY2015 City Funding – the amount of funding approved by the City for the current year
  - FY2016 Projected Agency Total Budget – the projected total budget for the upcoming years, of which the City funding is a component, for each agency
  - FY2016 Projected Agency Program Budget for which City funding is requested – the specific agency program for the upcoming year that is to be supported by the requested City funding. This designation is only used when a specific program is identified. When no specific program is identified, the requested City funding is in support of the overall agency.
  - FY2016 City Funding Request – the amount of funding requested from the City
- ♦ Summary/Highlights of Agency Requests – provides a narrative of the requested funding level

The February 25<sup>th</sup> materials will only include the agencies' funding requested. The City Manager's funding recommendations will be presented to Council at the April 8<sup>th</sup> Budget Workshop.

### **April 8<sup>th</sup> Budget Workshop Meeting**

In response to Council request to receive Financial Partner recommendations early in the budget process, at the April 8<sup>th</sup> Budget Workshop meeting, the City Manager will present his Financial Partner funding recommendations. This presentation will also include the results of the Out of School Time Request for Proposal evaluation process.

### **Current Year (FY2015) Financial Partners and Funding Levels**

The following page provides the Financial Partners and funding levels approved by Council as part of the FY2015 budget process.

## FY2015 (Current Year) Financial Partner Summary

General Fund Financial Partners	FY2013 Actual	FY2014 Revised	FY2015 Budget	Change
Arts & Science Council	\$ 2,940,823	2,940,823	2,940,823	0.0%
Charlotte Regional Partnership	199,034	199,034	141,008	-29.2
Charlotte Regional Visitors Authority - Film Commission	0	0	150,000	100.0
Charlotte International Cabinet*	156,121	0	0	0.0
Community Building Initiative	49,000	49,000	50,000	2.0
Safe Alliance	333,977	333,977	333,977	0.0
Charlotte Center City Partners**	3,814,743	3,967,333	4,555,470	14.8
University City Partners**	638,461	678,934	734,123	8.1
Charlotte Regional Visitors Authority**	10,892,411	11,499,500	12,467,298	8.4
<b>TOTAL</b>	<b>\$ 19,024,570</b>	<b>19,668,601</b>	<b>21,372,699</b>	<b>8.7%</b>

\*Charlotte International Cabinet became part of the Neighborhood & Business Services Department in FY2014

\*\*Revenues for these financial partners are from formula-driven, dedicated sources, such as Municipal Service District taxes and the Occupancy tax

Neighborhood & Business Services Financial Partners	FY2013 Actual	FY2014 Revised	FY2015 Budget	Change
Charlotte-Mecklenburg Housing Partnership, Inc. - Affordable Housing	\$ 1,960,000	1,960,000	1,960,000	0.0%
Charlotte-Mecklenburg Housing Partnership, Inc. - House Charlotte	231,000	231,000	231,000	0.0
Community Link	450,000	450,000	450,000	0.0
Crisis Assistance Ministry	380,000	380,000	380,000	0.0
Carolinas Care Partnership	830,903	873,634	1,060,917	21.4
Charlotte Family Housing	200,000	330,000	330,000	0.0
YMCA Community Development	48,699	48,699	48,699	0.0
<b>TOTAL</b>	<b>\$ 4,100,602</b>	<b>4,273,333</b>	<b>4,460,616</b>	<b>4.4%</b>

Out of School Time Partners*	FY2013 Actual	FY2014 Revised	FY2015 Budget	Change
Greater Enrichment Program (GEP)**	\$ 605,854	400,000	350,000	-12.5%
Citizen Schools	0	0	306,342	100.0
Police Activities League	282,145	287,410	287,410	0.0
Youth Development Initiatives	0	0	162,325	100.0
Above and Beyond Students	0	124,158	110,358	-11.1
YWCA	158,826	307,000	158,826	-48.3
First Baptist Church West	0	81,432	0	-100.0
CMS After School Enrichment Program	350,012	0	0	0.0
Bethlehem Center	170,357	0	0	0.0
St. Paul Baptist Church	70,476	0	0	0.0
<b>TOTAL</b>	<b>\$ 1,637,670</b>	<b>1,200,000</b>	<b>1,375,261</b>	<b>14.6%</b>

\*Request for Proposals process is conducted annually

\*\*For FY2013, Council approved a one-time appropriation from General Fund fund balance of \$394,752 to fund GEP at their FY2012 funding level

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*Drafted in response to January 15<sup>th</sup> Budget Committee discussion & request*

### **DRAFT Finance & Budget Principles**

Using the framework set forth by North Carolina General Statute 159, the Local Government Budget and Fiscal Control Act, the City Charter and City Code, the City will follow the principles outlined below.

1. The budget process shall begin by evaluating revenues available to fund operations and capital expenditures.
2. The City will achieve a structurally balanced budget in which one-time revenue and/or one-time expenditure savings will be used for non-reoccurring or one-time expenditures.
3. A holistic evaluation of the total tax and fee burden the citizen pays in exchange for government services will be considered as part of the budget development process.
4. The budget will maintain a General Fund fund balance equal to 16% of the operating budget and transfer capital reserves in excess of the 16% General Fund balance to the Pay-As-You-Go capital program for one-time uses.
5. The budget will maintain the Municipal Debt Service Fund Balance at a ratio of debt service fund balance to actual annual debt service costs of approximately 50%.
6. The City will continue a regulatory user fee philosophy goal of 100% cost recovery.
7. Enterprise funds shall set their rates and fees in a manner to recover the full cost of their operation and necessary capital investments.
8. Restricted revenue (such as Asset Forfeiture funds or Comprehensive Services Act funds) will only be used for the purpose intended and in a fiscally responsible manner and fully compliant with all applicable policies, rules, regulations, or laws.

9. Reimbursement to the General Fund will occur from enterprise and internal service funds for general and administrative services provided, such as self-insurance, accounting, and personnel based on appropriate cost allocation methodology that is fully compliant with all applicable policies, rules, regulations, or laws.
  
10. Capital projects financed through the issuance of bonds shall be financed for a period not to exceed the anticipated useful life of the project.
  
11. The general government debt program will maintain adequate cash and fund balance reserves as defined by rating agency criteria as published periodically sufficient to support current credit ratings.