

---

# Budget Committee

Meeting Summary for January 11, 2016

Page 1

---

## COMMITTEE AGENDA TOPICS

---

- I. Budget Committee Work Plan Update
- II. Budget Process Calendar
- III. FY2016 Budget Outlook Report Content
- IV. FY2017-FY2021 Community Investment Plan Overview
- V. General Fund-Fund Balance Policy

## COMMITTEE INFORMATION

---

Present: CM Phipps, CM Driggs, CM Kinsey, CM Lyles, CM Mayfield  
Time: 1:30 p.m. – 2:45 p.m.

## ATTACHMENTS

---

1. [Fall Budget Committee Work Plan](#)
2. [Budget Workshop Planning Calendar](#)
3. [Budget Outlook Report Content](#)
4. [General Community Investment Plan Overview](#)
5. [General Fund-Fund Balance Presentation](#)

## DISCUSSION BRIEFING

---

### I. Budget Committee Work Plan Update

Kim Eagle, Management & Financial Services' Director of Strategy & Budget

#### **Committee questions included**

- Lyles: What does "discussion and feedback" mean in Attachment 1? Will the Budget Committee be more involved in substantively guiding what goes to full Council in Budget Workshops?
  - Eagle: Providing meaningful content would be helpful from a staff perspective for preparing for workshops.

### II. Budget Process Calendar

Kim Eagle, Management & Financial Services' Director of Strategy & Budget

#### **Committee questions/comments included:**

- Phipps: At the workshops, can staff capture what decisions have been made so that after discussing a topic, we can reach some finality?
  - Eagle: Staff plans to roll-out a decision matrix which was previewed at the end of last budget season.
- Driggs: A lot depends on what key issues come up in the budget development process. We should be clear on what we have to do on routine stuff and identify the

---

# Budget Committee

Meeting Summary for January 11, 2016

Page 2

---

real decision points.

- Phipps: Inasmuch as you've been having regular meetings with the County, do you feel better about the projections that will be provided?
  - Eagle: I feel good about the fact that we have a regular audience and we've had an opportunity to be clear about expectations and timelines.

### **Committee decisions included:**

- Phipps/Driggs: Straw Vote process did not work well last year. We need to give clear direction on what the steps are and when we progress from one step to the next.
- Driggs: The Budget Committee ought to propose to Council some rules for the road.
  - Eagle: For context, the idea of rules has come up in the discussion around the Council Retreat. So there may be an opportunity to discuss this topic with full Council in the upcoming retreat.

### **III. FY2016 Budget Outlook Report Content**

Kim Eagle, Management & Financial Services' Director of Strategy & Budget

### **Committee questions/comments included:**

- Lyles: How much time will Council have at the retreat and what will be included from the Budget Committee? Last year there were issues with revenue projections and the information provided by the County.
  - Eagle: The County Tax Assessor will be presenting the same information to Council at the Retreat that he will have presented to the County Commissioners the day before at their retreat.
- Driggs: There were a certain number of pending reassessments that might result in revisions to the estimates. Are you confident that the variations in that number are a small amount?
  - Robert Campbell: We've set aside \$17 million in contingency, accrued \$8 million and have additional reserves available above fund balance. We have enough reserves to accommodate any adjustments.
- Driggs: You would make a one-time balance sheet adjustment, and wouldn't have an impact on operating, correct?
  - Randy Harrington: That's correct. The total projection is \$25 million and we have \$27 million available.
- Phipps: We don't expect any surprises like we had last year, right?
  - Campbell: The County won't be complete with their work until June, so it's still an estimate. However, we should have enough set aside to cover any potential refunds from the Pierson review process.
- Driggs: It looks like we've identified a tension between needs in public safety and the tax rate. In order to tackle that early, we should know what kind of revenue increases we're expecting (sales tax, property taxes and fees), and what latitude we have to make discretionary judgments about compensation increases, PAYGO, etc. What I see is a smaller orbit than we had last year of tradeoffs we had to contemplate. The ask is going to be a big number. We've been hearing about a fire truck and 125 officers. Unless you tell us otherwise, that's where the action is on this.
  - Ron Carlee: The only question mark that is concerning us this year is what will happen in the General Assembly and another effort at sales tax redistribution.

---

# Budget Committee

Meeting Summary for January 11, 2016

Page 3

---

## IV. FY2017-FY2021 Community Investment Plan Overview

Bill Parks, Management & Financial Services' Capital Budget Manager

### **Committee questions/comments included:**

- Kinsey: Regarding Criteria A, if we go back to citizens and say that we aren't going to do something that we'd earlier said we were going to do, that could be problematic. We need to be careful and let citizens know what's going on and why we're doing it.
  - Parks: We've developed a robust community engagement plan and we're working to keep groups informed.
- Kinsey: Are you sending the Council Members the same information that's going to the community groups? If not, could you?
  - Parks: Information goes out in Council-Manager Memos.
  - Eagle: We'll go back and see what outreach is being done and how we can tailor that process. We'll see how accessible the information is.
- Driggs: Is the magnitude of changes that could occur related to the policy more than 1 or 2 percent?
  - Parks: Not knowing exactly where we are with potential needs to be identified, it's hard to say exactly what percentage of the total we are changing. However, we do feel that we are tweaking and not reinventing.
  - Eagle: Typically if we're identifying an increase in one area, we'll decrease somewhere else. There may be a timeline adjustment related to those changes.
- Phipps: What's been our experience with the 2014 bonds? Have there been any changes?
  - Parks: Those projects are in motion without changes.
- Phipps: I know that we have some funding requests in Washington related to the Applied Innovation Corridor. What impact would the federal money we're requesting have on our current CIP?
  - Parks: That would be an example of leveraging public/private partnerships. We have identified funding to address the innovation corridor, but leveraging additional dollars would be funding on top of these projects.
- Lyles: When we're at the retreat, Council ought to talk about needs in each individual district as were identified by the District Representatives. Can we talk about those needs that may have been identified by the community and Council that staff may not necessarily be included in our CNIP meetings? We should begin to discuss how to maintain quality of life throughout the City with sidewalks, biking, workforce housing, etc.
- Driggs: Can we take on the notion that there is no white space on the map in terms of where investments are occurring? There should be some recognition of who pays the taxes.
  - Mayfield: In this last budget cycle, we approved the CIP through 2020. Where does the question of where investments are made come in?
  - Carlee: When we do the next CIP it will be through 2022. You would do that as a part of the 2018 review.
  - Mayfield: So, the answer to Mr. Driggs is the next time major changes can be made to the CIP is in 2018.

---

# Budget Committee

Meeting Summary for January 11, 2016

Page 4

---

- Driggs: Even small gestures to acknowledge the districts would be helpful. There's an ongoing list of recognized needs, and we need to be transparent about how that list is evolving. The operating budget decisions may impact where we can go on that needs list.

## **V. General Fund-Fund Balance Policy**

Robert Campbell, Management & Financial Services' Director of Finance

### **Committee questions/comments included:**

- Driggs: When you say the unassigned fund balance is not spendable, is it because of debt covenants or set asides. What's the ratio between that and the free fund balance?
  - Campbell: Set asides like inventory and fees restricted by state statute. They want us to be very conservative in fund balance numbers we present. We subtract accounts payable, deferred liabilities and encumbrances. They make us pull a piece of fund balance and show it as restricted by state statute.
- Driggs: Roughly what is the amount of those versus the free fund balance?
  - Teresa Smith: The total is \$176 million and the reserve by state statute which is the largest contract is \$63 million. The inventory is a small piece at \$1.4 million
  - Campbell: The undesignated is \$109 million, but we pull out \$14 million for capital above the 16% for capital purpose. That brings it back down to 95.3.
- Mayfield: We have challenges related to redistribution of sales tax. I have a question about permitting and fees for permitting. Currently, we don't charge a fee for 410A federally mandated refrigerant related to new air conditioning units. We don't require people to pull permits for this, but we should because it's a major public safety concern. Licensed contractors should need to pull a permit to install each new air conditioning unit. We need a permitting process that tracks this and it's a revenue sources that is being left on the table.
  - Carlee: This would likely be a County permitting process; however, we can look into it.
  - Driggs: Last year we had a conversation about user fees, and we need to determine the appropriate level of cost recovery once we determine who is actually providing the service.
  - Harrington: The Economic Development & Global Competitiveness Committee is prepared to take up the permitting piece next time they meet.
- Driggs: Based on what you've presented, it looks like we are where we need to be with our fund balance. Where did this question regarding changes to the Fund Balance
- Policy come from?
  - Carlee: It was the belief of the former mayor that the reserve was too high.
- Phipps: Did the rating agencies factor in all for the reserves of different fund?
  - Campbell: Yes, but those are kept separately. You can't divert revenues from one fund to another.
- Phipps: When did we adopt the 16% policy?
  - Campbell: During the 1999 budget process for FY2000, and it was phased in in 2% increments. We were worried about economic downturn and the state taking revenues.
- Phipps: Did we use these funds during Hurricane Hugo?

---

# Budget Committee

Meeting Summary for January 11, 2016

Page 5

---

- Lyles: No, we actually made money on Hurricane Hugo which led to a change in federal policy.
- Campbell: We did use some money and then got money back from the feds.
- Campbell: For rating agencies, you can dip below the 16% but they want to see you have a plan to get back there.
- Harrington: It's hard to say what those opportunities and challenges might be. Take for example the flooding in Columbia. If that storm came 150 miles north, what would have happened to us? It's hard to predict what the potential scenarios are, but you want to be prepared for it.
- Lyles: There's some information available on how often these types of events have happened over the last 20 or 50 years. There's some prediction and trend analysis that can be done to add to this conversation.
- Driggs: I look at the trade-off between \$100,000 a year and a \$5.8 million change in the level, which strikes me as pretty cheap insurance. I'm assuming that's a cost to carry type of calculation where you have these funds deposited somewhere and you're paying the net borrowing cost, right?
  - Carlee: That's correct. If you went from 16% to 15%, that's \$5.8 million in one-time money. That is such a low order of magnitude that we wound up taking it off the table in terms of budget balancing exercises.

## **Committee decisions included:**

- Lyles: As you look at the fund balance and reserves in place, the question would be for considerations for potential change. What is the right number? I would like to continue this discussion and get a little more information about it. When I see all of those reserves and hear you say manage the cash flow, we should look at these things beyond how we've always done them. I don't know what would be considered responding to an unexpected challenge or opportunity. If we had potholes all over the city, would that be an unexpected challenge? We have 16% for every enterprise fund in addition to the general fund that we're discussing now. I need more information before I land on a decision. I'm asking for more information on the rationale for the 16% while having funds available for potential opportunities and uncertainties. After having additional information we could then decide whether to bring it to Council. I'm not ready to say if what we have works. We need to be rigorous on why 16% is the right number.
  - Eagle: We'll add that back to your work plan.

## 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"> <li>• Take home vehicles</li> <li>• Water meter upgrade (include as part of Charlotte Water CIP)</li> <li>• Asset Sales Leaseback (to be reviewed by PCAC)</li> </ul>
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

<b>Meeting Date</b>	<b>Item</b>	<b>Description</b>	<b>Discussion/Decision Points Future Action Requested</b>
	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

<b>Meeting Date</b>	<b>Item</b>	<b>Description</b>	<b>Discussion/Decision Points Future Action Requested</b>
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 <sup>nd</sup> 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

<b><i>Meeting Date</i></b>	<b><i>Item</i></b>	<b><i>Description</i></b>	<b><i>Discussion/Decision Points Future Action Requested</i></b>
	Community Investment Plan*	2 <sup>nd</sup> 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"> <li>• CATS budget</li> <li>• Storm Water budget</li> <li>• Financial Partner requests</li> <li>• Solid Waste Services</li> </ul>
March 16, 2016 (Wednesday)	February 29 (1:30 p.m.) (Monday)	<ul style="list-style-type: none"> <li>• General Fund update               <ol style="list-style-type: none"> <li>1. Revenues</li> <li>2. Expenditures</li> </ol> </li> <li>• Draft General Community Investment Plan</li> <li>• Compensation and Benefits</li> </ul>
April 6, 2016 (Wednesday)	March 21 (1:30 p.m.) (Monday)	<ul style="list-style-type: none"> <li>• Aviation budget</li> <li>• Storm Water budget II<sup>*</sup></li> <li>• Charlotte Water budget</li> <li>• Financial Partner Recommendations</li> <li>• Draft General Community Investment Plan II<sup>*</sup></li> </ul>
(Optional) April 20, 2016 (Wednesday)	April 11 (1:30 p.m.) (Monday)	<ul style="list-style-type: none"> <li>• TBD</li> <li>• TBD</li> </ul>

<sup>\*</sup> If necessary

- 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 .....

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

	2014	2016	2018	2020	Total
<b>PROJECTS FUNDED WITH GENERAL OBLIGATION BONDS (Requires Bond Referendum Vote)</b>					
<b>Airport/West Corridor</b>	\$ -	\$ 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
<b>East/Southeast Corridor</b>	\$ 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
<b>Northeast Corridor</b>	\$ 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
<b>Road/Infrastructure Projects</b>	\$ 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
<b>Traffic Control and Bridges</b>	\$ 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
<b>Housing Diversity</b>	\$ 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
<b>Total General Obligation Bonds</b>	<b>\$ 145,964,000</b>	<b>\$ 219,492,000</b>	<b>\$ 164,380,000</b>	<b>\$ 97,460,000</b>	<b>\$ 627,296,000</b>
<b>PROJECTS FUNDED WITH CERTIFICATES OF PARTICIPATION (Does Not Require Voter Approval)</b>					
<b>East/Southeast Corridor</b>	\$ 25,000,000	\$ -	\$ -	\$ -	\$ 25,000,000
Bojangles/Ovens Area Redevelopment	25,000,000				25,000,000
<b>Public Safety Facilities</b>	\$ 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
<b>Maintenance Facilities/Customer Service</b>	\$ -	\$ 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
<b>Total Certificates of Participation</b>	<b>\$ 103,500,000</b>	<b>\$ 24,830,000</b>	<b>\$ 31,520,000</b>	<b>\$ 29,250,000</b>	<b>\$ 189,100,000</b>
<b>Total All Projects</b>	<b>\$ 249,464,000</b>	<b>\$ 244,322,000</b>	<b>\$ 195,900,000</b>	<b>\$ 126,710,000</b>	<b>\$ 816,396,000</b>

**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<sup>\*</sup>, 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.

<sup>\*</sup>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.

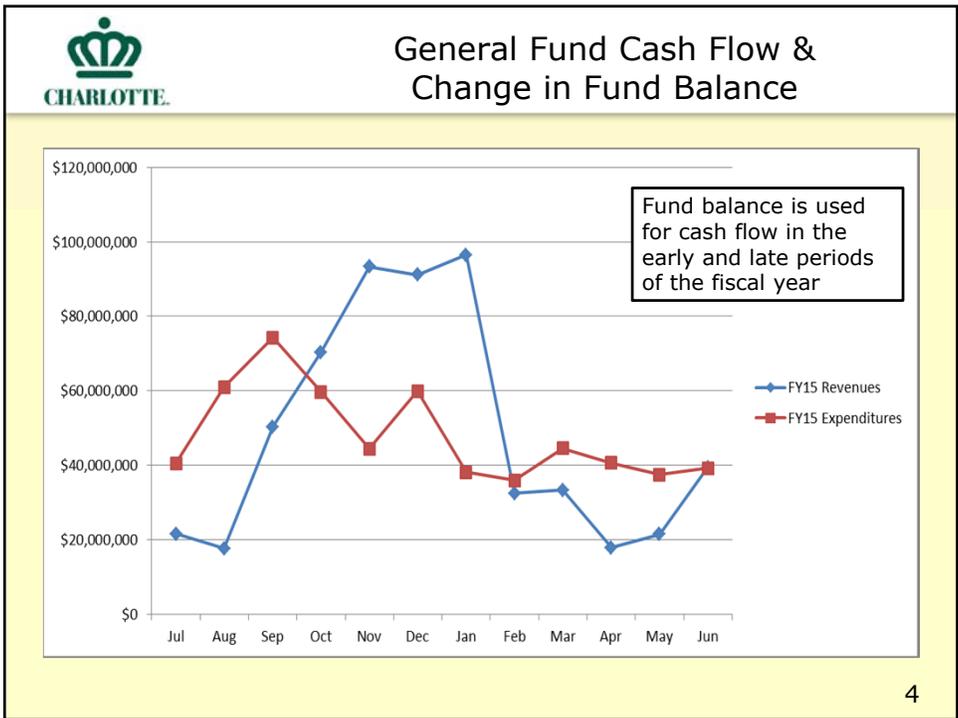
2



## 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

3





## 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

5



## 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

6



## 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

7



## 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

8



### 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

9



### 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

10



## 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

11



## 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?

12



## General Fund-Fund Balance

January 11, 2016  
Budget Committee Meeting