CHARLOTTE

Charlotte City Council

Restructuring Government Committee

Meeting Summary for October 28, 2010

COMMITTEE AGENDA TOPICS

I. **Subject:** **Executive Compensation Policy**
Action: None

II. **Subject:** **Water/Sewer Rate Study**
Action: None

COMMITTEE INFORMATION

Present: Warren Cooksey, Patsy Kinsey, James Mitchell
Time: 12:00 p.m. to 1:05 p.m.

ATTACHMENTS

1. Agenda Package
2. Executive Compensation handout
3. CMU handouts

DISCUSSION HIGHLIGHTS

Chairman Cooksey called the meeting to order and asked everyone in the room to introduce themselves.

I. Executive Compensation Policy

Chairman Cooksey passed out a proposed policy with a City Manager profile and 2 pages from the Council adopted pay philosophy for City employees (copies attached) for reference point. He apologized for not getting the information to the Committee members before the meeting. He stated that in the document he has put in components that he was trying to consolidate together. The first is the "Job Summary," which was pulled from the Manager's position when it was posted after Pam Syfert retired. Second, is a brief statement of "Compensation Policy" that adopts the general premises of our existing policy for City staff, but this would consider 6 cities with populations closest to Charlotte's, six cities with operating budgets closest to Charlotte's and the two next largest cities in North and South Carolina. The third component is the "General Evaluation" and that codifies in the policy what they are doing in the Balanced Scorecard categories. The fourth item, "Performance Goals," gives the Council the option of adopting specific performance goals for an upcoming year that would be included in the motion of the salary and would specify whether they are part of the general expectation of the Manager's performance or if there would be a bonus component to it.

Chairman Cooksey asked Council member Kinsey if she took away anything from the discussion at the League of Municipalities session on Council-Manager relations that might be helpful when talking about the evaluation of the Manager. Council member Kinsey replied that she did not and it seemed that pretty much everywhere else followed Charlotte's example. She also added that there were a lot of Manager's there as well, and she was sure that we have the best Manager and that he has much more experience.

Chairman Cooksey asked that they look at Section II. He stated that this section talks about being competitive within 5% of the market median, which is in the existing policy for City employees. He said the baseline is the median and they can deviate from that depending on the evaluation performance. He then asked for comments or questions from everyone.

Mayes: Currently, the Key Business Executives (KBEs) have room in the way the compensation program is administered to really recognize the better performers. This year Council approved the 2% merit budget and there are some employees that aren't getting increases this year, but better employees can get increases higher than 2%. Regarding the City Manager and the City Attorney, if you just locked them in looking at a median measure without addressing the performance issue along with it, then you are really missing the mark, in terms of flexibility. You can't recognize performance if you lock in on a median.

Cooksey: Again, what I'm trying to get at here is an adopted policy that lets us point to something adopted outside of the evaluation process to show what is guiding us.

Walton: I think the point Mr. Mayes made on median is important. This is hard because 7-10 years ago we didn't have anything and we went to a much more regimented process that, in retrospect, was too much. We are sort of in between now. That's to say; I'm not sure how much your colleagues will be boxed in by whatever we do. I think if we have something that did talk about compensation independent of when we do it in the fall would be a good thing, so it's clear to the public about how performance and compensation are tied together. Keeping the evaluation structure we have in place seems to be working, so if there is a narrative preamble that goes with it then that's probably a good approach.

Kinsey: I'm wondering if what we are trying to do is to give our colleagues who are more conservative than others, and don't generally want much of a pay raise for anybody, an excuse. That bothers me a lot. I don't want to box us in.

Cooksey: To that point, that's why I almost adapted word from word the language from the existing policy for all other City employees. Base salary should be competitive with the market average practice. Good employees should be able to achieve the market rate for their job and better performers should get even higher.

Kinsey: But I consider our City Manager and City Attorney different than that and that's why I don't want to see us boxed in.

Mitchell: Did we compensate our City Manager and City Attorney 5% of the median last time?

Mayes: I think what you did, was to recognize what had been called a "bonus," was really part of his base compensation and you put that in and added 2% on top of that. If you look at where his package landed, it would still not be competitive with the median against the cities we shared with you. That information was the 10 other larger City Manager forms of government in the country.

Mitchell: So, Section II says 5% of median market and based on what we awarded Mr. Walton and Mr. McCarley this past year, your response is we were not even at the median market?

Cooksey: I'll jump in and say the median will always depend on your data set. The data set we were working with was the 10 largest Council Manager cities. The proposal I have here would be to pick the 6 that are the nearest in population to Charlotte. Phoenix, from a size perspective, is way beyond Charlotte. The City of Phoenix does a lot more and has a budget of 3 times ours. It may be that 6 cities is not the right data set because if you look at the 3 cities that are smaller than Charlotte, anticipating you would put Charlotte in the middle, maybe those 3 cities are too small. Until we identify the data set, we don't know what the actual median of that data set is.

Mitchell: Remind me what the charge is to the Committee?

Cooksey: The charge was to formulate for Council consideration a policy to guide the Council in the calculation of the City Manager and City Attorney's compensation.

Chairman Cooksey apologized again for the delay in getting his policy write up to the

Committee members and stated that he would be sure to get it in front of Committee members Cannon and Turner. He asked that the Committee look at everything more in depth and play around with some different data sets and at their next meeting they can take it up again. He then asked to move on the next agenda item.

II. Water/Sewer Rate Study

Mr. Campbell stated that today the Committee will receive an update on the Water and Sewer Rate Study. He said that Mr. Gullet is still out of the office after his bike accident where he broke his collar bone. Mr. Campbell introduced Mr. John Mastracchio and Ms. Meg McElwain, the consultants working on the study.

Mr. Mastracchio said he would do a quick update of where they are in the process and then talk about the different rate structure options they have come up with based on input they have received so far. They had a number of meetings with the public in late August and September to get feedback on what is the most important criteria to design rates around. They've received feedback from the public, a Stakeholder Advisory Group, and division heads in Charlotte-Mecklenburg Utilities (CMU). He then began reviewing the "Water and Sewer Rate Study" presentation (copy attached).

["Most Important Rate Design Criteria" slide]

Mr. Mastracchio said that out of 13 criteria that were presented, 5 scored the highest. Those are revenue stability, economic development and affordability to customers, water conservation, equity (as in customers pay their fair share), and the ability and cost of implementation.

He added that when they talk about equity they are talking about different types of equity. They talk about recovering the amount of revenue that is related to the cost of serving the various customer classes, which are residential, commercial, and irrigation only customers. They also talk about equity within the class. Within residential, you have high volume users and low volume users, so you want equity in there as well. You also want equity between existing customers and new customers.

He said they took all the information and came up with 5 options that he would go through. He asked that the Committee keep in mind that they can develop a rate structure that can be a combination of any one of the options.

["Option 1: Add Availability Fee, Lower the Tier Rates" slide]

Mr. Mastracchio said Option 1 is to add an availability charge, which is nothing more than adding an additional fixed charge. Right now, the charge is $2.40 per month that everyone pays and that covers the cost of administering and processing a bill. The additional availability fee would be a charge that recovers some of the fixed cost. He said they've assumed 20% of Utilities' debt service would be recovered through the fixed charge. The affect that has is since you are recovering more cost of the fixed charge, your volumetric rates would be slightly lower in order to generate the same amount of revenue as the existing rate structure.

[“Option 1 – Availability Fee Illustration” slides]

Mr. Mastracchio reviewed the illustration slides to show how prices would change for water and sewer rates. He said the way this fee could work is by having the charge different for those that have different meter sizes. He then showed an illustration slide of what those prices could be based on meter size. If you have a higher meter size then you are using more of the system, so the availability charge would be scaled up. He pointed out that most of the residential customers would be at a ¾” meter.

Kinsey: Who would be on largest meter?

Mastracchio: Commercial and industrial businesses.

Kinsey: So, why not just add on to the fixed charge we currently have? Why add another separate charge?

Mastracchio: The debt service is related to capital cost and the capital cost is incurred because of the demands on the system.

Cooksey: As I recall, it’s either City Ordinance, or something else, that permits the fixed billing charge to recapture the cost of the billing side. Is the availability charge similarly defined?

Hicks: We would have to have it changed in the City Code.

Cooksey: So, this fee is being based on the pipe, rather than the billing.

Mitchell: A lot of calls I receive are from nonprofits, in particularly, churches. How do we classify them?

Hicks: They fall under commercial and institutional.

Cooksey: It would be interesting to see what a church’s cost would be in a commercial read versus what their cost in the 4 tier system would be if they were a 4 tier church.

Mr. Mastracchio added that under the existing rate structure, about 5% of the revenue is recovered with the fixed charge. When you add the availability fee, 16% of the revenue would be fixed and not varied by usage. It provides additional stability in the revenue stream, which addresses specifically one of the top 5 criteria.

He stated that this option would also lessen the impact on conservation because the tiers now drop. Some customers that don’t use a lot of water, which is about 1% of all the bills, will have an increase in their bill. Those that use more water would have a slightly lower bill. He then showed an example of the impact for single-family residential.

Cooksey: Increased revenue stability from an additional fixed charge means that we don't have to react so drastically to a drought situation or to a heavy wet situation to maintain our revenue, right?

Hicks: That's correct.

Kinsey: But we are doing it on the backs of the persons who can least afford it and that's what bothers me.

Cooksey: I don't know that you can automatically equate consumption with affordability. I use 1 ccf a month and my bill would go up under this option.

Mastracchio: If you took this option and combine it with lowering the Tier 1 rate, you balance out the impact a little bit.

["Option 2a - Adjust the Sewer Cap" slide]

Mr. Mastracchio said this option would be to lower the sewer cap. If you lower the sewer cap, you will have a small amount of volume you are billing the sewer rate. You would increase the sewer rate to generate the same amount of revenue as the current structure. One of the reasons they are including this alternative is for equity reasons. When you look at the sewer rate structure, you want to recover costs of sewer service from those proportionally discharging sewage into the system. Wherever you put the sewer cap, there will be some usage that is not captured and billed on the sewer side, unless you have no sewer cap. The higher the sewer cap, the more outdoor water is billed as sewer. If you lower the sewer cap, the units of consumption would go down and the unit charge would go up.

Mr. Mastracchio said this option improves equity, in terms of not charging folks for water that is being used for outdoor water use. It also lessens the conservation impact. This option also has a slight positive impact for revenue stability because you are basing your sewer charge on winter time usage.

["Option 2b: Average Winter Consumption Billing]

Mr. Mastracchio said there is another way to bill sewer and it's pretty common in the industry. It's to bill based on the winter time average usage. In this situation, they could look at every customer and take their winter time water consumption and average those. He stated that's not a perfect system either, but it does correlate the sewer cap specifically to each customer. He felt it provides a little more equity because on an individual customer basis the sewer charge is based on indoor water use. The issue with this option is it's hard to implement and the billing system would need to be reconfigured.

["Option 3: Lower the Lifeline (Tier 1) Rate" slides]

Mr. Mastracchio discussed Option 3, which is to lower the Tier 1 rate. In the existing rate structure, the Tier 1 rate is below cost and it's to provide a subsidy for those who don't use a lot

of water. Tiers 2-4 would be increased to recover the same amount of revenue. He stated that this is one way to address some level of affordability. In some cases, affordability has some correlation with water usage, but it's not exact. There are customers that are in a hardship situation, but they use a lot of water and vice versa. There are also some well off customers that don't use a lot of water. What the subsidy in the Tier 1 does is provides a subsidy for essential domestic consumption. It is a way to provide some relief for the first 4 units of consumption. So, if someone uses 10 ccf, then the first 4 units they use, they get the subsidy. Everyone gets it. He added that there are some legal considerations when you try to design affordability programs and they will have to be careful of that.

Mr. Mastracchio discussed what the impact might look like under this option for single-family residential. He also quickly read through the positive and negative impacts.

["Option 4: Modify Tiers for Irrigation Accounts" slides]

Mr. Mastracchio said that during the public input process they received a lot of feedback from irrigation only customers. The issue for those customers is their rate starts at the Tier 3 rate and goes to the Tier 4 rate once they reach 16 ccf. There is no expanding the Tier 3 allowance by the number of units that are behind the irrigation meter. He stated that in order to balance water conservation and equity they came up with Option 4a, which is if the irrigation customer were to spend money to put in a smart control irrigation system, then the water would be billed at the Tier 3 rate. That provides incentive for conservation because they have to install the smart controllers and they would be watering much more efficiently. If those customers chose not to put in the controls then they would continued to be billed as is. Mr. Mastracchio said Option 4b would be to scale Tier 3 and 4 by meter size.

Mr. Mastracchio said that Utilities has a Liquid Assets Program that Option 4 can piggyback on. Customers that put in the smart controllers and meet the requirements of the Liquid Assets Program, would be exempt from water restrictions during drought conditions because they are already being very efficient with how they are using water. They would pay for their usage at the Tier 3 rates. One negative thing associated with Option 4 is there would be some significant additional effort in order to monitor and administer this type of program, so they are in the process of looking at it in more detail.

["Option 5: Adjust Capacity Fees" slide]

Mr. Mastracchio said Option 5 addresses equity between existing and new customers. There was a lot of feedback on capacity fees. This option involves using an approach to recalculate the capacity fees. If you were to do that, it would result in an increase in the capacity fee at all meter sizes. Currently, the fee is $440 for water and $1,745 for sewer. This would likely show you what you can cost justifiably charge for a new connection to recover some of the costs for capacity that is built to serve them, and it would recover more revenue from new connections. It would also slightly lower the water and sewer rate.

Mr. Mastracchio said that last year Utilities generated about $6 million from capacity fees. If the capacity fees went up by 50% then it would generate about $3.2 million more and would have

somewhere between a 1-2% lowering of the water and sewer rates. Capacity fees are volatile. A few years ago the capacity fee generated $22 million. From an equity stand point, you would be recovering more of the cost of capacity from new customers as they connect to the system.

Kinsey: How much is the capacity fee for water?

Mastracchio: It's $440.

Cooksey: The water connection fee is $1,740 and the capacity fee is $440. The sewer capacity fee is $1,745 and then it goes up from there.

Kinsey: I'm wondering what affect that will have on affordable housing or a new industry.

Mastracchio: From a survey that was done by the North Carolina League of Municipalities, Charlotte has one of the lower capacity fees for water in the state. For the sewer capacity fee, Charlotte is right in the middle.

["Questions/Discussion" slide]

Mr. Mastracchio said they are still getting feedback from the stakeholders and the public and based on what they hear from them, they will come up with rate structure alternatives and will come back and present that to the Committee.

Ms. McElwain passed out a roster of the Stakeholder Advisory Group and meeting dates handout (copies attached). Mr. Mastracchio said the group is very diverse and they are not at consensus on any of the 5 options. He said their goal is to develop a combination of those options into alternatives and develop alternatives that are the best fit for the community, as a whole.

Mitchell: On the Stakeholder Advisory Committee, can we replace Lauren Domm that resigned? Was it a time commitment issue for her?

McElwain: No, I don't believe she understood that there would be media attention and she was uncomfortable serving as a spokesperson for her neighborhood. The reason we have not replaced her is because we discussed it internally and felt like if we brought someone else new in they might be a little bit behind.

Cooksey: How have the two meetings from this week gone so far?

Mastracchio: We've had slightly better attendance.

McElwain: To date, we have received 25 email comments through the website and we received 10 comment cards. The total attendees for the public meetings in round 1 were 20 people, which includes stakeholder members too. The last meeting had 9 attendees. We have a lot of advertisement out there too and we are using surrounding town websites and several City of Charlotte tools.

Mitchell: I'm having a Town Hall meeting at Stonewall AME Zion Church on December 7 and we could add you to the agenda.

Cooksey: I think overall, in terms of when you come back to us, there is that concern about the Tier 1 rate and we have to have that rate affordable for everyone. Something that does the combination of revenue stability and the increased fixed fees, while still maintaining a lifeline with a lower rate is probably what we'd be looking for.

Kinsey: I guess make it as neutral as possible in Tier 1.

III. Next Committee Meeting

Mr. Campbell said the next meeting is scheduled for December 23, which is right at the holidays. Chairman Cooksey asked what the schedule for the Water/Rate Study is and Mr. Hicks replied that they would have alternatives in November. Chairman Cooksey asked that Angela Maynard poll the Committee to look for a meeting date between the NLC meeting and Christmas.

He then adjourned the meeting at 1:05 p.m.

Restructuring Government Committee
Thursday, October 28, 2010
12:00 – 1:30 p.m.
Charlotte-Mecklenburg Government Center
Room 280

Committee Members: Warren Cooksey, Chair
Patrick Cannon, Vice Chair
Patsy Kinsey
James Mitchell
Warren Turner

Staff Resource: Eric D. Campbell

AGENDA

I. Executive Compensation Policy
Staff Resource: Tim Mayes
The Committee will continue to review and consider an Executive Compensation Policy for the City Manager and City Attorney. No decisions or recommendations are requested at this meeting.

II. Water/Sewer Rate Study
Staff Resource: Barry Gullet
The Committee will receive an update on the Water and Sewer Rate Study process. No decisions or recommendations are requested at this meeting.
Attachment: 1. Summary.doc

Next Meeting: Thursday, December 23 at Noon in Room 280

Distribution: Mayor & City Council, Mac McCarley, Mickey Hicks; Curt Walton, City Manager, Tim Mayes; Leadership Team, Barry Gullet

CHARLOTTE
CHARLOTTE-MECKLENBURG UTILITIES

Water and Sewer Utility Rate Study
Potential Rate Structure Alternatives

As part of the Water and Sewer Utility Rate Study, a public outreach effort has been underway to receive input from customers regarding concerns with the current rate structure and the most important criteria to use to develop rate structure alternatives. A series of general public and Stakeholder Advisory Group meetings were held during September to receive input on the water and sewer rate structure. Based on this input, several potential rate structure options were prepared that address the key issues that were raised during the initial public outreach effort. All options/alternatives would be *revenue neutral* – that is, they would be designed to generate the same amount of total revenue as would be received under the current rate structure. Therefore, some groups of customers would pay less each month while others would pay more depending on how the specific option impacts them. The options are as follows:

a. **Add an Availability Fee and Lower the Volumetric Rates.** A fixed monthly availability fee would be added that varies by meter size. The fee would recover a portion of the water and sewer debt service costs. Adding the availability fee would reduce the volatility of the rate revenues since more costs would be recovered on a fixed fee basis. As a result, the volumetric rates would decrease in order to recover the same amount of revenue as the current rate structure.

b. **Adjust the Sewer Cap.** The sewer cap for single-family residential customers would be lowered to be more reflective of the volume of water discharged into the sewer system. The sewer cap adjustment would reduce the volume of water that is billed the sewer rate. As a result, the sewer rate would increase in order to generate the same amount of revenue as the current structure.

c. **Lower the Lifeline (Tier 1) Rate.** The lifeline (Tier 1) water rate would be lowered to mitigate bill impacts for customers with relatively low consumption – less than four hundred cubic feet (ccf). Tiers 2 through 4 would be slightly increased to recover the same amount of revenue as the existing structure.

d. **Modify Tiers for Irrigation Meter Accounts.** Irrigation meter accounts would be billed at the Tier 3 rate if the account holders install, operate, and maintain a smart sensor irrigation control system in accordance with the Utilities' Liquid Assets irrigation program. Irrigation meter accounts without the smart sensor system would be billed at the Tier 3 and Tier 4 rates.

e. **Adjust the Capacity Fees.** The current capacity fee methodology would be adjusted to an alternative, industry-accepted method, which would increase the water and sewer capacity fees and recover more of the cost of system expansion through these one-time fees paid by new development. This would slightly lower the water and sewer rates to recover the same amount of revenue as the existing structure.

Various combinations of these options can be combined into potential rate structure alternatives, where each alternative recovers the same amount of revenue as the existing rate structure. Phased implementation could be considered to reduce the impact on customers. These options and potential rate structure alternatives will be presented, along with anticipated water and sewer bill impacts, during the second phase of public meetings. The public meetings will be held to receive input and feedback on the alternatives prior to Utilities staff making specific rate structure recommendations to the Restructuring Government Committee and City Council. The public and Stakeholder Advisory Group meetings are scheduled to begin during the week of October 25th.

Proposed Policy for the Charlotte City Council Regarding Compensation for the City Manager

I. Job summary

The City Manager is responsible for the day-to-day management of Charlotte's government in accordance with policies adopted by the City Council.

The Manager must have the skills and expertise to manage well-developed large projects, urban planning issues, development and redevelopment, an airport, public transit, public safety, and utilities. In particular, the Manager must demonstrate excellence in leadership, communication, innovation, and organization.

The Manager must be able to retain, attract, and develop a high quality City staff in order to provide citizens with the best possible customer service. This requires the ability to promote consistency, fairness, and confidence within the entire organization.

II. Compensation philosophy

In accordance with the City Council's compensation philosophy, compensation for the City Manager should be competitive within 5% of the market median. The median of actual salaries paid for comparative work should establish the baseline for the Manager's salary. Good performance should be rewarded within 5% of the market median; higher performance should be recognized with higher compensation.

To evaluate the market median for the City Manager, the Human Resources Director shall annually collect for City Council's consideration the base salary and total compensation for the City Managers of the following sets of cities with Council-Manager forms of government:

- the six cities with populations closest to the City of Charlotte's
- the six cities with operating budgets closest to the City of Charlotte's
- the two next largest cities in North and South Carolina

III. General evaluation

The City Council shall annually evaluate the performance of the City Manager using the categories of the balanced scorecard.

IV. Performance goals

As part of its evaluation of the City Manager, the City Council may determine specific performance goals for the Manager for evaluation the following year. Any such goals shall be part of the motion establishing the Manager's compensation. The motion shall also specify that the performance goals are part of the Council's expectations for the Manager's regular performance or that they will be evaluated for the award of a bonus above base salary.

CITY OF CHARLOTTE
CITY MANAGER PROFILE

Education and Professional Development

- Minimum of a Bachelor's degree in Public Administration, Business Administration or a related field from an accredited college or university.
- Master's degree in Public Administration or Business Administration strongly preferred.
- Evidence of continued professional development as evidenced by completion of seminars, training programs or course work to stay abreast of modern management approaches and techniques. An ICMA Credentialed Manager would be a plus.

Experience

- Substantial (7 to 10 years) of progressively responsible management experience in a large council-manager local government required.
- Significant experience in an urban setting of a community the size of Charlotte or larger preferred.
- Experience in a growing community with substantial infrastructure needs, complex management issues and high service demands preferred.
- Substantial finance and budgeting experience required.
- Experience managing a large, complex local government with a large number of employees important.
- Someone with experience with Smart Growth Principles, Managed Competition and the Balanced Scorecard.

Knowledge, Skills and Abilities

- Ability to successfully implement the vision of the City Council with progressive leadership.
- Proven ability to successfully manage the expectations of the City Council and the staff.
- Demonstrated skills and ability to manage well-developed large projects.
- Highly developed interpersonal skills.
- An excellent communicator, both verbally and in writing.
- An effective team leader operates in a business-like manner.
- A flexible and adaptable individual with well-developed organizational skills.
- Ability to seek out and successfully implement innovative ways to increase efficiency and control costs.
- Proven technical skills and expertise to manage numerous urban planning issues, development and redevelopment, an airport, public transit, public safety and utilities.

- Able to successfully balance infrastructure needs with operating and service needs.
- Ability and willingness to have a high public profile and visibility in the community.
- Ability to effectively facilitate, negotiate, analyze and problem-solve.
- Must be able to effectively set priorities and marshal resources for their accomplishment.
- A positive mentor to senior staff so as to promulgate consistent methods throughout the organization.
- Strong common sense and intuition.
- Able to effectively listen and consider various viewpoints.
- Models accountability.
- Ability to understand and effectively address regional issues.
- Technologically proficient and believes in the use of technology and systems to provide effective service delivery processes to citizens.
- Must be able to work effectively in a diverse environment and with many different groups and interests.
- Able to retain, attract and develop a high quality staff.
- Must be able to deliver high quality customer service.
- Provides continuous communications to Council and staff.
- Effectively deal with disparate viewpoints, yet keep the City moving forward.
- Must be able to strike a balance between the needs of neighborhoods, the central business district, and other needs of the City.
- Able to instill confidence at all levels and who can inspire staff.
- Demonstrated ability to successfully articulate issues/solutions and who is an effective implement policy decisions.

Personal Characteristics

- An individual who is
    - trustworthy
    - patient
    - open
    - approachable
    - fair
    - honest

- An individual who possesses high ethics and integrity.

RECOMMENDED PAY PHILOSOPHY

A new pay system is recommended. The system will be based on specific principles that should serve as a guide for all pay decisions. These principles should support the goals of City Council and be communicated to all levels in the organization.

The recommended principles are as follows:

- The purpose of compensation for the City of Charlotte is to attract and retain the most qualified and motivated talent; to motivate and reward behaviors which are critical to success; and to support the short and long term business objectives and core values.

- Compensation is a reward for performance and not guaranteed; compensation will be driven by individual, team, business unit and organizational objectives.

- Base salaries should be competitive with the market average practice. Good employees should be able to achieve the market rate for their job; very high performers should be allowed to exceed market rate, based on their level of contribution.

- The measure of market competitiveness is defined as a pay rate which is within 5% of the median of the actual salaries paid for similar jobs within the geographical area where recruitment is conducted.

- Market competitiveness is based on comparison with comparable employers, depending on the geographical area where recruitment is typically conducted:

  Major Charlotte companies and other local companies with employees performing similar jobs

  Major cities in North Carolina (Durham, Greensboro, Raleigh, and Winston-Salem)

  All Southeastern cities with populations of 100,000 or greater

  National cities with populations between 175,000 and 675,000

- Compensation structures should support the City's need for a flexible and adaptable workforce.

- Incentives should be used to reward employees for cost savings or increased value of service to taxpayers.

- The compensation system should be linked with the City's performance management system. The role of performance management will be to support employee development and to serve as a communications tool with employees.

- Performance ratings will not automatically drive pay increases; pay will also be driven by the market value of the job.

The proposed philosophy will be reviewed with the Personnel and Finance Committee prior to approval by the full City Council.

OBJECTIVES OF THE RECOMMENDED PAY STRUCTURE

The recommended pay system recognizes the City's need for a new approach to salary structure and pay administration to support a more streamlined, flexible and people-oriented organization.

The new pay system will accomplish the following objectives:

- Support organizational change messages:
  - rightsizing
  - flattening
  - broadening employee skills/competencies

- Simplify the current pay structures and classification system.

- Eliminate automatic increases for all employees.

- Provide pay increases based on performance and on comparison with the market value of specific jobs.

- Eliminate steps for most City positions (all positions except those in the Public Safety Pay Plan are recommended to be included in the new pay system).

- Encourage team-based work and job enlargement; reward employees for developmental job changes and acquisition of additional relevant skills.

- Decentralize pay administration and hold key managers accountable for pay decisions and salary costs.

- Enable Human Resources staff to have sufficient time to better evaluate market competitiveness and internal pay practices and increase their role as consultants to the key businesses.

Restructuring Government Committee Briefing

Water and Sewer Rate Study

Charlotte-Mecklenburg Utilities

October 28, 2010

REDOAK CONSULTING
A DIVISION OF MALCOLM PIRNIE

Stakeholder Involvement Meetings

♦ Meetings

Most Important Rate Design Criteria

Based on Stakeholder and Utilities Input

Financial	Revenue Stability
Customer impact	Economic development and affordability
Conservation	Water Conservation
Equity	Customers pay their fair share
Implementation	Ability and cost, public understanding

Preliminary Rate Structure Options

1. Add a fixed “availability” charge
2. Lower the sewer cap or bill based on average winter consumption
3. Lower the Tier 1 Rate
4. Adjust tier rates for irrigation-only meter customers
5. Adjust the water and sewer capacity fees

Option 1: Add Availability Fee, Lower the Tier Rates

- Add a fixed monthly availability fee that varies by meter size.
- Lower the tier rates to generate the same amount of revenue as the current structure.

Option 1 - Availability Fee Illustration

Water Rates		Existing	Alternative	
Fixed Billing Charge		**$2.40**	**$2.40**	per bill
Availability Charge		**$0.00**	$2.19	per eq meter
Residential				
Tier 1	0-4	**$1.45**	$1.29	per ccf
Tier 2	4-8	**$1.64**	$1.46	per ccf
Tier 3	8-16	**$2.69**	$2.40	per ccf
Tier 4	>16	**$5.32**	$4.74	per ccf
Commercial		**$2.04**	$1.82	per ccf

Water and sewer rates shown are for illustration only. Actual rates under each alternative will be developed at a later date.

Option 1 - Availability Fee Illustration

Sewer Rates	Existing	Alternative	
Fixed Billing Charge	**$2.40**	**$2.40**	per bill
Availability Charge	**$0.00**	**$3.73**	per eq meter
Volumetric Rate	**$4.31**	**$3.81**	per ccf

Water and sewer rates shown are for illustration only. Actual rates under each alternative will be developed at a later date.

Option 1 - Availability Fee Illustration

		Availability Fee	
Meter Size	Scale	Water	Sewer
3/4"	1.0	$2.19	$3.73
1"	2.5	$5.48	$9.33
1-1/2"	5.0	$10.96	$18.66
2"	8.0	$17.54	$29.86
3"	17.5	$38.37	$65.32
4"	30.0	$65.77	$111.98
6"	52.5	$115.10	$195.97
8"	90.0	$197.31	$335.95
10"	157.5	$345.29	$587.92
12"	170.0	$372.69	$634.58

Water and sewer rates shown are for illustration only. Actual rates under each alternative will be developed at a later date.

Option 1: Availability Fee, Lower Tier Rates

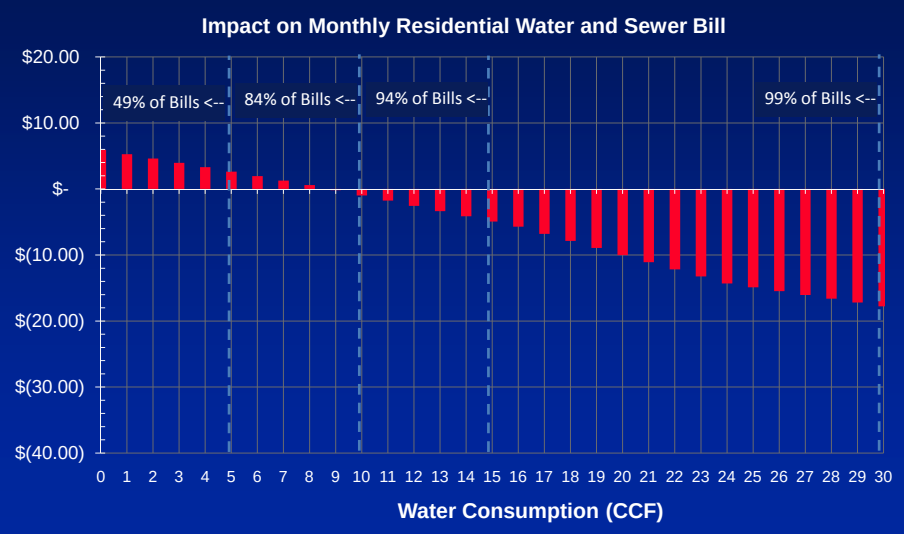
Equity	-	High volume users pay slightly less, low volume users, slightly more
Customer impact	✓	Increase bill for lower volume users.
Conservation		Lessens the conservation incentive
Implementation	-	No significant change
Financial	✓	Positive impact on revenue stability

Option 1 - Water and Sewer Bill Impact
Single-Family Residential

Usage	Existing Structure	Option 1	Difference
5 ccf	$33.79	$36.42	**+$2.63**
15 ccf	$100.64	$95.71	**(-$4.93)**
30 ccf	$216.60	$198.82	**(-$17.78)**

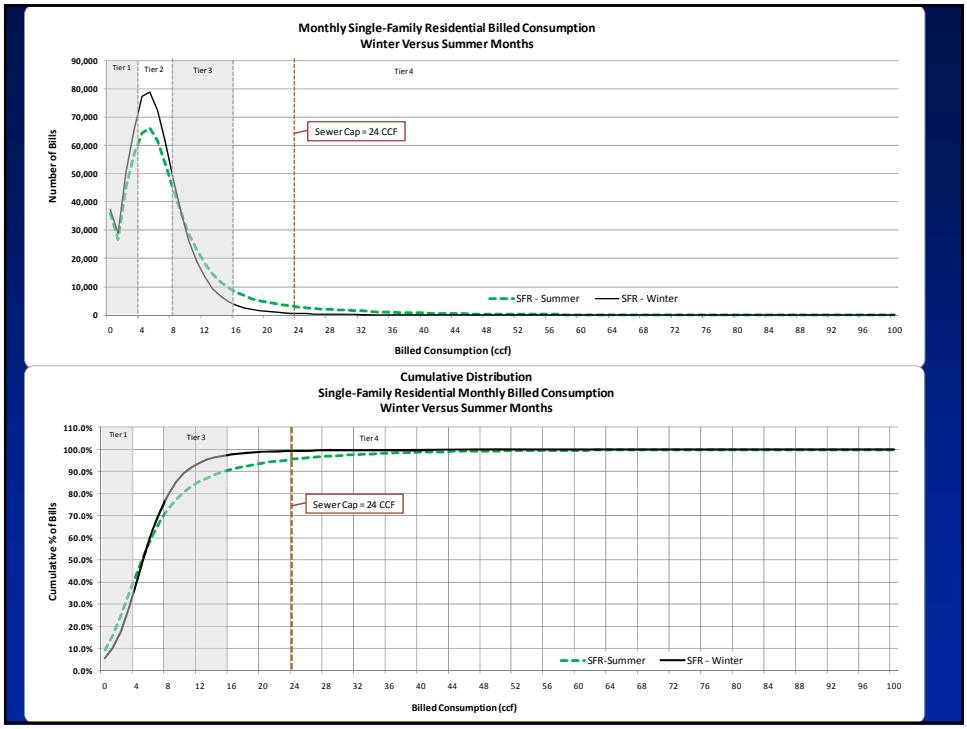
Water and sewer bill impacts shown are for illustration only. Actual rates under each alternative will be developed at a later date.

Option 1 - Water and Sewer Bill Impact



Option 2a: Adjust the Sewer Cap

- Lower the Sewer Cap to be more reflective of the volume of water discharged into the sewer system.
- Increase the sewer rate to generate the same amount of revenue as the current structure.



Option 2a - Sewer Rate Calculation

- Rate = Revenue Needs / Consumption
  - Existing Rate
    = $148,337,000 / 34,417,000 CCF
    = $4.31/ CCF
  - Revised With Lower Sewer Cap
    = $148,337,000 / 33,577,000 CCF
    = $4.42 / CCF

Option 2a: Adjust the Sewer Cap

Equity	Water for irrigation not billed a sewer charge
Customer impact	Slight increase in bill for lower volume users.
Conservation	Lessens the conservation incentive
Implementation	No significant change
Financial	Slightly positive impact on revenue stability

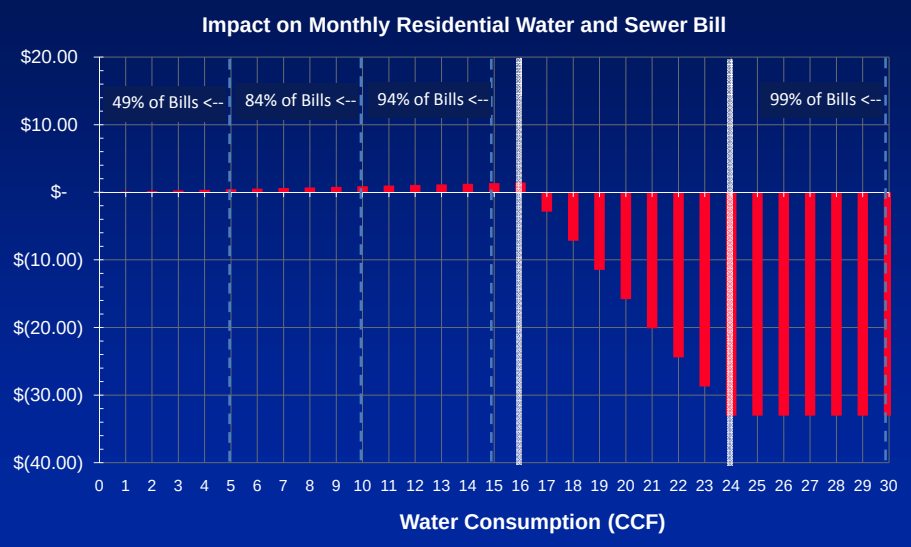
Option 2a - Water and Sewer Bill Impact

Single-Family Residential

Usage	Existing Structure	Option 1	Difference
5 ccf	$33.79	$34.34	**+$0.55**
15 ccf	$100.64	$102.29	**+$1.65**
30 ccf	$216.60	$183.88	**(-$32.72)**

Water and sewer bill impacts shown are for illustration only. Actual rates under each alternative will be developed at a later date.

Option 2a - Water and Sewer Bill Impact



Option 2b: Average Winter Consumption Sewer Billing

- Residential sewer charges in the irrigation months based on the lower of:
  1. the average monthly winter water consumption
  2. the current month water consumption.
- Increase the sewer rate to generate the same amount of revenue as the current structure.

Option 2b: Average Winter Consumption Sewer Billing

Equity	✓	Water for irrigation not billed a sewer charge
Customer impact	● ✓	Increases bill for lower volume users.
Conservation	●	Lessens the conservation incentive
Implementation	●	Potentially significant administrative and implementation issues
Financial	✓	Slightly positive impact on revenue stability

Option 3: Lower the Lifeline (Tier 1) Rate

- The Tier 1 Lifeline Rate would be lowered to mitigate impacts
- Tiers 2-4 would be increased to recover the same amount of revenue as the current structure.

Option 3 – Lower the Tier 1 (Lifeline Rate)

Water Rates		Existing	Alternative	
Fixed Billing Charge		**$2.40**	**$2.40**	per bill
Residential				
Tier 1	0-4	**$1.45**	**$0.96**	per ccf
Tier 2	4-8	**$1.64**	**$1.92**	per ccf
Tier 3	8-16	**$2.69**	**$3.15**	per ccf
Tier 4	>16	**$5.32**	**$6.23**	per ccf
Commercial		**$2.04**	**$2.04**	per ccf

Water and sewer rates shown are for illustration only. Actual rates under each alternative will be developed at a later date.

Option 3: Lower the Tier 1 Rate

Equity	●	Increases the subsidy included in Tier 1
Customer impact	✓ ●	Improved affordability at low end of consumption
Conservation	✓	Slightly more conservation oriented
Implementation	-	No significant change
Financial	●	Slightly negative impact on revenue stability

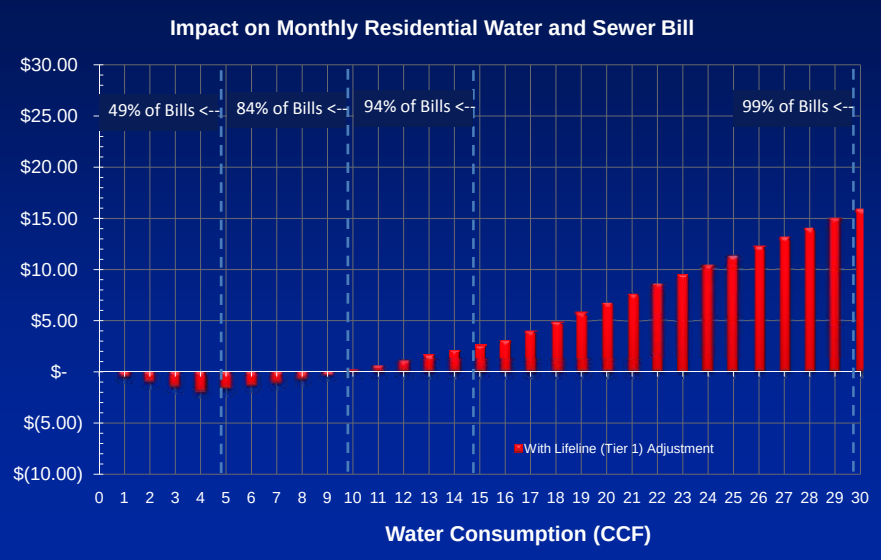
Option 3 - Water and Sewer Bill Impact

Single-Family Residential

Usage	Existing Structure	Option 1	Difference
5 ccf	$33.79	$32.16	**(-$1.63)**
15 ccf	$100.64	$103.17	**+$2.53**
30 ccf	$216.60	$232.42	**+15.82**

Water and sewer bill impacts shown are for illustration only. Actual rates under each alternative will be developed at a later date.

Option 3 - Water and Sewer Bill Impact



Option 4: Modify Tiers for Irrigation Accounts

- Option 4A –
  - If Smart Sensor Irrigation Controls installed then water billed at the Tier 3 rates.
  - If no irrigation controls, then water billed at the current Tier 3 and Tier 4 rates.
- Option 4B
  - Scale Tier 3 and 4 thresholds based on meter size

Liquid Assets Program

- Exemption from water restrictions during stage 1 – 3.
- Healthier landscape.
- Reduced maintenance and resources.
- Minimizes environmental impacts – growing green.
- Return on the investment can be significant.
- Pay for usage at the Tier 3 Rate

Option 4: Modify Tiers for Irrigation Accounts

Equity	✓	Improved equity for multi-unit irrigation accounts
Customer impact	-	Would result in minor increases to tiered rates.
Conservation	✓	Increases conservation incentive
Implementation	●	Increased administrative effort to implement, use Liquid Asset program
Financial	-	No significant change

Option 5: Adjust Capacity Fees

- Use alternative industry-accepted method of calculating capacity fees
- Results in recovering more of the cost of system expansion through these one time fees paid by new development
- Would slightly lower the water and sewer rates to recover the same amount of revenue as the existing rate structure

Option 5: Adjust Capacity Fees

Equity	Improved equity between existing and new customers
Customer impact	Significant increase to capacity fees, minor decrease in water and sewer rates.
Conservation	No significant change
Implementation	No significant change
Financial	No significant change

Questions / Discussion

CHARLOTTE-MECKLENBURG UTILITIES RATE STUDY STAKEHOLDER ADVISORY COMMITTEE MEMBERSHIP

	Name	Organization	
1	Ken Syzmanski	Greater Charlotte Apartment Association	multifamily residental customers
2	Jim Patterson	Childress Klein	commercial and irrigation meter customers
3	Buddy Murrow	NC Green Industry Council	commercial outdoor water users
4	Alison Royal-Combs	Greater Charlotte Realtors Assoc.	residential development
5	Jim Duke	The Peninsula neighborhood	north towns representative
6	Bruce Anderson	Huntersville resident	north towns representative
7	Andy Munn	Real Estate & Building Industry Coalition - REBIC	commercial and residential development
8	George Beckwith	Utilities Advisory Committee	Utilities Advisory Committee
9	Angeles Ortega	*Mi Gente* Newspaper	Latino advocate
10	David Merryman	Catawba Riverkeeper Foundation	Environmental advocate
11	Craig Dargen	Frito Lay	industrial/ commercial customer
12	Chris Matthews	Beverly Crest neighborhood	south Charlotte residential customers
13	Elaine Piraneo	Forest Ridge neighborhood	east Charlotte residential customers
14	Natalie Kennedy Beard	McCrorey Heights neighborhood	west Charlotte residential customers

Resigned:

Lauren Domm	Spring Park neighborhood	north Charlotte residential customers

Steve Miller	Charlotte-Mecklenburg Utilities	Customer Service Manager
Barry Gullet	Charlotte-Mecklenburg Utilities	Key Business Executive
Vic Simpson	Charlotte-Mecklenburg Utilities	Communications Manager
Mickey Hicks	Charlotte-Mecklenburg Utilities	Business Manager
John Mastracchio	Red Oak Consulting	
Meg McElwain	Magnolia Marketing	

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CHARLOTTE-MECKLENBURG UTILITIES

Charlotte-Mecklenburg Utilities customers are urged to attend upcoming information and public input sessions related to the first comprehensive review of water/sewer rates and fees since 1977.

The second series of public meetings related to the 2010 Charlotte Mecklenburg Water and Sewer Rate Study are scheduled for late October/ early November. The Public Meetings will include presenting and describing potential alternatives to the existing rates and gathering input related to the potential alternative rates. A dedicated time period for the public to provide feedback will occur during each meeting.

Meeting Dates:

WEST
Tuesday, October 26 at 6 p.m.
Clanton Pavilion in Clanton Park
3132 Manchester Avenue
Charlotte, NC 28217

CENTRAL
Wednesday, October 27 at 6 p.m. (This meeting will be televised)
Charlotte-Mecklenburg Government Center
600 East Fourth Street
Charlotte, NC 28202

NORTH
Thursday, October 28 at 6 p.m.
Charlotte-Mecklenburg Utilities Lee Dukes Water Treatment Plant
7980 Babe Stillwell Road
Huntersville, NC 28078

SOUTH
Wednesday, November 3 at 6 p.m.
South County Regional Library
5801 Rea Road
Charlotte, NC 28277

EAST
Thursday, November 4 at 6 p.m.
Hickory Grove United Methodist Church Gymnasium
6401 Hickory Grove Road
Charlotte, NC 28215

For more information or to complete an online comment card, visit www.cmutilities.com

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CHARLOTTE-MECKLENBURG UTILITIES

Questions for the Public to Consider When Making Comments on the 2010 Rate Study:

1. What criteria is most important for Utilities to consider when evaluating existing and alternative rate structures?

2. How should the utility allocate the cost to customers for building water system capacity to meet summertime peak water demands?

3. How should the cost of constructing facilities to serve new customers be paid for under the rate structure?

4. What costs should be recovered from the monthly fixed service charge vs. the usage rate?

5. How should Utilities address water and sewer rate affordability in its rate structure?

6. What issues, concerns, suggestions do you have pertaining to the existing rate structure?

For more information or to complete an online comment card, visit www.cmutilities.com