



Charlotte City Council
Budget and Effectiveness Committee
Meeting Summary
January 15, 2019

COMMITTEE AGENDA TOPICS

- I. FY 2018 Audit Results
- II. FY 2018 MyClinic Report
- III. FY 2018 General Fund Year End
- IV. Introduction to Revaluation Cycle

COMMITTEE INFORMATION

Committee Members Present: Greg Phipps (Chair), Ed Driggs (Vice Chair), Tariq Bokhari, LaWana Mayfield

Staff Resources: Sabrina Joy-Hogg, City Manager's Office
Phil Reiger, Strategy and Budget Office
Robert Campbell, Finance Director
Christina Fath, Benefits Manager
Dr. Ndem Tazifor, City Economist
Guest Presenter: Eddie Burke, CPA

Meeting Duration: 1:30 p.m. – 3:00 p.m.

ATTACHMENTS

- 1. Agenda
- 2. Presentation- FY 2018 Audit Results
- 3. Presentation- FY 2018 MyClinic Report
- 3. Presentation- FY 2018 General Fund Year End
- 4. Presentation- Introduction to Revaluation Cycle

DISCUSSION HIGHLIGHTS

FY 2018 Audit Report

Finance Director, Robert Campbell reported that the Comprehensive Annual Financial Report is complete and introduced the city's independent auditor, Eddie Burke, representing Cherry Bekaert. Burke presented an overview the FY 2018 audit results and financial statements. Burke explained the overall results of the city's financial statements and provided a high-level overview of the internal controls and significant audit areas. He stated there are four opinions that were expressed in the audit: Financial Statements, Yellow Book, Federal

Single Audit, and State Single Audit. The City received unmodified “clean” reports for each opinion and he explained that these were the best results an organization could receive and the control environment at the city is good. Burke reported that the city grants and journal entries were audited and there were no findings. He stated that there were three passed adjusting journal entries that did not prove material enough to adjust the audit report. Burke emphasized the Governmental Accounting Standards Board Statement Number 75 as an important matter to be implemented. He explained that this is the reporting standard that requires all state and local governments to record liability for other post-employment benefit plans. There was an additional accrual required of \$520 million on the government-wide statements and clarified that this is a long-term liability that will not affect the day to day operations. Council member Driggs inquired if this was related to retirement and how the city manages the liability. Burke responded that this was retiree healthcare and there is a trust that has not been fully funded. Campbell stated that the liability is self-insured and retiree healthcare benefit is not offered to anyone hired after July 2009. Council member Driggs inquired about the accounting for the funding and liability. Burke stated that it shows in two places on the financial statements in the trusts and the liability shows in the government-wide.. Council member Phipps inquired if the city has taken the necessary steps to account for the liability properly. Burke stated that freezing the plan was the step that many local governments took to address the liability issue alike the City of Charlotte. Council member Bokhari inquired if the city should be making significant contributions towards the liability. Burke responded that it would be a decision to weigh against other city priorities and how quickly the city wants to fund the liability considering market conditions. It was mentioned that there is approximately \$80 million in the trust fund. Burke continued the presentation by discussing the control environments in three key areas identified as cash flow, review of internal audit, and procurement cards. Burke stated that special testing was conducted on procurement cards and segregation of duties. The data analytics showed that related problems were resolved. Burke reviewed information technology controls and stated that training new employees on opening attachments and reoccurring communication is an important control. It was emphasized that the biggest risk is people opening attachments and that there are best-practices to limit exposure. He stated the city is not testing employee training on attachments. Burke concluded by stating that there was a clean opinion report, good internal control, no journal entries, and no findings on the audit report.

FY 2018 MyClinic Report

Benefits Manager, Christina Fath, provided the committee with a report on the status of the City of Charlotte’s MyClinics. Fath shared that the MyClinic concept was initially discussed in 2015 and implemented in 2016 with a total of five locations. Fath stated that the goals of MyClinic are to address the escalating healthcare costs and provide better access to affordable, quality care for employees. It was mentioned that the healthcare budget is approximately \$100 million and continues to increase annually. Fath reviewed the types of services offered at the medical facilities: primary and urgent care, wellness checks, medications, pediatric care, and general labs. She stated that all services are available to employees, non-Medicare eligible retirees, spouses, and dependents covered by the city’s medical plan equating to approximately 15,000 individuals with access to clinics. Fath shared that from 2016 to present the total number of visits has increased from 21,937 to 28,072. Council member Mayfield inquired about the cost differential for use of the clinics and Fath responded that there is not a specific cost adjustment in healthcare premium for individuals using the clinic. Fath announced that a Behavioral Health Specialist has been added to services offered at MyClinics that will be responsible for assisting with mental health projects within employee population. Fath shared that employee engagement continues to increase and dependent utilization remains low. In 2016, the Comprehensive Public Safety Physicals was an expanded service for pre-employment and voluntary physicals and the number of physicals is expected to increase from the 399 physicals conducted in 2018. Fath stated ninety-nine percent of employees rated their experience as good or excellent. Fath shared that Mecklenburg County joined the MyClinics/OurHealth contract

in January 2019. She reviewed the medical plan utilization metrics and highlighted that primary care visits increased by fifteen percent, which reduces emergency room visits. Employees that engaged with an OurHealth provider at least three times averaged \$1000 annual medical claims savings when compared to those who did not have similar engagement. Fath reviewed the clinic costs and health plan savings. She stated that there has been a net savings of \$137,863 for the city. For employee savings, Fath stated that employees saved \$1.4 million and mentioned that pharmacy claims are decreasing. Fath highlighted the actual savings exceeded initial projections. Fath concluded the presentation by stating the future direction is to continue to look at emergency room/urgent care opportunities, increase engagement with spouses and retirees, more support to medically fragile, continue to enhance wellness efforts and encourage more primary care.

FY 2018 General Fund Year-End

Budget Director, Phil Reiger, provided a brief report of the FY 2018 General Fund Year-End. Reiger briefed committee on the existing Budget Principles and reviewed the General Fund Audited Revenues and Expenditures. He stated that the year-end surplus was \$14.9 million before the calls on resources such as the sixteen percent fund balance requirement and statutory restrictions and obligations. The available capital reserve is \$5.5 million. He mentioned that historically the \$5.5 million goes to Pay-go account for one-time funding expenses but is at the discretion of Council. He highlighted that the available capital reserve will be an important component to balancing the future budget. For greater context, Reiger emphasized that the surplus is less than one percent of the General Fund total budget.

Introduction to Revaluation Cycle

City Economist, Dr. Ndem Tazifor, provided an overview of preliminary data on revaluations impacts to Charlotte, review County Revaluation process, status of Revaluation, and instruction of the Revenue Neutral Rate. Tazifor reviewed Mecklenburg County Revaluation cycles since 1988 and identified that it has not been consistent. He stated that North Carolina law requires that counties revalue their real property at least every eight years. Council member Phipps shared with the committee a draft resolution to the County encouraging them to maintain no more than four years between cycles for greater consistency. Tazifor reviewed the various components of the total property tax base as residential, commercial, personal property, registered motor vehicles, and state certifications. He stated that almost twenty percent of the city's tax base is assessed every year and about eighty percent is assessed every eight years. He stated that the proportion of total tax base before and after the revaluation for residential property contribution will decrease by 1.3 percent and commercial property will increase. Tazifor stated that by state statute the revenue neutral rate must be presented to Council and presented on how it is calculated. The tax rate produced the same amount of revenue using the new tax base. He stated that the steps are to determine the rate that would produce equal revenues, calculate average annual growth since last revaluation, and increase rate by growth factor. The estimated growth factor since last revaluation is about 2.3 percent. Tazifor reviewed the residential versus commercial burden and stated that the total residential tax burden falls by 1.3 percent while commercial tax burden increases by 7.0 percent. Tazifor concluded the presentation by reviewing the revaluation impact on property owners and stated that at revenue neutral rate and break-even growth of tax value at forty-four percent, tax bill does not change.

Motion and Vote: Advance to full Council for review of the draft resolution to Mecklenburg County for the length between cycles to not extend beyond four years. The motion was unanimous.

Meeting adjourned at 3:10pm.