Council Business Meeting
Monday, April 13, 2020

Agenda Item	Requestor	Mayor and Council Questions	Response	Lead Dept
Budget Update	Driggs	Can we create more messaging that helps the public understand the full considerations and requirements around the decisions Council is making on the use of funds?	Yes. The city is in the process of developing messaging and content that explains the purpose of operating reserves, how it relates to the city's budget and how it relates to other funding sources (i.e. hospitality fund, Coronavirus Relief Fund, etc.)	Comm & Marketing
Budget Update	Ajmera	Will CARES be enough to cover gaps in enterprise funds CATS and CLT	Both CATS and Aviation anticipate long recovery periods to return to pre-Covid-19 levels of revenue. While the federal support received is significant, it is too early to determine whether or not it will cover all gaps in the funds.	Budget
Budget Update	Various	What impacts our bond rating? What are the considerations as we look at options for use of reserve funding?	(Please see attached)	Finance
Budget Update	Newton	What is the status and timeline for training Solid Waste Services staff on using the automated trucks?	Solid Waste Services' training of additional automated side-loader collection drivers is currently underway, and completion was targeted for mid-May. However, the recent storm event will delay training. Drivers that are being cross-trained on automation will be working to recover storm debris during a one-time yard waste sweep of the City beginning in late April.	Solid Waste Services
FY 2020 CARES Act Amendment to the HUD FY 2016 Consolidated Plan and FY 2020 Annual Action Plan in response to COVID-19	Watlington	What is the right mix of security deposit assistance and rent/mortgage relief? Are the amounts within these categories flexible?	The right mix of assistance will be dictated by the household's needs, and availability of program funds. The amount of assistance per household can vary, and the amounts within the categories are flexible.	Housing and Neighborhood Services

City Manager Update

CHARLOTTE.

BOND RATING CLARIFICATIONS

Requestor	*Multiple Council Members*
Item	April 13, 2020 Manager's Report: Budget Update presentation
Statement of Issue:	• *What impacts our bond rating? What are the considerations as we look at options for use of reserve funding?*
Response and Clarifications:	During the April 13, 2020 City Council Business Meeting City Manager's Report Budget Update presentation, there was discussion concerning the use of fund balance, or operating reserves. The following addresses those discussions and provide information on this important topic. During that discussion the City Manager referred to an earlier paper provided to City Council on this subject. Attached is a Strategy Session document, dated January 7, 2019, that contains a communication titled Bond Ratings. That Bond Ratings paper covers a broad discussion of considerations relating to bond ratings, factors that could lead to a rating downgrade and impacts of a downgrade. Having operating reserves are important to serve the residents of the City of Charlotte. Operating reserves provide both the need to meet cash flow requirements of city expenditures and the potential need to meet operating emergencies that could arise due to decisions that are not under the control of the city. An example of which is the expected use of a portion of these funds to balance the 2020 fiscal year, detailed by the City Manager during the April 13 discussion. Operating reserves are designed to support city operations and may be drawn to fund operations in times of economic downturn and unforeseen revenue declines. The use of reserves to maintain funding for city operations is used in concert with other measures which may include spending cuts, increasing fees, or raising taxes. This strategy must also be coupled with the development and implementation of a plan to restore operating reserves when revenues stabilize, which is critical to maintain ratings. Replenishment would need to be planned, preferably upon learning of the use of reserves and should specify how: a) City general government operations would need to be impacted in order to recover the amount used, b) revenues would need to be changed/impacted to recover the amount used, or c) a combined approach of the two. While each of the three major rating agencies have different methodologies, for the current discussion of highest credit ratings and how they are impacted by financial policies the following four rating factors are contemplated by each agency: • Area economy/tax base – This factor considers the economy, it's breadth, historic growth, diversity and potential for future growth. This analysis

begins with consideration of the performance of, trends in and prospects for the economic base. This is critical in understanding the overall risk profile and serves as the foundation for the key rating factor assessment.

- Finances – This factor considers the soundness of the finances of the city and draws significant attention to use of financial policies guiding its financial management. This has been a strong factor for the city given many years of exemplary financial management and the use of financial policies adopted by management and City Council.
- Management – This factor considers the management and budget setting of the City's programs and how the City Manager and employees manage the operations and priority setting of the programs as established by the budget and policies adopted each year by City Council. This has been a strong factor for the city due to long standing good city management and budgetary processes.
- Debt – This factor measures the outstanding debt, how it's structured and its impact on the budget ultimately determining debt affordability by the city. Although general city debt is considered somewhat high, this is mitigated by the city's strong debt affordability monitoring, debt policies that provide for reasonable management of the debt and revenues specifically dedicated for debt service payments.

Important considerations underpinning the last three factors (those that are under the control of the city), are the establishment and consistent use of policies covering financial management, city management and debt. The discussion relating to the City Council adopted policy of maintaining 16% of unassigned fund balance, operating reserve, is a specific one monitored by the rating agencies and forms an important part of the rating.

While there is no specific measure of how low the operating reserve could fall in order to impact ratings, well managed cities typically are able to foresee the potential usage of operating reserves and make operational adjustments as soon as practical. The city's long-time practice of establishing the operating reserve policy combined with the confidence that rating agencies currently have in the city to return reserves to policy levels, if operating occurrences draw it down, is the ultimate measure of Charlotte managing to retain the highest credit ratings – a measure that has been confirmed over many years of managing for cost effective results, setting of policies and managing to them.

The duration of the economic downturn will likely depend on the duration of the pandemic, but that is unknown at this time. Overall, with such a high level of uncertainty and potential for further economic decline, now more than ever is the time to be prudent with the use of operating reserves to preserve available resources and ensure the ability to provide essential core services to the residents of Charlotte throughout this crisis.

City Manager Update

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BOND RATING

Requester:	Council member Winston
Staff Resource:	Robert Campbell
Statement of Issue:	What is the cost of a bond rating downgrade on the City's general credit? AAA vs AA?
Deliverable:	• An explanation of the impact of a bond rating downgrade on the City.
Latest Development:	The City of Charlotte currently has the highest credit ratings achievable for its General Obligation (G.O.) Bonds (triple A) and Certificates of Participation (COPs) (double A). These ratings have been held by the City for decades. Highest credit ratings provide several benefits: • **Lower interest cost.** The highest rating has resulted in approximately one-quarter of one percent lower interest rates than the next credit category, double A for G.O. bonds. It is estimated that the City would have paid approximately $100 million more over the past 10 years for all city debt had the rating been double A. The highest rating means the City can fund capital projects with lower interest rates so that taxpayers pay less for the same projects. • **Greatest access to buyers of debt.** Highest ratings attract the most buyers in the market. Market access is critically important, especially in rising interest rate environments and economic downturns. • **Ability to structure debt to meet the City's needs.** Highest credit ratings provide comfort to buyers of debt and gives the City the ability to structure debt in ways that facilitates financing for the City's complex capital projects. Due to Investor confidence, Investors are willing to give the City greater flexibility when ratings are at their highest. The following are considerations regarding the lowering of the City's highest credit ratings for general government debt: • **Credit rating factors.** There are four major factors considered by rating agencies as follows: Economy/Tax Base (30%), Finances (30%), Management (20%), and Debt (20%). Currently, the amount of outstanding and planned future general government debt is considered high but not at a level that creates concerns for the rating agencies given the strength in the other factors. For the City, the amount of debt that can be issued is constrained by the level of revenues dedicated for debt repayment. As a result, considerable latitude exists to issue new debt without impacting the City's highest ratings. • **Debt affordability.** Debt affordability is a measure of how much debt service can be paid from revenues/resources that have been dedicated to debt service. This would include debt service on outstanding debt as well as future debt. The City maintains a debt affordability model that estimates new debt for the future and when it can be issued. The FY 2019-2023 Community Investment Plan reflects this planned issuance based on affordability

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BOND RATING

Factors that could lead to rating downgrade. The following considers how changes in the factors might impact the City's rating:

- **Economy/Tax Base.** The City has limited control over the area economy. Economic activity has been strong in recent years but changes, outside of the City's control, could impact the ratings.

- **Finances.** Maintaining the City's financial policies including fund balance levels are key elements of the City's high credit rating. Policy changes could have substantial and unintended impacts to the City's credit ratings. (It is difficult to quantify the specific amount the City could spend relative to the fund balance that would result in a downgrade in rating.)

- **Management.** The City's historically sound management practices are anticipated to continue. Changes to management practices could impact the rating.

- **Debt.** Rating agencies have indicated a current high debt levels but significant capacity for new debt remains.

With numerous elements considered for each factor, the rating agencies methodology to determine an issuers rating is both quantitative and subjective.

Impact of a rating downgrade. If ratings were to fall the city could expect the following impacts:

- **Increase Cost to Borrow**. A lower credit rating will result in higher interest cost which will reduce the City's ability to finance additional projects. Funding for planned capital projects would have to fall from currently anticipated levels or new revenues would have to be added to cover the higher interest cost.

- **Negative Effect on Other Credit Entities**. The City's high general credit rating also supports enterprise fund credit ratings. A reduction in the general credit could lead to a reduction to enterprise credit ratings, increasing the cost of capital and leading to the need for higher rates and charges to maintain their current capital programs.

- **Reputational Risk**. Confidence in the City and its reputation might be negatively impacted. The City's AAA credit rating indicates to taxpayers that the City is a good steward of public funds and gives investors the confidence to buy the city's bonds. In addition, from an economic development perspective, the triple A rating demonstrates to new and existing business that the city is a stable and reliable partner.

In summary, highest credit ratings bring lowest interest costs, greatest access to capital markets and considerable structure flexibility. The City has historically operated at levels that has consistently retained these highest ratings and is a testament to strong actions by City Council and management of the City consistent with Council goals and objectives.