The City Council of the City of Charlotte, North Carolina convened for a Budget Workshop #1 on Monday, February 12, 2024, at 2:08 p.m. in Room 267 of the Charlotte Mecklenburg Government Center with Mayor Vi Lyles presiding. Council members present were Dimple Ajmera, Danté Anderson, Tariq Bokhari, Ed Driggs, Malcolm Graham, and Lawana Mayfield.

ABSENT: Councilmember Victoria Watlington.

ABSENT UNTIL NOTED: Councilmember Tiawana Brown, Renee Johnson, James Mitchell, and Marjorie Molina.

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Mayor Lyles said it's time for 2024 Budget. Teresa is so excited. It is just going to be fabulous work done. Why don't we go ahead and make sure everybody is here, and so we have six people, I believe, and why don't we do introductions. Alright, with that, I'm going to turn it over to Mr. Jones.

Marcus Jones, City Manager said so, thank you, Mayor and members of Council. As you said, Mayor, it's that time of year. We're going to begin our Budget workshops, and we always believe it's very good to have a general understanding of where we are with the revenue, where we are with the expenditures, as well as being able to talk about compensation and what you've been able to do over the past few years, as well as Capital projects update and our Capital Investment Plan capacity. The one thing I will say, before I turn it back over to you, Mayor, and then to Ryan, is that there's been a lot of good things that have occurred over the past few years, as it relates to our workforce and our City and our AAA bond rating and our ability to provide for exceptional services, as well as to keep the tax rate low. As we go through today's workshop, and subsequent workshops, we'll also express how tough it's been to do that, but that doesn't stop us from continuing down that path to make sure that we're providing these exceptional services that will be good value for our residents.

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ITEM NO. 1: GENERAL FUND OUTLOOK

Ryan Bergman, Strategy and Budget Director said thank you, Mayor and Council. I will start by talking a little bit about the General Fund outlook, talked in just one and two-slide format at the Retreat. I'm going to go a little bit deeper, but I will say that even one month of data from January 2024 to February 2024, is a lot of change this time of year, when we're working through items in the Budget office. So, there's a little bit of change here that I will try to point out. Let me also point out that the first two presentations, I'm a little bit of a presentation hog, so I'm going to give both of them, but then I promise to be done for the workshop, but they're really interconnected. The General Fund outlook will tell us where we are to keep services exactly as they are now. Unfortunately, there's a lot of costs that you do need to contribute to be able to keep things going the exact way they are, but the story of what the City of Charlotte does is really its workforce, by far our biggest expenditure. So, the second presentation is really designed to complete our General Fund budget outlook for this budget cycle, where you can see the successes of some of the compensation strategies that City Council has done over the last couple of years. I am happy to say that we do have some very good information to share that's positive on some of the successes of what you guys have done over the last couple of years, but as the Manager said, we've been trying to keep this thing moving for quite a few years, and it is becoming a bit more challenging each year.

So, the first slide, and I did this a few years ago, you can kind of track on the left what's happening there as you go through it. When we're building a budget, before we talk about any compensation increase, the things we're going to do is we're going to update the revenue. We're going to figure out the unavoidable costs. We're going to talk about what we think we need to do to keep services as they are exactly, and that kind of leads to a variance that you then look at compensation scenarios, and you then look at any kind of service enhancements that the City Council would like to direct us towards.

So, when we look at the General Fund revenue forecast, it's a few million dollars up from the Retreat, which is good. As I mentioned, this time of year, a lot of data, a lot of information, data from the county, with a pretty solid property tax number in our base case here. Sales tax is really the revenue source that's most directly connected to what is actually going on at the state and national level. So, just in the last month, sales tax has ticked upwards. Our economist is making a higher projection. Things that have happened at the national level, such as a really, really good jobs report nationally, small business and consumer confidence being at two-year highs, have led to him revising that upwards. So, when you look at this revenue scenario, you're really looking at that bottom number, that $39.1 million in the box, and another way to think of that is about 4.7 percent growth, which is a solid growth number in a year for Charlotte. We also tried to put in pessimistic and optimistic, so you can kind of understand where we may fall as we go through the next few months. So, when you look at it that way, it's about 3.3 to 5.8 percent, and where we fall is going to depend on a million factors that we will be working on throughout the Budget process.

So, then moving onto what we call the unavoidable costs, and I'll try not to repeat some of the ones that I dug a little bit deeper into at the retreat. One thing to mention, when you look at something like contractural increases. Seven million dollars, it's not really atypical from where we usually are in that number, maybe a little bit high, but there's some good stories even in that number. One of the biggest cost increases in that number includes streetlighting.

Councilmember Mitchell arrived at 2:17 p.m.

Our annual cost is up about $1.5 million a year, which is a good thing, because City Council has invested additional streetlighting throughout the City with our Vision Zero program. So, you see some of those things like that there. Healthcare, I did mention at the Retreat, but healthcare over the last five years, we've really talked about trying to limit the impact on employees as much as possible, as part of our retention strategy, our attraction strategy. So, over five years, we're spending about 30 percent more per employee, and the employees, at least on the premium side, are paying about the same that they were five years ago.

Finally, one other thing I'll mention, Charlotte Firefighter Retirement System, I did want to call that out, a little bit of focus there. For those who don't know, this is a retirement system that is run by a board that's appointed, some by the City, some by judges, but it's separate from the State Retirement System, and it's just for City of Charlotte Firefighters. Over the last four years, we have significantly increased the employer contribution level. There was kind of an agreement a few years back that the City would increase by two percent per year. We are still continuing to do that. I do expect that as we discuss with the Fire Retirement System Board, they're likely to make a request for additional funds beyond that two percent, and I've been working with the board on other possibilities and scenarios that we may look at as far as changing the system while making sure you protect all existing employees. So, more to come on the Charlotte Firefighter Retirement System, but just as it is, you get to about $34 million of unavoidable costs to try to keep the services going. So, you can see on the left, that results in a little less than $5 million, so a little bit better than the number I had shown at the Retreat, but now we do have an opportunity to go a little bit deeper into kind of a next level of Budget work that we do. Forgive the graphics there. We're not really a graphic design department, but what we're trying to show here is, we work with all of the departments that are running City operations throughout the year, on what it takes to maintain the same service levels, and just from an early look at some of the information between departments, this is probably a fairly conservative number of things that we probably will need to do to keep things going. So, think about costs, such as keeping vehicles on the road as parts become much more expensive, as sometimes you go to a specialist and the per hour increases, some of the technology that we need to keep systems going as they are.

So, these really aren't the exciting things we would talk about in a Budget, but they are the things that we do need to continue to do from year to year. So, that gets us to kind of an outlook before we get into any compensation scenarios. So, when you look at this, we are positive, which is a good thing, but the next presentation, after we talk about our staffing levels, I'll show this slide again with a couple of compensation scenarios, which is where some of the real discussion likely would need to happen. It is important to note, I will note again, that this does not include any service enhancements, so anything extra or a little bit more that the City Council would like to do in anything operating.

Councilmember Brown arrived at 2:21 p.m.

I'd also point out that this is my sixth budget process. We've done a lot of work with departments. Department heads have been fantastic over the last five years on trying to make this thing work each year. We've found efficiency improvements, reductions in noncore services, some centralizations. We do get into diminishing returns. It's a little bit more difficult to look at where some of those opportunities may be this year, but we will of course try. So, with that, we'll talk deeper in compensation at the next presentation, but this is it for the Outlook.

Councilmember Bokhari said so I mean just as we're teeing up our Budget process and journey here right now, and that's kind of the premise, I think anyone who is paying attention knows we're being teed up for an M. Night Shyamalan twist at the end of this, which is, we have to raise taxes. There's no doubt in my mind, just even based on the first slide, that's where it is. So, just to lay out kind of where I'm going to be, given that's the huge elephant in the room, is if there's going to be any shot for me personally, to be able to support this Budget, I have to see a very deep commitment towards the work in presenting us. I'm not asking for zero-based budgeting, but this is the usual approach we take, which is, all of the old stuff we do is, don't look at that, here's the new money and here's how the new money will be spent paired with increasing salaries and things like that. So, I am going to ask very crisply and clearly right now, that there are two buckets added to this area, which is, what do we need and are we able to do less of, that is in the broader Budget that carries over from last year, where kind of doesn't go looked at by us at least at all? Where can we tighten our belt there? Then, what are some of the things, then, that we might want to do more of, very tactically, not across the board?

One of the things I definitely want us to look at is Charlotte Water and other trade skill-based jobs, to see if we can focus on incenting both upskilling and tying some of that great work that we've now seen a lot of, to their pay. The easy part is us listing out our wish lists of what we want and what we'd like to do more of. The hard part is going to be, what can we do less of? If we don't do that tough exercise at all, we're going to be at a spot where it is a foregone conclusion that taxes must be raised. So, no one wants to say, "What should we do less of? What businesses should we not be in?" Things like that, but just to be real clear, if that exercise isn't done, done well and in good faith, then I will be an automatic no, if the punchline on the end of this whole process is, we must raise taxes. We have to take a good noble effort at doing that.

Mr. Jones said so, thank you, Councilmember Bokhari. One of the things that we do in a Budget process, which is typically done, which I don't like doing, is this across the board cut, where you just go and tell each department to give up two, three, four percent. What you find out is, because of the way Charlotte and Mecklenburg is designed, in terms of what services we provide versus, let's say, the county, ours is heavily related to public safety. So, when we go through those things, I hear exactly what you're saying, we can show you that way, which I'm convinced you would say, "Please don't do that," but we'll also look at what are some low-priority services that we typically provide that we can get out of the business of doing. Typically, it's not as much as you think, but I appreciate you asking us to do that.

Mr. Bokhari said I think one point of clarity on that is, the standard rebuttal we always hear every year is, "Well, police is such a huge line item, do you want to cut the police?" The problem with that line of thought is, it's said more to shut down the process of us doing it wholistically, than to actually do it. So, if you come back with meaningful cuts that don't impact morale, that don't impact all the things we really care about and we're working to rebuild, but there are little things there, sure, let's put them on the table and consider it. More importantly, all of the sacred cows throughout this whole process, that maybe are low priority or lower priority, maybe are higher priority, but should we be the ones doing them? If you take that lens to it and come back with an honest list of things we could that'd be difficult, I will tell you, I will be a good faith player in going through the rest of that process.

Councilmember Driggs said so, my position is very similar. I've said in past years, you get this narrative that says we need more money in order to pay the police, or keep the children safe, of whatever, and it's all fungible. So, a tax increase is paying for the least important thing in your budget, not the most important thing. That's why I too am going to be very skeptical, will want to be confident, but if we get to a point where there are a couple of ideas that we have about things we ought to be able to do, and if they can get done, then that might be an outcome, that might be a unanimous vote. We have maneuvered ourselves kind of into this position with some of the spending, and I point to things like the cost of our huge commitment to affordable housing, which I know is a sacred cow around here, but we're paying a price for that, and that bubbles up in terms of debt service cost. It bubbles up in terms of diversion of capital spending away from some pretty basic obligations of the City. If we look hard at boring sort of requirements, like street resurfacing and so on, we are not keeping up.

So, again, I hope to be in a position where I could say, "Alright, if we could this and this, then I'm good, and that's not an unreasonable thing." Otherwise, you may have to just get by with the majority. I had one question, Mayor. What inflation assumptions are in your base case?

Mr. Bergman said as far as revenue or on the expenditure side?

Mr. Driggs said just generally. I mean, how are you adjusting year to year for inflation?

Mr. Bergman said so, on the revenue side, sales tax, which is the one that is most volatile for us, we have a pretty standard increase in FY (Fiscal Year) 2025, which is 4.5 percent, and the variability is really about what happens for quarter three and quarter four of this year. Property tax is less about inflation, of course, and just what new properties come online. We expect it to be pretty similar to the last couple of years. On the expenditure side, it's drastically different based on each of the topics that we would talk about. For things like retirement, we kind of know what's going to happen from the state, but for contractual items, the ones that aren't necessarily locked in, they can be anywhere from 10 percent for some of the construction-type expenses, which we'll talk about in the third presentation today, to not really any inflationary increase on some of the other expenses. So, this is really just kind of a macro view. Each of these, for expenditures, has kind of a different expectation when you dig deeper into the Budget.

Mr. Driggs said okay, but just to be clear, as far as compensation is concerned, you're talking entirely nominally flat prior to the adjustments that you're going to discuss in the next section, right? So, those would be any increase nominally and in real terms?

Mr. Bergman said correct. The only compensation that would be on here is annualizing, providing 12 months of funding.

Mr. Driggs said yes, a full year effect.

Mr. Bergman said yes, that's it.

Mr. Driggs said thank you.

Councilmember Ajmera said so Mr. Bokhari brought up a good point about looking at Budget at deeper level, sort of from department to department, and I know Mr. Bokhari is the Vice Chair of the Budget Governance and Intergovernmental Committee. I think it would be appropriate for us to look at this at more granular level, at one of the Budget Committee meetings, because when you talk to residents in our community, they often say, "We do not want to see property tax increase." When I tell them that, "Look, we haven't had property tax increase in five years." They said, "Well, my property tax went up, whether it's the City or the county or the home value went up, my tax went up," and that's just the overall perception that taxes are going up. So, as we look at our overall Budget, we do need to look at it from the efficiency perspective to ensure we are avoiding any waste, but also looking at expanding our services, especially infrastructure, to Mr. Driggs point, sidewalks, high injury networks to reduce fatalities that we are seeing, and obviously affordable housing, and I know there is a greater need that we need to invest more in affordable housing. I know Mr. Mitchell, committee member, has brought that up several times. I think we need to look at that holistically, but we can do that at the committee level and take a deeper dive. Thank you.

Mr. Bergman said I was just going to say, merging Councilmember Ajmera and Councilmember Bokhari's points, we do an exercise in the Budget that we can share some information, which we call our service inventory, which tries to give a better understanding of the actual external services that each department is providing to the City residents, which we can have a good look there. To the Manager's point earlier about public safety and the General Fund, that's very true to the tune of, when you take out the things that we do that are reimbursed by revenue, such as planning, two-thirds of the Budget is police and fire in the General Fund. So, it is very heavy public safety. If you add in transportation and solid waste, you're actually up over 80 percent. So, that is the core component of what we do with our General Fund dollars.

Mr. Driggs said Ms. Ajmera makes a very good point. I just wanted to expand a little bit. When the revaluation happened, residential real estate went up by 50 something percent, commercial real estate went up by less. The result was, even though we did revenue neutral last year, a bigger portion of that got assigned to residential. So, individuals who own property felt it. In my view, we kind of kicked the can down the road last year in order not to pile onto that a tax increase that maybe would've been justified then, and that's why I say we're in a little bit of a hole. We found ways to avoid doing something then, and we still have a little bit of the same problem now. People are still hurting from those increases. They don't understand the economics of revenue neutral and all of the moving parts. So, we will be working against that perception this year.

Mayor Lyles said any other questions or comments as we're starting out?

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ITEM NO. 2: COMPENSATION AND STAFFING

Councilmember Johnson arrived at 2:33 p.m.

Ryan Bergman, Strategy and Budget Director said okay, so we'll move onto the compensation and staffing presentation. I probably should've mentioned this at the beginning, but the presentation is in your binder. The pre-read materials that we sent out last week are also in your binder, and then any questions, it doesn't necessarily have to be today, if you just ask Marie just like you would during a regular Council Agenda, we'll be sure to provide answers to the questions before the next Budget workshop.

So, compensation and staffing. Last year, and the last two years really, national trends coming off of the pandemic and some of the inflation we were experiencing, across the county wages were increasing. It was getting extremely difficult for us to attract and retain employees. We saw historical vacancy rates a couple of years ago of 13.5 percent for our hourly employees. City Council, the last two years, has taken really aggressive action. Typically in the past, we may have done three, sometimes we would get as high as 3.5 or four percent, for hourly employees, but the last couple of years have been somewhat historical from a compensation standpoint, where if you look at 2023, we were providing eight percent, and on top of that, we were also beginning to use shift differential, commercial driver's license incentives. So, you had quite a few employees that were able to get a 10.5 percent increase, and then last year, we proposed a pay plan, and then some adjustments were made from City Council during budget adjustments, to increase that, where hourly employees essentially got a minimum increase of $3,600 cumulative for the year.

Police and fire, we did some additional increases raising the minimum and the maximum. So, now, what we're going to talk about is the results of that, the initial results, but first let me mention, some of the benchmarking work that we do around lowest paid hourly employees. So, using our 20 peer cities that we traditionally use, the five biggest in North Carolina, happy to say that we are essentially a leader in this front. Even if you did a cost of labor adjustment, we would still remain number one with our peer cities. So, almost 40 percent over the last three years, 50 percent over five years, if you wanted to look at it that way. As of right now, a full-time, 40-hour employee would start at $22.21. So, this is the same slide that we've shown the last couple years. Last year, we saw, you can kind of see on there, calendar year 2021 resignations to 2022, we were starting to see positive results of some of the investments that City Council made in some of our employees. I'm happy to report that in 2023, we did better than we ever anticipated.

Councilmember Molina arrived at 2:36 p.m.

You can see that we had a 25 percent reduction in general employees leaving us. You can see that every single general employee category saw a better retention rate than the year prior. We lost 10 less police officers to resignation as we did the year before. The only one that went up here is fire, which historically is our lowest resignation rate, and even that 11, that represents about 1 percent to the fire workforce. So, it's still very, very low.

So, we've seen a lot of success from the investments that Council have made, and so when you see this slide, where people are leaving us much less frequently, paired with this slide of the hourly employee hiring in 2023, and you see that even though less people left, we hired 100 more new people in 2023 than we did in 2022, and in 2022 we hired 200 more than we hired in 2021. You can kind of see the long-term strategy and the successes, which brings us to this, which I did include in the pre-read at the Retreat, but that silver line was biggest concern, which is the hourly general employees that we have, you see that 13.5 percent, and you can see that's now under nine percent. We love to keep getting it lower, but even at this 8.9 percent number, that is very typical to what we have historically experienced prior to the pandemic. Early in the year, you've had some retirements. This is typically a year where the rate's a little bit higher, but you can see the progress here that is great. We except that if we show this slide next year, we think it's going to be even better, even if we show this slide in three months, we expect this to be better, because we are hiring people at a very good rate.

Police and fire. Fire ticked up a little bit. That's primarily because we added companies that we haven't filled yet. We're trying to fill them, but with police and fire, the recruitment's a little bit different, where you can only do a certain number of academies. Police, we are a little bit better, but I want to dig a little bit deeper into police and fire to see what that looks like.

So, this Council has had at least a five-year strategy, more than likely a six-year strategy, on work with the Public Safety Pay Committee and increasing top pay when compared to our peer cities. There is a lot of data on this slide, I'm certainly not going to read it all, but I'll kind of explain how it works. So, over the last five years, in all three cases for fire, Firefighter, Fire Engineer, Fire Captain, we've increased our top pay substantially more than the median top pay. If you look at the top pay with a four-year degree, you'll see that we've made good progress nationally and eastern, to at least at the median or above the median, which was a daunting goal when we first looked at this five years ago. When you get into, without education incentive or with cost of living adjustments where we have a number of different ways to look at it, we lose a little bit of ground, but the improvement over the last five years is just the same. Then, looking at police, the same format, we've increased 32 percent to our top pay over the last five years. Even though a lot of cities have been investing in police to try to attract and retain, we have stayed above the median, and we made some progress again to be at or above the national median, and we are extremely competitive on the eastern side of the country, second of nine for police officers.

Now, this is maybe the most exciting slide, if I can geek out a little bit here, having been working on this for quite a while. So, way back in the early 1990s, we've mentioned before, there was a very big investment in CMPD (Charlotte-Mecklenburg Police Department) where we hired a lot of new officers as a city. Unfortunately, a lot of those officers have been retiring recently, just as you get to the 30-year cycle. So, for the last few years, and into 2023, our retirements have been very high. So, when you look at this, you look at the separations. The darker gray number, that's the retirement number. The other number is resignations, terminations, any other kind of separation. So, in the past few years, we've been trying to hire as many officers as possible, but because of all those retirements and because we weren't able to get enough recruits, we were still slightly losing ground each year, by the time the recruits graduated. If you look at what happened in calendar year 2023, for the first time since at least I've been here and likely much longer than that, we actually see a possible net gain in this year by the time the academy starts to graduate. So, you look at 165 academy starts in 2023, when you look at what 2024 and 2025 might look like, police is expecting to be able to hire anywhere from 200 to 250 recruits, and they're resourced to do so in the current Budget. The retirements are likely to start ticking down into the 60s, rather than the 80s and 90s that we've seen. The Chief really mentioned this at the Retreat, but we are now kind of at the point where the scales have tipped and we are likely to be able to add police officers and fill the vacancy rate over the next couple of years, because of some of the investments that City Council has made, such as a 23 percent starting increase over the last two years alone. So, this is certainly a good story.

Shifting back to more of the macro–General Fund level. This is the slide I was talking about, and it's my last slide here. We have that same revenue forecast of $39 million. I did put in the pessimistic and the optimistic scenario, so you can kind of see where it's at. Again, this does not have any service enhancements, but what it does have is two compensation scenarios. This isn't a chose one of these scenarios type thing, it's to try to get a feel for where City Council would like us to be. That first scenario is kind of back to that traditional three percent for general employees, 1.5 percent plus a step for public safety employees, and then that second scenario is similar to what we did last year. Now, the data on inflation would tell you that you should probably be somewhere between those two, but you can kind of see how the numbers actually work within the General Fund when we're trying to plan a compensation scenario for the budget. We do have a variability there of almost $15 million. So, with that, I will stop and turn it back over to the Mayor.

Councilmember Mayfield said if we can go back to slide two, and I think you answered this question in your presentation. When we look at the Council actions and the retention, when we look at fire again, are we seeing an increase because of the retirement? Because historically a lot of firefighters stay on, but I've had a number of conversations within multiple fire departments last year, and it was mentioned that where historically they would stay on, a lot of them are retiring now that they're eligible. So, is that number encompassing the retirement or is it strictly those that have resigned?

Mr. Bergman said so, this number is strictly those that have resigned. I haven't deeply looked into that. We can certainly get you that. It is true that, just because someone is eligible for retirement, doesn't mean they'll retire that year. So, we can get you data on when people are retiring in fire now, compared to a couple of years ago, to see what that looks like.

Ms. Mayfield said so, I think you kind of addressed it a little bit on slide seven, when you talk about you know some of the changes as far as retirement. I just want to make sure that we're looking at pretty accurate numbers, because hopefully we're seeing that the increases and the adjustments that were made last year, is helping our firefighters to want to stay verus those who are looking at tapping in and utilizing their retirement versus sticking around. Thank you.

Mr. Bergman said okay.

Marcus Jones, City Manager said so, Councilmember Mayfield, I wanted to take another run at what you said about the resignations from fire, if we can pull that up. I do want to start off by saying that we are very fortunate that the City Council has taken these actions over the past few years. I guess the best way to explain it is, it's been very chaotic with employees, because of the inability to compensate people. I would say that it's broader than that, in terms of the options that our employees have with hybrid work schedules. Even with our hourly employees, there are some departments that do four 10-hour days. So, a lot of flexibility with that, prepaid tuition, downpayment home assistance, keeping healthcare costs down. So, a lot of great things. I saw Sheila somewhere in the room, so thank you, Sheila, and thank you, Ryan and Shawn and the whole team. As we've talked with the employees to make sure what's important to them, and we've learned things even this last time that we met with our employees, the concepts like financial literacy are extremely important. So, again, you've been able to put together a very good package that makes us a very attractive place. On this one, Councilmember Mayfield, I would just say that if we go to the 2021 resignations, I believe fire is like 1,200, I think, total employees. So, that number is so low, so nine, and then in 2022 the resignations were six. So, six to 11 seems so big. You get that big 83 percent, but they're so historically low, that any kind of swing in that will give you a much bigger swing.

Ms. Mayfield said Mr. Manager, one of the things that you just mentioned, as we're having this conversation, is the downpayment assistance. We know that staff can run the report. A good number of our police and our fire do not live within the City limits. So, as we're having this conversation of where we can do cuts, I am going to just put into the universe, I support my colleagues regarding those that are in support of us looking at what we can do around our housing, because again, that's revenue generating for us. If you are a resident of the City and paying taxes here versus living in Dallas and driving an hour or more to come in to work, what benefits and what does the survey say that will get our employees to be able to live within the City, recognizing the market is doing something very different. Hopefully, we're going to see some type of change. We're not going to see $70,000, $80,000, $100,000 homes anymore, yet there could be a leveling off, because I did attend the Center City, their state of address, a couple of weeks ago, and looked at a number of the new developments, both in multi-family and single-family that's already in the pipeline, looking at how many of our employees percentage wise do not live within the City limits versus those who do, and juxtapose that with those that want to, but financially are unable to.

Councilmember Driggs said a quick comment. For one, I think it's interesting to see the comparisons with other cities. At the end of the day, the bottom line is retention and recruitment. Mr. Manager, you may remember that I pushed you pretty hard on this a few years ago. It's nice to see that it's working. So, we are making that investment and we're seeing the results. So, I think we're in a good place, appreciate that. The CMPD is resourced to hire. That sounds like we don't need to make any adjustments to our budget process, because of the prospect of bringing in all these new officers. Is that right?

Mr. Bergman said well, no. When I say resourced to hire, I mean the positions are on the books, and to run the academies, they have what they need to run the academies at a higher level. We did make some investments there in the current year. As these officers graduate and start to advance up the steps, it will take additional resources.

Mr. Driggs said so, in terms of what you told us before, like the status quo extending, and then the compensation, these new officers don't fit into either of those categories. Where are we adjusting for the increase in the number of officers?

Mr. Bergman said so, because we've had the vacancy levels for several years, the officers basically go into those slots. As more graduate, police has to use less overtime or gets to use less overtime, because they have additional officers. So, it's kind of an up and down thing when you work on it in the Budget, but even though we couldn't fill all those officers over a number of years, we never cut officers from CMPD. So, that's what I mean by they have the resources to support the additional trainees, until we get closer to that complement number they already have.

Mr. Driggs said so, I guess my concern is that there may have been in the Budget funding for positions that weren't filled, and that represented cash that was available either to pay overtime or for other purposes. As the staffing levels go up, is the Operating Budget from CMPD going to come under strain, because they're not having the benefit of those unfilled positions?

Mr. Bergman said the answer is yes, and that's something we're consistently working with them on, where yes, they have to use a lot of that "savings" for overtime to do their normal staffing levels, but it is true that they have been able to use some of the savings for some of the technology needs that they've needed from year to year. So, yes, as we move forward, if they're at the higher level, there will be some strain on their operating.

Mr. Driggs said I just want to make sure that we see that in advance and don't find out about it later. So, I'm trying to infer from that what kind of a gap we are looking at in each of those scenarios. Like, I don't see our base case revenue line. If you take base case revenue and base salary increase, what kind of a gap are we looking at?

Mr. Bergman said so, that'd be about $15 million. Sorry, the $54 million total cost, minus the $39 million base revenue case.

Mr. Driggs said so, $15 million.

Mr. Bergman said yes, and that's at the lower historical compensation level without any service enhancements.

Mr. Driggs said so, by itself, that's a bit less than a penny on the tax, right?

Mr. Bergman said three-quarters.

Mr. Driggs said are we calculating $21 million or something percent? Alright, I'm just trying to calibrate here a little bit. Thank you.

Councilmember Johnson said if you could go back to the resignation numbers, please. So, as someone with a fairly unique perspective of Charlotte employment, I think that these numbers, they look good for the culture. It kind of speaks to the culture of the organization. I wanted to know if we track the number of terminations?

Mr. Bergman said do you mean like non-resignation terminations?

Ms. Johnson said yes.

Mr. Bergman said yes, we do, and HR (Human Resources) can provide that. I don't have it off hand, though.

Ms. Johnson said okay, that just kind of also helps us with the culture as well. Then, I see that the minimum wage for Charlotte employees is $22.74. Is that what I saw?

Mr. Bergman said for general employees, correct.

Ms. Johnson said $22.74. That means for all employees, right?

Mr. Bergman said $22.21.

Ms. Johnson said $22.21, and that's the minimum hourly wage for all Charlotte employees?

Mr. Bergman said for general employees. Firefighters work a little bit different schedule.

Ms. Johnson said okay, yes, okay, alright.

Mr. Driggs said general is hourly and salary, and then you have the sworn.

Ms. Johnson said the sworn, okay, alright, thank you. So, that's good to see, especially since the focus is going to be on that 60 percent AMI (Area Median Income) for housing. When I looked at the numbers the other day, it didn't even seem that Charlotte employees were receiving that. So, that's great to hear. That's something we want to be conscientious of, I think of the AMI, and that 60 percent, that rate, and make sure we're always, I think as a city, that we're meeting that, and our employees fall into that rate. Then, I had asked a while ago about a report for the CMPD hiring process, and I was working with Chief Jennings for a while, and I'd like to follow up. Mr. Jones, where are we losing candidates? We were looking at a breakdown of where we're losing candidates, but also a breakdown for minority candidates, like where in the process? So, I think that that would help us in the future for that hiring process, if we could revisit that, and see where we're losing candidates, and if there's some changes that we can make from an equitable perspective, if it's testing questions, or what that would look like. So, great job. Thank you.

<u>Councilmember Ajmera</u> said so, for the base salary increase, what is the increase are we looking at, three percent?

Mr. Bergman said yes. This is kind of just to show you a range. That base salary is three percent for general employees.

Ms. Ajmera said and the next column, what percentage increase?

Mr. Bergman said that's what we did last year. So, more like eight percent for hourly, not for salary. Salary was four last year.

Ms. Ajmera said so, this does not include, to your point, any increase in our services, whether that's housing or infrastructure?

Mr. Bergman said correct.

Ms. Ajmera said okay, thank you.

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ITEM NO. 3: CAPITAL PROJECTS UPDATE

<u>Ryan Bergman, Strategy and Budget Director</u> said I will bring up our City Engineer, Jennifer Smith, and Hannah Bromberger, Assistant Director in the Budget office, to talk about our capital projects update. I'll talk while they get set up here. So, our next Capital workshop, per the Budget Committee plan, we do anticipate to be very focused on forward-looking CIP (Capital Investment Plan) in our next 2024 bond, and even our five-year CIP. Before we can get to that point, though, we need to talk about the existing capital projects. Because of easements and real estate and design and planning, local government capital projects do take a while. So, this is really intended to be about the ones that are already ongoing as we face some of the same national inflationary trends that every city has been dealing with.

<u>Hannah Bromberger, Assistant Director in Budget Office</u> said good afternoon, Mayor and members of Council. As Ryan said, my name's Hannah Bromberger. I'm the Assistant Strategy and Budget Director, and presenting with me today is Jennifer Smith, the City Engineer. So, today, Jennifer and I will review the funding status of all active, previously approved, capital projects. So, that includes both transportation and neighborhood projects that are funded by General Obligation bonds, as well as facility projects funded by Certificates of Participation, or COPS, as we often call them. Then, we'll review the funding estimates of the named projects that are currently in Advanced Planning, scheduled for the out-years of the bonds. So, everything we discuss today is ongoing, active capital projects, that have previously been approved. We'll shift gears for the March 2024 workshop, and begin to talk about the fun stuff, the 2024 bond and beyond. We think it's important to have this conversation first, so that you can have the lay of the land, the current state, before we begin talking about the future CIP state. So, I'm going to turn it over to Jennifer now to provide some project updates, and set the stage with an update on market conditions in the construction industry.

Jennifer Smith, City Engineer said thank you, Hannah. I first want to remind Council about the impact inflation has had on our projects. When material and labor prices increase significantly, that does affect our project cost estimates. So, the graph on the right shows national inflation data, and what I've done was taken three different construction material items. I'm trying to really highlight that this graph is showing the percent change in the price compared to the prior year. So, in general, material prices are not decreasing, they are just not increasing as significantly as they were in 2021 and 2022. Lumber and plywood are an exception on this graph. You see a high spike, over 100 percent increase. Then we had some negative decreases, and you can kind of see that on the table. So, we took these three materials and kind of laid out, so the concrete pipe, let's say it costs $100 per foot in January of 2020. The cost of that pipe in January of 2024, was $138, so a 38 percent increase over that time period. We use a lot of concrete pipe in our projects.

So, we're continually monitoring the market and evaluating the unit prices coming in on our bids. We use this data to update our project cost estimates. We're also continuing to evaluate value engineering and scope reductions where possible. We're seeking alternative funding sources, whether that be federal grants or state grants, and we're also trying to move priority projects forward as quickly as we can. We have 149 bond projects, of which 17 were completed last year. Sixteen are current in construction including a design build project, and we've added 44 new projects to our list. Of the 149 projects, there are eight projects that are projected to be overbudget, and 11 that are at risk. These numbers are similar to what I shared last year, and now Hannah, I'll pass it back over to you to talk about the outlook.

Ms. Bromberger said thanks. I'm going to provide a little bit of funding context to the information that Jennifer just shared. So, you may remember that the adopted current-year Budget includes planned, undesignated future capacity, in all of the bonds in the five-year CIP. That unprogrammed funding first appeared in FY2023, and that was in the midst of those percent change spikes that you saw on Jennifer's earlier material cost graph. So, we included that funding, and we left it undesignated on purpose to help address inflationary increases on projects that were currently underway or planned in the future. So, the planned 2024 bond includes $22 million of that additional unprogrammed capacity, and we believe that, based on what we know right now with the numbers that Jennifer just shared and the specifics on those projects, we think that that $22 million of additional unprogrammed capacity is sufficient to cover any funding needs that we may have in FY2025. Just like Jennifer said, it's important to remember that even though inflation in the construction industry has normalized to those traditional levels of growth, prices are not returning to those prior year prices. So, we believe that it's really important to maintain that undesignated future capacity in the out-year bonds, in 2026 and 2028. So, while that additional undesignated future capacity in those out-years isn't exclusively intended to address the inflationary cost on the name projects that are currently in Advanced Planning, like Jennifer said, General Services is continually updating those project estimates based on bid information on active projects that are coming in real time. Based on those bid numbers, we do believe that budgets on all three of these projects will need to increase in the out-years, and that we will need to use some portion of that undesignated future capacity to cover those increases.

I do just want to connect a dot here; 2024 is the second year of a two-year Community Area Planning process. This second year of the process is dedicated to capital projects and capital programs within each of the Community Area Planning geographies. So, we're going to be back in the community this year, and we understand that as these project estimates are increasing. They take up a significant portion of bond capacity in those out-years. So, we will be testing these project scopes with the community to ensure that we are delivering their highest priorities in terms of infrastructure. We'll turn it back to Jennifer for facility projects.

Ms. Jennifer Smith said okay, our facility projects include police stations, fire houses, our sustainability projects, ADA (Americans with Disabilities Act) building improvements, and other new City-owned buildings or major renovations. We have a total of 24 projects, two of which were completed last year. Nine projects of these facilities are actually in construction right now, and we added 10 new projects this past year. As with the bond projects, we're watching the market and bid prices closely to estimate our projects, and we currently are only showing two projects at risk, one is a police station, and one is a fire house.

Ms. Bromberger said so, if we wrap up sort of an annual lookback that we provide of all previously approved projects, there's just a couple key takeaways I want to recap. First is that we believe the $22 million that is already in the 2024 bond as that undesignated capacity, we think that that is sufficient to cover the next fiscal year's needs, in terms of any ongoing project overages. Secondly, we think it's really important to maintain that undesignated capacity in the out-year bonds, in the 2026 and 2028 bonds. As we look ahead to the March 2024 workshop and planning for the 2024 bond and beyond, Teresa Smith, the City's Chief Financial Officer, will provide an update on our CIP or capital affordability, and that will help you continue thinking about your programming priorities for the 2024 bond. So, with that, we're happy to answer any questions.

<u>Councilmember Ajmera</u> said so there is good news that we have the contingency in 2024 to cover the increase that we have seen, which is $22 million, and there is bad news that we don't really have the capacity to do any other projects outside of that list. I would really like us to move the needle further in terms of tackling our sidewalk projects. I think that's way overdue, especially in High Injury Networks. Now, I know I have requested the list of High Injury Network, where there have been fatalities. We've got to make that a priority, and Vision Zero projects. I would like us to take a look at those. I think the longer we wait, we are losing more lives to injury and traffic fatalities. So, Mr. Jones, I would like us to prioritize some of these infrastructure projects that have been put on hold for many years now. Thank you.

<u>Marcus Jones, City Manager</u> said so, thank you, Councilmember Ajmera, and thank you Jennifer and Hannah. I just want to jump in early on as the conversations continue. This was creating four bond cycles, that was the City Council's four-bond cycles. Prior to that, we had four-bond cycles, and I won't even mention some of the projects, like the Cross-Charlotte Trail, as I mentioned it. What we had to do was try to find a way to give you more certainty in the future when we talk about these projects. So, this was never intended to be ambitious, these four-bond cycles. It was really trying to make sure you had confidence in us, that we could put something before you, you could put it before the residents, and we could deliver. So, I guess the big takeaway is as we go through this is, this was never intended to be ambitious. It's great that you did not use that unprogrammed capacity, because it was able to cover. We would have a totally different discussion today, if we came back to you with a problem that we could not address with the capacity. So, that's also what's been said earlier. So, let's not go into 27 or 29, and use that capacity, because there's still some outstanding issues out there. In terms of level setting, I want to thank the team for putting together something that had a good certainty. So, to your point, Ms. Ajmera, if there needs to be more, that's a conversation that happens in the Budget workshops.

Ms. Ajmera said I got a list of all the projects. It was in our package earlier this week, and I see there were some projects, and there was one segment for Cross-Charlotte Trail, I think segment number six. I know it went through the whole capital design process to ensure that we had more accurate estimates. So, all of these projects that's on the list, did go through the capital planning process? Is that correct?

Ms. Jennifer Smith said so, yes, it's all gone through planning and design, but when we see 20 percent increases, that was never anything that we had anticipated.

Ms. Ajmera said that was beyond our imagination.

Ms. Jennifer Smith said yes.

Ms. Ajmera said alright, thank you.

Councilmember Mayfield said thank you for a very detailed presentation. When we look at the projects at risk, do we know which police station and fire house that we're talking about?

Ms. Jennifer Smith said yes, it's on the list. It is the CMPD Northwest Division Station and Fire House 11.

Ms. Mayfield said where are those located?

Ms. Ajmera said it's on the last page in the binder.

Ms. Mayfield said right. So, that's the reason I was asking, because I am geographically challenged, so therefore, I use MapQuest for everything. So, where is the Northwest Station located?

Ms. Jennifer Smith said Northwest Station is off of Mount Holly-Huntersville Road, and Fire Station 11, I think, is off of 28th Street, and I think it's Graham. It's 28th, 29th, I can't remember the exact street, but it's [inaudible].

Ms. Mayfield said so, that's where we're looking to build?

Ms. Jennifer Smith said it's actually a replacement of an existing station, 11 is. CMPD Police is a new build.

Ms. Mayfield said okay, thank you. I know the station over there is relatively small, and the area has grown considerably just in the last few years, and there's a volunteer station right up the street, but the capacity that's needed, that makes sense. In these new 44 projects, when we identified the 44 new projects that are added, I guess what I'm really trying to figure out is how much wiggle room we may have if we're looking at a minimum of two that are at risk in comparison to some of the new projects that were added, if those are projects that can be delayed.

Ms. Jennifer Smith said so, the majority of the new projects are new sidewalk projects that are in a sidewalk program. So, we really monitor that program as a whole, and we'll only start what we can afford within that program. The other projects that were added were within the Vision Zero program as well. So, whether it be streetlighting projects or Pedestrian Hybrid Beacons, those are also in a program that has a set dollar amount, and we will monitor those programs on how many we can start based on the program funding that's there.

Ms. Mayfield said so, the days of old, where we actually came in underbudget on sidewalk projects, and were able to reallocate, like I was able to do many years ago, those days are gone, because we have a new level set. So, even though, as you mentioned, the prices are going down, we've already proven that here's a number where the market says, "Okay, here's good for us to still maintain our profit," so we don't have those wins like we used to when a project came in underbudget.

Ms. Jennifer Smith said right.

Ms. Mayfield, okay, thank you.

<u>Councilmember Driggs</u> said picking up on Ms. Ajmera's point, are we right to understand that we have enough capacity if we reserve what was previously uncommitted to see through projects that are on our list, but as it stands right now, we don't have capacity to add anything to that list, right?

Ms. Jennifer Smith said that's correct.

Mr. Driggs said so, just so we're clear, the needs don't go away. So, now, of course, one way around that is you increase your revenue, that you increase your allocations to the Debt Service Fund, and then your calculation on capacity changes. So, I'm waiting to see how that plays out. What does at risk mean?

Ms. Jennifer Smith said so, what we have done is looked at the project estimate. We think, depending on how our bids come in, we may be okay, and if we don't have to dip into much contingency that we have set in that project budget, that we may still be able to complete that project within the current budget.

Mr. Driggs said but the current budget includes like a 10 or 15 percent contingency. So, you'd still be within budget if you needed to use some of that, but you're talking about the possibility that you need more than that?

Ms. Jennifer Smith said yes, if the bids come in greater than what we had estimated.

Mr. Driggs said so, again, the capital project management, we started down that road, changed the way we did things, partly because we had some bonds that had been authorized and where the authorization was threatening to go stale after seven years. What is the status right now of the authorization we have for bonds versus the time remaining until those authorizations expire?

<u>Teresa Smith, Chief Financial Officer</u> said so, right now, we are spending on the authorization from 2018, but we should be within that seven-year window to spend all of that authorization.

Mr. Driggs said so, we think that we will not, again, be in a position of having to reauthorize because time ran out?

Ms. Teresa Smith said correct.

Mr. Driggs said and we created, I think, a $20 million type cap reserve revolving fund or something. Is there a balance outstanding, or what's the status of that?

Ms. Jennifer Smith said so, that's the Advanced Planning and Design Fund, and yes, several of the projects that are currently on the list that are active, have gone through that program and the funds, whether it be COPS or bonds that we had recently allocated in either 2022 or the 2023 budget, are going to replace and replenish that. So, I want to say the current balance will be somewhere around $9 million in there. So, we still have capacity to add additional projects as other projects are coming out of that.

Mr. Driggs said and that means we don't put the bonds on the ballot until closer to the time?

Ms. Jennifer Smith said correct, yes.

Mr. Driggs said alright, that's all working. That's great. Thank you.

<u>Councilmember Graham</u> said thank you, Madam Mayor. Mr. Driggs asked my first question, which was the definition of at risk. I think they're both in District 2, so I needed to know that. Secondly, the Animal Care and Control, does that address many of the issues that we heard throughout the last year in reference to outgrowing of the facilities there?

Ms. Jennifer Smith said so, there is a phase three Animal Care and Control that is in Advanced Planning now, that we're evaluating that is looking at the current issues.

Mr. Graham said and that would be a new facility or a renovated facility?

Ms. Jennifer Smith said what we're looking at is renovations to existing facility.

Mr. Graham said no thought of a new facility?

Mr. Jones said so, Mr. Graham, to your point, we spent a little time with CMPD and the individuals who run Animal Care and Control, and tried to do an assessment, I'm just saying me personally, about what are some things that we can do in that area even before we talk about a new facility. So, what I'd like to do is make sure in Thursday's packet, that I'll just give you some information about Animal Care and Control, and it's really highly respected when you look across the country what is happening there, in terms of innovation around adoptions and things of that nature. A new facility will have a very, very, very big price tag, and we should just have a discussion about that going into it. One of the reasons that we have Advanced Planning, and Jennifer and Ryan and Teresa, you can stop me if I'm misstating it, is you may get to a place of designing something and decide that it's just not something that you're willing to do, but you shouldn't make that decision until you have some level of design to see what the cost will be. I will say that that's not an insignificant project, that's why we put it in Advanced Planning.

Mr. Graham said I'm looking forward to having the conversation. I think it's a conversation that we need to have, and is either up or down. Certainly, as the City grows, notwithstanding the work that they do, I'm talking about the physical environment in which the work is being done, which is problematic.

Mr. Driggs said so, I'm interested in that too. At one time, Mr. Manager, we had $70 million planned, and then it got pushed aside because of other stuff. We didn't put any of that back. So, I thought I heard that maybe there was $9 million, or some number like that, that we might be contemplating. We need to do more there. It's a basic obligation of the City, and we're not keeping up.

Mr. Jones said sure, and that's why I want to get the information to you. There's been phase one and phase two. There have been dollars that have been deployed. There have been renovations in the current building. One of the concerns was, it's on airport property, and at what point would the airport kick Animal Care and Control off. So, I just want to get all of that information to you, because unfortunately, the conversations we have are when people sign up to discuss it, as opposed to having a conversation amongst the Council during the Budget workshop.

Mr. Driggs said thank you.

Ms. Ajmera said so I agree with Councilmember Driggs and Councilmember Graham on Animal Care and Control. I remember in last year's budget, we had also increased one full-time staff there. So, when you send us a memo, if you can also give us an update on resources, because that's also been an ask that hasn't been addressed in a while.

Mayor Lyles said so, before, since we're doing Animals, I know that we also had this on site over on Toomey Avenue. Is that still ours, the existing site? So, if you look at a city that's 30 miles across, I think you may have some ideas around, well, do you build one big place that everybody has to go to, or are there other opportunities that would be available? I think we really need to include in this discussion, not just the money part of it, but there have been some studies done about how you do Animal Control facilities, and a number of ways that other cities. I think we need to get some ideas of what else is happening and where it's going if we're going to have this conversation, and it's going to be one. I think we ought to be thinking ahead what's in the future for Animal Control, as well as some of the studies that are showing the increase in animals. Also, in the abandonment of animals more than anything, and which is an entirely different thing than what we have currently, I think. So, if we're going to do this, let's do it completely and a whole, because it is going to be significant.

Councilmember Mitchell said Councilmember Graham and Councilmember Driggs had the same question I had about defining projects at risk. So, thank you, staff. Let me jump to the future project updates, and particularly, is this around the 2024 Community Area Plans. I think that's something we have all focused on and saying it's a priority. I'm feeling a little uncomfortable, though. I guess, I don't know what dollar amount that we are allocating part of the 2024 Community Area Plan. So, I don't know if that's, we need more input from Planning, or have we designated out of that $22 million how much we're going to use for the Community Area Plan?

Mr. Jones said so, Councilmember Mitchell, I think that's on the operating side, that we put money in PAYGO (Pay-As-You-Go) last year for that.

Mr. Mitchell said so, to cover that, okay, thank you. The second question is the facility project update. Great job staff, because in the construction market, it is challenging as you know, and so I'm glad you're keeping up with the trends in the market with concrete and lumber. Let me ask you one question, though. We had a conversation about a police station, and so is that listed as number 10, projects added, that was a police station that started off.

Ms. Jennifer Smith said that was CMPD Northwest. That's the one we're saying at risk.

Mr. Mitchell said oh, that's still the same one? Okay. So, are we going to rebid that out? Correct. Okay, great, alright. Thank you, Madam Mayor. Thank you, staff. Great job.

Councilmember Johnson said I wanted to follow up. How are at risk projects identified?

Ms. Jennifer Smith said so, we are looking at the current budget we have for that project. That includes some amount of contingency that's still remaining on the project, and we're looking at what our estimate is for construction. If that budget is pretty tight, and right there really close to what we think the ultimate cost of the project is going to be, we're calling it at risk, because in those projects, I have not bid that project out and gotten actual prices to do that work. So, if the bid prices come in, to what I'm predicting they'll come in, we think it will be on target or on budget. We'll meet the budget. However, if the bid prices come in higher than what I've estimated, then it's probably going to be overbudget. So, there's these projects that are right there on the line.

Mr. Bergman said yes. We are very afraid of the color red in the Budget office. So, we probably made this more confusing than need it to be. So, basically, the way to think of it is, overbudget is red, at risk is yellow, and everything else is green. So, next year, when we come back, some of those yellows will become green and they're fine, and some of them will become red and overbudget. So, it's really kind of a warning that we're getting pretty close to that contingency level.

Ms. Johnson said okay. Can we look at the projects, Mr. Jones? I just want to understand. So, when I look at the at-risk projects, let me ask, geographically, where is Fire House Number 11?

Ms. Jennifer Smith said I think 28th Street and Graham.

Ms. Johnson said okay, so, that's not District 4, good. Okay, but when I count these, I think it's four or five of these 11 are in District 4. So, it's 45 percent of them are in District 4, if I'm looking at them correctly, you can correct me if I'm wrong, of the ones that are at risk? I wanted to know how those were identified, and if in this presentation, we can add a column for District, so that I, and also Council and our public, can see that these are equitable and evenly distributed, and we can be assured that these cuts aren't political or anything like that. So, if we could add the column for the district, please. I don't understand how 45 percent can be in one district when there are seven districts across the City.

Mr. Jones said okay. So, some of these projects predate the, I guess, guardrails we put in place for the four bond cycles that this Council put together a few years ago, again, before Advanced Planning, things of that nature. So, we are going to always have to inherit some projects that really didn't have the design that an engineer would have liked to have beforehand. Then, we can figure out where things are by district, Councilmember Johnson. What I will say is that one of the things that we're trying to do is move away from this, but we have to stay here until we give you the next thing. The next thing would be those strategic investment areas that's all across the City that we can scale up depending on the funds that are there, because this leads you to having a conversation about what's in my district or somebody else's district, as opposed to getting to a place where you can really unlock some capacity by being data driven around projects throughout the City. I can only do what I can do, because this is what we have right now, and we can make sure we put it by district. I just want us to think a little bit about where we're headed in the future, that it's more data driven.

Ms. Johnson said well, and let me just say, Councilmember Graham, I'm not happy that it's in any district, but that would've been the difference between 45 percent and 54 percent. So, that's why I wasn't sure where that was. So, yes, I think that we, as a City, want to make sure that we're looking at all of the districts, and if there has to be any cuts, that they should be done equitably and evenly as possible. Thank you.

Ms. Ajmera said I just want to make sure we are all on the same page. So, with any cost overruns, we have enough capacity of $22 million to cover that. So, there are no cuts from any of this list, is that correct? I just want to make sure.

Mr. Bergman said the ones that are overbudget for what we need in FY2025, we feel there is sufficient capacity to do it.

Ms. Ajmera said so, there is sufficient capacity of $22 million in 2024 bond cycle to cover this. Second, for Eastland, I do see that under Workforce Development, and it says on target. So, this only includes General Fund, correct? This doesn't include if there are any other sources? So, maybe that's why Eastland is not on here.

Mr. Bergman said correct, this is General Fund. This is about what Council has already allocated in past budgets. So, if there's some future ask for anything we, of course, wouldn't have it in here.

Ms. Ajmera said got it. Okay, thank you.

Mr. Driggs said just in response to that, I remind everybody of this document. So, we have in here 200 miles of road widenings. We have 260 miles of thoroughfares and sidewalks. I think there's a question about what assumptions we're making concerning CIP capacity versus the expectation of new sales tax. Are we being clear about how we make that distinction? Because according to this, there are huge needs, that probably only could be met by a new revenue source, and therefore, would not have to be included. A lot of what we do in CIP could be covered by the new revenue that we would get from a sales tax under the Mobility Plan. Is that right?

Mr. Jones said that is correct.

Mr. Driggs said alright. So, then I think it's worth being clear about what we discuss that is predicated on the revenue and pursuit of this plan versus what we can do with CIP on a more urgent and immediate basis. We have two road projects right now in CIP, that's it, and it's not nearly enough. So, let's recognize we are heavily dependent on being able to pursue this plan in order to achieve the greater needs.

Mayor Lyles said and I think that also includes sidewalks, a lot of that. If we could have the Mobility Plan, one, I think it would go faster, and it would be covered by the tax that extends beyond our city limits, instead of putting this all on our people for property taxes. So, it is something to be said about that.

Councilmember Brown said I want to just be clear. I know that I'm looking at and following it, and [inaudible] ones that are overbudget and at risk. Are we doing the same thing with those [inaudible]?

Mr. Jones said yes. So, Councilmember Brown, what we're doing is, for those projects that are overbudget, we believe that there was enough of capacity that we didn't align with any project, that we can cover those overages. So, that's, I guess, the big takeaway and I'm glad you've asked that. We don't see a problem right now with anything being overbudget, because we have capacity elsewhere to cover it, yes.

Ms. Brown said that's it for me.

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ITEM NO. 4: CAPITAL INVESTMENT PLAN CAPACITY

Ryan Bergman, Strategy and Budget Director said okay. So, our last presentation, which we've handed out for you to put into the binder, will be by our CFO (Chief Financial Officer), to talk about our CIP capacity.

Teresa Smith, Chief Financial Officer said so, thank you, Ryan, and thank you, Council. I am excited to be the last presentation with you today to talk about the Capital Plan capacity or affordability, and I use the two words interchangeably. So, if you hear me say one or the other, they are essentially the same thing. Before I get started, I did want to introduce Matt Hastedt, who is also here with me, City Treasurer. So, we'll both be available to answer any questions that you may have.

So, I wanted to start out just talking about steady state, because we use the term steady state, and I know for many of you on the Council, you were here when we started steady state, so you understand what that means. For others, it may not be as easy to recognize what we mean when we say steady state. This was something that we introduced in 2018, as a way to preserve our bond funding into the future. So, rather than looking at what we could afford today, we're actually looking at those future cycles to make sure that we're preserving some of that affordability as we go forward. This is part of our Comprehensive Capital Plan. So, we look at not only debt, but we look at how we use PAYGO and grants and contributions and cash, but debt is a major part of this program. I wanted to highlight the AAA rating here, because what we're doing today, this planning process, is one of the reasons that we are able to maintain that AAA rating. We use the term management AAA, which means that you all have strong financial policies and that you do undertake this planning process that looks forward. So, you're not just looking at what is best for today, but you're looking at what is needed over the long-term. Having the AAA rating allows us to issue debt at lower rates, because people see this as high quality with minimal risk, and that's what people sort of flock to.

One of the financial policies that I wanted to highlight, and you'll see this as we get into the model, is our use of fund balance, so just to kind of give you an example of what the financial policies look like. We do make sure that we maintain 50 percent of our fund balance into the next year, so that we can ensure that we're covering those debt service payments. I also wanted to highlight that affordability is a point-in-time analysis. So, that means what we know today, based on the audit, based on what we have budgeted, based on what our projections are, and based on what our rate assumptions are. So, an affordability number, you would expect that to change, that it will fluctuate up and down when any of those things change. The other thing there to note is when we talk about affordability, we can allocate this between bonds and COPS, and we'll talk a little bit more about that as we go through the presentation.

So, steady state is what we account for in our Municipal Debt Service Fund. So, the Municipal Debt Service Fund is funded. The two major sources there are, a dedicated portion of the property tax and a dedicated portion of the sales tax. We also have other revenues. An example there would be, investment income, and I highlight that because we'll talk about that in a future slide. Then, the uses for those revenues, this is where we are funding our debt issuances related to those things for construction, so there's large capital projects, and then our facilities and our equipment. So, just to give a little bit of baseline here, when we talk about our construction and our capital projects, this is typically where we'll use a General Obligation bond. So, when we talk about our bond package, that's what we're referring to, is the General Obligation bond. Those require voter approval. We have already talked about a little bit the seven-year authorization window. So, once we ask voters to approve that, we have seven years to use that authorization on projects. If we don't use that, the authorization expires. The other thing about the General Obligation bond is that it is a pledge to raise property taxes. So, what that means is that once you enter into a General Obligation bond, if you cannot afford that debt service you have pledged, that you will make sure you raise property taxes to do that, which is why the steady state is so important, because we're modeling in a way that you're not pushed into a property tax increase, that you understand the debt affordability that you're going into as we go through.

Along with our General Obligation bonds, we also use what we call a Bond Anticipation Note program, that is a short-term draw note that we'll use before we issue the General Obligation bond. So, you may hear all of these terms and see these things and Council actions. So, GO, General Obligation, BAN is the Bond Anticipation Note, and then we use COPS, which was referenced earlier, Certificates of Participation. That is what we'll typically use to fund our facilities and our equipment. The difference between the COPS and the bonds is that the COPS do not require voter approval, and what we pledge there is generally the asset. So, if we're buying new vehicles, we can pledge that vehicle for that loan, so you kind of think of that as the way you think of a home mortgage, is the way the COPS work.

So, when we go into the debt model and how we actually come up with the steady state affordability, there are three big buckets, and so I want to talk you through those. I'm going to talk through them right to left, and I think you'll see why when we get to the left, but I'm going to start with the cost of funds. So, what we are referring to here, is our interest rate assumptions. These are driven by market conditions. So, the last time we made an update for interest rates, interest rates had really jumped significantly. We haven't seen that, because they've held at that steady rate. So, they're still higher than we would like to see, but they haven't changed significantly. So, when we're looking at how that affects our affordability, we would say this was a neutral impact into this year's calculation of steady state. The next one there is spend rate. So, spend rate kind of addresses how quickly we have to issue debt. We just heard and we just talked about, in the prior presentation, the cost for the projects going up. So, as we spend money faster, we will have to issue debt quicker. So, when we look at that and how that plays into the model, that has a negative impact on our affordability. So, we've indicated that here with red, because we agree with Budget, we don't like red.

Then, finally, we look at revenue. So, as we talk about the revenues that are coming in, we want to make sure that we have conservative, but reasonable assumptions, and for 2024, just as you heard on the General Fund presentation, we do expect the revenues to come in stronger than we had initially projected. So, from a modeling perspective, that has a positive impact on the affordability. So, what does that look like when you put it all together? So, the new updated steady-state affordability puts you at $228 million in total if you utilize all of that growth for streets and neighborhoods. You'll see the note over to the side, the prior capacity was $210 million, so we have added a little bit of affordability, a little bit of capacity, but I also wanted to highlight the note on the bottom. So, if you allocate any of this new growth in capacity to housing bonds, you add $10 million on your affordability. There's a difference in affordability, because of the way those bonds work, because of the rates that have to be estimated for those two types of financing, but you can see that you could do a combination of allocating this affordability. It is not a one-for-one, I will say that, but if you allocated it all to streets and neighborhoods, that would put you at $228 million in total. With that, I will stop for questions.

Mayor Lyles said any questions on this one? Okay, what I think I'm hearing from you is that we have $228 million. How do you divide it? If you look at what's new or different or changing the amounts from what we've had in our steady state, there are consequences to deal with this in terms of how you have to change the capacity and perhaps how we have to change the debt equation. So, that's what I heard. So, I think this is something that, as we've talked about this, the ideas around where do we allocate this money, is very, very important. I'm not sure when this has to take place, Mr. Jones, so that you know, so that you can prepare if things are going to be different than in the past. That's the other thing I heard. So, am I missing it?

Marcus Jones, City Manager said no, not at all, Mayor. So, Mayor and members of Council, I would call this just a check-in with you, just to let you know where we are with the steady state. I think at some point, the steady state was at $226 million, and then it went down to $212 million, then $210 million, and now back up to $228 million. I would tell you, Mayor and members of Council, we shouldn't even debate $18 million right now, because $18 million is not going to deal with the issues that we have in the long run. We're just letting you know that we're moving in a positive direction versus a negative direction, not to, I think, the boldness that many of you have talked about, but it's just a check-in to see where we're at. We'll say this also, and great job Teresa and your team, she mentioned the concept of a management AAA, and that's pretty important. For the most part, the rating agencies look favorably on Charlotte, because of the way we manage this, not because of the wealth factor or things of that nature. So, we just need to continue to be conservative, because that's what keeps us in this AAA territory, how we manage this debt.

Mayor Lyles said so, I think that the prioritization for the Council, in terms of I think Ms. Ajmera talked about, how do we make sure that people can walk through our streets and that we get to zero fatalities on our streets? So, that comes out of the $160 million for the last time, and then as we continue to think about this, what are we doing and committing. I think there was no estimate for the neighborhood projects yet, because those are not in the new 16 districts, we don't have that yet. On 50, I've heard a lot of conversation about moving that to 100, so how does that all prioritize, and I think that's going to be the discussion this Council is going to have to have.

Mr. Jones said no, I totally agree with you, Mayor. The thing that I'll ask you all to think about. The budget is presented, I think, May 6, 2024. We're going to have a number of discussions, even Budget workshops or in the committee. There's been talk about potentially a sales tax. The sales tax won't get here by May 6, 2024, so there's some things that we have to talk about in terms of the City of Charlotte, and how do we continue to address the needs that are out there that we're identifying? I'll also say, you know how we work. We will try our best to be as innovative and creative around how we can get the biggest bang for our buck, for lack of a better word. So, I would not suggest that this is a take it or leave it, it is just the beginning of a discussion.

Councilmember Driggs said so, the management AAA, as I understand it, means that our debt level is relatively high for a AAA, but they preserve the AAA because they appreciate the quality of our management. Is that a good description?

Ms. Teresa Smith said that is a good description.

Mr. Driggs said okay, and the other thing I just wanted to point out is, when we talk about steady state, the simplest way to put this is, if we go above the steady state number this year, we would expect to have to issue less debt in future years. It's just a one-for-one tradeoff. So, that's the amount that you can do every year. If you get ahead of that schedule, you're going to have to catch up by issuing less debt later. I will also mention, just to tie in with the prior presentation, those yellow numbers up there, are what we were told earlier, will be needed for projects, right? I thought that's what I heard.

Mr. Bergman said Mr. Driggs, no it's not, and I know this gets confusing. The yellow is actually new capacity that's never been in our model.

Mr. Driggs said oh, okay. It's different, right. So, that was the result of updating the calculation, so we had new capacity. Then, what we were told before was, compared to this new capacity, it is still the case that we need to keep all of the uncommitted money in our CIP available to deal with the cost of current projects. Okay, that was it. I just wanted to be clear on that. Thank you.

Councilmember Ajmera said so Ryan or Madam CFO, this increase in capacity, was that because of the projections in revenue change?

Ms. Teresa Smith said yes, that was the major.

Ms. Ajmera said okay. So, we have actually more better projections, not projections, projections were always good, but it's just that our revenue projections are looking better?

Ms. Teresa Smith said right, and if you remember from the General Fund presentation that Ryan did, property tax was one of those, and since property tax is a major source of revenue for this fund, we're seeing a similar thing there. I was going to mention the interest income, because when we see the rates rise, anything that we have invested, our interest income is actually higher. So, those were the two revenue sources that increased.

Ms. Ajmera said got it. So, can we go back to that slide number five. So, at the bottom where it says, "If new capacity attributed to housing bonds, growth amount is $10 million per bond cycle." I'm not sure if I follow that.

Ms. Teresa Smith said sure. So, a street and neighborhood bond is different from a housing bond in a couple of different ways. So, a street and neighborhood bond is a tax exempt bond. So, the rate that we have on that is a little bit lower than a housing bond, which is a taxable bond. So, that's one place that we started that the interest rate will be higher on the taxable bond. The other thing, just from a modeling perspective, the way that these funds come online and the way that we have to issue debt, it comes faster on the housing side, and so we pick up more principle a little quicker than we do on the other. So, those factors together just make the affordability smaller if you dedicate it all over to housing.

Ms. Ajmera said got it. So, when we look at Municipality bond, because those are usually tax free, the housing doesn't fall in that category, it's just the rest?

Ms. Teresa Smith said right.

Ms. Ajmera said okay. So, this $160 million in streets and neighborhood, that's all been allocated, right? We don't have any additional capacity here. So, what is one cent increase in property tax? How much increasing capacity would we get? I know for operating, we talked about $25 million, was it? I don't know what would that equal to for the capital.

Mr. Bergman said yes. So, it's about $21 million of revenue, and what that would generate, there's all kinds of different scenarios for, whether it's in housing or COPS or streets and neighborhoods, when it comes on. So, I think we would probably be best to take that as a question we would come back with different answers for.

Ms. Ajmera said yes, so I would be interested in that, and what progress can be made truly in terms of sidewalks, infrastructure projects, and even housing. In 2018, we increased from $15 million to $50 million, our affordable housing, and since 2018, we haven't made an increase. So, I would be interested in that number as well. Obviously, I think $50 million, we need to do more. I can't tell someone, "Yes, I'm in support of $100 million or $150 million or $75 million," because I don't know what that looks like from the property tax perspective. So, having those numbers in capacity increase that would give us, would help. Thank you.

Mayor Lyles said may I add, Ms. Ajmera. I want to make sure I understand this, it's been a while. So, if you take that penny, it would be dedicated for the next seven years to that debt plan. So, it's not like you can do the penny and have operations. You are then making a decision to grow the capital part instead of the operational part. Am I right? Okay, seven years.

Ms. Ajmera said but you could do mixed, right?

Mayor Lyles said well, I'm sure you could. It could be half. I mean, whatever you do, the rule is, it's dedicated.

Ms. Ajmera said got it.

Mayor Lyles said this is a happy way to end this.

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<u>Mayor Lyles</u> said if you give me just a minute, we have over 35 people signed up to speak. I just want you to know that we'll go through it, and they'll be two minutes for everyone. While we're here, any questions on the consent agenda?

<u>Councilmember Mayfield</u> said Mayor, Marie is getting some information for me. I did ask a question about Item 35, I believe, and Manager, it was a simple one. I was really nice to y'all today. It was only one question. Basically, all I wanted, and it's not challenging anything. It was basically the maintenance for our 302 acres. I just wanted to know how much of those acres are developable, as we're having these conversations around addressing our housing.

Mayor Lyles said so, the other question I have, is there anyone that would like to make a comment on the consent items? So, does anyone want a separate vote off of any consent item?

Ms. Mayfield said well, can we have that Item 35.

Mayor Lyles said you want to take it as a separate vote, 35.

Ms. Mayfield said thank you, Mayor.

Mayor Lyles said okay, thank you. Grounds Maintenance Services. Alright, thanks everyone.

Mayor Lyles said I know, I was going to say first, I want to say thank you to the team. You guys put together amazing work, complicated, and you made it simple enough for me to understand. So, thank you very much.

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ADJOURNMENT

Motion was made by Councilmember Mayfield, seconded by Councilmember Driggs, and carried unanimously to adjourn the meeting.

The meeting was adjourned at 3:58 p.m.

Ariel Smith, Lead Clerk

Length of Meeting: 1 Hours, 50 Minutes
Minutes completed: October 17, 2024

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