Approved: April 19, 2010

Minutes of the Special Meeting of
Tuesday, March 30, 2010, at 9:00 a.m.

The Union County Board of Commissioners met in a special meeting on Tuesday, March 30, 2010, at 9:00 a.m. in the Personnel Training Room, Room 131, First Floor, Union County Government Center, 500 North Main Street, Monroe, North Carolina. The purposes of the special meeting were to: 1) consider appointments to the Community Trustee Council at CMC-Union; 2) review proposed revisions to the County's Financial Policies; 3) hear a Health Plan presentation by staff; 4) receive input from the Board on the 2011 Budget; 5) go into closed session to discuss matters within the attorney/client privilege in accordance with G.S. 143-318.11(a)(3); and 6) take such action related to these matters as the Board deemed appropriate. The following were

PRESENT:	Chairwoman Kim Rogers, Vice Chairwoman Tracy Kuehler, Commissioner Allan Baucom, and Commissioner Lanny Openshaw
ABSENT:	Commissioner A. Parker Mills, Jr.
ALSO PRESENT:	Al Greene, County Manager, Matthew Delk, Assistant County Manager, Lynn G. West, Clerk to the Board, Jeff Crook, Senior Staff Attorney, Keith Merritt, County Attorney, Kai Nelson, Finance Director, members of the press, and interested citizens

At approximately 9:00 a.m., Chairwoman Rogers called the special meeting to order and welcomed everyone present. She stated that the first item would be the consideration of appointments to the Community Trustee Council at CMC-Union.

<u>Consider Appointments to the Community Trustee Council at CMC-Union:</u>

Chairwoman Rogers recognized Commissioner Openshaw, who serves as the Board's liaison to the Community Trustee Council, for comments.

Vice Chairwoman Kuehler stated that it is her understanding that Nancy Anderson has been removed from the nominations submitted by the Trustee Council Nominating Committee.

Commissioner Baucom questioned whether the Board would be discussing or making the appointments. Chairwoman Rogers responded that the Board would be considering the appointments, and the Board might take action during the meeting.

Commissioner Baucom moved that if the Board was going to take action during the meeting, that the section of the special meeting be filmed in which the appointments to the Community Trustee Council would be considered. The motion failed by a vote of one to three. Commissioner Baucom voted in favor of the motion. Chairwoman Rogers, Vice Chairwoman Kuehler, and Commissioner Openshaw voted against the motion.

Commissioner Openshaw moved to appoint two people to the Community Trustee Council [names were not given at this time] and stated that he had no input on the remaining appointments.

Vice Chairwoman Kuehler stated that she had not received an answer to her question regarding whether Mrs. Anderson's name was still on the list of nominations. There was discussion regarding an e-mailed request that her name be removed from consideration.

Al Greene, County Manager, pointed out that the terms of several of the appointments have been expired for some time, and suggested that in order to maintain the staggered rotation on the council, it would be helpful for members to be appointed to fill the unexpired terms.

Chairwoman Rogers stated that she had asked to review the resumes of the candidates but to date, she had not received the resumes. She said that she had received biographical summaries for the candidates, but she wanted to review actual resumes. She stated that she was not prepared at this time to make a decision on the appointments. She said that if Mrs. Anderson's name has been removed, then two recommendations from the Community Trustee Council would be needed for that position, and there was only one recommendation at this time.

Commissioner Baucom stated that there seems to be some question on whether Mrs. Anderson remains as a candidate, and he would like to see this question resolved. He asked Michael Lutes, President of CMC-Union, if he knew whether Mrs. Anderson wished to remain on the candidate list.

Mr. Lutes responded that he was not aware of any e-mail from Mrs. Anderson asking that her name be removed. He stated that he could ask the Community Trustee Council Nominating Committee for clarification on that point.

Chairwoman Rogers distributed copies of the e-mail received from the Chair of the Community Trustee Council stating that Mrs. Anderson was requesting that her name be removed from the candidate list.

Chairwoman Rogers asked Commissioner Openshaw if he had a motion on the floor. Commissioner Openshaw repeated his motion to appoint Ray Killough and Donnie Baucom to serve on the Community Trustee Council and to wait to appoint the other positions until after receipt of the resumes of the candidates.

He asked if the Board wanted to see the resumes of Mr. Killough and Mr. Baucom. Chairwoman Rogers said that she personally wanted to see all of the resumes.

Vice Chairwoman Kuehler questioned what amount of conversation would be appropriate in open session regarding the appointments. Mr. Crook responded everything; it was open session.

Vice Chairwoman Kuehler commented that she knew that part of the selection process for the criteria for CMC was continuity, and she understood the value of that criteria. She stated that the two people nominated had served on the Trustee Council during the 2008 lease negotiations and had put forth a lease that they had not read, so she had some hesitation about how this would be addressed with them.

Commissioner Baucom stated that the Trustee Council had not brought the lease forward in 2008. Vice Chairwoman Kuehler restated that the Trustee Council had endorsed the lease. Commissioner Baucom said that the Trustee Council had brought forward the lease proposal, and the Lease had come from CHS to staff. He stated that the Community Trustee Council had endorsed the five elements of the lease proposal in 2008.

Commissioner Openshaw said that one of his concerns is that the Community Trustee Council did not see the lease. He stated that the Community Trustee Council was asked recently to approve a financial proposal for another Certificate of Need. He said there is a disconnect in the process. He said that he did have a concern about that which could be addressed at some other time. He withdrew his motion and agreed to defer action on the appointments until the Board feels comfortable with the appointments.

Chairwoman Rogers asked if the Board could take action to obtain the resumes of the candidates. Commissioner Openshaw requested that Mr. Lutes provide that information.

No action was taken.

Closed Session:

At approximately 9:30 a.m., Chairwoman Rogers moved that the Board go into closed session to consult with an attorney in order to preserve the attorney-client privilege in accordance with G.S. 143-318.11(a)(3) and to consider the qualifications, competence, performance, character, fitness, conditions of appointment, or conditions of initial employment of an individual public officer or employee or prospective public officer or employee pursuant to G.S. § 143-318.11(a)(6). The motion was passed by a vote of four to zero. Chairwoman Rogers, Vice Chairwoman Kuehler, Commissioner Baucom, and Commissioner Openshaw voted in favor of the motion. Commissioner Mills was not present.

Chairwoman Rogers requested that only the County Attorney and the Commissioners remain in the closed session. Staff members and others left the meeting at this time. The Commissioners remained in the Personnel Training Room for the closed session.

At the conclusion of the discussion in closed session, at approximately 11:30 a.m., Commissioner Baucom moved that the Board go out of closed session. The motion was passed by a vote of four to zero. Chairwoman Rogers, Vice Chairwoman Kuehler, Commissioner Baucom, and Commissioner Openshaw voted in favor of the motion. Commissioner Mills was not present.

At approximately 11:35 a.m., Chairwoman Rogers reconvened the open session and stated that she would like to discuss the agenda item to receive the Commissioners' input on the 2011 Budget. Mr. Greene stated that staff would not have sufficient time to present the Health Plan presentation today.

The Manager asked the Board if April 14^{th} would be a convenient date for a work session. It was noted that it would be the Board's regularly scheduled work session. It was stated that the Health Plan Presentation would be scheduled for that date.

Keith Merritt, County Attorney, left the meeting following the closed session.

Review Proposed Revisions to the County's Financial Policies:

Kai Nelson, Finance Director, joined the meeting again at this time, and Chairwoman Rogers stated that the next agenda item would be the County's Financial Policies. She said that Mr. Nelson had answered most of her questions. She asked if it were better for the financial policies to state that there is a possibility that something would not be followed rather than to state that it would be followed and break the policy. She explained that she was referring to the school bonds and not incorporating the fiscal impact in the following year.

Mr. Greene said that he thought the question was "what are you going to do from here as opposed to last year?" He asked Mr. Nelson to explain the rating agencies' perspective to this question. Mr. Nelson responded "predictability" and "adherence." Chairwoman Rogers asked if the County took a hit for not adhering to its policies. Mr. Nelson said that he thought in some respects it is an issue of communicating with the rating agencies about non-adherence and perhaps the nature for the non-adherence. He stated that he thought the rating agencies would be more receptive to giving the County a pass so to speak given the great recession and the current circumstances, and they would want to know on a continuing basis the County's predictability in adherence to the policies. He said that the rating agencies talk about sustainability, and Union County receives high marks in connection with sustainability of its financial policies.

Chairwoman Rogers said that she understood what Mr. Nelson was saying: it is better to have the more firm language in the policies and then explain any exceptions.

Mr. Nelson explained the specific context of the Chairwoman's inquiry which had to do with the aspect of the County's maintaining a AA credit standard. He stated that the current spread between AA General Obligation bonds and single A General Obligation bonds is roughly 50 basis points, which is one-half of one percent. He said that $700 million seems to be the number that is being used for the County's potential outstanding debt. He estimated 50 basis points on $700 million to be $3.5 million for one year. He stressed that this is a huge financial incentive to the County and its taxpayers to have financial policies and to adhere to those financial policies that were designed to maintain the County's stellar credit.

Chairwoman Rogers referred to Paragraph 37 in the proposed revisions to the financial policies. She read the following language:

37. General and Enterprise Fund balances in excess and Enterprise Fund balances in excess of target levels will be transferred to capital reserve funds to provide equity resources to fund the County's capital improvement plan.

She stated that she had proposed adding at the end of the sentence "or to pay down debt to hold and/or reduce tax levels." She requested that Mr. Nelson provide some explanation regarding this language.

Mr. Nelson responded that to the extent there are excess revenues beyond expenditures in any given year, the question becomes what does the Board do with that money? He stated that the current policy addresses putting those monies into the savings account. He said that to the extent that it is taking revenues in excess of expenditures and reducing the tax rate, it means getting into a structure imbalance. He stated that he thinks a modification to this paragraph to reduce the annual operating expenditures would be a good thing.

Chairwoman Rogers asked if Paragraph 37 could be modified to say ". . . capital improvement plan or pay down debt." Mr. Nelson said that he thought it would be prudent on the part of the Board to add that language.

Mr. Nelson directed the Board's attention to Paragraph 17 in the Financial Policies which addresses the development of a Debt Service Management Plan. He explained the Public Schools Debt Service Management Plan.

[Commissioner Baucom left the meeting at approximately 11:50 a.m. without having been excused.]

Mr. Nelson stated that at one time the monies received for the Average Daily Membership (ADM) were annual recurring revenues. He said that the Board and the school system agreed some years ago to take the ADM proceeds and to direct those monies toward the repayment of school debt. Mr. Nelson stated that the State has withheld those monies for the current year and the next year's budget to balance the State's budget.

He explained that when the debt service management plan was developed for the 2006 school bonds, assumptions were made relative to the revenue steams which included the ADM money. He said that the Schools' entire Debt Service Management Plan is being impacted by the revenue streams not being as was projected. He stated that the critical issue to the County staff is that staff views the Public Schools Debt Service Management Plan in a comprehensive sense. He said that in earlier years, had the program not existed, the fund balances would have been higher and the Board, outside of the Debt Service Management Plan, could have used those funds for any operating expense or capital expenditure. He stated that when the plan was generating surpluses, the money was being earmarked for schools.

Mr. Nelson said in looking at the Debt Service Management Plan today, the County is a little bit in the hole because of ADM money. He stated that staff views ADM and lottery monies comprehensively within the debt service management plan and they do not take individual components of it. He said that the staff's concern is that the County continues to manage the Debt Service Management Plan in a comprehensive sense. He stated that the Debt Service Management Plan is what staff goes to the rating agencies with when the rating agencies want to know how the Schools' Capital Improvement Plan is being funded.

Commissioner Openshaw said that he is still seeing a surprising amount of construction. He stated that some time ago he had asked for the number of properties the County is inspecting now. He said he would appreciate receiving that information. He stated that it was not just in one neighborhood; it is in a number of neighborhoods, and the houses are relatively lower-end homes. He said that a number of the school children are not counted yet, and there are multiple children per family.

Mr. Nelson responded that it is a number that the staff monitors very closely on a monthly basis.

Commissioner Openshaw said it goes back to the student generation rate. He questioned whether the demographic shift would have future impact on the County.

Chairwoman Rogers asked if there were any further questions regarding the financial policies.

Following the discussion, Vice Chairwoman Kuehler moved to adopt the financial policies as amended, which are recorded below in their entirety. The motion was passed by a vote of four to zero. Chairwoman Rogers, Vice Chairwoman Kuehler, and Commissioner Openshaw voted in favor of the motion. Commissioner Baucom left the meeting early without having been recused, and in accordance with the Board's Rules of Procedure, his vote was counted in the affirmative. Commissioner Mills was not present.

Overview

These “best management practices”, adopted by the Board of County Commissioners on March 15, 2004, are influenced by the North Carolina Local Government Budget and Fiscal Control Act, sound financial principles and credit guidelines advocated by the rating agencies and Local Government Commission. Operating independently of changing circumstances and conditions, these practices guide the Board in policy decision making and provide the Manager with a framework in developing budgetary and financial planning recommendations – both in the short term (the annual budget) and long-term (capital planning and financial forecasting).

The practices were modified November 1, 2004, to include parameters defining the use of derivative products to mitigate the County's interest rate exposure, October 17, 2005, to include limitations regarding the duration in which independent accounting firms may conduct the annual audit, October 15, 2007, to include parameters regarding the imposition of user fees, September 15, 2008, to reflect refinements in the tax-supported debt capacity limits and March 30, 2010, to reflect debt composition (fixed, variable and derivatives), fiscal impact statements, tax rate increases in connection with bond referendums and the expansion of benchmarking metric definitions.

Operating Budget

1. The County will annually adopt a balanced budget by June 30, which will provide an operational plan for the upcoming fiscal year.

2. The Manager will develop a budget which contains detailed budget recommendations for the next succeeding fiscal year (year 1) and financial targets for next budget year (year 2) following the first succeeding year.

3. The County will maintain a system of budgetary controls to ensure adherence to the budget.

4. Current operating revenues will be sufficient to support current operating expenditures. Fund balance appropriated for recurring expenditures will not exceed an amount that the County can reasonably expect to save during the fiscal year.

5. The County will maintain an appropriated contingency account. The contingency account will not exceed 5 percent of all other appropriations within the same fund.

6. Debt proceeds or non-recurring revenues will not be used to finance recurring operating and recurring capital expenditures.

Accounting

7. The County will establish and maintain an accounting system in accordance with the North Carolina Local Budget and Fiscal Control Act.

8. An annual audit will be performed by an independent accounting firm in accordance with generally accepted accounting principles.

9. Auditing independence is enhanced by requiring that the independent accounting firm be replaced at the end of the audit contract period – a period of at least five years.

10. Financial systems will be maintained to monitor revenues and expenditures on a continual basis.

Debt – Tax Supported

11. Tax supported debt to be issued over a 5-year capital planning period will be managed to a projected ratio of no more than 3 percent of the assessed valuation of taxable property of the County, may exceed the 3 percent ratio in any single year during the 5-year capital planning period, with the 5-year capital planning trend at or below 3 percent.

12. Payout of aggregate principal outstanding shall be no less than 50% repaid within 10 years.

13. Capital projects will be financed for a period not to exceed the expected useful life of the project.

14. The County will maintain its financial condition in order to maintain a minimum bond rating in the “AA“ category for outstanding G.O. debt and “A” category for outstanding installment financing agreements from at least one nationally recognized municipal debt rating service.

15. Bond referendum and voted and non-voted debt issuance shall be considered only after inclusion of the financed projects in the County’s Capital Improvement Plan and Financial Feasibility Plan.

16. Bond referendum initiatives shall be placed on the ballot in connection with countywide or municipal elections.

17. Tax supported bond referendum initiatives shall be placed on the election ballot only after the development of a comprehensive debt service management plan that provides for the:
    - establishment of cash flow projections which provide an indication of fund requirements and the timing of bond sales
    - development of principal and interest repayment schedules associated with bond sales
    - development of annual operating costs associated with capital projects
    - allocation of General Fund unrestricted revenues to support the repayment of issued bonds.

18. Projected bond cash flow deficits (the difference between projected bond repayment schedules and available revenues) shall be funded through increased taxes or reduction in General Fund services and programs.

19. A debt service management plan and fiscal impact statement shall be developed in connection with each bond referendum initiative and shall be disseminated to the general public.

20. Bond referendum initiatives that pass which contain debt service management plans providing for increased taxes shall be imposed in the first fiscal year immediately following the passage of the referendum. Fiscal impact statements that contain property tax rate increases shall be limited to $0.04 per $100 in any one fiscal year. By way of illustration, a fiscal impact statement contains a $0.07 per $100 property tax rate increase. A property tax rate increase of $0.04 shall be imposed in the first fiscal year immediately following the passage of the referendum with the balance of $0.03 occurring the second year following the referendum passage.

20a. A comprehensive debt service management plan, repayment plan and fiscal impact statement shall be developed prior to the issuance of non-voted debt.

21. General Fund resources (taxes) required to service debt service expenditures shall be calculated and communicated to the general public with the annual tax bill or annual report.

Debt – Utility Revenue Supported

22. Utility debt service coverage ratios shall be maintained at a level of 1.25 to 1.5 times coverage or greater (as measured by net revenues, excluding capital contributions, available for debt service divided by total debt service requirements).

23. Utility system debt to equity shall not exceed 70% - 75% (as measured by total long-term debt divided by total net assets).

23a. Combined water and wastewater rates shall not exceed 1.5% of median household income.

23b. Payout of aggregate principal outstanding shall be no less than 40% repaid within 10 years and 80% repaid within 20 years.

23c. Capital contributions shall be used to fund non-recurring asset additions contained in the capital improvement plan thereby reducing the requirement to issue utility system debt.

24. Utility capital projects will be financed for a period not to exceed the expected useful life of the project.

25. Utility capital projects shall be consistent and conform with other master plans such as Land Use, Economic Development and Transportation

26. Utility capital projects shall satisfy area wide benefits relating to production, treatment, transmission and distribution, as well as being economically viable.

27. The County will maintain its enterprise financial condition in order to maintain a minimum bond rating in the "A" category for outstanding Revenue debt from at least one nationally recognized municipal debt rating service.

28. Utility debt issuance shall be considered only after inclusion of the financed projects in the County's Capital Improvement Plan and Financial Feasibility Plan.

29. Debt issuance shall be considered only after the:

    establishment of cash flow projections which provide an indication of fund requirements and the timing of bond sales

development of principal and interest repayment schedules associated with bond sales
development of annual operating costs associated with capital projects
development of a financial feasibility plan to support the repayment of issued bonds

Investments

30. The County will monitor the receipt and disbursement of all funds to ensure the maximum investment of idle cash.

31. The County will invest only in instruments which comply with the North Carolina Budget and Fiscal Control Act.

Capital Planning

32. The County will develop, and annually update, a comprehensive 5-year capital improvement plan for the General Fund (in collaboration with and to include the Union County Public Schools) which identifies and balances both sources (where the money comes from) and uses (where the money goes).

33. The County will develop, and update semi-annually, a comprehensive 5-year capital improvement plan for the Enterprise Funds which identifies and balances both sources (where the money comes from) and uses (where the money goes).

Fund Balance Targets

34. The maintenance of adequate fund balance is necessary to provide working capital, funds for unanticipated expenditures, funds for capital expenditures in advance of their reimbursement from debt proceeds and tax rate stabilization.

35. General Fund target unreserved fund balances are estimated at 16% (as measured by unrestricted cash and investments minus liabilities divided by expenditures plus recurring interfund transfers.

36. Water and Sewer Operating Fund target fund balances are estimated at 365 days cash on hand (as measured by unrestricted cash and investments minus non-GAAP liabilities divided by operating expenses to include depreciation).

Excess Fund Balance

37. General and Enterprise Fund balances in excess and Enterprise Fund balances in excess of target levels will be transferred to capital reserve funds to provide equity resources to fund the County's capital improvement plan or will be used to redeem outstanding debt.

Swap Agreements

38. Authorized to achieve a reduction and/or limit the financial exposure of debt service payments.

39. Must receive an opinion of bond counsel law firm that agreement is legal and binding.

40. Must receive Local Government Commission approval.

41. Must retain independent certification from financial advisor that swap agreement provides fair market value and that the associated risks are prudent risk appropriate for the County.

42. Counterparty must have two long-term, unsecured credit ratings in at least double A category.

43. Swap agreements may be procured either through negotiation or competitive. If negotiated, County must receive fair market opinion from financial advisor.

43a. Swap agreements which synthetically fix variable rate debt, combined with unhedged variable rate debt, will not exceed 20% to 30% of all long-term debt outstanding; this metric will be applied separately to tax supported and enterprise debt.

User Fees

44. County encourages the establishment of fees at a level that maximizes revenues.

45. Regulatory fees shall be set at a level that strives to recover full costs (direct and indirect costs, such as depreciation or usage costs associated with capital assets) of providing the service, unless statutory restrictions limit the fee amount.

46. Non-regulatory fees are charged for a wide variety of services with the primary purpose for non-regulatory fees being to: 1) influence the use of the service and 2) increase equity.

47. Non-regulatory goods or services provided to specific, identifiable recipients shall be self-sustaining and therefore, shall be financed through user fees.

48. Non-regulatory user fees shall be set at a level that is competitive in the marketplace and strives to recover full costs (direct and indirect costs, such as depreciation or usage costs associated with capital assets) except when:
    free or subsidized service provides a significant public benefit;
    the County has determined that it should influence personal choice to achieve community-wide public benefits;
    full cost recovery would result in reduced use of the service or limit access to intended users thereby not achieving community-wide public benefits;
    the cost of collecting the user fees would be excessively high;
    ensuring the users pay the fees would require extreme measures.

Chairwoman Rogers stated that there are two items remaining on today's agenda: the Health Plan Presentation and the Commissioners' Input on the 2011 Budget. She said that she would like for all five Commissioners to be present for these discussions. She stated that with the Board's willingness, those items would be placed on the April 14th work session.

With there being no further comments or discussion, at approximately 12:15 p.m., Commissioner Openshaw moved to adjourn the special meeting. The motion was passed by a vote of four to zero. Chairwoman Rogers, Vice Chairwoman Kuehler, and

Commissioner Openshaw voted in favor of the motion. Commissioner Baucom left the meeting early without having been recused, and in accordance with the Board's Rules of Procedure, his vote was counted in the affirmative. Commissioner Mills was not present.