

Minutes of Special Meeting of
Tuesday, January 27, 2009

The Union County Board of Commissioners met in a special meeting on Tuesday, January 27, 2009, immediately following the conclusion of the reconvened meeting, which was recessed from January 22, 2009, and scheduled for 10:00 a.m. in the Commissioners' Board Room, first floor, Union County Government Center, 500 North Main Street, Monroe, North Carolina. The purpose of the special meeting was to consider the Board's financial policies and the transfer of capital reserve funds to the general fund, and to take such action relative thereto as deemed appropriate. The following were

PRESENT: Chairman Lanny Openshaw, Vice Chair Kim Rogers, Commissioner Allan Baucom, Commissioner Tracy Kuehler, and Commissioner A. Parker Mills, Jr.

ABSENT: None

ALSO PRESENT: Al Greene, County Manager, Matthew Delk, Assistant County Manager, Lynn G. West, Clerk to the Board of Commissioners, Jeff Crook, Senior Staff Attorney, members of the press, and interested citizens

At approximately 12:00 p.m., the Chairman convened the special meeting and recognized Kai Nelson, Finance Director, for comments.

Mr. Nelson stated that yesterday the County Manager, Al Greene, shared with the Board correspondence that the Finance Director had prepared over the weekend providing additional clarity from the Finance Director's perspective on the County's current financial condition. He shared some occurrences that have taken place since Saturday as a result of the economy including the loss of an additional 74,000 jobs nationally. He said that the unemployment rate is at ten percent nationally, and since Saturday, the National Retail Federation predicts a decline in real consumer spending in 2009. Mr. Nelson said that it has been announced that consumer confidence is at an all time low.

He reviewed three slides that were shown during the presentation to the Board last week. Mr. Nelson discussed the first slide, which showed that 90 cents of every one dollar that the County spends is in the education, human services, and public safety areas. Secondly, Mr. Nelson reviewed a slide showing year-end expenditures totaling \$232 million. He said that the \$226 million in revenues might be somewhat optimistic leaving a deficit of \$6.2 million based on the reductions acted on by the Board recently.

He stated that if the County were to receive four million dollars from the schools, which is the same percentage that County departments have been cut, it would reduce the use of fund balance to \$2.2 million. He said that the expectations of the rating agencies is that they clearly understand that Union County has historically been in a growth mode, has had to manage its capital improvement program and its debt accordingly, and recognizes that the County is not necessarily in the position to add substantially to its fund balance. He stated that the rating agencies' clear expectations year after year in credit profiles is that the Board adopt a budget that is structurally balanced and that the County finish the year structurally balanced.

Mr. Nelson said "on the margin" he thought the County could defend \$2.2 million in fund balance use, but \$6.2 million would be very difficult to defend with the rating agencies in terms of a budget that is significantly, structurally unbalanced going into the new year.

The third slide reviewed by Mr. Nelson was relative to the new year's budget showing a tax rate increase of seven cents, which he said could quickly become ten cents. He said that in his recent correspondence with the Board, he had shared ratings from the three credit agencies. He stated that the rating agencies obviously look at a wide variety of metrics in terms of rating Union County, such as the County's economy, the finances, the debt profile, the County's financial policies, and the Board's adherence to those policies, both from a policy leadership perspective and a staff perspective. Mr. Nelson said that in terms of the County's fund balance policy he had shared four reasons for maintaining fund balance, including credit purposes and work capital.

He said in terms of focusing on the County's financial health, two of the principal components that the rating agencies look at is fund balance and the structurally balanced budget. Mr. Nelson stated that the Board has a fund balance policy of 16 percent, and based on the projection for 2009, the County will be several million below the 16 percent in fund balance. He said in terms of a structurally balanced budget, if the County is able to achieve that, he thought it was "on the margin." He added that given the current state of the economy, where the County was one year ago in terms of budget development and estimating the budget, he believed that the County could manage the situation with the rating agencies. He stressed that a budget that is substantially unstructured is going to be difficult not only in connection with this year's budget but also next year's budget.

Mr. Nelson said that in the credit profiles, the Board would see where the credit rating agencies noted that Union County had a fund balance amount that had been in the 40 to 50 percent range. He stated that in adopting the policy at 16 percent, there is another financial policy that speaks to any amounts in excess of 16 percent are transferred to the County's Capital Improvement Program (CIP). He said that several years ago, the Board transferred \$20 million to the CIP which brought the fund balance down to the 16 to 18 percent level. He explained that the source of these funds was the general fund, which was in an amount in excess of 16 percent. He said that a comment he has heard from the County's financial advisor in connection with other communities that have gone to the rating agencies over the past few months is that the rating agencies have been focused on the degree to which issuers have changed their behavior in connection with adopted plans. He said what the rating agencies want to know is if there is a CIP, given the nation's current ills, are you continuing to move with the execution of that CIP or are you taking a more discreet approach trying to identify projects that are on the spectrum of essentiality, and not giving up hope of getting them done but just simply putting them out to another year or another day. Mr. Nelson said that he believed that Union County has a good story to tell the rating agencies in connection with the fact that it had a CIP; it was intending on issuing COPS in the October, November, and December timeframe, but because of the capital markets' crisis, the Board elected to defer that issuance, and it is still evaluating those projects, and further, that the County has looked at the CIP somewhat judiciously and has modified its behavior.

Vice Chair Rogers said that the Board had asked at an earlier meeting if the funds in the capital reserve fund could go to operating and was told "no." She questioned what has changed since that time. Mr. Nelson responded that he did not believe anything had changed, but he thought the issue was there are two kinds of standards – one of which is a structurally balanced budget. He cited as an example if the \$2 million deficit noted on the previous slide should end up being \$5 million, and the Board takes \$5 million out of the capital reserve fund and moves it over to the general fund to show that the County finished the year structurally balanced. He said that the County would not be successful in achieving its financial goal of having a structurally balanced budget based on revenues over expenditures. However, he said that in terms of the 16 percent standard, the County would have met its standard.

Vice Chair Rogers said that in a previous meeting when discussing the parks and recreation grant, the Board had asked did the \$500,000 matching funds required for the grant take away jobs, and the Board was told "no." She said now the Board was looking at taking \$3.9 million of the unallocated funds from the CIP and doing the exact same thing. Mr. Nelson responded that it was the symbolism.

Mr. Greene stated that he thought there was a difference between general fund balance and general fund available for operating appropriations. He said that typically the County would not want to use its fund balance for operating.

Mr. Nelson said that the County would clearly still not meet a structurally balanced budget, which is a hurdle that Union County is going to have to deal with this year and depending on the depth of the deficit spending, it puts the County in an even greater hole in dealing with the new year's budget. He stated that in connection with having the required working capital (16 percent standard), the County would meet that benchmark.

Commissioner Mills commented that he did not think it was fair to say that the County is not meeting the structurally sound budget by tomorrow, but it is work in process. He said that there might be other actions that could be done prior to the end of the fiscal year to meet the obligation. Mr. Nelson agreed and said that in order to meet the \$2.2 million goal, the Board has a major decision to make to reach that goal. He said that in the event the Board is unable to achieve the \$3.9 million goal through reductions in the schools' budget, then the \$2.2 million budget deficit would become much higher.

Mr. Nelson responded to questions by Commissioner Kuehler regarding the bond rating documents provided to the Board as well as questions by her regarding revaluation and a revenue neutral tax rate. Chairman Openshaw said that he was delighted that these questions were coming forward about the revaluation and a revenue neutral tax rate, because a high percentage of the e-mails that he received asked the same questions by residents saying that they thought the revaluation was supposed to be revenue neutral. He stated that he would like for this to be a subject of a future meeting, but suggested that the Board move forward at this time with today's agenda.

Following the discussion, Commissioner Mills moved to approve the recommendations of the Finance Director to move \$3.948 million, the unallocated portion of the capital reserve to the general fund balance, which is represented by Budget Amendment #29.

BUDGET AMENDMENT							
BUDGET	General Fund			REQUESTED BY	Kai Nelson		
FISCAL YEAR	FY2009			DATE	January 27, 2009		
INCREASE				DECREASE			

<u>Description</u>				<u>Description</u>			
Interfund Transfer from General Capital Project Fd		3,948,000		Fund Balance Appropriated			3,948,000
Explanation:	Appropriate funds from unallocated funds previously transferred from the General Fund to the General Capital Project (CPO) Fund.						
DATE	1/27/2009			APPROVED BY			
					Bd of Comm/County Manager Lynn West/Clerk to the Board		
FOR POSTING PURPOSES ONLY							
<u>DEBIT</u>				<u>CREDIT</u>			
<u>Code</u>	<u>Account</u>	<u>Amount</u>		<u>Code</u>	<u>Account</u>		
10499100-4991	Fund Balance Appr	3,948,000		10491200-4040	IFT from General CPO		3,948,000

Mr. Nelson responded that in the event the \$3.9 million is moved and it represents 16.5 percent, pursuant to policy, then the equivalent value of the .5 percent would be transferred to the capital reserve.

Chairman Openshaw said that he would argue from a different perspective that the County has shown a willingness to move the funds and there is remaining funds that could be moved in the future rather than transferring the entire unallocated portion at the present time, and having it evaporate.

Commissioner Mills said that he was willing to amend his motion to approve transferring whatever amount Mr. Nelson thinks is necessary not to exceed \$3.948 million.

Vice Chair Rogers requested that the motion be restated as amended. Mrs. West restated the amended motion as follows: Move to transfer whatever amount necessary, not to exceed \$3.948 million, to meet the 16 percent standard. (Represented by Budget Amendment #29 recorded below).

The Chairman called for a vote on the motion as amended which passed unanimously.

Chairman Openshaw asked if this were the last item on the Board's agenda today. Mr. Greene responded that staff has received a memo from Dr. Ed Davis, School Superintendent, and staff is working to provide the information requested in the memo. He said that staff has discussed with Dr. Davis a tentative time and date for the joint meeting with the schools. Mr. Greene said that Dr. Davis is trying to arrange a meeting for February 5, 2009, at 5:00 p.m. and he will be back in touch with County staff about the meeting.

Commissioner Baucom stated that he would be out of town on February 5. Commissioner Kuehler shared that she, too, would be unavailable to meet on February 5. Chairman Openshaw stated that he thought it was important that the entire Board be available to meet with the schools.

Mr. Greene asked the Board members to review their calendars and let staff know of their availability for a meeting with the schools. He stressed that the meeting needs to take place as soon as possible. Chairman Openshaw suggested that the Board members provide the Manager with dates that they might have available prior to February 5.

Vice Chair Rogers asked if the meeting with the schools would be board-to-board between the schools and commissioners. Mr. Crook responded that it is not required to be a joint meeting of both boards, but it is required to be a joint meeting of the Board of Commissioners with a presentation by the Board of Education regarding the impact of the reductions to the schools' budget.

Chairman Openshaw said that he thought it was important for the public to know that in the bond rating documents, it states that growth is what has caused the County's debt. He read excerpts from the bond rating documents. He described growth as "a gift that keeps on asking for more money" in this instance, because the County has to build the schools in arrears to meet the needs.

With there being no further discussion, at approximately 12:41 p.m., Vice Chair Rogers moved to adjourn the special meeting. The motion was passed unanimously.