

CUMBERLAND COUNTY FINANCE COMMITTEE  
NEW COURTHOUSE, 117 DICK STREET, 5TH FLOOR, ROOM 564  
MAY 3, 2012 - 9:30AM  
MINUTES

MEMBERS PRESENT:       Commissioner Kenneth Edge, Chairman  
                                  Commissioner Jeannette Council  
                                  Commissioner Ed Melvin

OTHER COMMISSIONERS  
PRESENT:

Commissioner Jimmy Keefe (arrived 10:15 a.m.)  
Commissioner Charles Evans  
Commissioner Marshall Faircloth (arrived 9:40 a.m.)  
Commissioner Billy King (arrived 9:55 a.m.)

OTHERS:

James Martin, County Manager  
Amy Cannon, Deputy County Manager  
James Lawson, Assistant County Manager  
Rick Moorefield, County Attorney  
Howard Abner, Assistant Finance Director  
Sally Shutt, Communication and Strategic Initiatives Manager  
Julean Self, Human Resources Assistant Director  
Callie Gardner, Day Reporting Center  
Kristoff Bauer, City of Fayetteville Interim Manager  
Michael Gibson, Parks and Recreation Director  
Candice H. White, Clerk to the Board  
Press

Commissioner Edge called the meeting to order at 9:30 a.m. Commissioner Edge noted this was the National Day of Prayer and asked attendees to take a moment to reflect on those things for which they were thankful.

1.       APPROVAL OF MINUTES – APRIL 5, 2012 REGULAR MEETING

MOTION:     Commissioner Council moved to approve the minutes.  
SECOND:     Commissioner Melvin  
VOTE:        UNANIMOUS (3-0)

2.       UPDATE ON PARKS AND RECREATION BOND ISSUE

James Martin, County Manager, recognized Kristoff Bauer, City of Fayetteville Interim Manager, and Michael Gibson, Parks and Recreation Director, and called on Amy Cannon, Deputy County Manager, to provide the update. Ms. Cannon stated at the March 1, 2012 committee meetings, city staff gave a presentation on the Parks and Recreation bond issue. Ms. Cannon stated this proposal included projects totaling \$65.7 million, and of that total, \$8.5 million had been identified as city projects, \$5.9 million had been identified as county projects

and \$51.1 million had been deemed joint projects. Ms. Cannon stated under this proposal, the Board of Commissioners would call for a referendum in February 2013 giving residents the opportunity to vote on the bond projects. Ms. Cannon stated if the referendum were approved, the Board of Commissioners would then create a countywide Parks and Recreation capital tax district which would include an assessment of 2.25 cents per \$100 property valuation. Ms. Cannon stated the operational costs were to be covered by fee generation and by reductions in the current budget.

Ms. Cannon advised in Fiscal Year 2008, the Board adopted a financial policy document that addresses debt repayment, debt structure and other criteria as a part of the county's pursuing a bond rating upgrade. Ms. Cannon stated one of the driving factors to the county's success in receiving an upgrade was its conservative debt profile complying with its financial policies and rating agency criteria. Ms. Cannon stated more specifically, ratings agencies look for debt repayment with level principal payments over the life of the debt and that 50% or more of the principal is repaid in the first ten years based on a twenty-year amortization period.

Ms. Cannon advised since that committee meeting, management worked with the county's financial advisor in addressing questions related to the financial structure of the proposal in comparison to the county's policy document and ratings agency criteria. Ms. Cannon reviewed the following issues categorized as debt concerns and debt structure, and operational concerns that need to be considered:

- The proposed debt repayment structure is aggressive since the payment of principal is significantly delayed to the middle or end of the 17 year amortization period.
- In this scenario, the 50% criterion mentioned above is not met until year 12 of the 17 year amortization period.
- This repayment schedule takes away the county's flexibility in the future because the debt repayment is pushed further to the end of the amortization period and would require that the amortization of future bond issues be increased to maintain the 50% criteria.
- This financing structure will negatively impact the county's debt ratios and ratings criteria.
- Although the county has the legal capacity to issue the bonds, the county's debt capacity for this issue must be considered in conjunction with other capital needs within the upcoming five to ten year period, to include the needs of the school system, since this issuance may limit the county's future flexibility.
- As proposed, it appears that the county assumes all responsibility and risk for the debt.
- Detailed information on the operational plan and underlying estimates and assumptions for the revenues and expenditures has not yet been provided and must be reviewed in detail since ratings agencies will evaluate the operational plan and the associated risks.

Ms. Cannon stated in order to advance the proposed referendum, city and county finance staff will have to become comfortable with the assumptions that the revenues are conservative but the expenditures that have been projected will cover all the operational costs. Ms. Cannon advised a draft interlocal agreement has been developed to provide direction on the capital plan, debt issuance and repayment, and the operational responsibilities. Ms. Cannon stated the draft interlocal agreement was provided to county staff on April 19, 2012 by Kristoff Bauer, City of Fayetteville Interim Manager; however; it has not yet been reviewed by the county's legal staff.

Ms. Cannon stated the interlocal agreement is also a factor in the consideration to move forward because of the county's operational responsibility with joint projects. Ms. Cannon stated should there be a shortfall in the operations of the joint facilities, the city and county would then share in the operating loss based upon proportionate assessed valuation.

Ms. Cannon stated in order to advance the proposed referendum, issues related to the county's debt structure policy and, more importantly, protection of the county's financial position and bond rating need to be addressed. Ms. Cannon stated it would not be her recommendation to change the county's financial policy document to meet this proposed schedule; however, one option would be to attempt to restructure the debt with level principal and increase the 2.25 cents because with rapid payback there has to be greater revenue generation to pay back level principal. Ms. Cannon stated another option would be to attempt to cash flow or pay-as-you-go more of the smaller projects with emphasis placed on building joint projects with the bond proceeds. Ms. Cannon stated there may be other options.

Mr. Martin stated Mr. Bauer has indicated 2.25 cents is the most the city will support in terms of a recommendation and that the Fayetteville City Council is interested in holding the referendum in February 2013 and not at some later time.

Commissioner Council stated the county is in a position to receive mandates from the state and she was personally not interested in anything that would change the county's financial position. Commissioner Council also stated county staff would likely not be able to work full time on the numbers for the parks and recreation issue at this time either.

Rick Moorefield, County Attorney, stated the impact on the county's financial position and bond rating would be the same regardless of how the financing is structured. Mr. Moorefield stated it was really a general obligation bond issue for the county and by statute the Board of Commissioners would have to adopt a resolution with findings of fact, one of which would be whether the issuance of debt would necessitate a tax increase, and if so, in what amount.

Commissioner Edge expressed concern that a breakdown of the projected operation costs had not been provided and that the city and county would be responsible for any shortfalls if the fees did not meet operating costs. Commissioner Edge stated he felt the people should decide, but they should have all of the facts before doing so. Commissioner Edge also stated the county should not have to assume the risk of reducing its bond rating and he does not favor a repayment schedule that takes away the county's future flexibility. Commissioner Edge stated it would be hard for him to support the parks and recreation bond issue as it is currently presented.

Commissioner Council stated she had started receiving feedback from citizens regarding the charging of fees for services that they felt should be provided free of charge. Commissioner Council stated she felt citizens needed to be educated on the operational costs of these facilities. Michael Gibson, Parks and Recreation Director, stated citizens have not been educated because the department is waiting on elected officials to say they support the bond issue. Mr. Gibson stated the county has savings in excess of \$450,000 to \$500,000 a year with the 5 cent tax and also by the sharing of employees between the two departments.

Commissioner Faircloth asked why this was strictly a county obligation, and why the city and county did not each have a bond referendum. Mr. Bauer stated the request from elected officials was to have a referendum and this was what was driving the general obligation debt. Mr. Bauer stated other means of financing can be identified and the city is willing to carry the debt, but the challenge is the city can not do that and also have a countywide referendum.

Commissioner Faircloth stated at some point the county may need to revisit the debt structure because he felt the financial piece should be shared by the partners in proportion to how it is currently shared. Commissioner Faircloth stated he favored allowing the people to vote and believed there should be additional study into the matter.

Mr. Bauer stated the proposed project is designed based on the current assessed value, so if the county puts in 1 cent across the entire county, the city will pick up its proportionate share of the cost from the revenue generated within the city from that county tax. Mr. Bauer also stated the city can not put into place a tax throughout the entire county which is the reason the city had not proposed two referenda. Mr. Bauer stated the concern he would raise about two separate referenda is that there would then be two competing bond issues for city voters to decide. Mr. Bauer further stated if the referendum were to pass in the city but not in the county, it would result in two separate systems rather than a combined system. Mr. Bauer stated the city has been charged with operating a joint system under the interlocal agreement and will do its best to respond to requests put forward by the Board.

Consensus of the Finance Committee was to add the parks and recreation bond issue to the agenda for the Board's May 11, 2012 planning session for discussion by the full Board.

### 3. UPDATE ON THE DAY REPORTING CENTER FY2013 FUNDING

Mr. Martin called on James Lawson, Assistant County Manager, who reported on June 23, 2011, House Bill 642, the "Justice Reinvestment Act of 2011" was signed into law which brought about many changes to the criminal justice system, including the Criminal Justice Partnership Program (CJPP). Mr. Lawson stated effective July 1, 2011, general statutes concerning the CJPP were abolished and the Treatment for Effective Community Supervision (TECS) Program was created in place of the CJPP. Mr. Lawson reported the Act also directed the department to enter into contractual agreements through a competitive bid process to provide substance abuse treatment, cognitive behavioral intervention (CBI) programming and other evidence-based programs as part of the TECS program. Mr. Lawson stated for the current fiscal year, programs already providing services under the CJPP were allowed to continue providing services through June 30, 2012.

Mr. Lawson advised the Cumberland County Day Reporting Center (DRC) is currently funded through the CJPP funding that will now be awarded under the bid process to provide services under the TECS program. Mr. Lawson stated based on the criteria for funding consideration under the new program, the DRC does not meet the program eligibility requirements because in order to receive consideration for TECS funding, agencies must provide approximately 90% CBI services and 10% substance abuse services; and within that model, a limit of 15% of total costs can be allocated towards administrative-related expenditures. Mr. Lawson reported the county's DRC is mainly administrative in nature and provides case management services to refer

offenders to receive CBI, substance abuse and educational services. Mr. Lawson further reported that since the DRC is not a direct provider of the requisite services, it does not qualify as TECS program.

Mr. Lawson advised effective July 1, 2012, the Day Reporting Center will no longer be funded and will therefore cease to exist as a county department. Mr. Lawson stated it is his understanding that there are several local agencies bidding for TECS funding who are capable of providing the services required under the new program.

Mr. Lawson stated the position held by Callie Gardner is funded through the pre-trial services program and is not affected; however, there are three county positions subject to a reduction in force (RIF). Mr. Lawson outlined what the county is doing to identify jobs for these employees and also what the county is doing to help with the transition to the service provider agency that is awarded the bid in order to avoid any disruptions in service and retain the one-stop process. Mr. Lawson responded to questions.

#### 4. UPDATE ON THE CLASSIFICATION AND PAY STUDY

Mr. Lawson recalled the format for the 2011 Commissioner's Planning Session was strategic planning and as part of that process, the Board of Commissioners developed a strategic plan that updated the County's mission statement and vision, and established five goals with each goal having its own set of objectives.

Mr. Lawson stated Goal 5 was established to "employ motivated, professional and well-trained personnel who offer excellent customer service with PRIDE (Professionalism, Respect, Integrity with accountability, Diversity and Excellent customer service), and Objective 5 of that goal established that the county would "explore competitive pay based on labor market analysis and update classification system". Mr. Lawson reported in the spring of 2011, the county began work towards the accomplishment of that objective and county Human Resources Department worked as part of a study team that included external supplemental staff to conduct the study. Mr. Lawson advised the project was designed to be comprehensive and included a review of organizational charts, job descriptions, up-to-date job information, internal and external market pay analysis, review of the County Code, and the county's pay policies and practices. Mr. Lawson stated interviews were conducted with employees, as well as county management, department heads and supervisors, and included all departments with the exception of the county's Health and Human Service agencies (Public Health, Mental Health and Social Services). Mr. Lawson stated since these departments are subject to the State Personnel Act (SPA), there are additional considerations that will require a focus separate from the county's general local departments. Mr. Lawson further stated the county will also need to coordinate with the Office of State Personnel, the authority for approving classification changes for these agencies, and it is the county's intent to conduct a study of these departments in a second phase to this study.

Mr. Lawson stated the county plans to provide the Board of Commissioner's a report and recommendations for Phase 1 of the study at the Board's Planning Session on May 11<sup>th</sup>. Mr. Lawson also stated the county will be presenting options for implementing the study recommendations, including an across-the-board increase for all County employees and employees assigned to the county's SPA agencies. Mr. Lawson stated the county will also

present proposed classification and salary plan, along with related Code changes, and will outline the budgetary and funding impact.

Commissioner Keefe asked whether the comprehensive study included the private sector, and if not, why. Mr. Lawson stated surrounding counties and counties that are like-sized and have other similarities are taken into account as part of the market study because good matches for government positions are usually not found in the private sector. Commissioner Keefe asked whether employees receive an analysis of their compensation packages and how much the county contributes to their benefits. Mr. Lawson stated there has been discussion about doing this and also about doing a better job of relaying the full compensation package when extending job offers. Julean Self, Human Resources Assistant Director, stated the county's Human Resources Department is working on merging the benefits area with the employment area and use it as a marketing and recruitment tool.

Commissioner Edge asked whether SB433 would affect the plan. Mr. Lawson stated at present the personnel system is under the state and if SB433 passes, it would change the authority as to how the programs are managed and the decisions that are made. Mr. Lawson stated the Office of State Personnel continues to undergo changes and may at some point encourage jurisdictions to go substantially equivalent.

#### 5. DISCUSSION OF THE COUNTY'S OTHER POST-EMPLOYMENT (OPEB) OBLIGATIONS AS DISCLOSED IN THE JUNE 30, 2011, COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

Ms. Cannon stated after the presentation of the June 30, 2011 audit, Chairman Faircloth thought that it may be useful to have a discussion at a Finance Committee meeting on Other Post-Employment Obligations or OPEB. Ms. Cannon stated new guidance on post-employment benefits was established by the Governmental Accounting Standards Board (GASB) in 2004 through Statement No. 45, and the main thrust of GASB Statement Number 45 is to require for the first time that public sector employers recognize the cost of other post-employment benefits over the active service life of their employees, rather than on a pay-as-you-go basis. Ms. Cannon explained OPEB includes benefits other than pensions for retired employees, such as; health benefits, disability, dental, life insurance, etc. Ms. Cannon also explained health insurance for retirees is the only post-employment obligation that the county has to record in its financial statements.

Ms. Cannon advised the new standard requires an actuarial valuation which projects the future benefit costs, and additionally, these costs must be recognized in the financial statements under the accrual basis of accounting. Ms. Cannon further advised that Cumberland County, along with other local governments, previously funded and expensed premiums paid to provide health benefit coverage for retired employees under the cash basis of accounting. Ms. Cannon stated funding and expensing premiums under this method is called pay-as-you-go funding, and the pay-as-you-go funding results in the annual premium expense for benefit coverage being expensed and reported as it is paid each year during a former employee's retirement term. Ms. Cannon stated the new standard requires accrual accounting to expense in current dollars an actuarial estimate of future benefit cost over the employee's entire working career or employment term, and additionally, an entity must recognize an unfunded liability that has accumulated if the expense is not funded when the benefit is actually earned.

Ms. Cannon stated the rationale for GASB Statement 45 is to provide more complete, reliable and decision-useful financial reporting regarding the costs and financial obligations that governments incur when they provide post-employment benefits as part of the compensation for services rendered by employees. Ms. Cannon stated this recognizes that the OPEB is earned in the present, but payment of the obligation or benefit is deferred to the future after the employee has retired. Ms. Cannon stated the GASB view is that the obligations should be reported on the accrual basis so that the financial statements will accurately recognize the true cost of the benefit obligations as they are earned.

Ms. Cannon explained there are several key requirements under GASB 45 which must be disclosed or reported in the financial statements; the first is the Annual Required Contribution (ARC) which represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded liabilities over a period of not to exceed thirty years. Ms. Cannon reported the county's ARC for the 2011 Fiscal Year was \$18M; the county only funded \$3.5M of the ARC (retiree health insurance expenditures) and the remaining \$14.5M of unfunded liability was added to prior year's unfunded ARC liabilities for a total net OPEB obligation of \$53.6M. Ms. Cannon explained this amount would represent a one-time payment to fully fund the county's OPEB obligation to date. Ms. Cannon stated the final component reported in the notes to the financial statements is the Unfunded Actuarial Accrued Liability (UAAL); the UAAL estimates the net amount of the unfunded liability for benefits earned by current retired and active employees and former employees eligible to retire in the future. Ms. Cannon reported as of June 30, 2011, the county's UAAL is \$197.8M and this is the total estimated cost over the next 30 years.

Ms. Cannon stated although the numbers are staggering, Cumberland County is no different than any other county in North Carolina in this regard. Ms. Cannon advised the intent of this new statement is to highlight the long-term liability created from the extension of health insurance extended to employees upon retirement; whereas previously, retiree health insurance was offered to any full time employee with 10 consecutive years of service. Ms. Cannon stated in anticipation of the changes required by this statement, the county changed the vesting period for eligibility from the 10 years to 25 years for employees hired after July 1, 2008. Ms. Cannon stated the county's Finance Department will continue to monitor the accrued liability for OPEB and make recommendations as necessary. Ms. Cannon responded to questions. Commissioner Edge asked whether the county could adopt a policy similar to the one adopted by the state with regard to Medicaid Part D. Ms. Cannon stated she would explore the matter with Chico Silman, the county's risk management director.

## 6. REVIEW OF MONTHLY FINANCIAL REPORT

Howard Abner, Assistant Finance Director, reported three-fourths of the year had passed and spending was at 70.57% which was nearly identical with last year. Mr. Abner advised there would be budget revisions on the Board's May 7, 2012 agenda for the Sheriff's Office to increase its fuel expenditure line. Mr. Abner stated during the prior year's budget process, the Board set aside \$114,000 as a fuel contingency and the Sheriff's Office was going to use all of those funds plus more.

Mr. Abner reported ad valorem taxes were on track to collect about 101% of budget which equated to \$1.5 million. Mr. Abner also reported motor vehicle tax collections continued to do well and monthly collections were around the \$1 million mark. Mr. Abner stated year-end collections are nearing \$600,000 above budget.

7. OTHER MATTERS OF BUSINESS

There were no other matters of business.

There being no further business, the meeting adjourned at 10:55 a.m.