



Minutes City Council Issue Review Session September 11, 2008

Minutes of the Tempe City Council Issue Review Session held on Thursday, September 11, 2008, 6:00 p.m., in the City Council Chambers, Tempe City Hall, 31 E. Fifth Street, Tempe, Arizona.

COUNCIL PRESENT:

Mayor Hugh Hallman
Vice Mayor Shana Ellis
Councilmember P. Ben Arredondo
Councilmember Mark W. Mitchell
Councilmember Joel Navarro
Councilmember Onnie Shekerjian
Councilmember Corey D. Woods

Mayor Hallman called the meeting to order at 6:10 p.m.

Call to the Audience

No one came forward to speak.

Proposed Procurement Ordinance Changes

INFORMATIONAL BACKGROUND available in City Clerk's Office.

DISCUSSION – Presenters: City Manager Charlie Meyer; Financial Services Manager Jerry Hart; Central Services Administrator Michael Greene

City Manager Charlie Meyer summarized that some of the proposed changes are relative to conformance with changes in statutes and others are ideas staff would like to explore with Council. In particular, one of the issues is the procurement threshold. The Council can set those thresholds as high or as low as they prefer and staff would like to open that discussion.

Financial Services Manager Jerry Hart summarized that he had asked Procurement staff to review the procurement ordinance for two purposes. The first purpose was to ensure that the ordinance reflected the best practices in the industry, and the second purpose was to look for ways to improve the operation and efficiencies of the procurement process through the ordinance. In assessing the current ordinance, staff looked at the Model Procurement Code of the American Bar Association, as well as recent changes in the State Procurement

Code as a guide. These proposed changes were taken to the Finance, Economy and Veterans Affairs (FEVA) Committee. Staff requests Council's feedback on the proposed changes and would then plan to return to a Formal Council agenda for consideration of approval.

Central Services Administrator Michael Greene provided an overview of the proposed changes:

- Procurement Threshold. Staff recommends increasing the threshold from \$30K to \$50K. This would create efficiencies for the department and for the City. Approximately 140 solicitations are issued per year, and this would generate a reduction by about 20%. This would shorten the cycle time from recognition of need to the award stage. Staff conducted surveys throughout the state, and Avondale, Gilbert, Glendale and Peoria are currently at \$50K, Phoenix is at \$40K, Chandler is at \$30K and is in the process of an increase to \$50K, and Mesa, Queen Creek and Scottsdale are at \$25K. The State has moved to \$50K, and all K-12 public school districts will soon be going from \$30K to \$50K.

For procurements up to \$50K, receipt of 3 quotes is a quicker process, so the cycle times would decrease, administrative time in bringing those items to Council for review would be reduced, and staff would not be required to follow the formal bid list, but would be allowed to select and target the bid list based on that level.

Mayor Hallman clarified that this would be changing the concept for the small purchase. Would anything below \$5K be changing as well?

Mr. Greene responded that staff would propose keeping the required one quote at \$5K.

Mayor Hallman clarified that from \$5K to \$49,999 would be a small purchase using a 3-bid process, and anything over \$50K would go through the formal procurement code.

- Definitions. The State Procurement Office recently completed an update to the State Code, so staff has proposed adding some definitions to further assist in administration of the ordinance.
- Delegated Authority. Staff recommends that the Council approve limited delegated authority for when Council meetings are scheduled only once a month. There are times when there are time-sensitive contracts that need to be awarded and staff would use great restraint with the authority and only approve such contracts. Currently, staff manages about 400 term contracts which come due at various times for renewal. When there is only one Council meeting per month, there can be a gap of five to six weeks between Council meetings.

Mayor Hallman clarified that Council would still need to ratify the action, and he asked what would happen if Council would say no.

Mr. Greene responded that termination for convenience clauses would be retained in contracts, so staff would be able to go back and terminate the contract if Council disagreed with staff's decision.

Mayor Hallman added that it should be made very clear that it isn't a termination for convenience. We wouldn't want to have a lawsuit because we try to make this easier. He would rely on the City Attorney's drafting to make sure we are able to terminate if Council so decides.

Councilmember Shekerjian added that since there is a calendar of Council meetings, if things are time-sensitive, why couldn't they still come before Council ahead of time.

Mr. Greene responded that the sometimes there are situations where staff plans appropriately and the bid process has been issued, but there was a reason to cancel to solicitation, and the plans to bring it to the Council meeting were changed due to a re-bid. This would be for rare circumstances. Sometimes staff is forced into electing the emergency provision to try to award contracts when there is a gap, but sometimes it really isn't an "emergency", but staff simply wasn't able to get to a meeting.

Vice Mayor Ellis clarified that in speaking of "one time during any calendar month", Council went six weeks without a meeting this past summer, but there was one in June, July and August, so this wouldn't have been enacted. Also, when it reads "Financial Services Manager of designee", anyone could be a designee, and that seems too vague.

Mr. Hart responded that if for any event he would not be available, more than likely he would designate one of his deputies to do this.

Vice Mayor Ellis suggested using "senior level management." "Designee" could mean anyone in any department.

Mr. Hart stated that it could read "City Manager" instead.

- Bidding Mistakes. The current ordinance does not allow for an after-award. This would occur when a vendor has been awarded a contract and declares a mistake was made in their proposal, there is no allowance for it to be corrected. This change, similar to the State code, would allow that mistake to be corrected if (1) the vendor can clearly show that there was a non-judgmental mistake made, and (2) the corrected price is still lower than the second response to bid received. If those two things are in place, then the City would have the option of granting that allowance and moving forward with the contract, or the City reserves the right to cancel, re-solicit, or deny the request.
- Final Proposal Revisions. This would be an adjustment specifically to the request for proposal process. Currently, the ordinance requires that if staff has any discussions or contact with the firm during the evaluation stage, that contact automatically moves that step to the best and final process. The State corrected this. This would allow the City to have a conversation with a company to clarify the offer, but not necessarily force the City into bringing them forward for a best and final offer. The best and final offer would be reserved for those firms that are designated as most acceptable for award where the City does not need to move into a direct negotiation phase and possible changes to the proposal in that environment.

Vice Mayor Ellis noted on page 5, which states, "An evaluation committee may consist of one or more

qualified individuals.” That seems that one person could make a decision.

Mr. Greene responded that the language came from the State Procurement Code. Generally, there would be more than one person on the committee.

Mayor Hallman noted that would fit the small purchases where someone might argue that it is deemed a committee, but it is a committee of one person, the procurement officer who is making the evaluation of the best bid.

Mr. Greene agreed that could be a plausible explanation.

Mayor Hallman asked for clarified that Mr. Greene’s reason for doing this is because it matches the State statute.

Mr. Greene agreed that was his primary reason.

- Posting of Award Recommendations to External Web. This is to bring the City’s code up to the current practice regarding how recommended firms are presented to the Council. Currently staff presents their proposal via the internet and that is the part of the communication that occurs up to five days prior to the Council meeting. The ordinance says all proposals remain confidential until after award. This simply cleans up our current practice and makes it compliant with the ordinance.

Mayor Hallman asked whether there would be potential problems with the proposed language that says, “....The City typically publishes award recommendations five (5) days prior to Council review...” if that doesn’t happen and requested that staff work with the Attorney’s Office to more effectively write the section.

- Protest Changes. These changes clarify the vendors’ timeframe to make a protest. The current ordinance is confusing and encourages firms to protest before they have a chance to read the file and determine the City’s rationale. These changes establish 10 days from the time Council makes the award to make a protest.
- Service Revolvers. Staff is asking to change the surplus property ordinance to allow retiring police officers with twenty years of service the option of purchasing their service revolver for \$1.
- Reverse Auctions. Staff is exploring this concept and additional information will be available in the near future. This is an electronic environment where firms compete in reverse where the low price wins. The idea would be to marry this component with the City’s formal solicitation process. We would still continue our formal bid process. Staff would pre-qualify firms, and then those firms would determine the price component that would move to this electronic environment where they would compete on price and would be able to see their ranking. The idea is to foster a better, more intense competition, as well as reduce price.

Councilmember Shekerjian asked if any other cities are doing this.

Mr. Greene responded that ASU is using it and is finding good success. There are other cities as well. This would involve the City issuing an RFP to contract with a third party provider to host this electronic auction, and they, in turn, would receive a percentage from the successful firm. There is some cost involved.

Councilmember Shekerjian stated that many times in order to cut some of the process, the City will piggyback on someone else's contract in the State. Is there some way to use that kind of idea with those entities that are currently doing this to cut some of the costs?

Mr. Greene agreed that it could be used through a competitive cooperative procurement.

Councilmember Shekerjian commended staff for pursuing this concept to cut cost.

Councilmember Navarro asked about diversifying the City's procurement and reaching out to other areas that might not have the communication.

Mr. Greene responded that staff is continuing to take an active approach in marketing through events with networking sessions with HUB type firms, which are typically women-owned small business, minority-owned businesses. Staff attended five or six of those reach-out efforts over the last fiscal year. Links have also been added to their webpage to further stimulate some internal use of HUB vendors by linking to several certified HUB entities. Staff is also working very closely with the Diversity Department and they are making progress.

Andrew Ching added that the legal staff has been working very closely with Mr. Greene and his staff. The comments made tonight will be taken into consideration.

CONSENSUS

- Continue to work with City Attorney to bring Code changes forward to Council.
- Section 26A-5 (d) - Change from "Financial Services Manager...shall have the authority..." to "City Manager...shall have the authority."
- City Attorney to relook at language contained in Sec. 26A-21 (d) (4) "...typically publishes award recommendations five (5) days prior to Council review..."

Follow-up Responsibility: Jerry Hart, Andrew Ching

FY 2008/09 General Fund Contingency Budget Plan

INFORMATIONAL BACKGROUND available in City Clerk's Office.

DISCUSSION – Presenters: City Manager Charlie Meyer; Financial Services Manager Jerry Hart

City Manager Charlie Meyer summarized that there are two pieces to this discussion. The first piece concerns

the direction of Council for staff to return with a plan to bridge the gap that evolved over the month of July as the State legislature finished its business and the oil companies finished their business.

Mr. Meyer continued that there were a number of unanticipated items and Council asked staff to address the \$115K supplemental request from the Tempe Community Council (TCC) for agency funding. There was some misunderstanding with Council whether or not it was intended that that money be funded originally in the budget or not. If it was clear to staff that Council had given direction to do that, staff would have done that, but it wasn't clear to staff that it was the direction. It didn't get in, and there was certainly some confusing discussion that occurred relative to the \$150K to be generated out of the display board money vs. the supplemental request. Mr. Meyer continued that the remainder of the items causing the imbalance have been previously discussed. He continued with the plan that has been assembled.

- Contingency Budget (\$1,286,000) – This budget is set up to pay for these kinds of unanticipated costs, so it would be applied first.
- Vehicle Replacement Deferral (\$468,000) – Staff re-evaluated all planned vehicle replacements for 2008/09 and concluded that a number of vehicles could either have replacement deferred for at least one year or not replacing a few of the vehicles at all.
- Position Freeze/line item adjustments (\$2,003,955) – When staff put together the budget for 2008/09, it was out of balance by \$12M so it was necessary to plug down. One step was to implement a “soft hiring freeze” which means that in the normal course of business, vacancies occur and there is a time period that elapses before those vacancies are filled. Traditionally, those unspent monies have been left in the departmental accounts and the departments have had some flexibility in how they can use them. To fill a hole in the budget, however, staff set a goal of \$1.8M. When a vacancy occurred, if there was \$100 in a department that was saved as a result of not paying salaries, that \$100 would be taken out of that department and put into a reserve account to be used to offset that \$1.8M. So far, that has been working. In order to bridge the additional gap, however, that process will not be adequate, so staff proposes a hard freeze. A hard freeze means that the departments have been asked to look at their vacancies or their anticipated vacancies and determine whether to keep the positions vacant for 60 or 90 days intentionally, or in many cases, simply keep it vacant for the balance of the year. He has made an agreement with the department managers that if we do that, it will not be held against them in future budget processes. The positions are not taken out of their budgets, however, the money is taken out. Some departments have no vacancies or anticipated vacancies and cannot comply so line adjustments were examined. In total, those add up to about \$1M and that would total the \$2.7M needed as a result of these unanticipated costs.

Mr. Meyer continued with the second piece of discussion. Council received the July sales tax report about a month ago and staff expressed serious concerns because that month was 9.3% below last year for general fund purposes. The August report was distributed to Council today and it shows that for the two months, we are now down about 8.8%. The assumption is that we could have a shortfall in the range of \$3M to \$7M for the fiscal year. Staff also conducted a quick survey of the surrounding cities, and Tempe ranked about in the middle. This problem is Valley and country-wide. Cities are heavily sales tax dependent. Staff has taken the idea of

hiring freezes and line item reductions in the departmental budgets, but that isn't a very productive process to continue with. Staff has scheduled a half day to brainstorm bigger ideas. They will be looking at the City and looking at ideas such as reorganization, services, the way things are financed, etc. Staff will develop a series of priorities for Council and would like Council to consider the highest priority of order for Council to fund, for example, maintenance of existing infrastructure. One of the lowest things staff would consider doing in a budget process is lay-off of current employees. There might be fifteen things in between that could be explored. These are the things staff feels make sense from the values of this organization and Council would consider those kinds of ideas next Thursday.

Mayor Hallman added that the finance committee back in 2001 put together a 4-step plan and was adopted by Council. This was a similar approach with the bigger ideas in priority of the steps to be taken to the extent that the economy continued to provide increasing challenges. Staff would like to return on September 18th with at least a rough cut on the steps that should be prioritized to meet the financial challenges.

Mr. Meyer added that staff would also like to explore ideas with the Council on September 18th. Nothing will be ready for tomorrow's packet, so they might be distributed at the meeting. They expect to have employee involvement as this goes forward. Staff will also look at the fund balances to see if they hold any opportunities. There is a fund balance policy for the general fund and it is possible to look at that policy and determine whether it is the right policy. There was \$8M in the rainy day fund, \$2M was used this year, and \$6M remains. In a discussion earlier this year, it was determined to possibly use \$2M in 2008/09 and \$2M in 2009/2010 and try to keep \$4M in the rainy day fund. Many of the decisions have been "pushed" decisions. One example is the vehicle replacement deferral. Staff is proposing about \$468K in savings, but all we are doing is pushing that \$468K into a future year, which means it will have to be made up. If we look at the issue of fund balances, we also have to look at how much of the multiple decisions we've made on the budget are simply pushing items off to the future. When the budget cuts were actually made, there were non-recurring and recurring appropriations. Recurring appropriations were considered to be a permanent cut. There may be some expectations by the departments that they would like at some point to be able to reinstate some of those things. Certainly the ones that were one-time this year will come back, but a significant amount of money is in that "push" effort. Another example is the rainy day fund. That \$2M will someday need to be replenished. We have to see whether what we have pushed out is greater than what we are going to be able to recoup by either growth in future revenue or by some other means.

Mayor Hallman stated that when Council addressed this on April 10th, they were looking to address what was projected as a \$12M budget problem and a \$15M budget problem next year. We made certain changes in what we were going to do, but pushing off the market adjustments saved \$1M this year. That is a one-time savings, however. If we re-set the market adjustments to January of 2009, then we can't do that again next year. For the \$15M challenge we face next year, we can't go back to that. We will have to find systemic changes in the budget to address this. He was a little discouraged that we have not yet even addressed Other Post Employment Benefits (OPEB). We set our policy a year ago at \$10M, and it is close to double that. We intended to set aside the OPEB dollars this year and we ended up using that up and we still have to address that obligation to fund the retirement plan. He explained that OPEB is the obligation that prior councils and employees worked out to pay for healthcare for retirees. Those promises over thirty years have never been funded and this Council, due to changes in accounting requirements, has an obligation to find about \$360M.

That is on top of this annual challenge, the systemic change on a budget that will likely grow. We got there, but then we found out that if we are going to address all of these things on the list, it is another \$2.7M. This suggests that next year it won't be \$15M, but it would probably be almost \$18M that we have to make in permanent adjustments.

Mayor Hallman continued that staff has provided a list of \$2.7M. The current proposal is that we had swept the contingency fund of its total amount of \$1.2M, vehicle replacement deferral of \$468K, and additional cuts in the budget that will be proposed for specific line items, and permanent freezes in jobs, will find another \$1M.

Mayor Hallman asked about fuel and whether we were still taking the view that we will likely end up with about a \$650K increase in costs over projections based on the anticipated fuel cost when the budget was put together. He asked if the estimates were low by \$650K based on where fuel prices have settled?

Mr. Hart responded that when staff presented the estimate of \$650K at the beginning of July, it was during the timeframe when fuel prices were hovering at around \$4 per gallon. Over the last few weeks, fuel prices have declined, but at this point we don't have enough evidence that the decline will continue, so staff did not change the number.

Mr. Meyer added that it has been estimated that the current prices would come in at about \$100K less than that, which is assuming that today's prices hold. No money is being moved for that purpose yet, but we will know in a few months whether today's prices hold.

Mayor Hallman noted the State Reimbursement of \$557,955, the bill the City received from the State. This is under legal challenge, but for public purposes, while we think there are reasons why we may never have to pay it, there are reasons that we may have to pay it. The decision has already been made to pay the \$165,000 for school resources officers and we have already been obligated to pay the \$100K to Qwest. The \$1M for Employee groups – Memoranda of Understanding (MOU) is essentially what we think we will have to pay beginning in January.

Mr. Meyer added that the \$1M is the MOU with the Tempe Officers' Association. This amount results from not moving the Tempe Officers' Association from a July to a January implementation for their market survey. That is a firm number. He does not anticipate that the other MOU will cost less, and they may actually cost more, but we know we will spend the \$1M.

Mayor Hallman noted the \$170M for Department of Public Safety Crime Lab Fee. The governor agreed to take half of that, so this is the reduced amount that we know we will pay for additional increased cost. Essentially, the only discretionary item on this list is the \$115M for agency funding.

Councilmember Navarro asked for clarification on the soft freeze vs. hard freeze and if the money isn't spent, where will it be put.

Mr. Hart stated that it would be put into a reserve account where it can't be spent.

Councilmember Navarro asked for clarification that, if fuel costs are up and prices of certain vehicles are down, this might be a potentially prime year to replace the vehicles. By not buying the cars this year are we actually making it worse next year because we might end up buying into a more expensive market?

Mr. Meyer responded that staff could look at that. They have already seen that there are some items that were procured some time ago and prices have actually come down since then, so staff is re-evaluating, even though an existing contract is available, whether it would be wise to rebid them now for the same vehicles based on the differential in price. Based on the sales tax figures, we would probably be looking at potentially reducing or eliminating vehicles from the pool altogether as opposed to just deferring purchases. Staff will consider all of that for next week.

Councilmember Shekerjian asked about the fuel costs and the vehicle replacements and whether staff has taken this as an opportunity to evaluate how we use cars in general in the City.

Mr. Meyer responded that the Manager of Fleet Services was given two assignments. First, he was asked to look at the issue of how we can find immediate savings by deferring some of the fleet into the future, and second, he was asked to also investigate ways to reduce the usage. He added that staff will explore if there were some monies available and it was necessary to actually spend some money to save some money, we might want to look at the possibility of setting some funds aside for that. An example would be if we needed some upfront capital to do some solar conversion and we thought there was a reasonable payback time period, it may very well make sense to use some available funds and make an investment, so that our budget can stay in balance in the long term. The same can be true of vehicles. He has heard from other public works staff that if we were to buy some pieces of equipment and because of the purchase we were able to actually reduce overtime, manpower, and overall amounts of equipment because the equipment they got was more efficient, that is worth consideration.

Vice Mayor Ellis asked about the State Reimbursement amount. She asked for clarification that if the League fights this and we don't have to pay this, we are still responsible for a portion of the legal fees, so there still would be some kind of an expense.

Mr. Hart agreed.

Mr. Meyer added that the Finance Department built an estimate of the legal fees into the \$557,955 figure. The actual amount estimated for legal fees is \$50K.

Councilmember Arredondo added that he had discussed with Mr. Hart the 1%, 2% and 3% rollbacks. A 1% rollback is \$1.8M, and it just goes higher.

Mayor Hallman agreed except for the condition the City is in. This current proposal doesn't yet even take into account the reduced revenue stream. Although for tonight's purposes the City Manager is saying Council gave this task, he has been too polite. The task we are actually faced with is that next week will show what we have to come up with for each annual year coming forward, without OPEB, somewhere in the neighborhood of \$3M to \$7M. With OPEB and some other expenses that come up, for any dollar that comes up that we don't spend

here, it will get spent and that is what concerns him. He didn't want to leave this table with the public having the impression that everything is good because we are probably looking at something around \$18M that we need to find in the next ten months or \$27M including OPEB. That's a big challenge.

We've made systemic changes in our budget on the expense side that we have to address; it's also because of the economy. Eighty percent of our costs are employee expense with a huge part being healthcare. Just from one employee group's contract, there is a \$1M increase this year. That doesn't really include the addition of the employees we have added. We added an additional 21 firefighters with an immediate hit to the budget of \$2.4M. We have to now make up for the fact that we made those choices by figuring out how we fund it at the same time that revenues declining. The tasks we are solving tonight were handed to us a month ago, and we will be back here in a week.

The only discretionary item left is the \$115K. It isn't a big number and there isn't a person at this table who hasn't demonstrated strong support for social services. He didn't appreciate the notion, however, that somehow one or another member of this Council has misled the public or staff. Mayor Hallman referenced the minutes and documentation staff prepared dated April 3 which came before Council on April 10, setting out the choices the Council had to determine when we had to cut \$12M from the department budgets. His understanding was that all of the department heads sat down together with the outside agencies as well, and made the decisions on what they could live without and came up with their recommendations. That was what was presented. Council said that we would fund \$25K to the Earned Income Tax Credit program; there is a huge list of things that were not funded. It adds up to \$8.6M of cuts to make that budget work: the City Clerk's Office for \$25K, Community Relations for \$28K, Community Development for \$614K, Diversity for \$81K, Human Resources for \$227K, Financial Services for \$63K, Police for \$3.7M in police officers and personnel we didn't fund, Fire for \$842K, Community Services (Parks and Recreation programs essentially) for \$162K, Development Services for \$150K, Parks and Recreation for \$1.5M, Public Works for \$984K, Tempe Community Council for \$130K, with \$115K put on the table by its Executive Director. Here we sit tonight with people pretending that they didn't know that, and if they didn't, they didn't read their document. He was really sad that a couple of weeks ago, a resolution got reported in the paper as being passed 4-1, and he had asked that the \$150K which that the resolution was directing be put immediately toward services.

Mayor Hallman continued that these Minutes reflect that Mr. Richwine had put \$150K coming from the Diablo stadium billboard into Ms. Hanley's budget because she already viewed it in their budget since it was coming out of one of their projects. That evening she was told that she would have to adjust it because the Council essentially recognized that it wanted to allocate that money to cover costs that it would expect from the TCC. Council would specifically earmark that money to go to TCC. That's what the discussion was on April 10th. He asked if Ms. Hanley was in the department head meeting when this budget document was put together.

Kate Hanley responded that she was not present. Shelley Hearn represented her.

Mayor Hallman asked if Ms. Hanley knew that she had included in the supplemental requests that they would not be funded the \$115K.

Ms. Hanley responded that she found out after the meeting that that was the amount.

Mayor Hallman asked if she then informed the agencies as to what the final number would be.

Ms. Hanley responded that they issued letters after the Council acted indicating how much they would be receiving from general fund and the other sources. They did not list an additional amount from the supplemental as they had the last few years.

Mayor Hallman stated that is what this document ultimately is. She came to the Council with this. These are all important programs and the Council recognizes that. She is in as bad a spot as the rest of us. We all want to fund everything we possibly can. He thought what might help was if she could give some guidance tonight on those things she thought in the \$115K supplemental were the most important items so Council can consider those in connection with funding for things like the police officers and other things in the budget we have foregone. He asked if she could pick the current needs that are critical to fund.

Ms. Hanley responded that everything on that list is considered a strong priority.

Mayor Hallman asked what the \$150K going to the Foundation would actually be used for this year.

Ms. Hanley responded that it is an endowment to provide a percentage back to infuse into the agency review process. The \$150K for the display panel wouldn't come to them until next April.

Mayor Hallman added that at a prior Issue Review Session, there was a discussion about financing the use of that money up front for these immediate needs. He thought her answer was that it had been put into an investment account.

Ms. Hanley responded that they don't have it yet. It was going to the Tempe Community Foundation and it would accrue interest and then the interest on the endowment would come back. It is a permanent way of diversifying the base of available resources.

Mayor Hallman clarified that even though these needs are urgent, she thought it was more important to put that money into a bank account.

Ms. Hanley responded that it was the recommendation of the Board.

Mayor Hallman explained that the money is coming off of a permanent arrangement we have made to receive approximately \$150K a year. He was not sure why we are taking something that is a permanent income generator and taking the income from that when it is already set up as an endowment and deciding to put it into the endowment, especially after the Council's discussion in April was that the money could be used to fund the TCC current needs. He was just trying to set priorities because he agrees that current needs are probably our highest priority and in a downturn, meeting the needs of those people at most risk makes sense. He was puzzled why the justification by the Board was that the money should be put into an investment account rather than be spent to meet annual needs.

Ms. Hanley responded that over the last three years, the Board has embraced the concept of the endowment, actually just for this kind of time where there would be a dramatic increase in need, but no flexibility for an additional infusion of funds to address those needs. It would help get through those downturns.

Mayor Hallman added that describes a rainy day fund and the fact is that it is raining right now. That's why it seems to make more sense to use that money on these urgent needs today.

Ms. Hanley responded that the Board thought very deliberately on this issue and that was the consensus recommendation. If it is the consensus of the Council to revisit that, she is ready to take Council's direction to do so.

Mayor Hallman asked what kind of reserve fund the TCC has.

Ms. Hanley responded that for their own 501(c)(3), it is about \$900K.

Mayor Hallman clarified that their tax return shows a reserve as of the end of last year of \$1.7M including cash, savings and securities. That's outside the Foundation. So, whether it is the \$850K you're thinking about in investment, it went up by about \$30K last year, cash went up by about \$100K, and the savings went up by about \$100K. The entire growth in that portfolio was about \$225K. The City has taken its \$8M reserve and taken a quarter of it to fund current needs. He asked if she thought it is justified to have the agency do the same.

Ms. Hanley responded that it would be a little unusual for one independent non-profit to be funding the other agencies. They are required to keep in their reserve a certain number of months of operating expenses. They also have accrued vacation and sick leave payouts. They also have restricted funds that have come from sources that identify which area can be funded. All of the funds are designated even if they are unrestricted.

Mayor Hallman noted that in looking through the final budget that the Board passed this last week, the \$131K in resources that they raised together for the agencies' charities is not included. He did notice, however, that the agency review process included in the final recommendations that certain agencies actually had their budgets reduced from their requests because they received some of that money.

Ms. Hanley stated that they tried to soften the cuts for the others, anticipating that the supplemental might not be there with the successful fundraising that was done through the Rock 'n Roll Marathon. The \$131K hit their books last year and went directly out per Council's direction.

Mayor Hallman added that the 2008/09 budget has the 2007/08 budget in it along with the actual expenditures. Those kinds of flow-through funds for all the money the City gives the TCC even though it goes right back out to agencies are accounted for. Why wouldn't the \$131K be accounted for?

Ms. Hanley responded that they did account for it. It is probably lumped in one line and probably doesn't have its own line. She can bring the documentation that shows that.

Mayor Hallman added that the City imposed a soft hiring freeze on April 10th, saying that if a job position is open it would be kept open, and that has now been proposed as a permanent freeze. He asked if one of their positions that came open this spring was filled.

Ms. Hanley responded that it was filled about the same time it was vacated.

Mayor Hallman added that the City is trying to deal with the whole budget balancing act. The agencies' proposed budgeted salaries last year were \$764K, but they ended up being \$800K, so it was over budget by about \$36K, and this year's budget has increased to \$827K, for an increase of \$62K. Was there any sense that the Board needs to apply the same kinds of belt-tightening that is being applied to the City?

Ms. Hanley responded that she believes the Board is very careful in its stewardship of the resources.

Mayor Hallman added that the City looks to that agency to help distribute the funding through the agency review process. The City allocated about \$1.2M that the agency then distributes for social service purposes. The cost to do that is about \$1.1M, and we then distribute \$1.15M which is before this supplemental request, so if we included that, it would be \$1.2M. To distribute the \$1.25M, the cost is \$1.1M in expenses.

Ms. Hanley responded that would be assuming that that is the only thing that the TCC does, but that isn't true. They run the Earned Income Tax Credit Program and financial literacy and leverages over \$1M back in.

Mayor Hallman asked about the other programs the agency runs.

Ms. Hanley responded that they were asked by the City a few years ago to run the Shared Living Program (affordable housing project for frail seniors).

Mayor Hallman added that the City pays \$105K for that and that's part of the money we considered being distributed.

Ms. Hanley added that they also have the Open Horizons Program for children of teenage parents to ensure those young people can remain in school. About 50 are served through that program. They also have the Communities in Schools program, a project whereby they reach out to the schools and determine and address the barriers to young people.

Mayor Hallman clarified that the City also adds another \$100K for that over and above the \$1.2M, and he asked if that \$100K is given to the schools or whether that covers the staff cost.

Ms. Hanley responded that it covers the staff cost and some goes out to the schools in grants. The staff person leverages other grants that also go out to the schools.

Mayor Hallman clarified that the \$1.2M does not include the \$100K for Communities in Schools. Three programs are funded separately from the staff costs. The City funds \$105K to Tempe Shared Living, \$100K to Communities in Schools, and \$9,500 for Open Horizons. The City also funded the \$25K supplemental for

Earned Income Tax Credit. Were there any other costs incurred that aren't covered by this?

Ms. Hanley responded that the EITC probably costs about \$65K.

Mayor Hallman asked if that comes out of the staff costs or out of the money that the City gives to the agency.

Ms. Hanley responded that the \$25K goes into the contribution to run the entire program. It is primarily run by volunteers.

Vice Mayor Ellis suggested that the Mayor and Ms. Hanley set up a meeting outside of this arena. Council doesn't have any of these materials in front of them tonight. It wasn't her understanding that this was going to be part of the discussion tonight.

Mayor Hallman clarified that the point has been made that the only issue on this list that is a discretionary expenditure is \$115K. Council went through this very carefully on April 10th and made decisions on who would be funded and who would not, and that included the \$115K. Other agencies have given up \$8.6M. He wanted to make sure he understood that if Council funds this \$115K, what does it go for, what its priorities are, and why we are not applying the same standards to the agency that we are making our staff apply to our own employees. He would be glad to put that discussion off to next week, but Councilmember Arredondo is making the point that we could let the City Manager go ahead and make all of these changes and his only point is that there is only one item on the list that is a permanent decision. If Council decides to spend \$115K tonight, we don't get that back. He would be glad to wait until next week and include it in all the priorities we have to choose from. Everything else is either going to get spent or not, and if it doesn't, it goes back into the pot to spend on the priorities we are trying to set. He asked Mr. Hart what \$115K adds up to for the number of staff positions.

Mr. Hart responded it would be roughly two positions.

Mayor Hallman continued that it would be helpful to know from her Board what the priorities would be, because that is really what we have to deal with. This Council is facing a huge issue of priorities and he didn't want anyone to think that there is free money to give certain groups and not others. He would renew his request to this Council to consider that current needs should be foremost, and he believed Council ought to reconsider its decision that the \$150K in resources allocated to the Foundation be considered for use in current needs. Forever after, the TCC will get that income stream from that billboard and can spend that money for current needs as part of its funding, just as it went to other agencies and said the money he went out and raised through the Rock 'n Roll marathon should be counted against them and they could have their budget cut from their request from TCC so TCC could move that money to other agencies it saw fit.

Ms. Hanley clarified that it wasn't commensurate and the agencies who participated got a significant bump.

Mayor Hallman clarified that one agency had its money from TCC cut to more than half, from \$22K to \$10K, so having tried to create a program where we would generate and teach agencies how to raise more money on their own, they got punished for that result. It taught him a lesson. He just wanted to raise the idea for Council's full consideration that none of this money is free. About every \$65K we're spending is potentially an employee's

job and unless we believe the employees of this City are not providing services to our constituents, residents and our businesses, then we are changing the way we do business and we have to take that very seriously. There's only one item on this list that if Council said to go forward would permanently expend money. If Council is comfortable saying to wait until next week to make these decisions when we see all of the priority choices, he is comfortable doing that.

Ms. Hanley added that when the economy turns, typically the people for whom we are advocating are the first adversely impacted and the last to recover.

Mayor Hallman stated that he appreciated that. That's why he is so exercised about the fact that the memo she would draft and the resolution she would draft moved \$150K in resources into the Foundation's fund that could be spent now for those needs. He went out last year and raised \$131K through personal solicitation to add to the agency funds. This year he is going to try to make it \$200K. He cannot understand why the Foundation money should be put aside when it is an annual recurring source of income to address these needs today.

Vice Mayor Ellis stated that Kate Hanley is the Executive Director of an organization that is run by a Board of Directors. They made a decision about this resolution, they were at the meeting last week ready to address Council, but they are not here this week. Ms. Hanley is hired and fired by her Board. Asking her to change her mind on a resolution her Board adopted is essentially as if Council made a decision and someone asked a staff member to change the recommendation of the Council. She suggested putting this off to another time to talk to her Board. She serves on the Board. Ms. Hanley does not have the authority to make that decision and she would like to hear from the Board.

Mayor Hallman continued that it is this Council's job to make decisions on allocating resources. We can pretend that we can sit here and tell the City Manager to make these problems go away, but that's not fair. We can pretend that this money can be given away and we can spend it twice, but we can't. He would like to see the agency come back with recommendations on those things on this list that are the most important and those dollars, that if not spent, wouldn't change what the agency is doing. When he compares the list to what has been requested and what was awarded, and the fact that the Board sent out its final awards assuming no supplementals, that meant Ms. Hanley took the direction that this Council was not funding the \$115K. Suddenly there has been claimed confusion about whether or not Council intended to award that. According to the April 10th Minutes, this Council made the decision that it would use the \$150K annually to fund those. He would like to see the agency come back with recommendations on priorities that help our staff meet their obligations because there is no free money here. These may be important priorities and he needs to know that because he wants to make sure we service the people who are most in need. He also wants to make sure we use the Foundation resources that have just been awarded. Ms. Hanley said those Foundation resources are for times just like these. In addition, he would like to see what excess reserves the agency has that could be used to help in this problem. He would like to know why the agency hasn't imposed the same hiring freeze the City has been obligated to impose, and why the salaries are increasing at a rate that is faster than our City's salaries. That would be useful information for next week. He would like this agency included in the summit to be held to deal with the budget deficit.

Councilmember Mitchell clarified that Ms. Hanley is serving constituents of the City as well.

Ms. Hanley agreed.

Councilmember Shekerjian added that the TCC Board may not fully understand or have received information regarding the budget difficulties the City is having and that may be something they would want to know. It may be that if they understood better what we were looking at that they might have a different view.

Mayor Hallman noted that it would also be helpful to identify all of the money allocated, what proportion of those allocations go to Tempe constituents. He has always understood that we are supplying resources to other organizations outside Tempe. We do that because those other cities also service residents from Tempe on occasion. It's more of a social service network. While he appreciated Councilmember Mitchell's point, we should ask what other cities have done as far as their funding of social services. For example, does the Central Arizona Shelter Services have a shelter in Tempe?

Ms. Hanley responded that they do not. Homeless are counted as a point-in-time survey and the percentage of their population is determined based on the County's population.

Mayor Hallman added that in going through these priority lists, he would like to know how this all stacks up. We need to do that fairly and completely. In doing it bits by bits without understanding how it stacks up in priorities is unfair, especially when this original decision was made in connection with all the priorities Council was presented on April 10th. Council had this document and understood what was given up, and in coming back in, if it is changed without looking at all of the other priorities we passed by, it is unfair to the entire community.

Councilmember Navarro added that when he was on the committee to help allocate funds, one of his questions was always how many Tempe citizens are affected by this money. That always affected his decision.

Ms. Hanley added that services that fall into that 'other' category are services like domestic violence and homelessness. For the most part, domestic violence clients need to be housed in a community other than the one in which they were abused, and there are regional shelters for the homeless so that we have enough shelter beds for families, singles, and those living with mental illness. We parse it out so we have all of the services we need for our clients.

Mr. Meyer added that currently, we don't have any items for Executive Session next week, but there are a lot for the Issue Review Session.

Mayor Hallman suggested moving the IRS to 5:30 p.m.

CONSENSUS

- Staff to return to Council on 9/18/08 with list of options to explore changes to the budget which may become necessary.
- TCC was directed to return to Council with priorities, excess reserves, and salary increases.
- TCC was directed to be included in City Manager's staff discussions regarding budget.
- Include staff presented recommendation in discussions at 9/18/08 IRS.
- Move 9/18/08 IRS to 5:30 p.m. from 6:00 p.m.

Follow-up Responsibility: Charlie Meyer, Jerry Hart

Formal Council Agenda Items

None.

Future Agenda Items

None.

Mayor's Announcements/Manager's Announcements

None.

Meeting adjourned at 7:50 p.m.

Jan Hort
City Clerk