



## Minutes City Council Issue Review Session November 6, 2008

Minutes of the Tempe City Council Issue Review Session held on Thursday, November 6, 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 6:04 p.m.*

### **Call to the Audience**

No one came forward to speak.

### **Brownfield Clean-up Grant Application**

INFORMATIONAL BACKGROUND available in City Clerk's Office.

DISCUSSION – Presenter: Community Development Manager Chris Salomone

Chris Salomone summarized that staff is seeking Council direction to apply for a Federal Environment Protection Agency grant for Brownfield Clean-up. The City is eligible for \$600K. The grant would apply to three parcels located near the intersection of Hardy Drive and Rio Salado Parkway for the Elements at TCA Phase 1 and Phase 2, an arts-related development. The application deadline is November 14<sup>th</sup> and staff would like the public to know that this serves as a second public meeting on this issue and should they have any comments, they have until November 12<sup>th</sup> to go to the Rio Salado offices at 620 N. Mill Avenue.

Staff was directed to seek the grant.

### **CONSENSUS**

Staff was directed to seek the grant.

**Follow-up Responsibility:** Chris Salomone

## **Special Council Meeting for Election Canvass**

INFORMATIONAL BACKGROUND available in City Clerk's Office.

DISCUSSION – Presenter: City Clerk Jan Hort

Mayor Hallman summarized that the City Clerk has asked Council to set a Council meeting on November 24<sup>th</sup> in the abundance of caution that the required election data for the canvass will not be received in time for the November 20<sup>th</sup> Council meeting.

City Clerk Jan Hort added that if the information is received in time, the canvass could still be added to the November 20<sup>th</sup> Council meeting agenda instead.

Council agreed to set November 24<sup>th</sup> at 4:00 p.m. for the special meeting.

### **CONSENSUS**

**Special Council meeting set for November 24, 2008, at 4:00 p.m.**

**Follow-up Responsibility:** Jan Hort

## **Budget Update**

INFORMATIONAL BACKGROUND available in City Clerk's Office.

DISCUSSION – Presenter: City Manager Charlie Meyer

Charlie Meyer summarized that Council previously held a discussion on the budget issues at the October 16<sup>th</sup> Council meeting and ideas submitted by employees were discussed. He had optimistically thought that staff might be in a position by this time to put together a Council workshop to discuss the budget concerns. He now feels that more discussion needs to be held prior to a Council workshop. He presented an update from the past three weeks. Three facets have been worked on.

- First facet has been looking at the overall financial policy and how to create financial stability for the City.
- Second facet has involved looking at the 80% of the budget which is personnel. Staff has been evaluating how to make intelligent choices about how to spend the City's money as it relates to personnel, wages and benefits.
- Third facet involves how to structure ourselves. He anticipates that the size of the City workforce will need to be reduced in order to be financially stable going forward. One objective is to organize ourselves so that services can be delivered as efficiently as possible and to be able to continue the highest service level as we possibly can without impacting the public. The other objective is how to do this with a minimal impact on that workforce in downsizing, with the objective being to avoid layoffs.

Mr. Meyer continued that in the past three weeks, three different department manager staff meetings have been

held as well as two meetings with the four employee groups. We have discussed how they can have a stake in the long term. We have shown a model and indicated that we have put all the cards on the table. Staff has been focusing on the upcoming Council workshop where staff will show the Council that their decisions will be on a high level. The model is actually a spreadsheet used as a decision-making tool created by a group under Ken Jones' leadership. Staff is looking to a Council policy that specifies a five-year forecast that is always balanced. The numbers that will appear on the spreadsheet tonight are plugged in for the purpose of showing how the model works, and not plugged in for the purpose of making any kind of recommendations. The model is also designed to be periodically updated.

Internal Audit Manager Ken Jones gave a presentation on the model. He summarized that the current model projects deficits for this year as well as the following three years. The current year's deficit was projected to be about \$12M. Through the Mayor's Ad Hoc committee and the City Manager working with the department managers, the \$12M was resolved through hiring freezes, delayed market adjustments, recurring and non-recurring expenditure reductions and revenues, and some use of rainy day reserve. That model demonstrates clearly that we couldn't give any interactive idea of how that would impact future budgets. We don't know whether all of the changes we made this year will impact significantly the next three years, or insignificantly. The Budget Department has made it clear that their long range forecast will be done in December and until such time, the numbers that we have proposed as assumptions may not be valid. The assumptions take into account the tax decline that is coming and the State shared revenue decrease that is coming. What we weren't able to do is get into the detail. When staff returns in December, real numbers will be plugged in.

Mr. Jones presented the new model. It was developed with the assistance of Brenda Buren, Cecilia Robles, Debbie Bair, Tom Mikesell, and Jerry Hart. He outlined the assumptions contained in the worksheet:

- Currently have a rainy day balance of about \$8M. This proposes doing away with the rainy day balance and folding into the unreserved, undesignated fund balance of the general fund.
- An Accounting policy required us to designate funds to pay people for their accrued vacations. That is no longer an Accounting requirement, so that is being proposed to become undesignated (\$7.5M) and folding it into the fund balance.
- The worksheet uses the fund balance as an economic stabilizer and says the fund balance isn't going to be 25% of current year revenue anymore. It would fluctuate between 20% and 30% and act as that economic stabilizer and we can build that fund balance above 25% in good years and use it for organizational growth or benefits.

Mayor Hallman clarified that essentially what this Council did for the last four years was to reserve additional funds based on the last economic downturn in an amount we believed appropriate to protect our employees in the event we had another economic downturn. That is the reserve we are now going to be able to draw from to smooth things out.

Mr. Jones agreed. Staff couldn't be proposing this model and these fixes to the current budget situation if the Council hadn't acted and reserved those funds.

Mayor Hallman added that future Councils need to understand that during good times it is important to put away

enough money to make sure to stay on the high side for the next low side.

Mr. Jones added that by folding those past reserves into one unreserved, undesignated fund balance, this model allows us to see clearly what the fund balance will look like in the future. He summarized the various features in the model:

- The targeted fund balance is shown and would be funneled down to 25% in the current year. In the out years, when the information is less reliable, we might do with a larger or smaller fund balance projection, knowing that we are going to funnel that toward 25% in the current year.
- He showed proposed numbers to be input into the model which include elimination of positions either in the first half or second half of the year. It assumes those eliminations will take place evenly over the course of those six months.
- Concerning changes to payroll and benefit policies, the number will represent the reduction from the current budget. The model takes in what we currently assume is an increase every year in pay and benefits. This is not a reduction in take-home pay for employees, but is a reduction to the otherwise increase to pay and benefits. Included in that number is everything in personnel costs (insurance, contributions to retirement), not just the things over which we have control.
- Reductions of all of the things “below the line” includes temporary positions and their wages, contracted services, and all of those other things that fall below the personnel line. It is put into a percentage because department managers know how a percentage figure affects their budget. That percentage is not a percentage of the total general fund, but is a percentage of the 20% of the general fund budget that is non-personnel. Each percentage point represents about a \$400K cut.

Mayor Hallman clarified that with the 20%, if that were a 4%, it is 4% of the 20%, not 4% of the total budget.

- The revenue increases are not projected increases to existing fees, policies and taxes. Those are handled in the budget. This is a new fee or new tax.
- The OPEB liability (retiree healthcare benefits). Currently, \$10M has been set aside to put toward that liability. There is about \$3.3M each year, representing the \$10M that has been set aside. As it stands, this has no impact on general fund. It is extended from the reserve. To the extent that these numbers cumulatively exceed \$10M, it would have an impact. If these numbers fall below \$10M, it doesn't put more money back in the budget, it just maintains the reserve.

Mayor Hallman added that, as an example with OPEB, we have been talking about this liability for several years. Council set aside the \$10M two years ago with the intention to do that each year. The economy slid off and we haven't been able to keep pace with that. That \$10M commitment is to the employees who currently work here, as well as those who have retired, to pay for the healthcare benefits we currently have scheduled. That number has gotten higher. A \$7M number is likely below the amount that we are obligated eventually to pay if we are going to fully fund OPEB.

Mr. Jones clarified that \$7M is only an example.

Mr. Jones continued that staff is also trying to track where the sources and uses of the funds are. When staff

returns to Council in December at the budget workshop, the assumptions built into the model will be much closer to reality.

Councilmember Arredondo stated that he would want to know prior to the December meeting what impact the reduction of positions will have on City services.

Charlie Meyer responded that that is the intent of what staff is moving toward. The third piece of this program, the organizational structure, looks specifically at that. Currently, he is asking departments to look at some ranges of ideas for reorganization and specifically for position reduction and many ideas have been put together. By early December, specific answers about the impact on services probably won't be available, but staff should have a general idea, and if the Council feels staff is on the right track, then those will be refined. If the Council feels it is going in a direction they are not comfortable with, then the model will be reworked.

Mayor Hallman clarified that staff won't be making that decision, but Council will. Staff will present the various options, and these would be the impacts on services, and ask which direction to proceed.

Mr. Meyer added that there are two areas where there would be an impact on services: reduction of the number of people and reduction in the items below the line. There are lots of contracted services. If the contract is reduced substantially, that will reduce services to the public. Staff is working to see what the organization would look like based on these ideas and what the implications are.

Councilmember Arredondo added that Mr. Meyer answered his concern that we would gradually get where we would go, starting in December with a generalization, but with Council having the final say.

Mr. Meyer added that staff hopes this model will facilitate that. This model is not a one-time thing. It can be looked at every six months or every year to see how we want to change things around. We know we are still in for some turbulent economic times.

Councilmember Shekerjian clarified that this kind of model will allow Council to make sure we never have a projected deficit, which is very helpful.

Mr. Meyer agreed. Staff will tell Council the assumptions and the conditions that are necessary in order to have a balanced budget. It is a different approach.

Councilmember Shekerjian added that this is a great tool for a lot of reasons: employee involvement in the budgetary process and the transparency so that both employees and citizens can understand,. She commended staff.

Mr. Meyer continued that the middle piece has to do with human resource implications. For each and every employee there is a wage/salary cost and there are benefit costs. Tom Canasi and his group have built a similar model and it is intended to look only at that specific piece of the budget to evaluate all of the different components: cost of health care, overtime, STEP increases, market surveys, etc. If a decision was made to give a different level of STEP increase, it can be plugged into the model and it would tell the results across the

board and allow us to build back to this model. The other piece is bigger and it involves the “soft landing” mechanism. We have said we want to avoid layoffs. In order for that to happen, we have to ensure that whatever kind of structure we are creating for reduction in positions, will allow us to get to it in a reasonable period of time and put employees into positions that are appropriate to their abilities and skills. This is the “Priority Placement Program.” He has met with department managers and employee groups, and the idea is that for a period of time, while we are trying to get from unbalanced to balanced, a new set of personnel rules would be set in place. While we currently look at open competition for filling positions, this would specify that for positions that are slated to be reduced, that we would give some form of priority treatment to get those people placed in job openings that do occur. We do have natural attrition but it doesn’t necessarily happen in the right places. The trick is to get our people into the right places. We are working hard on that model as well.

There was consensus to schedule a Council workshop on Monday, December 1<sup>st</sup> from 8:00 a.m. to noon, at a location to be determined.

#### **CONSENSUS**

Council Workshop was scheduled for December 1, 2008, from 8:00 a.m. to noon.

Follow-up Responsibility:

Charlie Meyer

#### **Formal Council Agenda Items**

None.

#### **Future Agenda Items**

None.

#### **Mayor’s Announcements/Manager’s Announcements**

None.

*Meeting adjourned at 6:50 p.m.*

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Jan Hort  
City Clerk