

Minutes Special Five-Year Financial Planning Session February 19, 2009

Minutes of the Special Five-Year Financial Planning Session of Thursday, February 19, 2009, beginning at 3:00 p.m., in the Harry E. Mitchell Government Center, Municipal Building, City Council Chambers, 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 3:05 p.m.

1. Call to the Audience

Mayor Hallman suggested holding the Call to the Audience after discussion has taken place.

2. Budget Balancing Proposal [20090219bbp1.pdf](#) [20090219bbp2.pdf](#) [20090219bbp.pdf](#)
[20090219bbp3.pdf](#)

City Manager Charlie Meyer summarized that last week he presented to the Council a budget balancing proposal which is intended to be a blueprint of the next five years as a way to define a more refined budget for 2009/2010 and to serve as a guide to develop the budgets for the years beyond that. The proposed plan is consistent with the Council's direction on December 1st. The proposals are very difficult proposals with impacts on services, members of the community and City staff. The plan does accomplish an outline of how we can achieve a balanced budget. His desire is to get as many issues on the table as possible so staff can, if necessary, perform more research, and that we attempt to schedule as many additional sessions as necessary over the next few weeks. Staff would need a two or three week time period to prepare an actual budget to bring to Council in April.

Mayor Hallman clarified that from now until the end of March, Council and staff will need to keep creating the final solution.

Mr. Meyer added that Council has had on its agenda previously the OPEB issue and staff will need guidance on that area. Plan documents need to be developed and a request for approval of that process is on the Formal agenda for tonight. As part of this proposal, he has also raised the opportunity to consider a retirement incentive. If Council is amenable to that idea, staff would want to assemble that quickly because it will create opportunities to avoid any job losses.

Mr. Hallman clarified that the main issues are:

- Work toward reaching a final proposal for a balanced budget over the next three years
- Retirement incentives proposal
- OPEB

Councilmember Woods asked about the retirement incentives and whether there is any way to make this a greater incentive by using more of the fund balance.

Mr. Meyer responded that the incentive concept is fairly conservative and is narrowed down to employees that are in positions where a proposal is made for position elimination. That is relatively few. There are two aspects to it, however. The first piece is that Council could broaden the pool of candidates and potentially create more openings, and second, is the incentive potentially rich enough to actually incentivize people into making the decision to retire? The current proposal is a combination of buying back some accumulated sick leave as well as a factor of recognizing years of service. Because a retirement incentive is a one-time expenditure, using fund balance for that is using it for non-recurring expenses.

Mayor Hallman suggested looking at the fundamental issue with employees. On December 1st, Council directed staff to move toward elimination of 179 positions. This proposal reduces that number to 146.25 positions. This is being done in two phases with the first phase effective July 1, 2009, and the second phase effective July 1, 2010. Whatever we do initially only has to deal with that first phase by July 1, 2009. We will then have twelve more months during which we can monitor the response of the economy to make final decisions on what to do for the second phase. If the economy improves, we could retain positions that we might have otherwise eliminated which would require Council to set priorities. On December 1st, however, Council stated its first priority if the economy improves was to provide additional salary range adjustment for the employees first. If we are still having trouble in the second phase finding position openings, but have enough money, we might instead change our mind and decide to retain employees rather than offer raises to the general employee base.

Mayor Hallman continued that in terms of a retirement incentive, we have targeted positions, not employees, and to the extent there are positions that still have employees in them, we might incentivize people to retire from those positions if they can. There is a second kind of retirement, however, that would pay dividends to us in this task. Any employee who might be able to retire would open a position to which another employee whose job would be subject to elimination could move. If we incentivized both kinds of retirements and do so sufficiently robustly, how many would that be? The answer is to the extent we need to try to target getting people to retire to open positions that will keep us from having any layoffs and that is doable. In the last downturn, we had a significant number of retirements incentivized that helped eliminate any layoffs. We don't need more than that, and incentivizing someone to retire who doesn't open a position that someone could move to, doesn't make a lot of sense.

Vice Mayor Ellis asked about the employee placement programs. She understood that if someone is retiring on June 30th, the employees whose positions might be eliminated aren't eligible for those positions because they need to figure out what their position is before then.

Mr. Meyer responded that it points up the reason why he was looking for feedback today on a retirement incentive because the retirement incentive could be structured in such a way to get us adequate notice. One of the things we would do is ask people to give early notice. It may be that at an earlier deadline, anybody who is considering should let us know. At a later deadline, the person would go ahead and file retirement papers. There would always be some

period of time before June 30th where we would know at least 30 days in advance of someone's retirement because they would have filed their retirement papers. There is nothing so concrete about this plan that we could not extend some positions for another month or so while people are in this PPO process. We have the flexibility to do those kinds of things. If it is serving the end purpose, then why not do it?

Mayor Hallman clarified that the end purpose is that positions have to be reduced, and can we do it in a way that no one takes a layoff and the opportunity to retire is provided for the people who want to retire.

Mr. Meyer added that one caveat is that it is always an advantage to run an early retirement incentive for a short period of time and as soon as possible. We wouldn't want to run it for eighteen months because it doesn't become an incentive at that point. It is an incentive if it is a window that closes.

Mayor Hallman clarified that with the phasing, different positions have been targeted, so he wasn't averse to considering in the second phase there would be a little more time. He would suggest telling people that they may want to give notice because the first people who give notice will be the first ones we draw down. We don't need to incentivize retirements that don't solve that problem for us and if the economy recovers, we could get to a point where it is no longer necessary to eliminate a particular position and there would be no reason to incentivize a retirement for it. He would agree to leaving the time period open, but part of that should be that the people who elect early are the ones who get the first choice to retire and if things recover and we don't need positions, then we stop taking retirements.

Mr. Meyer agreed.

Mayor Hallman clarified that if someone is looking ahead and their position isn't slotted for elimination until July 1, 2010, they could still opt in early and then there's a position that other people whose positions might be eliminated could move into it. They could also think that if they opt in now, even though their position isn't open for elimination; it would open a spot for someone. He would say that those who give notice earlier should be treated first for the opportunity to retire with incentive rather than those who opt in later. He didn't think it's so much when as much as if we get to a point where we don't have to eliminate positions, we will stop incentivizing retirement. Can we give enough flexibility to allow people whose positions are up for elimination to get to those positions under that plan? Mr. Meyer's point is that we could do that. He didn't think we even have to put an end date. That way, people don't have to opt in early and they still might provide a valuable service.

Councilmember Woods suggested that a two-month window incentive, for example, April 1st through June 1st, would provide a greater incentive.

Mr. Meyer agreed that would be a necessary timetable so we know where we stand by the end of June.

Councilmember Arredondo clarified that there are two questions. Is there a way to incentivize this more? He would support that. Mr. Meyer is basically asking if we want to follow early retirement. He would support that. He thought Council should give input, but staff should prepare it.

Mayor Hallman stated that we should do that for as many people as we need to save the jobs that are subject to elimination. He didn't think we need to do more.

Councilmember Arredondo responded that it depends on what the incentive is.

Mayor Hallman added that someone complained that this is the City Manager's plan and now it is Council's turn to take responsibility for it. It isn't fair to say that it is staff's responsibility to fix it.

Councilmember Arredondo clarified that the question is incentivized retirement. It's a good idea.

Mayor Hallman agreed that it is important to look at all of the issues so staff doesn't come back and miss the mark because Council has not been clear enough. He will do his best to give as much direction as possible so staff isn't wasting time. It is Council's job now. It sounds like it should be done sooner than later, that the number we are seeking to get is enough to make sure that the people who are remaining in the jobs that are subject to elimination or whatever mix we come up with, are those who we help. We don't need to provide incentives beyond that. If we get enough people to retire to save all the jobs we are trying to save, do we need to do more than that?

Councilmember Arredondo suggested that in the reorganization plan, there might be jobs that were targeted for elimination and people may opt to retire.

Mayor Hallman clarified that we are trying to save the people whose jobs are being targeted for elimination.

Councilmember Arredondo agreed.

Councilmember Shekerjian added that it would be worthwhile to explore not just one window or no windows, but a variety of different ways, and figure out which way works best. For example, there could be one window for all of it, or one window depending upon the phase, or an open-ended concept where we would cut it off when we no longer need it. She would encourage staff to look at a variety of ways in which that might work.

Mayor Hallman clarified that he is proposing the "Southwest Airlines Model" for early retirement." You run up to the desk and propose that you will allow to be bumped so you can get the free ticket, and they take as many names as people want to offer but they only take as many people as they need to fill the seats. Staff can have that same opportunity. Those who get in earlier are more likely to get the incentive, but we don't need to incentivize people whose jobs aren't being eliminated.

Councilmember Navarro asked if the OPEB decision has an influence on this.

Mr. Meyer responded that there is a connection. The OPEB is a separate decision, however, and whatever the Council decides will have some impact on people's retirement position.

Mayor Hallman clarified that for those who retire by June 30, 2009, it would be 5% coverage.

Councilmember Mitchell agreed. In 2001, there was incentive to retire.

Mayor Hallman added that what was learned from that was that we didn't target the jobs, so we ended up eliminating peoples' jobs we couldn't eliminate, so we had to hire people to fill those jobs. We don't want to make that same mistake. He agreed with the one-time expenditure from reserves.

Mr. Meyer added that the OPEB proposal submitted to Council does cut off Group 1 and Group 2 on June 30, 2009. In some respects, there is some incentive already because we are treating people who retire by June 30th as if they

are current retirees. He would have to think about that. If there are 600 retirees now and there are another 50 who retire between now and June 30th, we would have to treat them equally.

Mayor Hallman agreed that the number could be looked at to see if it helps toward the incentive.

DIRECTION:

Propose a retirement incentive program:

- Broaden the pool with the caveat that jobs that require outside hiring are not eligible.
- Rich enough to incentivize.
- Paid from reserves.
- Consideration to number of jobs subject to elimination.
- Explore phases with variety of windows.
- Research OPEB incentive legality (disparity in rates to group)

Councilmember Woods asked about furloughs. In terms of the savings, did Mr. Meyer think it would be a beneficial option? He was not personally in favor of the reduced work week. The furlough is more of a one-time hit and it might be a viable option.

Mr. Meyer responded that a furlough is a very good tool for a short term hit. If, for example, we didn't have reserves to fall back on, a furlough would be a good way to do that. It is less disruptive to the entire process. If, on the other hand, we are looking to reduce the overall cost of doing business for the long term, then the furlough is probably not the best tool.

Councilmember Woods asked if he felt more jobs could be saved by implementing the furlough.

Mr. Meyer responded that if we did a furlough now and we saved several million dollars, that several million dollars would be money that would be available, in effect, as a one-time source of money. We could use it to stretch out some decisions as we have with the \$27M fund balance. It does save money in the short term and, in effect, it preserves a little more of that fund balance so it could be used longer.

Mayor Hallman clarified that in looking at the numbers, if we had a 12-day furlough, one day a month, for all employees, not counting overtime costs we have to deal with, it would produce about \$5M.

Mr. Meyer responded that is assuming that it applies to all employees.

Mayor Hallman clarified that the difficulty is when it is applied to our public safety employees, those positions need to be filled for public safety purposes and we pay overtime so that eats up some of the savings.

Jerry Hart added that if a one-day furlough was applied across the board to all employees in the general fund, it would result in net savings of about \$180K. There are obviously certain staffing requirements, particularly in public safety, that would necessitate the incurrence of overtime costs that would reduce the savings otherwise generated.

Councilmember Woods added that in reading through the reorganization proposal during the December 1st meeting, he did have a concern with some of the reorganization concepts. Looking at other things such as furloughs and 4-day work weeks potentially allow us to not do some of those reorganization concepts, therefore, subjecting staff to some of the upheaval by changing people around or moving things around. There are a lot of people having financial difficulty right now, and he wanted to make sure employee morale is maintained by not shifting as many things around. If we

could achieve a cost savings in one area by instituting something such as a furlough, maybe there are ways that we could not do as many reorganization concepts at this moment.

Mayor Hallman added that any place we can save money, we can spend it somewhere else, but everything we change in the plan comes at a cost.

Vice Mayor Ellis urged Council to remember to look at all of these in conjunction with each other. There are some employees who are willing to take a 20% pay cut, and to put a furlough on top of that is a huge pay cut.

Mayor Hallman asked for clarification that the one-day furlough would be just one time a year.

Mr. Hart clarified that it is one time per year.

Mayor Hallman clarified that if it were one day a month, then we would be looking at approximately \$1.8M, plus \$360K, so \$2.1M if every employee took one day a month off as a furlough day. Since we work approximately 22 days a month, that's a 5% pay cut.

Councilmember Navarro asked if there are areas that could actually benefit from a 4-day work week and whether that is a savings to look at. Concerning the furloughs, can that day be stretched across the month (an hour a day) or taking an hour off holiday pay?

Mayor Hallman clarified that some people are working four 10-day days or a 9-80 schedule, and would there be other places where we could apply that and have some savings.

Mr. Meyer clarified that if a 4-day work week means reducing the number of hours worked per week, that is a different discussion. About one-third of our employees are working the five-day, 8-hour work shift. The other two-thirds work another shift. Even in the standard office functions, there are alternative schedules available. There is no question that there would be some places where the implementation of a 4-day work week (4 ten-hour days) could be implemented. There are a few areas where we aren't sure they could be implemented. For example, the Courts understand that they have a statutory mandate for five-day work weeks, so the Courts could not be closed. You could do four ten-hour days and, of course, stagger the schedules. It doesn't save any money, however. The question relative to savings is whether we are talking about reducing hours for savings or whether we are considering the background costs for lights, water, etc. There would be some savings in terms of building maintenance, but not relating to employees.

Mayor Hallman stated that the numbers presented so far suggest that the savings is smaller than many people might think. Queen Creek is looking at \$48K per month savings by shutting things down. It would be helpful to know what energy costs would be saved by working four days per week and shutting everything down the fifth day. Obviously, we don't shut the water plant, the fire houses, or the police station, so if there is a smaller universe to calculate from and assume that we saved all of those costs, it would be helpful. We wouldn't save all of those costs, but that might help get a thumbnail on the costs.

Mr. Meyer responded that it is never easy. Most of the City functions that would be likely to experience that reduction from a five to a four-day work week are here in the downtown area, all of which is a district heating and cooling system where if some facilities are open and some are closed, there might not be a savings. Staff is working on calculating those savings and will be able to ballpark it.

DIRECTION: Provide a ballpark figure of savings in utilities, etc., for a shortened work week.

Councilmember Shekerjian added that on December 1st, Council gave staff direction to explore different kinds of budgeting that would include no pay cuts. From reading both the furlough and the reduced work week options, both would involve some part of our employee community taking a pay cut. Regarding the furloughs, on the surface it looks interesting, except for the fact that it would be equivalent of about a 5% pay reduction. There is also a sense of fairness in sharing the pain. Some groups, such as Fire and Police, might be on furlough, but they would be hired back and paid overtime. When it comes to a decrease in pay, a furlough might not be something that would be fair across the board.

Mr. Meyer added that there are at least three or four areas that operate on minimum staff. If someone is out, someone else has to be brought in to substitute for them. Police Dispatch, Detention, Fire Operations, and the Water plant are the most obvious.

Mayor Hallman clarified that the general employees who we don't replace would take a pay cut because they aren't getting paid for a day, but in those places where we have minimum staff, someone will get a pay raise to fill in a position that they would otherwise have been there for.

Mr. Meyer added that those things are adjusted in a variety of ways. In Fire, we maintain staff in order to be able to backfill open positions. In Police, we actually float the number of personnel so we assume that into the process. We may not do a police patrol, or we may not result in an actual replacement of a person, but if we got staffing down to a low enough level, we would probably have to fill in with those.

Councilmember Shekerjian stated that a furlough possibly wasn't something to consider in terms of the realities of how it would be implemented. In order to keep our community safe, it wouldn't be fair in terms of spreading the pain equally. The furlough would be paid for on the backs of those non-public safety workers.

Councilmember Navarro asked if the hours can be stretched out over a month or used with holiday pay.

Mr. Meyer responded that they could, but staff would need to look at what ways it could be done. If we're actually taking away some sort of current paid holiday, that actually works for us in terms of budget savings. In that way, it might be able to be balanced out between work groups.

Mayor Hallman clarified that it would actually be unfair to the employee who loses a paid holiday in some ways, but if we could tweak different groups differentially, the easy way to say it would be that we could apply furloughs to all the staff at one day per year. It would be spread out over the year so we wouldn't have one day when everyone is gone, but don't apply it to any position where we have to hire someone back for overtime. The problem is in those employee groups where they do have to take a day off, they would lose pay for one day on 8 hours. Those employees who wouldn't be subject to it are having an advantage where they aren't being asked to share that pain. But, it is a much smaller problem and maybe we could figure it out using other things. If we can't apply it to some workgroups, whatever the value of that furlough day is to the employees, we could figure out that equal amount of pain for that other group. By the same token, he was inclined to look at things where we are asking employees to take pay cuts yet if we can come up other bases for savings.

Councilmember Mitchell asked how personal days or sabbaticals fit into that.

Mayor Hallman clarified that that situation currently exists. Everyone takes a personal day and their job is either unfilled or with minimum staffing, someone fills it.

Councilmember Arredondo suggested that under the furlough concept, there are many options. He suggested looking at things such as furloughs and then looking at the dollar hit on each department. Go to the department and ask how the department would cover that dollar hit. If they don't want furloughs, then how do they want to cover it?

Mayor Hallman added that it wouldn't be that they don't want furloughs. It's that we would have to pay overtime to have them. The goal would be if we said that from furloughs we would like to save \$500K, we would spread that across the departments equally. If doesn't work in Fire, they would need to make up that difference. If we reduce the number of jobs we need to target without a layoff, he would rather not see anyone take a pay cut. Furloughs are ultimately pay cuts, but we can explore all of that.

Councilmember Arredondo clarified that when we are talking about elimination of jobs, we aren't talking about elimination of people. We will try to save everyone's job. You might not be doing the same job as you were, but you will have a job around the same salary.

Mayor Hallman further clarified that the federal government requires us to follow certain procedures if there is a job at risk of being eliminated and someone laid off. We have to do a notice.

Mr. Meyer clarified that the federal requirements have to do with a plant shutdown, and we aren't doing that. In any case, there are notification requirements in the City's Personnel Rules and Regulations which require a 90-day notice.

Mayor Hallman clarified that what Council is trying to accomplish is that by reducing our expenses and using reserves, we can smooth out the elimination of positions without reducing the employment opportunities for the people who remain and we're seeking not to have a single layoff. We were on track to eliminate 146.25 positions. In the first phase, there were 68 positions targeted for July 1, 2009. Only 26 of them appear to still have people in those jobs. Of the 146.25 positions, 52 positions are already empty. We aren't firing anybody but those jobs are being eliminated. The previous retirement discussion was that if there is someone who could retire or wants to retire and they open up a job that one of these remaining 84 people could take, we have saved another job. That's the process we are trying to go through. Over the last four years, this Council and staff has saved enough money that we can spend some of it now to keep people employed. That is different from any other Valley city. We didn't do what Phoenix did by laying off 1200 employees. Gilbert just posted 23 employees' names on a bulletin board so they could find out they lost their jobs.

Councilmember Arredondo agreed and suggested that it might be wise to hold off until summer on reorganization as much as we can. We are doing budget and reorganization at the same time, but we may want to have more discussion on reorganization.

Mayor Hallman added that reorganization is part of which jobs we are trying to eliminate. If we see specific things as we work through the job categories, then that is what we should be doing. He didn't want to handle this in a blanket way because there has been a lot of work at Council's direction to come up with concepts to get us to where we can eliminate positions without eliminating peoples' employment. The reorganization has supplied some of the jobs.

Councilmember Arredondo stated the question is whether we need to do this much. There is at least \$17M that people aren't aware of. Mr. Meyer at one time had talked about \$9M in the secondary property tax, but he has changed that to \$7.4M

Mr. Meyer clarified that the City has been putting away the SRP payment-in-lieu of secondary property tax into our debt service fund. He had an informal discussion with the employee groups, and they asked if there was some money in there. He said that he knew it was less than \$9M. The actual number is \$7.4M.

Mayor Hallman added that was discussed with the employee groups in the last Ad Hoc Long Range Budget & Finance Committee with Councilmembers Shekerjian, then Vice Mayor Hutson, and him. We identified all of that secondary property tax as something that could be reclassified and potentially used to cover OPEB. That is still in our secondary property tax fund and is used to support our bond indebtedness that we have just signed up for by the bonds that were passed.

Councilmember Arredondo asked about the \$10M balance.

Mr. Meyer clarified that the \$10M is the Capital Project Reserve and on June 30th it was \$9M. Of the \$9M, approximately \$4M is allocated to projects that are currently funded by Council in its CIP. They are not bond projects, but are projects that Council has traditionally paid for with cash. For example, the Neighborhood Grants. They are capital projects and are funded with cash because the bond money isn't used for that. After June 30th and in putting this plan together, we took another \$2M of it and applied it toward the \$27M reserve. There is about \$2M to \$3M in the Capital Project Reserve that is not allocated to a specific project or has not been applied toward this plan already.

Mayor Hallman clarified that when he said \$2M toward the \$27M reserve, it has already been moved into the fund we are using to balance the budget.

Mr. Meyer agreed. The \$2M is in that \$27.5M of reserve funds.

Mayor Hallman clarified that there is \$2M that we could take out of the Capital Project Reserve that is not currently allocated to capital projects. If we want to take more than that, we need to go back to the CIP and see what projects we don't want to fund.

Mr. Meyer responded that the plan presented to Council only proposes future money. This plan did not address any of the money that the City has accumulated from the past. It is only about future money, so that is future SRP payment-in-lieu tax. We are looking at it as if it were a new operating revenue.

Councilmember Mitchell clarified that it would be in addition to the \$2M.

Mayor Hallman clarified that Councilmember Arredondo's point is that there is \$7.4M remaining in the SRP secondary and Mr. Hart stated that is associated with the City's bond obligation. For our next meeting, he asked for an analysis of the extent to which we have excess secondary property tax over and above what is necessary for our bonds and our reserve so we can see how much, if any, of that \$7.4M could be reallocated as primary and therefore available to move into the reserve.

DIRECTION: Obtain analysis of excess of secondary tax to see what can be re-allocated.

Councilmember Navarro asked for the ramifications if we go below 8%.

Mr. Meyer responded that one of the ramifications is when bond rating agencies look at cities, they look at their overall financial status. That is one factor among dozens of factors. If we dip below that level temporarily, it probably wouldn't be a big deal if it was the only thing we did. If we do a bunch of other things that indicate to bond rating agencies that we are spending down our reserves everywhere, then they may take a different look at that factor, combined with other things.

Mayor Hallman added that part of the reason the City has gotten its AAA bond rating is the amount of reserves across the board.

Councilmember Navarro added that other cities are in the range of 10% on their reserves and we are in the range of 25%. If bond ratings are approved between 7% and 10%, why are we sitting at 25% when we could go down to 10% to 15% with the idea of preventing layoffs or preventing reclassification, keeping pay where it's at, to make sure we are stimulating our city to make sure we can get that money into our city. It is probably a philosophy choice. It seems like it would show good faith that the City is trying to do everything to eliminate layoffs.

DIRECTION: Compare average comparable city reserves (excluding Chandler).

Councilmember Woods asked for clarification that even in a year such as this one when all cities are probably drawing down reserves to stem the loss of jobs, a bond rating agency would look badly upon us for that kind of thing.

Mr. Meyer responded that he had recently stated that for his entire career he has been listening to what the bond rating agencies might say, and that is not a very good reason to make budget decisions. We don't work for the bond rating agencies; the bond rating agencies rate our bonds. Having said that, the question is what are they looking at? What they are looking at is the fiscal management of that city. If the fiscal management of the city is down, then you will get a more favorable bond rating. You are not seeking the bond rating. You are seeking having a sound financial plan. If we use up \$27.5M of our reserves and we do it in order to have a soft landing, in order to avoid layoffs and such, have sustainable employment and reach a level where our revenues and expenditures are balanced, then the bond rating agencies or the community that is judging us on our fiscal performance will say we did the right thing. The concern is that if you are spending down the reserves and you don't have a plan for how you will end up balanced at the end. That has been the conversation we've been having since last fall.

Councilmember Mitchell asked for clarification about the in-lieu payment from SRP. Can that only be used for capital or reverted to the general fund?

Mr. Meyer responded that it can be removed from the place where it is now and be used for operating purposes. The money is completely discretionary to the City Council and can be used in any way.

Mayor Hallman clarified that this was where we put the cash flow when we had excess.

Councilmember Shekerjian asked whether there would be ramifications if we were to go from a AAA rating to a AA.

Mr. Meyer responded that a lower rated bond will cost the City more money. Would we make a conscious decision to pay a little more money for a lower rated bond if it were serving some greater purpose of the community? We might make that decision. He wouldn't want to suggest to Council that if we to lose our AAA bond rating and it went down to

AA, that it would be the end of the world. We existed before we had a AAA rating and we will exist if we don't. No city likes to lose a good bond rating and it does cost a little more money, but we are talking about unprecedented fiscal conditions.

Councilmember Navarro asked how long it takes to get it back.

Mayor Hallman stated that four or five years ago we had \$38M. If we follow the plan as it is set, we will be down to \$27M. We will have lost \$11M from our funds that we had even when we had a lower bond rating. It is the combination of things. It is having enough reserves and demonstrating fiscal prudence. If we spend down to a number to try to pay for recurring expenses, we haven't solved the problem permanently. We only get to spend that money once, and now our reserve is less, and if the economy doesn't recover as we had hoped, now we have less reserve to keep on that program. We are still spending reserve to keep people employed or we have to do the layoffs.

When we look at the other cities, their fiscal policy and their failure to have enough reserves is exactly why they now have layoffs. We have been following a different model of fiscal prudence that has allowed us to avoid layoffs. He is cautious about putting us in a position where we spend more of those reserves hoping to avoid layoffs and then end up laying them off and having spent the money. Of all the benefits we supply our employees, probably the most important is security.

Councilmember Navarro added that there are programs potentially on the chopping block. He didn't know what the surrounding cities were doing with programs. Do we benefit to attract out-of-town residents using our facilities? If we can pay the money up front, does that benefit us down the road?

Mayor Hallman asked how many of our programs actually break-even or make a profit.

Mr. Hart responded he wasn't aware of any that make a profit.

Mayor Hallman clarified that if we had more people asking to provide the service, we won't get a profit, but there will be more cost. Councilmember Navarro was thinking that if Phoenix eliminated a program and we now get their people to come over to us, do we make more sales that would help make more money.

Councilmember Navarro clarified that there has been discussion about increasing the rate for non-residents. Do we get a benefit from that if we still have a program intact? Is it worth trying to keep programs for another year to see what happens?

Mr. Hart agreed.

DIRECTION: Research what programs were eliminated in Phoenix, Mesa, Chandler and Gilbert.

Councilmember Arredondo asked about the SRP in-lieu payments. He had trouble finding it in the paperwork. It was an employee that brought it to his attention.

Mayor Hallman stated that the same discussions were held during the CIP. The employees that participated in the Ad Hoc Long Range Budget and Finance committee all had this conversation eighteen months ago. The fact that no one wanted to put that money into this plan suggested to him that they supported the result they had achieved. That thought was that money could be set aside to help protect the employee healthcare plan. The \$2M in capital reserve is in our CIP. Councilmember Arredondo is suggesting that he wants to spend the money we set aside in the capital

reserve during the CIP process. That is a fair thing to do. However, Mayor Hallman did not think it fair to suggest they are hiding money.

Councilmember Arredondo clarified his statement. Council is given an enormous amount of paperwork per week and it is difficult to find some of these things. If he missed it, he wanted Mr. Meyer to know it.

Mayor Hallman added that both of those items are in the capital budget.

Councilmember Arredondo added that it doesn't mean that priorities from then to now haven't changed and Council may want to change them.

Councilmember Mitchell stated that a staff member had told him the SRP in-lieu money was used to pay down our debt.

Mr. Meyer clarified that "pay down our debt" is a better way to say it. Again, SRP pays the City in lieu of taxes, both primary and secondary. The primary money they pay the City is put into the operating fund and always has been. We treated the money paid in lieu of secondary as if it was secondary tax. That has been the administrative policy of this City for a number of years. That's why every year when SRP made those secondary payments they were put into the debt service fund because that is what we do with our secondary property taxes which is set up, in effect, as a reserve, but not a reserve to be spent for anything other than paying down debt.

Councilmember Mitchell clarified that if we take that money out, we could shift it to the general fund. How would we continue to meet our bond obligations? Also, property valuations have gone down, and how will that affect our revenue ratio to debt service payoff?

Mr. Meyer responded that is the exact question that needs to be answered. Final assessments are just coming in.

Vice Mayor Ellis asked if the SRP money is on-going.

Mr. Meyer responded that it is on-going.

Vice Mayor Ellis added that many emails have been coming in about the projects going on in the City and asking how can we be talking about laying off employees. We explain that these are two different funds and we can't transfer money back and forth. However, in this case, it appears we actually could.

Mayor Hallman added that the plan currently proposes that we move the ongoing payment into the O&M side of the budget to get it balanced. Councilmember Arredondo's point is there were prior years' payments that are left over and that amounts to \$7.4M. That is in our capital budget currently and before we move it, let's get the answers to the impact. People are concerned about how the City can be fixing up the library or fixing up the museum, etc. Those projects are funded by secondary property tax supported bonds. We can't spend that money on anything other than a capital project. It is the sad fact of Arizona life that the legislature set up this scheme between primary and secondary property tax. It hurts cities like Tempe because we are older and have lots of older infrastructure and we could that money for operations and maintenance, but we can't because of restrictions by legislature.

Councilmember Shekerjian suggested a matrix of a plus/minus scheme so we can see the cost/benefits of doing this.

DIRECTION: Evaluate impact to bonds of moving SRP secondary and \$2M CIP reserve. Develop a positive/negative matrix of all reserves, including unreserved fund balance.

DIRECTION: Evaluate the effect of decreasing home values.

Vice Mayor Ellis asked, regarding transferring of people to different departments, whether the bottom line figures are the net effect. She didn't see where it was added back into the departments where they were added. In some instances there were more people transferred into a department than there were positions being eliminated, yet there was a bottom line that looked like there were savings.

Mr. Meyer responded that when we talk about 146.25 positions, those are positions eliminated overall in the City. We did the best we could in terms of displaying that. Ultimately, when everyone stops moving around, there are 146 positions that are left.

Vice Mayor Ellis clarified that if we went through and counted, there would be 146, but we shouldn't take the bottom line savings number and add all of them up because that isn't really the savings. If someone has moved from a department, it was counted as savings, yet it has an impact on the receiving department.

Mayor Hallman responded that it isn't calculated in the ultimate savings. For example, in the Court, full time positions were transferred out of the general fund to a specific fund that is not under siege right now. That saved in the general fund. Where it turns out the Water Utilities Department should have been paying for them, those positions are moved to Water and it is a savings to the general fund where we have the budget deficit.

Vice Mayor Ellis clarified that when you look at what the savings are for that department, we need to consider that there may still be employees transferred into that department.

Mr. Meyer agreed, but staff tried to show a net savings to the City, and didn't count an employee being transferred from one department to another as an additional cost. Net savings were calculated.

Mayor Hallman clarified that it isn't shown in one department as a savings and another department as a cost, but just zeroed out. All that is left is the savings from transfers out of the general fund and position eliminations.

Councilmember Mitchell clarified that eliminating positions from the general fund is for this year. We did the same in 2001. Then we went in and filled those positions. What is the impact of this on future budgets? We currently have a hiring freeze so are we going to allow departments to add people back into the budget?

Mr. Meyer responded that on a longer-term level, in 2003/2004 we went through a reduction of 100+ positions. As revenues returned over time, we added positions back in to get back to the level before we made those cuts. That is precisely the reason why we talked last fall about doing a five-year plan rather than a one-year budget every year so that whenever we would be looking at the prospect of adding staff, we would do it in the context of understanding the long term financial obligations. As it relates to the shorter term issue of the vacant positions, the freeze has helped identify which positions we might be able to eliminate and which positions we need to refill. Department managers want to get this plan underway because those positions frozen open need to be filled because there are problem areas. That said, when you think about the number of positions proposed for elimination by June 30, 2009, the vast majority of those are coming from vacant positions. He has cautioned everyone not to double-count. A frozen position may create an opportunity for us in this budget balancing process to actually eliminate that frozen position. In other

cases, the position is frozen and it is helping us solve our 2008/2009 budget problem, but the department feels they need to fill it. There was a question about why we would be filling positions when we are trying to cut back. The answer is that if you have a work unit with five employees and you ended up with four leaving for turnover reasons so you only have one, that one employee can't do the work of five. You have to fill some of those other positions in order to get the job done and try to find the savings somewhere else in the city.

Mayor Hallman further clarified that we are trying to match up the empty positions with the people we have. Some positions that have gone empty are jobs that we want to have empty now and some that are now empty are jobs we want to refill and find another place we can empty. The goal is to take jobs that have people in them now and jobs that don't have people in them now and match them up so we have all the jobs we most want done first. Council will have to grapple that next. Are there jobs identified that we feel shouldn't be eliminated and are there other ones we would seek to eliminate?

Mayor Hallman continued that staff had asked for direction to go forward with drafting of the OPEB documents. It is on the formal agenda tonight.

Councilmember Arredondo asked for clarification that the proposal suggests that during an economic downturn that we increase the bed tax with voter approval. It would generate approximately \$1.2M.

Mr. Meyer agreed.

Councilmember Arredondo didn't know philosophically if it was wise to increase a tax during an economic downturn.

Mayor Hallman stated that there are three agencies outside the City of Tempe that are receiving funds from the City: Tempe Community Council (TCC), Downtown Tempe Community (DTC) and Tempe Convention and Visitors Bureau (TCVB). The City's target is at 146.5 jobs, but that is based on additional assumptions which include that we come up with \$1.5M total from those outside agencies from their budgets as well as that we fund our special events that we are currently paying for with a bed tax of one cent. If we don't move something like that, we either have to find some other place to reduce the budget or eliminate jobs. We have certainly had the conversation at this table over the last four years as we have tried to eliminate incentives for developers, we also have special events that receive money from the City and we have to deal with the reality that we either have to stop making those subsidies or eliminate the jobs associated with them to get enough money to continue to support them.

Councilmember Arredondo added that another option is to find other recurring revenues.

Mayor Hallman added that is one possibility of a place we should look in order to save jobs in the City of Tempe. All three agencies should demonstrate that they have made similar cuts to what the City is having to make. This Council made the distinction on December 1st that additional funding granted in the spring and summer of last year to an agency was for third party beneficiaries and it was different from how we reorganized that agency. He asked staff to investigate those three agencies and determine the extent to which our staff thinks cuts could be made and the extent to which cuts have not been made equal to those we are imposing on our employees.

Councilmember Woods asked if Council is asking those three agencies to do a review and come back or are we asking our staff to go to them to investigate.

Mayor Hallman responded that it is appropriate that City staff make recommendations on how those agencies could,

from our systematic approach, save money and provide some return to the community so we can save jobs. There are agencies that have human resources groups and CFO's and other operations that we could supply, for example. There is no reason to have two or three of those if our City could offer those services to some extent. It is appropriate to do both. Ask those agencies to come forward with recommendations on how they will save additional funds and ask staff to examine what our recommendations would be.

Councilmember Mitchell added that they are the City's partners and he would like to see them have an opportunity to come forward first with their ideas, and if we don't see fit, then as a Council ask the City Manager to move forward.

Mayor Hallman stated that he voiced his concern eight months ago at this table and he didn't want to have to do it again. He is willing to have people step forward with recommendations on how they will make cuts, what kind of freezes they have put in place, the extent to which they have reduced their staff and made the same kinds of sacrifices our staff has made. He would ask that they come forward at the next meeting. This budget proposal identified \$1.5M in savings and if we don't achieve that number, then we have to make other cuts here in the City.

DIRECTION: Outside agencies to demonstrate that they have made similar budget cuts, including staffing.

Mayor Hallman continued that, In addition, we have proposed a bed tax that would raise \$1.2M to supply the service for the special events. If we don't fund those, then this Council will need to make the cuts associated with funding those or cut employees so we can continue to do so.

Councilmember Arredondo suggested that the special events pay for the cost.

Councilmember Shekerjian added that these cuts are hard because we love our city and the kinds of services we have been able to provide. She hoped the employees and the three outside groups would understand that just because we are trying to find a way to come up with over \$35M that there are a lot of different ways to get there. She would hate to see a return of accusations that we don't care about one particular segment of our population, whether it be social services or tourism or employees. That isn't the case. The bottom line is that money has to be cut.

Councilmember Mitchell asked if the departments have gone through their analysis with their groups to show what they can offer to save the positions.

Mayor Hallman clarified that before the next meeting, the departments that are eliminating positions need to return to the work groups and ask if there are options they would like to put on the table instead of eliminating positions. He asked the work groups to be cautious in their recommendations and to be fair.

DIRECTION: Work groups to develop ideas as to how to make equivalent hits to prevent employee cuts.

Mayor Hallman noted the extra memo that described the differences in the OPEB proposals. The current proposal for the OPEB changes shows, as an example, retirees in one plan for the City Tempe. The 231 pay \$44. The City of Phoenix equivalent plan is \$267. For a retiree and one dependent, we have 275 and they pay \$240 and the City of Phoenix equivalent is \$924. For a retiree and an entire family, we have 88 instances and they pay \$348 and there is no equivalent shown for the City of Phoenix.

Mayor Hallman noted that for the HMO plan, we have retirees paying \$0 and the City of Phoenix paying \$240. For retiree and one dependent, City of Tempe retiree pays \$166 and equivalent in City of Phoenix pays \$846. For retiree

and family, City of Tempe retiree pays \$257 and there is no equivalent shown for the City of Phoenix.

DIRECTION: Provide “retiree + family” rate equivalents for City of Phoenix.

This was done to give some sense as to how we are still trying to do the best we can to protect our current retirees as well as deal with the Group 2 employees. In looking at the other programs, currently the total cost per resident in Tempe is \$235 per year and the proposed plan would reduce it to \$73. Chandler's residents currently pay \$8 because they have a much more limited retiree healthcare plan. Gilbert doesn't have a retiree healthcare plan. Glendale does subsidize benefits but their current cost is \$85. This data helps us better understand how Tempe is stacking up with retirement healthcare.

Mayor Hallman continued that direction is being asked to begin drafting documents putting OPEB in place. The major discussion is that Council may tweak the percentage in connection with the retiree benefit.

Councilmember Arredondo stated that as long as that is still open to tweaking, he supported going forward.

Mayor Hallman asked if it was useful to go forward with document preparation understanding that there will probably be tweaking.

Mr. Hart responded that it is useful. Staff will have the ability upon Council's approval tonight to proceed with preparation of the plan documents, knowing that the Council has not made a final decision.

DIRECTION: Go forward with document preparation with the understanding that Council may choose to change the percentage.

Mr. Meyer stated that the other issue is to schedule additional meetings, but he also pointed out that on the IRS for tonight, the budget review process is agendized, so there will be time to discuss that then.

1. Call to the Audience

Mary Ann Miller, Tempe, President and CEO of Tempe Chamber of Commerce. She thanked Council for this discussion. Regarding the bed tax, it is interesting that most of the special events attract local people, not those who are bringing in the room rates. Increasing the bed tax would make it higher than all the bed taxes in the surrounding communities and given that the tourism industry is taking such a hit, it would be inappropriate to put our hoteliers at a competitive disadvantage. Concerning the partnerships with the TCC, DTC and TCVB, she believed that a 10% hit to their budgets would not come up with the \$1.5M. She would be curious where that money would come from. Regarding the reorganization, the proposal is to merge Development Services and Public Works Engineering Customer Service counter, and she supported that. It would truly make a one-stop shop.

Stephanie Nowack, President and CEO of the Tempe Convention and Visitors Bureau. She stated that raising the bed tax would put Tempe at a competitive disadvantage at a time when what we really need to do is continue to generate revenue and encourage people to come to Tempe. TCVB would oppose that, but they are open to discussions about alternatives. Concerning the TCVB budget, as outlined in a memo delivered to Council today, the TCVB some time ago was proactive and prudent, and a position was frozen a few months ago. With a small staff, it does represent 10% of their staff. Additionally, they did a very strong internal assessment. They looked at what programs to cut and have done that. Because the bed tax is down, their budget this fiscal year also has taken a

\$110K hit. We are all in this together. The TCVB has been a partner with Tempe for 20 years and is committed to being an active partner and contributing to the economy. She urged Council on behalf of the hospitality industry and the TCVB to remember that investing in tourism is a part of the solution.

Mayor Hallman asked about the extra 1% increase in the bed tax. On a \$200 hotel room, how much is that?

Ms. Nowack responded that it would be a couple of dollars. It doesn't sound like much, but what is important is that all the other cities are at 3%. Normally, she would say to take the lead, but in this case taking the lead in making our bed tax higher would not be wise.

Mayor Hallman asked about Scottsdale's current sales tax.

Ms. Nowack responded that Scottsdale's city sales tax is 1.65%.

Mayor Hallman responded that they are actually .15 below Tempe already in sales tax. Does this argue for lowering our sales tax to make us competitive with our surrounding cities?

Ms. Nowack responded that she has not researched that.

Mayor Hallman clarified that what she is saying is that the bed tax and general sales tax that apply to people making purchases in the city and we are already at a competitive disadvantage and we should roll back our tax. Did she know if the TCVB and the Chamber of Commerce supported or opposed the increase in our sales tax by ½-cent or the 1/10 of a cent increase for the Arts Center?

Ms. Nowack responded that the TCVB does not take positions on political issues or taxes, with exception of the bed tax.

Nancy Hormann, Scottsdale, Executive Director of Downtown Tempe Community (DTC). She stated that the DTC is reducing its staff by 33% and making the cuts necessary. As the producer of three of the City's major events, they do not get the same benefit as the outside producers do. The DTC pays for the City's services and now you are talking about taking our funds away to give it to someone else to be able to not pay for the services and the DTC is producing those events, and they are producing their own events. She agreed with Councilmember Arredondo when he asked why do we continue to pay for these services for events over a year or two years if they cannot be self-sufficient by that time. She urged Council to look at which events they are trying to save. Don't throw out the ones that are very important. The DTC took a huge hit this year on the sponsorship from one of the developers that has put the Festival of the Arts in a very bad position, so they are trying to recover from that, too. Events are a huge part of this community and she would not like to see them go away. Events do need to become self-sufficient in order to survive. Even with a reduced budget, their goal is to keep those events going and they are looking for additional ways to do that.

Mayor Hallman asked staff to prepare a list of all the special events that we current provide a subsidy for. He also asked that the agencies return to the next meeting with detail on their budget cuts.

DIRECTION: Prepare a list of all special events for which the City provides a subsidy.

Kate Hanley, Executive Director, Tempe Community Council (TCC). The TCC has been participating in the

budget process. There was direction from Mr. Meyer to include the TCC. To date they have submitted cuts of 11% in staff, 10% in operations for this year and 8% the following year. They continue to work on the Memorandum of Understanding and explore any and all potential savings that might come from that.

Mayor Hallman clarified that the concept involves moving TCC staff over to become City of Tempe employees and if they end up in a department, they report through that department structure. The Board of TCC is an independent 501(c)3 and would still have the obligation and the opportunity to direct where the money that the organization has goes to the various third party agencies and all the other services that are offered. There has been some difficulty with getting that done, but if that has been cleared up, it may be something we can all move forward on.

Ms. Hanley responded that they have been working with Mr. Meyer and Andrew Ching to move that forward. The TCC has been making every effort possible to hold harmless the human service budget. There was not an opportunity to submit a supplemental this year, so that would be a budget savings in the process. Other than that, they are hoping that human services budget can be held harmless. They have been working with all of their partners that have the ability to be flexible to respond to the increased numbers to deliver required services.

Mayor Hallman clarified that the supplemental occurred last year, but then mid-year Council went through angst about actually getting that supplemental. He asked if she was committing that they were not going to seek that supplemental?

Ms. Hanley responded that they did not submit a supplemental.

Carol Martsch, Representative for the SIEU. She congratulated Council on understanding that retirement incentives are necessary to encourage employees to look at retirement to open up some positions that can be filled.

Mayor Hallman asked if she would support incentivizing retirements that would open up holes for other employees whose jobs are at stake. Incentivize retirement for those whose jobs are being eliminated and those who could open a position to which someone could move.

Ms. Martsch agreed. It is vitally necessary so we don't have to lay off employees. She hoped Council would continue to focus on these things as well as the areas of the City's good service and what we are known for in this community.

Meeting adjourned at 5:10 p.m.

I, Jan Hort, the duly-appointed City Clerk of the City of Tempe, Maricopa County, Arizona, do hereby certify the above to be the minutes of the Special Five-Year Financial Planning Session of February 19, 2009, by the Tempe City Council, Tempe, Arizona.

ATTEST:

Hugh Hallman, Mayor

Jan Hort, City Clerk

Dated this day of , 2009.