

Minutes Special Five-Year Financial Planning Session March 24, 2009

Minutes of the Special Five-Year Financial Planning Session of Tuesday, March 24, 2009, beginning at 1:30 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 1:35 p.m.

1. Call to the Audience

Edward Smith, Tempe, Chair of Tempe Historical Museum Committee, urged Council to roll back one of the positions with the Historical Museum. There are four curators plus one administrator and an administrative assistant. The proposed elimination is the Curator of History. It is the historical museum and it is necessary to have a historian working there. That is a key position. That person has the academic background, the research background, the writing skills and the experience of oral histories more than anyone else on staff. This proposal would move the Museum backwards rather than forward. That person has worked with his committee and has gotten up to 30 Afro-American Tempe citizens to work with the group. He also urged Council to consider the seniority standards being used. He felt that method is outdated and a new method should be utilized.

Justin Rhodes, Tempe, spoke on the proposal to cut the mounted patrol from the Police Department.

Mayor Hallman stated that that issue has already been solved.

2. Budget Balancing Proposal [20090324bbp01.pdf](#) [20090324bbp02.pdf](#)

Mayor Hallman summarized that based on the last session, staff was directed to bring back \$3.2M in challenges to be addressed, as well as to address the fine points of the voluntary separation program.

Charlie Meyer summarized that one of the things that has been consistent direction from Council is the avoidance of layoffs. He summarized the directions from the last session.

- The major item was the \$3.2M of proposals to reinstate items and he will present a proposal to do that.
- Council asked that staff consider tweaking the retirement incentive and staff will bring that forward, as well as

- request that it be put on the Council's Formal agenda for March 26th for adoption.
- Receive input from employee groups and look for proposals from the departments.

It was difficult for staff to envision cuts that would not be more objectionable both to the Council and to the community than the ones that were under consideration for reinstatement. Staff didn't make much progress in that area, although there are some proposals that fall under the heading of solutions from within departments. Staff did have the opportunity shortly after the last session to meet with the employee groups to lay out the challenges. Those employee groups were asked to make any suggestions by separate communication to Council. More importantly, in looking at both the \$3.2M in reinstatements, plus the concept of freezing both pay and benefits, and combining the two, many times before staff was able to make the kind of cuts we were considering, they had run out of available benefits. He will bring forward the following:

- A funding plan for the reinstatements.
- Revised suggestions on a Voluntary Separation Incentive Plan.
- A recommendation relative to the benefits freeze.
- A proposal to defer any layoffs to June of 2010.
- Proposal of a plan that does not use fund balance for recurring expenses, which is a strong positive, both in terms of accomplishing what the Council wants to get done and not forcing decisions today that will have adverse circumstances later on, but staying within the Council's recently adopted fund balance policy.

The proposal on the \$3.2M contains three essential items:

- In the plan presented to Council in February, staff had proposed to reduce the contingency account in the general fund by \$2M, which left \$1.3M in the fund. He is proposing that the last \$1.3M be spent down, which would result in no balance.
- The other two major parts of this proposal concern available federal grants for operational purposes.
 - The COPS program has been available for a number of years. It is currently open and the City is in the process of making application. The grant (\$1,350,000) would allow the City to take positions that are in jeopardy of elimination and apply for three years of funding for those positions. There is a limitation that it is essentially covering only starting pay rate, so it doesn't necessarily cover the full pay of tenured officers in the department. The match requirement is that the city has to fund the fourth year. In addition, there is another program, JAG, that is available and it could be used to supplement the portion not covered by COPS. The JAG program is renewed annually. He proposed that the City seek that funding and have some degree of confidence that it would be successful in seeking the funding for all of the positions that have been earmarked for elimination back to December 23rd when the original submission was made by the Police Department. In addition, since the City's financial circumstances are still very difficult, that we set aside one year of funding to meet the contractual obligation to the COPS program. He recommended that be done by taking a section of fund balance and reserve it for paying for that fourth year. In the fifth year, we then have to look at those positions. This effectively defers the elimination of those positions out four years.
 - The SAFR Grant which applies to fire departments is similar. However, the grant program is not yet open, so staff is working with the best information available about the requirements which are fairly similar to the COPS grant. In this case, Council had proposed to create three additional firefighter positions as reinstatements. The SAFR grant would be applied for those positions. Those positions could then be used for the purpose of dispersing those firefighters out through the department in order to reduce the cost of overtime. It would be a double bonus since we would get \$197K for the positions,

and would actually realize \$224K in overtime savings.

Mr. Meyer added that all of that adds up to about \$80K less than the number calculated for all the various positions that the Council wants to see reinstated. A lot of the positions Council wanted are the positions covered by those grants. Staff thinks that is a good solution.

Councilmember Arredondo stated that the Fire academy is up and running currently, and it would be a year before they even process anyone through, so why wouldn't we continue knowing that it wouldn't cost anything and continue with an obligation that we are going to hire three, but we're not going to hire them tomorrow, but rather in about a year?

Mr. Meyer responded that one of the things staff has talked about is that there may be people from other departments who are available and trained that might be hired. Tempe has had a long standing relationship with Phoenix in terms of the Fire academy. They aren't the only academy, and the Fire Chief has had discussions with others, but again, that still has the same time lag in it, so we would probably be looking at the prospect of first looking to see if we could hire any qualified firefighters.

Councilmember Navarro asked about testing.

Fire Chief Cliff Jones stated that Tempe has had a long-standing relationship with Phoenix in terms of doing recruit training. Some recruit training has been done with Chandler, and staff could look at Mesa and Scottsdale, as well. The fallback position to that is that we could do the training ourselves, but we haven't done that in quite some time. Mayor Hallman clarified that if we can't hire them today, we aren't actually spending the \$197K immediately. His concern is whether we could get the grant. We would have to be able to fill the positions, so we would probably have to go out and recruit three firefighters for the grant.

Chief Jones agreed. We have an existing hiring list, and we can hire off that list. The first person on that list that has expressed interest in being hired is trained under the regional academy process. Any others off the list would have to be trained, but we could do that ourselves.

Councilmember Arredondo stated that he was concerned that there is a commitment that we are going to hire three firefighters. Council said to put this back into the budget, and that's what the City Manager has done, but it will take a year before we see those three.

Mr. Meyer clarified that if we proceed with this recommendation, we would be hiring three firefighters. He would suggest that staff will need to come back to Council if we are not approved for the grant.

Councilmember Arredondo agreed as long as the intent is to hire three firefighters, and if we don't get the grant, then we have another conversation.

Mayor Hallman clarified that these are all of the items Council directed to put back into the budget. Once we adopt that budget, it is the commitment. If the grant falls through, then we will have to come up with other ways. This Council directed staff to find \$3.2M to pay for the expenditures that were outlined in the last budget meeting, which totals \$3,151,000. The only staff recommendation is how to pay for it. At the moment, staff has come up with COPS/JAG and SAFR, eliminating entirely our contingency, and reduction of overtime which would occur with the three firefighters if we get the grant. His understanding is that the only thing missing is the \$80K shortfall.

Councilmember Shekerjian asked about the timing of the grants.

Mr. Meyer responded that he did not have a timeline for the SAFR grant, but the timeline for the COPS grant allows for approximately one month to submit the application, and we would expect to hear quickly after the close of the grant period, or by July 1st.

Chief Jones responded that staff has called the regional district regarding the SAFR grant, and indications are that we will have the information for the opening of the grant in May or June. There have been discussions whether we fund it first and apply for a grant, or whether we get the grant first and then fund it. The problem is that we don't know the parameters of the grant process.

Mayor Hallman added that one of the parameters might be that if we have the money, we can't apply for the grant.

Chief Jones agreed that historically that is how the Fire Act grant has been administered. Indications are that that process will be loosened up, but there's no way to say to what extent.

Mayor Hallman summarized that potentially if we go forward and leave the hole open, we might have to find another \$197K to fill it.

Councilmember Shekerjian asked if, historically, there was an idea how long the grant process takes.

Chief Jones stated that we should know during the first quarter of the fiscal year, so in the July-September timeframe.

Councilmember Navarro clarified that the three firefighters would still be hired to offset overtime.

Chief Jones agreed, even without the grant.

Mayor Hallman clarified that this budget balancing is premised on getting \$197K. If we don't get the \$197K from the grant, we have to find it somewhere else. We are counting both the overtime savings and the grant money toward the reduction. If we spent \$197K, what we save is \$27K because we have reduced our overtime. The question he asked the Chief at the last meeting was at what point do we need to hire firefighters and by hiring them we will reduce the amount of overtime (the costs of hiring firefighters is less than the amount of overtime saved). In this instance, we have identified that at least these three give a net savings, so even if we spend \$197K, we get a net savings of \$27K.

Chief Jones added that the calculation was done in a direct response to that question. It has the concurrence of Financial Services.

Mayor Hallman added that it is a recurring cost that we have to find in our recurring expense side.

Mr. Meyer added that he has indicated to both Police and Fire that Council is not committed to do anything until it actually formally adopts the City budget because the criteria for the grant is that these positions are in jeopardy of elimination.

Mayor Hallman asked about the \$80K.

Mr. Meyer proposed that a variety of different places would be considered. Our estimate for state shared revenue, just the sales tax portion, is \$800K higher than the most recent estimate from the state. We already have at least an \$800K problem to deal with in putting together the 2009/10 budget. We have reached the point where we can't keep going back and re-working this. This was the concept of putting together a five-year forecast that would tell us how we are going to get into a stable situation. We have some real work to do, so that \$80K gets added to the bill.

Mayor Hallman clarified that Mr. Meyer's point is that we now have to start on the 2009/10 budget, that we are within shooting range, and now staff has to prepare very detailed budgets for this coming year. In that process, \$80K needs to be found, plus an estimate of another \$800K from the State Shared Revenues.

Mr. Meyer agreed. This process was always intended to be a much broader picture. Even without the \$800K problem, there is always a challenge in putting a balanced budget together.

Mayor Hallman stated that the Senate Majority Leader said that he believed there was a commitment that the legislature would not tinker with the percentages of state shared revenues, although in last week's newspaper articles, there seemed to be some friction about that. Three years ago the City lost .2% of its state shared revenues which was a significant amount of money. How often is the state providing estimates?

Mr. Meyer responded that staff attends quarterly meetings at which all estimates are given.

CONSENSUS:

Proceed as presented with the \$3.2M restoration of proposed budget cuts.

Follow-up Responsibility: Charlie Meyer

Mr. Meyer summarized that staff has formulated some estimates on the cost of an incentive plan and some estimates of the cost of deferring layoffs until June of 2010. Those two programs don't necessarily add up to the total of the cost of each of them because to the extent there are employees that retire early, we are saving money on their salaries. There's only one person in the position, not two, so there is a savings. The cost of the two of those combined was about \$6.9M, but staff is estimating the cost of deferring the layoffs until June of 2010 and providing the incentive program is about \$5M. It can't add up to \$6.9M unless every person decided to wait until June 30, 2010, to make their decision. That \$5M would come out of fund balance. In addition to the \$5M, the \$1.6M represents the reserve against the SAFR grant and the COPS grant. That adds up to the \$6.6M.

Mayor Hallman clarified that it was \$6.9M if people maximized the amount of money they got from the City in combination of not being laid off and keeping their job through June 30, 2009, by retiring and staying with the City until June 30, 2010. The cost of retaining all employees through June 30, 2010, is \$3.8M and he asked if that number is still accurate?

Mr. Meyer clarified that was the high estimate and that has not been revised based on the reinstatements. It is a smaller number than \$3.8M.

Mayor Hallman clarified that the incentives from his number at \$6.9M would be \$3.1M in incentives to get people to retire to open jobs.

Mr. Meyer agreed.

Mayor Hallman stated that the current proposal would be paying out \$3.1M in incentives and on the memo it reads \$3.3M.

Mr. Meyer clarified that some of that is not incentive. Some of it is built in already through the City system. It was included because with sweeping money out of the department budgets, they don't have the resources available to pay that off.

Mayor Hallman clarified that the final cost of the current proposal is \$4.0M to pay people to retire, with \$2.3M of it being for the new incentives. The balance is \$1.7M which is typically what people would get if they retired whenever they happen to retire. That's the number of additional amount of reserve proposed to spend down from the 25% reserve policy to something less than that.

Mr. Meyer showed that with the February 19th proposed plan, the fund balance stays in the zone. We had added a lot of reserve funds into the fund balance for the first year, and then we were spending them down. That \$27.3M was what we were spending down. He also showed the results with another \$6.6M. It effectively keeps us within Council policy, but just barely, and unless the economy revives more than what we have forecast, we are not at that point adding money back in, but we have leveled off by 2012/13. That will present challenges by the time we get to 2011/12 or 2012/13, and we would not be within policy unless we find some way to replenish the fund balance. It takes it down to about a 20% fund balance in the fifth year.

\$4.8M Reduction to Employees' Pay/Benefits

Mr. Meyer presented a recommendation. One of the things Council asked staff to do was to evaluate fund balances. One area is a fund that pays exclusively for health benefits. It is money the City puts in to pay for health claims and is also money that employees put in as their share. Those funds are jointly deposited by both employees and City and could be used in a similar manner. One option staff was able to discuss with the employee groups, although that does not mean having an agreement with them, is as follows:

- The City provides three plans to the employees for health insurance. The Preferred Provider Organization (PPO) Plan, which has a High Option and a Low Option, and an HMO currently with Cigna. The Low Option PPO Plan and the Cigna plan cost the same amount. The High Option PPO plan costs quite a bit more and is contributed to by the employees who select that plan, but not contributed to in an amount enough to cover the cost. The proposal is that since we were looking for the benefit cuts with the employee groups and were struggling to find benefit cuts that we felt would make it, this is an option that allows the employee a choice. They can continue to stay with the High Option PPO plan and make a contribution to it, or they could select one of the other plans in which the City would continue its policy of covering 100% of the health coverage for the employee and 70% for family member.

This doesn't have to be decided today. It is still incumbent on him by the direction of Council to meet with the employee groups and solve the rest of the problems. That issue does not solve the whole benefits freeze issue and we need to have continued conversations with our employee groups.

Mayor Hallman clarified that Mr. Meyer is asking for direction to go forward and meet with the employee groups. They had all committed to making the changes Council had adopted as a general matter, no specifics, for the budget balancing program on December 1st. This is essentially staff's first shot at coming up with the way that the number

gets addressed. That really can't be done without the participation of the employee groups. This is an opening model that gets us there and we can then open it up to the employees to tweak it. We know we have to get to \$4.8M, but whether or not we will all agree to reduce tuition reimbursement vs. these different healthcare options, for example, is something that has to be worked out.

Mr. Meyer clarified that on page 3, the block for years 1, 2 and 3, show two categories. One has to do with the Health Insurance Excess Subsidy on the High Option PPO Plan (\$700K). All of the items under the \$1,050,000 amount are clearly negotiable and all are in the MOU's. The \$700K isn't necessarily in the MOU's but certainly in the spirit of partnership, we would meet with our employee groups and talk that through. If there is consensus with the general direction, then we would start the negotiation process. We've already begun with SEIU, and we would begin the process with the other three groups, as well, to address this issue and the pay issue.

Councilmember Mitchell clarified that this direction is simply for negotiation and not necessarily an exact target.

Mr. Meyer responded if he was talking about the second part of the box. Those references are based more on comments from Council than any specific proposals from any groups. We would be looking, for example, in 2009/10 at \$1,050,000 of negotiated benefit reductions from the five groups, proportionately distributed.

Mayor Hallman clarified that the ideas of tuition reimbursement, etc., are ideas mentioned by Council at this table as things to look at. The only one Mr. Meyer would commit to is using the balance of the Health Insurance Excess Subsidy for those three blocks.

Councilmember Arredondo clarified that all retirees will maintain health insurance and if they have the High Option PPO, they can still opt down and still not pay anything. If they choose to stay where they are at, there will be a charge.

Mr. Meyer agreed.

Councilmember Arredondo asked what that cost might be.

Mayor Hallman stated that the footnote specifies that the average additional cost for the High PPO of a typical family, over and above what we are paying for everyone else, is \$1882 per year.

Jon O'Connor added that staff has determined what the initial cost would be July 1, 2009, if this change were made. Currently, under the High Option PPO Plan:

- Employee Only would increase from \$20 per paycheck to \$32.
- Employee/Spouse would increase from \$103 to \$130.
- Employee/Children would increase from \$76 to \$98.
- Employee/Family would increase from \$149 to \$185.

He added that it takes into account the fund balance as of July 1, 2009. We are not passing across the full increase in that first year. July 1, 2010, there would be an additional cost. We don't know what the inflationary increase will be in 2010. As an example,

- Employee Only would go up to \$44
- Employee/Spouse would increase from \$130 to \$158
- Employee/Children would increase from \$98 to \$120

- Employee/Family would increase from \$185 to \$221 per paycheck.

Mr. Meyer added that staff had a meeting yesterday with the employee groups and Mr. O'Connor is reading from a memo provided to them. He distributed copies of that memo to Council.

Councilmember Arredondo asked for the cost for a year.

Mr. O'Connor responded that starting July 1, 2009, through July 1, 2010,

- Employee Only would be an additional \$312
- Employee/Spouse would be an additional \$702
- Employee/Children would be an additional \$572
- Employee/Family would be an additional \$936

Councilmember Arredondo clarified that would be the additional amount, or the employee could opt to one of the other plans and it would be covered at the current 100% for employees and 70% for dependent.

Mr. O'Connor added that because the rate increase will be minimal this year, the Low Option PPO should be in pretty much the same range.

Councilmember Navarro asked what other cities are doing in terms of healthcare.

Renie Broderick responded that, for example, that the City of Chandler runs on a calendar year plan and they have a couple of different options. Their contributions for their employees range from \$30 per paycheck to \$230 on a family level basis. We are in line and very competitive with all of the cities. The amount that the city subsidizes, with respect to the High Option PPO, is a higher level, so this is an attempt to standardize the subsidy across all of the PPO option plans.

Mayor Hallman clarified that no employee, by selecting a better plan, gets more money out of the system.

Mr. Meyer added that there is a significant difference between the Cigna plan and the PPO plans. He is part of the Cigna plan and is used to being in an HMO. The PPO plans are essentially the same plan and one of the reasons people pick the PPO plan is that they want to choose their physicians. The two PPO plans work the same in that regard, whether it is the High Option or the Low Option. The only difference is the deductible and the annual out-of-pocket maximums, and the employee takes a little more risk on the Low Option PPO. If they have a catastrophic year, they will pay out more deductibles. They take less risk on the High Option PPO plan. For someone that would be concerned that if they are in the High Option PPO plan that they would somehow have to change medical providers, that would not be the case. It just changes whether you pay the money up front in a premium or pay it out later in a deductible or a co-pay.

CONSENSUS:

Staff was directed to meet with employee groups for negotiations of reductions and pursue exploration of the use of Health Insurance Excess Subsidy.

Follow-up Responsibility: Charlie Meyer

OPEB

Mr. Meyer stated that the last discussion with Council concerned the proposal of a cap in terms of the City's level of contribution for increases in the cost of healthcare for retirees. That cap had been proposed at 4%, and Council had raised the question as to whether that was adequate. All other elements of the program were agreed upon.

Councilmember Navarro asked whether proposing a higher percentage would help the Group 1 retirees.

Mr. Meyer responded that it would alleviate some of the impact.

Councilmember Arredondo stated that he recalled Council had talked about 5%, 6% or 7% and that we could eliminate or restructure it and that would help. He asked for a ballpark figure.

Mayor Hallman clarified that it is about \$100K additional cost per year for each percent.

Mr. Meyer stated that he thought Councilmember Navarro's question was what the impact would be if we tied together the change to the PPO Plan with the OPEB. He didn't think staff was prepared to answer that question as it would vary for every employee and much analysis would have to be done to figure that out.

Mayor Hallman clarified that the proposal was that for someone in Group 1, they would keep the High Option PPO. By eliminating the High Option PPO for retirees as well, then that would free up money that could be used for the protective percentage.

Councilmember Navarro agreed that was what he was looking at.

Mayor Hallman clarified that under the current proposal, those who retire in Group 1 get to keep the High Option PPO.

Mr. Meyer didn't believe that was addressed in the memo. That would be an element of the program that would need to be decided. Some of the feedback from the employee groups is that it does create a bit of inequity if we say that for Group 1 people the City would subsidize the full cost of the High Option PPO and then for Group 2 and 3, the City would not.

Mayor Hallman added that if the current retirees were not included in the amount of savings, and we were to apply the High Option PPO change to the current retirees, that money then could be the way we identify the source of funds to lift the cap from 4% to a higher number. Maybe that's the way we do it. For the retirees who have the High Option PPO and are essentially being highly subsidized compared to the others, we can use that money to protect all retirees better. Everyone would be treated the same, but we would apply that savings in the High Option PPO to pay for this additional percentage of protection in OPEB. The consensus seems to be to increase it to 6%. To the extent we apply the High Option PPO reduction or elimination from retirees, that money can be applied as well and pay for that percentage of increase.

CONSENSUS:

Proceed to Council with a 6% cap for retirees retiring as of June 30, 2009.

Follow-up Responsibility: Charlie Meyer

Reduction of funding for outside agencies

Mayor Hallman summarized that there are two proposals to find \$1.2M to pay for special events. He had asked at the

last Council meeting to have a full list of special events and costs associated with them and that we would reduce the costs for the three agencies, Tempe Community Council, Downtown Tempe Community, and the Tempe Convention and Visitors Bureau by approximately \$500K each.

Mr. Meyer stated that this is the most problematic piece of the entire recommendation. There is no doubt that the \$1.5M is an aggressive number. It was based on the theory that in the most extreme case, if we were to take those functions in-house and eliminate the need for the kind of administrative overhead, etc., that we could see those kinds of savings. That doesn't seem to be likely. Now staff is looking at the prospect of these two pieces. Again, the recommendation regarding the bed tax is that we do pride ourselves in our community on our special events, and our special events are quite costly. The spreadsheet is nearly done, but the numbers that we incur to operate special events are significant and measured in the millions of dollars. Finding a way to fund those costs so that we aren't taking that out of police and firefighters on the street is in everyone's best interest.

Mayor Hallman stated that this memo suggests that if the Transient Lodging Tax were put in place, since the tax would only be in place for one-half of FY 2009-2010, the \$1.2M would actually be a shortfall of \$600K. He asked how the tax would be passed by January 1 of 2010, since the next earliest election would be March of 2010, so at best it would be effect by June 1, 2010. We could have a special election in September or November and it would have about a \$200K cost to it. Are there any ideas beyond the options we are still looking at of seeking some arrangement with the TCVB to seek an additional 1% tax? There was a proposal that we seek a 2% tax and have half go to the TCVB and half go to the City. Are there any other ideas on how to come up with the \$2.7M?

Vice Mayor Ellis asked about the \$1.5M for reducing the budget expenditures for all three agencies. TCVB doesn't get a check from the City, but they get bed tax. TCC gets an allocation, so that could be reduced and that would help the City's general fund, but how would that work with TCVB?

Jerry Hart clarified that the City does write the TCVB a check.

Vice Mayor Ellis asked if the calculation was done by dividing the \$1.5M by 3?

Mr. Meyer clarified that was basically how it was calculated.

Vice Mayor Ellis asked if he knew the amounts of their budgets.

Councilmember Mitchell added that they are funded from the bed tax and with the bed tax down, it would be a double hit.

Mayor Hallman added that one of things to be cognizant of is that the City has almost \$3M in special event costs, such as the Kiwanis events and Rotary events. Just looking at those that have a significant tourist attraction to them and that were brought to the City in part by the TCVB, between the Ironman, Rock 'n Roll Marathon, and the Insight Bowl, we spend on those events with contributions of Police, Fire, Public Works, and Parks and Recreation staff, as well as cash contributions, \$1,250,000. It is a fair conversation to have with the TCVB and their hoteliers that maybe they help bear the burden of that cost.

Councilmember Mitchell added that the City receives a tremendous amount of revenue sources because of these events that far surpass what it costs the City. He would leave it to the City Manager and staff to determine other options for revenue-generating sources which could be coming in the next couple of weeks for further discussion. The

ratio of return the City gets due to the TCVB is enormous.

Mayor Hallman added that the City only gets 1.8% of the revenues that are even taxable. If the City pays \$1M, and it generates \$30M in revenues, the City only gets 1.8% on the revenues that are even taxable and a lot of that revenue is not taxable. If we go forward with this conversation, we need to start looking at how to find \$2.7M in recurring expenses to cut or other revenues to find. That is Council's job. We were elected to make the hard decisions. Just in this conversation today, we have spent another \$6.6M in reserves. It took hard decisions to save that money so we would have it to protect us now and we are spending it rapidly. What is your suggestion to solve the problem for \$2.7M?

Vice Mayor Ellis stated that everyone has met with the TCVB staff and board and one thing proposed was to put a surcharge on tickets. Some of their fear and the hoteliers' fear is that if our bed tax is higher than other communities, people will still come to our City and still utilize our services, but they won't be paying that tax in our community. If we add a surcharge onto tickets, there is always the risk that the event itself will move to another community, but we have good relationships with those groups so she would favor their suggestion and look at a nominal charge on some of those tickets.

Mayor Hallman clarified that the proposal was to add a \$4 or an \$8 charge on the tickets. The 1% increase on a \$200 hotel room is only \$2. He is amazed that it is a "nominal" fee when someone in the community getting into Tempe Beach Park can pay an extra \$4 or \$8, but someone coming from Ohio to stay in a hotel pays an extra \$2 on a \$200 hotel room is not "nominal."

Vice Mayor Ellis stated that the TCVB works with the groups that are going to book one hundred room nights for four nights, so that is a large sum. They don't work with a person booking a single room.

Mayor Hallman clarified, using that example, an extra \$200 per night for 100 hotel rooms. That is a lot less nominal and the reason it works so well is because there are so many more of those transactions taking place. He asked the TCVB representatives that if the events could charge an extra \$4 today, why don't they? He thought it was because the events have looked at their customer base and figured out how much they can get out of them. If there were an extra \$3 or \$4 to get out of each of those customers, they would already do it.

Vice Mayor Ellis stated that if she were coming for a convention in October for a Rotary group, why should she subsidize the Rock 'n Roll Marathon? The people who go to the Marathon should pay that.

Mayor Hallman added that is a fair policy question. The TCVB has asked the City to promote events like the Insight Bowl, the Rock 'n Roll Marathon, the Ironman, and the primary beneficiaries of those events are their hoteliers. Maybe what we could do is on those weekends for those events ask the hoteliers to put a surcharge on their customers and pay the City that surcharge rather than a surcharge on the tickets of residents of Tempe coming into Tempe Beach Park. He would like them to own up that there is a cost to that. Currently, the City collects a tax for them. They don't even have to go out and collect revenue from their members. The City just writes a check for two-thirds of the total of the sales tax charged on hotels. He didn't know of any city charging that little. On average, hotel rooms in Scottsdale are a lot more expensive than they are in Tempe. They get a lot more bed tax because their room rates are higher than our TCVB, but we still provide them with two-thirds last year of \$3.2M. They don't have staff members who travel around the country promoting Tempe. He is just asking them to help figure out how to solve this problem. He didn't reject that there may be some surcharges we could charge on tickets, but he didn't think putting up something that is unlikely to succeed as an alternate to the bed tax gets us very far. We have to fill a \$2.7M hole. One of their

proposals was to name Tempe Beach Park and they thought we would get \$1.6M a year from someone to name that park. Wells Fargo Arena which gets national and sometimes international television coverage is \$1.5M. There are places around the valley that have significant ticket prices, but they get television coverage. We do get television coverage in Tempe Beach Park, sometimes for New Year's Eve and once in awhile for the Fourth of July fireworks. It would be hard to get a naming right for \$1.6M. He has spent the last three years on behalf of the City seeking naming rights for various facilities, including the Arts Center, to generate money to support the Arts Center and Rio Salado Project, and it is difficult. We can't even get a \$4M contribution to name the Arts Center in perpetuity and it is one of the best buildings in this state.

Mr. Salomone stated that staff has been meeting with both DTC and TCVB and they have been forthcoming with information. They are looking at national metrics for measuring the effectiveness of TCVB's, and they have provided that information. Staff is hoping to provide Council with a good perspective, not only on the metrics, but on other bed tax rates throughout comparable communities.

Mayor Hallman stated that the TCVB had a spreadsheet with all the events costs and he has not been able to get one.

Mr. Salomone stated that staff is working to provide that information so an apples-to-apples comparison can be made.

CONSENSUS:

Council to find options for \$2.7M.

Staff to provide a spreadsheet of all the City sponsored-events and out-of-pocket costs.

Follow-up Responsibility: Charlie Meyer

Councilmember Shekerjian stated that some new hotels will be going up outside the Rio Salado and those new hotels will also bring in additional bed tax. How many new hotels will be realities and what money are we looking at in terms of additional bed tax?

Mr. Salomone responded that it is difficult to predict. The hotel by the parking garage next door will be built. The stimulus plan has actual specific programs for hotels and two of the major hotels have been talking to the City about that. Other than that, he can't honestly predict which ones will or won't be built.

Councilmember Shekerjian asked about a completion date for the hotel by the parking garage.

Mr. Salomone responded that it will open at the end of next year. The Element Hotel on Apache Boulevard will get underway later this year. Staff has not investigated bed tax revenue, but he will get that data.

Councilmember Shekerjian stated that the data would be helpful for future years' budget discussions if we don't go for an additional 1% tax at this time. She would want to look at that as the TCVB contract is renegotiated.

Mayor Hallman summarized that if the bed tax option doesn't go forward, there still needs to be an option for the \$1.2M. The number of \$1.5M is plugged in for the three agencies, proposed at \$500K each. By taking out the parking operations from DTC, their budget would be \$100K. There was some discussion about TCC a year ago about their total budget and how those pieces are put together. In addition, Council has had a number of conversations about bringing the TCC into the City. Their employees, whom we currently pay through the City, would actually become City employees and that would give the opportunity to use the same approach we are doing here - to eliminate duplication of efforts. Is there a desire to move forward with bringing the TCC into the City, understanding that the operation of the

501(c)(3) would remain independent and we would continue to supply those employees, but they would be part of the City organization? We could save perhaps as much as \$80K in healthcare costs.

Councilmember Woods felt it would be important to see more data on that. That is a big decision.

Mayor Hallman added that staff has been in negotiation with TCC staff for a couple of years in trying to work that out. The premise of this was that by bringing those employees into the City through various reorganization and opportunities, we could reduce the total cost of the services supplied. He has yet to receive an answer to the fundamental question.

Vice Mayor Ellis added that she is a member of the Board and used to work there. It doesn't hurt to look at it and look at the cost savings and bring it back. It is important to consider that they are governed by a 30-member board which may not agree. The City ultimately has the purse strings, but the board has gone back and forth for years as to whether the organization should stay independent or be City employees. No matter what decision Council makes, the board may counteract it.

Mayor Hallman stated that the board has the right to say no. It would always remain an independent 501(c)(3). We can't force that organization to become part of the City, but right now we are writing all of the checks for the employees' salaries. He supposed the board could elect not to have their employees become City employees, but we could also elect not to pay them. If the goal is to save money and supply our residents' services, then he didn't know how anyone can look at the way this is being operated and not conclude that there are ways to save money.

Vice Mayor Ellis added that because not 100% of their funding comes from the City, they could be at risk of losing things like United Way funding if they are not a totally independent organization. All of that needs to be taken into consideration.

Mayor Hallman clarified that no one is suggesting that the 501(c)(3) stop being a 501(c)(3).

Councilmember Woods added that he would have a much better time making that decision after he had a chance to speak with Ms. Hanley and her board before talking about moving that forward.

Mayor Hallman added that he thought staff could go forward to get that information and present it to Council rather than engaging in direct conversation and negotiations, but that could be done.

Councilmember Arredondo stated that a prudent approach would be to recognize whether these people are partners or not and then go from there. If they are partners, there are certain ways they should be treated. He would say that it would be important that Council says to staff that we have \$1.5M and we have three agencies. The City is actually a fourth partner.

Mr. Meyer added that the \$500K per agency was based on an early look, in the most aggressive stance, if we were to perform those functions internally and could eliminate the overhead costs associated with running personnel administrators, accounting, etc., what was the most we could potentially save? He asked Council to look at the sheet provided, page 5, under Option 2. When staff presented that to Council on February 19th, staff said they were really not done with the discussions, but staff has been engaged in discussions with all three agencies. At that point, staff needed to defer the discussion. The Option 2 items are certainly numbers that we could say comfortably come out of those discussions. They are substantially less than the \$1.5M total. Those conversations still continue and need to

continue. Whether we are going to be able to get \$1.5M out of the administrative portions is probably unlikely, but those discussions are continuing. At this point, staff does not have a recommendation that solves the whole problem. He would welcome support from Council both in looking at the issue of how to continue to support special events, which is a priority for this City, and also how to continue to look at these agencies. We will still have a hole to fill at the end of all of that.

Mayor Hallman stated that currently, for example, we have a Fourth of July Festival put on by the Kiwanis Club. The City of Tempe pays the cost of operating that. The Sister Cities organization puts on Oktoberfest and we pay policing, fire, and public works cost. Are we really going to walk that walk or just talk about trying to move events to pay their way because we don't have to do any of this if we just don't give away the City's services associated with allowing people to use Tempe Beach Park for events. If they pay their cost, then their event takes place. We have decided to sponsor a number of events. We currently sponsor the Veterans Day Parade and it costs us about \$9K in policing costs. Some of those events are appropriately sponsored by the City. He would like to have a conversation on the entire spreadsheet of events. Council could set priorities on places where we will and won't spend City money to sponsor or support events and look at ways we can cut those costs to the City. He does believe that money is not unlimited and we can't spend it twice.

He would like a realistic look with these agencies on how we can reduce costs. There are costs that can be reduced at the TCC and he has looked at it extensively. He wants to fund as fully as we can the social services agencies that are supposed to be funded, and every dollar wasted on unnecessary overhead is money we can never get back. DTC has a small budget, and this is probably the least problematic because they don't get the money from the City, they charge their own businesses to pay for their operation.

The thing we get from DTC that we need to address is parking. It has been a mess for as long as he has been involved with the City. He would like to look at that entire operation and potentially pull it in. I don't think there is \$500K in money there, but we can provide a better service to the community. We can run our parking meters better through private contracts like our Police Chief has worked out for certain other kinds of services, get more money out of those meters, and make sure they work more often.

With the TCVB, a lot of money is spent there. He is grateful that we are looking at the matrix to see how ours stacks up against others', but he would also like for each of these agencies to provide a spreadsheet with all of the salaries. He would like to know what is being paid for the positions in these organizations just like the newspaper demanded from the City. He would also like to know from each of the agencies what programs they are supplying. That will give the Council the kind of information to make decisions on how to move forward. The reality still exists that we have \$2.7M to deal with.

Councilmember Shekerjian stated that one of the reasons she chose to live in Tempe 22 years ago was because of the family-friendly kinds of activities that the City sponsors. The 1% bed tax is something that is painless over all, and she understands why hotel might say they wouldn't want that, but \$2 on a \$200 room isn't much, and when a convention is being planned, they don't look at a \$2 room difference. That is painless compared to looking at charging all of these community groups for their policing. There will be a lot of groups that will not be able to put those programs on anymore, and that would be a terrible loss to Tempe's culture. It would change the face of who we are as Tempe. She is looking for ways that minimally affect those civic groups.

Councilmember Mitchell asked if Mr. Salomone would calculate the out-of-pocket expense for special events.

Mayor Hallman responded that just the Insight Bowl, Rock 'n Roll Marathon, and Ironman are \$1,250,000. That is the net out-of-pocket cost. The TCVB does contribute about \$75K to Rock 'n Roll Marathon, \$50K for Ironman, \$12.5K for the Music Festival, \$12.5K for SOMA, and \$57K for the Sponsorship Review Committee, to which the City also contributes. The City is contributing \$1,225,000. That is our cost. It's not checks we write. We do pay our staff to show up on overtime to do those events.

Councilmember Shekerjian stated that she and Councilmember Woods sat with the TCVB representatives and challenged them to come up with ideas. They did return with a couple of ideas. She is not comfortable with surcharges on tickets because some of the costs for some of our events now aren't as family-friendly as they used to be. She understands there may be some moderation that could take place and possibly we could add \$1 or \$2 to piecemeal something together but to add \$4 or \$8 to a ticket could make it cost prohibitive for some families we would still like to attract to some of the events.

Councilmember Navarro added that the surcharges are presently being done for some of the events through outlets such as Ticketmaster. The City would then take on that role.

Mayor Hallman stated that he can't believe that someone who runs one of these events hasn't looked through the market very carefully to find out how to make the most money possible. They negotiate with Live Nation or Ticketmaster or other ticket vendors for the best deal they can get. We can't run a parking system, so how could we run a ticket system? Why has a promoter set his price the way he has? Because he thinks that's where he's going to get the most number of customers and make the most money.

Mayor Hallman added that this Council needs to lead by example. A year ago Council made a commitment to get money to go to the recurring expenses for the Tempe Community Council from a billboard. Instead, that money got diverted into a foundation. If we need to go into our reserves to provide services to our citizens, it is appropriate to ask the TCC to agree with us to move that money back into the general fund expenditures for use for social services. We are moving approximately \$150K per year out of circulation and into a bank account and it is appropriate now to put that toward the social service funding we have. Doing so, would pick up \$150K per year off the top.

CONSENSUS: Report from the TCC, DTC and TCVB showing:

- How agencies can reduce costs
- Staffing and salaries
- Programs supplying
- Expenses

Follow-up Responsibility: Charlie Meyer

Mayor Hallman continued with the following suggestions:

- Staff has to deal with the parking issue all the time. He fought to keep from putting the Brickyard parking into the City's parking system for employees, but instead put it on the street and charge the fees that are otherwise charge in the market for parking. He would encourage staff to recognize that every dollar we don't spend on parking, we can spend on something else including saving peoples' jobs.
- As leaders, Council has asked staff to eliminate their meetings, travel expenses and other items and Council should eliminate those line items in its budget, as well, and reduce it at least to \$5K per member to be spent as that member sees fit, but not pooled so that one member spends more than their allotted fair share.
- He would also ask the City Manager to provide a report to the Council on all of the car allowances currently supplied, not just for the Council, but to all staff. The appropriate way to handle car allowances is the way

we ask every other private sector business to do. If you want to get reimbursed for your car, you negotiate a deal or you submit reimbursement at a reimbursement rate, which he thought is 50 cents per mile. Currently, senior executives and the Council members get \$500 per month, or a \$6,000 per year automobile.

- Senior staff magnanimously stepped forward and reduced their salaries by 2%. He asked that the Human Resources Department send him a memo that he can sign to reduce his salary voluntarily by 2% immediately.

CONSENSUS:

Staff was directed to analyze:

- Employee parking charges
- Reduction of Council travel and events line item to \$5000 per member annually
- Elimination of car allowances for Council and staff
- Reduction in Mayor's salary by 2%, effective immediately

Follow-up Responsibility: Charlie Meyer

3. Voluntary Separation Program [20090324bbp03.pdf](#)

Mr. Meyer summarized that initially when staff came to Council about this idea, it was looked at as a retirement incentive. We also looked at it as the idea of capping it. After the last Council discussion on March 3rd, we did send notice out to employees that this was under consideration and asked for letters of interest. Jon O'Connor received 104 letters of interest from employees, which is more than expected. Based on the discussion at the last meeting, and based on the overriding concern being raised by Council of avoiding layoffs, staff decided to make several proposals to change this.

- One proposal is not limiting it to 86 participants, but eliminating that cap altogether and taking anyone who comes through the door.
- Allowing all employees, not just those eligible for retirement, to take part.
- In order to provide more incentive, there is another group of employees who don't have the kind of tenure nor the eligibility for retirement but may be willing to leave employment with the City which then creates the opportunities for placement of other employees. The proposal here is to put a minimum of 90 days of service credit toward the service credit portion of it, so they would still get 100% of their sick leave, but instead of getting 1% times their years of service, they would either get 1% times years of service, OR 90 days, whichever is greater. That will bring more people in the door, especially those who aren't necessarily considering retiring but just for personal reason would consider leaving.

Mayor Hallman noted the May 1, 2009, deadline for accepting the offer.

Mr. Meyer added that staff initially decided to propose a \$50K cap on the incentive portion. That does not influence someone's cash-out of vacation, nor the existing policy of 50% of cash-out of sick leave. It would only be for the bonus beyond that. It was also suggested that we increase the percentage amount. Either of those items would benefit a relatively small number of employees that are tending to be a little higher income or certainly longer tenured employees. In trying to decide where money would be best spent, he concluded that bringing more people to the program at the lower end would give better bang for the buck in terms of the objective of avoiding layoffs. If we spend that amount of money at the higher end we would bring in a smaller number of people because there aren't that many

additional people that are eligible above the cap.

Mayor Hallman asked for consensus that the goal of these incentive programs is to get enough people to open jobs so that we don't have to have layoffs.

CONSENSUS:

Direction to move forward to Formal Council the updated Voluntary Separation Incentive Program as presented.

Follow-up Responsibility: Renie Broderick

Mr. Meyer summarized that the next step will be to prepare the 2009/10 budget which will come to Council on April 16th. The discussions today and the previous discussion will guide the preparation of that budget. Staff will be working on:

- The issues related to the three agencies (the bed tax, the special events) to determine how to make all of that work.
- The voluntary separation incentive program will come to the Council at the Formal meeting on March 26th and if Council adopts it, then the intention will be to implement that immediately.
- Staff will have to update notification to employees regarding layoffs because there were previously notified of earlier dates, but the Council has agreed to the June 30, 2010, date.
- Staff will, as quickly as possible, begin to fill positions under our Employee Placement Program.
- Staff will start negotiations with the employee groups and he may need to return to Council for guidance. Three MOU's are up for renegotiation now and one that we will have to look at under the fiscal crisis language in order to implement the Council's direction.
- Staff will proceed with the plan relative to the High Option PPO and the implementation of the plan.
- Staff will move forward with the implementation of OPEB given the direction of Council today and start to make the moves that are part of this plan in order to implement everything so that savings are incurred as quickly as possible.

Mayor Hallman stated that it would **not** be necessary to hold the Special Five-Year Financial Planning Session scheduled for March 26th and the Council's Quality of Life Committee meeting currently scheduled for March 26th will be rescheduled.

Meeting adjourned at 4:00 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 March 24, 2009, by the Tempe City Council, Tempe, Arizona.

Hugh Hallman, Mayor

ATTEST:

Jan Hort, City Clerk

Dated this day of , 2009.