

Minutes Tempe City Council Special Budget Session April 16, 2009

Minutes of the Tempe City Council Special Budget Meeting of Thursday, April 16, 2009, held 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 3:09 p.m.

Call to the Audience

No one came forward to speak.

Operating Budget Review

City Manager Charlie Meyer summarized that the presentation today will show an actual budget, on a preliminary basis, for FY 2009/2010. Everything discussed since last December involved a longer range financial plan and forecast, and this concerns the actual budget. While staff will present a budget that will have balanced numbers, we are probably in as fluid a situation as we have ever been in terms of budgeting. The information changes on a week-to-week basis. Some of that has to do with the economy and what happens to our revenues, and some of it has to do with the organization itself. We are in the middle of our Voluntary Separation Program and he has asked each department manager to look at each separation for opportunities to move things around in such a way that money can be saved and yet continue to provide services the way we want. We are counting on using a fair amount of the fund balance to balance this budget now and for the next couple of years. We have to continue to manage this budget in order to get to where we need to be long term. We have to look at every expenditure and every position. Additionally, at the last workshop Council directed staff to continue to work with the three partner agencies—Tempe Community Council, Tempe Convention and Visitors Bureau, and Downtown Tempe Community. Staff is doing that. There are some numbers in the preliminary budget that are different from the numbers presented originally, but the process is not finished yet. Ideas are coming forth that haven't even surfaced previously. That is a positive thing and he asked for Council's patience as they continue to work with those partner agencies.

Mayor Hallman clarified that even though the numbers have dropped from the previous discussions, staff will continue to work on that. At that last discussion, Councilmember Arredondo made the strongest point that Council directed staff to work with the agencies, and he was willing to let staff continue to work on it.

Jerry Hart summarized the highlights of this annual financial program. This annual financial program reflects the budget direction provided from Council through a series of budget discussions beginning with the December 1, 2008, workshop through the March 26, 2009, Issue Review Session where the discussion was held on the Capital Improvements Budget, which is part of this financial program.

- The program reflects the implementation of the first year of the five-year budget balancing plan for the general fund, including departmental reorganization to achieve long range financial sustainability.
- The FY 2009/2010 annual financial program totals \$497.4M which is an approximate 12.3% decrease from the FY 2008/2009 annual financial program which was \$567.2M.
- The financial program is comprised of a \$401M Operating Budget and a \$96.3M Capital Budget.
- The FY 2009/2010 Operating Budget, which includes all operating funds, increased only ½% over the Operating Budget of FY 2008/2009.
- The FY 2009/2010 Capital Budget represents about a 43% decrease from FY 2008/2009.
- The slight increase in the Operating Budget is mainly due to budgetary increases in some of the other operating funds which were offset by decreases that had been made in the general fund to balance the general fund budget.
- Decreases in the FY 2009/2010 Capital Budget were primarily due to reductions in the transit program due to the completion of the initial 20-mile segment of the light rail system. There have also been some reductions in the level of funding requests for the FY 2009/2010 water/wastewater program.
- The major budget balancing choices included in the general fund budget (outlined on page 2 of the handout) reflects the elimination of approximately 49 currently vacant positions. It also calls for freezes in employee compensation. The budget balancing plan initially presented on December 1st called for a three-year pay freeze. In addition to the freezes, this budget reflects approximately \$1.7M reduction in other compensation and benefits. Changes to the City's subsidy to the High PPO Plan is one of the major reductions.
- This budget includes the elimination of \$3.1M of contingency funding in the general fund. For the FY 2009/2010, there is no general fund contingency. That was one of the key sources used to help balance the budget. This budget proposes an \$18.7M drawdown of fund balance reserves to help cover the projected shortfall of revenues compared to expenditures for next year. This is the first year of a long term solution to right the financial ship in the City.
- This budget balancing plan also reflects the beginning of the funding of the OPEB obligation.
- This budget reflects \$2.3M of additional revenues that were identified during the budget discussions and the impact of the Voluntary Separation Incentive Program.

Mr. Hart continued that this represents implementation of improved budgetary practices, and staff will begin to incorporate into the formal adopted budget the appropriations for any outstanding purchase orders at the end of the fiscal year. Current practice is to roll those purchase orders forward to the next year, and the appropriation associated with those purchase orders also will roll forward. Beginning in FY 2009/2010, those appropriations will actually be incorporated into the actual budget that is adopted. The goal is to enhance and improve budgetary practices.

Mr. Hart added that over the last few months, the concentration of the budget discussions has been on the general fund, but Council should understand that there are challenges in some of the operating funds as well that must be addressed. Those other operating funds are fine for FY 2009/2010, but staff has determined that we will need to begin the development of long range budgetary balancing plans for some of the other operating funds, much like for the general fund. Staff will begin on that effort and, as part of the next budgetary cycle for FY 2010/2011, will bring any recommendations forward to Council.

He added that the Capitol Program reflects the continuation of the existing five-year program. Assuming that the Council agrees with this annual financial plan as presented, the next steps in the budget process are as follows:

- May 7th - Truth in Taxation hearing for primary property tax. Anytime the primary property tax revenue exceeds the levy from the prior year and the City chooses to maximize its property tax levy (the levy can only grow no more than 2% plus any new properties that come on the tax roles), the City is required to have a Truth in Taxation hearing.
- May 14th - Tentative adoption of the Operating Budget and Final Adoption of the Capital Improvement Budget.
- May 28th – Final Operating Budget adoption.

Councilmember Shekerjian asked if we have an idea yet of the economic impact so far of those who have indicated they will take the voluntary separation incentive.

Mr. Meyer responded that staff is calculating the value of someone who chooses to leave between now and June of this year vs. someone who has decided to leave in June of 2010, and what the economic impact is.

Renie Broderick responded that there are currently 104 employees who have accepted the program. Of those, 57 will retire by June 30, 2009.

Mayor Hallman clarified that in addition to the 48.75 vacant positions, there are an additional 57 positions that will become vacant by June 30, 2009.

Mr. Meyer added that those numbers don't necessarily add together. The 49 positions are positions earmarked to be eliminated and they are vacant so they can be counted as savings. Of those who are signing up for the voluntary separation incentive program, some of those may be in positions that are earmarked to be eliminated. Some are in positions where, when they vacate, somebody who was in a position to be eliminated will move into it and we avoid a layoff and we have an alignment with our budget. Some of the earmarked positions will require us to go out and hire either internally or externally. The goal is to move positions around to try to get the savings, even if they weren't in places where they had originally been planned.

Ms. Broderick added that at this point, about 25 employees will be left in positions that are targeted for elimination by the end of June 30, 2010. That would mean about 25 employees participating in the placement program over the next year. Councilmember Shekerjian asked if Ms. Broderick meant by "dynamic" that more people are signing up or some people are changing their minds.

Ms. Broderick stated that no one has backed away.

Councilmember Shekerjian asked for clarification what \$18.7M from the general fund balance this year leaves.

Mr. Hart clarified that it leaves about \$34M at the end of the fiscal year.

Councilmember Shekerjian asked what it would be after the next year.

Mr. Hart responded that it is about another \$5M, which would bring it down to \$29M at the end of FY 2010/2011, or about 20%.

Vice Mayor Ellis stated that a lot of the budget problems had to do with reorganization. Some of the reorganization had to do with positions being eliminated so that different departments could be combined, but with some of the people not leaving until June of 2010, how is that affected?

Mayor Hallman added for clarification that that is the 25 people who would be left in positions targeted for elimination. Vice Mayor Ellis clarified that her concern is for the employees and the fact that we may be moving them to other

departments only to have them plan to leave within a few months anyway.

Mr. Meyer responded that, for example, there are two work units, one with 5 employees and one with 8 employees. We combined them for 13, but we will eliminate 2, so we take the 13 down to 11. We are moving ahead with that plan. In the original plan, it might have been that those two positions were to have been eliminated in June of 2009. What we would do is still combine those two work units and look to not eliminating those positions until June of 2010. However, given the dynamics of the voluntary separation program, we may find that we get the vacancies anyway without having to eliminate the individuals who are earmarked there. That is a very simple example and life isn't like that. One area where we have incredible activity from the voluntary separation program is in Public Works/Engineering. There are a lot of long-tenured employees leaving. It will be very difficult to get the right people in the right places. The concern is that we will have people leaving sooner than expected and we will have to patch organizationally in order to get the work done. He has been telling employees that if you are in a position and were notified that you had the potential for being laid off at sometime prior to June of 2010, those employees have been re-notified that that has been extended until June of 2010. The potential layoff has been deferred but otherwise we are moving ahead with the plan as originally presented to the Council. We do the reorganization and if we get the vacancies that occur, we will take the vacancies there, and if all else fails and we don't get people moved, then the only thing that has changed is that a potential layoff has been deferred for a year. We are moving ahead to achieve the savings that are in the plan from the process of reorganization. We are not deferring action until June of 2010, we are only deferring layoffs, so we may end up carrying a few more people in a work unit.

Councilmember Mitchell shared the concerns of Councilmember Shekerjian and Vice Mayor Ellis, but those questions have been answered.

Councilmember Arredondo clarified that no one is going to lose their job. We are going to prevent layoff until June of 2010.

Mr. Meyer agreed that through June 30, 2010, there would be nobody that would voluntarily lose their job. No layoffs are being proposed. Based on the numbers that Ms. Broderick just shared, we have reason to be optimistic that we could achieve our goal of not having any layoffs in June, 2010.

Mayor Hallman further clarified that from all of the work done so far, there now are only 25 positions left with people in them that were slated to be eliminated, and the goal now is to work with those 25 to look at the array of jobs open for positions that we didn't seek to have empty, but we have 104 retirements and will try to help people move into those jobs so that by June, 2010, we will have eliminated any options for layoff.

Councilmember Arredondo asked if there is any process for bumping.

Mr. Meyer explained that bumping occurs when there are layoffs and we end up laying off someone because we have decided that the position is one that will be eliminated. That person has some rank and seniority in the organization and there are groupings and if we are eliminating a librarian, for example, that librarian may very well have held a position of a library technician or a library assistant at some point in the past. If they have both seniority and rank, they could bump into another job. Someone at that lower level job could get bumped out if we were doing layoffs.

Councilmember Arredondo asked who decides bumping.

Mr. Meyer responded that bumping is decided by the City's Personnel Rules and Regulations.

Ms. Broderick clarified that the bumping decision is made by the employee who has been notified their position is scheduled for elimination. Bumping triggers, even before the date that the person would be laid off, because as soon as the employee is notified their position is in jeopardy of being eliminated, they have the right to exercise their bumping rights. One of the things we have done is have the employees tell us if they want to bump, and if they want to bump, they can

bump in two directions. They can bump into a position that they previously held, or they can bump into a position in their job family where they have more seniority than someone in that position.

Mayor Hallman added that in addition to that, the Personnel Rules and Regulations stated that senior people have the right to push other people out of their jobs if they are the ones being eliminated.

Ms. Broderick responded that she is conducting meetings every other Wednesday morning with the two employee groups that are essentially effected (TSA and SEIU). At those meetings they go through the process. No one has actually been bumped yet.

Councilmember Arredondo asked her to put the process in writing for Council.

Mayor Hallman added that the process was set and negotiated over a long time into the employee regulations. It is a complicated process but it is not Human Resources deciding who gets the bumps, it is the rules that were set in place and negotiated to respect seniority rules that were established by the employees. Through the EPO, you could go to an empty spot if you qualify for it.

Ms. Broderick added that if you are the person being bumped, you will be notified and given the same options that the initial people who were notified were given.

Councilmember Arredondo stated that his concern was that every City employee be notified where these regulations are and what applies so they understand that it is across the workforce and not by department.

Ms. Broderick agreed.

Mayor Hallman clarified that Councilmember Arredondo is specifying to make sure that employees would be notified so that they know where they can go to see the regulations themselves, and if they have questions, who they go to.

Ms. Broderick added that they are in the process of setting up a webpage for the EPO and that information will also be there.

Councilmember Arredondo clarified that everyone needs to know.

Ms. Broderick added that supervisors are asked to post those things.

Councilmember Arredondo noted that on page 4, the ITD department was not listed.

Mr. Hart responded that the IT department is an internal service department. In the budget process, 100% of the cost of the services that IT offers to the other City departments is charged out to the other departments, so IT costs are represented in each of the budgets of each of the departments.

Councilmember Navarro asked for clarification that if there are vacant spots, for example, in Engineering, are other engineers taking up the slack, will they stay vacant, are they going to be filled and if they do get filled, what pay range will they fall? Will they fall in the low pay range, or is it by their years of experience? Will there be a savings or not?

Mr. Meyer responded that he cited Public Works/Engineering because the changes are going to happen so fast that we won't be able to keep up with it. There may be some vacancies that we absolutely have to fill, and we won't be able to fill them fast enough. The first priority is if we have vacancies occur where we were scheduled to eliminate positions, then that satisfies the need for that elimination, so nothing changes. It stays vacant, but the person who may have been in jeopardy

of losing their job is now secured because the vacancy occurred as the result of a voluntary separation. Then there is a situation where a vacancy occurs in a position that wasn't scheduled for elimination. Through the EPO Program, we will try to put someone in that position. The more technical a position is, the field of eligible candidates to slip into that position gets narrowed. If we need a certified engineer, we would try to slip someone into that position that is already on staff. There may be situations where we have to go to the outside to fill a position, and there could also be a vacancy that occurs that we hadn't planned on and if we tweak it a little, we can leave that vacancy and shift those duties over to someone else.

Mr. Meyer added that May 1st is the deadline for application for the Voluntary Separation Incentive Program.

Councilmember Arredondo clarified that everything the Council has asked to be put back in the budget is back in the budget.

Mr. Meyer clarified that the plan that is presented today is the plan that was presented to Council on February 19, 2009, and all of the amendments Council made to it in the three subsequent meetings. That is all reflected in this budget.

Mayor Hallman asked if there are any instances where department heads came back and said they appreciated the Council wanting to give them this and here's why they didn't want to do it, etc.

Mr. Meyer responded that staff has not changed anything from a budget standpoint.

Councilmember Mitchell clarified that the number for the voluntary separation program will change.

Mr. Meyer added that it is a very different situation for him because he has already operated on the thinking that once the budget is established, it is established. We really have to look at this from a standpoint that every time we see an opportunity, we have to see what we can do about it.

Mayor Hallman clarified that Council will adopt a budget, but it is a budget and a target. The City Manager's goal is to continue with department heads to look at every place where we can continue to improve service and save money, and that options will be pursued.

Mr. Meyer added that two weeks ago he reported that he had received an estimate from the League that the City's State Shared Revenue would be \$800K less than estimated. Our budget staff worked it and tailored it to Tempe, and they came up with a number that was \$296K, so that is a movement in the right direction.

Councilmember Navarro asked whether after the reorganization and all of the adjustments if we will be looking to see if management is top heavy and if we need to make any sacrifices on the higher end.

Mr. Meyer agreed. Wherever those situations occur in the organization, we will be looking to manage down the cost and the number of positions, in addition to what we have already put forth to Council.

Mr. Hart added that adoption of the tentative Operating Budget will be on May 14th. Final adoption will be on May 28th.

Mayor Hallman stated that he finds the numbers and tables confusing because it shows the Operating Budget up ½%, yet we have spent four months going through just one segment of the budget. There have been repeated news stories about the City's \$34.5M deficit even though from December 1st, we had identified ways we were cutting it. There was a news story that said we were shortening the hours of the library and considering other things. That had been off the table from the beginning. The general fund is being reduced by 2.3%. That's what most of the concern has been about. The other concern is the use of the capital fund number in determining whether or not our budget has decreased or increased. The

capital fund (the CIP) is not one of those that is volatile because of the economy. It is volatile because of the program we put together. It is a five-year plan and in some years there is more spending and in some years there is less. The year-to-year comparison as if we are suddenly saving or cutting our capital improvements budget by \$70M misleads the public that there has been some dramatic change. That's how the projects have been laid out over five years. The huge \$.5B spent over four years was the light rail. So we won't spend that again because we are only building it once. It would be helpful if we explained to the public and the press what these things really mean. For example, the water/wastewater fund is self-funded. It doesn't have a huge swing in revenues because the revenues are based on the cost and fees we charge for water, just as solid waste is based on the fees we charge. There was a news story that we had increased our water/wastewater fees except that the plan got set in place in 1999. We set up a five-year capital program that set forward exactly what fees would be for five years, we fiddled with that a little in 2004 or 2005, and set out a new plan because of some changes in federal law, and the public gets misled completely about these things. That is true of the Golf Fund in certain ways. Golf is an enterprise fund. It collects and spends its money based on the amount of people who play golf and the costs of keeping the greens cut. If we don't get enough money from people playing golf, then we figure how to cut that budget. He hoped that we do a better job communicating to the public and the press that it is not fair to say we are comparing a \$497M budget to a \$567M budget because it is apples to oranges. The capital budget swings quite wildly based not on the economy but on how we carefully program the projects we are going to do, how that money will be expended and where we get it. Property tax is relatively stable. We have a five-year period demonstrates that valuations swung pretty high. The Council has been presented with information that would be helpful for the public. Council got a chart that showed the changes in 2008 to 2009 in property valuations, in 2009 to 2010 across the County. We have gotten another one that shows 2008 to 2010, a two-year swing. He is still pleased to say that in that two-year period in all of the terrible reductions we saw in property valuation, Tempe is the lowest with the exceptions of Wickenburg, Gila Bend, Paradise Valley, Cave Creek and Carefree. Those are all fairly small communities relative to Tempe and there are reasons that Gila Bend and Wickenburg did not change much. But of the cities people think of in the Valley, Tempe has had the least reduction in property valuations. That tells us a lot about the quality and character of this community and that it is still extremely attractive for people to move here. Those are the kinds of things we want to keep in mind. He appreciates Councilmember Shekerjian's point that we are drawing down the contingency. It makes him nervous that we don't have a contingency because he didn't know of a year that we haven't spent some of that contingency. The reality is that if we hit a rock, we are pulling more money out of the reserve because the contingency now is just part of the reserve. We have \$34M in reserve and contingency and we are really spending \$22M of reserve funds this year and \$11M in cuts and reductions in budget. That is still a pretty decent number. The one time expenditures of reserves are probably supportable if we get the retirements we are seeking out of it and long term fiscal stability and sustainability. This Council and staff have been doing this years ahead of almost everyone else out there.

DIRECTION: Staff was directed to go forward and finalize the Operating Budget. Final budget will come back to Council on May 28th.

Meeting adjourned at 4:10 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 City Council budget meeting of April 16, 2009, by the Tempe City Council, Tempe, Arizona.

Hugh Hallman, Mayor

ATTEST:

Jan Hort, City Clerk

Dated this _____ day of _____, 2009.