

# Memorandum

City Managers Office



Date: March 20, 2009  
To: Mayor and Council  
From: Charlie Meyer, City Manager  
Subject: Balanced Budget Proposal Follow-up, March 24, 2009

The purpose of this memo is to respond to the City Council's direction provided at the March 3, 2009 budget planning session. Specifically, the Council proposed approximately \$3.2 million in reinstatement of positions and directed staff to make recommendations on how that could be funded. During the intervening weeks we have met with the City's employee groups to seek input and suggestions and have also evaluated many options for funding the \$3.2 million.

While the meeting with employee groups did not result in any immediate solutions they were invited to submit any ideas that they had. SEIU indicated that they would provide a direct communication to Council. It also became apparent in the discussion that if we were to attempt to solve the \$3.2 million gap along with the \$1.7 million freeze in cost of benefits through the reduction of other benefit areas that there simply wasn't enough money to cover the combined burden. So the following recommendation separates the two issues.

The \$1.7 million freeze in benefits is still proposed to be dealt with through negotiation with our employee groups. The examples that are provided are not intended to pre-empt those negotiations but rather illustrate how certain benefits that have been suggested by Council as possible solutions could be used to close the gap. In addition, we have illustrated for Council a recommendation that would fill a substantial part of the gap and arguably would not be a reduction in benefits. The recommendation is to continue to provide 100% health coverage for individuals and 70% for dependents for our two basic plans and phase out the subsidy of our high PPO plan. That recommendation would allow employees who currently use the high PPO plan to either choose one of the other plans at no additional cost to themselves or pay for the difference for the higher plan.

The \$3.2 million of restorations is not proposed to be paid for by cutting employee benefits for the reason stated above. We also explored the option of seeking additional cuts from the departments who were receiving restorations. The difficulty with doing that is that in every case we believe that the additional proposed cuts from those departments would be more onerous to Council than the ones that Council is considering restoring. The approach that is suggested is literally one that was not available to us just two weeks ago. Essentially, the recommendation is to defer the elimination of police and fire positions for 4 years through the use of federal grants. The grants that are available require for eligibility that the positions to be funded are either new positions or positions in jeopardy of elimination. The approach suggested is to restore these positions with federal funding and reserve the monies needed for match in the fourth year.

## Fund Balance

City Council has asked if General Fund Balance can be used to preserve services and jobs. I continue to strongly recommend that fund balance be used responsibly to defer cuts to services and to defer job cuts but not for ongoing expenses. I believe that the recommendations included here do both.

Fund balance can be used to pay for the Voluntary Separation Program which is a one time expense.

Council has expressed strongly that we avoid layoffs. I would recommend that we defer any layoffs until June 30, 2010 in order to give the Voluntary Separation Program enough time to work in creating vacancies. Fund balance can be used to pay for the deferral of the layoffs which is a one time expense.

Fund balance can also be used, as suggested above, to fund the fourth year of the police and fire grant programs.

The combined estimate of the above uses of fund balance is approximately \$6.6 million. This would be in addition to the \$27.3 million previously proposed. The combined total of these would result in reducing fund balance down to a 20% level in 2012-13. While that is still technically within the Council policy on fund balance, it would require a stronger recovery of revenues than currently forecast in order to stay within policy after 2012.

I look forward to discussing these issues and recommendations with Council.

Attachments:	Issue 1: \$4.8 Million Reduction to Employees' Pay/Benefits
	Issue 2: \$3.2 Million Restoration of Proposed Budget Cuts
	Issue 3: \$2.7 Million Combined Increase in General Fund Revenue and Reduction of Funding for Outside Agencies
	Issue 4: Retiree Health Insurance (OPEB)

## **Issue #1 -- \$4.8 Million Reduction to Employees' Pay/Benefits**

The current budget-balancing proposal includes a \$6 million reduction to employees' pay/benefits in each of the next 3 fiscal years. Besides a 3-year salary freeze for all employees, additional cuts to recurring pay/benefits would be needed in each of the next three years -- \$1.75 million in 2009-10; \$1.35 million in 2010-11; and, \$1.7 million in 2011-12 (\$4.8 million total) to reach the \$6 million annual target and balance the budget.

### **Recommendation:**

<b>YEAR 1 – 2009-10</b>	
\$700,000	Eliminate ½ of the <i>Health Insurance Excess Subsidy</i> (see Note 1). Estimated 70% of the \$1 million General Fund savings in the first year, as a result of employees paying the difference or switching to a lower-cost plan.
\$1,050,000	Negotiate reductions of other benefits totaling \$1,050,000. For example: <ul style="list-style-type: none"><li>• Reduce Tuition Reimbursement by 50% -- \$250,000</li><li>• Eliminate standard deferred compensation match -- \$644,000.</li><li>• Eliminate one paid holiday -- \$135,000</li></ul>
<b>\$1,750,000</b>	<b>Year 1 Total</b>
<b>YEAR 2 – 2010-11</b>	
\$300,000	Eliminate the remaining <i>Health Insurance Excess Subsidy</i> .
\$1,050,000	Negotiate reductions to employees' benefits totaling \$1,050,000. For example: <ul style="list-style-type: none"><li>• Eliminate Mediflex (including deferred compensation paid to IAFF members in lieu of Mediflex) -- \$775,000.</li><li>• Eliminate Special Holiday Leave (½ day used in December or cashed-out) -- \$150,000</li><li>• Other misc, reductions to benefits --\$150,000</li></ul>
<b>\$1,350,000</b>	<b>Year 2 Total</b>
<b>YEAR 3 – 2011-12</b>	
\$900,000	Negotiate reductions to employees' benefits totaling \$900,000. Examples of benefits to be considered: <ul style="list-style-type: none"><li>• Reduce City health insurance subsidy for spouse/partner/family from 70% to 65% beginning 2011-12 -- \$925,000</li></ul>
\$800,000	Use excess Health Fund balance to offset benefit reductions.
<b>\$1,700,000</b>	<b>Year 3 Total</b>

Note 1: The *Health Insurance Excess Subsidy* -- The City's current policy is to pay 100% of employees' health care insurance coverage and 70% toward family coverage. The City could maintain this policy and save approximately \$1.3 million Citywide (\$1 million from the General Fund) per year by only providing this level of subsidy for the most reasonably priced health plan. Employees who choose to participate in a more expensive plan would be responsible for the additional cost. The City currently pays an average of \$1,882 more per year for an employee with family coverage on our High PPO Plan than an employee with family coverage on either our Low PPO Plan or Cigna.

## **Issue #2 -- \$3.2 Million Restoration of Proposed Budget Cuts**

The City Council selected the following proposed budget cuts, contained in the Balanced Budget Proposal, for further consideration and possible restoration:

\$65,000	One Code Inspector position in Community Dev.
\$176,000	Part time Code Inspector positions in Comm. Dev.
\$100,000	1.5 Librarian I positions in Comm. Services.
\$95,000	One Care 7 Counselor II position in Comm. Services.
\$244,000	Three Social Service Coord. Positions in Comm. Services.
\$40,000	.5 ADA Specialist position in Diversity.
\$197,000	3 vacant Firefighter positions.
\$732,000	Overtime savings in the Fire Dept.
\$36,000	One Reprographics Supervisor in I.T.D.
\$572,000	Eight Recreation Coord. positions in Parks and Rec.
\$130,000	Program costs associated with eight Rec. Coord. positions.
\$388,000	One Sgt. and three Officers in the P.D. Mounted Unit.
\$70,000	Program costs associated with the Mounted Unit.
\$87,000	One Academy Officer position in P.D.
\$90,000	One over-hire position.
\$129,000	Three custodian positions.
<b>\$3,151,000</b>	<b>Total</b>

### **Recommendation:**

\$1,350,000	Utilize COPS & BYRNE/JAG funding for three years for PD positions and <i>spend \$1.4 million of fund balance in 2012-13</i> to fund the fourth year.
\$197,000	Utilize SAFR Grant for three years to fund three Fire positions proposed for elimination and <i>spend \$200,000 fund balance in 2012-13</i> to fund the fourth year.
\$1,300,000	Reduce contingency budget by \$1.3 million each year (eliminate contingency).
\$224,000	Reduce Fire overtime related to the restoration of 3 vacant positions.
\$80,000	Other program/personnel reductions totaling \$80,000.
<b>\$3,151,000</b>	<b>Total</b>

### **Issue #3 -- \$2.7 Million Combined Increase in General Fund Revenue and Reduction of Funding for Outside Agencies**

The current budget-balancing proposal includes a 1% (\$1.2 million) increase in the Transient Lodging Tax and a combined savings of \$1.5 million in funding for the Tempe Convention and Visitors' Bureau (TCVB), the Downtown Tempe Community (DTC) and the Tempe Community Council (TCC).

#### **Option 1:**

\$1,200,000	Request approval of an additional 1% Transient Lodging Tax beginning in January 2010. Since the tax would only be in place for one-half of FY 2009-2010, <i>the \$600,000 shortfall would be drawn from Fund Balance in 2010-11.</i>
\$1,500,000	• Reduce the budgeted expenditures for all three agencies.
<b>\$2,700,000</b>	<b>Total</b>

#### **Option 2:**

\$2,400,000	Request approval of an additional 2% Transient Lodging Tax, beginning in January 2010. Since the tax would only be in place for one-half of FY 2009-2010 <i>the \$1.2 million shortfall would be drawn from Fund Balance in 2009-2010.</i>
\$175,000	Reduce TCVB's allocation by \$175,000.
\$20,000	Require DTC to make minimum annual payments of \$20,000 for parking operations or withhold the difference from assessments.
\$105,000	Reduce TCC's administrative funding by \$105,000.
<b>\$2,700,000</b>	<b>Total</b>

#### **Issue #4 – Retiree Health Insurance (OPEB)**

Management needs additional input from Council members in order to draft the final changes to our OPEB policy and include the necessary funding in the Balanced Budget Proposal.