***PLEASE NOTE: Since the Glendale City Council does not take formal action at the Workshops, Workshop minutes are not approved by the City Council.**

MINUTES
CITY OF GLENDALE
CITY COUNCIL WORKSHOP
March 15, 2005
1:30 p.m.

PRESENT: Mayor Elaine M. Scruggs, Vice Mayor Thomas R. Eggleston, and Councilmembers Steven E. Frate, David M. Goulet, H. Phillip Lieberman, and Manuel D. Martinez

ABSENT: Councilmember Joyce V. Clark

ALSO PRESENT: Ed Beasley, City Manager; Pam Kavanaugh, Assistant City Manager; Craig Tindall, City Attorney; and Pamela Hanna, City Clerk

Mr. Beasley explained this is the first of five budget workshops scheduled for the Council and that no decisions need to be made at this time. He explained staff would begin the budget process discussing compensation because 70 percent of the General Fund goes toward paying employees. He said, however, other discussions during subsequent workshops will cover the CIP, the Go Transportation Program, Enterprise Funds and the Westgate Development.

1. **FISCAL YEAR 2005-06 BUDGET: 1ST WORKSHOP ECONOMIC FORECAST AND BUDGET OVERVIEW**

CITY STAFF PRESENTING THIS ITEM: Ms. Sherry Schurhammer, Management and Budget Department Director and Marshall Vest, Director, Economic and Business Research Center, Eller College of Manager, University of Arizona.

This is a request for the City Council to review the Fiscal Year 2005-06 general fund proposed budget, which represents a balanced plan for next fiscal year. It is also a request to review the recommended priority supplemental requests related to total compensation and risk management, as well as the supplemental requests for the Human Resources (HR) Department.

The Human Resources Department presentation will address citywide issues related to proposed merit and market adjustments and employee benefits like health insurance, retirement contributions, and tuition and employee development assistance.

The information to be covered at the workshop is found in the first two tabs of the City Council budget workbook (see the tabs labeled “Introduction” and “Human Resources”). The information is also attached to the council communication.

Mr. Marshall Vest will present information about the Arizona economy and the outlook for the future. Mr. Vest presented similar information to the City Council at the November 8, 2003 Workshop on the Fiscal Year 2003-04 1st quarter report on the General Fund. Mr. Vest is the director of the University of Arizona's Economic and Business Research Center. He also is a revenue consultant to the Joint Legislative Budget Committee and has been tracking and forecasting the Arizona economy for two-and-a-half decades.

Representatives from the Segal Company will present information about the health care industry and trends impacting health care costs for employers.

The Council's review of the Fiscal Year 2005-06 budget is consistent with the Council's goal of ensuring the city's financial stability.

During Fiscal Year 2003-04, the budget process has been modified per the Council's request. Some of the more significant modifications include the following:

- The Council now receives quarterly presentations on general fund revenues and expenditures;

- The Council now receives periodic presentations throughout the year on enterprise fund issues, such as sanitation collection and landfill tipping fees;

- The Council now reviews the proposed capital improvement program (CIP) budget at the same time as the operating budgets for next fiscal year, as evidenced by the inclusion of CIP operating and maintenance supplementals as part of the operating budget process; and

- The Council now reviews all supplemental spending requests as part of the operating budget process.

Future budget workshops are scheduled as follows:

- March 22, 2005 - 1:30 p.m. – 5:00 p.m.
- March 29, 2005 - 8:30 a.m. – 4:30 p.m.
- April 5, 200 - 8:30 a.m. – 4:30 p.m.
- April 19, 2005 - 1:30 p.m. – 5:00 p.m.

The Council was given the preliminary CIP written report on February 15, 2005. This material will be discussed at the workshop to be held on April 5, 2005, along with the Glendale Onboard (GO) Transportation Program.

The Council reviewed the Fiscal Year 2005-06 General Fund revenue projection at the February 15, 2005 Workshop.

The Council was given the Fiscal Year 2005-06 budget workbook on February 28, 2005. This workbook contains the following information:

- the City Manager's memo on the Fiscal Year 2006 recommended operating budget (p.1-11);

- the Fiscal Year 2005-06 General Fund budget balancing summary (p. 12); and

- the ongoing and one-time supplemental requests, including those related to new capital projects coming on-line in Fiscal Year 2005-06, that are being recommended for funding from the General Fund, the enterprise funds, and all other funds.

The City of Glendale's budget is an important financial, planning, and public communication tool. It gives residents and businesses a clear and concrete view of the city's direction for public services and operations and a better understanding of the city's ongoing needs for stable revenue sources to fund public services and ongoing operations.

The budget provides Council and residents with a means to evaluate the city's financial stability.

All budget workshops are open to the public and are posted publicly per state requirements.

No decisions are required at today's workshop. Decisions on the proposed budget are not needed until the Final Balancing Budget Workshop on April 19, 2005.

Ms. Schurhammer started the presentation by stating that the proposed capital and operating budgets to be presented to council over the course of the FY05-06 budget workshops are balanced. She said the focus of the workshops would be supplemental requests although council would have the opportunity to ask questions about the departments' base budgets. She reiterated that decisions on the proposed budgets would not be needed until the April 19 Final Balancing Budget Workshop.

Ms. Schurhammer stated that the March 22 workshop would address Fire, Police, Homeland Security and Special Projects Administration, as well as the Appointed and Elected Officials and Internal Services groups. She explained the March 29 workshop would cover Public Works, Community Information and Services, and Community Development groups, while the April 5 workshop would address the preliminary Capital Improvement Program (CIP), the CIP operating and maintenance (O&M) supplementals, the stadium and Westgate supplementals, and the GO Transportation program. She stated Council would meet again on April 19 for the final balancing, at which time staff would ask for direction on the proposed operating and capital budgets for FY05-06.

Ms. Schurhammer introduced Mr. Marshall Vest and explained that he would provide Council with information about the Arizona economy and the economic outlook for the upcoming year.

Mr. Vest began by stating that he would review the results of the Joint Legislative Budget Committee's (JLBC) meeting of the Finance Advisory Group, which occurred last week. He stated that the Finance Advisory Group is comprised of economic experts from several organizations, and that the purpose of the group is to advise the JLBC on the future prospects for the Arizona economy.

He stated that the overall picture is one of the Arizona economy doing very well, noting that state revenue collections through the first eight months of this fiscal year (FY) show a 14.2% increase over last FY's collections through the first eight months. Mr. Vest explained that robust growth is occurring across all three main state revenue sources: sales tax, individual income tax and corporate income tax. He attributed the robust revenue growth to population growth and the significant amount of money flowing into real estate.

In terms of state sales tax collections, Mr. Vest provided some detail on the increases seen in this FY's collections over last FY's collections for the same time period. He reported an 18% increase in state sales tax attributable to contracting, an 8.1% increase in state sales tax collections attributable to retail, an 8.4% increase in collections related to restaurant and bar sales, and a 12% increase in collections related to the use sales tax. He also reviewed a chart depicting the history and forecast for state sales tax collections, which showed the percentage growth from the prior FY's collections. The current projection for this FY shows a 9.4% increase over last FY's collections; this projection is based on 8 months of actual collections in the current FY. The projection for FY05-06 is a more moderate but still very good 6.6% increase. He predicted contracting and retails sales tax components will begin to level out, but remain strong.

Mayor Scruggs asked if the state is using the 9.4% figure in the current state budget or in the state budget being created for next FY. Mr. Vest said the 9.4% increase is for the current FY (FY04-05), which ends this June 30. Mayor Scruggs asked if the state anticipated a 9.4% increase in this FY's collections over last FY's collections when the state prepared the budget last year. Mr. Vest stated the revenues coming in this FY far exceed what was budgeted when the current FY's budget was created.

In response to Councilmember Goulet's question, Mr. Vest explained that the JLBC forecast is built on a consensus projection put together by the Finance Advisory Group panel members and JLBC staff members. He stated that he provides the group with a baseline forecast, a low forecast, and a high forecast based on various assumptions regarding growth in employment, population, and other factors. However, the consensus projection reflects the group's consensus on where the Arizona economy is headed and is based on collections received through the first 8 months of this FY.

Mr. Vest reported phenomenal growth in individual income tax collections, stating this FY's receipts are experiencing a 15.6% increase over last FY's receipts. He said that the increase is 9.6% after adjusting for the change in the withholding rate schedule that went into effect in January. He said the substantial increase in individual income tax collections is a result, in part, of 4.5% job growth and 4% - 5% growth in private sector wages.

Councilmember Martinez pointed out individual income tax lags by two years. Ms. Schurhammer confirmed the revenue the state is collecting in the current fiscal year (FY04-05) represents the state shared revenue the city will receive in FY06-07.

Councilmember Lieberman asked why the growth in the individual income tax revenue stream is expected to decline in FY07 to 6.7%. Mr. Vest said the economy is expected to be very strong in FY07 even with a slower growth rate of 6.7%. Councilmember Lieberman asked if the prediction is based on scientific calculation or gut feeling. Mr. Vest said he has studied Arizona business cycles for the past 25 years and he believes the state probably will see a return to more normal but still strong growth levels in FY07 and FY08. Councilmember Lieberman pointed out the city was told in 1996 not to expect more growth, but more growth was seen in 1997 and 1998. Mr. Vest admitted the dynamic they are seeing could continue one more year, but the JLBC chose to be conservative in its forecasts.

Mr. Vest stated corporate income tax revenue is very difficult to project because it does not correlate well with the overall economy. For example, corporate income tax receipts are impacted by capital investments, tax exemptions, and tax credits that can change dramatically from year to year. He noted that the big wildcard in this category of revenue is the build up of unused tax credits that are estimated to be worth hundreds of millions of dollars. He said there is no way to predict or forecast when these tax credits would be used. Nevertheless, Mr. Vest said the ***Blue Chip*** newsletter notes that corporate profits were up 50% in FY03 and 29% in FY04. He said he is expecting gains near 10% in FY05.

Mr. Vest summarized the projected growth in the three revenue sources. For FY04-05, he expects state sales tax collections to come in 9.4% higher than the FY03-04 collections. Individual income tax receipts are expected to be 15.6% higher in FY04-05 when compared to the prior FY, and corporate income tax receipts are expected to be 35.9% higher than FY03-04 collections. For FY05-06, strong increases are projected – 6.6% growth for state sales taxes, 8.4% growth for individual income taxes, and 19.1% growth for corporate income taxes. Strong growth is expected in FY07 and FY08, although at a more moderate pace. He also noted that economic recessions are caused by "shocks that cannot be predicted," and that it is "impossible to forecast shocks".

In response to Vice Mayor Eggleston's question, Mr. Vest said the projections are based not only on the business cycle, but on econometric models he has built at the University of Arizona, as well as a model of General Fund revenues for the state. He stated the models are based on forecasts provided by Global Insight, a worldwide economic consulting and forecasting company.

Councilmember Frate asked how corporations would react if another event similar to the 9/11 attacks were to occur. Mr. Vest explained everyone became more aware of risks and more adverse to risks following 9/11. However, Mr. Vest said that businesses now are thinking about growing their businesses. He said another attack on a similar scale would certainly have an affect, but it is hoped the impact would not be as severe or long lasting.

Councilmember Goulet asked if Mr. Vest has a breakdown for growth in the various regions of the state. Mr. Vest said he has models for the Metro-Tucson and Metro-Phoenix areas, but noted that there is not have enough data to model the Flagstaff, Yuma or Prescott metro areas. He stated most of the growth is occurring in Phoenix, but he suspects other parts of the state are growing as well.

Ms. Schurhammer continued the presentation showing a breakout of the General Fund revenue forecast for FY05-06. She said the projection for next year totals $147.1 million, which is the same number presented to Council at the second quarter report on February 15, 2005. She stated that 38%, or $55.6 million, is attributable to the city sales tax. She said another 32%, or $47 million, is attributable to state shared revenue and 17%, or $25.6 million, is attributable to the "all other" revenue category. She said HURF revenue accounts for 10%, or $15.2 million, and the primary property tax accounts for the remaining 3%, or $3.7 million.

Ms. Schurhammer reviewed General Fund balancing detail on the ongoing side, stating that staff will present priority supplementals totaling $8.5 million and $1.2 million for all other supplemental requests. She said the surplus on the ongoing side totals $945,874 and represents GF ongoing monies available to City Council for allocation.

On the one time side, Ms. Schurhammer pointed out the city's financial policies require the city to set aside 10% of the General Fund revenue budget for contingency appropriation. Based on a GF revenue budget of $147.1 million, the GF contingency appropriation should be at least $14.7 million. She stated staff is recommending the city add an additional $2 million to the $14.7 million to get to $16.7 million for a GF contingency appropriation for FY05-06.

Councilmember Martinez asked about the beginning General Fund balance. Ms. Schurhammer said, as of the end of the second quarter, the General Fund balance on a budget basis was $56.5 million. She explained that a very conservative approach is used to determine how much can be spent on the one-time side. She said the fund balance more than likely would be several million dollars higher than the projected $45.2 million beginning fund balance.

Councilmember Lieberman asked how the fund balance dropped from $56.5 million to $45.2 million. Ms. Schurhammer explained the $56.5 million presented at the second quarter report reflected over $8 million in savings on the GF expenditure side and $2 million more in collected revenue on the GF revenue side. She stated that the projected beginning fund balance for FY05-06 is very conservative because it assumes that the City will spend all of its GF appropriation, which typically does not occur. This approach is very conservative and is used only to establish the amount of one-time money available for next year.

Ms. Schurhammer explained that the $16.7 million contingency appropriation is a component of, not in addition to, the GF fund balance. Councilmember Lieberman asked about the $2 million Fiesta Bowl and $3 million Super Bowl reserves. Ms. Schurhammer stated the reserves are set asides within the General Fund. She noted the $3 million Super Bowl reserve is in addition to the $1 million reserve that Council established in the current year's budget, bringing the Super Bowl reserve to a total of $4 million in FY05-06. She explained the reserves are being established to address public enhancements that might be required.

Ms. Schurhammer stated Council has $1.9 million available in GF one time funds for allocation.

Ms. Schurhammer mentioned the priority supplementals that were shown on slide 13. She said that the first three listed on the slide, the merit and pay range adjustments, retirement increases, and health benefits increases, would be discussed by Ms. Alma Carmicle, the Human Resources Department Director, and Ms. Lupe Sierra, a staff member of the Human Resources Department. She said they would also discuss the risk management premium increase supplemental request. She stated the other priority supplementals would be addressed at future budget workshops.

FISCAL YEAR 2005-06 BUDGET: 1ST WORKSHOP
HUMAN RESOURCES OVERVIEW

CITY STAFF PRESENTING THIS ITEM: Ms. Alma Carmicle, Human Resources Director; Ms. Cathy McIntyre, Compensation Analyst and Mr. Gary Peterson, Segal Insurance.

Ms. Carmicle stated prior to staff's presentation last year they asked Blue Cross and Blue Shield to meet with the Council to discuss insurance trends. She said Gary Peterson from the Segal Company has been asked to make a similar presentation this year.

Mr. Gary Peterson, Segal Insurance, said the increase in employer-sponsored healthcare per capita spending is still running in the low teens and, historically, expenditures have increased faster than revenue. He stated employers have found several measures must be taken to maintain their budgets, including increasing employee participation, increasing retiree contributions, educating employees on how to be better consumers, assisting employees in adopting healthier lifestyles, and offering disease management programs for those employees who suffer from chronic conditions. He stated employers are also looking at cost sharing to make employees aware of the cost of healthcare. He said, furthermore, employers are looking at their philosophical roles. Mr. Peterson stated there are a number of factors contributing to the fact that national trends have continued to be in the low-teens for the past five years, such as provider fee increases, increased utilization because of the aging population, increased product promotion, new technology, new drug therapies, and government mandates. He said the trends have been consistent over the past five years, remaining in the low teens; however, they have caused employers to question their philosophy.

Mr. Peterson reported late breaking developments have occurred with regard to retiree medical, noting Statement 45 requires cities to show their liability for any subsidy provided to retirees to cover their medical care. He explained the subsidies not only include the direct payment of insurance premiums, but if rates are blended so retirees are afforded a lower rate an employee subsidy is created.

Mayor Scruggs asked what is the intent of Statement 45. Mr. Peterson said the end goal is to have full disclosure, explaining some cities provide substantial retiree benefits while others do not, making it difficult to compare everyone's books. Mayor Scruggs asked if the goal is to mandate the level to which cities provide retiree benefits. Mr. Peterson said he would expect them to allow employers to continue to manage their affairs as they see fit, explaining they simply want to make sure there is full disclosure if subsidies are provided.

Mr. Peterson said employers are also looking at the potential for expenditures exceeding revenue growth and questioning their philosophy in terms of the provision of benefits to employees and retirees. He stated they are looking at whether the obligation is simply to provide availability of healthcare coverage or whether it is to provide city funding of that coverage. He said they are also looking at whether the same philosophies apply to different segments of a population.

Mr. Peterson reported the active employee per month cost increased 12 percent in 2004 and the pre-65 retiree's cost grew the fastest at approximately 19 percent, increasing from $460 per month per pre-65 retiree to $550 per month.

Councilmember Goulet asked if the increases are consistent with the increase in number of employees. Mr. Peterson said the figures have been adjusted for population growth and are in excess of that population growth.

Mayor Scruggs asked why the cost decreases after 65. Mr. Peterson suggested the numbers are skewed somewhat because of the small population. He noted Medicare has passed Part D, the prescription drug benefit, and the city will be eligible for a 28 percent subsidy if they chose to file for it.

Councilmember Martinez asked if the number of claims have increased. Mr. Peterson responded yes, stating it has risen for two reasons, growth in the population and aging of the population. Councilmember Martinez asked if the number of claims have increased taking the population into account. Mr. Peterson was unable to say. Ms. Sierra stated they have undertaken every measure Mr. Peterson outlined in his report to improve the city's claims loss ratio. She noted there has been an increase in large catastrophic claims this year. She said the changes made last year have yielded some improvements in the utilization of emergency room and doctor visit benefits.

Vice Mayor Eggleston asked if the cost increase is due primarily to the increase in the cost of medical work. Mr. Peterson said the city is in line with the national trend.

Mayor Scruggs asked if the rising cost of procedures and services is resulting in the increased costs. Mr. Peterson agreed the higher costs of new technologies and new procedures are components in the overall cost increase.

Vice Mayor Eggleston commented the city's employees appear to be very conscientious about maintaining their health, but that doctors seem to refer patients to specialists more often now.

Councilmember Frate asked if catastrophic claims costs were divided amongst the entire population. Mr. Peterson responded yes. He pointed out a relatively small percentage of the population drives the majority of the costs.

FISCAL YEAR 2005-06 BUDGET: 1ST WORKSHOP
BENEFITS OVERVIEW AND RECOMMENDATIONS

<u>CITY STAFF PRESENTING THIS ITEM</u>: Ms. Alma Carmicle, Human Resources Director; Ms. Cathy McIntyre, Compensation Analyst and Ms. Lupe Sierra, Benefits and Compensation Manager.

Ms. Carmicle stated their journey to look at total compensation began in 1999 and, over the years, staff has made several presentations to Council on the subject. She stated Watson Wyatt consultants came before the Mayor and Council to review their findings in March 2002; however, they did not review detailed data on the benchmark analysis. She said the detailed data was provided to Council by staff last week. She explained implementation was postponed in 2003 for a variety of reasons and 2004 was the first opportunity the city had to implement the total compensation recommendations. She stated the Mayor and Council approved several actions at that time, including a one-time lump sum increase, market adjustments and reinstating the merit increase. She said, however, those steps did not solve many of the city's compensation issues; therefore, they conducted another market study in November 2004 to determine if some of the findings made in 2001 were still valid. She stated major adjustments were made to the Public Safety Sworn side in 2004 based on what was occurring in the industry. She stated staff provided Council with an update in January 2005.

Ms. Carmicle said a number of questions arose at the Council's January 18, 2005 workshop, including a request for the actual survey data from the Watson Wyatt study. She said they also asked to see data from the study the City of Glendale conducted in 2004 as well as a comparison of staffing ratios, vacation accruals, and tuition assistance commitments among the various cities. She stated Council also posed a number of questions concerning what employees were saying as they depart the organization and about the city's turnover rate.

Ms. Carmicle explained the methodology used in the Watson Wyatt Survey examined the competitiveness of the city's salary structure and actual salaries at that time. She said they also examined the competitiveness of certain salaries. She stated they studied 87 jobs, which covers approximately 51 percent of the city's employees, using both public and private sector data. She reported the study found the city's benchmark positions to be approximately 2.1 percent below the market and the salaries for those benchmark positions to be about 5.9 percent below the market. She noted a wide range in variation was found, with one job being 32 percent below the market and another job being 63 percent above the market, stating that kind of variation is typical of an internally driven classification system. With regard to hard to recruit positions, Ms. Carmicle said the study found the pay system for five of the seven identified jobs may have been an impediment to recruitment She said a private to public sector comparison showed the public sector paid higher for clerical, skilled and semi-skilled positions while the private sector paid higher for professional, managerial and executive positions.

Ms. Carmicle reviewed the methodology used by the City of Glendale in its survey of 2004, explaining they studied 150 jobs, covering 56 percent of employees, using data from local valley cities and comparing pay ranges with those of other cities. She stated the findings of that study showed the city's maximum salary for 50 percent of the jobs studied were 10.9 percent below the market. She said Glendale paid higher than other cities for clerical, skilled and semi-skilled positions, but lower for professional, managerial and executive positions.

Councilmember Goulet asked how they took into account the employees who were recently hired at the lower end of the pay range. Ms. Carmicle explained employees, when hired, are placed in the salary range according to the person's knowledge, education and experience, stating that is why they asked Watson Wyatt to compare both the top step of the range and the actual salaries.

Councilmember Martinez pointed out the entry level salary is also well below market, expressing his opinion that is the driving force behind attracting employees to the city. Ms. Carmicle agreed the city's entry salaries were low, stating that happened over time because the city did not make any adjustments to its pay plan because they were intending to implement a new pay plan. She explained entry salaries are lower to account for people entering into a classification who do not have high levels of experience. She stated salaries are negotiated with potential employees based on their experience and education; therefore the mid-point is considered the competitive market range. She noted entry-level training positions are the only positions where salary is not negotiable.

Mayor Scruggs asked what is considered market rate. Ms. Carmicle said the estimated market value represents the average of the top steps for the various cities.

Mayor Scruggs asked why some positions were compared among eight cities while others were only compared among three cities. Ms. Carmicle explained not all cities have comparable jobs and not all cities are able to collect data on a particular job.

Ms. McIntyre reviewed the staffing ratio comparison, explaining they compared the total number of full-time equivalent staff per one thousand members of the city's population. She said in the Professional Planning area, the numbers account for professional level staff, noting Glendale is somewhat lean but efficient in this area. She said the city is slightly stronger in the Sanitation area, ranking 5^{th} among all of the cities. She noted staffing numbers for the landfill function has been removed since Glendale and Phoenix are the only two cities that operate landfills. She stated Glendale also ranks 5^{th} in terms of Police positions and Fire positions, with two staff persons per 1,000 population and just under one staff person per 1,000 population, respectively.

In terms of vacation accrual rates, Ms. McIntyre reported Glendale ranks seventh out of eight cities, with most other organizations offering 12 to 15 days accrued upon initial hiring.

Councilmember Martinez asked how long has the city's vacation accrual policy been in effect. Ms. Carmicle said the policy has been in effect for at least 20 years, noting the accrual rate was not changed when the city reviewed its policies in 1998.

Ms. McIntyre discussed the top reasons why employees leave the city, stating those who participated in exit interviews over the past year indicate retirement, salary reasons or a lack of promotional opportunities as the primary reasons for leaving. She said those who accepted other jobs cited better salaries, more challenging work and better promotional opportunities as the top reasons for leaving the City of Glendale.

Councilmember Martinez asked if benefits were identified as a factor. Ms. McIntyre said benefits were mentioned occasionally, but ranked much lower on the list of reasons for leaving.

Ms. McIntyre provided information concerning the city's turnover rate as compared to other cities, noting the figures take into account the number of employee exits as compared to the city's total staffing figures. She reported Glendale ranks first both in terms of total turnover and retirement turnover.

Mayor Scruggs said, in reality, the difference between Glendale and Scottsdale, who ranks 4^{th}, is seven people. Ms. McIntyre explained the numbers are adjusted to account for the difference in the size of the workforce. Mayor Scruggs said they need to put the information into perspective.

Councilmember Lieberman asked what was the basis for calculating the number of FTE's. Ms. McIntyre said the number of FTE's represents full staffing equivalents.

Councilmember Goulet asked how the numbers compare to actuarial numbers in any type of business environment. He pointed out there will always be a certain percentage of people who choose to leave. Ms. Carmicle said from the public sector standpoint, seven percent is considered a high number; however, in the private sector where the turnover rate is approximately 14 percent, seven percent is considered a very low level of turnover.

Vice Mayor Eggleston asked what time period do the numbers reflect. Ms. Carmicle stated the study spanned 2004.

Councilmember Martinez noted from 1998 to 2000 there was a jump from seven percent to 14 percent, stating the city is apparently now doing better. Ms. Carmicle explained during that period there was a strong rise in turnover because of the good economy.

Ms. Carmicle reviewed the recommendations for the upcoming fiscal year, stating, in terms of the second year implementation strategy, the primary focus was on market ranges. She said, after having to make significant changes with regard to the salary structure and recruiting, the concern this year turned to stabilizing the system. She stated the primary goal for the upcoming year was to address employee and retiree cost sharing as well as the competitiveness of the city's vacation plan and tuition assistance program. Ms. Carmicle explained the employee pay recommendation is tied to the Market, stating they are recommending a market adjustment of up to two percent. She said they are also recommending a merit increase of up to five percent and a five percent across-the-board Public Safety increase.

Councilmember Lieberman asked Ms. Carmicle to describe the Public Safety step plan. Ms. Carmicle explained, based on the city's ability to compete, they have developed a range with automatic step increases. She said prior to administering the step plan, they will place the employees in the steps based on their seniority in the organization. She explained when they did the new pay plans in 1995 they started everyone at the same level within the ranges, resulting in newer officers and firefighters being paid as much as those who had been with the city for as long as 20 years. Councilmember Lieberman asked if the step plan is based on seniority rather than performance and rank. Ms. Carmicle said the plan is based on seniority within the organization.

Mayor Scruggs asked how long it would take to move to the top of the pay range. Ms. Carmicle responded nine years.

Councilmember Lieberman pointed out a five percent increase for nine years equates to a 45 percent pay increase. Ms. Carmicle said the increase is consistent with other systems.

Councilmember Martinez asked if the increase is based on performance. Ms. Carmicle stated the increase is automatic in that it is predetermined, but an employee will have to pass their performance review to move to the next step. She noted most public safety employees were under the same plan as the rest of the city and, therefore, will not be starting at step one. She stated there will be no differentiation among the employees with regard to pay. Mr. Beasley explained other cities already had steps and, because of that, Glendale was not very competitive. He said, while other city employees may receive a raise ranging between two and five percent, based on their performance, it is more important in public safety to have consistency among the steps so the city remains competitive with the outside market.

Mayor Scruggs asked if a public safety employee would be considered performing and, therefore, eligible for the five percent increase unless they were in some sort of embarrassing trouble. Ms. Carmicle responded yes, stating an employee who would not be eligible would likely be in some form of disciplinary mode.

Councilmember Martinez asked if the step plan carries through to other positions. Ms. Carmicle said the step plan is solely for Police and Fire, explaining the city has a performance driven system in place for other employees. She stated every year a number of employees do not receive a performance increase because they were involved in some type of disciplinary process. She said, in the future, they will have a matrix that will determine a person's raise based on their performance. She explained, given the nature of public safety work, performance driven plans do not work.

Councilmember Lieberman asked if a cost of living increase would be in addition to the five percent step increase. Ms. Carmicle said staff is not proposing a cost of living adjustment this year, explaining they are adjusting the ranges by up to 2 percent to come in line with the market. She explained the city has been moving away from cost of living adjustments, noting they have not made a recommendation for such an adjustment in about two years. Councilmember Lieberman asked who determines what percentage merit increase an employee will receive. Ms. Carmicle said the increase is based on where an employee falls within the market; pointing out employees in some positions are already at or above the market. Councilmember Lieberman asked if some employees will receive a total seven percent increase. Ms. Carmicle said it is possible depending on where an employee is within their range. Councilmember Lieberman asked what percentage of the public safety employees will be eligible for the five percent seniority placement. Ms. Carmicle said all public safety employees will be eligible for the full increase, stating no one will go in at the top of their range. Councilmember Lieberman asked if public safety employees will also receive the two percent market increase. Ms. Carmicle responded no. Councilmember Lieberman asked if the move away from cost of living adjustments is a trend in other major cities. Ms. Carmicle answered yes.

Vice Mayor Eggleston asked for confirmation that an employee who is already paid at the market rate will not be eligible for the full five percent merit increase. Ms. Carmicle agreed, stating their communication with employees will be clear in terms of where the ranges fell prior to and after the study. Vice Mayor Eggleston asked if other cities have implemented similar strategies, stating it seems to him that not offering a good-performing employee a pay increase because their position is already at the market rate will cause problems. Ms. Carmicle said most employees are more concerned that their pay is competitive in the market. Vice Mayor Eggleston asked if the market rate is based on local or national salary figures. Ms. Carmicle stated frequent salary surveys will be conducted, stating they will likely conduct a national survey next year and a local survey the following year. She noted staff will study a position when an employee leaves to ensure it is competitive prior to setting out to recruit for the position.

Mayor Scruggs asked if nine is the average number of steps in other cities. Ms. Carmicle said Glendale's step plan is wider, stating most of the other cities range between seven and nine steps. She pointed out each city brings public safety employees in at different levels; therefore, the first two steps are rarely used. Mayor Scruggs asked what value is there in finding out pay range information on a national basis and if the city will change its pay structure based on what is being paid in a city outside of Arizona. Ms. Carmicle explained national surveys will be done only for positions for which the city competes nationally. Mayor Scruggs asked if they anticipate being off market again next year. Ms. Carmicle stated it will depend on what other employers do next year. Mr. Beasley clarified the proposed strategy takes into account projections for next year; therefore, it should keep the city competitive. Ms. Carmicle explained the entire system has been adjusted from a classification system with ranges based on 1995 to a market driven pay system. She said they will continue to monitor the survey data to ensure the city's pay is consistent and competitive with other cities. She stated they will make a recommendation next year based on the survey data and what other cities are doing.

Mayor Scruggs expressed concern that the market adjustment will be self-perpetuating as other cities make adjustments to compete with what Glendale is now offering. Ms. Carmicle stated, depending on the position, the city may or may not need to be more competitive.

Councilmember Lieberman asked if the city will hire a consultant every year to conduct the survey. He pointed out a survey was also conducted in 2001, asking if adjustments were made at that time. Ms. Carmicle said they did a first year implementation after the Watson Wyatt recommendation in 2004. She explained the city's Human Resources staff will conduct the surveys necessary to maintain the system.

Mr. Beasley clarified the city will not make recommendations based on an effort to remain ranked number one or two within the valley, stating they will strive to remain competitive within a range. Ms. Carmicle agreed, stating their yearly recommendations will be with regard to merit increases, not market adjustments. She noted one of the rules for a performance-based system is that if a position is plus or minus five percent, it is considered to be at market.

Councilmember Lieberman asked how much the increases will cost the city next year. Ms. Carmicle said the merit and pay range increases for everyone in the General Fund will cost $4,410,272. Councilmember Lieberman asked what increases for employees in the other funds will cost the city. Ms. Carmicle answered $1.3 million for a total cost to the city of $5.7 million.

Ms. Carmicle continued her presentation, stating they are recommending they change the employee maximum for tuition reimbursement from $1,500 to $2,500 annually. She said they are also recommending they change the eligibility requirement from reimbursement for job specific courses to reimbursement for courses related to any city job. She said they are also recommending they require employees to reimburse the city if they leave within one year.

Councilmember Lieberman expressed concern about requiring employees to reimburse the city if they leave prior to one year, noting he had a similar situation in his business and the employee took his case to the Labor Department and won. Mr. Tindall, City Attorney, said he believes the city is within its rights to require reimbursement, but he will check labor laws to make sure it is implemented in a legal manner. Councilmember Lieberman said the laws might have changed since his situation 19 years ago.

Mayor Scruggs noted Scottsdale automatically deducts the amount from an employee's final paycheck, stating she would like a similar process implemented in Glendale. She asked if other cities have actually followed through on the requirement. Ms. Carmicle said the data they have collected indicate other cities have the practice in place.

Councilmember Goulet asked if an employee could use the fund to purchase books as well. Ms. Carmicle stated the fund is solely for tuition, stating the employee must cover the cost of textbooks and fees.

Ms. Carmicle stated the city has one of the lowest vacation accrual rates, with employees getting ten days for the first three years of service and 12 days for four to seven years. She said staff is recommending they give employees 12 to 15 days of vacation for one to five years of service, 15 to 18 days for five to ten years of service, and 21 days for 10 plus years of service.

In response to Vice Mayor Eggleston's question, Ms. Carmicle clarified an employee begins to accrue vacation time after they complete their first week of work at a rate commensurate with the employee's classification. She said the current system allows all employees, regardless of classification, to accrue up to 10 days for the first three years of service, but the system made it difficult to recruit senior level employees who were used to getting three weeks vacation.

Mayor Scruggs asked if an employee could save up their 10 days of vacation for three years and take all 30 days off in one year. Ms. Carmicle stated employees are limited on the amount of vacation time they are allowed to carry forward.

Vice Mayor Eggleston asked at what point could a new employee utilize their vacation time. Ms. Carmicle explained an employee could take vacation time as soon as it has been accrued. She stated unused vacation time goes into a credit bank for use at a later time.

The meeting recessed for a short break.

Ms. Sierra identified members of the FY 05/06 Task Force, stating the committee has met every two weeks since September to review the different options and was instrumental in getting employee participation in the survey conducted last fall. She thanked the committee members for their participation in the process. She reviewed the recommendations the committee made with regard to health care options, including the health plan renewal, adjusting the health plan contribution levels, changing retiree eligibility to ten years, and introducing a retiree health savings program. She stated the medical plan is the largest component of the health plan renewal, stating it will require a 13.4 percent increase to fund anticipated claims. She noted no plan revisions are being recommended this year. She reported an upsurge in large catastrophic claims, those in excess of $30,000 per year, noting 55 individuals accounted for $2.9 million in claims. She said the cost increase associated with stop-loss insurance is another component of the medical plan. She explained stop-loss insurance protects the city from catastrophic losses; stating the city is only responsible for the first $150,000 in claims on an individual per year. She said for the second year in a row the city had two individuals exceed the $150,000 stop-loss.

Councilmember Frate asked what is the premium for the stop-loss insurance. Ms. Sierra said the city pays Blue Cross Blue Shield a monthly administrative fee that includes the stop-loss component. She noted the administrative fee increased 39.6 percent because of the number of times the city exceeded or came close to exceeding the stop-loss. She said the stop-loss premium is a flat fee for each participant; however, she was unable, at this time, to provide the dollar amount paid for stop-loss insurance.

Ms. Sierra noted the 13.4 percent increase in the medical plan is applicable to both active and retired employees. She said they conducted a Request for Proposal for vision, dental and administration of the Disability Plan benefits. She stated the recommendation for vision is to keep it with the city’s current vendor, Vision Service Plan. She noted the city has not seen an increase from the vendor in three years and the 8.5 percent increase reflects the cost of the service. She said the recommendation was to select a new dental vendor, Delta Dental Plan. She explained the Request for Proposal resulted in a 23 percent increase in premiums for the new dental provider; however, the reimbursement level is 27 percent higher. She noted about 10 percent of the city’s employees are in the pre-paid dental plan, stating there will be a two percent decrease for the employee and a slight increase for the premium for dependent coverage. Ms. Sierra reported no increase in life insurance rates, noting they are in the third year of a three-year rate agreement with the provider. She explained the city has a third party administrator that processes claims for short-term disability for employees covered by the Arizona State Retirement System. She said after an employee is out for three months, they become eligible for short-term disability benefits, which are administered by the Disability Plan Administrator. She noted the same provider administers long-term disability for public safety. She stated the committee is not recommending a change in vendors since the vendor is not proposing any cost increase and their service has been very adequate.

Ms. Sierra stated the committee reviewed the possibility of implementing cost sharing changes for employees who take single coverage. She said, given the increases the city has experienced this year, they developed a proposal they feel is reasonable and will put the city in line with charges assessed by other cities. She explained other cities have developed a low-option health plan in which the city funds the program to 100 percent, but if an employee wants a more comprehensive plan, the employee pays the difference between the two plans. She stated there would be no change in cost sharing for the dependent coverage, noting the city currently pays two-thirds of the dependent portion of the medical premium. She said the recommendation equates to $12.50 per pay period, but, because the contributions are typically made on a pre-tax basis, most employees would see about a $9.00 reduction in their paycheck. She stated they are recommending no cost sharing changes in the dental, however, there would be an increase in the dependent dental premium for the PPO of $6.82 and an increase in dependent pre-paid dental of $0.13 per pay period. She said there would be no cost sharing changes for the vision program either, but the renewal increase will result in employee vision increasing $0.31 per pay period and dependent vision increasing by $0.70. Ms. Sierra said if the city implements the $25.00 contribution starting July 1, 2005, Glendale would rank third from the lowest among other valley cities.

Ms. Sierra stated the committee is also recommending they increase the retiree eligibility to 10 years of Glendale service to participate in the health plan as a retiree, pointing out the current requirement is five years. She explained the change would only apply to retirees hired after June 30, 2005.

Councilmember Goulet asked when would an employee have to select the higher level of coverage. Ms. Sierra said the selection would have to be made during open enrollment unless a qualifying event occurs.

Mayor Scruggs asked if an employee who worked for the city for ten years, but then leaves the city to work elsewhere, would be eligible for insurance. Ms. Sierra said unless the person elects to maintain the city's insurance plan when they terminate employment, they would not be able to rejoin the city's health plan at a later date. Mayor Scruggs asked if 10 years is a common requirement. Ms. Sierra said 10 years was the average among other valley cities.

Ms. Sierra said the committee also reviewed a new retiree health savings plan and received a lot of positive feedback from employees, particularly long-term employees who have large accrual banks. She explained the plan would provide a tax exempt health benefit savings option that a retired employee would then be able to use to pay for out-of-pocket, qualified health expenses. She stated the contributions into the program and withdrawals are tax-exempt. She said employees could realize a considerable tax savings because the I.R.S. typically takes a large cut out of an employee's final paycheck. She stated, unlike the city's flexible spending account, the plan does not have a "use it or lose it" provision. She said if something were to happen to the employee and they pass away, the employee's dependents would be eligible to use the account.

Councilmember Martinez asked if a minimum amount has to be put into the account. Ms. Sierra responded no.

Mayor Scruggs asked if Human Resources would manage the plan. Ms. Sierra said the program is offered through ICMA, the company that already offers deferred compensation at the city. She stated the Benefits Division of Human Resources would likely do enrollment and administration work for the program.

Vice Mayor Eggleston asked if there is a maximum on the amount an employee can contribute to the plan. Ms. Sierra answered no. She explained employees would make a commitment for the following year to contribute a certain amount of compensation or leave accrual. She pointed out, however, the decision is irrevocable and once an employee makes the commitment, it cannot be changed. She said, therefore, they would do a very thorough education process with employees who are interested in participating in the program.

Mayor Scruggs asked if a wealthier employee could elect to put their entire paycheck into the plan. Ms. Sierra said yes.

Vice Mayor Eggleston asked if an employee would be allowed to make cash withdrawals. Ms. Sierra responded no, explaining withdrawals have to be for IRS approved health care expenses, to pay retiree health insurance premiums or to purchase long term care insurance.

Councilmember Martinez asked if an employee would be required to stay with the city's healthcare plan in order to take advantage of the savings plan. Ms. Sierra explained an employee would take their account with them if they chose to leave the city, but the funds would still have to be used for healthcare expenses, insurance premiums or long term care insurance premiums.

Ms. Sierra stated they would do a two-month enrollment process to allow staff to meet one-on-one with any employee interested in participating.

Ms. Sierra discussed the impact of the pay recommendations to the average employee's total compensation. She said an average $40,000 annual salary equates to $1,538.46 in bi-weekly gross salary; however, after adding in all of the indirect compensation the city pays on behalf of an employee such as Social Security, Medicare and Arizona State Retirement, and assuming the employee has dependent coverage on medical, dental and vision, the total gross compensation is increased to $2,044 bi-weekly. She said employee contributions would total $305, bringing the net total compensation to $1,739.38 per pay period. She said, under the new program, the same employee's annual salary would increase to $42,840 assuming the employee earns his or her full increases. She explained the city's contributions would bring the employee's total gross compensation to $2,239 per pay period and with the increases proposed for the health plan and State Retirement Program, the employee's contribution would increase to $390.47, bringing the total net compensation to $1,848.84 per pay period. Ms. Sierra explained, in the case of a firefighter with an annual salary of $40,000, their total compensation would increase to $42,840 annually or $1,886.24 per pay period, after the $380.00 that the employee would contribute toward their retirement contributions and the health plan. She pointed out the vacation accrual in both of these examples would increase to 12 days and tuition assistance would increase to $2,500. In the case of a Police Officer with an annual salary of $40,000, Ms. Sierra explained the officer's total compensation would increase to $42,840 or $1,951.16 per pay period after the employee's contribution of $380.00.

Ms. Carmicle summarized the budget implications, stating the salary recommendations, including merit and pay range adjustments, will impact the budget by $4,410,272 on an ongoing basis as well as by $75,000 in one-time expenses. She said on the benefits side, the retirement system increases will have an ongoing impact of $1,803,587; the medical plan increases will have an ongoing impact of $631,234; the dental plan increases will have an ongoing impact of $129,600; and life insurance plan increases will have an ongoing impact of $30,240. Ms. Sierra clarified the rate per $1,000 of salary has not changed, explaining life insurance is based on an employees salary so, as that employee's salary increases, the total amount the city pays for their life insurance increases.

Councilmember Martinez asked about the $75,000 one-time expense. Ms. Carmicle said the $75,000 is to cover one-time supplementals including the tuition reimbursement program and employee bonuses.

Mayor Scruggs asked why the tuition assistance supplemental was listed as a one-time expense. Ms. Carmicle said they wanted to see how the program works and what level of usage the program gets before asking for an ongoing expense.

Mayor Scruggs asked if staff has made sure that the $7 million that the total compensation adds up to will be available in future budgets. Ms. Schurhammer stated they have projected revenue for next year of $147.1M and the base budget totals about $136.4M , leaving $11M in GF ongoing revenue available to cover the merit and pay range adjustments. Mayor Scruggs asked if they anticipate being able to maintain the increases on an ongoing basis. Ms. Schurhammer answered yes.

Ms. Carmicle reviewed goals for the second year, stating it became clear they will have to spend a lot of time educating employees on the changes.

FISCAL YEAR 2005-06 BUDGET: 1ST WORKSHOP
HUMAN RESOURCES SUPPLEMENTALS

CITY STAFF PRESENTING THIS ITEM: Ms. Alma Carmicle, Human Resources Director; Ms. Cathy McIntyre, Compensation Analyst and Ms. Lupe Sierra, Benefits and Compensation Manager.

Mr. Beasley explained the Human Resources Supplementals being presented next are not part of the priority supplemental requests.

Ms. Carmicle reported Human Resources has a base budget of $19,653,412, with no carryover requests and $87,957 in supplemental requests. She explained the supplemental requests include $20,957 in one-time money for a part-time contract HR Specialist; $2,000 in ongoing funds to cover an increase in the city's contract for employee physicals; and $65,000 in one-time money to hire a Diversity Coordinator. She explained the Diversity Coordinator will be hired on a contract basis for one year and, if the position proves successful, they will discuss with Council next year the possibility of adding the person as a regular employee.

In response to Vice Mayor Eggleston's question, Ms. Carmicle explained the Diversity Coordinator would interact with individuals, businesses, and colleges to determine what the city can do to help meet the needs of the people. She said it is common today to find people who specialize in diversity management.

Ms. Carmicle clarified for Councilmember Goulet that the Diversity Coordinator will work with city employees as well as the individuals previously referenced. She said the city's Diversity Committee membership changes since service on the committee is voluntary. She explained staff feels the city needs a full-time person to coordinate the efforts and develop guidelines for the committee. Councilmember Goulet asked if the Diversity Coordinator would need approval from the City's Human Resources Department before implementing any measures. He expressed concern that the addition of a Diversity Coordinator will do little more than add another process for employees to go through when addressing a problem. Ms. Carmicle stated they have found it is difficult for employees to devote a lot of time to the Diversity Committee and still manage their jobs. She said the request for a Diversity Coordinator came from the committee members themselves.

Councilmember Martinez noted the State of Arizona has an Ombudsman, stating he or she is typically contacted by individuals who apply for and are denied a particular service. He asked if the proposed Diversity Coordinator would act in a similar manner. Ms. Carmicle responded no.

Mayor Scruggs asked to see a job description before the item comes back. She expressed concern that the Diversity Coordinator, who is not a city employee, will deal with very sensitive issues on the city's behalf. She said she would also like to see the position's budget for the sponsorships and such. She suggested the Committee could use an implementer rather than a manger.

Ms. Carmicle stated they will bring the item back at a future workshop.

Councilmember Lieberman stated he supports hiring a Diversity Coordinator. He asked if the city would reimburse the person for mileage expenses, membership fees, meals and so forth.

ADJOURNMENT

The meeting was adjourned at 5:45 p.m.