

***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 OF THE
GLENDALE CITY COUNCIL WORKSHOP SESSION
Council Chambers
5850 West Glendale Avenue
April 16, 2013
9:00 a.m.**

PRESENT: Mayor Jerry P. Weiers, Vice Mayor Yvonne J. Knaack and Councilmembers Norma S. Alvarez, Ian Hugh, Manuel D. Martinez, Gary D. Sherwood, and Samuel U. Chavira

ALSO PRESENT: Richard Bowers, Acting City Manager; Horatio Skeete, Assistant City Manager; Nick DiPiazza, Acting City Attorney; and Pamela Hanna, City Clerk

CALL TO ORDER

PLEDGE OF ALLEGIANCE

WORKSHOP SESSION

1. FISCAL YEAR 2013-14 SECOND BUDGET WORKSHOP
PRESENTED BY: Sherry Schurhammer, Executive Director, Financial Services

The purpose of this City Council Report is to present the policy options for City Council to consider regarding the draft Fiscal Year (FY) 2013-14 operating budget and FY 2014–2023 capital improvement plan (CIP). Staff is seeking guidance from Council regarding its direction for the draft FY 2013-14 operating budget and FY 2014 – 2023 CIP.

Mr. Bowers commented the budget proposal is a five year projection with gradual steps toward fiscal sustainability. He asked Council to consider the proposed policy options: increase of reimbursement from enterprise fund to general fund for services; the increase of user fees and charges and updates on an annual basis; consideration of alternative service delivery possibilities when quality service can be provided at a lower price, consideration of life-cycle costing on all capital projects prior to approval; consideration of adjusting utilities rates annually based on the regional CPI, and reinforcement of the goal of maintaining a fund balance of no less than 10% of the general fund budget. He added Revenue growth assumption is projected at about 3% annually over the five year projection. He said there are no layoffs in the budget being presented.

Ms. Sherry Schurhammer, Executive Director of Financial Services, first discussed the capital improvement plan and the secondary assessed valuation. She said there is a 3 year lag with assessed valuation, so 2009 reflects the 2006 assessed valuation. The city's assessed valuation peaked in 2009 and the low point is expected to occur in 2014, a 52 percent decline. The loss of revenue from the city's property tax is the most important consideration. Collection of secondary property tax revenue has gone from \$30 million in FY09 to \$19 million this year. She said debt service payments have not declined. In 2012, council increased the secondary property tax rate 30.5 cents. She said the median value of homes has gone from \$126,000 to \$150,000 so in the future the rate increase projected for next year is less than what was projected a year ago. She said last year, a projected increase of 30.5 cents was needed, but now only an 11.62 cent increase is needed for 2014. Ms. Schurhammer said on the chart expenditures are exceeding revenues with the exception of 2018 where it balances. The fund balance is also drawn down during this time. She said by 2017, the city is at the 10 percent minimum. If there is no rate increase for 2014, the bond covenants will be in violation in FY16. She said the fund will go negative at that time. Leaving the rate unchanged for FY14 is not fiscally responsible or viable.

Councilmember Sherwood asked what the rate was going to be for FY14. Ms. Schurhammer said it was 11.62 cents, and a year ago, it was project to be 30.5 cents.

Ms. Schurhammer said even with a rate increase in 2014, the average homeowner will still pay less than they did last year in property taxes. She said Mr. Bowers has requested staff to update and expand the financial policies. She discussed the example of the debt burden. She said the city does not have a policy right now that identifies a limit on the portion of the general fund operating budget that could be used for debt service coverage. She said almost half of the \$1.1 billion total outstanding debt is covered by the general fund operating budget. The lease debt service and the MPC debt service is about 14 percent of the FY14 general fund operating budget. She said the goal, which will be put into the financial policies, is to get it to 10 percent or less of the general fund operating budget.

Ms. Schurhammer next discussed the general fund balance and five year forecasts for major funds. She recommended some changes since the March 27, 2013 workshop. Instead of offering up additional expenditure reductions that would result in layoffs, they recommend ongoing revenue adjustments. She said this will support ongoing expenditures over the long term and expand the diversification of the general fund revenue sources. Revenue changes recommended would result in an additional \$6.3 million in ongoing revenue to the general fund. She also said for FY14, water, sewer and residential sanitation collection rates will be unchanged from the current rate. Ms. Schurhammer said the second recommended change is to the primary property tax and how it is levied. She said the financial policy changes on property tax would allow the city to budget at a level the expenditures require on both the primary and secondary side. She said they are recommending adjusting the primary property tax to collect the allowable levy for the general fund operating budget. She said with these changes, there would be an additional \$6.3 million in general fund ongoing revenue. This would also help in diversifying the general fund's revenue sources.

Councilmember Martinez asked if the transportation sales tax fund was also in the category of indirect revenue. Ms. Schurhammer said transportation sales tax was in that category and costs would be slightly increased.

Vice Mayor Knaack asked why the primary property tax has not been changed in the past. Ms. Schurhammer said the city had a long-standing policy to lower the rate as much as possible. She said with the financial situation the city is in now, and declining property values, they are recommending that policy be changed. Vice Mayor Knaack said she is in favor of this and it should have been done a long time ago.

Councilmember Martinez commented they lowered the property taxes five or six years in a row. Ms. Schurhammer said taxes were lowered significantly.

Mayor Weiers said they have to figure out ways to raise revenue. He said he likes this better than last year's recommendations.

Vice Mayor Knaack said the primary property tax is limited by law, but it can be used for general fund purposes, and the secondary is only for debt. She wanted to make sure the public understood this. Ms. Schurhammer said that was correct.

Councilmember Sherwood asked if the amount the enterprise fund pays into the general fund for services was going to be increased over the next several years. Ms. Schurhammer said they will reevaluate this issue again a year from now. Councilmember Sherwood said it was his understanding that this would have to be increased over the next several years. Mr. Bowers said they would like to study this issue, taking everything into account, and bring it to council at a later date. He said the standard rate is about 12 to 15 percent.

Councilmember Chavira asked if it would be feasible to incur automatic roll up costs in the enterprise funds. Mr. Bowers said he wasn't sure what roll up costs were. Councilmember Chavira said when the enterprise funds have surplus, how can they identify that and roll those up to cover the other funds that are lacking. Mr. Bowers said moving forward the key is to make sure the services provided and the costs of those services are reasonable so the general fund receives the proper financial support for the services rendered.

Ms. Schurhammer said they are recommending increases to the general fund budget for next year. The increase is to address ongoing expenses that are expected, such as increased premiums in the risk management insurance. The funds that contribute to those three funds will also carry their pro-rata share of the overall increase. Utility costs will also increase, so they are recommending an additional \$850,000 for the general fund portion, with the net change on the expenditure side of \$1.7 million. She said the situation has changed since they last reported to the rating agencies and bond agencies. The changes have resulted in an \$8 million fund balance drawn down.

Ms. Schurhammer discussed the revised balancing projections in the general fund five year forecast. The two notable points in this revised projection are the fund balance drawn down is

\$3.5 million, which is a big improvement over the \$8 million originally discussed. The other point is the ongoing reductions for FY15 through FY18 have dropped from \$19 million to \$14.3 million. She said the sooner you do the reductions the better, as it has a positive compounding effect.

Councilmember Sherwood asked what the revenue projections are related to the arena for FY14 or FY15. Ms. Schurhammer said the expected revenue in FY14 from Westgate Arena, Zanjero and Tanger is about \$8 million. She did not have specific information related to the arena itself. There was further discussion about the amount of revenue expected from the arena over the next few years.

Councilmember Martinez asked if the \$8 million forecast included the sales tax from Northern Crossing. Ms. Schurhammer said the revenue figure includes the sales tax generated at Northern Crossing.

Ms. Schurhammer next reviewed the police sales tax fund. She said the projected beginning fund balance for FY14 is almost \$7 million. She said the police portion of the sales tax fund is fully committed for the five years shown. She said the project budget for next year and beyond exceeds the project revenue for each year. The figures she presented included the figures from the MOUs for both the Police and Fire Departments. She said the figures mentioned assume all authorized FTEs in the police sales tax fund are fully budgeted, which is standard practice. If the entire budget is spent, the police would draw down the fund reserves if the entire budget is spent. Although this is sustainable for a short period of time, if revenues do not improve by FY15, small reductions will be needed to bring the fund in balance so ongoing expenses would not exceed ongoing revenues.

Mayor Weiers asked if the extra expense of the Super Bowl has been taken into consideration in the numbers presented. Ms. Schurhammer said this has not been taken into consideration yet. She said expenses for the upcoming Super Bowl may be less because they bought a lot of equipment for the first Super Bowl to address the unique needs of the event, and this equipment should still be available. She said there has been an effort for departments to start planning on what the impact of this event will be and these costs will be brought forward at a later date. Mayor Weiers he said this is a huge concern for him.

Councilmember Sherwood asked if they were able to collect the public safety portion of the sales tax which they were not allowed to do for the last Super Bowl. Ms. Schurhammer said that is correct.

Councilmember Martinez said the gap between revenue and expenditures for both the Police and Fire Departments were concerning. Ms. Schurhammer said they do have some reserves they can spend. She said they are keeping an eye on revenues in FY14 and if they are not growing enough to support expenditures, reductions would be necessary.

Ms. Schurhammer said regarding the Police Department's request for \$153,000 for support of school resource officers. She said it showed up as \$300,000 on the information because there are

both salary and additional expenses costs that need to be addressed. She said a net of 75 percent salary reimbursement would be offset by revenue coming from the schools themselves.

Ms. Schurhammer next discussed the Fire Department five year forecast. She said the expenditures for FY14 already included the additional costs associates with the MOUs. The figures also assume that all authorized positions are fully budgeted. As in the Police Department forecast, expenditures exceed revenues and due to the very low Fire Department reserve levels; this is not sustainable and not fiscally prudent. These balances will have to be watched closely and expenditures reductions may be necessary.

Councilmember Chavira asked why the special revenue funds do not grow at the same percentage as the general fund. Ms. Schurhammer said the general fund has a variety of revenue sources. She said the sales tax funds only have the sales tax.

Ms. Cathy Colbath, Acting Executive Director of Transportation, discussed the Transportation GO program five year forecast and the different ways the money is used. She said all the funds in the GO program are allocated to projects. She said Transportation will be conducting an audit, which is done every three years. She said it is a financial and performance based audit and the cost for that is about \$250,000 and is programmed in expenditures for FY14.

Mr. Stuart Kent, Executive Director of Field Operations, discussed HURF and said there was an infusion of \$3 million for pavement management resources for next fiscal year in addition to the \$2 million from GO. Some of the other key issues included a traffic signal installation near 59th and Hayward, signs, marks and street light management and replacement of street light poles. Mr. Kent summarized the HURF plan over the next five years. The figures showed a steady draw down of the fund balances. They do have a healthy fund balance and that money will be used for both one time and ongoing supplemental projects that are HURF specific.

Vice Mayor Knaack said she was happy about the extra money for pavement management expenses.

Councilmember Martinez asked if more money was going into the pavement management funds. Mr. Kent explained the numbers and how that money would be spent over the next several years. Mr. Kent discussed the sanitation and landfill in the enterprise funds and five year forecast. He said they are not recommending any increases to the residential sanitation rate. He discussed the draw down of the fund balance in these funds.

Mr. Craig Johnson, Executive Director of Utilities, spoke about the Water Department's five year forecast. He said the department provides all of the services and covers all of its costs through the revenue gained through water and sewer bills and development impact fees. He said water services are not projecting any increases in revenue. Mr. Johnson said they will use the fund balance to pay as they go for capital projects so they don't have to incur any more debt. He discussed the minimum contingency fund balance which they maintain to cover any emergency expenses.

Councilmember Sherwood asked about the figures in FY17 and FY18. Mr. Johnson said they will do an analysis this summer and should come back to Council with numbers for FY15 and beyond. He also said they will look at what projects are still outstanding and make adjustments based on their priorities.

Mr. Jim Brown, Acting Human Resources Director, discussed employee benefits and said that the city is in its final year with its current provider. Premium rates have remained unchanged from 2009 to the present, although the costs of health care and claims have increased. He said a service agreement extension will be brought forward for FY14, that is unchanged from the current plan, but there will be an increase in premiums for both the employee and the city.

Councilmember Martinez asked if the city had to go out for an RFP for the health care extension. Mr. Brown said if he receives an extension through the council, they can go another year and do the RFP process this summer.

Mr. Brown discussed expenditures and revenues for the last five years. He talked about actuarial rate recommendations, which included expected and maximum premiums.

Vice Mayor Knaack asked if the actuarial premium rates shown were monthly rates. Mr. Brown said they were.

Mayor Weiers asked if the rates for coverage for a retiree plus family were going to go up over \$300.00. Mr. Brown said the city retiree premiums were significantly under what the actual cost was, so those numbers will need to be reviewed.

Councilmember Sherwood asked what the reserve fund balance is at right now and what that balance should be. Mr. Brown recommended the reserve fund should be about six months' worth of claims. He said they are currently going month to month. Ms. Schurhammer noted there is about \$1 to \$2 million on deposit with Blue Cross Blue Shield. There was further discussion about the revenue and expenditures in the fund.

Councilmember Martinez asked about the figures listed on the revenue and expenditures charts presented. Mr. Brown explained the numbers regarding the claims.

Vice Mayor Knaack asked how much money was in the employee benefits fund this time last year. Mr. Brown said he did not have the numbers. Ms. Schurhammer said they will get those numbers.

Mr. Brown said the number of retirees has continued to rise over the last five years, with the active employee group becoming smaller.

Vice Mayor Knaack asked about a projection showing the active vs. retired balance in the next five years. Mr. Brown said approximately 25 retirees are added per year.

Mr. Brown proposed moving to a three tier rates. He discussed the proposed new rates for active employees in the three tier system.

Vice Mayor Knaack said council should have been incrementally increasing the health care costs over the last several years. She said they can't throw these huge increases to the employees.

Councilmember Chavira said he agreed with Vice Mayor Knaack.

Mr. Bowers said the Arizona State Retirement System also has a health plan and what is happening within the city is not uncommon. He said retired employees may choose to leave the city's health care plan and utilize the state retirement's health plan, which may be cheaper.

Councilmember Martinez asked how the employees and retirees compare to other cities. Mr. Brown said there are some cities that have discontinued their retiree health care plan and others who continue to offer that benefit. He said they have been in the top three for medical costs with their benchmark cities, with low premiums.

Mayor Weiers asked if any consideration had been given to Obamacare when that program begins. Mr. Brown said the city's health care plan is not subject to all the requirements and regulations of the affordable health care act. He said there will be a \$1 fee required for research, beginning in July and then in January 2014, there will be a \$5.25 fee for each participant in the plan. Mayor Weiers asked if Obamacare would be cheaper or similar insurance to what the city is paying now. Mr. Brown said similar insurance would not be cheaper. He said they would have to look at different types of plans in the future as the affordable health care act will affect the sustainability of a plan like the city has now.

Mr. Brown discussed the different plans available and how the costs would affect the retirees both above and below age 65. He said in order to sustain the plan; the rates would need to go up. Vice Mayor Knaack said the lack of urgency over these issues in the last few years should not fall on the backs of the employees. Further discussion was held about the premiums.

Ms. Schurhammer next spoke about supplementals that are not in the general fund or HURF, which include general services for fuel purchase, Camelback Ranch Operations for landscape maintenance and parks self-sustaining funds for temporary labor pay. There also were carryover requests. The first was related to the GRPSTC related to unexpected facility repairs. The second was transportation grants which are bus service related that will continue into FY14.

Councilmember Sherwood asked about funding Police and Fire Department supplementals. Ms. Schurhammer said there was a last minute change in the presentation and she did have that information. She said at the start of the budget process, the Police Department had submitted over \$700,000 in supplement requests for the general fund and the Fire Department submitted about \$2.6 million. She said they did not allow any other general fund departments to submit supplementals because there was no funding to cover it. The Police and Fire supplementals were not recommended to be funded because those departments are accredited. The accreditation signifies they meet national standards.

Councilmember Chavira spoke about current events and said it was their responsibility to protect the citizens and visitors to the city. He noted in addition, that this is a city with an entertainment district. Mr. Bowers said these issues are taken very seriously, especially in this difficult financial time. He said the decisions are difficult and are weighed against what is available. Councilmember Chavira called Chief Burdick to the podium and asked in light of what he just heard is it possible to bring up the staffing needed and to develop the criteria needed to keep the citizens safe. Chief Burdick said they are always exploring ways to keep service levels consistent and are doing what they can to meet the needs of the departments. He said regarding the supplemental request, it is a \$1.5 million ongoing cost for the 15 firefighters to staff the new truck. He said it would take more than 6 months to recruit, hire and train 15 new firefighters. He said they continue to try and be creative to save money. There was further discussion about the Fire Department accreditation.

Councilmember Martinez commented he has been a strong supporter of police and fire. He said he doesn't think there will be any supplementals because the money just isn't there. He said hopefully next year will be better so these issues can be addressed.

Councilmember Alvarez said citizens are going to be shocked when the Council gives money to Camelback Ranch and a car dealership, but then can't give the money needed to police and fire.

Vice Mayor Knaack asked if someone could address the car dealership comment by Councilmember Alvarez. Mr. Skeete said the dealership mentioned is the Lund dealership which broke ground recently. He said this agreement is to give back the minimum \$10 million over time. He said this agreement has been in place for well over ten years and the agreement is now being honored. Vice Mayor Knaack asked if there would be a loss or a gain on this deal. Mr. Skeete said public safety and transportation sales tax is not going to be shared. He said if only one dealership remains in that location, they may lose money on the deal, but if the other two car dealerships come to that location, it would have a positive effect on the city. Vice Mayor Knaack said this is a legally binding agreement which much be upheld.

Councilmember Martinez said it might be easier to get the other two dealerships in now that one dealer is there with a luxury brand. Mr. Skeete said he hopes this will be the case.

Councilmember Alvarez said she is thinking of the present, instead of relying on a promise and a hope for the future. She said it's the employees and citizens that are suffering.

Councilmember Sherwood said building the contingency up slowly is a good idea. He suggested discussing the supplementals further to see if there were any other options.

Councilmember Martinez said in the information he received, the message was about the structural deficit and that the budget was not sustainable. He said there is no quick fix to this and he can't see where the money for the supplementals would come from. He said they need to go with what staff has presented. He said response times aren't what they should be, but he didn't

think the citizens are in danger. He said police and fire would be their first priority as soon as things get better.

Councilmember Chavira agreed with the comments made by Councilmember Sherwood. He asked how many fully funded vacancies are on the books for next year, not including Public Safety. Ms. Schurhammer said they budget all authorized positions, whether they are vacant or not. She said the budget includes the elimination of 80 FTEs which are vacant. This number included unfunded FTEs that were sworn positions in both general fund and public safety sales tax. Ms. Schurhammer said she would attempt to get that information.

Councilmember Martinez asked the percentage of the funds that were dedicated to police and fire. Ms. Schurhammer said over 60% was dedicated to police and fire. Councilmember Martinez asked how this compared to other cities. Ms. Schurhammer said the amounts are comparable. She said it is common to see over 50% of a general fund budget dedicated to police and fire. Further discussion was held about the amounts of general fund budget dedicated to police and fire.

Vice Mayor Knaack said the Fire Department is the only department that is in a deficit right from the start and this issue needs to be addressed. She said she is in favor of increasing the primary property tax and felt it should have been done a long time ago. She is pleased the fund balances are being used in a prudent way.

Mayor Weiers said the message today is not nearly as bad as it was at the beginning of the year. He knows they are working on bringing more revenue to the city. He said he was very excited that layoffs are not on the table.

Councilmember Alvarez said she respects Mr. Bowers and knows he is trying to do the best he can. She suggested cutting the legal fees might be a good place to start the cuts.

Councilmember Martinez asked Mr. DiPiazza how many staff members has his office lost. Mr. DiPiazza said they have lost five employees. Councilmember Martinez said they do have to seek outside counsel on occasion because they can't be expected to have an expert on staff for every issue. Mr. DiPiazza said they are working through the staffing issues. Mayor Weiers asked if they were making headway on the backlog of contracts review and progress. Mr. DiPiazza said they are making good progress.

Councilmember Alvarez said she has no problems with the attorneys' office and the work they do. She said her problem is with the outside legal counsel working on issues they can't win. Ms. Schurhammer said in the city attorney's budget, there is \$500,000 on an ongoing basis that is set aside for outside legal fees. Amounts above the \$500,000 budgeted were covered by general fund balance.

Vice Mayor Knaack asked if there were currently any outside legal counsel on retainer. Mr. DiPiazza said they do currently use outside counsel for a number of issues and will continue to do so for the foreseeable future. If they do not have in house expertise, they must look outside.

Due to the small number of attorneys in house, he said they also need to utilize outside legal counsel for cases that might require a large amount of time. He said they are trying to control costs as best they can.

Ms. Schurhammer next discussed the budget adoption calendar. She went over the dates and deadlines for the rest of the budget process.

CITY MANAGER'S REPORT

Mr. Bowers had no comments

COUNCIL ITEMS OF SPECIAL INTEREST

Councilmember Alvarez said she has requested to meet with Tohono O'Odham nation to hear their comments and to advise the public whether the city will continue to spend money on this issue.

Councilmember Martinez asked Mr. DiPiazza if they would need direction from Council to have a meeting with the Tohono O'Odham nation. Mr. DiPiazza said they would need consensus and if consensus is reached, a meeting could be requested. Mayor Weiers said he was willing to meet with the Tohono O'Odham nation if they so requested and any Councilmember was able to meet with the tribe if they wished. Councilmember Martinez said he previously met with Chairman Norris very early on in the process and both sides expressed where they stood on the issues. He felt it was pointless to meet with them at this point as nothing had changed.

Councilmember Hugh asked if the manager could give Council the benefits of pursuing the lawsuit or just removing the city's name from the lawsuit.

Councilmember Chavira agreed with Councilmember Hugh.

The meeting was adjourned at 11:48 a.m.