

MINUTES

BUDGET WORK SESSION
FRIDAY, FEBRUARY 10, 2013
FLAGSTAFF AQUAPLEX
1702 NORTH FOURTH STREET
8:00 A.M.

1. **Call to Order**

Mayor Nabours opened the Budget Work Session at 8:04 a.m. and welcomed everyone.

2. **Roll Call**

Council present:

Council absent:

Mayor Nabours
Vice Mayor Evans
Councilmember Barotz
Councilmember Brewster
Councilmember Oravits
Councilmember Overton
Councilmember Woodson

None

Others present: City Manager Kevin Burke; City Attorney Michelle D'Andrea.

3. **2015 Budget**

OVERVIEW

Mr. Burke reviewed the agenda for the day with opening remarks, noting they would be following a PowerPoint presentation, Exhibit A attached hereto and made a part hereof.

EAC PRESENTATION

The EAC Co-Chairmen Matt Faull and Noah Eiseman presented to Council the recommendation from the employees, to provide for a merit to all employees. They explained that the recommendation was based on feedback received from the employee survey and they suggested that Council review the survey if they had not already. They said that the survey also noted that employees were unhappy with the City benefits. Councilmember Barotz asked staff to forward the survey to the Council. Ms. Anderson noted that it had previously been sent out to everyone, but they would resend to Council. The EAC Chairmen said that they would support any efforts made by Council to provide merits and would work with the City Manager to participate in the process.

After further question by Council, staff explained that a merit increase would move an employee to the next step in the range. It was noted that merits hurt the longer term

employees. It was also noted that, with regard to benefits, employees were unhappy with the cost, not the actual services.

Staff was asked the current turnover rate at the City. It was noted that currently it was at 11%, but Mr. Copley would be addressing that issue further in the afternoon.

REVENUE PROJECTIONS

Revenue Director Andy Wagemaker reviewed the City's revenue projections.

Brief discussion was held on the upcoming cable franchise. Mr. Wagemaker said that they currently pay the City 5%; that is subject to negotiations and will be discussed further at that time.

Brief discussion was held on state shared sales tax. Mr. Wagemaker said that the City was seeing about a 3% increase; the state is projecting 6%, but the City always budgets more conservatively than the state.

FIXED COSTS PROJECTIONS

Ms. Goodrich reviewed the Fixed Costs Projections, noting that for 2015 they were projecting one time funds in the amount of \$2.1 million and ongoing at \$1 million.

It was noted that they should not use the \$2.1 million for ongoing compensation because they could not be sure of the ability to sustain the increases in the future, but they could do a one-time compensation.

Councilmember Oravits referenced the past policy of holding vacancies open and whether they could generate more revenue if they left them vacant longer. Mr. Burke said that their policy has been to take the savings of that 30-day period, which is usually the minimum time to fill a seat anyway, but rather than have the funds stay in the department they are transferred to the General Fund for the greater good. He said that if they doubled the time period, it would probably be around a \$600,000 savings, but it would have an impact on service levels.

Staff was asked about the building on Cherry; how many people were housed and if it was necessary. It was also suggested that subscriptions be cut by 10% or 5%.

Mr. Burke said that they have had five employees move into the DROP program, which is significant, but that is temporary. The City now pays 52% of Fire employee salaries as their portion of the pension contribution with the Police Department at around 47%.

With regard to the Elected Officials pension, Ms. Goodrich said that if they were currently in office and re-elected, they would remain in the old plan. If they are newly-elected they would go into the new plan, although elected officials could change plans.

Staff was asked how strict the City was with rezones and reclassifications. Mr. Burke said that they have remained strict; they cannot be used to get a pay raise. Where it has

become good is where they have positions that have not been compared “apples to apples.”

He said that rezones are mainly because of the decision band. They would not change if someone was just taking on more workload, but if they took on different types of duties, it could merit a reclassification.

Risk Manager Dean Coughenour said that they are looking at a 0% increase in insurance rates in the coming year. He said that they have a quote coming in this week for general liability; on the workers’ compensation side the losses they have experienced have been fairly negative. He said that their loss ratio has been at 68%; now they are tracking at 18%. He said that he was meeting with the President of SCF this week. He said that they will be taking a serious look at the deductible. They are looking at \$250,000, while the City is currently sitting at a \$75,000 deductible.

Staff was asked if it was possible to go with a higher deductible with the employee health insurance. Ms. Anderson said that they are anticipating it going up an additional \$500, from \$3,500 a year to \$4,000. She said that it is capped by the Federal government, but they are not yet at the maximum. She said that another area they will be looking at is the Federal requirement in 2015 for those working 30 hours or more being provided insurance.

It was noted that one of the reasons that employees had issue with the cost of health care was the change in the amount paid for dependant coverage not the amount of the deductible.

Ms. Anderson said that another consideration for the future may be an on-site medical plan, which some communities are now moving to.

Mr. Burke said that the NAEPTB was looking into running its own clinic so they get employees in for preventative care. It has been shown around the state and country to be an overall cost saver. Another piece that may come up during the budget is the idea of a tiered structure in the way of health care for dependents.

Ms. Goodrich said that the difference between a merit and market is that some employees are topped out and they would not receive a merit, but they would receive an increase if they went with a market increase.

NEW REVENUE POSSIBILITIES

Use Tax

Discussion was held on Use Tax and the ability to collect it. Staff noted that it would be self-reported. Mr. Wagemaker noted that most of the larger businesses are familiar with paying use tax and make it a part of their standard operating practice.

Wastewater Services

Staff explained that this was a new category in the Model City Tax Code and is collected on the utility bill for sewer usage.

Jet Fuel

Ms. Goodrich said that these funds would have to be used at the airport, but it could reduce the transfer from the General Fund to the airport.

Recreation Fees

Staff noted that this is in accordance with the steps taken last year by Council, as part of a three-year process to bring the fees up to 21%.

A break was taken from 9:40 a.m. to 10:10 a.m.

FY15 BUDGET PRIORITIES – EMPLOYEE COMPENSATION

Human Resources Director Shannon Anderson continued the PowerPoint presentation:

BENCHMARK HISTORY
PAY ADJUSTMENT HISTORY
DBM VS. MARKET BASED PAY
STRUCTURE RECOMMENDATIONS

Staff was asked to remind Council of the rationale of the difference in Police and Fire personnel. Ms. Anderson said that they work different; they are seen as rank and start at the beginning of a range. In other departments they may start in one department and move to another, in the same type of work.

She said that they had focused on triggers in the Police Department because they were 30% or more below market; the Fire Department was not as severe.

BENCHMARK DATA
COMPENSATION TOOLS
MARKET INCREASE COST
MERIT INCREASE
PAY ADJUSTMENT FOR COMPACTION
OTHER COSTS

Triggers

Add and Premium Pay

COMPENSATION OPTIONS

Discussion was held on the ability to open ranges so they could give merits, but it would not necessarily be to a next step; they could average them, for example, at around two percent.

EMPLOYEE COMPENSATION COUNCIL DISCUSSION

Staff was asked if they were looking for Council direction. Mr. Burke said that they first need to discuss what the pot of money is they have to work with and then determine the Council's priority. He said that the EAC's priority is merit, but the past five years the City has been focusing on market, at the expense of merit.

Mr. Eiseman said that compaction is a result of no merit. The longer they put off merit the farther behind they get with compaction. If they could focus on merit and take care of the ones here they may not have to focus so much on new hires in the future.

Deputy City Manager Josh Copley continued the presentation addressing:

STAFFING – CHALLENGES AND OPPORTUNITIES
EMPLOYEE TURNOVER RATE
IMPACTS OF HIGH TURNOVER AND RECRUITMENT DIFFICULTIES
POSITIONS MOST RECRUITED DUE TO TURNOVER AND RECRUITMENT
CHALLENGES
HARD TO FILL POSITIONS COMPARED TO MARKET
LESSONS LEARNED FROM EXIT INTERVIEWS
STRATEGIES TO RETAIN
PROPOSED STRATEGIES TO ADDRESS STAFFING CHALLENGES

A lunch break was taken from 11:57 a.m. to 12:46 p.m.

QUALITY INFRASTRUCTURE

Public Works Section Head Rebecca Sayers continued the presentation which addressed:

QUALITY INFRASTRUCTURE NEEDS ASSESSMENT
NEEDS ASSESSMENT
Facilities
Parks
Fleet
Airport
Streets
Information Technology
Utilities
HISTORY OF QUALITY INFRASTRUCTURE CABINET

Project Manager Dan Holmes continued the presentation reviewing improvements made in the Airport five-year Capital Improvement Plan.

Ms. Sayers reviewed the progress made during FY2014 in the various sections.

Utilities Engineering Manager Ryan Roberts then continued the presentation which addressed:

UTILITIES NEEDS ASSESSMENT
Water
Wastewater
Reclaimed Water
Stormwater
FACILITY ASSESSMENT FINDINGS – PRIORITY 1, 2
STORMWATER MAINTENANCE

Mr. Burke said that in this area there is a policy decision that will need to be made by Council. If they are looking at a potential road repair tax initiative, the question will be whether they should increase the amount and take care of the utilities side at the same time so they are not repair streets and then tearing them up later to make improvements to utilities.

Utilities Director Brad Hill said that the strategy was to hire experts to identify the true capital asset needs to replace and they are just about there. The next step for staff will be to review those needs and determine their priorities so they can shave the number down. The consultant is coming on March 4.

IT Director Ladd Vagen then continued the presentation which addressed:

INFORMATION TECHNOLOGY

CURRENT COST TO MAINTAIN CONDITION (Funded)

ONE TIME COST TO UPGRADE (Unfunded)

ADDITIONAL ANNUAL COST TO MAINTAIN (Unfunded)

Ms. Sayers noted that in theory it would show that the City was overfunded, but that is not the case. They need to work more with Police, Courts, Library to make sure they are talking "apples to apples."

Ms. Sayers then continued the presentation which addressed:

STRATEGIES FOR FY15: GENERAL FUND

Parks/Unfunded

IT

Facilities

STRATEGIES FOR FY15: ALL FUNDS

Fleet

Solid Waste (Environmental Services Fund)

HURF

A break was taken from 2:00 p.m. to 2:15 p.m.

Mr. Burke then returned to discussion on strategies through new revenues and reallocations.

Staff was asked about the APS Building and its need. Mr. Burke said that there has been some discussion of space being available in the future at the new Core Services Maintenance Facility that may allow the APS Building to be used differently.

During considerable discussion by Council the following comments were made:

- They are at the same point as before re infrastructure
- They have put employees off too long; need to address, especially in Police Department
- Consider ongoing fund and one-time funding to address employee issues
- Utilities has their own funding; IT needs additional funding
- Look at utilities as part of street repair tax
- Look at impact of holding vacancies 60 to 90 days

- Consider having space study needs assessment done
- Are Dues and Subscriptions necessary?

Brief discussion was held on the issue of services provided and service levels. Mr. Burke noted that he did not hear support at the December Retreat to eliminate any services. It was suggested that there may be employees interested in taking on more duties if they were compensated for them, rather than bringing in a new employee. Mr. Burke said that they also continue to look at ways to “straighten the pipes.”

Brief discussion was held on third-party funding, and whether they should consider reducing those contributions. Staff noted that there were about three years remaining on the United Way contract. A majority of Council was comfortable with having a discussion when the RFP came back up for renewal.

Discussion was held on the process forward. As in the past, Mr. Burke will put items on the agenda and ask for four to move an item forward. With regard to further discussion on health insurance, some Councilmembers said they were comfortable with information being provided, but they were not interested in a prolonged discussion.

Mr. Burke said that they created a list of potential cuts; he asked if there were any potential *adds* to talk about. The following suggestions were made:

- Surcharge on building permits to address removal of dilapidated structures
- Need to be ready to look at proportionate shares of infrastructure improvements when big projects move forward
- Consider Jet Fuel
- Recreation Fees

In returning to the three priorities previously set by Council, the following comments were received:

- Use Tax, Recreation Fee, Jet Fuel – *adds*
- Address merit and compaction, and infrastructure, as well as staffing

FORMAT FOR APRIL BUDGET RETREAT

Mr. Burke asked if Council wanted to hear a presentation from each division. It was suggested that staff address what their biggest challenge was and address their work programs. Also, Council directed that they see the entire CIP, but focus on the current year.

4. Adjournment

The Budget Work Session of the Flagstaff City Council held February 10, 2014, adjourned at 3:44 p.m.

MAYOR

ATTEST:

CITY CLERK