



COUNCIL MINUTES

November 19, 2020

The City Council of the City of Mesa met in a Study Session Meeting via a virtual format streamed into the lower level meeting room of the Council Chambers, on November 19, 2020 at 8:02 a.m.

COUNCIL PRESENT

John Giles*
Mark Freeman*
Jennifer Duff*
Francisco Heredia*
David Luna*
Kevin Thompson*
Jeremy Whittaker*

COUNCIL ABSENT

None

OFFICERS PRESENT

Christopher Brady
Dee Ann Mickelsen
Jim Smith

(*Council participated in the meeting through the use of video conference equipment.)

Mayor Giles conducted a roll call.

1. Hear a presentation, discuss, and provide direction on a FY 2020/21 General Governmental Fund update and budget modifications.

Office of Management and Budget Assistant Director Brian Ritschel introduced Office of Management and Budget Director Candace Cannistraro who displayed a PowerPoint presentation. **(See Attachment 1)**

Mr. Ritschel highlighted the Year Over Year City Sales Tax Revenue Chart and pointed out when the pandemic began in the spring, there was a shutdown of the economy as indicated by the green line in the chart. He stated in April, revenue dropped significantly, but once the federal stimulus package was issued there was an increase in revenues in May, June, and July. He explained there has also been a significant increase in online purchases, as well as in local purchasing; specifically, a behavioral change from shopping in other jurisdictions to shopping in Mesa. He reported some Valley municipalities that rely on tourism and entertainment have seen a decrease in their revenues while Mesa's revenues have increased. (See Page 2 of Attachment 1)

In response to a question from Mayor Giles regarding whether Mesa residents are shopping more locally than they were a year ago, Mr. Ritschel commented there is a significant increase in online purchases compared to the previous year; however, time will tell if this is a trend and if Mesa's per capita spending will increase.

City Manager Christopher Brady clarified the months that are being tracked that are higher than usual is in a context relative to other months that are some of the lowest, so until we have data

from December and March, we will not have a sense of what the trends will look like. He added the good news is the summer months were better than previous years.

Mr. Ritschel explained the Year Over Year State Shared Sales Tax Revenue Chart reflects a good amount going into the General Governmental Fund and follows the same pattern as the City data. (See Page 3 of Attachment 1)

Ms. Cannistraro commented the increases over the summer were higher than anticipated, and the data staff is waiting for is the overall trend when the increase, unemployment, and the stimulus were no longer in place. She stated at this time, staff is confident that for FY 20/21 previously held or frozen items can be restored. She pointed out in late spring there were discussions regarding a hiring freeze which was implemented for all non-essential positions, and over the intervening eight months 480 vacant positions have accumulated equating to almost \$14 million in the General Fund. She remarked the hiring freeze can now be lifted and staff can focus on filling the frozen and vacant positions. She advised that departments are working on a list of priority vacancies and the City Manager's office will review and develop a structured and phased approach to address the recruitments. (See Page 4 of Attachment 1)

Ms. Cannistraro explained that staff has reviewed the medical benefits for FY 20/21 to ensure the rates were as low as possible. She stated healthcare costs across the nation have increased; and while the actuaries show Mesa needed a 6% increase in medical rates for employees, staff set aside \$5 million to mitigate the costs and are able to reduce the increase to 4%. She indicated these are the rates that will be effective in January 2021.

Ms. Cannistraro reported at this time the Public Safety Personnel Retirement System (PSPRS) contribution is being increased to address the unfunded liability by setting aside \$30 million to contribute over the next four years. She added staff will return to Council in February 2021 with more information. (See Page 5 of Attachment 1)

Mr. Brady reported staff has recently been to the market selling bonds and prior to that seeking a rating from one of the major rating agencies, and each of them mentioned concern about Mesa's public pension liability, which stands at \$672 million, an increase of \$72 million in one year. He pointed out that Mesa needs to be more aggressive in addressing the liability and the plan for that is to allocate an additional \$30 million over the next four years. He remarked this will show the financial world that the City is taking this seriously and that the intent is to allocate the resources needed to meet that debt obligation. He noted this will save approximately five years in payments.

In response to a question from Vice Mayor Freeman regarding how the \$30 million payment will be distributed, Ms. Cannistraro stated it will be a phased approach and staff will return in February to present more details.

Ms. Cannistraro provided a recommendation for a 2% range adjustment for all employees. She explained a range adjustment means all employees within the City, regardless of where they are in their pay range, would have the minimum and maximum of their pay range adjusted. She added the recommendation also includes a 3% step increase for eligible employees that was not applied last July, making that effective with the first pay period in January. (See Page 6 of Attachment 1)

Mr. Brady clarified every position is assigned a specific pay grade and range which creates the minimum and maximum pay for each position in the City. He stated step pay allows employees to move within that range. He commented a market study compares positions and salary ranges

with other cities in the area and Mesa has always tried to maintain average salaries with three to four peer cities. He remarked this proposal would provide all positions with a market increase without completing the formal benchmarking study.

In response to a question from Councilmember Luna related to the number of employees at the top of their range, Mr. Brady replied less than 30% of all employees are at the top of their range. He clarified in public safety that number is over 40%. He indicated regardless of the adjustment, some employees at the higher range will still be topped out. He explained benchmark studies are completed every two years and staff thought by providing this across-the-board benchmark with an increase this year, that staff would plan a benchmark in two years. He provided preliminary numbers for public safety and indicated the benchmark for Police would suggest something less than 2%, for Fire around 3%, and that 2% was a way to hit the middle.

In response to a question from Councilmember Heredia, Mr. Brady stated the last benchmark was completed in 2018 and since the next benchmark is only a year and a half away, it is not recommended at this time. He continued by saying what staff is proposing instead is to come up with an average of all positions and apply a percentage, which is close to what many positions would have received in a benchmark.

Ms. Cannistraro clarified only the step pay would move an employee through the salary range, not the benchmark. She added under this scenario, there are employees not at the top of their range and as a result will receive a greater increase than they would have under a normal benchmark and related step pay.

In response to a question from Councilmember Heredia related to applying the benchmark on open positions to make them more competitive, Ms. Cannistraro replied the range is adjusted for the positions and the unusual part of this recommendation is that it is moving existing employees. She clarified the FY 20/21 adopted budget did not include step pay.

Mr. Ritschel stated the 3% step pay amounts to \$3.5 million annually in expenditures to the General Governmental Fund.

Vice Mayor Freeman expressed his support to re-examine the percentages and benchmarking. He commented that financially the City is in good shape and hopefully that will continue through Christmas and Spring Training.

Councilmember Thompson remarked that he has spoken to many employees who enjoy doing their job and should not be penalized for staying in a position. He concurred with Vice Mayor Freeman and requested staff re-look at the recommendation. He added every department was asked to trim down their budget and it is time to reward employees for doing a phenomenal job in a time of crisis.

Mr. Brady cautioned this is the biggest portion of the budget and the changes made on base pay drives everything from overtime to pension costs, so staff can review the numbers, compare them to other cities, and come up with a reasonable approach.

Councilmember Luna requested that staff revisit and reanalyze this issue to see what can be done for employees to reward them for doing a stellar job. He stated that in the 15 years he worked for Mesa Public Schools he loved his job, but you reach a certain step and are no longer eligible for range increases.

In response to a question from Councilmember Duff regarding Arts and Culture employees, Mr. Brady replied that not all positions will be restored, only the ones the City has a need for at this time. He added some positions will remain unfilled until those services are available again in the future. He verified these positions will be identified in the future forecast as being filled and staff will review them again in six months.

Councilmember Duff questioned whether the City would have a steady or increased sales tax as we move into spring and advised that Council must proceed with caution. She stated that she does not think the City is in a stable enough position to know what the budget outcome is for the year. She stressed that disproportionately, low-income women of color have been affected more than any other demographic group because they are in service positions and unable to restore their jobs while trying to provide homeschooling for their children.

Mayor Giles emphasized Council's commitment to employees to provide competitive wages and that is the message that should resonate. He remarked if benchmarking is not done this year, then it should be done next year. He commented the proposal includes a significant increase in pre-tax dollars in terms of the subsidy for the health insurance premiums and the PSPRS contributions, and if those are shifted to salary increases that might not be the net increase employees are seeking. He encouraged staff to use the benchmarking information that is available.

Ms. Cannistraro informed Council of other budget modifications for FY 20/21, including the Off the Streets Program that was funded with the Mesa CARES dollars through the end of December 2020; and with Council approval, will be continuing the program utilizing General Fund dollars through the 2021 calendar year. (See Page 7 of Attachment 1)

Ms. Cannistraro outlined the transit program which received Mesa CARES dollars to offset costs. She explained staff is seeking direction to use some of the savings to put back in the transit program and the Transit Department has identified 10 bus shelters that are needed.

Ms. Cannistraro identified the final General Fund budget modification as the Behavioral Health Response Program, which is a cross-departmental team that is in the middle of research and development and will return to Council in early Spring to provide an overview of the program.

In response to a question from Vice Mayor Freeman regarding the cost for the bus shelters, Ms. Cannistraro replied the cost is approximately \$35,000 per shelter.

In response to a question from Councilmember Luna, Mr. Brady described the Behavioral Health Response Program as either contracted out with a non-profit or behavioral group or hire civilians to take on the role to respond to behavioral health calls. He stated Phoenix made the decision not to use Emergency Medical Technicians (EMTs) but is using civilians and clinicians.

In response to a question from Councilmember Duff related to the Off the Streets Program and utilizing community partners instead of police officers, Mr. Brady stated today that is what is available. He added in the future, the Behavioral Response Unit could serve as navigators in parks and behind businesses to assist with the homeless.

In response to a question from Vice Mayor Freeman regarding the cost of the Off the Streets Program, Mr. Ritschel indicated it is estimated at \$3.1 million per year from the General Fund.

Mayor Giles expressed support for the program and indicated that Mesa needs to change the paradigm for providing mental health and dealing with the homeless in the community and that he would like to see Mesa be a national leader.

Mr. Brady indicated staff will move forward with these changes and return to Council regarding wages.

Mayor Giles thanked staff for the presentation.

2. Current events summary including meetings and conferences attended.

Councilmember Duff –	Turkey Tuesday Mesa Rotary Club meeting Community meeting with Engineering – Broadway project
Councilmember Luna –	Turkey Tuesday National League of Cities meeting
Councilmember Thompson –	National League of Cities meeting Skyline Park Balbir Sodhi celebration of life
Vice Mayor Freeman –	National League of Cities Public Safety and Crime Prevention Committee Turkey Tuesday Sport Field meeting

3. Scheduling of meetings.

City Manager Christopher Brady stated that the schedule of meetings is as follows:

Tuesday, December 1, 2020, 5:15 p.m. – Study Session

Tuesday, December 1, 2020, 5:45 p.m. – Regular Meeting

4. Convene an Executive Session.

4-a. Discussion or consultation for legal advice with the City Attorney. (A.R.S. §38-431.03A (3)) Discussion or consultation with the City Attorney in order to consider the City's position and instruct the City Attorney regarding the City's position regarding pending or contemplated litigation or in settlement discussions conducted in order to avoid or resolve litigation. (A.R.S. §38-431.03A(4))

1. *Connelly v. City of Mesa, et al.*
Maricopa County Superior Court, Case No. CV2018-011668

It was moved by Councilmember Luna, seconded by Councilmember Thompson, that the Council enter into an Executive Session at 9:14 a.m.

5. Adjournment.

Without objection, the Study Session adjourned at 9:45 a.m.

JOHN GILES, MAYOR

ATTEST:

DEE ANN MICKELSEN, CITY CLERK

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Study Session of the City Council of Mesa, Arizona, held on the 19th day of November 2020. I further certify that the meeting was duly called and held and that a quorum was present.

DEE ANN MICKELSEN, CITY CLERK

la/dm
(Attachments – 1)

City of Mesa
General Governmental Fund
FY 2020/21 Update

City Council Study Session
November 19, 2020

Presented by:

Candace Cannistraro – Management & Budget Director

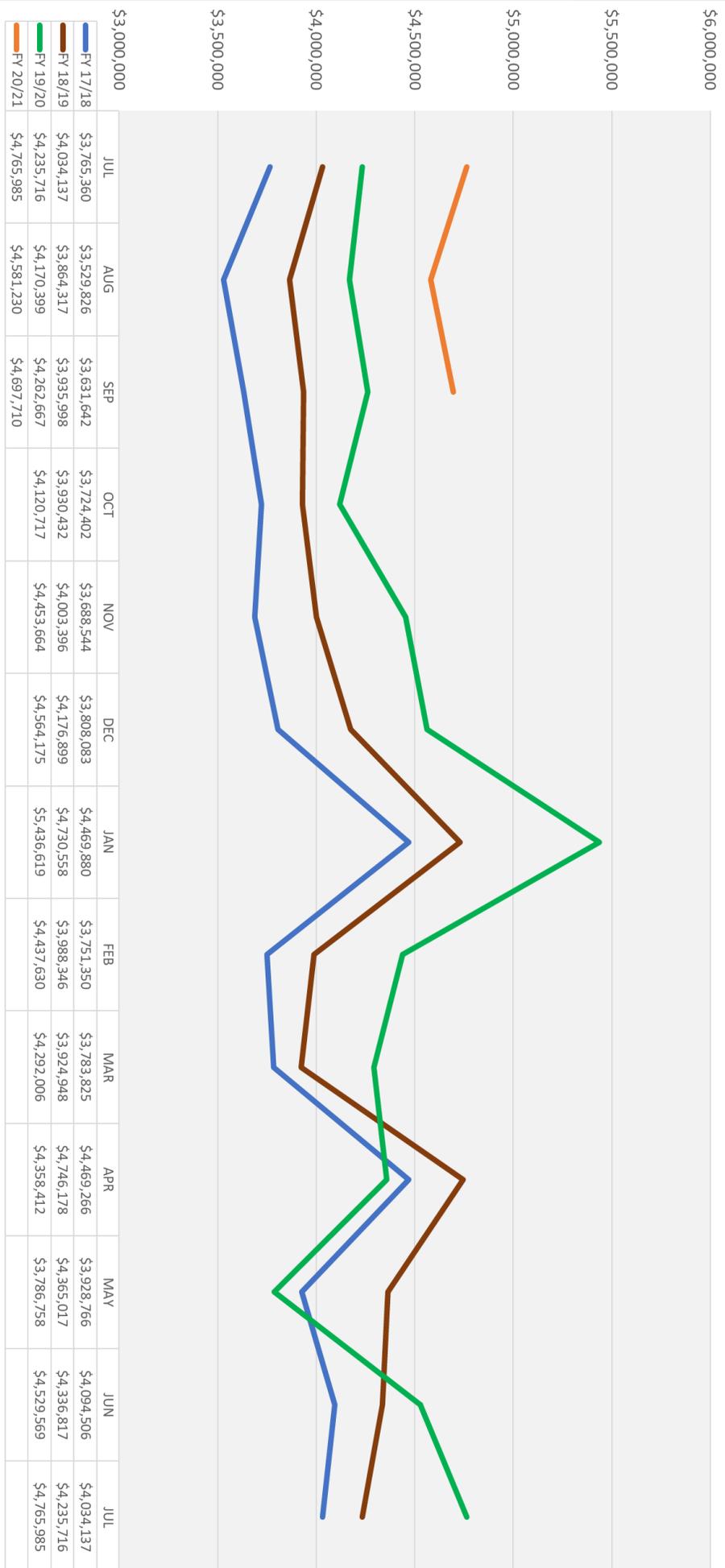
Brian Ritschel – Management & Budget Assistant Director

Year Over Year City Sales Tax Revenue Chart

City Sales Tax - Year Over Year - Consumer Activity by Month (source: Tax Revenue Summary Report)
 Public Safety Sales Tax Revenues Not Included for Comparison Purposes (Effective March 1, 2019)



Year Over Year State Shared Sales Tax Revenue Chart



Restoring Positions

- **Fill frozen/vacant positions**
 - 480 FTEs (This does not include sworn or part-time positions)
 - \$26.3M across all City funds
 - \$13.8M in the General Fund

Employee Compensation

- City contributed \$5M from the General Fund toward the Health Benefits Fund which will **reduce** the increase in medical premiums from 6% to 4%
- **Increase** the PSPRS contribution by approximately \$30M over the next 4 years to reduce the unfunded liability

Employee Compensation

- Pay increase up to 5% effective first full pay period in January 2021
 - 2% range adjustment for all employees
 - 3% step increase for eligible employees

Other Budget Modifications

- To fund Police overtime related to the Off the Streets Program for calendar 2021
- Build 10 bus shelters using the CARES allocation from Valley Metro
- Funding for a Behavioral Health Response Program



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