



COUNCIL MINUTES

April 10, 2014

The City Council of the City of Mesa met in a Study Session in the lower level meeting room of the Council Chambers, 57 East 1st Street, on April 10, 2014 at 7:34 a.m.

COUNCIL PRESENT

Scott Smith
Alex Finter
Christopher Glover
Dennis Kavanaugh
David Luna
Dave Richins

COUNCIL ABSENT

Scott Somers

OFFICERS PRESENT

Christopher Brady
Debbie Spinner
Dee Ann Mickelsen

Mayor Smith excused Councilmember Somers from the entire meeting.

1. Hear a presentation, discuss and provide direction on the Fiscal Year 2014/15 Summary of Proposed Budget.

City Manager Christopher Brady provided an overview of the Fiscal Year 2014/15 proposed budget that was created based on the Council's strategic planning. He reported that the City has experienced growth in General Government revenues, but stated that staff continues to make adjustments relative to increased expenditures in the areas of service contracts, commodity costs and fuel. He noted that as the cost of providing services has increased, the City continues to look for efficient ways of doing business while continuing to provide quality service. He recognized all of the departments for continuing to meet their mission and operational needs, while adjusting their financial resources.

Mr. Brady announced that the multi-year Community Oriented Policing Services (COPS) Grant Program, which funded 25 police officers, concluded in FY13/14. He explained that this will be the first year the City will carry the full cost to fund the 25 police officers. In addition, he remarked that staff is working with Mesa Public Schools (MPS) and Gilbert Public Schools (GPS) and have identified a joint grant for 11 School Resource Officers (SRO). He stated that this will provide coverage to all of the high schools and additional resources to some of the middle schools. He advised that this effort will significantly improve a public safety presence in schools and added that the City will pick up the cost of the SROs during the summer when school is not in session.

Mr. Brady acknowledged the Fire Department for their continued innovation. He briefly highlighted the Fire and Medical Grants that fund the Department's Transitional Response Vehicles (TRV) and five (5) additional fire dispatchers.

Mr. Brady explained that \$400,000 will be allocated to accelerate the alley-gates project. He said that staff has received a list of alley-gates from residents and noted that he would like to increase the number of contractors to build the necessary capacity. He added that the installation of gates will assist with crime prevention and alley maintenance costs.

Mr. Brady further remarked that this year, the City will continue to work with the downtown colleges in branding and recruitment campaigns. He advised that in the past, the City has provided discounted leases to area colleges, but noted that due to operational costs, lease fees will be increasing. He suggested using a portion of the increased fees to jointly fund a matching marketing tool.

Mr. Brady, in addition, reported that there is a proposal to increase opportunities in Code Compliance. He proposed that the revenue generated from the Service Line Warranties of America (SLWA) be used to supplement Code Compliance efforts. He also noted the possibility of working with a variety of agencies to provide essential services, such as emergency shelter, rental and utility assistance. He added that such funding will support a utility voucher program and help those in need.

Management and Budget Director Candace Cannistraro displayed a PowerPoint presentation (**See Attachment 1**) relative to the FY14/15 proposed budget summary.

Ms. Cannistraro announced that the proposed budget is balanced. She explained that the departments were asked to stay within the same funding levels as the FY13/14 budget unless funds were moved within each department's budget. She noted that the Capital Improvement Program (CIP) is included in the budget. She cited examples of lifecycle items that have been identified and contain the same level of funding adopted in FY13/14, (i.e., Information Technology Computer Programs, Park Infrastructure and the Vehicle Replacement Program). She stated that staff continues to review and refine the project list on an ongoing basis.

Ms. Cannistraro reported that under Personal Services, the total compensation projections include the City's standard compensation program, in addition to the changes in rates for the pension, medical, dental insurance and workers' compensation plans. She added that position costs are recalculated each year based on the employee in the position at the time, which accounts for promotions, reclassifications and retirements. She confirmed that the City will cover the cost of the 25 additional police officers originally covered by the COPS Hiring grant, which amounts to \$2.9 million.

Ms. Cannistraro displayed a document comparing the three different Pension Cost plans (See Page 4 of Attachment 1) and noted that all plans are managed by the State and the rates are submitted to the City. She advised that the General Governmental impact of \$1.5 million between last year and this year is due to the Public Safety Personnel Retirement System (PSPRS) contribution. She reported that there was a court ruling for the PSPRS that will disallow some of the cost containment measures that were implemented several years ago and said it will increase pension rates in FY15/16. She added that staff will keep a close eye on pension costs during the mid-year forecast.

Ms. Cannistraro discussed the Employee Benefit Trust Fund, which offers four types of insurance benefits to active and retired members as follows: medical, dental, vision and life insurance. She stated that she does not anticipate an increase this year, but there will be a premium review later this year. She added that the City's contributions for FY14/15 is \$5.5 million more than was budgeted last year due to a combination of adding new retirees and the lack of a scheduled "premium holiday" in FY14/15. She stated that the premium holiday was a one-month reprieve for employees and retirees and added that the City was able to use this tool last year due to continued decreases in expenses from previously implemented cost containment measures.

Ms. Cannistraro announced that the newly created Trust Fund Board, which includes Councilmember Somers, has met three times this year and recommended the approval of the City contribution in the amount of \$51.4 million. She added that Workers' Compensation has seen an upward trend in claims in the last few years, resulting in an increase of \$2.9 million for FY14/15, for a total contribution of \$7.6 million.

In response to a question from Councilmember Richins on the types of department safety adjustments being made to mitigate the increase of claims, Mr. Brady explained that the increase was a concern to staff as well. He stated that the increase could be due to the increase of healthcare costs and treatment and assured the Council that staff will continue to monitor this issue.

Councilmember Kavanaugh stated that there has been a 20-year downward trend of claims filed in Arizona. He stated that healthcare has always been the identified driver for the increase and said that there will always be an increase in claims activity when new construction projects begin. He noted that he was glad to hear that safety programs are still being implemented and added that the key factor is for employers to continue to emphasize safety and prevention hazards.

Ms. Cannistraro continued with the presentation and reported that over the past few years, the vehicle usage costs for the City's fleet have increased. She explained that these costs were previously covered with departmental savings. She noted that these savings are no longer available and that budget adjustments were necessary in order to continue the current level of service.

Councilmember Kavanaugh stated that he had spoken to the City Auditor about his concerns regarding bills submitted by Fleet Services that contained significant errors, which resulted in huge bills. He added that fuel prices have been going up and down in the last several years, and said he will "challenge the notion" that the pressure is due to inflationary costs. He commented that this is an area that will require special attention due to the inconsistency.

In response to Councilmember Kavanaugh's comments, Ms. Cannistraro explained that for the last six to nine months, the Budget Department and the Fleet Department have reviewed all of the usage charges and allocations. She explained that staff completed a major project last summer to review these areas of concern. She advised that based on the findings, a policy was formulated to monitor any risks. She also commented that the City is in the middle of a conversion from diesel and Compressed Natural Gas and was hopeful that such a conversion would reduce fuel costs.

Ms. Cannistraro continued with the presentation and reported that park maintenance contract renewals have dramatically increased to include the following:

- Total impact is \$1.4M
- General Fund impact is \$0.5M
- Environmental Compliance Fund impact is \$0.9M

Ms. Cannistraro stated that maintenance for new parks approved in the 2012 Parks Bond Election will experience the same inflationary pressure. She added there is a need to review the Parks Bond Package Operations and Maintenance needs based on the most recent contract pricing received.

Ms. Cannistraro provided a brief summary on City staffing for FY14/15 and explained that an increase of construction activity has caused an increase in demand for services in the Development and Sustainability Department. (See Page 9 of Attachment 1) She noted that many departments identified adding positions by reducing elsewhere in their budget or by converting positions to temporary or contract. She stated that due to the reclassification, four new positions are being proposed with no effect on the budget. (See Page 10 of Attachment 1) She added that other proposed increases in staffing include new School Resource Officers, Fire Dispatchers and staff for the opening of parks and pools associated with the 2012 Parks Bond.

Ms. Cannistraro reviewed the Property and Public Liability Trust Fund (PPLTF) that compensates the liability claims for the City. She noted that the PPLTF manages claims against the City and said it was difficult to forecast what the expenses would be, which is the reason why the expenses vary from year to year. (See Page 11 of Attachment 1)

In response to a question from Councilmember Luna, Ms. Cannistraro clarified that the City has a reserve balance. She explained that the philosophy has been to keep \$12 million in the reserve balance. She stated that based on the Trust Fund Board recommendation to review the funding expenditure history, she suggested decreasing the reserve target to \$10 million and budget the total City contribution for FY14/15 of \$5.6M.

Mr. Brady stated that once contributions have been made to the Trust Fund, those dollars stay in the fund that they are set up to support, such as the Enterprise or General Fund. He added that there is a delicate balance to fund them sufficiently, but at the same time not to build the reserve too much as it will reduce dollars that would otherwise be available under the General Fund.

Discussion ensued relative to State distribution requirements for reserve funds.

Ms. Cannistraro continued with the presentation and displayed a chart that illustrated the General Government revenues (See Page 12 of Attachment 1), which include the General Fund, Quality of Life Sales Tax and the State Shared Revenues. She also highlighted the previous General Government Reserves and the projected forecast for FY14/15. (See Page 13 of Attachment 1)

Ms. Cannistraro reported that the mid-year forecast reflects a need to restructure the City's budget next year to better align ongoing expenses with ongoing revenues. She briefly summarized various statistics as follows:

- The FY14/15 proposed budget includes a General Government reserve balance drawdown.
- The estimated reserve balance at the end of FY14/15 is 8%, the minimum reserve balance called for in the City's financial policies.
- There is no capacity for reserve drawdown in FY15/16.

Ms. Cannistraro advised that the amount does not include carryovers and that staff will come back to the Council to present those line items that were not spent in FY13/14 to be appropriated in FY14/15, which must be spent next year per state law. She added that this will decrease the usage line in FY14/15. She also indicated the need to look at the structure of the budget for FY15/16 if things do not change from our current forecast; that staff is currently forecasting a reserve balance drawdown; that the estimated drawdown will be \$29.3 million in order to fund all the necessary items for FY14/15; and that if the projection of 8% is accurate, then there is no capacity to do a reserve drawdown in FY15/16.

Ms. Cannistraro stated that the Council requested that staff review the Enterprise Fund transfer and provide a recommendation for updating the transfer on a more frequent basis to allow for incremental adjustments rather than one-time block adjustments. She stated that the transfer was held in FY09/10 and an initial adjustment was made in FY13/14 in the amount of \$6.4 million. She added that staff is recommending a second adjustment be made in FY14/15 of \$5.7 million, which is less of an adjustment than FY13/14.

Councilmember Richins thanked Ms. Cannistraro for a well written summary report of the FY14/15 budget. He also expressed appreciation to each City department for working through all of the budgetary issues.

Mr. Brady noted that in the next two weeks, various City departments will be presenting their budgets to the Council.

Ms. Cannistraro confirmed that Development and Sustainability will be presenting their budget next week, followed by Public Safety and the Fire and Medical Department the following week.

Mayor Smith thanked Mr. Brady and staff for their diligent work and stated that the past six years has not been financially easy. He commented that he does not know of any other government entity in the state that has created budget stability like the City of Mesa. He remarked that staff has "faced challenges" and done an exceptional job in creating a new budget culture.

2. Hear a presentation and discuss an update on the 2012 Parks Bond projects.

Due to time constraints, this item will be presented at a future date.

3. Information pertaining to the current Job Order Contracting projects.

(This item was not discussed by the Council.)

4. Acknowledge receipt of minutes of various boards and committees.

4-a. Human Relations Advisory Board meetings held on January 22 and February 26, 2014.

It was moved by Councilmember Glover, seconded by Councilmember Kavanaugh, that receipt of the above-listed minutes be acknowledged.

Mayor Smith declared the motion carried unanimously by those present.

5. Hear reports on meetings and/or conferences attended.

Mayor Smith: Power Knowledge Corridor Sign unveiling

6. Scheduling of meetings and general information.

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

Thursday, April 10, 2014, 8:00 a.m. – Community & Cultural Development Committee

Thursday, April 17, 2014, 7:30 a.m. – Study Session

Thursday, April 17, 2014, 2:00 p.m. – Farewell to the Mayor

Saturday, April 19, 2014, 11:00 a.m. – Wingstock

Saturday, April 26, 2014, 2:00 p.m. – Celebrate Mesa

Wednesday, April 23, 2014, 6:00 p.m. – First Generation Film Screening

Vice Mayor Finter expressed his appreciation to Mayor Smith for his leadership for the past six years and acknowledged Mayor Smith's passion and dedication to the City.

Mayor Smith commented that it has been an honor and a privilege to serve as Mayor for the past six years. He stated that he is leaving with the confidence that the current Council and staff will continue to do great work in the City. He also stated that one of the biggest privileges he has had in the last couple of months is traveling around the state and hearing people speak highly of the City. He added that the City's accomplishments have not gone unnoticed.

7. Adjournment.

Without objection, the Study Session adjourned at 8:33 a.m.

ALEX FINTER, 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 10th day of April, 2014. I further certify that the meeting was duly called and held and that a quorum was present.

DEE ANN MICKELSEN, CITY CLERK

Abg
(Attachment – 1)

City of Mesa

FY 14/15 Proposed Budget Summary

April 10, 2014

Presented by the Office of Management and Budget



FY 14/15 Budget Overview

The proposed budget for 14/15 is balanced.

Department budgets are held to 13/14 levels adjusted for inflationary increases in personal services, vehicle usage, contract renewals as well as operating expenses of completed capital projects.

Continuation of capital projects are included.

Lifecycle replacement needs have been identified above available resources. The proposed budget includes the same level of funding adopted in 13/14. Needs will be reviewed on an on-going basis if/when funding becomes available.

Personal Services - Fiscal Year 14/15

Total compensation projections include the City's standard compensation program as well as changes in rates for pension plans, medical and dental insurance plans and worker's compensation.

Position costs are recalculated each year based on the employee in the position at the time. This accounts for promotions, reclassifications and retirements.

The City is now fully covering the 25 additional police officers originally covered by the COPS Hiring grant.

Pension Costs - Fiscal Year 14/15

Pension rates play a significant factor in the total compensation cost of positions.

- General Governmental impact of \$1.5M (other funds did not have a significant change)
- Arizona State Retirement System (ASRS) changed from 11.3% to 11.48%
- Public Safety Personnel Retirement System (PSPRS)
 - Changed from 28.26% to 29.98% for Fire employees
 - Changed from 31.21% to 33.07% for Police employees
 - Anticipate significant increase in 15/16

Trust Fund Contributions

Employee Benefit Trust

- Current forecast does not call for adjustments to 2015 premiums as a whole
- City contribution is \$5.5M more in 14/15M, General Governmental impact of \$3.6M due to not anticipating a one month premium holiday and the forecasted addition of new retirees
- Budgeted total City contribution of \$51.4M

Worker's Compensation

- Upward trend in claims in recent years resulting in City contribution \$2.9M higher than 13/14
- General Governmental impact of \$1.9M
- Budgeted total City contribution of \$7.6M

Vehicle Usage Costs - Fiscal Year 14/15

The cost of fuel and parts for the City's fleet of vehicles has increased over the past few years without a commensurate increase to the various department budgets.

These costs were previously covered with departmental savings in other areas.

As these savings are no longer available, budget adjustments were needed to continue the current level of service.

- General Governmental impact \$1.9M
- Enterprise Fund impact \$1.6M

Contract Costs - Fiscal Year 14/15

Recent contract renewals for the City have seen dramatic increases in the cost for park maintenance.

- Total Impact is \$1.4M
- General Governmental impact is \$0.5M
- Environmental Compliance Fund impact is \$0.9M

Maintenance for new parks approved in the 2012 parks bond election will experience the same inflationary pressure when they open.

- Park maintenance levels Citywide will need to be adjusted to fit within available resources

General Governmental Cost Pressure Highlights

	<u>FY 14/15</u>
Arizona State Retirement System (ASRS)	\$ 145,000
Public Safety Personnel Retirement System (PSPRS)*	
Fire Employees	\$ 467,000
Police Employees	\$ 1,041,000
Medical/Dental City Contributions	\$ 3,630,000
Worker's Compensation	\$ 1,900,000
Vehicle Usage Cost Adjustments	\$ 1,938,000
Contract Renewal Increases	\$ 500,000
Parks Bond Package Operations & Maintenance	\$ 1,104,000
Central Mesa Light Rail Extension	\$ 582,000

* Includes impact on General Fund and Quality of Life Fund

Staffing - Fiscal Year 13/14

Increased construction activity caused increased demand for services in the Development & Sustainability Department.

11.5 of the increased positions were in response to this and were offset with additional revenues.

Other miscellaneous position increases and reductions were made during the year to meet operational needs for an additional net position increase of 1.6.

FY 13/14		
Adopted	Mid-Yr	Adjusted
Total	Adjustments	Total
3,709.6	13.1	3,722.7

Measured in FTE (full-time equivalents)

Staffing - Fiscal Year 14/15

Many departments identified either position additions to be offset with reductions elsewhere in their budget or positions conversions to temporary or contract labor.

- There are 4 net new positions due to these types of adjustments resulting in no effect on the budget amount

The proposed changes include 6 new School Resource Officers for the Police Department, contingent on Mesa and Gilbert Public Schools receiving a grant and reimbursing the City for ten months of the position costs.

Most of the remaining proposed increases are due to the scheduled opening of parks and pools associated with the 2012 parks bond election

FY 14/15		
Proposed Changes	No New Cost	Proposed Total
15.9	4.0	3,742.6

Measured in FTE (full-time equivalents)

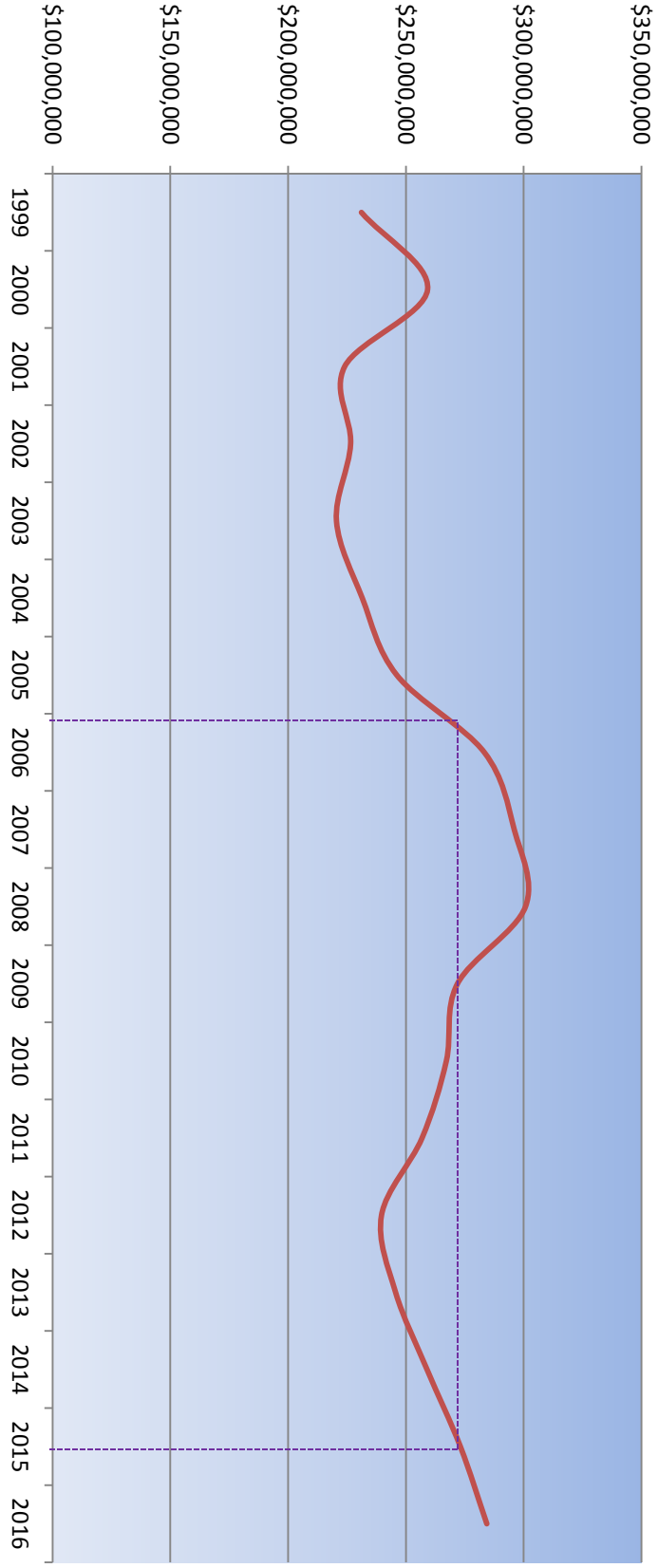
Property and Public Liability Trust Fund Contributions

Claims in 12/13 were dramatically lower than budgeted. This allows for a reduction in the needed 13/14 City contribution amount by \$1.3M while maintaining the budgeted target reserve balance.

The City has previously held a target reserve balance of \$12.0M. Upon review of recent claim history, resetting the reserve target to \$10.0M is recommended. The result is one-time savings in 13/14 as the City contribution can be further reduced from the budgeted amount.

- Decreased 13/14 contribution of \$3.3M from budget resulting in one-time savings to General Fund of \$2.2M
- Budgeted total City contribution for 14/15 of \$5.6M.

General Government Revenues



Forecasted revenue amount for 14/15 is similar to the revenue amount received in 05/06

Includes General Fund & Quality of Life Sales Tax and State Shared Revenues



General Governmental Reserves

	Estimate 12/13	Estimate 13/14	Forecast 14/15
Beginning Reserve Balance	\$ 80,001,000	\$ 38,131,000	\$ 33,393,000
Total Sources	\$ 329,255,000	\$ 349,241,000	\$ 363,162,000
Total Uses	\$ 371,125,000	\$ 353,979,000	\$ 367,236,000
Ending Reserve Balance	<u>\$ 38,131,000</u>	<u>\$ 33,393,000</u>	<u>\$ 29,319,000</u>
Ending Reserve Balance Percent*	11.1%	9.3%	8.0%

*As a % of Next Fiscal Year's Operating, Capital and General Fund portion of Debt Service Expenditures (a subset of total uses)

General Governmental On-going Considerations

The mid-year forecast reflects a need to restructure the City's budget next year to better align on-going expenses with on-going revenues.

- The 14/15 proposed budget includes a general governmental reserve balance drawdown
- The estimated reserve balance at the end of 14/15 is 8%, the minimum reserve balance called for in the City's Financial Policies
- There is no capacity for reserve drawdown in FY 15/16

Upcoming Calendar Budget

- April 17 Utility Rate Discussion
- May 5 Tentative Budget Adoption
- Introduction on Utility Rate Ordinances
- May 19 Final Budget Adoption
- Capital Improvement Program Adoption
- Utility Rate Adoption
- June 2 Secondary Property Tax Levy Adoption



General Governmental Resource Categories

The City Council strategic initiative of Financial Stability calls for a diversity of revenues.

The funding resources for General services such as Police, Fire, Library and Parks are comprised of three major categories.

FY 13/14 General Governmental projected resource amounts:

- Local Sales Tax \$118M (34%)
- State Shared Revenues \$101.8M (29%)
- Enterprise Fund Transfer \$90.0M (26%)
- Other \$39.4M (11%)

Enterprise Fund Transfer

City Council directed staff to review and provide a recommendation for updating the transfer amount on a more frequent basis to allow for incremental adjustments.

The transfer was held at a fixed level since FY09/10.

An initial adjustment was made in FY13/14 of \$6.4M

Recommendation is for a second adjustment in FY14/15 of \$5.7M and then adjustments each year after of 3%.

- The mid-range forecast estimates the base operating budget will inflate on an average of 3% per year
- The two-phase adjustment will put the transfer amount close to, but still less than, the amount that would have been in place if the transfer had been adjusted for inflation after FY09/10.

General Governmental Major Resource Categories

