CITY OF MESA
Great People, Quality Service!

MESA 2025: FINANCING THE FUTURE CITIZEN COMMITTEE

October 13, 2004

The Mesa 2025: Financing the Future Citizen Committee met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on October 13, 2004 at 5:30 p.m.

COMMITTEE PRESENT	COMMITTEE ABSENT	STAFF PRESENT
Kyle Jones, Chairman	Kirk Adams	Mike Hutchinson
Pat Esparanza	Jill Benza	
Rex Griswold	Don Grant	
Greg Holtz	Dennis Kavanaugh	
Aaron Huber		
Eric Jackson	EX-OFFICIO MEMBER	
Mark Killian		
Robert McNichols	Keno Hawker, Mayor	
Scott Rhodes	Absent	
Patricia Schroeder		
Robin White		

1. Follow up on items from last meeting.

2. Approval of minutes from the June 23 and August 11, 2004 meetings.

Chairman Jones stated that due to the fact that a quorum of the Committee was not present, they could not vote to approve the minutes. (Minutes were approved later on in the meeting once a quorum was attained.)

3. Presentation by the General Services Department.

General Services Manager Rich Lorig introduced the members of his Management Team present at the meeting and said that the Department's vision is to *"work together as a strategic organizational partner, adding value and providing timely and quality customer service to meet City goals."* He outlined the contents of the informational packet that was provided to each of the members and discussed the department's Mission. He said they provide leadership in the areas of communications, human resources, materials management, fleet support services, information services and mail, print and graphics services. He referred to an organizational chart of the department and explained the various responsibilities. He noted that the department is comprised of 340 employees

Mr. Lorig highlighted the contents of the PowerPoint presentation and discussed comparatives and current and future operational challenges for the Communications Division, Fleet Support Services Division, Human Resources Division (including Employee Benefits), Safety Services, the Information Services Division (strategic planning, operational challenges and benchmark cities/expense comparisons, the Mail, Print and Graphics Services Division, the Materials and Supply Division, and the Purchasing Division.

Mr. Lorig introduced Human Services Director Sheryl Currell and Assistant Human Services Director Donna Salemi. Ms. Salemi provided an overview of both the Employee Benefits Trust Fund and the Workers Compensation Trust Fund.

Discussion ensued relative to the various issues contained in the handout including an explanation and history of the City's compensation system; the fact that the City's pay philosophy is to be "at or above" the average maximum salary for similar classifications; various benchmarking data including the new biennial benchmarking salary survey program; the history of employee benefits; the division's priorities; the types of benefit plans that are available; employer and employee contributions versus claims paid; medical contributions versus expenses for retired employees; retiree contributions versus claims; disbursements in 2003-04;plan costs; operational challenges; projected staffing levels through 2025;forecasted benefit expenditures; funding comparison of other cities; the history of the Worker's Compensation Trust Fund and challenges; workers compensation contributions versus expenditures; and projected expenditures through 2025.

Chairman Jones thanked the speakers for their presentations.

Committeemember Rhodes requested that Ms. Salemi discuss excess insurance and bonds and what they cover. Ms. Salemi stated that the City purchases a "catastrophic policy," with a deductible of $150,000 per incident, and said that any claim that exceeds that amount the City initially pays but they are reimbursed. She concurred that the numbers listed for excess insurance are all premium amounts. She explained that "9/11" resulted in an increase in everyone's premiums, not just the City of Mesa.

Committeemember Rhodes asked the amount of the current balance of the Workers Compensation Trust Fund, and Ms. Salemi reported that it is currently $6 million. She said that an ideal fund balance would be around $10 to $12 million based on a history of the City's losses and anticipated costs over the next four to five years. She noted that staff evaluates premiums on an annual basis. She corrected a previous statement by noting that the "catastrophic policy" deductible is $200,000 and not $150,000 as previously stated. She added that they have managed to maintain their deductible.

Chairman Jones commented that the trend is scary and asked how they could curtail it. Ms. Salemi responded that it is a matter of how much protection the City wants, the scale goes up and down depending on where you are as a City or the risks. Ms. Salemi said that the purchase of City helicopters increased premiums.

Committeemember Rhodes asked how many catastrophic claims have been paid over the last five years, and staff advised that the City's highest claim was $487,000 (currently) and there are about five that are between $350,000 and higher.

Committeemember Griswold pointed out that the data under fleet services and vehicles per mechanic indicates that Mesa has 27 and Anaheim has 56. He asked whether they were outsourcing, and Mr. Lorig responded that they were and that the type and range of equipment requires different talents. He noted that the City of Mesa performs all of the work.

Committeemember Griswold requested data regarding the percentage of salary to benefits, a chart containing comparable data, and how the percentage of salary to benefits is computed. He noted that Mesa is at 26%

Ms. Currell commented that the City's percentage is low and that the information comes from the Budget Office. Budget Director Jamie Warner said that the 26% figure is what they calculate as an average benefit package for employees including long-term disability.

Committeemember Griswold asked why the City does not report total salary amounts including benefits, and he stated that most corporations report in that manner. Mr. Warner responded that "total cost" means "total benefits." He added that the problem would be that a lot of options and benefit packages exist, and it could be very "elastic" unless they are going to be "at a maximum."

Ms. Currell added that as far as benchmarking, staff found that most governmental entities are not including benefits so it is hard to determine if Mesa is comparable. She said that staff's goal is to develop a true "cafeteria plan" where so much money is allotted to each employee and the employee decides how to allocate the dollars. She said that benefits could then be attached to the salary range. She added that the tuition reimbursement of $2200 could be also be added to salaries, but she noted that many employees do not participate in that program.

In response to a question from Committeemember Griswold, Materials Management Director Sharon Seekins explained that procurement cards are a method of handling smaller purchases, under $5,000 with typical amounts ranging in the $2,500 area. She stated that each department has the ability to designate someone to be in charge of MasterCard credit cards. She said that holders are allowed to use the card to pay for eligible items, which are processed monthly. She added that there are approximately 300 cardholders who spend approximately $1.2 million a year. She said that the process is carefully monitored and if any unusual activity is noted, the cardholder is contacted immediately and corrective action is taken if necessary. She stated that the City Auditor also performs full audits every two years.

Responding to Committeemember Jackson's question regarding what benefits the City offers, Ms. Salemi advised that in addition to base salaries they receive medical, dental and vision coverage to which the City contributes. In addition, the City partners with the Arizona State Retirement System and employees are offered short-term disability insurance. She noted that basic life insurance is fully funded and optional supplemental insurance can be purchased by the employee up to $300,000. She added that a tuition reimbursement program, which is not paid out of the Employee Benefits Trust, is also in place.

Ms. Currell added that each department's budget contains funding for the tuition reimbursement program, and employees must meet certain criteria in order to participate. She said that childcare and elder care are also paid for by the City and the employees, and flexible spending is also available (employee contributions). She said that employees also receive vacation, sick leave and career counseling.

Committeemember Jackson asked what amount the City pays for medical and Ms. Salemi that the amount depends on whether employees have single or family coverage, etc. She reported that the City contributes $515 a month on medical, some dental and $5 on vision. She said that retirement is based on years of service and when an employee reaches that mark, the City will contribute 50% of the active employee rate and it goes up 5% every year to 100% of the normal City contribution at 20 years of service. She explained that long-term disability depends on which retirement system the employee participates in, and she advised that the City fully pays for sworn officers because their retirement system does not offer that program and it is based on $100 of payroll (25 cents per $100 of payroll each pay period). For those on the State Retirement System, the City splits the cost and it is a half percent based on salary and the City has to make a matching contribution.

Ms. Topping commented on childcare resources and pointed out that the City spends $150 per occurrence for childcare resources and approximately $2 to $3,000 per year for that particular benefit.

Ms. Salemi responded to an additional question from Committeemember Jackson and said that vacation and sick leave are separate, and that an employee who has been with the City for over two years receives 12 hours of vacation and 8 hours of sick leave per month. The maximum accruals are 30 days for vacation and 1,040 for sick leave, and those amounts do not change.

Committeemember Holtz commented that the chart containing the $17 million dollars, which was inadvertently left out of the Committee's packets, was for funded or unfunded (the last part before the got to the benefits and compensation). He said it appears that for the average year there's an approximate $1.8 million shortfall in staffing. He said he assumes that vehicles and equipment are considered to be capital, the Capital Improvement Project (CIP) budget for the most part.

Mr. Lorig responded that it is capital equipment, but not necessarily CIP. He said that rather than equipment and vehicles, the "heavy hitters" in his department are for items such as Information Systems software, licensing and those types of items.

Committeemember Holtz commented on the fact that police patrol officers are generally paid less in Mesa than in surrounding communities, and he asked how they could be paid lower than market rate if the City uses market rates to develop its compensation policies. Ms. Currell responded that over the last few financially challenging years, a strategic decision was made that the salary range for those positions would not be increased and that is the predominant reason they fell behind. She said that it was being monitored and staff does review the ranking every fiscal year. She said that they "caught up" this past fiscal year.

Committeemember Holtz said that a theory he would like to discuss involves "freezing" certain jobs that are not as highly valued according to the market as police officers. He suggested that the money saved be used to increase the salaries of employees such as police officers who have been held back and have a higher market value. He asked whether this scenario was considered a common practice.

Ms. Currell responded that staff has not investigated that as a common practice because the City's whole system is market based. She stated that the anomaly with police officers was unfortunate, and attempts are being made to correct the situation and they are trying to apply the same philosophy across all of the positions in the City.

Mr. Holtz commented that when he looked at certain job categories in the City and the pay ranges, he felt that some positions were probably not worth the pay grade they were at and that certain adjustments could be made even though the market showed the City is at market rate. He said if certain positions were below market rate, they could pay other positions that were the victims of the economy and budgetary problems. He asked whether department managers had the ability to not offer tuition reimbursement, and Ms. Currell stated that they do not because the program represents a Citywide benefit that is offered to every employee. If the employees meet the criteria, they receive the benefit. She noted that they currently have several tuition reimbursement requests that are forthcoming because the benefit program was suspended due to fiscal constraints and there is a ceiling on the funding is for tuition reimbursement. She added that at the department management level there have been discussions about the fact that if one department starts maxing out and could not afford to offer the program, they may have to borrow or attempt to balance it out within the total funded amount.

Committeemember Holtz requested clarification regarding this area, and Mr. Warner explained that staff made a commitment to the Council when the tuition program was reinstated that only the maximum amount would be paid out. He said the difficulty they are experiencing is that because the program was eliminated for a period of time, it was difficult to calculate where the money should be allocated in Fiscal Year 2004-05. He stated that the various departments were told not to worry if they did not have the money budgeted for their department and their employees qualify for the program because contingency dollars would be utilized at the end of the year to deal with those departments. He added that they are reviewing this Citywide to make sure that they do not exceed those funds and that a department will be harmed if they make expenditures for this purpose and do not have money budgeted.

Ms. Currell also pointed out that the Human Resources Specialists who administers the program is monitoring the requests and then the department managers discuss the requests on a quarterly basis.

Committeemember Holtz noted that the ISD budget will be discussed at their January 12th meeting and prior to that he would like to know how much of the budget is for software and hardware, what is leased, what is owned and a staffing breakdown. He said they may be in a period where they have to buy a lot of infrastructure that may be lease assets while staffing may remain the same. He said he wants to review the budget from the standpoint of knowing what those elements of cost are in laymen's terms because ISD is a large part of the City budget and is probably growing.

Committeemember Rhodes said that his understanding of the City's philosophy, at least the general rule, is that City salaries are compared with competitors in a local area. He asked what were the competitor's philosophies for setting salaries.

Ms. Currell referred Committeemember Rhodes to Page 63 of the handouts where benchmark comparisons were listed. She added that the City benchmarks against comparable positions and she is not sure what the philosophies are of other cities. She understood that one of the jurisdictions attempts to be ranked at least third in the local market.

Committeemember Rhodes commented that if everyone's philosophy is to compare themselves to everybody else and be at the high average, that spells inflation. Ms. Currell said that they have discussed this issue with others in the local market and agreed that if Phoenix, for example, suddenly provided a significant salary increase to the Police Officer classification that action would move the market up. She added that that would also typically occur in the private sector because if

there is a need in a particular industry, they will pay higher wages to acquire the skill and talent, and then other competitors have to raise their salaries to attract people with that same skill. She stated that there was a concern that if one city makes a significant jump the rest will try to keep up or maintain the competitiveness. She noted that Mesa is not always number one, and that the City may be at third or fourth and not necessarily keeping up with the maximum salary or its competitors.

Committeemember Rhodes stated that what disturbs him, as Committeemember Holtz stated, is that it is okay to begin with that type of philosophy, but then he believes you have to consider your local community and the benefit or need of that particular position in the City of Mesa. He stated the opinion that if this is not done, the City runs the risk of having certain positions with unjustified salary increases. He said he agreed with Committeemember Holtz that in order to "equal this out" they might have to take away from some positions that are of lesser importance in order to increase the salaries that are available for more necessary positions in areas they need to be competitive.

Committeemember Erickson agreed with the comments of the two previous speakers and said the public sector is providing better benefits and a better overall package than the private sector. He stated that he found this to be disturbing.

Chairman Jones commented on the fact that the police situation is unique in that the City cannot get enough recruits, and it is a pricing game where they are trying to attract people because the entire valley is unable to recruit enough police officers. He said the fact that there are not enough police officers to go around (particularly after 9/11), has resulted in a very competitive war and everyone is attempting to attract recruits to their city.

Committeemember McNichols addressed the issue of the self-insurance funds and asked how many funds there were. He also asked whether staff completed growth projections of the balance to meet the needs that were described on the expenditure side.

Ms. Salemi responded that there are actually three trust funds in the City of Mesa: Property and Liability, which is under the City Attorney's Office, the Employee Benefit Trust Fund and the Workers Compensation Trust Fund. She reported that the current balance of the Workers Compensation Fund is approximately $6 million and the balance in the Employee Benefit Trust Fund is approximately $12.1 million. She said that staff did try to match the costs because the trust funds cover the personal services as well as the claims, so what was projected on the charts was broken out into various pieces and included the cost for the claims and the administration of both programs. She added that the amount is what would be needed to cover the costs of those trust funds over the next 20 years. She stated that the annual contribution to the Workers Compensation Trust Fund is $1.1 million.

Employee Benefits Administrator Jody Topping added that the Employee Benefit Trust Fund is funded from those three separate areas, and the employer cost is approximately $225 for the employee only coverage. She estimated that the total amount is approximately $30 million for the current year. Ms. Topping explained that like the Workers Compensation Trust Fund, if a member has a catastrophic illness or incident, they have to make those payments first and then they can make a claim to the Stop Loss Re-Insurance Center. She stated that the City's plan, under the Employment Benefit Trust Fund, the Stop Loss Re-Insurance is $150,000 per person per plan year. She added that once that amount is exceeded, a claim is made to obtain some or all of that money back. She noted that the carriers very diligently review the claims and if for some reason a claim does not meet their criteria, they deny it and in some instances the City has had to go back and fight for the money. She confirmed that the balance in the trust fund is basically a reserve account

so that they can pay claims up front and get reimbursed later. She confirmed that they are collecting $30 million a year, but noted that they are also paying out approximately $30 million in terms of claims and administration.

Committeemember McNichols said he understood that the fund is self-liquidating on an annual basis and this covers any claims that are made. He questioned whether Employee Benefits is an area for claims paid, and Ms. Salemi replied in the affirmative that they are self-administered. She commented on the difficulties associated with forecasting costs. and advised that there were times when $30 million was budgeted but the cost greatly exceeded that because of something as simple as not having a flu vaccine, such as is the case this year. She said although they would like to be able to think they have a complete wash regarding the amounts coming in and going out, they don't and they have had fluctuations in the trust fund. She added that because they have an aging workforce who will need extra care, they hope to fund the trust in order to be prepared.

In response to a question from Committeemember McNichols, Ms. Salemi said that ideally they would like to have enough money in the fund so that if someone were to reach their lifetime maximum benefit, which is $1 million paid out, and if that event were to occur over a period of a year, they want to be able to have sufficient funds to pay the money to that person or those people. She stated that at the current time, with approximately a $12 million balance in the trust fund, they could only accommodate 12 catastrophic illnesses or injuries in a one-year period. She expressed the opinion that they feel comfortable with a $12 or $13 million balance. She said although it would be nice to have more than that, they recognize that they have to balance the needs and desires of the members with what the City can afford to offer and can afford to contribute towards the fund.

Ms. Topping advised that they have not had an instance where an individual reached their lifetime maximum benefit. She noted that in some cases competitors are offering a $2 million lifetime maximum compared to the City's $1 million and at some point they, as an organization, are going to have to evaluate where they want to go with that and consider raising the lifetime maximum amount. She said she is not aware of any situation where 12 people are nearing the maximum benefit at the present time. Ms. Salemi further stated that if someone were to enter a facility where they foresee a long-term stay, the pre-certification company that the City works with would notify us and at this point in time we have no knowledge of anyone who is coming close to reaching their lifetime maximum.

Committeemember McNichols said he has heard that apparently there is a group of City employees who were covered years ago under an old plan and the benefits are much greater than they are now. He said he also heard that there are a group of employees who are being "grandfathered in" under the old plan, and he asked for clarification on this matter.

Discussion ensued and it was determined that Committeemember McNichols was discussing the issue of stability pay. Ms. Salemi explained that stability pay is a program that new employees no longer receive. She said that the program stopped being offered in 1992 and prior to that it was augmented so there is a life cycle of employees who have been around a long time who are still eligible to receive stability pay. Ms. Currell said that information on stability pay can be found on Page 68 and advised that the data indicates that 25% of all of the City's employees are still receiving stability pay (some at 5% and others at 10% of total annual salary). She added that stability pay is defined as a lump sum payment and is based on longevity.

Committeemember McNichols asked how the hiring freeze affected the City, and Ms. Salemi advised that in Human Resources it reduced some of their recruiting. She said that since they

could not replace staff, there are many things that were not completed and a lot of people filling in for others. She stated that from a budget perspective it was a good thing because it reduced salaries, but from a productivity and operational standpoint it is difficult to operate when you're not fully staffed.

Ms. Currell further stated that they keep a monthly report regarding the hiring freeze and vacancy status for all departments. She noted that since the hiring freeze in February 2002, at one point or another there have been 1,053 positions that have been frozen at least for a period of time. She added that there are currently 272 positions frozen and with that freeze, 157 positions were actually eliminated from the budget and the positions were essentially lost. She stated the opinion that from a fiscal perspective the hiring freeze was a benefit and probably helped avoid layoffs across the City, but from a morale perspective most departments are reporting that employees are working many more hours because of shortages in staffing, and the situation is creating morale problems. She added that they are seeing a rise in some of the City's benefits in terms of the EAP Program, such as more stress-related illnesses that can be attributed in part to the workload of the department.

In response to a question from Committeemember Rhodes, Ms. Salemi said that the monies in the trust funds can only be used for their intended purposes, and that the Council cannot raid those funds and utilize them as rainy day funds.

Committeemember Griswold commented that what the action taken to get through the budget crunch was not to fund them for two years. He added that the way to get to those funds is not to fund them, let them run down for two or three years and use that money to pay police, fire, etc.

Ms. Salemi said that once the money is deposited into the trust funds, the funds could only be used for the purpose designated.

Additional discussion ensued relative to the fact that staff believes they need to maintain between $12 and $13 in the Employee Benefit Trust Fund in order to cover all of the expenses they foresee for the future; the fact that changes were made in the way they handle retiree premiums and prior retirees with 20 years or more of service were not contributing to the plan but they are now; the fact that staff is planning to build into this a savings for the City and for the employees because they have already achieved their ideal reserve amount; the fact that staff is not proposing any increase in premiums for the employer, the City of Mesa, or the employee; the fact that it is nearly impossible to project very fair out what medical expenses will do except just pick a high number and go with it; the fact that surplus funds are invested in the local government investment pool; staff's intention to check on whether the loss was in the account that the trust funds are in; the fact that by 2010 20% of the workforce will be eligible to retire; the fact that tuition reimbursement is only for classes that are directly related to the employees job or are part of a group of electives necessary in order to obtain a degree; and the fact that with flexible spending accounts employees elect once a year for a certain amount and it's broken out in terms of deductions per the number of payrolls for the year (usually 26) and then they have that amount to spend and they get reimbursed for the amount; and the fact that sick days (at the maximum point) can be converted to vacation on a one-on-one basis.

Ms. Currell, responding to a question from Committeemember Holtz, advised that every pay range is reviewed annually in terms of a cost of living adjustment, but they don't necessarily go in and just look at a pay range. Human Resources receives a request to review a job that's changed and then they assess into what pay range the job fits. If it is a market situation with the new biennial benchmarking salary survey, they will be look at job classifications and comparing them to the

market and then determining what pay range to place them in. She added that over the years they have identified situations where an employee's duties were being paid over the market and what they do is "red circle" the employee, freeze the pay, to try not to penalize them because sometimes the job duties have been changed due to a business need. She said although that has happened, it is very rare.

Ms. Currell advised that all Human Resource Analysts are assigned to service different departments and they get to know the intricacies of that department and understand the jobs. They are typically in a position to know whether the market has changed even if the request for review has not come forth from the department. She noted that they have over 800 job classifications and in essence every job will be reviewed every two years.

Additional discussion ensued relative to the fact that the City Manager, with approval from the Council, can put some classifications on a specialty pay plan which would take them out of the normal pay plan and ranges; the fact that one of the long-term recommendations of the Compensation Team was to re-evaluate the City's compensation system; the fact that the Succession Planning Program will involve every department identifying what their group one or core positions are in terms of those positions that are essential to delivering the services the City provides; the fact that during the last budget cycle, Police Officers were upgraded 5%; the fact that the tuition reimbursement program should be monitored; and the fact that the Finance Department is crunching numbers annually to see what the impact would be at any given time on the City if all of the potential retirees decide to go at once.

Committeemember Rhodes asked for a "worse case scenario number" if everyone who was eligible for retirement did so and took the maximum number of benefits in cash. Ms. Salemi said she would get him that figure.

Ms. Currell, responding to the Chairman, said that a report she has indicates that there are 49 employees in the DROP Program and actually 40% of Fire sworn personnel are eligible to retire within the next five years. She added that they can leave at any time, and they don't have to stay through the DROP period. Ms. Salemi added that after the five-year period, if they do not leave, they lose all the interest on the money that they have put into that program, so it is expected that those in the program will leave.

Chairman Jones thanked everyone for their presentations.

4. Presentation on employee salary and benefit issues.

Discussion of this area was included in with the previous agenda item.

5. Current issues/miscellaneous items.

There were no issues or miscellaneous items to discuss

6. Items from citizens present.

There were no citizens present wishing to speak.

7. Schedule next meetings:

Wednesday, October 27, 2004, 5:30 p.m.
**Tour of the Fire Department*

Wednesday, November 10, 2004, 5:30 p.m.
**Presentation by the Fire Department*

8. Adjournment.

Without objection, the Mesa 2025: Financing the Future Citizen Committee adjourned at 8:10 p.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Mesa 2025: Financing the Future Citizen Committee meeting of the City of Mesa, Arizona, held on the 13th day of October 2004. I further certify that the meeting was duly called and held and that a quorum was present.

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BARBARA JONES, CITY CLERK

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