



COUNCIL MINUTES

May 3, 2010

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 May 3, 2010 at 4:31 p.m.

COUNCIL PRESENT

Mayor Scott Smith
Alex Finter
Dina Higgins
Dennis Kavanaugh
Dave Richins
Scott Somers

COUNCIL ABSENT

Kyle Jones

OFFICERS PRESENT

Christopher Brady
Debbie Spinner
Linda Crocker

Mayor Smith excused Vice Mayor Jones from the entire meeting. He also excused Councilmember Somers from the beginning of the meeting; Councilmember Somers arrived at 4:33 p.m.

1. Review items on the agenda for the May 3, 2010 Regular Council meeting.

All of the items on the agenda were reviewed among Council and staff and the following was noted:

Conflicts declared: None

Items added to the consent agenda: None

Items removed from the consent agenda: None

2. Hear a presentation, discuss and provide direction on budget issues, including but not limited to:

a. Employee Benefit Trust

City Manager Christopher Brady advised that during the budget process staff attempts to identify issues that have multiple year impacts. He said that the discussion today will focus on challenges to be addressed in future years that do not require immediate Council action. Mr. Brady added that these issues have no impact on the current budget shortfall, and he noted that decisions regarding employee benefits are based on a calendar year rather than the fiscal year.

Human Resources Director Gary Manning introduced Employee Benefits Administrator Jody Topping and said they would report on future increased costs in the employee medical benefit

program and changes that may be necessary to ensure the health of the Employee Benefit Trust Fund. He displayed a PowerPoint presentation (**see Attachment 1**) and advised that the City offers four types of insurance benefits to active and retired members: medical, dental, vision and life insurance. He said that the plans are funded by City contributions, employee premiums and a State Retirement System subsidy for retirees who continue their City of Mesa insurance coverage.

Mr. Manning advised that although the combination of the City's contribution and employee premiums currently covers the costs for the dental, vision and life insurance plans, that is not the case for the medical plans. He reported that the gap between employee health costs and the amount of the contributions will continue to widen unless corrective action is taken. Mr. Manning stated that the annual percent of increase is expected to be twelve percent per year. He noted that the City of Mesa was in line with the national trend of a ten to eleven percent per year increase in costs, but in the past year the City of Mesa experienced a dramatic sixteen percent increase. Mr. Manning reported that in 2008/2009, the City had 18,000 more medical claims filed than in the previous year in addition to several very high dollar claims.

In response to a question from Councilmember Richins, Mr. Manning stated that post-retirement medical benefits were suspended for employees hired after January 1, 2009. He said that the issue continues to be reviewed to determine the impact, if any, on the City's competitive edge. He added that existing retirees continue to receive benefits and employees hired prior to January 1, 2009 who meet the service year requirements will be eligible for post-retirement medical benefits.

Responding to a question from Councilmember Higgins, Mr. Manning explained that although the State Retirement Systems offer insurance benefits to retirees, most City of Mesa retirees choose to maintain the City's medical benefits if they are eligible to do so. He advised that the State Retirement Systems offer a subsidy for insurance benefits based on certain criteria and that the City receives that subsidy for retirees who choose to continue in the City's program.

Mr. Manning responded to a question from Mayor Smith by advising that when a retiree turns age 65, Medicare becomes the primary insurer and the City of Mesa's policy is secondary.

Councilmember Finter suggested that staff research alternative programs for providing post-retirement medical benefits to new hires. He stated the opinion that the dramatic increase in utilization could be the result of employee concerns regarding job security or that benefits will be eliminated or reduced, and he suggested that efforts be made to quell those concerns.

Mr. Brady advised that all of these issues are being discussed. He explained that new standards established by the Government Accounting Standards Board (GASB) require that the liability for future retiree benefits, which totals \$600 million, be listed on the City's balance sheet. Mr. Brady noted that if post-retirement benefits were reinstated for employees hired after January 1, 2009, these employees would have to meet the twenty-year service requirement to be eligible, which provides the City with time to consider the options that might be available.

Mayor Smith said that benefit and pension plans have been in transition for many years, and he added that methods and policies that worked 15 to 20 years ago are not likely to work 15 to 20 years from now.

Mr. Manning continued his presentation by advising that the City's contribution for employee benefits is \$38.6 million in 2010/2011 and that \$30.7 million of that amount is for the medical benefit (see page 6 of Attachment 1). He noted that although the budget is based on the fiscal year, the benefit plan is managed on a calendar year basis. Mr. Manning reported that overall the City's medical costs have increased by 42 percent since 2008 while employee premiums have remained the same. He explained that because of the layoffs and the two percent salary reduction, a decision was made not to increase the employee premiums.

Discussion ensued relative to the fact that the chart (see page 6 of Attachment 1) predicts the increasing gap between actual medical benefit costs and the total of the City's budgeted contribution from the Employee Benefit Trust and employee premiums; and that the chart reflects what would happen if the City did nothing and continued the current system.

Mayor Smith explained that the plan was designed to have premiums match costs. He said that when costs exceed the total of the City's budgeted contribution and employee premiums, the City must fund the additional amount.

In response to a question from Councilmember Somers, Ms. Topping said that the Employee Benefit Trust currently has a fund balance of approximately \$16.5 million.

Mr. Brady advised that the fund balance has been decreasing in recent years. He stated that some structural changes are required in order to maintain an adequate reserve for the future.

Mr. Manning stated that the forecasted costs are based on an annual increase of twelve percent and the reduced number of employees has been factored into the model.

Budget Director Chuck Odom advised that the immediate plan is to address the problem in the short term and then implement changes to resolve the problem for the long-term.

Mr. Brady said that although actions to address the long-term problem may be very dramatic, the changes would be phased in over multiple years. He added that the purpose of today's presentation was to advise the Council that the long-term problem has been identified and that staff is working to resolve the issue.

Responding to a question from Councilmember Higgins, Mr. Manning advised that the City is better able to control costs utilizing the self-insured approach. He noted that many cities with an insurance provider contract have indicated a preference to return to being self-insured.

Mr. Manning noted that some employees receive a greater contribution to the costs from the City depending on which plan is selected. He outlined the goals for implementing changes in the medical health benefit program (see page 8 of Attachment 1). Mr. Manning advised that a \$4 million increase in the City's contribution to cover increased costs includes an allocation of \$2.9 million from the General Fund.

Mayor Smith suggested that the City reward employees who select options that cost the City less money, and he also encouraged an emphasis on preventative measures. He thanked staff for the presentation.

b. Fire

Fire Chief Harry Beck recalled that last month staff reviewed with the Council alternatives for implementing the Fire Department's \$3.7 million budget reduction. He said that staff has taken the Council's suggestions and will report today on proposed actions to meet the budget reduction target. Chief Beck introduced Assistant Chiefs Dan Stubbs and Brady Leffler and Assistant to the Fire Chief Radona Orlando, all of whom will provide information on the proposal.

Chief Stubbs displayed a PowerPoint presentation (**see Attachment 2**) and outlined a proposal for a Reserve Program, which would establish a pool of part-time retirees to offset some of the department's overtime requirements and provide staffing for support units. He said that staff would work with the Fire Department's Human Resources Division to develop the program.

In response to comments from Mayor Smith, Chief Stubbs confirmed that a qualified retiree working part-time could save the City overtime expenses.

Chief Stubbs advised that although the department was unsuccessful in implementing the Lateral Program (see page 2 of Attachment 2) in 2007, he noted that the state of the economy is much different today. He said that hiring experienced firefighters reduces academy time and costs, and he added that no costs would be incurred to implement the recruitment program.

Chief Stubbs noted that a suggestion made by the Council was to consider temporarily suspending Station 203 as part of the cost reduction plan. He noted that this action would create problems in the areas of safety and training and therefore staff is proposing Scenario "A" (see pages 3 and 4 of Attachment 2).

Chief Stubbs explained that Scenario "B" reduces the Battalion coverage by a third and reduces Battalion level training. He noted that last year training responsibilities were shifted to Battalion Chiefs as a cost-saving measure and reducing this area by one-third would create a serious challenge. He added that national statistics indicate that when a firefighter is killed or injured at a major event, breakdowns in command and/or communications are often factors.

In response to a question from Councilmember Higgins, Chief Stubbs advised that the seven individuals serving in the positions under Scenario "A" would be placed in the leave pool until other positions are vacated due to attrition.

Councilmember Finter noted that although the Fire Department is making emergency, short-term changes and implementing innovative adjustments, safety would continue to be a priority issue.

Chief Leffler continued the presentation by outlining two reduction proposals for Fire Prevention, Scenarios "A" and "B" (see page 4 of Attachment 2). He noted that Scenario "A" eliminates twelve positions and changes the frequency of high-risk inspections from an annual basis to every other year and medium risk inspections from every other year to every three years. He noted that both scenarios maintain the Fire Safety Occupational Permit Program (FSOP), which charges a fee for the permit, in addition to recovering the inspection costs. Chief Leffler advised that Scenario "B" maintains high-risk inspections in-house and considers the possibility of a public-private partnership to handle the medium-risk inspections. He stated that although staff is

concerned that the inspections are less frequent, the proposal would enable the Fire Department to maintain an interaction with the community.

Responding to a question from Councilmember Higgins, Chief Leffler cited the following examples of inspection classifications: offices would be a low-risk environment, a mercantile business frequented by the public would be a medium risk and a location with highly flammable materials would be a high risk.

In response to questions from Councilmember Richins, Chief Leffler advised that staff has not been successful in identifying private companies that would be interested in conducting the medium-risk inspections. He reported that letters sent to 61 fire inspection firms resulted in 15 responses, and he noted that although the firms would be willing to contract with the City to perform inspections, they do not want to bill the customer directly. Chief Leffler added that liability is another issue that would have to be addressed.

Mayor Smith stated that he recognized the challenges facing staff in this area, and he expressed appreciation for their efforts.

Chief Beck responded to comments by Councilmember Higgins by stating the opinion that adopting Scenario "B" would be premature as that option may not provide the desired amount of cost savings. He said there may be promise for the future, but he was unaware of any other Valley city that has adopted this approach and therefore, companies may not be prepared to respond to the proposal.

Chief Leffler advised that inquiries were sent out nationwide in an attempt to identify similar models that may exist for providing inspection services.

Discussion ensued regarding the possible elimination of investigators; that one investigator would be retained as a 40-hour position; and that staff is investigating options to reassign the other two investigators to other areas of the department.

Chief Leffler reviewed a proposal for the Fire and Life Safety Education area (see page 5 of Attachment 2) that eliminates 3.5 positions, one of which is currently vacant. He advised that staff would attempt to maintain the current programs at a reduced level.

Responding to a question from Councilmember Higgins, Chief Leffler confirmed that the number of programs offered would be reduced because fewer staff members would be available to coordinate the programs.

Chief Beck stated that every effort would be made to maintain the programs that have a high volunteer support.

Councilmember Kavanaugh expressed concern that adopting a reduced Fire and Life Safety Education proposal significantly increases the risk and liability to the community over time. He stated that many programs have a life-long impact on Mesa's citizens.

Chief Beck noted that the programs in this area concentrate primarily on the two highest-risk groups, children and the elderly. He said that the Fire Department is focused on maintaining their community contacts and offering existing programs at a reduced level during these

economic times in hopes that full funding can be restored at a future date. He noted that these programs have received national recognition for quality and efficiency.

Ms. Orlando continued the presentation by referring to the "Reduction Summary" chart (see page 6 of Attachment 2) and advised that Scenario "A" reflects a shortfall of \$217,652 from the target reduction and Scenario "B" has a shortfall of \$101,117.

In response to a question from Councilmember Kavanaugh, Ms. Orlando stated that of the 28.5 positions to be reduced, 25.5 individuals would actually lose their jobs.

Mr. Brady advised that the difference between the two scenarios is the manner in which Fire Prevention is treated. He suggested that the less frequent inspection option under Scenario "A" be implemented and that staff be given a year in which to develop the private inspection model.

Ms. Orlando noted that Scenario "A" also includes staff's recommendation for eliminating Battalion 203.

Chief Stubbs provided an update on the Transitional Response Vehicles (TRVs) and said that the program was developed as a long-term solution to fill service gaps created by an increase in call volume, long travel distances and the seasonal impact of winter visitors. He explained that program implementation was planned to occur over a five, ten or fifteen year time period. Chief Stubbs reviewed the goals and the deployment plan (see page 8 of Attachment 2).

Mr. Brady reported that at the time the Council approved the TRV approach, staff took immediate action to add three captains to the Dispatch Center to assist with protocols and to monitor the appropriateness of the responses to the calls for service. He explained that recent discussions with the Council regarding the separation of the Police and Fire Dispatch operations are unrelated to the TRV Program, but the topic should continue to be addressed for the long term in order to provide redundancy to the systems. Mr. Brady noted that the Public Safety Committee continues to work on these issues.

In response to Councilmember Higgins' concern regarding overtime for the TRV Program, Mr. Brady advised that the department utilizes overtime in many areas in order to maintain consistent staffing.

Mayor Smith noted that this approach provides service during peak periods. He added that the TRV Program would be phased in over a long period of time and implementation would be based on the service level data that is gathered.

Mayor Smith acknowledged that staff must address very difficult issues in the short term, and he thanked them for their efforts.

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

- a. Audit & Finance Committee meeting held on April 1, 2010
- b. Community & Neighborhood Services Committee meeting held April 15, 2010

No action was taken on this item.

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

There were no reports on meetings and/or conferences attended.

5. Scheduling of meetings and general information.

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

Wednesday, May 5, 2010, 2:00 p.m. – Employee Service Awards Event

6. Adjournment.

Without objection, the Study Session adjourned at 5:46 p.m.

SCOTT SMITH, MAYOR

ATTEST:

LINDA CROCKER, 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 3rd day of May 2010. I further certify that the meeting was duly called and held and that a quorum was present.

LINDA CROCKER, CITY CLERK

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Attachments: 2