



COUNCIL MINUTES

November 3, 2011

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 November 3, 2011 at 7:33 a.m.

COUNCIL PRESENT

Scott Smith
Alex Finter
Christopher Glover
Dina Higgins
Dennis Kavanaugh
Dave Richins
Scott Somers

COUNCIL ABSENT

None

OFFICERS PRESENT

Christopher Brady
Debbie Spinner
Linda Crocker

(Items were discussed out of order, but for purposes of clarity will remain as listed on the agenda.)

1. Review items on the agenda for the November 7, 2011 Regular Council meeting.

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

Conflict of interest: None

Items removed from the consent agenda: None

2. Hear a presentation and discuss an update on the Fiscal Year 2011/12 Budget.

Budget Director Candace Cannistraro displayed a PowerPoint presentation (**See Attachment 1**) and reported that in September of this year, staff made a presentation to the Council regarding the anticipated medical contribution savings for FY 2011/12. (See Page 2 of Attachment 1) She explained that the General Fund's portion of the savings is \$4.9 million, which occurred as a result of reductions in employee medical claims, better management of the Employee Benefits Trust Fund, and staff negotiating more cost-effective contracts. She noted that the savings are related to the Personal Services portion of the City's budget. Ms. Cannistraro said that staff would present possible options with respect to reallocating those monies to another portion of the Personal Services budget midyear instead of waiting until FY 2012/13.

Ms. Cannistraro advised that year-to-date, FY 2011/12 General Fund revenues and current year-end projections are consistent with the budget amounts.

Ms. Cannistraro remarked that effective January 1, 2009, the City opted to implement a 2% compensation reduction Citywide rather than institute a furlough program. She noted that compensation levels have remained frozen since that time. Ms. Cannistraro, in addition, said that on July 2, 2009, the Step Pay Program (Merit Pay Program) was suspended and has yet to be reinstated.

Ms. Cannistraro indicated that it was staff's recommendation that the \$4.9 million in anticipated medical contribution savings be reallocated from Benefits to Compensation in the Personal Services portion of the adopted FY 2011/12 budget. She explained that such monies would be used to restore the 2% compensation reduction Citywide, with an effective date of January 1, 2012. She also reported that there would be no increase to the anticipated expenses in Personal Services for FY 2011/12 and added that the cost of the restoration is estimated to be \$4 million to the General Fund.

Ms. Cannistraro further remarked that effective July 1, 2011, the State changed the Arizona State Retirement System (ASRS) contribution formula from a 50/50 employee/employer share to a 53/47 share. She explained that this resulted in an increased cost to City employees and a decreased cost to the City. Ms. Cannistraro stated that the estimated General Fund portion of the City savings (\$453,000) was budgeted in the Employee Benefits Trust Fund for investment in/for the employees. She said that the staff is currently exploring options for new and/or enhanced employee wellness programs and will present various options to the Council at a future date.

Responding to a question from Mayor Smith, City Manager Christopher Brady clarified that with respect to a few of the Charter positions, as well as the Council, it would be necessary for staff to bring back specific contract amendments for those individuals. He noted, however, that for the majority of City employees, if it were the direction of the Council to proceed with staff's recommendation, the City would move forward in January by making the adjustment from the Benefits line item to the Compensation line item and restore the 2% compensation reduction for all City employees.

In response to a question from Councilwoman Higgins, Mr. Brady explained that restoration of the 2% compensation reduction would be built into the base cost for employees and be a recurring savings/expense. He added that the City would not take one-time dollars to pay for the 2% increase.

Mayor Smith noted that the \$4.9 million in savings is only for FY 2011/12, but stated that it is anticipated that there would be additional savings next year.

Ms. Cannistraro restated that it was staff's recommendation to use ongoing savings in the General Fund to be reallocated to ongoing expenses on the Compensation side.

Mayor Smith reiterated that the proposal was not an increase in the overall City budget, but merely a "shifting" of medical contribution savings to another area, while maintaining the same medical benefits and services to employees.

Councilmember Finter acknowledged City staff for providing outstanding service to the community and Mesa residents. He stated the opinion, however, that restoring the 2% compensation reduction Citywide “does not reflect what is going on in the private sector as far as compensation is concerned” and would not be well received in the community. He urged staff to take “a cautious approach” and added that he opposed staff’s recommendation at this time.

Councilmember Finter briefly highlighted several alternatives that he recently offered to staff as follows: 1.) Leave the savings in the Benefits area. He said that retirees are also more effectively managing the utilization of their medical services and would not be compensated if the total medical contribution savings were allocated to active employees; and 2.) Reinstate the Step Plan (Merit Pay Program), which is a cost-saving employment practice, whereby new hires are paid at the lower steps and receive additional compensation after demonstrating proficiency and gaining experience.

Ms. Cannistraro responded that staff considered Councilmember Finter’s alternatives and was interested in reinvesting the \$4.9 million in medical contribution savings back to the employees. She explained that with respect to retirees and active employees, the two groups have separate medical plans, of which each is self-sufficient.

Councilmember Finter commented that part of the medical contribution savings is derived from the prescription program, which affects not only active employees, but also retirees.

Discussion ensued relative to the fact that last year, more active employees moved from the more expensive medical plans to less expensive options; that staff is hopeful that a greater number of retirees will do the same during the current Open Enrollment, which could generate additional savings; and that for FY 2011/12, staff determined that approximately 42% of City employees would be eligible for a Merit Pay or Step Plan increase.

Mayor Smith commented that the City of Mesa does not operate its own retirement program, but merely participates in the ASRS or the Public Safety Personnel Retirement System (PSPRS).

Responding to a series of questions from Mayor Smith, Senior Executive Manager Chuck Odom clarified that in the past three years, retirees in both the ASRS and PSPRS programs have not received a reduction in benefits nor a cost of living adjustment.

Mayor Smith commented that for the last three years, retirees have received a steady benefit, unlike active employees who received a 2% reduction in compensation, as well as increased medical premiums.

Mayor Smith inquired if staff had calculated an amount that the City would need to pay in order to restore the “foregone” step pay. He stated that three years ago, some employees began working for the City when step pay was frozen and noted that although their productivity may have increased, they have yet to receive a step pay increase. He remarked that in some ways, those employees have “borne a disproportionate burden” of the change in the City’s compensation program.

In response to a question from Mayor Smith, Mr. Odom explained that it would cost the City between \$12 million and \$16 million to restore the Step Pay Program to those employees who have been working for the City for the past two and a half to three years

Councilmember Finter clarified that he never suggested that the City bring the employees on the Step Pay Program to full equality, but merely to start the process. He added that by not starting the program, the situation continues to worsen for that group of employees. Councilmember Finter further suggested that staff look at longevity pay for those employees who are topped out in their current pay levels.

Mayor Smith noted that there was no doubt that City employees “have been dealt what the world has given us.” He said that the City has had limited resources in recent years and advised that employees have done their part to contribute through reduced compensation, foregoing normal increases, and paying increased medical premiums.

Vice Mayor Somers referenced Page 3 of Attachment 1 and said that thanks to the efforts of the Council, management and staff, the City of Mesa is on budget and has a balanced budget due, in part, to the employees. He remarked that employees have worked cooperatively and collaboratively with management to find innovative ways to balance the budget during these difficult economic times and provide high quality service to Mesa residents. Vice Mayor Somers also noted that City employees, like many in the private sector, have paid more for health benefits, taken a 2% compensation reduction, and newer employees have also been impacted by their step pay increases being frozen.

Vice Mayor Somers further remarked that the 2% compensation reduction balances the budget with “everyone holding a portion of that burden.” He stated that freezing step pay is disproportionate to the employees who are providing the services and are “the boots on the ground.” Vice Mayor Somers requested that staff explore possible options that would restore the 2% compensation reduction, as well as the next step increase or some type of a “blended” approach. He also suggested that within the \$4.9 million budget, that staff explore options that would provide a one-step increase or, perhaps, a step and a quarter increase.

Further discussion ensued relative to the fact that the cost to accommodate those employees who would be eligible this year for a one-step increase would be an annual amount of \$3.6 million to the General Fund; that another issue surrounding the implementation of the Step Program would be when it should begin; that staff has reviewed some of the options suggested by the Councilmembers and would continue to consider those options during the FY 2012/13 budget process; and that every 1% change in compensation Citywide is a \$2 million increase in General Fund expenses.

Vice Mayor Somers suggested the option of implementing a one-step increase for the eligible employees, at a cost of \$3.6 million, and restoring a half a percent compensation reduction to all employees.

Additional discussion ensued relative to the fact that staff reviews and forecasts the ASRS and PSPRS contributions each year and works closely with the State regarding both retirement systems; that the Federal Healthcare Plan is set to be implemented in stages; that this year, staff realized that 26 years old dependents would be eligible to participate in the City’s medical plans; that although the increased costs have been somewhat as anticipated, they are not quite as much as staff had initially feared; that in 2014, the Federal Healthcare Plan will become fully implemented; and that staff does not anticipate that the budget impact will be much greater than what it is now.

Responding to a question from Councilwoman Higgins, Human Resources Department Director Gary Manning advised that the City's Regular Pay Plan is geared between grades (26 through 56). He explained that within each grade, there are seven steps, with each step separated by 5%. Mr. Manning stated that in January 2009, the entire Pay Plan was reduced by 2%, thereby impacting all employees.

Mr. Manning reiterated that it was staff's recommendation to take the 2% compensation reduction that was implemented in 2009 and increase the minimum to maximum ranges by the same amount. He noted that the Step Plan Program, as currently structured, would require that those employees eligible for a step increase be incremented by 5%. Mr. Manning also remarked that if the Pay Plan was adjusted in some fashion, the other employees could receive "a bit" of an increase, but stressed that it would be difficult to adjust the steps without entirely eliminating the Pay Plan.

Mr. Odom further remarked that Mesa's old financial system, which is being replaced by CityEdge, is hardcoded and would require recoding to change from the 5% amount.

Mr. Brady noted that the City of Mesa wants to compensate its employees fairly so that they are competitive in the job market. He stated that if the City was able to implement the one-step increase and restore the 2% compensation reduction, it would. Mr. Brady commented, however, that from a morale standpoint, since the 2% compensation reduction was taken from every employee, restoring it would allow the City to bring minimum salaries back up so Mesa can compete with other communities, and also allow employees who are topped out and within a few years of retirement to receive "a little bump" to be included in their pension calculation. He added that while it is important to recognize new employees, the fact that they would receive merit pay and 10 or 15 year employees would receive nothing, would not be fair.

Councilmember Kavanaugh said that it was his preference to take the \$4.9 million in General Fund savings and create a "blended" approach to restore "some percentage" of the 2% compensation reduction to all employees and also address the newer employees. He said that such an approach would provide "equity" for both groups of employees. Councilmember Kavanaugh further acknowledged that employee compensation would be "an ongoing discussion" as staff and the Council prepare for the FY 2012/13 budget and expressed confidence that staff would arrive at a reasonable solution to this matter.

Councilmember Richins commented that he would struggle with any solution that did not restore the 2% compensation reduction to all employees and remarked that he did not understand how the Council could even consider not doing so as their first approach. He stated that although his hands were tied somewhat with regard to the Memorandums of Understanding (MOUs) that the City has negotiated with various employee groups, there was something he could do with respect to the 2% compensation reduction. Councilmember Richins further noted that City employees have worked hard and indicated that it was "high time" that the Council restore the pay levels as recommended by staff. He added that he could not support a "blended" approach.

Mayor Smith commented that he was not in a position to make a policy decision with regard to this matter and would probably defer to management and staff who are in charge of managing City employees. He stated that he trusted that staff had considered all of the scenarios that his fellow Councilmembers have raised today. Mayor Smith noted, however, that he concurred with Councilmember Richins' comments and said that for a long time, the Council has said that their

number one priority was to restore the 2% compensation reduction. He added that he was unsure whether the Council was prepared to provide formal direction to staff at this time.

Vice Mayor Somers stated that he would prefer additional time to consider the issue and look at different options.

Mayor Smith suggested that the Council revisit this item in a few weeks after they have had additional time to consider it. He also thanked staff for their efforts and hard work in achieving the medical contribution savings, which has created this opportunity to possibly restore employee compensation to some degree.

Mayor Smith thanked staff for the presentation.

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

- 3-a. Transportation Advisory Board meeting held June 21, 2011.
- 3-b. Economic Development Committee meeting held September 26, 2011.
- 3-c. Sustainability & Transportation Committee meeting held October 3, 2011.
- 3-d. Community & Cultural Development Committee meeting held October 17, 2011.
- 3-e. Council Redistricting Commission meetings held June 30, August 25, September 1 and October 27, 2011.
- 3-f. Council Redistricting Commission public meetings held August 10, 11, 16, 17, 18 and 20, 2011.

It was moved by Vice Mayor Somers, seconded by Councilmember Richins, that receipt of the above-listed minutes be acknowledged.

Carried unanimously.

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

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| Councilmember Kavanaugh: | Attended the unveiling of the Fiesta District streetscape and Police Station designs. |
| Vice Mayor Somers: | Citizen Recognition Event at Fire Station 206; East Valley Aviation and Aerospace Alliance Preflight Networking Event. |
| Councilmember Richins: | Attended Northern Arizona University (NAU) Public Policy class which was held at Mesa's local NAU campus; Robert Brinton's "Celebration of Life" Service. |
| Councilwoman Higgins: | Attended a White House Event/Reception with President Obama's administrative staff. |

Mayor Smith: Attended delivery ceremony at Boeing for the Apache Block III Helicopter; East Valley Institute of Technology (EVIT) Breakfast.

5. Scheduling of meetings and general information.

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

Saturday, November 5, 2011, 4:00 p.m. – Getting Arizona Involved in Neighborhoods (G.A.I.N.) Event

Monday, November 7, 2011, 5:15 p.m. – Study Session

Monday, November 7, 2011, 5:45 p.m. – Regular Council Meeting

Thursday, November 10, 2011 – Study Session (CANCELLED)

6. Items from citizens present.

Brian Jeffries, President of the United Mesa Firefighters Association, addressed the Council and stated that in 2009, Council and staff took a proactive approach and made the difficult decision to reduce employee compensation by 2% across the board. He remarked that with Council's leadership the City has managed to "shrink government" without severely impacting services provided to the citizens.

Mr. Jeffries reported that reinstating the 2% pay reduction would "provide the most to those who have the most" in the organization. He said that employees submitted solutions and ways to save money to the Council and those savings were then allocated to other areas instead of providing some sort of a complement to the employees. He added that, for this reason, the firefighters strongly support the reinstatement of the Step Pay Program.

Mr. Jeffries remarked that the Fire Department has saved the City money with the implementation of the Lateral Transfer Program. He explained that enticing highly trained, experienced firefighters to come to work for the City saves the City money, as they require less training. He advised that the Fire Department would continue to recruit trained firefighters however, those firefighters should be compensated fairly and not brought into an organization that does not recognize their marketability.

Mr. Jeffries indicated that reinstating the 2% pay cut would benefit the upper echelon and not those who are the future of the organization. He expressed his support for a type of "blended" system, should the monies be returned and noted that new employees have no idea how they will pay for their healthcare or retirement in the future.

Mr. Jeffries stated that at times the information flow between the employees and the Council becomes filtered, therefore, he requested that the record clearly reflect that the firefighters support a "blended" system that includes the Step Pay Program. He advised that the cost to return the step increases to 344 firefighters would be nearly equal to the cost of reinstating the 2% pay reduction. Mr. Jeffries encouraged the Council to consider the views of the firefighters in their deliberations related to the allocation of the savings.

Discussion ensued regarding the Police and Fire Department's Memorandum of Understanding (MOU).

In response to a question from Councilmember Richins, Mayor Smith explained that the 2% restoration of pay would be offered to firefighters and police officers however, those departments operate under an MOU that would need to be reopened and the 2% would need to be integrated into that MOU.

City Manager Christopher Brady remarked that the firefighters elected to give up certain concessions that allowed them to continue to receive merit increases during this time.

Mayor Smith clarified that the reinstatement of the 2% reduction of pay, as it relates to police and fire, could not be implemented without reopening the MOU.

Councilmember Richins commented that he recently had some hard-working employees from the Gas Division working in front of his home. He remarked that these individuals were not part of the upper echelon of the organization. He stated the opinion that Council and staff should stay focused to ensure that all of the City's employees receive what was promised to them. Councilmember Richins clarified that he was not implying that police and fire were not well deserving of the compensation that they earn.

Mr. Jefferies stated that if the 2% restoration of pay is returned the MOU will not need to be reopened, however, he indicated that the Fire Department would prefer that the dollars be available for negotiations.

Discussion ensued regarding the MOU and future discussions that would need to take place if the 2% restoration of pay is approved

Mayor Smith thanked Mr. Jefferies for his comments.

7. Adjournment.

Without objection, the Study Session adjourned at 8:51 a.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 November 2011. I further certify that the meeting was duly called and held and that a quorum was present.

LINDA CROCKER, CITY CLERK

pag/bdw
(attachment – 1)

City of Mesa

FY 2011/12 Budget Update

November 3, 2011

Presented by the Budget & Research Office



FY 11/12 Medical Contribution Savings

- Budgeted City Contribution \$46.5 Million
- Revised City Contribution \$39.6 Million
- Total Budget Savings \$6.9 Million
- General Fund portion of savings (71%) \$4.9 Million

*Savings begin to be realized on January 1, 2012

FY 11/12 General Fund Revenues

Year-to-date general fund revenues and current year-end projections are consistent with the budget amounts.

Recent Compensation History

- **1/1/2009**
 - The City opted to implement a compensation reduction of 2% Citywide rather than institute a furlough program.
 - Compensation levels have been frozen since.
- **7/2/2009**
 - The City suspended the step pay program.
 - The program continues to be suspended.

Compensation Recommendation

- Staff recommends restoration of the Citywide 2% pay reduction effective 1/1/2012.
- The budget for personal services will shift from benefits to compensation. The total budget will not increase.
 - The increased compensation cost will be offset by the savings in medical contribution.
 - Annual estimated cost of the restoration is \$4M.

Retirement Plan Contribution

- Effective 7/1/2011, the State changed the Arizona State Retirement System (ASRS) contribution formula from a 50/50 employee/employer share to 53/47.
- The estimated general fund portion of the City savings, \$453,000, was budgeted in the benefit trust fund for investment in/for employees.
 - The City is currently exploring options for new/enhanced employee wellness programs.

