

Work Session Minutes
May 19, 2015

1. Mayor Mueller called the work session to order at 4:30 p.m. in the Council Chambers, 1011 N. Coronado Drive, Sierra Vista, Arizona.

Present:

Mayor Rick Mueller – present
Mayor Pro Tem Bob Blanchard – present
Council Member Alesia Ash – present
Council Member Gwen Calhoun – present
Council Member Rachel Gray – present
Council Member Hank Huisking – present
Council Member Craig Mount – present

Others present:

Chuck Potucek, City Manager
Mary Jacobs, Assistant City Manager
Ton Alinen, Police Chief
Adam Thrasher, Deputy Police Chief
Ron York, Fire Chief
David Felix, Finance Manager
Pamela Weir, Management Analyst and Budget Officer
Judy Hector, PIO
Barbara Fleming, Human Resources Director
Richard Cayer, P.E., Operations Manager
Abe Rubio, IT Director
Jenifer Thornton, Management Analyst
Jill Adams, City Clerk

2. Personnel

Mr. Potucek stated that this is the third work session in the series of the pre-budget work sessions that are divided up into the functional areas of expenditures for the City. Revenues, debt and capital expenditures have been discussed and now staff is moving on to personnel expenditures that are a significant portion of the budget. There will probably be a lot of discussion about that moving forward and then there are plans to have a work session on the operation and maintenance expenditures scheduled for June 2. The budget books are scheduled to be out on June 4 and then there will be the three major budget work sessions scheduled for June 15, 16 and 17.

The budget is currently balanced to include the class comp plan within it as well as about the \$750,000 of increased expenditures for the Public Safety Retirement System in the General Fund that the City is also incurring this year. That comes at a price and that will be discussed more in the coming work session with regards to the cuts and some of that will be discussed today; but there is a balanced budget at this point and time.

Mr. Potucek stated that at the next meeting, he will try and lay out for Council exactly how staff sees the three major work sessions going and how those will be organized for Council discussion with staff's recommendations.

Mayor Mueller noted that the city manager is referring to the proposed balanced budget.

Ms. Weir stated that she would be providing an update on revenue and capital followed by personnel numbers, changes made to positions, the implementation of the classification and compensation plan and talk about the specific personnel costs that are being looked at for FY16. Then she will summarize and what is to come; however, Mr. Potucek has already alluded to the future work sessions.

The General Fund revenue is coming in at \$31,673,608, a slightly different number than was presented before. Throughout the budget meetings with the department heads, staff has come to the conclusion for the recommended budget that library fines be increased from 10 cents to 20 cents, that the police report fees be increased to \$8 and that ambulance fees starting January 1 the City would like to level with the Fry Fire District so that the City is charging the same amount as they are.

With the ambulance fees, while the fees themselves will increase, staff is actually projecting a decrease in overall ambulance revenue this coming year and partly because of the opening of the new hospital. The City will no longer be transporting people from the old hospital to the ambulatory center and so there will be fewer trips overall.

HURF has increased slightly and staff has included carryover for two different projects, the 7th Street Pedestrian Crossing and the Fry-7th signal. Refuse and sewer have remained the same and in Airport, staff is looking at trying to do the runway improvements for Taxiways G and J. Staff believes that they can work that into the budget as those are major grant funded construction projects. The Capital Improvement Fund has remained the same.

In terms of Capital Improvements since the last work session, the following are the projects that are being proposed to be completed in FY16:

- o \$500,000 for police vehicle rotation and continue to phase out the crown Victoria cars;
- o \$650,000 for North Garden improvements on the west end;
- o \$90,000 coming from the sale of the two properties towards the Fry cleanup; and
- o Transferring the \$700,000 SSVEC fee transfer from the Capital Improvements Fund to the HURF as opposed to the General Fund.

Council Member Calhoun asked if the Capital Improvement amount that was provided to Council include the \$700,000. Ms. Weir stated that yes it does.

In response to Council Member Mount, Ms. Weir stated that this is the current revenue projections; because of moving some of the money around so far staff has been able to hold the capital improvements fund intact.

Council Member Gray asked if the \$650,000 for North Garden improvements include the Fry Township cleanup. Mr. Potucek explained that \$90,000 for the Fry clean up is included and stated that it is important to note that the \$650,000 and \$90,000 that are coming from the sale of the North Avenue and other Cox Insite related properties are one-time revenues budgeted against one-time expenditures.

Council Member Gray stated that she is happy to see those funds being kept in the west end.

In response to Council Member Calhoun, Mr. Potucek explained that the \$650,000 and \$90,000 are coming from the sale of the properties.

Ms. Weir presented a slide with the number of fulltime employees in the City proposed for FY16 with a breakdown by department. The total number will be 324 full time employees for FY16 that is down from an all time high of 397 full time employees.

Ms. Weir presented a slide with proposed personnel changes and stated that one thing that is not on the list and is worth mentioning because it occurred during FY15 and has lead to some cost reductions moving forward is that the Public Works Department did combine their Sports Field Maintenance and the Parks Divisions, which has eliminated the need for an additional administrator position. Those divisions have always served the same function.

The following positions were frozen In order to balance the budget:

- Economic development management analyst position;
- Library circulation coordinaor has been reduced to part-time and will not have an effect on the Library;
- Two open police officer positions;
- Full-time animal control position that had been frozen will continue;
- Leisure services supervisor;
- Recreation leader;
- Two fire fighters; and
- Deputy Fire Chief.

Ms. Weir noted that the frozen positions are currently vacant and no one is being removed from their position that leads to \$700,000 in cost reduction to help balance the budget. There are only two new positions and only one is coming from the General Fund.

Council Member Mount asked if the frozen positions came about during the current fiscal year and hasn't been filled. Mr. Potucek stated that the City has never hired the economic development management analyst and the others have been in the budget in the past and have come vacant and they are now not a part of the proposed budget.

In response to Council Member Mount, Mr. Potucek explained that they are not funded in the current budget.

In response Council Member Calhoun, Ms. Jacobs stated that the vacant positions were filled before except the economic development management analyst. Mr. Potucek stated that they are now vacant.

Council Member Gray asked if the economic development manager will be the only position in the department. Mr. Potucek stated that she is correct the way the current proposal stands. Mayor Mueller noted that the economic development manager is getting her support from other places.

Ms. Weir stated that the first new position is an administrative secretary in the Community Development Department, The department has had a heavy work load for a long time and there is currently only one administrative secretary who will be leaving on maternity leave and will leave no one. The department volunteered more cuts in order to fill that slot. The other position is the accounting assistant in the Finance Department that will be paid out of a combination out of the sewer and sanitation funds. The position will assist with the additional requirements coming from the State win terms of billing for those two operations.

Ms. Weir provided a slide depicting the percentages that were below the market rate for each of the City's classifications. The public safety employees were between 18% and 19% below market at the time of the Classification and Compensation Study. Non exempt positions were almost 9% below, exempt about 4% below and senior management excluding the city manager, assistant city manager and city attorney were not included in the study, which are roughly 13% below market.

Mayor Mueller asked for clarification on the chart. Ms. Weir apologized and stated that she missed a heading.

Council Member Calhoun asked about grade mid points. Ms. Fleming explained that there is a starting salary range and an end range. Those vary in the range and midpoint is going to be the center of those, it is the median.

Council Member Mount asked how the comparative analysis on market is being defined by the City. Ms. Fleming stated that size and location were used. There is a formula and that was adjusted accordingly which included size, population, the cost of living, cost of wages and etc. There is a percentage that is assigned to all of those as well as the formulas which are then adjusted accordingly.

Mr. Potucek requested an example along with a list of the cities that participated in the salary survey. Ms. Fleming stated that Glendale, Marana, Douglas, Department of Public Safety, Casa Grande and Chandler.

Council Member Mount stated that his concern with this part of the study is that he does not know when the City compares itself to a 50,000 person city if those other 50,000 cities are collocated next to cities that have millions of people in their population i.e., Phoenix. He believes that there is a discrepancy that he did not see in the formulas with the amount of income that those are generating just due to the neighboring populations coming in and out of them.

Council Member Mount asked if there was anything that dealt with cities that are just like Sierra Vista, that are ruralish, more cities that are the hubs, that do not have the direct support like some of these other do by being part of a metroplex.

Ms. Fleming stated that the City did get as many of the rural cities to participate. There is a federal formula that comes for the cost of labor in each different market. The metroplex is going to be a higher cost of labor and they adjust those numbers down so Sierra Vista has a cost of labor index at the federal level. For example Glendale would have one, theirs is going to be higher than Sierra Vista and so when you take Glendale's wages, they adjust Sierra Vista's wages down the difference of those to get the cost of labor adjustment.

Council Member Mount stated that he did not see in the study something that was more comparable like all rural cities similar to Sierra Vista that subtract out those metroplex areas so that he could see where Sierra Vista stacks up with them.

Ms. Fleming stated that they did take the different ones, i.e., Douglas, Nogales and Wilcox and they adjusted those and compared also in different comparisons. They charted each one out. Some of the different positions charted a little differently; but they did do a comparison with rural areas as well as metro areas. The competitive market a lot of times is going to be in the metro areas where they are pooling the workforce.

Mr. Potucek stated that it is important to note that a wide survey was conducted that did include some of the communities, i.e., Flagstaff, Lake Havasu, Yuma or Prescott that are similar to Sierra Vista that rural-type of nature; but it he believes that it is still important for everybody to realize that the City competes with all communities in Arizona with regards to drawing good employee and losing them as well.

Council Member Mount stated that he agrees 100% that the City is going to lose the best and brightest people to those that can compete with more resources; but his concern is with the City's ability to match resources and at what point is a breaking point reached. If the City is extending itself further than other rural cities the same size; then the City is never going to be able to outcompete Phoenix or Glendale as they have more money. The City needs to find out where those other rural markets are to find out exactly where Sierra Vista's market space is and where the City could compete.

Mayor Mueller stated that when recruiting talent, there needs to be a statewide or region wide pool and in this particular case, trying to pool everyone out of Douglas or Casa Grande or others, there may not be the number of people that are qualified to do the job from those locations. The City really needs to be able to offer a competitive salary because the City is rural just like Phoenix can't just look within the Phoenix area.

Council Member Mount stated that he disagrees with that. Mary Mueller stated that Sierra Vista cannot just look within rural cities and so the City has to consider everything in the State and he believes that the formula that the study gave the City is basically a baseline on what is fair compared to other communities.

Council Member Mount stated that the point that he is trying to make is that he agrees that the City has to be competitive; but the City has to stay within its means and he does not know if the City comparing itself to Casa Grande or Glendale or Avondale is necessarily is a apples to apples comparison.

Council Member Gray stated that when the report was presented, one of the things that were said was that it was not apples to apples. They made adjustments for cost of living, typical wages in the area, i.e., Cochise County, Sherriff's Department. There were adjustment made where the City is comparable; but not exactly alike because the City cannot sustain Phoenix, Tempe prices, it just cannot happen.

Council Member Gray added that she believes that they did a good job doing the comparison of where the City is at and needs to be.

Council Member stated that it is not a criticism of the report, it is making sure that the Council understands that as they go through the work session, his opinion and belief is that the City should be cautious in terms of how the City is compared and how the market space is defined. He believes that the City is throwing people into the market space that are not equivalent.

Ms. Weir stated that based on the classification and compensation study and in order to implement the plan, the City adopted the proposed classifications based on the job analysis and evaluations. The City adopted the proposed pay structures for exempt, non-exempt and senior management at 100% of the market along with the proposed step plans for those non-exempt public safety and other non-exempt employees as well.

Mr. Potucek clarified that when the City last did classification and compensation study back in the last decade, Council at that time determined that they wanted to pay at 105% of the market

and this particular case, a lot due to cost considerations the 100% of market value was chosen. The step pay structure actually goes to all non-exempt employees and not just public safety employees.

Mayor Mueller stated that the reason why they chose 105% at that time was because they wanted to attract those people that were over and above the average worker.

Mr. Potucek added that the Council at that time wanted to be more competitive and aggressive.

In response to Council Member Gray, Mr. Potucek stated that years ago, everyone was on steps and there were 20 steps at the time; but back then the community was growing rapidly and 5% per step was not an uncommon thing that occurred. It was not until the City started seeing some economic slowdowns, i.e., the Gulf War and other times where the City started getting away from that and had to give raises more based on an ability to pay as opposed to some sort of a step plan. With the last class and comp plan the City got away from that and went towards ranges. In going around to the various employee groups, there was a lot of support expressed to have steps; but he mentioned to those groups, having steps does not guarantee that a step will be funded from year to year because the plan does not create money.

Mr. Potucek added that it has been a difficult thing to go with; but in reality it does not matter how many steps there are. If times were good, the City could do multiple steps in a year or if someone by merit earned an additional step they could do that. Right now it is based on 18 steps at a 2% increase between steps. If the City went to fewer steps the gap would increase to a larger percentage increase; but without any visibility as to how to fund those, he cannot in clear conscience recommend that.

Council Member Gray stated that her question comes from not understanding having a step pay structure if the City is not going to automatically budget it every year. If the City is on 18 steps and a police officer is on step 16 then he has two years to go before he is capped out; but if the City is not giving a raise that year that extends the retirement time and that is her concern.

Mr. Potucek stated that it is his concern as well. The City had that problem last time when the City had steps where there were people that were topped out. Many people were topped out and would not get any raises. Now the City has a situation where that would be brought back into play and if there are no raises, then that employee is not going to advance.

Council Member Gray asked what happens with retirement. Mr. Potucek stated that if a step plan is adopted by the Council then it needs to be taken seriously in terms of making that a priority for funding for the next fiscal year; but he cannot promise it because six out of the last seven years, the raise has been zero and the money has not been there even to try to attempt to fund anything. Going forward, the City can try and make it a priority; but if the revenue situation does not improve then cuts will need to take place in other areas in order to fulfill that priority.

Council Member Gray commented that if there are years where the City cannot implement it, then the City is running back into compression again. If this is going to be implemented and she believes that it should, it will have to be a priority every year and if that means cuts in other departments, then she would say that it what has to be done.

Mr. Potucek stated that the exempt employees are not included on the step plan. Those would be the technical professionals and managerial. The City has always historically treated everyone the same when giving raises or in the past steps and if they are not on the step plan, there will be some temptation if the money is not there to leave those employees out of any additional compensation in the future.

Council Member Calhoun asked that she wants clarified for the exempt employees who are on range pay, how are they determined that they will receive an increase in pay. Mr. Potucek stated that the ranges were determined by the Class Comp Market Study.

Council Member Calhoun asked how do the supervisors determine which employees will get an increase. Mr. Potucek stated that he hopes that the City would move towards a merit-based type of system where satisfactory evaluation would be one that would warrant a step increase. Exceptional performance could warrant more than a single step increase. The challenge there is to be very objective as can be using objective numbers for performance evaluation. For example, the Police Department has very good data that can be used to help determine that; but the other departments are behind and those will have to be implemented on a department basis.

Council Member Mount stated that he agrees with the risk that if the City were to adopt or implement a plan that it could push, especially the public safety positions, into a position where they would have to be prioritized as far as funding goes. He believes that the problem that Council would have to face year in and year out would be the ability to sustain it; because then the City starts to run into that the expectations have been set and Council can't control that. The City is not like a regular business that can shift. The second thing is that prioritization he believes that Council's role as a City is to provide service and then how the City goes about doing that, there are a lot of different things that Council can look at. Clearly having talented people on the work force is part of how the City does it. He does not believe that the priority is paying people a lot of money; it has got to be to give them good service.

Council Member Mount stated that it is about semantics and if Council is not careful how they prioritize some of those things, Council could find themselves in a position of paying a lot of money to people and then slowly start to lose track of where that is as far as prioritization.

Council Member Mount asked Mr. Potucek if there is a way to execute the Comp Plan by phasing it in and only start with the public safety positions and then see how that goes and then move everyone else in at a later time. Mr. Potucek stated that Council can choose to do that and have historically never done that; but he believes that it is important to understand that throughout the process of the personnel cut backs that the City has gone through over the last eight years that until this year, the police and fire departments especially in the line positions were kept whole. The cuts have been absorbed by administration, Public Works and the other departments.

Mr. Potucek stated that he cannot recommend that to Council because he does not see how that is fair to the other employees to separate one group from another when the others have borne the brunt of the cuts that have already taken place.

Council Member Mount asked if the Comp Plan takes into account the consolidation of the two fire departments. Mr. Potucek stated that there will be a work session regarding the study that was performed; but based on the study that was performed very preliminarily, he does not feel that now is the appropriate time to move towards consolidation and the integration model. He would probably recommend continuing on the current fashion.

Mayor Mueller asked if this would be a subject for next year's budget. Mr. Potucek stated that he believes that there are areas that the City could continue to explore to work mostly together with the Fry Fire District; but full consolidation has a lot of different issues involved in it that would certainly take a lot more time to get through.

Council Member Gray commented that Council Member Mount is right, it is more about service and that is where she comes from the step plan in looking at recruitment and retention. For her, she would have a hard time going from one city to the next if she was given automatic step pay raises and then find out that the city that she is looking at has not given a raise in six or seven years, which the City has not done. It seems that it would be hard; but emphasized that if Council is going to do the step system, then making sure that Council prioritizes that it can be continued to retain and recruit the best they can.

Council Member Gray noted that she did not realize that the Segal Waters Study did not include the city manager, assistant city manager and the city attorney and asked what is the City looking at as it was her understanding that those positions were under market value also.

Mr. Potucek stated that those positions were included in the initial study; however, he did not feel that it was appropriate for the contracted level positions to be included. He did not want to have any position of bias going in terms of the recommendations to Council. It is up to the Council to determine the contract amounts for the city manager and city attorney. It is up to him to make that determination for the assistant city manager. While there are still problems associated with leaving those positions out because what is being seen is compression at the department head and department manager level with regards to bumping up to those levels of pay. Those issues are there; but it would not be appropriate to make recommendations to Council that would increase his salary.

Council Member Gray asked if the City will have more department heads making more than the two senior staff members. Mr. Potucek stated that not yet; but it is getting close. The City is in the process of recruiting department head level people right now and it is very possible that their salary requirements may be in that range.

Council Member Gray asked how Council does then handle that. Mayor Mueller stated that Council has to make sure that the City has the money first and then will need to discuss that.

Council Member Calhoun asked if it is possible to look at the next five years to see what the costs of those steps would be. Mr. Potucek stated that he does believe that staff has the ability to project those out.

Council Member Calhoun stated that it would be helpful. Council Member Gray concurred. Mr. Felix explained that a 2% a year across the board salary increase will hit the General Fund for about \$400,000 per year increase.

Ms. Weir showed a chart to show the Class Comp's effect across departments. The numbers are inclusive of all funds; but they are only representing fulltime salaries. It does not include burden and things like that. The chart shows where the bigger increases were. All departments had an increase in fulltime salary costs with the exception of Leisure and Library and that is a result of the two frozen positions and the one fulltime position that was reduced to part time. The largest increases in salaries were in the Police and Public Works despite both departments having positions frozen.

Council Member Mount asked if the projections are based off the current revenue rates. Ms. Weir explained that these are on the expenditure side of salaries. It is the current budget for fulltime salaries on the left of the chart and to the right are the recommended budget for fulltime salaries.

In response to Council Member Mount, Mr. Potucek stated that there is no proposal within the proposed budget for tax increases. The Classification and Compensation Plan is proposed within the budget without the tax increases.

Council Member Mount asked about the cuts? Mr. Potucek stated that within the context of the presentation, the frozen positions make the \$700,000 difference in terms of the increased personnel costs. The City also has the public safety retirement costs and other; but in the O&M presentation on June 2nd, Council will see the O&M costs, about \$1.4 Million.

Ms. Jacobs asked Ms. Weir to provide the slide that shows what positions were cut.

Ms. Weir presented a slide that showed the costs change broken down by all of the costs associated with personnel. The salary line includes fulltime, part-time salaries and overtime. Also is the entire burden associated with employees as well as the education reimbursement program and the employee recognition program. Overall the change across all funds is \$2.1 Million and that includes the public safety retirement offset which is \$784,000 total because with the increased salaries with the class comp adjustments, those payouts increased on top of \$600,000 that the City also has to pay.

Council Member Huisking asked if there would no longer be anymore employee recognition. Ms. Weir explained that the numbers in the brackets are negative in the change column. Education for example was reduced to \$25,000 and part of that is based on the actual spending of the program as well as staff's acknowledgement that the City needs to make some cuts to offset the personnel costs.

Council Member Huisking asked how training is prioritized. Mr. Potucek stated that there is a lot of mandatory and important training primarily in the law enforcement area and fire fighters that he would be hard pressed to recommend cuts. In the Public Works area there are a lot of people that require certifications to do their job and require ongoing training or credits. For example, Mr. Felix would need ongoing education requirements to retain his CPA. Those are the priority areas and then staff works down from there.

Ms. Jacobs explained that the education category on the slide is not training. This is for tuition reimbursement for employees as the city pays up to 50% or \$500 per course for employees going back to school for associate and bachelor degrees.

In response to Council Member Huisking, Ms. Jacobs stated that it has been reduced to \$25,000. Largely based on actual, staff does the best that they can to plan for employees who say that they are going to take courses; but not all of them follow through. Staff does not think that at this point it will affect those employees currently enrolled.

In response to Council Member Huisking, Ms. Jacobs stated that the line item covers all of the employee recognition programs, i.e., Christmas party, picnic, star program as well as the employee of the year program and so the City will need to be scaling back.

In response to Council Member Gray, Ms. Jacobs stated that it does include the police and fire department banquets.

Council Member Mount stated that one way to look at this is at \$17,000 off of employee recognition in exchange for \$1.9 Million worth of pay raises and pension protection out of a total sum of \$2.1 Million in total increases and so something has to give somewhere.

Ms. Weir presented a slide with personnel costs by fund and stated that General Fund allocations for salaries to other funds are missing. For example the city manager not only works for the General Fund but he also oversees the other funds so a portion of his costs are dilled out to the various funds. Those allocations are currently being updated and so what is being presented are whole numbers. That General Fund number will go down once the allocations are finalized and the increase will be offset by other funds. This is an illustration of the fact that the overwhelming majority of the City's personnel costs do come directly from the General Fund; but that they are distributed somewhat through the other funds.

Ms. Weir stated that available funds summary going forward as staff moves into O&M again; those allocations will change those personnel numbers. There will be an increase in O&M for the General Fund; but that is about what is remaining for O&M as compared to FY15.

Mr. Potucek stated that \$5.4 Million which will be larger than that after the allocations are completed, Council will see that in order to balance the O&M budget; it had to be reduced to that level as a result.

Council Member Mount asked if this means that the Capital Fund was swept. Mr. Potucek stated that the Capital Fund has not been swept.

Ms. Weir stated that staff did balance the General Fund budget and the department meetings have concluded. The departments were all very conservative in what they were asking for and she commended them.

The \$2 Million in General Fund O&M expenditures is not a full \$2 Million that is being cut because the allocations that need to be finalized and the adjustment that was made with transferring the SSVEC franchise fee from the Capital Improvements Fund rather than the General Fund, the City is really looking closer to less than \$1 Million in cuts.

The O&M presentation will be on June 2 and staff will go into details about what some of those cuts were that are being recommended. The Tentative Budget Book will be distributed by June 4 and with the Tentative Budget, that will include the recommended budget with no increases to revenues, there will be a good size memorandum attached that will include options and recommendations from the Citizens' Advisory Commission and others. The final budget work sessions will be on June 15, 16 and 17 from 3:00 p.m. until 6:00 p.m.

Council Member Calhoun asked if Council will discuss during the June 2 meeting proposed cuts. Mr. Potucek stated that when the O&M budget is presented, which less than last fiscal year's budget is; staff will go through and tell Council what the proposed cuts are to the O&M budget at that time. On June 15, 16 and 17 Council will be discussing the efficacy of those cuts and what they mean to Council and whether or not they want to see those things restored. Then those will be tallied and staff will make recommendations in terms of various level of things that staff thinks should be restored and then it will be up to Council to determine whether they want to restore those cuts and then what the price tag will be, moving into discussion about potential revenue, if indeed Council wants to make those additions.

Mayor Mueller thanked staff for a good briefing.

3. Adjourn

Mayor Mueller adjourned the work session at 5:21 p.m.

Mayor Frederick W. Mueller

Minutes prepared by:

Attest:

Maria G. Marsh, Deputy City Clerk

Jill Adams, City Clerk