

Work Session Minutes
June 2, 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
Scott Dooley, Public Works Director
Sharon Flissar, Engineer
Judy Hector, PIO
Barbara Fleming, Human Resources Director
Victoria Yarbrough, Library and Leisure Services Director
Abe Rubio, IT Director
Jill Adams, City Clerk

2. Operations and Maintenance

Mr. Potucek stated that this is the fourth in the series of budget category items that staff will be going through. Council has gone through revenues, the capital and debt service budget, personnel budget and now reviewing the operations and maintenance portion of the budget.

Pam Weir was been working hard to get the budget book out which will be out on Thursday and after that staff would like to go over the Citizens Advisory Commissions' (CAC) recommendations once again to refresh Council on it and point out some of the major differences between the proposed budget that he has put out and those recommendations. Then staff will go over with Council what will be done during the three upcoming work sessions on June 15, 16 and 17 to provide an idea of how it will play out.

Ms. Weir stated that she would provide Council with a budget update as a whole followed by a summary of the City's operations and maintenance budgets. The budget as a whole as it stands balanced and presented in the budget book for FY16 is \$69,188,823 and that is over \$17 Million for capital in debt that was presented to Council in just over \$30 Million in personnel costs that is an increase as a result of classification and compensation plan implementation as well as the public safety retirement increases.

The O&M budget does increase this year and it is over \$22 Million and that is not a result of the General Fund. That is a result of some increased expenses in the enterprise funds, sewer and refuse as well as growth of the City's health and accident insurance fund increasing and costs of claims.

Ms. Weir presented a slide of the Operations & Maintenance by major fund and it does not show every fund in the City; but it does show the bulky ones. There are decreases to the O&M budget, General Fund, Grants Fund and Transportation Fund. The increases in the HURF are a result of increased revenue from the State. In the Enterprise Funds, the Sewer Fund, the City is investing in a replacement sewer vac as well as a couple of other items and in the Refuse Fund, the City is adding an additional collections route due to demand for expanded services.

Mayor Mueller asked why the health and accident fund increased so much. Mr. Felix explained that when the budget was done last year, it was looked at the actuals from two years ago. This year it is based off of more current actuals. The prior year actuals had a couple of major claims and the City did get stop loss reimbursement for them; but that is a net revenue increase and it is net expense decrease.

In response to Mr. Potucek, Mr. Felix explained that if an employee had a catastrophic illness at \$175,000 claim for themselves, the City pays for the first \$100,000, and then the City receives notice that the City has extra insurance over that \$100,000 and then the City gets reimbursed for. Every year the City gets 10 claims that have gone over \$25,000. Last year there were a few that went over the \$200,000 claim.

Mayor Mueller stated that his concern is that the City does not have a solid number going into budget planning for next year because the City does not know what is going to be claimed.

Mayor Mueller asked if staff is comfortable with the amount that is projected. Mr. Potucek stated that it is important to note that this is not a General Fund expense. This fund is self funded through the employee's contributions and the City works with the Employee Benefit Trust and consultants. There will be some rate increases that the City will be passing on to the retired employees as well as classes of current employees to increase the health fund. This does not affect the City's operation at all.

Mayor Mueller noted that it will be a cost that will be coming out of the employees' pocket. Mr. Felix stated that the rates and the reimbursement amount was suffice that the fund did not run a deficit. The fund has run a surplus ever since the City moved to the Blue Cross Blue Shield Network.

Mr. Potucek stated that the City should probably have the consultant come and explain what is going on with the health and accident fund and why the City has had to make some judgment calls in terms of increasing the rates. The struggle will be to continue to keep the plan out of the realm of the Affordable Care Act and as such, staff has to constantly make adjustments with rates and make sure that the coverage does not go into the Cadillac plans where then the City gets penalized as a result. Staff keeps a close watch on this to try and make sure that the City can maintain the plan for the employees.

Council Member Calhoun asked about the claims received during the past year. Mr. Felix stated that the claims this year to date is on track to be less than last year. The history of the plan for some reason during the 20 years that he has been with the City, during the months of April, May and June is higher; but the City is doing better than last year.

Mr. Potucek stated that he knows that we have a number of folks that will experience high claims and that is monitored; but staff cannot project how many high claim cases there are going to be and what is important is to try and stay ahead of that and make sure that the rates are covering what potential claims there might be, hence the increase. Mr. Felix stated that the City has built enough of a fund balance since the City moved to Blue Cross Blue Shield that the City would not have to do as they did about nine years ago to and go to a 20% rate increase across the board to help cover the fund. The City does have a sufficient fund balance that any unique claims like that can be absorbed and still have time to adjust the rates without having big hits.

Council Member Huisking asked if the increase is spread out across the board to all employees. Mr. Potucek stated that not necessarily, there are different types of rates. The employees get covered and then there is employee plus spouse, employee plus children or employee plus family. The City is attempting to get to equilibrium of 50% City and 50% employee contribution to those. Some of those have gotten out of whack meaning that they were subsidized in particular, the City had subsidization going on in the employee retirement account as well as the family ones and those are the ones that staff is trying to bring back in the balance.

Council Member Huisking asked if it is likely that it will go up every year for awhile. Mr. Potucek stated that probably will be the case. The consultant is coming back and the City is trying to do this in minimal incremental amounts as opposed to trying to wait and watching the fund balance go down and then suddenly coming up with a 20% increase. There have not been any increases for a number of years.

In response to Council Member Calhoun, Mr. Potucek explained that those are the health benefits to all full time and some part time employees. Those are established when they come on board and they opt for what plan they want. The City portion is a match and built into the employee benefit cost. Mr. Felix clarified that the employee contribution comes out of whatever fund the employee is paid for. The costs for the other employees are charged out against the fund, it is part of the burden charge out that is done as well.

Council Member Mount stated that it is good thing to have something like this in place; especially if there have not been any increases. The City has to take care of the employees as that is critical.

Council Member Mount asked if the City is padding the funds and if so, is there some sort of metric that is saying that the City expects this to be there because of some increase. Mr. Felix stated that it is based off of last year's actuals.

Mayor Mueller noted that it is always tough to predict.

Council Member Huisking asked about the sewer depreciation and sewer expenses. Mr. Potucek explained that when there have been constructed sewer lines, sewer facilities and those kinds of things, the Finance Department has to depreciate those over the expected life of that asset. That accrues into the fund and then when a sewer line has to be replaced, that expense comes out of the depreciation.

Mr. Felix provided the following example: there is sewer plant that should last 30 years and it cost \$30 Million and that is not used up, that lasts 30 years. Under accounting rules, Finance needs to spread that \$30 Million cost over the life of the plant and "wear it out" so to speak.

The idea is, we use up a million dollars; but every year over the 30 years, and at the end of those 30 years, it is completely used up. Then you go out and replace it again. This way there is no loss of \$30 Million in one year and then showing a profit after that every year.

Ms. Weir provided a list of the notable cuts that were made by department (attached). The O&M budgets of every department in the General Fund were reduced with the exception of General Government which includes things like insurance costs and etc. that the City has no control over.

Ms. Weir noted that in Administrative Services there is a \$129,000 decrease at that same time, the City had legal requirements to pay the \$90,000 to the Arizona Department of Revenue for TPT simplification. There were cuts beyond what is being presented to make up for the mandated expenses that the City had in various departments.

Council Member Huisking asked if the cuts are for next year services that will not be available. Mr. Potucek stated that the cuts that were pretend were gone through line by line and determined first based on department actual for this year and last year where staff felt comfortable cutting lines like supplies, training, travel and various things that staff did not think would reach that level of expenditures this coming year. A lot of one-time items have been cut out or items that the City experienced last year that are not necessary this year like election costs. Also expenditures like in the economic development are that the City did not incur; but were in the budget last year that was taken out. The list contains other areas that were specifically cut:

- Community Development there are quite a number of cuts, i.e., community based shows that the City supports;
- Economic Development there are cuts;
- Fire Department there are cuts in terms of supplies;
- Human Resources there are cuts mostly in travel and advertising;
- Legal expenses were also cut because staff feels that the City will not need those with the job that Mr. Williams is doing for the City.

Staff is going to propose changing the hours of operation of the library by cutting out Sundays and expanding the Monday hours to the normal hours. Will be using RICO to help support some of the training needs in the Police Department that would normally be in the General Fund.

There are cuts to the City Page and public affairs as it takes a lot of staff time and it is very expensive in terms of working with the Herald and that would be a little less in community outreach. There are a number of facility maintenance cuts:

- Grant matches for Vista Transit for new vehicle and engineering services;
- Working on Vista Transit in terms of its operation to cut back on some of the routing or timing between stops.

A number of areas across the board that do not include the personnel cuts that were mentioned at the last meeting as well as the Capital Maintenance cuts that have had some restored out of the process; but still most of those are out. Staff will lay those out in the upcoming work sessions.

Mayor Pro Tem Blanchard asked what the amount left was for the City Page. Mr. Potucek stated that it has been zeroed out.

Ms. Jacobs stated that staff looked at all of the things that could be done in order to cut back and felt strongly that the City was getting more feedback, and it has a longer shelf life, from the VISTA 411, which is where most of the classes are listed and etc.; but it was more important to keep funding available for the tourism and the tourism advertising.

Council Member Calhoun stated that it would be helpful to know what is left if anything in the funds that were cut. Ms. Jacobs stated that if it is a specific program that has been identified and it is gone altogether, staff will be more specific about that; but most of the cases in the detailed list, she believes that it is clear and if it is not staff will make it. The city manager will be reviewing with Council during the budget work sessions those items in priority order that he would suggest be considered for either reinstatement should Council choose combined with new initiatives and requests from departments.

Mr. Potucek stated that the budget book will include all of the various line items and the rationale and cuts. The book will explain in more detail which again will be gone over in the upcoming work sessions or individually, if Council chooses to do that.

Council Member Calhoun asked if the SACA home show has been cut. Mayor Mueller explained that the cost of the booth, the cost of operations and maintenance. Mr. Potucek stated that despite the fact that the booth is cut out, there is still a cost associated with staff time being there and then there is over time and compensation time associated with that and it has to be paid.

Council Member Huisking asked about the amount associated with major abatements. Mr. Potucek stated that there is only one neighborhood officer and that one is remaining in the budget. Another one was not added. There are a lot of minor abatements that could be anywhere from \$200 to \$1000 and a lot of those are done in terms of cleanup; but then the City tries to put liens on. However, the City can no longer do that and so the City will be absorbing those costs. Then there is the major abatement, i.e., last year with the old Hatfield property. Basically those are the types of things being referred to.

Council Member Huisking asked about signage for neighborhoods. Ms. Jacobs stated that there was a place holder in the budget for signage for potentially the new neighborhood association, the North West Neighborhood Association that is beginning. If they were to get to where they were ready to move forward, then the City would have purchased similar signs as was done for the South West Association; but those funds were taken out of the budget.

Council Member Mount asked if cuts were made to the advertising of the West End Fair due to return on investment. Ms. Jacobs stated that the decision making for all of the cuts was not easy. Basically, budget staff sat with the departments and explained what was needed to balance and they went through line by line item. The core services issues versus the noncore services issues were looked at, i.e. fire and police staff looked at the basic things needed and where there might be wiggle room. Staff looked at actual expenditures from last year to see where there might be actual adjustments needed, i.e., the West End Fair, although a great asset for the community is not one of the City's core service areas.

Council Member asked about data on expenses that showed a good investment. Mr. Potucek stated that he would call those more as community support things that the City tries to do to support various aspects of the community; but he does not think that staff can say that a number of those things can draw a lot people into the community from outside. They are just done to support various aspects of the community and the kind of things that you gain a sense of community from; but they are extraneous to the core services that the City provides.

Ms. Weir provided a series of slides that were a repeat of what was discussed. The O&M changes include the cuts that were discussed.

Ms. Weir noted that going through by department, while overall O&M costs went down everywhere in the General Fund and there was some moving money around as well, the City needs to increase expenditures for:

- Professional lobbying services as the actuals were higher as a result of more species being proposed for the endangered species list that are done in conjunction with Fort Huachuca; and
- Payment to ADOR for tax simplification.

Some economic development money was shifted from the General Fund to potential grant opportunities and while the City does not know for sure that these will be received, the City is looking at up to \$600,000 worth of grants to support economic development efforts.

The Public Affairs advertising cuts include the City Page. In administrative services one of the big drops was that there was no municipal election in the upcoming fiscal year; but this will have to be paid for in FY 2017 and so that is an expense that will come back.

There was a reduction in IT supplies and in Procurement travels.

In the Police Department there is the reduction of supplies as well as continued use of special revenues i.e. RICO funds to help support ongoing training. The Fire Department is a similar situation.

Public Works has cuts to facilities maintenance; but there will be an additional refuse route coming out of the Enterprise Fund and that will not impact the General Fund and that is a result of increased demand for services.

The sports fields and parks sections of Public Works have been fully consolidated. Some efficiencies were found by combining these both in personnel and operations.

Mayor Mueller stated that one of his concerns with facility maintenance is that the City is not putting things off that will cause a greater expense next year. Mr. Potucek stated that he wishes that he could say the cuts were luxury items; but in fact, if these are put back, they can cost a lot more.

Mayor Mueller noted that it is an element of risk.

Council Member Calhoun asked if during discussions, Council could hear what would be the negative effect for certain cuts and why they are the best choice for cuts. Ms. Jacobs noted that the departments originally came in with their budget requests and they were requested to come in at a level no more than a level funded budget and so they were already tight; but they held off on things that they would like to see. The items that were cut from the maintenance are things that have been put off for several years, i.e., recarpetting buildings, painting buildings, minimum maintenance that need to be done in 24 hours. They are the ones that could be afforded to be cut. Some of the other ones, i.e., hvac and the sky light resealing remained in the budget, the ones that staff knew needed to be done because have been put off too long.

Council Member Ash asked about the reduction of the EMS supplies. Mr. Potucek explained that actually that one was not so bad because when staff went through the line back through the actual expenditures with the fire chief, they found that the level of spending was not reaching the full budget. Fire Chief York added that is really it.

Ms. Weis stated that with that particular line, the remaining balance is \$100,000 and proportionally it was a 10% reduction based on actuals.

Council Mount voiced that he is concerned that Council might find justifying such items this year because it might get worse and asked if there is a plan during the work sessions to lay out a more long term budget, set of goals or requirements.

Mayor Mueller asked Council Member Mount if he is talking about establishing a budget policy and that is proper outcome to give additional guidance.

Mr. Potucek stated that in the budget book there are sections that are related to both future capital improvement plans as well as Public Works' Capital Maintenance Plans that lay out what needs to be done and cost associated with it. That data and information is available.

Mr. Potucek provided a preview for the next three sessions on the 15, 16 and 17 and how that will be organized. Staff will give an overall budget overview in terms of major trends and what is going on with the budget and the overall reductions. Staff plans to go into each department and lay out specifically personnel that have been cut, capital that has been cut, O&M items that have been cut that have been gone through in previous sessions. Any new initiative that each department might have wanted to put in the budget; but that could not make.

Recommendations by staff for potential restoration with the price tags associated with it will be discussed and the easiest way to do that is to go through each department and get a handle on what was cut and what would be restored if the Council chose to do so and then it would be tallied and then come back after going through the departmental budgets and if there is a price tag associated with increases, then hold discussion on revenue. Depending on the changes, staff will have to go back and rebalance the budget. Right now, staff has the Tentative Budget which caps the budget at a certain level planned for July 2, the day before the July 4 holiday and it is important for staff to know what Council wants in the budget at that time. That is still independent of any individual decisions that Council would need to make in terms of adjustments to sales tax or various tax rates and it does not hurt anything to place those things in the budget, cap it and then do that later. If the Council chooses not to do anything with revenue then the dollars are simply not spent and go down to the spending level that would be equal to or less than the amount of revenue that is being projected to be taken in.

Ms. Weir stated that the budget books will be ready on June 4th. There will be budget work session on June 15, 16 and 17 and as mentioned in previous meetings, Council is more than welcomed to schedule one on one meeting with the budget staff between June 4 and 15.

Mayor Mueller added that he would highly recommend that, especially for the new Council Members. It is a great way to prepare and solidify ideas.

Ms. Weir stated that on July 2 Council will set the expenditure cap for the year and the final budget will be adopted on July 21. There can be changes between the tentative and the final budget; but the overall dollar amount of the budget cannot increase between those two votes. The property tax levy will be adopted on August 13.

Council Member Calhoun asked if capping the budget is a state law. Ms. Weis stated that it is.

Council Member Calhoun asked why Council can't have the budget book earlier in the process. Mr. Potucek stated that generally staff tries to have that book out to Council by Memorial Day weekend and it is historically when staff has done that. Staff is a couple of weeks later than that for a number of reasons. One is that staff was working on the CAC process concurrently and that took time. Pam is new on the job and so she had to learn the software systems and get familiar with the City's budget. It has been a more difficult process because there are a lot of cuts; but the City is not in any danger of being out of whack with meeting the State mandated time. There can always be extra meetings if necessary.

Council Member Calhoun noted that it does take time to review book and any sooner that Council can get the book would be helpful. Mr. Potucek stated that he suspects that next year staff will not have that problem.

Council Member Mount asked, as it stands now basically a balanced budget, if anything is added on top unless Council finds something else to cut, Council would need to find a way to pay for it. Mr. Potucek stated that is correct and a good seaway into going over the major recommendations that the CAC made (attached).

Mr. Potucek stated that he would try to point out what the CAC recommended and what the differences are between what they recommended and the proposed budget. The CAC recommended:

- An additional \$600,000 to \$1 Million per year in street maintenance

Mr. Potucek stated that he doubts if that is even adequate to do what needs to be done. None the less, probably will still be setting that at \$1 Million as currently have been done the last couple of years for street maintenance so that additional funding is not there.

- Increasing the economic development and tourism efforts by about a \$250,000 to \$300,000 per year

Mr. Potucek stated that in fact that has been cut and there are no additions in those budgets.

- Classification and Compensation Implementation at \$1,000,000 per year

Mr. Potucek stated that it came over that when all was set and done as well as having the public safety retirement system costs to contend with. Those are in the budget as presented.

- Additional \$900,000 to \$1 Million per year in vehicle rotation and capital maintenance

Mr. Potucek stated that half of \$1 Million was put in the budget to continue the vehicle rotation program for the police vehicles; but nothing over that for either vehicles or additional capital maintenance.

- Staffing increases:
 - o Neighborhood enforcement officer – were not able to do that;
 - o Police officers – Cutting two;
 - o Administrative positions – did add one in Community Development;
 - o High-demand customer service positions – have not been able to add in terms of administration.

- Service level cuts in the Cove

Mr. Potucek stated that the only way to really reduce costs associated with the Cove is long periods of closure. There will be an extended period of closure if the City has the funding to do the major maintenance that needs to be done; but don't know how much operationally that will save.

- Vista Transit

Mr. Potucek stated that discussed was the capital matches for new busses and the staff will present further cuts in terms of the routing, operations and maintenance.

- Adjustment of the Library hours

Mr. Potucek stated that those recommendations to reduce costs have been made in the budget.

Mr. Potucek stated that this is where the City is at with the expenditure levels that the CAC recommended versus what is in the budget. There are revenue recommendations that will be discussed at the upcoming budget work sessions scheduled between the 15 and 17.

Council Member Ash thanked Ms. Weir on her presentations. Mayor Mueller noted that Ms. Weir is doing a good job and thanked her.

Mr. Potucek stated that budgeting is really easy as you project what you are going to put in and budget what you are going to take out; but putting a budget together one has to know a million things. Coming into it new as Ms. Weir has, is not easy to do and she has done a great job doing that. Also, Mr. Felix has assisted and that helps. In closing, Mr. Potucek thanked the budget team and the departments.

Council Member Calhoun asked about the smaller funds that were not on the list. Ms. Weir stated that those include development fee funds that may currently have zero dollars in them, donation funds, RICO funds and some of those funding sources are transferred in and out; but in terms of direct O&M expenditures, they were not significant enough to include. However, those funds will be in the budget book.

Council Member Huisling asked about the decrease in grants. Mr. Potucek stated that it is more difficult to obtain grants as the federal government is cutting back as well, i.e. CDBG, multi-use paths have gone away, and there are a number of areas where there are cuts from the state and those reflect in the City's budget.

Council Member Calhoun asked how Council's thoughts on possible grants will be put in the budget without knowing for sure. Mr. Potucek stated that there are \$600,000 in grant funds for economic development and the City has no idea whether the City will get those funds or not; but generally what staff tries to do is to identify all of the grants that the City might potentially get and if it is unknown whether the City will get them, they have to be in the budget because then if the City gets them, they can be spent. If they are not in the budget and the City gets them then they cannot be spent. Basically the budget is inflated to anticipate any potential grants that the City may get.

Council Member Calhoun asked if Council has to envision the possibilities that maybe the grants will be there. Mr. Potucek stated that yes and they may be others and that will be discussed too.

Council Member Mount asked if when grants are added to the budget and it continues to increase that ceiling level, Council will have to figure out taxation in order to meet that level. Mr. Potucek stated that there is a grants fund and a lot of the grants are placed in that fund and it is very easy to keep track whether the City gets one or not. It does not play in the expenditure limitations or anything related to the revenues. A grant comes in then it is expensed out.

Council Member Calhoun asked about the grant matching. Mr. Potucek stated that matching was difficult this year and explained that it was discussed about not matching what the City could have received, 20%, from the Vista Transit busses; but because that match reflects directly on the General Fund, and staff could not do that. There was also an issue on the two large airport runway improvements that looked like were not going to be funded; but staff has been able to put that into the proposed budget. It was still an issue to find the match particularly when talking about the General Fund.

Mayor Mueller stated that he is looking forward to seeing the budget book on the 4th and recommended to the new council members that they meet with the city manager and staff.

3. Adjourn

Mayor Mueller adjourned the work session at 5:23 p.m.

Mayor Frederick W. Mueller

Minutes prepared by:

Attest:

Maria G. Marsh, Deputy City Clerk

Jill Adams, City Clerk