

***PLEASE NOTE: Since the Glendale City Council does not take formal action at the Workshops, Workshop minutes are not approved by the City Council.**



**MINUTES OF THE
GLENDALE CITY COUNCIL BUDGET WORKSHOP SESSION
Council Chambers – Room B3
5850 West Glendale Avenue
February 4, 2014
9:00 a.m.**

PRESENT: Mayor Jerry P. Weiers, Vice Mayor Yvonne J. Knaack and Councilmembers Norma S. Alvarez, Ian Hugh, Manuel D. Martinez, Gary D. Sherwood, and Samuel U. Chavira

ALSO PRESENT: Brenda Fischer, City Manager; Sam McAllen, Interim Assistant City Manager; Michael Bailey, City Attorney; and Pamela Hanna, City Clerk

CALL TO ORDER

WORKSHOP SESSION

1. GENERAL FUND BUDGET BALANCING
PRESENTED BY: Tom Duensing, Executive Director, Financial Services

The purpose of this item is to continue discussions regarding the General Fund budget balancing process. Staff is seeking guidance from Council for short-term and long-term options and potential solutions to reduce and eliminate the projected General Fund structural deficit.

Mr. Duensing reviewed some outstanding questions from a previous budget workshop, which he said he would try and answer in more detail. He also said they will review the deficit, budget balancing revenue and expenditure opportunities and alternative service delivery approach.

Mr. Duensing said one of the questions raised from the last budget workshop was debt service and the level of debt the general fund is supporting and debt supported by secondary property taxes.

He spoke about the Municipal Property Corporation debt which is the debt that is serviced by the general fund. He said the debt service payments run through FY37-38.

He also discussed the general obligation debt serviced by secondary property taxes. He said there was discussion at the prior workshop about the property tax rate. He explained the level of Municipal Property Corporation debt service that the city is paying each fiscal year. He said the city will have to plan for the increase in debt service to come after their five year forecast. He said in about FY20-21, the payments level off and remain steady for the next few years. He said they also will begin to pay off the general obligations and those figures decline after five years. He said if the city issues no more general obligation bonds, in FY14-15, the payments will peak.

Mr. Duensing next addressed a question from the last budget workshop of the total property tax rate. He said in FY05-06 and FY06-07, the rate held at \$1.72 and in FY08-09 through FY11-12, the rate held steady at \$1.59. This was increased in the next three fiscal years. He discussed the total levy figures in FY08-09 through FY11-12, and as the total rate held steady at \$1.59, the total levy decreased from \$33 million to \$20 million during that time period. He said this was the result of the devaluation of property assessed valuations. He explained the difference between the primary and secondary property levy. He said the primary levy supports general fund operations. The secondary levy services the general obligation debt. He said the secondary levy is about 3 to 4 times the primary levy. He noted the primary levy in FY12-13 was \$2.6 million and said the city opted to go up to the legal limit for the primary levy in Fy13-14. He said the assumption they are making in the forecast is the city would continue to take advantage of that 2 percent that is available. He said in the forecast, the estimated primary levy is \$5.3 million. He also said he chose to keep the secondary levy rate the same at this point. He said they will be setting the secondary property tax levy, but it will take an analysis of the general obligation Debt Service Fund to see the amount of levy the city needs. He said the increase shown on the slide was a result of an estimated increase in property valuations.

Mr. Duensing next spoke about the property tax rates. He noted the years the rates stayed the same, the primary rate held steady from FY09-10 to FY12-13. He said in FY13-14, the rate increased and the rate increase was to take advantage of the available primary property tax levy allowed by state law. He said many discussions center around tax rates and it was not uncommon for governments to look at what the tax rates are doing, but now philosophies have shifted. He said the philosophy now is what is the amount of the levy on a property tax bill and then let the rate float. He said they know what the levy will be if they take advantage of the 2 percent and based on what the assessed valuation is, then they will calculate the rate.

Mr. Duensing next discussed a typical 2013 property tax bill. He gave several examples of the tax levy calculations on several different property values and how those taxes were distributed.

Mr. Duensing then explained in more detail the inter-fund loan. He said the proposal they provided was to make the inter-fund loans a variable interest rate. He said they suggest the

rate should be variable and make it the same as the rate the city is earning on its investments. He said this holds the general fund harmless and holds the funds that the city is repaying harmless. The intent is to reset the interest rate each year, keep the same principal amortization. He said this would allow the city to take advantage of reduced interest costs each year. He provided estimated savings for the next several years. He also provided more detail on the inter-fund loans, showing the current principal, interest and total as well as the proposal with the same principal and a variable interest rate. He said they just take advantage of a lower interest rate to make the payment lower. He said they propose this for the current year and going forward.

Councilmember Martinez asked what is the current rate the city is paying. Mr. Duensing said there are two separate loans. One is \$20 million and one is \$25 million. He said one of those is 3.25 percent and the other is 3.92 percent. Councilmember Martinez asked if those would go down. Mr. Duensing said yes and they looked at their return on investment in FY12-13. He said because they have to invest conservatively in very safe investments, the downside is their return is much lower. He said the rate they earn on investments will be tied directly to the rate they repay on the loans.

Mr. Duensing asked if he had council consensus to move this forward in the budget process.

Mayor Weiers asked what the downside to all of this was. Mr. Duensing said if the rate gets up to 6 or 7 percent, the city would be better off in the out years using the current structure, but he said he does not anticipate getting back to that level anytime soon. He also said if they anticipated the rates going up significantly, they could come back to council to lock in on a rate. He said since they were just loans to the city, if the economic situation greatly improves, they could pay these off early. Mr. Duensing said he did not see a downside to this.

Ms. Fischer asked Mr. Duensing to explain to the council how other cities handle their inter-fund loans. Mr. Duensing said this proposal is best practices and it is not uncommon for inter-fund loans to have a zero percent interest rate. He also said this could also be treated as a straight transfer. He said their proposal is what they consider the fairest way to pay this money back.

Mayor Weiers said there was Council consensus to move forward with this.

Mr. Duensing said Moody's Investor's Service representatives visited the city. He said they are following what is happening in the city. He said this is not uncommon and they are watching how the city manages the structural deficit. He said Moody's was given the December 17th forecast presentation. He said at this point, Moody's was very agreeable to the city's approach. He said Moody's will be watching the city closely over the next few years to see where the city ends up. He said it was a positive meeting and they seemed satisfied with the answers the city gave to the questions they had.

Mr. Duensing next discussed target reductions and increased revenue. He said the figures provided were the net operating expenditures that the city had flexibility with. He said

there was very little debt in these net operating expenditures and the city had the ability to make structural changes like alternative service delivery. He also said upon expiration of the sales tax, the city had a structural deficit of \$30 million and that has not changed. He said this \$30 million structural deficit is what they are planning around and they are going to bring back revenue opportunities and alternative service delivery to start trying to reduce that deficit. Mr. Duensing used an interactive model to explain the current structural deficit and the targeted reductions/increased revenue necessary to bring the General Fund back into balance.

Councilmember Martinez asked Mr. Duensing when you say fund balance, are you talking about contingency. Mr. Duensing said in the past they have treated contingency like the fund balance. He said best practice, and they reviewed this concept with Moody's, is to adopt a contingency line item each year and if you don't spend it, it increases the fund balance at the end of the year. Councilmember Martinez said he was still not clear on this. He said let's look at the first one of \$19 million, he asked what would the contingency be.

Ms. Fischer said in the past, staff has used the phrase contingency instead of using the appropriate description of ending fund balance. She said in government, when talking about contingency, it is usually an unallocated, non-departmental line item in the budget. She said it is not best practice to take the savings account, which is the ending fund balance and budget that in as the contingency. She said best practice is to have expenditures and have a contingency fund that is separate and you leave an unallocated ending fund balance. She asked Mr. Duensing to explain why he is recommending an increase to the ending fund balance from 10 percent to a 25 percent ending fund balance.

Councilmember Martinez asked again about the \$19 million. He asked if there was a percentage and how they arrive at the contingency; the number they would have in an emergency. Ms. Fischer said they would make a recommendation based upon what they would anticipate would be unanticipated expenditures. She said it is commonplace for the budgeted line item to be 10 percent. She said you don't want to under budget and have an emergency. Councilmember Martinez said it would be 10 percent of that number. Ms. Fischer said it would be 10 percent of the revenues.

Mr. Duensing said they have set the contingency at 5 percent due to the city's financial position right now. He said if the budget is balanced in future years, this issue will be addressed again. He said he has never seen a year where unanticipated expenditures did not occur. He said it is very important to have a certain level of contingency each year to absorb costs that they do not anticipate. He said they can also use the contingency for any revenue shortfalls.

Councilmember Martinez said we have a contingency of \$5 million and we've done this and we've got a catastrophe that \$5 million won't cover, like the roof caving in or something. He said I guess the council will have to go into that balance. Mr. Duensing said that is correct. He said if they appropriated \$5 million and had a \$15 million expense, they could find the budget and legal authority and that might come from another fund where they identified that will not spend the funding. He said they have to get the budget into the

general fund to spend it, but they are spending down the fund balance. He said an adequate ending fund balance buys the city time. He said with an adequate fund balance, if there were another economic turndown, the city would have several years to react to it.

Councilmember Sherwood said it was a pool of money for risk, for example if the city loses litigation it would cover the costs.

Ms. Fischer asked Mr. Duensing to explain why he was recommending going to 25 percent. Mr. Duensing said they did some research and looked at AAA rated cities and they typically had 20 to 25 percent fund balance. He said even the 24 percent is an aggressive number. He said this creates financial stability and gives the city time to react to any downturns.

Councilmember Sherwood said if they don't see the revenue increase and have to look only at services, the 20 percent of the net operating expenditures and if they include public safety, they are talking about reducing by 1 out of 5 employees. He said if they don't include public safety, possibly reducing 1 out of 2 employees. Mr. Duensing said that is a fair assessment and that is one way to look at this. He said looking at the net operating expenditures; the biggest expenditure is salaries and benefits. Councilmember Sherwood asked if this was with the .7 sun setting in FY18. He said if they continue the .7, it would take away from the \$30 million deficit. He said they need to be clear to the public that this does not take care of the near term structural deficit because they have that deficit with the .7. He went on to say when the sunset expires, that will be a big part of the deficit that is out there right now.

Mr. Duensing said if they assume an extension of the sales tax, the structural deficit goes down. He said that is attributable to the city holding its costs and the amount of revenues that they anticipate outpacing the city's increase in costs in the general fund.

Councilmember Alvarez said they are looking for an increase in revenue. She asked if they renegotiated the contracts and brought up the negotiation with Lund Cadillac, and they only have one dealership, which is not according to the agreement they had. She spoke about some changes that occurred after the contract for Camelback Ranch was signed. She asked if they could renegotiate the contracts because the other parties did not comply. Mr. Bailey said in terms of the budget process, that will be brought to Council in the next budget meeting and outstanding agreements would be discussed. Councilmember Alvarez said her concern is they are going after the public to pay more taxes when they have contracts that can be renegotiated to try and save the city some money. Mr. Bailey said they are looking at it and staff will be bringing more information regarding that issue to Council. Councilmember Alvarez said she just wanted the public to know. Mr. Bailey said this will be discussed further with the Council so Council is aware of what the implications might be.

Mr. Duensing added that the biggest cost is the debt service on Camelback Ranch. He said after talking to the city's bond attorneys, there is little to negotiate on payment of the debt service. He said they will continue to look at all the contracts that they can potentially renegotiate.

Councilmember Alvarez said the public does not know that the owners of the league are paying \$2 a year. She said if they renegotiate, the owners should pay something more than \$2. Councilmember Alvarez said she is interested in making sure they don't do that type of business anymore.

Ms. Fischer said they need to budget based on how the agreements read today. She said moving forward, they will leave no stone unturned on trying to find ways to save and to cut the deficit. Ms. Fischer also mentioned that the figures discussed by Mr. Duensing do not include any CIP, maintenance on existing city facilities that are collateral for the debt the city has and it also does not include improving streets. She said due to these additional costs, they are moving through a three step process to increase the contingency to a more acceptable level. She said if council opts to not sunset the sales tax, it will provide a different picture because they have to budget based on what they are obligated to pay today. She said if the tax goes away, the model changes dramatically and is cut nearly in half.

Mr. Duensing spoke about some specific examples in trying to chip away at the deficit. He discussed some revenue enhancement ideas, which included transfer of arts funds which was done before, sales tax auditing, increasing inter-fund support, asset dissolution and sales tax sunset.

Mr. Duensing said there is a current balance of about \$1 million in the arts fund and a suggestion was made to do a one-time transfer of those funds. He said they need to determine the initial source of funding and make those funds whole. He said a portion of this could go back to the general fund. He asked if he had consensus from Council to proceed with this.

Councilmember Martinez said he could not remember ever doing this before. He said he remembered having a discussion about it at one point, and remembered bringing this up. He said he couldn't remember the exact circumstances that this issue came up, but he suggested this and was told at the time that by ordinance, these monies cannot be spent for anything other than art or art related projects. He wanted to point this out and did not recall this ever being done before.

Mr. Duensing said they will do more research to make sure this can be done.

Vice Mayor Knaack supports this one-time use of the arts fund. She said she also did not remember doing this before. She said they have quite a collection of art and have discussed selling it. She said this would be an appropriate one-time use of art funds.

Mayor Weiers asked if a couple million dollars was transferred from the arts fund about 4 or 5 years ago. Ms. Fischer said she was unaware of that since she is new to the city. Mr. Duensing said he also had not researched that, but could get that information. Mayor Weiers asked if this was the same money that was used for statutes around the city. Mr. Duensing said that 1 percent of the CIP was going into this account.

Councilmember Martinez said maybe they could ask staff that was present if they could obtain that information.

Mr. Strunk said the transfer being discussed occurred in FY09-10 and was approximately \$2 million.

Councilmember Martinez asked what was the purpose of the expense. Mr. Strunk said it was the first or second year of the economic downturn and staff looked at all available funding to balance the general fund and staff used these funds to reduce the deficit.

Councilmember Hugh said in the discussions of making sure the art funds were used legally, he asked how the funds were used previously in FY09-10. Mr. Duensing said they will research this issue and see what the process was.

Mayor Weiers said there was Council consensus to move forward with researching the arts fund transfer.

Mr. Duensing next explained sales tax auditing and said they could contract for a sales tax auditor who can focus on specific sales tax audits. He said this would mean a request for funding to pay the contracted cost for this. The auditor would look at sales tax transactions that have not been taxed before and get those transactions on the books for recurring revenues. He said he has had direct experience with this type of auditor and they were able to bring in at least three times the amount of money they were paid for their services.

Mayor Weiers confirmed this was taxing business people who are supposed to be paying taxes and the auditor is looking for people that are cheating and not being accurate.

Councilmember Martinez said this is what he had in mind and asked Mr. Duensing for an example. Mr. Duensing gave an example involving commercial leasing.

Vice Mayor Knaack asked if this would include licensing and permits. She would be in favor of this. Mr. Duensing said this does not include licensing and permits at this time. He said they will look at that in the future.

Councilmember Martinez said about a year ago, they had a one-time shot where they said businesses not paying their taxes had three months and if they paid, they would not be penalized but would be fined if they did not pay. Mr. Duensing said amnesty has been brought up as an idea from staff and he would have to come back to Council with this after some more research. Councilmember Martinez said this brought in over \$1 million when it was done last year.

Mr. Duensing said he would like to get this auditor onboard this fiscal year. He felt this would increase revenue. He said the additional revenue would exceed the cost of the auditor.

Mayor Weiers asked what authority a contracted auditor would have. Mr. Duensing said the city will still have a role in this and any correspondence would come through the city and the auditor would work in tandem with city staff. He also mentioned the recent state tax simplification legislation. He said they are not sure how the auditing piece of it is going to work. He said the state is taking the lead in audit. He said their idea at this point is they would have to go through the Department of Revenue for permission to perform the audit. He said this would require very little city staff time. Mayor Weiers asked if the auditor was working for a percentage. Mr. Duensing said this has been discussed and he said they would go with a fixed fee approach. Council was advised it is illegal to pay an auditor based on rate of recovery under state statute.

Mr. Stoddard said House Bill 2111 referred to is the TPT reform which deals with state administration and state auditing. He said those reforms will be implemented beginning in January 1, 2015. Mayor Weiers said his only question was the role of the state versus the role of the city for the auditing and bringing in an outside person on top of that. He also asked what changes occur in January versus what is happening right now. Mr. Stoddard said many of the specific implementations of that legislation are being developed right now. He said it more prohibits what can be done than how it will be handled. He said he believed they could continue with this auditor. Mayor Weiers said there were some concerns over the details at this point.

Councilmember Sherwood said they were getting bogged down in the details. He said it is not like bringing in a contract FTE. He confirmed that any contracted auditor will work in their own office. Mr. Duensing said that is correct. Councilmember Sherwood said this is a good way to go.

Mayor Weiers said there was Council consensus to move forward on the tax auditor proposal.

Mr. Duensing said they have previously discussed inter-fund support, asset dissolution and sales tax. He said inter-fund support has been increased to \$9.7 million in the FY14-15 forecast, and Council can choose to move this figure up or down.

Vice Mayor Knaack said she did not think it was realistic to keep the amount level. Mr. Duensing said they would study this for future years.

Councilmember Martinez asked what formula or basis they use, a percentage or staff for a department. Mr. Duensing said different cities use different methodologies. He said Glendale looks at the costs of providing support services. Ms. Fischer asked Mr. Duensing to speak about best practices on this issue. She said this is done to prevent duplication of services. She also said cities use different methods for computing those costs as well.

Councilmember Sherwood said a previously acting city manager had raised this issue as well and said the number was much less than \$9.2 million.

Next, Mr. Duensing said they are currently doing a physical relocation to get staff into empty space the city owns and this relocation would free up buildings to sell. A list of assets is being developed.

Finally, he also said they are keeping sales tax on the list and will further discuss the sunset, the tax rate and taxable items.

Mr. Duensing next discussed expenditures, which included the restructure of inter-fund loans, eliminating TPT charged on city water utility payments, the reduction or elimination of any retiree health subsidy, alternative service delivery and adjusting contingency funding. Mr. Duensing next spoke about restructuring the inter-fund loans.

Mayor Weiers said there is Council consensus.

Mr. Duensing said they also discovered they are remitting state sales tax on water payments made by the city to the city. He said they have stopped this and will go back to the state and ask for a refund.

Vice Mayor Knaack asked how much money they were talking about. Mr. Duensing said he would get to that a little further on in his presentation.

Mr. Duensing also mentioned several items for future discussion. These include reduce or eliminate retiree health subsidy which is currently being evaluated, alternative service delivery and a review of contingency funding.

Vice Mayor Knaack asked about retirees that are 65 and going onto Medicare. Mr. Brown said there were significant subsidies with retiree health care. He said the city has been paying up to 85 percent in subsidies for health care. He said they did not differentiate between retirees over 65 and under 65 when looking at the subsidies. He said retirees who retire under the ASRS plan do continue to receive that subsidy. He said he will be bringing something forward during the budget process regarding retiree benefits.

Mr. Duensing reviewed the prioritization process and said departments are developing recommendations over the next 30 to 60 days. He said that contingency funding is very important and a level of protection for the city.

Mr. Duensing went over some figures using the interactive Budget Balancing Adjustment Summary model.

Ms. Fischer explained the reason why they are bringing out the interactive model. She said there have been questions from council in the past about the constantly changing numbers. She said with this interactive feature, council can see immediately how the numbers will play out and they will be able to put additional figures in to see what would happen.

Mayor Weiers asked a question about the numbers Mr. Duensing was presenting in the interactive model. He also asked what if they froze any art funds projects for the next couple of years. Mr. Duensing said they could do that.

Ms. Fischer explained some details about the interactive model so Council could see how the numbers change with each scenario.

Mr. Duensing next went over alternative service delivery and explained the approach management was taking. He said the City Manager asked departments to bring back some ideas on how they could save the city money. He said this is an extensive process and won't be achieved in 30 days. He said services totaling \$30 million will be prioritized and brought to a workshop. He said this must include potential lost revenue as a result of budget reductions in departments. He said they will bring back a list of services for further discussion and would prioritize the list based on Council discussions.

Ms. Fischer said based on the discussions already held, they are starting to see employee turnover as employees are seeing their functions on the list of items presented for alternative service delivery. She said this is hampering her ability to recruit new employees and it may be a necessity to outsource sooner rather than later due to this. She anticipates a slowing in service levels as employees leave the organization and an accelerated look at alternative service delivery in some areas.

Mr. Duensing went over some alternative service delivery options as examples of services being researched.

Mr. Duensing said at the February 18th workshop, he will review the proposed CIP and a five year forecast on the other operating funds. He said on March 18th, they will continue their budget discussions and general fund budget balancing.

Vice Mayor Knaack appreciates all the information and said it was understandable. She thanked everyone involved in finding the state sales tax on water payments made by the city to the city. She said they will get this budget done.

Councilmember Sherwood said this is painful and they are looking at real numbers. He said this is needed and he appreciates the time and effort that has been put into the presentations.

Councilmember Chavira said this is a tedious process, but they are moving in the right direction. He thanked staff for getting this done.

Councilmember Martinez thanked Mr. Duensing for the presentation. He said they have already identified some areas where savings can be made. He hoped they could identify some more areas to save as well.

ADJOURNMENT

There being no further business, the meeting was adjourned at 10:52 a.m.

