



**MINUTES OF THE
GLENDALE CITY COUNCIL
BUDGET WORKSHOP SESSION
Council Chambers – Room B3
5850 West Glendale Avenue
March 18, 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; Julie Frisoni, Assistant City Manager; Jennifer Campbell, 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 said the presentation is in three parts, which include reviewing the January 21st and February 4th budget workshop discussion items, a discussion of the short-term approach for FY14-15 and then a look at the long-term approach to the city's budget. He said one of the things noted in the recent ratings downgrade was the necessity for the city to deal with the structural imbalance. He said several reasons have been identified to deal with these issues now and it is important for organizational stability.

Mr. Duensing then provided a budget workshop review and discussed the 2 percent primary property tax increase, the temporary sales tax, revenue enhancement and expenditure reduction opportunities, the variable rate on inter-fund loans, transfer of Arts funds and the sales tax auditor contract.

Councilmember Martinez said he liked what was being proposed, but asked if it was possible to incorporate an amnesty program for businesses at this time, or do both.

Mr. Duensing said there has been quite a bit that has developed since the amnesty program happened before. He said there are businesses that are now paying their fair share. He said a sales tax auditor has the expertise to reach out to the business community and get the businesses to pay their taxes. He said this is not an amnesty program.

Councilmember Martinez asked if there was any advantage in having both if businesses pay by a certain date. He asked if businesses would be subject to a penalty if the sales tax auditor reaches out to them.

Mr. Duensing said businesses could be subject to a penalty and the city cannot waive any interest owed. He said they could look at another amnesty program, but it would be difficult to estimate the financial impact of an amnesty program. He said the figures are a little more certain with a sales tax auditor.

Councilmember Martinez said they could use whatever money that program might generate.

Councilmember Hugh asked if Mr. Duensing was looking at trying to recoup any particular type of sales tax.

Mr. Duensing said they have looked at the taxability of commercial leasing and speculative building. He said they would have the sales tax auditor focus on those two specific areas, as well as others.

Mr. Duensing next discussed the general fund structural deficit for FY14-15 through FY18-19. He said the sunset of the temporary sales tax is the reason the deficit goes from an average of \$14 million from FY14-15 to FY16-17 to an average of \$30 in FY17-18 & FY18-19. He also said the intent of the contingency is to annually appropriate an amount in the general fund for unforeseen events.

Vice Mayor Knaack said the contingency is a rainy day fund and she said the public does understand a rainy day fund.

Mr. Duensing said that is correct. He said it provides the city with flexibility and guards against economic issues that might come up during the year.

Councilmember Martinez asked if 10 percent was the recommended amount for the contingency.

Mr. Duensing agreed that was correct and the city's policy is 10 percent contingency. He said at this time, they have chosen to go with a 5 percent annual contingency appropriation due to the city's budget issues.

Councilmember Martinez asked if the bond rating also zeroed in on the contingency issue as well.

Mr. Duensing said that is correct and the contingency is a very important issue.

Ms. Fischer explained there may be some confusion about a contingency fund and the ending fund balance. She said the contingency is an appropriated line item and it is not the ending fund balance. She said policy states there should be a 10 percent contingency, but believed it actually meant a 10 percent ending fund balance. She said it is very uncommon to have a line item dedicated to a certain percentage as opposed to an ending fund balance dedicated to a percentage.

Councilmember Martinez said the rating came back to say 10 percent of the general fund.

Mr. Duensing said the level of fund balance or ending savings is at the discretion of the city. He said policy could be set at 10 percent. He said some cities set their ending fund balance at much higher levels and it is up to city discretion. He said they could set the percentage of ending fund balance and also set a policy for annual contingency appropriation. He said it will be very clear in the budget documents this year the difference between the two.

Councilmember Martinez said the point he was trying to make was to see if Council had the opportunity during the year to increase that somehow.

Mr. Duensing said they all had the same goal to have an adequate amount of ending fund balance.

Mr. Duensing went on to discuss the FY14-15 short-term approach. He expressed his thanks to his staff and the departments for understanding the issues and coming forward with the information necessary. He also thanked the City Auditor for her efforts. He said they used a zero based budget approach. He said the department budget requests were submitted by December 31st and it took a couple of months for the budget compilation. He said citywide, staff has identified \$15.5 in expenditure reductions, with \$4.75 million suggested by the departments and this directly offsets and structural deficit.

Mr. Duensing then detailed the budget balancing efforts, which included department identified contributions.

Vice Mayor Knaack asked why the city could only get \$250,000 back from SRP.

Mr. Duensing said that is the amount of SRP in Lieu payment that is currently not being deposited in the general fund.

He went into more detail about the Utility TPT Refund, SRP In Lieu Payment, refinancing inter-fund loan, Camelback Ranch Land Purchase as well as several others, explaining how

many times these expenditures would be made and the fiscal years these would affect the city budget.

Councilmember Martinez asked to go back to the Camelback Ranch land purchase. He said there have been discussions and asked Mr. Duensing to go into a little more detail on how he arrived at those figures.

Ms. Fischer said she would like to withhold going further into that issue right now as they are currently in discussions with the City of Phoenix. She said she is comfortable taking that out of the equation at this time and not looking at possible layoffs to fund that. She said that is something that could be funded through contingency if negotiations do not go well.

Councilmember Sherwood asked what percentage that would give the city at the \$5 million level.

Mr. Duensing said it was about 3 percent.

Mr. Duensing went on to explain departmental identified contributions. He said the departments came up with cuts in the amount of \$4.7 million. The contracted sales tax auditor, and the cuts identified by Fire and Police were revenue enhancements. The last section was departmental budget balancing contributions which are expenditure reduction items in the amount of \$3.6 million.

Mr. Duensing went into more detail with the various departments and their specific cuts, including Mayor and Council, City Manager, and City Attorney. He said there are no sworn positions scheduled to be eliminated at this time. The City Attorney's office had over \$400,000 in cuts and Mr. Duensing cautioned that the contingency should be able to cover the costs of any unexpected legal fees.

Councilmember Martinez asked Mr. Duensing to break down the Mayor and City Council costs. He said one position was probably most of that. He asked if the rest of the money reflected what the Councilmembers gave up voluntarily.

Mr. Duensing said the majority of the funds were the elimination of one position.

Ms. Fischer said the position accounts for \$79,500 and the remainder is line item reductions of \$1,500. She said there are no proposed reductions to the Council District Budgets.

Councilmember Martinez said he brings it up every budget session, that each Councilmember gets \$33,000 a year for their use. He said every department stepped up and came up with something to put back. He said the Council is the one making the decisions and the departments come to them with savings every year. He said Council's total budget is \$98,000 and he said they could easily cut that in half and still come up with

the funds to attend conferences and do what they needed to in their districts. He said he can't see why the Council doesn't step up and do what the other departments have done.

Vice Mayor Knaack said they have been trying to do this for years and it is her understanding that their funds will be restored to their original balance after she and Councilmember Martinez leave office. She said they ask everyone in the city to give up and make cuts and she doesn't understand why the Council doesn't give up any portion of their budgets. She said it speaks volumes to the staff and the public if they can do the same as the other departments. She said she didn't think taxpayer money should be going to nonprofits. She said she doesn't even know where that money is being spent. She said the Council should give up part of their budgets and the money shouldn't be given to the nonprofits.

Councilmember Alvarez said she disagreed on giving up the money. She said the nonprofits provide the services the city should be providing. She said this helps with recreation programs for the kids, lunches for seniors and social services for seniors. She said it is their responsibility to provide. She said offering that money to a nonprofit is the right thing to do.

Mr. Duensing said there are budget presentations in April and those issues can be discussed in further detail at that time.

Mr. Duensing said there are a few departments, for example the City Auditor where the dollar amounts reduced is smaller and that is a reflection of very small budgets. He said the City Court plans to utilize the IT department for system support versus having additional staffing. He said they have the money in the technology replacement fund to pay for that as well. He also said Community Services suggested cuts of over \$400,000, which included a reduction in supplemental requests.

Councilmember Alvarez asked for an explanation of the notation "review supplemental requests for utilities."

Ms. Fischer said because they started with a zero based approach, there were no supplementals this year, but there were some increases in line items over prior years. She said Community Services increased some of their line items more than they recommend is necessary, so that reduced those increases. She said there is still an increase over prior years, but the increase is just not as large.

Councilmember Alvarez asked which utilities they were talking about.

Mr. Strunk said they asked for an increase in water for the parks, and an increase in the line supplies, such as replacing picnic tables and park benches.

Councilmember Alvarez asked how much money was involved in reducing the supplemental request.

Mr. Strunk said they initially requested an increase in water, utilities and parks maintenance at \$450,000 and he said they are proposing to reduce that to \$115,000. He said the second request was \$325,000 in line supplies and they proposed to reduce that to \$240,410.

Ms. Frisoni said the amount in that department's budget for next year is still significantly higher than it was this fiscal year. She said they are cutting down the amount of new revenue money they had requested. She said they are still receiving more money for utilities and line supplies than they have in prior years than they have in this fiscal year.

Councilmember Alvarez asked how much the water was for the parks.

Mr. Strunk said the amount they have currently is \$1.4 million and they requested an additional \$450,000, but the amount of increase has been reduced to \$116,000.

Councilmember Alvarez said the parks looks bad and she felt they needed more money to make them look better. She said they needed to sell Glendale and needed to keep up the parks so they look nice. She said she spoke with a realtor who said it was hard to sell housing in Glendale because of the lack of services. She disagreed with cutting the money for utilities.

Mr. Duensing said these items will be discussed in more detail at the budget meetings in April. He next talked about cuts in other departments.

Mayor Weiers asked if Economic Development just lost an employee.

Ms. Frisoni said both positions will be replaced this fiscal year, so they will not be down any employees.

Mr. Duensing said no positions were scheduled to be eliminated in Economic Development.

Vice Mayor Knaack asked how many FTEs were in Economic Development.

Ms. Frisoni said she believed there were 6 positions.

Mr. Duensing said the contracted sales tax auditing will bring in about \$600,000 in revenue. He also went over reductions by Fire and Human Resources.

Mayor Weiers asked Mr. Duensing to explain revenue enhancements for the public who was listening.

Mr. Duensing said not only do expenditure reductions help with the bottom line, but revenue enhancements also help with the bottom line. He said the revenue enhancements listed have been fully vetted. He said the Fire Department has about 3,000 accounts that they are inspecting that they don't feel are being billed. He said with some additional

effort, they plan on comparing the Tax & License database with the Fire database to ensure every inspection that occurs is getting billed and paid.

Ms. Fischer said all revenue enhancements will come back for Council review and discussion. Today's discussion is just an overview.

Mr. Duensing said that Police included revenue enhancements of over \$250,000 and they are proposing to move the Advocacy Center to a city-owned facility to alleviate the large lease payment they are paying now. He also said Public Works is converting 5 vacant FTEs to contracted service.

Councilmember Alvarez asked what those 5 positions would be.

Ms. Fischer said those are custodial positions. Each time there is a vacancy; they convert the cost of the salary and move them to the contracted positions.

Mr. Kent said that was correct, there is still full time staff, but each time there is a vacancy, that position will be converted to a contracted position. He said those contracted positions will continue working side by side with the full time staff.

Mr. Duensing said they have identified over \$875,000 in various line item costs and they have received a \$1.5 million unanticipated payment this current year and they propose to deposit this directly into the Workers' Compensation fund to make sure they have adequate funds. He said they are currently going through a review and the Industrial Commission is watching very closely, so that fund is stabilized. He said they had already planned to increase the fund balance in the Workers' Comp fund over three years with a payment of \$650,000 every year for three years. If they are able to deposit the \$1.5 million in to the Workers' Comp fund, they will be able to save that \$650,000 general fund reduction.

Councilmember Alvarez asked where the unanticipated revenue was coming from.

Mr. Duensing said they had a settlement payment from a recent lawsuit that was recovered. Because the money was general fund, they have the discretion on where to deposit that money, so they have elected to fund the Workers' Comp fund.

Mayor Weiers said Councilmember Alvarez's original question was where the money came from.

Mr. Bailey said the original payment was approximately \$2.3 million that was paid as a result of a lawsuit that occurred at the airport. He said general fund monies were used to pay for that and part of that stemmed from issues they had with their insurance company. He said they litigated with the insurance company and received \$1.5 million which would go back to the general fund. He said because they need to replenish the Workers' Comp fund, they will put the monies there. He said any money that went out were general fund monies.

Councilmember Sherwood said that's a one time, the \$1.5 million. He asked if they were showing the \$876,000 as a recurring throughout five years. He asked if this was part of the \$4.7 million departmental identified contributions, which if they are one time that is indicated. He said on the department \$4.7 million that is an ongoing savings, and asked if that net \$876,000 which the \$650,000 is included.

Mr. Duensing said the \$650,000 is included as recurring, but the amount of recurring savings has been inflated by one percent. He said as the recurring savings get years out, they inflate about 2 to 3 percent. He wanted to avoid confusion in that. He said the \$650,000 is assumed recurring and he felt comfortable in including it in that number.

Councilmember Sherwood asked if they are just saving the \$650,000 this first year.

Mr. Duensing said they are saving it for three years.

Ms. Fischer said they are now looking at FY14-15. She said Mr. Duensing will show how this looks in the out years with the interactive portion of his presentation. She said they are trying to focus on FY14-15 right now to get that budget prepared.

Mr. Duensing summarized by explaining the short-term approach and asked if they should proceed and include the budget items that had been presented.

Mayor Weiers said there was consensus.

Mr. Duensing moved on to explain the long term approach regarding the structural deficit. He said the budget balancing ideas do make the general fund sustainable through FY16-17. Beyond FY16-17, there are two options, which include implementing an additional \$27 million in budget balancing ideas and lifting the sales tax sunset. He said it is important to deal with this issue sooner rather than later. This will assist with the city's bond rating and will show financial stability. He quoted a report regarding the bond rating, "If management creates and executes a plan for sustainable balance, we could revise the outlook for the City of Glendale to stable." He said their efforts are ongoing to achieve a financially stable general fund.

Mr. Duensing next went to the interactive model and he went over the two scenarios with the \$27 million in budget balancing and the effect of lifting the sales tax sunset. He talked about the structural deficit and how it will grow over the next 5 years to over \$30 million. He spoke about the adjustments that had to be made once they received the budget requests. Next, he focused on FY14-15 and showed the items that had been discussed in the presentation regarding the short term approach. He showed how the one, two or three time transactions impacted the budget over the next 5 years. He said they did not assume a reimbursement for Super Bowl expenses and this makes the \$2.1 million budget down to zero.

Councilmember Sherwood said even though it is a small number, on the reduced revenue on the income, he asked where that came from.

Mr. Duensing said when they do a forecast; they estimate the increase in costs of benefits, for example. If that number is less than that, it impacts on the request. The detailed data that the budget staff puts together includes all the details. Forecasts are done at a high level, but proposed budget discussions are at a very detailed level. He also said when they did the forecast; they did not know the actual Arizona State Retirement Rate. He said they now know what the rate is going to be next year. He said all the changes are included in the one number.

Mr. Duensing said for FY15-16, they forecasted \$12.5 million structural deficit. Taking out one time payments, the total budget is about \$11.4 million. He also explained the 3 year reduced general fund contingency, which will be restored to the full amount in FY17-18. He mentioned a couple of short term obligations, which was the capital lease payments. He said if the city did not have those payments, the financial picture would look very different.

Mr. Duensing said discussions today center around the sunset of the sales tax. In FY17-18, the budget deficit grows to \$28 million. The options at that point are additional budget reductions of \$27 million or do they eliminate the sales tax sunset. He said these are the long term issues and he suggested those be addressed early. He said there were a couple of reasons why they chose the \$27 million. First, he said Mr. Kent presented capital needs of some of the facilities investments and the city does not have a per year estimate in this model. He said if they can get through the next three years and address the long term issues, at that point they can address some of the capital needs. Also, he went back to FY14-15 and said when they adopt a budget, that is the legal limit and they cannot exceed that. He said they would probably come in at less than the adopted budget in expenditures. He said he anticipated they will probably have revenues over expenditures in FY14-15. Best practice called for setting that amount of excess funds set aside for pay-as-you-go capital needs. If they do better than expected in FY14-15, they can come back to Council and reserve or assign the funds for future capital needs. This gives them flexibility to address some of these without having to plan for recurring expenditures.

Councilmember Sherwood asked how realistic it was to come up with \$27 million three years out.

Mr. Duensing said during discussions, they talked about what it would take to get to \$30 million. He said if they were going to achieve this only with FTEs, it would be 1 in 5 employees. He said that includes sworn and non-sworn employees. If they were to get that with non-sworn only, that figure goes down to 1 in 2 employees would have to be eliminated to achieve financial stability.

Mayor Weiers clarified that they were talking about FTEs today and current staffing levels, not what they were a couple of years ago.

Mr. Duensing said that was correct.

Ms. Fischer added that at a high level, the government was going to look very different. She said she spent two weeks going through every line item, she said there is nowhere else to cut. She said it is personnel costs. She the city would have to get out of the business of doing several things. She said this is no different than what was brought to the voters before and it is still a similar number. She said the city has been through this before and it would start as the template for how they would address this issue, but they need to know if they need to address this beginning now. She said this permeates into every aspect of this operation. She said the bond rating downgrade affects your ability to attract business, the ability to keep residents happy, stability in the organization. She said the operation just fails to exist and it is something they need to start looking at and addressing now. She also said it affects the city's ability to possibly be self-insured for workers' compensation. She emphasized the importance of planning for this now.

Councilmember Martinez commented based on what has just been said he didn't see any way they can do without the tax that was added on. He said the tax was here to stay at least for the next few years. He said sometime down the line in FY19-20, they might be able to do something, but for the immediate future he did not see how the city could come up with the \$27 or \$30 million. He said to reduce the positions by 1 in 5 will have a horrific impact on services. He said they would be living in a different city than they have known. He also said that in the budget being presented, there is no impact on service levels. He said he has been dreading that there would be. He said this is a good time to get this resolved because that is the direction Mr. Duensing is looking for.

Councilmember Chavira said he is in agreement and there is no way they could exist without the temporary sales tax. He said all they have to do is look at the news. He said it is true that public safety and all the services of the city are crucial. He said they have lived through the most difficult economic times to date. He said it would be impossible to move forward without that and he is in agreement.

Mr. Duensing said Glendale is unique in the level of contractual obligations the city has. He said it is not one thing that drives the budget deficit, but if the city did not have the level of contractual obligations, the discussion would be much different.

Councilmember Sherwood said he felt Mr. Duensing was trying to give them some options, but he suggested for this moment moving onto the other option to see what it looks like. He said it would be devastating if they had to go that way and it would not be attainable.

Mr. Duensing said they can talk more about timing and the pros and cons and will discuss the impact of not sun-setting the sales tax.

Councilmember Hugh said the 25 percent they are spending on another agreement. He said they were going to look at all options when they started this process. He asked if they had looked at some way to reduce the 25 percent. He also said with the latest downgrade, he asked what they have done to address all the issues that have been brought up.

Mr. Duensing said addressing the contractual obligations, part of that was the \$3.7 million land purchase. He said it is being addressed head on. He said the majority of the other expenses were the Municipal Property Corporation debt service payments the city makes. Those repayments are set. He said they were initially told by the bond attorney that there is very little flexibility in changing those. He said that debt was refinanced a year or two ago and there is no opportunity to refinance tax exempt debt. He said they were approached by investment bankers for an opportunity for the taxable debt and they have just begun to look at that option. He said at this point, the recurring savings by doing that would be about \$500,000 to \$1 million per year. The other piece of the contractual obligations is the arena agreement. He said they will continue to look at those things. He said Ms. Fischer is very clear in advising the departments they need to look at efficiencies and all the agreements. He mentioned they were going to contractual services instead of carrying FTEs. He said the largest portion of the contractual obligation is the debt service payments. He said of the \$43 million, about \$33 million of that is the actual principal and interest repayments per year over the 5 year forecast.

Councilmember Hugh said it was about 25 percent, when it should be somewhere around 8 or 9 percent.

Mr. Duensing said he reached out to a financial advisor and asked what the rating agencies were looking for in terms of the debt service that cities should carry and still be strong. He said the number was below 10 percent. He said Glendale is well up into the 20's. He said their long term decisions should improve the ratings. He said the city is fully committed to paying their obligations, but they have a plan to bring in adequate revenue or reduce expenditures to afford the payments, which will bode well with the bond rating agencies.

Councilmember Hugh asked if all items had been addressed on the Standard & Poor bond rating.

Mr. Duensing said there were a couple of things and they intend on bringing in a contractor and have them look at every point they make. He said they talked about financial policies. He said they said we have some but not all. He said he didn't know what that meant, but he would like to bring in a contractor to advise what the city needs to do to address the issues in the downgrade. He also said they want to get triple A rating. He said he wasn't sure the city could get to a triple A rating with the amount of debt they are carrying in the general fund, but if the city shows stability and have actively addressed the issues, that should look better.

Councilmember Hugh said he felt they should leave the sunset up to the taxpayers by putting it on the ballot.

Mr. Duensing said that is not the first time that has been mentioned. He said they have to weigh is that something that can be referred to voters or can be referred after the Council takes action.

Mr. Bailey said historically, the Council has the authority to do it. He said there have been a number of cases recently about “ballot box budgeting.” He said he would like to review those cases before he renders a written opinion. He said this has been decided by the voters, but it is a decision that has been made by the Council. He said he can have the answers possibly next week.

Councilmember Alvarez said they might have the authority to make the decision, but with the reputation they have been left with, they need to ask the voters. She said when something else comes up that they do have to vote on, they are not going to listen. She asked if it would be an ethical decision when they promised the sales tax was going to end in 2017. She said the sales tax expiration was promised and they should keep their promises.

Mr. Duensing went back to show the impact of not sun-setting the tax. He said the real impact of not sun-setting the sales tax will be felt in FY18-19. He went over the specific figures and said a lot can happen between now and FY18-19. He said the economic development efforts will continue and they could see positive sales tax from those efforts. He said they hope for continued economic recovery. He said he hoped to address the budget issues now to demonstrate financial stability to the rating agencies, with employees for employee morale and for economic development efforts. He said if they defer a decision on \$27 million in cuts or sales tax increase, that would provide uncertainty now and until those decisions will be made.

Councilmember Sherwood asked if they were going to see a summary on the expenditure side today, like what was shown in CIP.

Mr. Duensing said today they wanted to show Council the impacts of the budget balancing discussions and City Manager review and how the short term impacts the general fund over the years and then get to the long term impacts, including reductions or eliminating the sunset clause. He said they will get into that detail at the April 8th and April 10th budget meetings. He said they will bring back details of all the funds, including the CIP.

Councilmember Sherwood added this budget is a much better picture than they were looking at previously and complimented staff for the numbers being presented. He also said they were still looking at \$2.5 million in CIP over 5 years over a \$750 million budget. He said they had the \$3.7 million Camelback Ranch which is in negotiation. He said the contingency going down from 5 to 3.5 percent is also a risk. He said there is \$300,000 to \$400,000 from the City Attorney that they are not going to be using for outside legal costs. He also said they never know when they are going to need outside legal counsel. He said there are several risks and will be interested what the expenditure side shows. He said the city can't afford for anything to go wrong. He said they are taking care of roads with the bonding and looking at a parking garage bonding situation and there are other positives they have already looked at, but is still interested in looking at the expenditure numbers.

Mr. Duensing said going into this process, one of the things they refer back to is that this is a manageable issue, but it is managed with difficult decisions. He said they are presenting

all the information for the difficult decisions to be made. He said there is risk in this. If the city can get through the next three or four years and get rid of the capital lease payment, and get by the last payment to the NHL and in FY18-19, then they are forecasting excess revenue over expenditures.

Ms. Fischer added some information about the capital improvement program (CIP). She said the \$650,000 anticipated at the end of the year and said if they ended up with an extra million in the ending fund balance because of vacancy savings. She said anything above that amount could be absorbed into the ending fund balance this year or the excess could be put into the CIP for the next fiscal year. She also said they are also going to be discussing asset dissolution to get Council direction. She said these funds might also be used for CIP funding.

Mr. Duensing said they expected the fund balance to be \$88 million in the red in FY18-19, but the \$88 million is now \$16 million in the positive. He said significant efforts have been put into this and they are focused on financial stability in the general fund.

Mr. Duensing next discussed the impact of the two options. The first is implementing an additional \$27 million of budget balancing ideas, which includes direct service cuts. Those cuts could take months to decide and years to implement. He said this option cannot be done overnight and the city would have to live with instability until these changes can be implemented. He said option two is lifting the sales tax sunset, which is a shorter term option. He said with option one the bond rating would not go up, organizational and morale issues would not be addressed and previously impacted service levels would remain. This could also impact economic development. He said the question is the Council's desire regarding the sales tax sunset and he asked what information would be helpful. He said in the short term, the budget balancing ideas they discussed this morning could be included. He said the one decision remaining is how Council wanted to address the sunset in FY17-18. He pointed out there is still a lot of work ahead. He said they are continuing with asset dissolution to assist rebuilding the capital program. He said they are continually told to streamline services and use technology. He said there is a need to make the decisions sooner rather than later as it addresses the rating agency concerns, employee stability and economic development. He said if they choose to eliminate the sunset, there is no impact on services.

Mr. Duensing explained the next steps which include the next budget workshops and final budget adoption.

Councilmember Sherwood asked what it was they were looking for from the City Attorney on the sunset.

Mr. Bailey said historically Council has made that decision and when it has been referred to the voters, it has actually gone to the voters. He said in some instances you are not able to delegate that authority to the constituents. He said the Council has been elected and it is their decision. He said the decisions are set forth in the Charter, it is a decision of the Council and that has been how it was applied uniformly over the years.

Councilmember Sherwood said this is a decision that the Council should make. He said they do need to have a plan to retire the sales tax and there needed to be a line item to show how they retire that. He said they could do it over the course of two, three or four years, but they needed to show themselves and the public that this tax is not going to be a standard tax. He said it gives Council a direction and takes care of morale.

Mayor Weiers appreciated next week because there was some outreach he wanted to do with citizens and business leaders to give them some idea where Council was at on this.

Councilmember Alvarez disagreed on the issue of the sales tax. She said they have been making these decisions and they can't brag about the decisions that have been made in the past. She said that is why they are here in the position they are. She said they have done some of these things on the backs of taxpayers. She said people have a lot of issues with the decisions. The Council had made some very bad decisions now they are trying to get out of and it is unfair for the taxpayers to be repeatedly taxed and not getting the services they need.

Councilmember Martinez said it is clear they can't sunset the tax. He said based on what has been presented today, he didn't see how they could not do that. He said this year there is no impact on service levels and if they don't eliminate the sunset provision, there will be unprecedented reductions in services. He said that is not what the citizens want. He said he has confidence citizens will understand once they know exactly what will happen if the sales tax sunsets. He said there may be layoffs and reductions in services. He said whatever happened in the past has happened and they have difficult decisions now. He said the decision is to not sunset. He said he disagreed with Councilmember Sherwood about putting a line item in the budget. He said once they get to FY19-20, the Council that is in place can decide and take action. He said if the economy gets better that is the way to go. He said since they don't know what the future holds, and the Council of the future may find them in the same situation. He said a line item will put the next Council in an untenable position. He said let's not sunset the tax.

Vice Mayor Knaack agreed they cannot sunset the tax. She asked if was a good idea to delay the discussion for the citizens and asked if they should have that meeting next week.

Mr. Duensing said in order to prepare a usable presentation for next week; it would have to be high level. He said he would caution about coming back and identifying specific services. He said that the Council has to make the decisions about the specific services that need to be reduced.

Ms. Fischer recommended discussing a time frame as this would not come right back to the next voting meeting. She said there needed to be community and business outreach. She suggested discussing at the next meeting what the plan of action would be if the tax did not sunset and how they would communicate to the community.

Mayor Weiers said that would be his preference.

Vice Mayor Knaack and Councilmember Martinez said they are ready to make the decision now and it is just putting off the inevitable

Mayor Weiers said they owed it to the citizens and the business leaders to at least give them a little information. He said a week is not too much to ask.

Ms. Frisoni said they have begun a little bit of outreach already to the CVB members, and about 20 to 30 top business leaders. She said they did not want the biggest clients to find out about this in the newspaper. She said they understand where the city is at and have not seen any impact on their business from the sales tax. She said she is not aware of one individual who told them not to move ahead with this.

Councilmember Hugh asked if they were planning on addressing all the bond ratings concerns.

Mr. Duensing said they absolutely will. He said financial instability is a concern and they will address specific issues and bring forward a sustainable plan. He said the bond rating agencies are following what the city is doing now. He said embarking on this process has prevented the city from being downgraded sooner. He said they will address every single point as best they can. He said if they are not addressing bond rating concerns, he is not doing his job. It is his job to give Council the best information he can so Council can make the best decisions for the city.

Councilmember Hugh asked how the temporary sales tax was adopted.

Mr. Bailey said it was adopted by Council in June of 2012 by ordinance and the sunset provision was captured in the ordinance.

Councilmember Hugh said they are talking about living up to their contractual agreements, and said when Council told the public they are going to do something temporarily to solve a financial problem and then they don't follow through; they are not following through with the contract with the citizens. He said he wanted to allow the voters to vote on this sales tax issue.

Councilmember Martinez asked if they could hear from Mr. Friedman regarding outreach efforts.

Mr. Friedman agreed with Ms. Frisoni's comments about the general tone. He said most businesses did not want to speak on the record, but two businesses did. The first business to comment was from Dr. Goepfinger, "she said she really has no issue, but this is a Council level decision and she would support the Council." Mr. Tetzl with Westgate said, "We have reached out to Westgate tenants and no one has indicated any opposition."

Mr. Friedman said from a business retention perspective, having relationships with the businesses in the city helps them to hear what is going on in the market. He said Tanger

and AFW are very large businesses that are choosing Glendale and this sends a resounding message to everyone that the Glendale market is attractive to business and is a great regional center. He said the city's vacancy rate is about 7 percent, and they have no vacant big box availability. He said none of the office client tenants have mentioned the sales tax to him personally.

Councilmember Alvarez said everything sounds good, but the majority of the sales tax comes from the consumer. She said they need to let the consumer know what they are doing. She said they made a promise to the people and they need to keep it. She said Council is not accepting responsibility of what was done to put the city in this position. She said they have to justify to the taxpayer, not to themselves. She said she is not going to go along with this. She encouraged them to talk to the taxpayers and not just concentrate on the businesses. She said the public is watching and they are not respecting the Council like they did in the past. She said if Council cannot accept responsibility they cannot put it on the backs of the taxpayers.

Vice Mayor Knaack said she reached out to Sands Chevrolet as the car dealers were concerned that the sales tax would add to the price of their vehicles. She said Sands Chevrolet is fine with the Council retaining the tax and feels the two tiered tax is fair. She also has talked to hundreds of residents and has not had one say they were opposed to getting rid of the sunset. She can understand the Councilmembers wanting to put this issue on the ballot, but they need to make decisions right now. She said she did not know how long it would take to do an election or what the cost would be, but she didn't think they had the time. She discussed the decisions that were made in the past that were considered wrong. She said those decisions were not wrong at the time and they were decisions made on the information they had at the time with a booming economy. She said those decisions are now a burden, but they are contracts that need to be upheld. She said they owe it to the citizens of the city that public safety, sanitation and streets continue to be funded appropriately. She appreciates being transparent, but thinks the public understands what is going on.

Mayor Weiers asked if this was delayed for one week, what that does to the whole process.

Mr. Duensing said it means an additional week of instability. He said people may be watching to see what Council will do and his opinion is that they will reach the same decision in one week that they can reach today. He said what is most important is how they finally resolve this issue. He said there may just be an additional week of discussions and the decision probably won't change.

Mayor Weiers said he agreed with Mr. Duensing. He said he doesn't believe all citizens and business understand what is going on. He said he does not want this to go to a ballot and feels what they have discussed will probably have to happen, but he felt he has to have the opportunity to explain to leaders in Glendale what is going on. He said he does not want this to go to a ballot and asked Council to consider the one week delay.

Councilmember Alvarez said she has no major players in this issue, but would like to have the opportunity to speak with her constituents to get input. She would like to make sure they let the constituents know.

Ms. Fischer said a week is not going to be sufficient time to communicate to the public. She said if they had to make a decision today of Council's preference, they could start the process, which will include public meetings and getting the word out. She said Ms. Frisoni shared some of the outreach they have had so far and they were cautious in those discussions not to get in front of any Council decisions. She said they would like to begin that process and report back to see how it goes. She said it is a months' long process. She said the budget is attainable and they can stop the cycle of negativity.

Councilmember Martinez said it is going to be Council's decision and he thinks there is consensus not to sunset the tax. He said coming back next week is not going to change anyone's decision. He said give the direction today so the process can move forward. He said everyone is aware of the decision that is going to be made by Council.

Councilmember Chavira said it is clear that the city is dependent on this tax and if it does sunset, it will be devastating to the city. He doesn't see the point in delaying the inevitable.

Councilmember Sherwood said they are not voting today to approve a budget and are just deciding on which option they are going to go with, either delay the sunset of the sales tax or look for \$27 million in cuts. He said it is as simple as that and didn't want to put the burden on Mr. Duensing to prepare something else for presentation next week. He said he felt they had a consensus to move forward.

Councilmember Alvarez said she would never agree with this. She said they continue to be making mistakes. She said they are not getting money. She said they gave up \$15 million a year for hockey. She said it is not paying off and they continue to make these bad decisions. She said they cannot get away from this. She said they are not doing a service for the people that elected them. She said they better start listening to the constituents and stop doing the deals they do.

Mayor Weiers said they have consensus.

Mr. Duensing thanked Ms. Fischer for bringing the expectation they will provide the Council with transparent information, whether or not the decisions are easy. He said it is expected they bring the issues, address them and move on. He also thanked the Council for discussing and truly understanding the issues.

Councilmember Martinez thanked Mr. Duensing for the terrific job he has done coming up with revenue enhancements and Ms. Fischer for the outstanding job she has done as well. He said coming into the budget discussions, he was apprehensive where they would end up. He said he feels a lot better after the discussions and the direction they are heading.

2. EMPLOYEE MEDICAL BENEFITS PLAN

PRESENTED BY: Jim Brown, Executive Director, Human Resources and Risk Management

The purpose of this presentation is to bring information to the City Council regarding the city's employee medical benefits plan. The city's current medical benefits plan is administered by Blue Cross & Blue Shield of Arizona and this agreement is set to expire June 30, 2014. This presentation will provide information to the City Council with regard to the employee medical benefits plan and the benefits administration agreement that will be coming to the March 25th voting meeting for Council approval.

Mr. Brown reviewed where the city has been with the medical benefits plan and what the plan is going forward. He said there were no rate increases from 2008 through 2012 in the medical plan for employees or retirees. He said even though Blue Cross did recommend rate increase, due to the furloughs and no pay increases it was not recommended they burden the employees with premium increases. He said the city's premiums did not increase either. He said during that those five years, medical claims exceed revenues. Also, Council approved additional monies for transfer into the benefits fund to cover shortfalls from the previous fiscal year.

Mr. Brown requested an increase in rates to active employees to cover expected liabilities in 2013 for FY14. He also said retiree rates were increased only up to the active employee rate amounts, which were less than the expected liability for FY14 by as much as 30 percent. The shortfall experienced from undercharging participants for healthcare premiums is paid by the city. He said in the fall of 2013, an RFP was conducted for medical benefits and criteria such as network size, experience of the firm and cost of service was reviewed by an employee group. Blue Cross was selected to administer the plan.

Mr. Brown said for the FY15 medical plan, no premium increases are expected for the active employee group. He said improvements were made to the HMO plan. He said the HMO will now be an EPO (exclusive provider organization) with a broader network including the Mayo Clinic. He explained that a high deductible plan with lower premiums and a health savings account is a new option which may benefit younger, healthier employees. He said the city will contribute to the employee's health savings account to help offset high deductible costs. He said a lot of cities and private industry are moving toward this. He said in FY15, the city will continue to pay 85 percent of single employee premiums and 75 percent of employee plus one and employee plus family premiums. He said under the Affordable Health Care Act, the city has kept its HMO and PPO plans intact and the premiums that the city contributes are more affordable. He said since the plans were in place before the Affordable Health Care Act, the plan is grandfathered in and does not have to meet all the criteria of the Act.

Mr. Brown next explained the retiree medical plan. He said the retirees have the same plan as active employees. He said there is a higher level of liability with retirees on the plan. He said they have seen cities moving away from the retiree medical plan. He said Chandler and Phoenix do have retiree plans and those cities charge 100 percent of the expected

liability in premiums. He recommends that the city charges retirees for the expected liability so there is no deficit to the city on the back end. He said they do not provide a subsidy for retiree premiums, but the state does provide a subsidy. He said they will be communicating to retirees immediately regarding the rates and will assist any retirees that wish to move to the exchange or ASRS. He said the current unfunded liability for retiree health care is \$152 million over the next 30 years.

Councilmember Sherwood said with the premium rates, they aren't going to dig into that number at all.

Mr. Brown said that is an unfunded liability and they are planning for the rates the city would pay for active employees and having retirees pay 100 percent of expected liability. He said they are not budgeting for that at this point.

Mr. Duensing said the budgetary impact of not raising the premiums to the correct level for retiree health care costs continue to eat up more and more of the operating budget as time goes on. Taking out the subsidy in the retiree health care premium should help the unfunded accrued liability.

Mr. Brown next reviewed the premium rates per pay period for active employees. Most rates would not change at all for FY15. Mr. Brown also showed the cost for the high deductible plan. He also discussed the monthly premium rates for retirees under 65 and those over 65. He recommended the rates for FY15 come up to the amounts listed for the various plans. He also went over the high deductible retiree program. He said they do have a group of retirees over 65 that use the city's plan as their secondary insurance. He discussed the premium rates in all those plans.

Councilmember Sherwood said last year this group got hit the hardest with the most substantial premium increase and said the state subsidy probably got used up with last year's rate increase. He said this will be hurtful to that part of the population.

Mayor Weiers said there were different comparisons with payment of once per month and then deductions of twice per month.

Mr. Brown explained that active employees had premiums deducted twice per month, per paycheck. He explained the amount the employee pays from their check and then explained how much the city's portion of that contribution was, which was significantly more.

Mr. Brown also presented a retiree rate comparison, comparing Glendale's rates to the ASRS and the City of Phoenix. He said Glendale's rates are competitive.

Ms. Fischer said she has spoken with Mr. Brown and they might need to look at the program they offer the retirees in the future. She said the program is very generous and given the current economic state and what other cities have done, they might bring it

forward for discussion. She said usually when you do any changes such as this; any current participants are grandfathered in.

Vice Mayor Knaack said she wanted to know if the over 65 should go on Medicare, without the city providing any secondary coverage.

Mr. Brown said they haven't had any of those discussions yet. He said other cities have done other things, as well. He said most commonly, cities are looking at the expected liability and they charge their retirees 100 percent of that expected liability with no subsidies provided by the city.

Vice Mayor Knaack said although the city's policy has been nice for retirees, she said it is no longer realistic. She said Glendale was extremely generous to employees and the city can no longer subsidize these costs. She said she supports the due diligence on this, but they need to be fair.

Mr. Brown said the good news is there will be no premium rate increases recommended for active employees. They have made improvements to the HMO plan and have introduced a low premium with high deductible plan with a health savings account, as well as increase retiree premiums to cover expected liabilities and will continue to monitor expenditures.

3. 2013 STAFFING FOR ADEQUATE FIRE AND EMERGENCY RESPONSE (SAFER) GRANT
PRESENTED BY: Mark Burdick, Fire Chief

This item is to provide Council information on Glendale's eligibility for a Federal Emergency Management Agency (FEMA) SAFER grant, to restore 15 firefighter positions lost to attrition.

Chief Burdick said this grant allows the Fire Department to replace positions lost either due to the economy or due to attrition. He said they have eliminated about 16 sworn positions and have 3 vacant positions. He said the application was reviewed and successful and they were awarded the grant. The grant has to be approved by Council prior to the Fire Department receiving the grant. He said in their budget analysis, they will be coming back to Council as their overtime is elevated. He said there is a line between using overtime to assure adequate staffing levels versus when staffing has diminished to the point where overtime is required. He said they are staffing at least two overtime positions per day. He said they have exhausted all their options, but continue to have this problem.

Chief Burdick mentioned members of the public who have called them out regarding staff who make a lot of money working overtime. He said a number of his staff have requested not to work overtime. He said they are now looking at a forced overtime program. Although service levels have remained consistent, staffing has diminished and service calls have gone up. He said the grant will help relieve the pressure and cost to bring back some firefighters.

Chief DeChant said this grant is the Fire Department version of the COPS grant approved earlier this year for the Police Department. They have been approved to restore 15 firefighter positions lost through attrition. They currently have two emergency response vacancies per day at a minimum that must be filled with overtime due to attrition. He said there has been a 22 percent increase in overtime costs this year. He said they can capture at least \$400,000 per year in overtime savings. He said the grant amount is \$1,938,120, but the grant only covers payroll and benefit costs through FY15-16. He said it may be extended if approved by FEMA. For FY14-15 and 15-16, the grant covers one-time costs to recruit, test, hire, train and equip the firefighters and that cost will be just under \$1.4 million. He also said in FY16-17, the ongoing costs will be almost \$1 million to retain the firefighters beyond the grant period of performance.

Mayor Weiers said Phoenix received a grant for 45 firefighters for \$8 million and their request is for 15 firefighters for \$5 million and asked why the figures were higher.

Chief DeChant said the grant they just recently received was to extend the grant and benefits only so the one-time costs of hiring the firefighters were already absorbed.

Mayor Weiers said he didn't understand because they were getting more money for fewer bodies.

Chief Burdick said they will have to look at it more closely because it might be due to salary and benefit costs based on the city's specific amounts.

Mayor Weiers said that was a big difference.

Councilmember Chavira said there are two types of firefighting grant opportunities. He said one is the SAFER grant that is specific to personnel. He said the other type was the fire grant, specific to equipment. He said he went to Washington, D.C. on behalf of this grant process. He said they need to be diligent in maintaining their rating for the grant process. He said because there have been Fire Departments that have had hiring freezes there is a large pool of individuals who are waiting to be hired to choose from. He said it is a great opportunity to get some great candidates. He said it also gives an opportunity to the men and women who want to get into this field.

Councilmember Martinez said comments have been made at Council meetings with respect to overtime. He asked if there is a roster kept of those who want to work overtime.

Chief Burdick said all firefighters who choose to work overtime are on a master list, and the hours they work are counted and applied on the spreadsheet. He said right now they try and let overtime be voluntary, but there are only few individuals who want to work overtime on a regular basis. This grant will help relieve the pressure on existing staff.

Chief DeChant said the grant will be presented at the next voting meeting for approval.

Mayor Weiers said they will spend no money this year or next, but they may get grants to cover any costs for the year after that.

Chief DeChant said they feel confident that they will reapply.

Councilmember Sherwood clarified the one-time costs are already in the budget.

Chief DeChant said they can cover the costs and said those would be covered by the public safety sales tax funds.

ADJOURNMENT

There being no further business, the meeting was adjourned at 12:10 p.m.