

## Minutes City Council Issue Review Session December 11, 2008

Minutes of the Tempe City Council Issue Review Session held on Thursday, December 11, 2008, 6:00 p.m., in the City Council Chambers, Tempe City Hall, 31 E. Fifth Street, Tempe, Arizona.

### **COUNCIL PRESENT:**

Mayor Hugh Hallman  
Vice Mayor Shana Ellis  
Councilmember P. Ben Arredondo  
Councilmember Mark W. Mitchell  
Councilmember Joel Navarro  
Councilmember Onnie Shekerjian  
Councilmember Corey D. Woods

*Mayor Hallman called the meeting to order at 6:20 p.m.*

### **Call to the Audience**

**Robert Mathews, Tempe, re: Item #6.** He reviewed the mission of the committee to design a retiree healthcare plan which maintained a benefit that is fair and sustainable. He is concerned with ten-year employees being in the same benefit category as 20- and 30-year employees. He believes that an employee who has given 30 years to the City deserves more benefit than a 10-year employee. He urged review of this and suggested that additional options should be made available for consideration.

### **Education Partnerships Committee Work Plan**

INFORMATIONAL BACKGROUND available in the City Clerk's Office.

#### **DISCUSSION**

Councilmember Arredondo stated that some of the recommendations from the Mayor's Youth Advisory Commission were added to the work plan.

Mayor Hallman asked about Item #3 which includes items that involve budgetary implications (for example, School Resource Officers). He added the understanding that the City's ability to spend money on these types of things is subject to the budgetary process. Regarding all of the committee work plans, all items are subject to budgetary limitations with Council's approval.

#### **CONSENSUS**

Accepted as presented.

**Follow-up Responsibility:** Shauna Warner

## Transportation Committee Work Plan

INFORMATIONAL BACKGROUND available in the City Clerk's Office.

### DISCUSSION

Vice Mayor Ellis stated that aviation was added, and all areas of the work plan involve monitoring, reviewing, encouraging, and examining rather than spending money.

Mayor Hallman noted the following:

- Commuter rail is not listed under item #f, "Coordinate local and regional transportation decisions." He would suggest including that in the first bullet point.
- Concerning Item #a, he encouraged the committee to consider, within the committee's scope, developing ways to work with the FAA to change its policy to allow our community to soundproof homes that are not just single-family, but also multi-family, non-governmental organization buildings, governmental buildings, such as schools, and other multi-housing situations. He suggested adding the following to the scope so that most of those pieces are covered.
  - "Work to seek policy changes with the FAA to allow additional soundproofing for the community."
  - "Work with the FAA to seek additional funding for soundproofing for our community."
  - "Seek from the FAA improvements to Sky Harbor that would reduce noise impact in our community."

### CONSENSUS

Direction was given to add the following to the work plan:

- Add commuter rail to the first bullet point under Item #f.
- Under Item #a, add the following:
  - "Work to seek policy changes with the FAA to allow additional soundproofing for the community."
  - "Work with the FAA to seek additional funding for soundproofing for our community."
  - "Seek from the FAA improvements to Sky Harbor that would reduce noise impact in our community."

**Follow-up Responsibility:** Carlos de Leon

## Technology, Economic & Community Development Committee Work Plan

INFORMATIONAL BACKGROUND available in City Clerk's Office.

### DISCUSSION

Councilmember Shekerjian stated that department heads and others who attend the committee meetings were asked to look at their goals, and the committee goals were aligned with department goals. There will be several public forums to brainstorm how to use technology more effectively, as well as develop economic development ideas. The committee will be working closely with the Sports, Recreation, Arts & Cultural Development Committee on several issues, including tourism aspects (bullet #2, item #2) regarding historic preservation.

### CONSENSUS

Accepted as presented.

**Follow-up responsibility:** Chris Messer

## 2009 State Legislative Agenda

INFORMATIONAL BACKGROUND available in the City Clerk's Office.

DISCUSSION – Presenter: Government Relations Director Amber Wakeman

Councilmember Shekerjian noted that state shared revenues are a big concern, and she appreciated that being one of the priority items. She did not see, however, the University Infrastructure bill, that has been struggling to pass, and she wondered if that would be a priority.

Mayor Hallman explained that the University Infrastructure bill was to allow the State to grant back to the University construction sales tax from construction projects that the University had helped pay for the infrastructure associated with that in exchange for the State putting in its money for the infrastructure. The City would join that as well. Infrastructure would include things the City might otherwise pay for such as public parking, water and sewer lines, etc.

Mayor Hallman expressed concern over the items listed under Economic Development & Redevelopment. He has always been of the opinion to limit the blanket tax breaks because, although Tempe is quite responsible in its use of them, some people are nearly as responsible. He does understand, however, the reason for still trying to work to get some broad support for that. He was concerned with the Greater Phoenix Economic Council's (GPEC) renewable energy business tax credits, given that they seem to continue to broaden them. The goal was to get solar energy development in the State, and it has gone to manufacturing beyond that. That is not the State's strong suit. It is important to get renewable energy supplies developed instead.

Councilmember Shekerjian clarified that there was agreement to add the University Infrastructure bill to the priorities. She also suggested that councilmembers provide their top three priorities to Ms. Wakeman.

Mayor Hallman asked for consensus that State Shared Revenues is priority item #1, and Public Safety funding for the 9-1-1 Emergency System would be priority item #2. Item #3 might vary. There was agreement that councilmembers will provide their choices for priority item #3 to Ms. Wakeman and she will return to Council at a future IRS session for confirmation.

### CONSENSUS

- **Add University Infrastructure Bill.**
- **Priority #1 - State Shared Revenues**
- **Priority #2 - Public Safety Funding for the 9-1-1 Emergency System**
- **Priority #3 – Councilmembers will provide choices to staff and staff will return to the next IRS meeting for confirmation.**

Follow-up Responsibility: Amber Wakeman

## Retiree Health Plan Proposed Changes Related to OPEB

INFORMATIONAL BACKGROUND available in the City Clerk's Office.

DISCUSSION – Presenter: Deputy Financial Services Manager Tom Duensing, Deputy Human Resources Manager Jon O'Connor

City Manager Charlie Meyer summarized that this has been a huge issue for this City, as well as for any other city around the country that provides post retirement health benefits to its employees. The numbers that the Council has seen in the

past are staggering. The direction he received when he began his duties as City Manager was to work with the employee groups and develop a workable solution. Tom Duensing chaired the committee and there was outstanding participation from all of our employee groups, honest debate, and openness, with a lot of decisions made. The options presented tonight are a reflection of that process. There were tough issues, such as determining the cut-off between one affected employee group and another. The committee did a tremendous job over about eight months. The OPEB Task Force included:

Renie Broderick (Human Resources)  
Tom Duensing (Financial Services)  
Jerry Hart (Financial Services)  
Julie Hietter (Public Works)  
Karen Huffman (Financial Services)  
Don Jongewaard (Fire)  
Sarah Kwong (Human Resources)  
Barb Lear (Internal Audit)  
Carol Martsch (Public Works)  
Jeff McHenry (Police)  
Charlie Meyer (City Manager)  
Jon O'Connor (Human Resources)  
David Park (City Attorney)  
Nathan Porter (City Attorney)  
Dave Rogers (Retiree)  
Lynna Soller (Human Resources)  
Rich Woerth (Fire)

Mayor Hallman added that all employee groups were represented.

Tom Duensing summarized that the committee invested countless hours of work on this issue and the options presented tonight are the result of that hard work. There was not always agreement, but the group crafted viable options that achieved the group's mission. Approximately two years ago, staff was directed by Council to look at the OPEB issue and with Council's guidance, the committee was able to develop options for a sustainable benefit. The options reduce the cost of this benefit tremendously, yet provide a retiree healthcare plan for current and future employees. The City is looking at a \$400M liability and that number is in the City's financial statements as of June 30, 2008.

Mayor Hallman clarified that the number for the City's current obligation is estimated at \$398M for employee healthcare for current retirees and people who will retire. That is the cost of supplying that healthcare over an estimated 30-year period.

Mr. Duensing added that the committee worked hard to understand the gravity of this financial issue and these decisions were not made lightly and were made in a context of cutting cost, yet trying to develop a plan that keeps a sustainable benefit. The committee decided to divide up the beneficiaries of this retiree healthcare plan into three groups.

- Group 1 includes those beneficiaries that have retired or will retire as of June 30, 2009.
- Group 2 includes those employees that have at least 10 years of service as of June 30, 2009.
- Group 3 includes anyone with less than 10 years of service at that point.

Basically, the two options are as follows:

- Option 1 – holds current retirees harmless, which creates less of a benefit for Group 2.
- Option 2 – places a cap on the percentage increase that the City will pay. For those in Group 1, that cap at

Medicare eligibility will go away. They will still get insurance, however, they go on a fully insured Medicare supplemental plan. Group 2 also goes on a fully insured Medicare supplemental plan, however, the City contribution is capped at a flat \$350.

Mayor Hallman clarified that under the two options, Option 1 requires the City to pay \$9.1M per year, and Option 2 requires the City to pay between \$6.6M and ultimately maybe as much as \$8M depending upon the size of the cap. The City of Phoenix adopted a program about a year ago, and he asked which option matches their plan.

Mr. Duensing stated that Option 2 more closely matches Phoenix. A couple of concepts were taken, a set dollar subsidy which is similar to the City of Phoenix was added, and under both options for those employees with not yet 10 years of service, a health savings account which is similar to the City of Phoenix was established.

Mayor Hallman asked how much Phoenix is putting into the health savings fund.

Mr. Duensing responded that Phoenix puts in \$150 per month, and the City's plan would put in \$175 per month. There is a vesting requirement on the City's plan at 10 years, but at 10 years, a "seed" into this health savings account is proposed in order to somewhat catch up for the ten years that the monies were not going into the health savings plan.

Mayor Hallman clarified that an employee doesn't actually become entitled to it until the employee reaches 10 years, as opposed to putting money aside and if the employee leaves the City, sweeping that back out.

Vice Mayor Ellis asked Mr. Meyer to clarify that when the Council's Budget Workshop was held on December 1, the number given for OPEB was \$6.6M, so that would be Option 2, Example 1, and if a different example was chosen, then it would be necessary to cut from other areas of the budget.

Mr. Meyer confirmed that was correct. The number presented at the Budget Workshop was \$6.6M. The OPEB task force did not make a recommendation of Option 1 or Option 2, but wanted to present both options to the Council equally and receive feedback. From his standpoint as City Manager, his recommendation would be the \$6.6M number, in part because it is less costly and wouldn't result in an increase of another \$2.5M, but also because Option 2 still reflects the interest Council has of preserving a post retirement health benefit program for our employees and does it in a responsible way but takes advantage of some opportunities that are available with Medicare supplemental plans. There clearly are some differences between the options.

Mayor Hallman clarified that by putting in the Medicare fully insured plan, the difference between Option 1 and Option 2 is simply who is paying for the insurance.

Mr. Meyer agreed. The problem with Option 1 and with the City's plan is that we have a self-insured plan. That is intentional and is probably the most cost-effective way to do business. The older the member in the plan gets, the more of an actuarial liability he gets, so providing exactly "apples-to-apples" services between an insured plan for retirees when they reach Medicare eligibility and a self-insured plan in and of itself pays a considerable portion of the dividend. The rest of the difference in the cost would be the caps that are implemented; that is the biggest difference between Option 1 and Option 2. Going to an insured plan for retirees does make a big difference in terms of cost.

Mayor Hallman asked for clarification on how different those two pieces are. How much of a reduction is the cap vs. the Medicare?

Mr. Duensing stated that he wasn't prepared to provide that information, but he could say that it is about equal savings.

Mayor Hallman clarified that the difference between \$9.2M and \$6.6M, about \$2.6M, is half from the cap and half from the Medicare. One option could be to take Option 2, but not impose the cap.

Mr. Duensing agreed.

Mayor Hallman clarified that it could end up being a \$7.9M plan, the \$8M plan just really doesn't have the cap. On December 1<sup>st</sup>, Council created a budget matrix to assist in determining how to balance the budget. Within that, we have concluded that the average employee cost, including all benefits and wages, is approximately \$80K per employee. If we increase that and went to a \$9.2M and added \$2.6M to our budgetary costs, at \$80K per year that is approximately another 32 employee positions that we would have to eliminate in order to balance the budget. Right now we are estimating we are eliminating 170 total positions.

Mr. Meyer noted that Table 3 at the bottom of page 3 answers the question. Option 2, Example 2, is effectively the cost without a cap. It shows a 10% cap, but the projections made never exceed 10%, so effectively we are saying that the City is covering 100% of the growth.

Mayor Hallman clarified that if we went from \$6.6M to \$8M, the change is \$1.4M and that is approximately 17 employees.

Councilmember Navarro addressed Mr. Mathews' concern about the difference between a 10-year and 30-year employee.

Mr. Duensing responded that this plan does not change the eligibility requirements. An employee still has to work 10 years as a City of Tempe employee before being eligible for this. It is the same under the old plan. Staff could look at crafting different plans around longer tenured employees, but this committee looked at similar issues and the options presented tonight are the fairest and those which could be administered effectively.

Councilmember Mitchell asked how these options compare to the surrounding cities.

Mr. Duensing responded that if no changes were made, Tempe has the best retiree health plan in the Valley. If we go with these changes, there is one other Valley city which basically provides this benefit and who at this point has not addressed it. We were not directed to do that. The costs of this plan far out-pace just the regular increases in service. In other words, it chews up a larger and larger part of your operating budget if it isn't effectively addressed.

Mayor Hallman responded that Option 2 is equal and a little better than the City of Phoenix.

Mr. Duensing was not prepared to go into each of the Valley cities, but as he characterized it visually, Tempe is at the top, the City of Mesa, is right under Tempe currently, the Phoenix about half way. All the other Valley cities do provide it, but the beneficiary pays full premiums.

Mayor Hallman clarified that it is a group plan in the other cities besides Phoenix, Mesa and Tempe and they are just paying their premiums. Mesa is not addressing it because they have no way to address it. The City of Tempe's health plan can be measured by one factor, and that is that our OPEB liability is \$400M. If the City of Phoenix, ten times Tempe's size, offered this plan, they would have a \$4B healthcare problem today. They don't, but they have \$1.2B, which they have addressed by implementing a new policy. They did that a year ago and we have been able to delay while we were trying to figure how best we could do that. Option 2 is essentially adopting the Phoenix model, plus a little more for our employees. Mesa isn't addressing it and the likely result is that the costs go up fast if it isn't addressed within a very few years; there wouldn't be anything left in the budget except to pay healthcare benefits. There would be no money for police, fire, parks

and recreation. Those cities that put themselves in that position merely terminate their healthcare benefits. No one wants to terminate our healthcare benefits, but we have to address this somehow, so we supply a fair permanent healthcare plan.

The \$400M liability is benefits that were promised before. We are trying to fund that and have the money set aside to pay for that and cut the future costs now so that in the future we rein this cost in so it doesn't eat up the budget. He didn't know where we could cut more positions or wages and salaries, and he would look to the employee groups to tell him what their preferences are. If we keep cutting employees out, we can end up with a smaller pool of employees, but that would impact our ability to provide the services that our residents have come to expect and deserve. We are trying to reach a balance. On December 1<sup>st</sup>, this Council reached a consensus to keep increases in salaries from going into play, hold as many employee jobs solid as we could, and let attrition reduce the number of total staff positions we have by that total of 179. To make that work, we assume a \$6.6M number. Unless someone comes forward with changes to the other assumptions, which are either reducing wages or eliminating employees, he suggested starting at \$6.6M, and if we deviate from that number, then we need to offer how we are going to get there.

Councilmember Arredondo added that every councilmember has mentioned that every group will take a little hit, but it is very important to explain that truly everyone can still participate in their retirement and insurance, and actually there will a time when they reach the age of 65 that it reverts.

Mr. Duensing responded that with what is proposed, all employees, if they reach eligibility, will be covered basically until death. That does not change. We have looked at the fully insured Medicare supplemental plan and actually determined that the premiums (because there is a federal component to it) actually go down. For those retirees who are currently retired in Group 1, under Option 2, upon Medicare eligibility, their premiums would actually be less than they would be had we remained on current City policy.

Councilmember Mitchell hoped that the employee group representatives on the committee took the information back to their groups so they understand that this is still an outstanding package compared to the other cities.

Mr. Duensing added that the committee did everything possible to make the process transparent. There is a website dedicated to this, they posted meeting notes, employee group meetings were held, and employee group representatives have distributed information. The employees are very aware of this issue.

Mr. Meyer added that he has spoken to the presidents of the employee groups and they have gone out and spoken with their memberships.

Councilmember Shekerjian thanked the group for their outstanding effort. The private sector no longer provides these kinds of benefits for the most part, as well as many governmental entities. It speaks to how much this Council and this committee appreciate the City employees.

Mr. Duensing added that it was Council's direction to maintain a benefit that keeps Tempe competitive.

#### **CONSENSUS**

**Go forward with Option 2.**

**Follow-up Responsibility: Tom Duensing**

## **Financial Policy Update**

INFORMATIONAL BACKGROUND available in the City Clerk's Office.

DISCUSSION – Presenter: Financial Services Manager Jerry Hart

Mayor Hallman summarized that this was a policy discussed at the Budget Workshop on December 1<sup>st</sup>. One policy is that we will plan a five-year balanced budget and that we will maintain reserves at 25% but in out years it could be between the 20% and 30%, in the fourth year it would be between 29% and 21%, in the third year it would be between 28% and 22%, and in the second year it would be between 23% and 27%.

#### **CONSENSUS**

Accepted as presented.

Follow-up Responsibility: Jerry Hart

### **Employee Placement Options**

INFORMATIONAL BACKGROUND available in City Clerk's Office.

DISCUSSION – Presenter: Human Resources Manager Renie Broderick

Mayor Hallman summarized that this plan is to make sure the employee positions which will be eliminated aren't filled upon elimination. The goal is as people retire or move on to other things, those positions will be frozen and we will work diligently to move people around into positions that we need to fill. By doing so, we would eliminate the right 179 jobs and not end up with any employees who aren't retaining their jobs.

Renie Broderick added that this fiscal challenge will affect the employees. The message she has received from this Council and from senior management is to work with our employees to make sure that they find a soft landing. That is the goal behind the proposed Rules and Regulations change. The actual language is very short and basically gives flexibility to the City Manager to implement a written policy that would allow us to work with the employees whose positions will be displaced.

Mr. Meyer added that the only policy the Council is being asked to adopt is this first paragraph which is the delegation of some discretion to establish some rules. In providing the Employee Placement Options Program to Council, staff wanted to demonstrate the kinds of rules that would be adopted under the discretion delegated by Council. The action for Council in January is simply for the discretion and it would be an amendment to the Personnel Rules and Regulations.

#### **CONSENSUS**

Staff was directed to place this item on the Formal Council Agenda in January.

Follow-up Responsibility: Renie Broderick

### **Formal Council Agenda Items**

None.

### **Future Agenda Items**

None.

### **Mayor's Announcements/Manager's Announcements**

None.

*Meeting adjourned at 7:15 p.m.*

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Jan Hort  
City Clerk